Trend Macrolytics, LLC
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Weekly Investment Strategy Summary

Monday, April 11, 2011

Changes to strategic views

[complete strategy dashboard] [learn more/discuss strategic views]

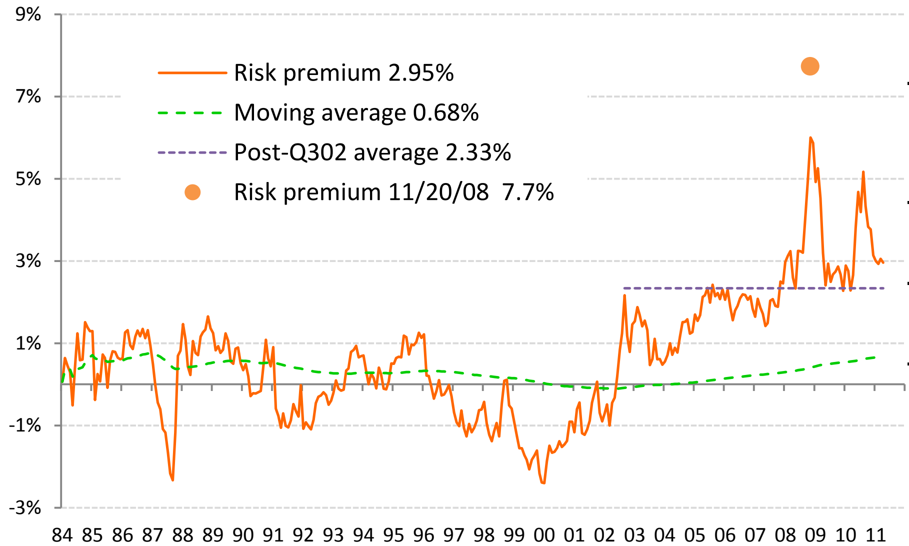
Market	Strategic view	Updated
EUROPEAN BONDS [history] **US DOLLAR** [history]	The ECB's rate hike, tellingly juxtaposed with Portugal's plea for a bail-out, sets the stage for more weakness and more crisis in the Euro Area. It undercuts the peripheral economies by aggravating already dangerous mortgage debt overhangs, thus making sovereign debt burdens increasingly unsustainable. We continue to believe that the EC and the ECB will pull every trick to keep the sinking ship afloat, but this raises the risk that it can't be done without significant currency debasement. In this context the Euro's recent strength is inexplicable.	4/7/2011 [full report]
GOLD [history]	While it is folly for the ECB to weaken the Euro Area in an unnecessary crusade against inflation, it makes the Fed's antipodal commitment to reflation all the more obvious. We stand by our price target for gold of $1500, and will reevaluate when we get there.	4/7/2011 [full report]
US MACRO [history] **FED FUNDS** [history]	The US economy won't stop growing when QE2 is completed midsummer. We do not expect QE3, nor any dismantling of existing asset holdings. The Fed will have approximately met the market's demand for liquidity, and that will provide the platform for continued recovery. We see no *imminent* threat of an inflation breakout that would force the Fed to drain liquidity.	4/4/2011 [full report]
US BONDS [history]	We don't expect a catastrophic move higher in yields when QE2 is completed midsummer. If the Fed has indeed supplied approximately the quantity of liquidity demanded by the market, then ongoing growth and improving inflation expectations should move the 10-year yield back to 4% this year in an orderly manner.	4/4/2011 [full report]

S&P 500 equity risk premium

Cap-weighted consensus 365 days-ahead forward earnings yield minus 30-year Treasury bond yield

Equity risk premium — Moving average from 1984 — Moving average from '02-Q3 ● 11/20/08 peak

[complete valuation tools] [learn more/discuss equity risk premium]



Earnings yield	7.58%	
30-yr Treasury	4.63%	
Risk premium	**2.95%**	
Observations >=	*23*	*of 325*
Sensitivities		
	Change	*S&P 500*
Market cap	43.0%	1,899
	From	*To*
Earnings growth	22.5%	-14.3%
	Change	*To*
Treasury yield	2.28%	6.91%

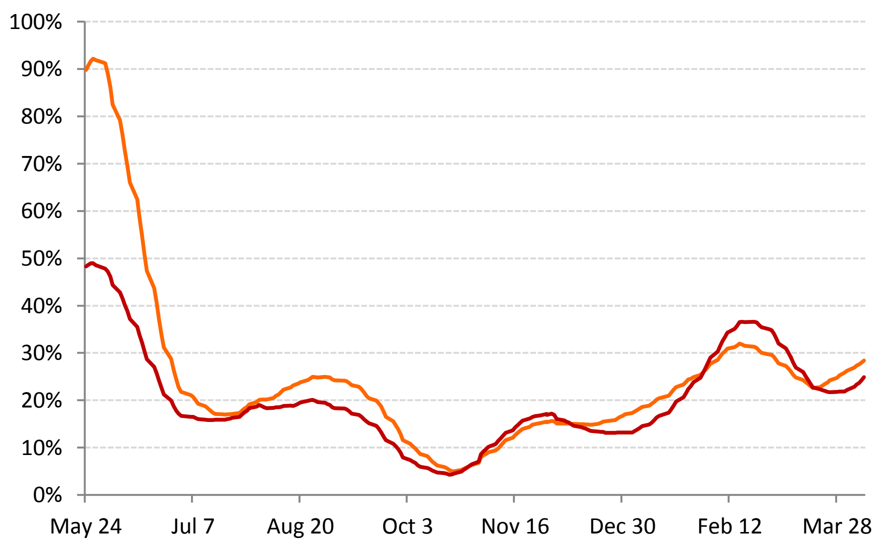
Source: Zacks, Federal Reserve, TrendMacro calculations

S&P 500 forward earnings upgrade rate

Cap-weighted consensus 365 days-ahead forward earnings, smoothed month-over-month, annualized

S&P 500 — S&P 500 ex-Financials

[complete valuation tools] [learn more/discuss upgrade rate]



Consumer Discretionary	+6.6%
Consumer Staples	+7.8%
Energy	+77.4%
Financial	+45.6%
Health Care	+31.8%
Industrials	+21.1%
Information Technology	+23.1%
Materials	+33.3%
Telecommunications	-9.4%
Utilities	-12.1%
S&P 500	**+28.4%**
Ex-Energy	+22.4%
Ex-Financials	+24.9%

Source: Zacks, TrendMacro calculations

Earnings season watch

[complete valuation tools] [learn more/discuss earnings season watch]

92.9% reported			Earnings season monitor: reporting for quarter ended February					
26 out of 28			Earnings surprise				CurQ revise	Rev surprise
	+	-	= weight	$ weight	$ value	S&P contrib	= weight	= weight
Cons Disc	5	4	+5.8%	+5.1%	$107	+19.4%	+2.2%	+1.9%
Cons Stap	4	2	+8.0%	+2.5%	$43	+7.9%	-0.2%	-0.6%
Energy	0	0	N/A	N/A	-	+0.0%	+3.3%	N/A
Financial	1	0	+58.5%	+58.5%	$169	+30.8%	-0.1%	+24.2%
Health Care	0	0	N/A	N/A	-	+0.0%	-0.1%	N/A
Industrial	1	1	+6.3%	+1.3%	$04	+0.7%	-0.0%	+1.9%
Info Tech	5	2	+8.8%	+7.1%	$210	+38.2%	-1.3%	+1.8%
Materials	1	0	+1.6%	+1.6%	$16	+2.9%	-0.6%	+0.0%
Telecom	0	0	N/A	N/A	-	+0.0%	-0.5%	N/A
Utilities	0	0	N/A	N/A	-	+0.0%	-1.3%	N/A
S&P 500	17	9	+9.0%	+6.5%	$549	+100.0%	+0.3%	+2.1%
Ex-Energy	17	9	+9.0%	+6.5%	$549	+100.0%	+0.0%	+2.1%
Ex-Fin	16	9	+7.0%	+4.7%	$380	+69.2%	+0.3%	+1.2%

Source: Zacks, TrendMacro calculations

Federal funds rate forecast

— Futures-implied year-ahead forecast — Ex post correct prediction — Current rate

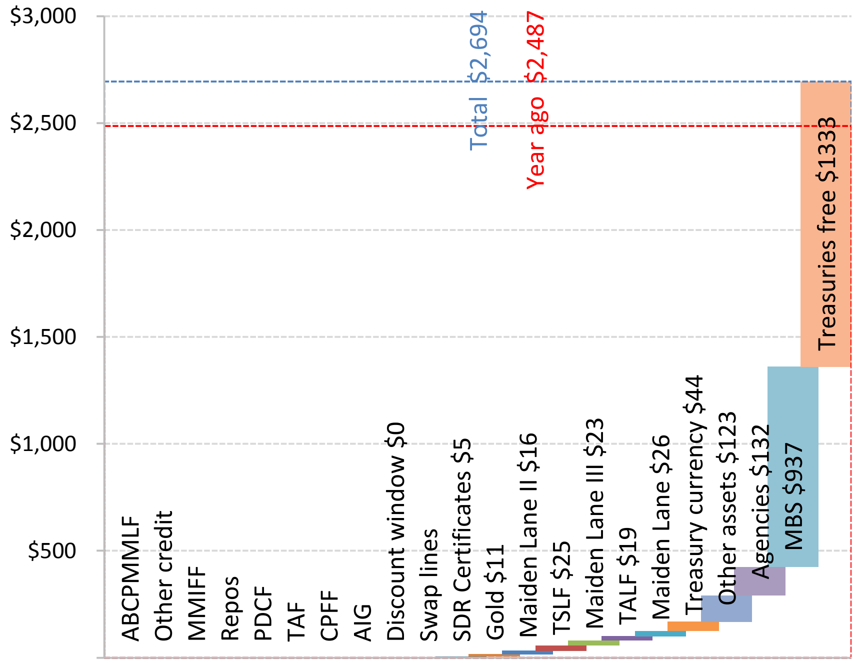
[complete Fed watch] [learn more/discuss funds rate forecast]

Source: Federal Reserve, CME Group, TrendMacro calculations

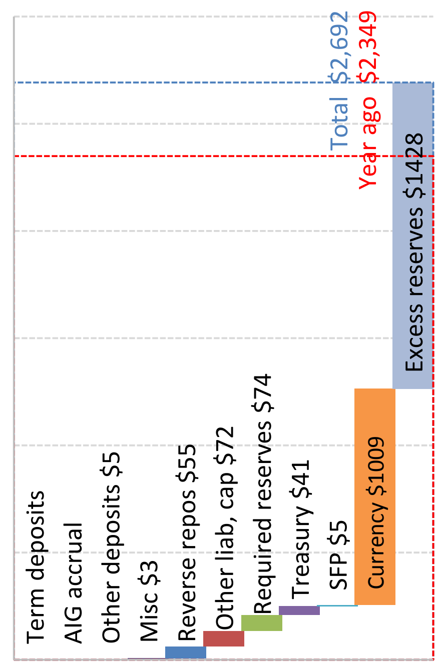
Federal Reserve balance sheet

[complete Fed watch] [learn more/discuss Fed balance sheet]

Factors supplying liquidity
USD billions



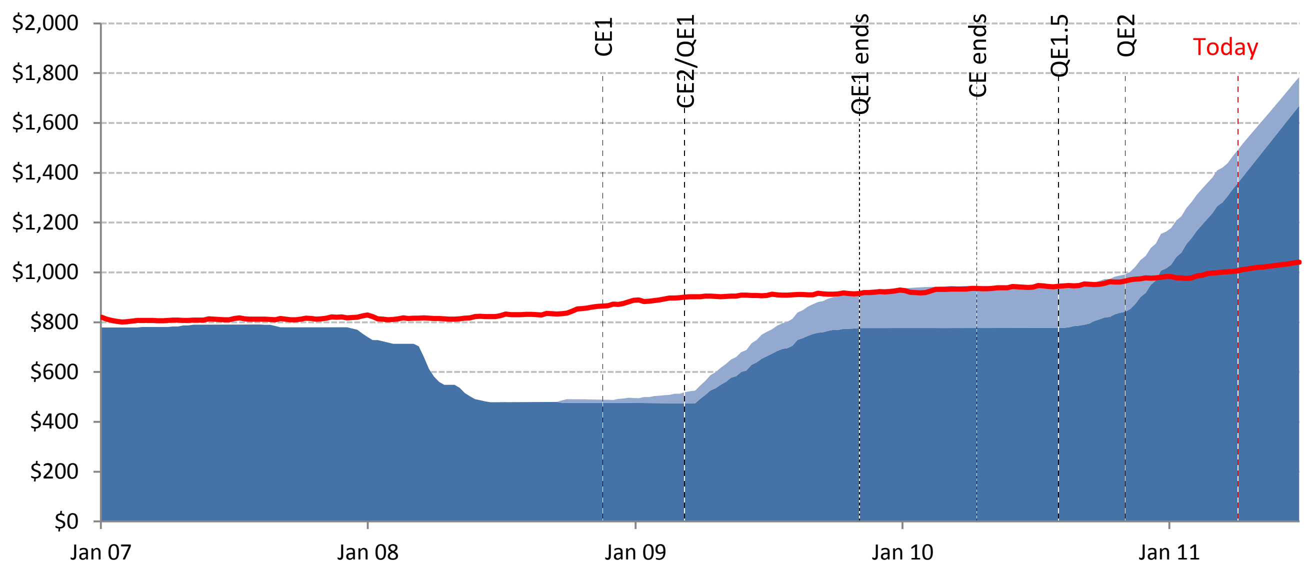
Factors absorbing liquidity
USD billions



Monetization watch: current and projected levels, USD billions

Currency outstanding Fed Treasuries Fed GSE direct obligations

[complete Fed watch] [learn more/discuss monetization]



Source: Federal Reserve, TrendMacro calculations