Is the USA Losing Momentum?

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TrackMacro ™ is a software tool providing equity risk signals in 40 countries
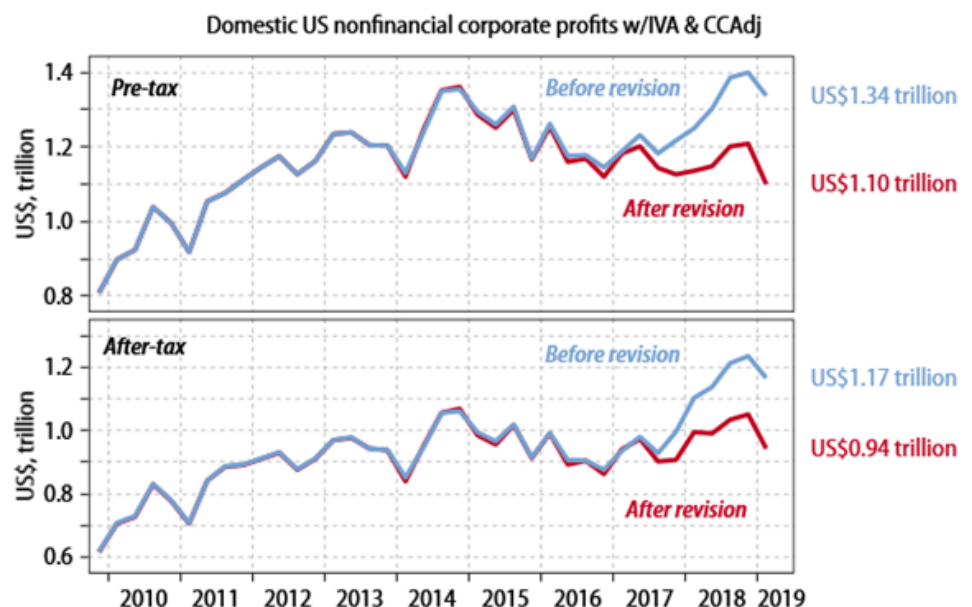
On Friday, July 26th, the US Bureau of Economic Analysis issued significant revisions on domestic non-financial corporate profits for the past three years! The revisions on US national accounts simply wiped out all the pre-tax and most of the post-tax US profit increase since President Trump got elected…

Is the USA losing momentum?

TrackMacro's answer is "yes" on the currency, and "no" on equity-risk premium, as we shall see in this letter.

Download TrackMacro for PC from the company website

Fig 1. Data revisions on US profits

Source: Will Denyer, Gavekal Economist, Gavekal data, Macrobond

The US anomaly during the past year

TrackMacro version 2.0 identifies the best-remunerating economic zones, both on the cash side and on the equity-risk side, dynamically. The model shows that for the past 40 years, betting on the best performers on each side generates substantial alpha, year after year.

In theory, an economic zone can't overperform both on the cash side and on the risk-premium side. High interest rates and a strong currency favor "the rentiers", but at the expense of local companies' profits—i.e. "the entrepreneurs"—and therefore, of equity remuneration.
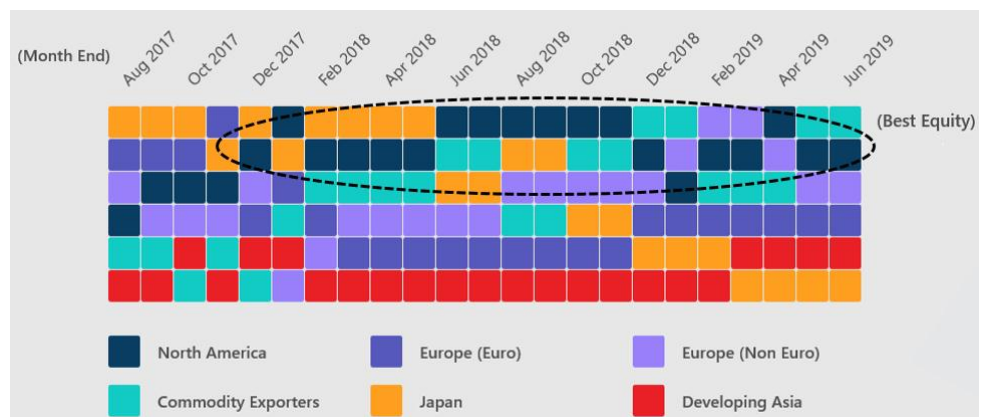
The US situation, however, was an anomaly during the 12 months ending in June.

Fig 2. The USD ranked 1st or 2nd for 12 months among major currencies
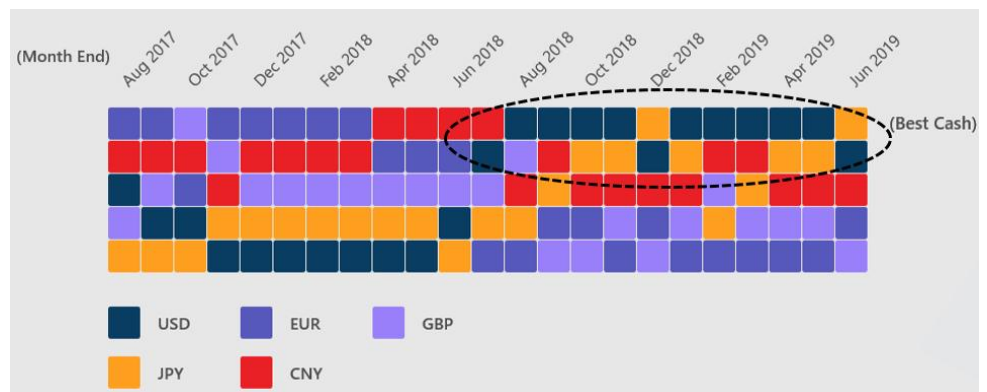
Source: TrackMacro

Fig 3. The S&P ranked 1st or 2nd during 18 months among major equity zones

Source: TrackMacro

The USD isn't leading the race any longer

On July 31st, and for the first time in a year, the USD is losing momentum in the competition for cash remuneration. It is now ranked 3rd and outpaced by the CNY and the JPY.

Fig 4. Currency ranking as at July 31st, 2019

Source: TrackMacro

This is a warning signal issued by TrackMacro for US money managers to explore potential currency and fixed-income diversification towards Asia.

Despite US profit revisions, the USA remains an attractive zone for equity investors

Braving the odds, the US is still ahead of the other economic zones, together with commodity exporters, on equity excess return above cash rates.

Commodity exporters' equity markets tend to remunerate poorly over lengthy periods of times, such as ten years, and then brutally spike. Commodity exporters taking the lead for three months in a row need close monitoring.

Regarding Asia, the best zones to remunerate "the rentier" are—logically—the worst ones to remunerate "the entrepreneur".

**Fig 4**. Equity risk premium ranking as at July 31st, 2019
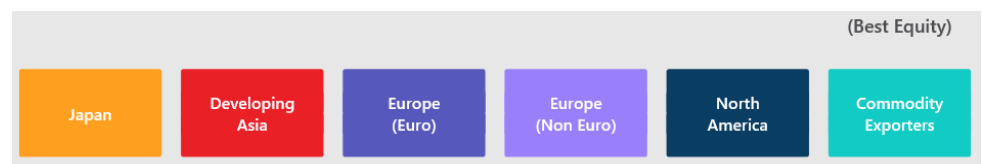
Source: TrackMacro

TrackMacro equity allocation for August

If we select the top 50% economic zones and countries within each zone, the long-only equity allocation suggested by TrackMacro for August remains biased in favor of the US, with 36.5% diversification to commodity exporters and Europe non-Euro.

Fig 5. Long-only TrackMacro equity allocation as at July 31st, 2019
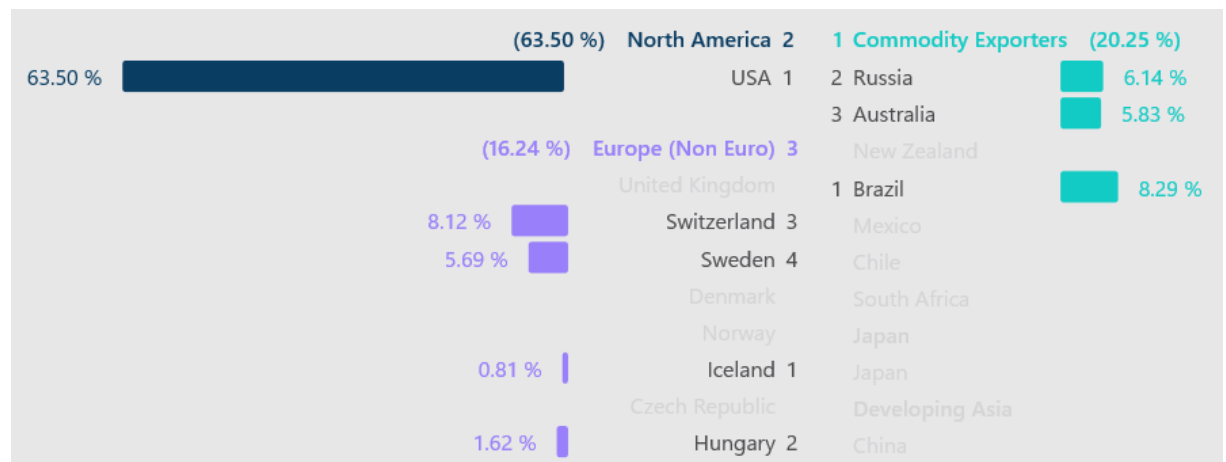
Source: TrackMacro

Conclusion

In relative terms, the USA isn't losing momentum on risk, but it may well be the case on the currency side. A weaker USD, at least against Asian currencies, would normalize a situation that had never yet occurred in the past 40 years. The anomaly was the dominance of a single region on both competitive fronts, cash and risk, over a full year.

Such a dominance may well be over.