

Why Equity Market Skies Are So Blue

By **Didier Darcet**

[didier.darcet@](mailto:didier.darcet@gavekal-intelligence-software.com)

gavekal-intelligence-software.com

**TrackMacro™ is a software tool
providing equity risk signals in 40
countries**

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Despite the change of seasons, TrackMacro's equity market 'skies' remain deep blue. Why is the macroeconomic algorithm so confident in equity markets worldwide?

At first glance, local macro factors are not universally favorable.

The first macro rule analyzed by the system is the crossing between inflation and growth. In fact, only 27% of the 40 countries tracked by the system are perceived as benefiting from a deflationary boom environment, which is the most equity-friendly macro situation. A similar observation can be made for other local factors such as equity valuations, wealth effect, foreign exchange competitiveness, and the macro impact of energy prices. On average, only half of the countries show a positive picture for these factors.

TrackMacro's equity signals' strength therefore derives from global factors.

Global factors diffuse macro variables that affect equity markets positively or negatively on a worldwide basis. TrackMacro focuses on the two heaviest global factors: world trade in volume and global liquidity in USD. At least one of the two factors has remained at its best risk state, the other staying either neutral or favorable as well, for seven months in a row today. **This simply means that world trade is, most likely, accelerating, and well-funded.**

Statistics associated with an accelerating and well-funded world trade.

Tracing these figures back to 70's, we first notice that such a situation occurs around 25% of the time. It usually coincides with booming equity prices, equity PE expansions, underperformance of the US vs. the rest of the world, and rising USD cash and government bond rates.

Table 1. Assets' Performance during 'Accelerating and Well-Funded World Trade' Phases vs. the Rest of the Time

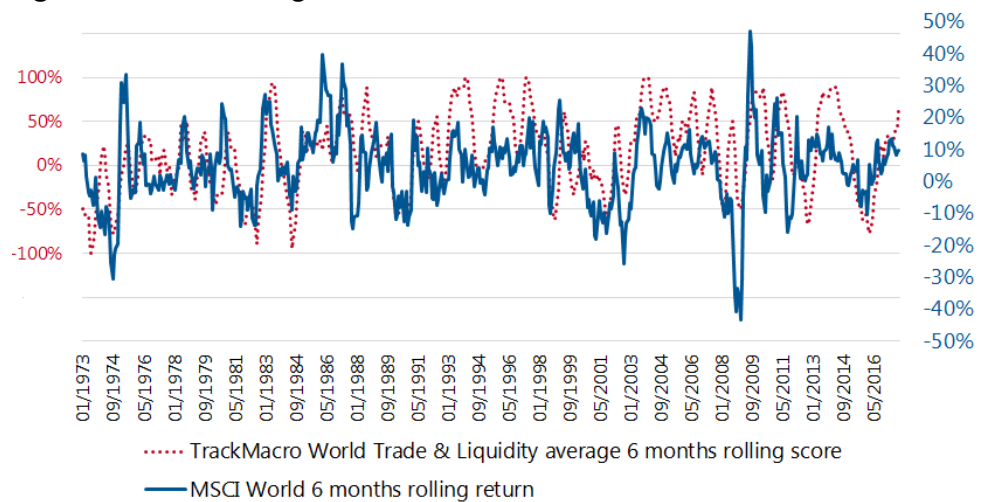
Accelerating and well-funded world trade	First quartile	Last three quartiles
S&P 500 annual return	17,2%	8,2%
MSCI World/S&P annual return	0,6%	-3,7%
10Y UST annual return	2,7%	9,0%
1M Libor USD rate rise per year	+70bp	-30bp
2Y Tbond rate rise per year	+50bp	-30bp
10Y Tbond rate rise per year	+40bp	-30bp
Baa 10Y Spread rise per year	-60bp	+20bp

The TrackMacro 'global factors' indicator

The indicator is simply constructed by adding the TrackMacro score for the world trade factor and the score for the USD liquidity factor, normalized to fluctuate from -100% to +100%.

The following graph shows that **the TrackMacro indicator captures the low-frequency breathing of the equity market worldwide, one month in advance.** The score fluctuates in unison with the MSCI World returns.

Figure 1. TrackMacro 'global factors' indicator and MSCI returns



TrackMacro equity 'skies' are deep blue once again for November. However, the underlying motivation for such confidence is now systemic; a recognition that today, economic cycles worldwide may well be recoupling, for the best.