

Erik Penser Bank

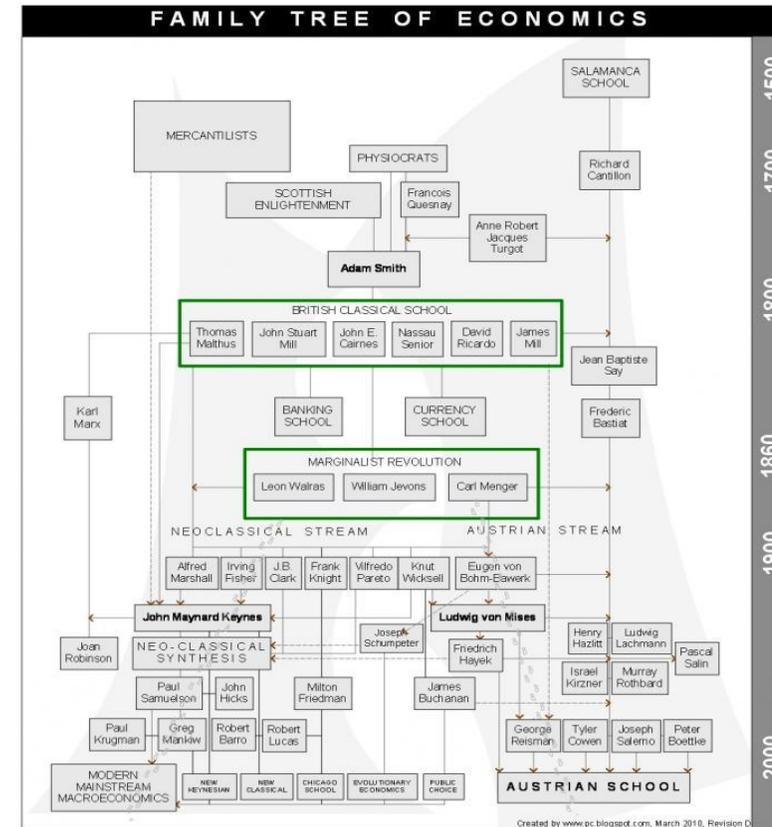
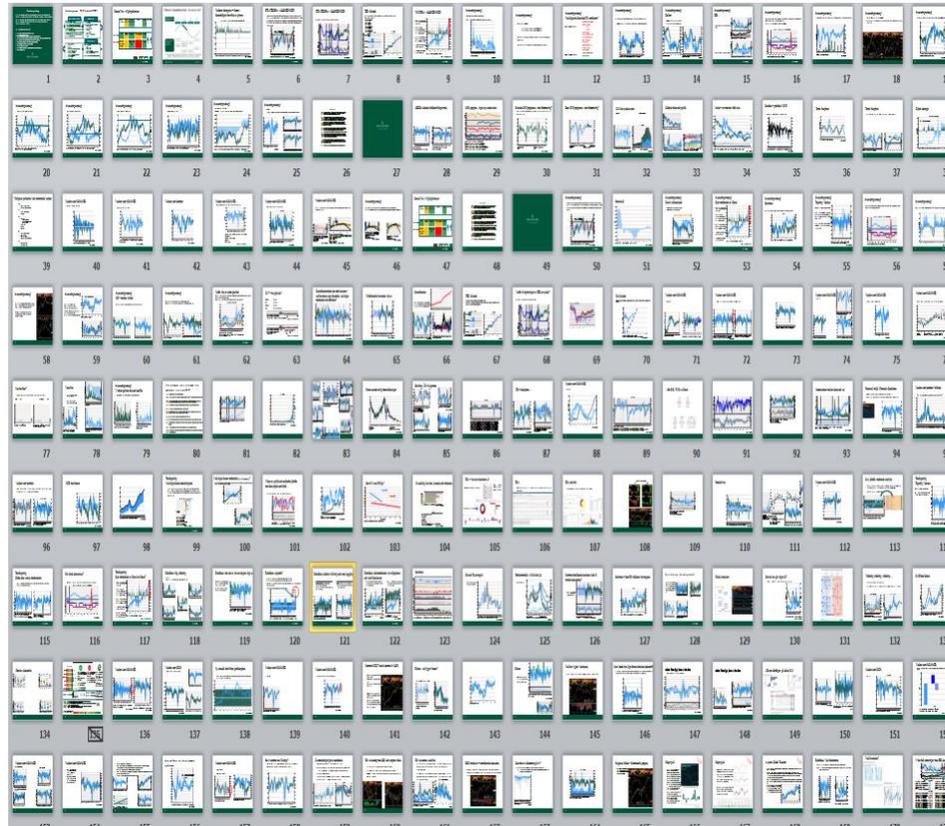
Jonas Thulin

Head of Asset Management



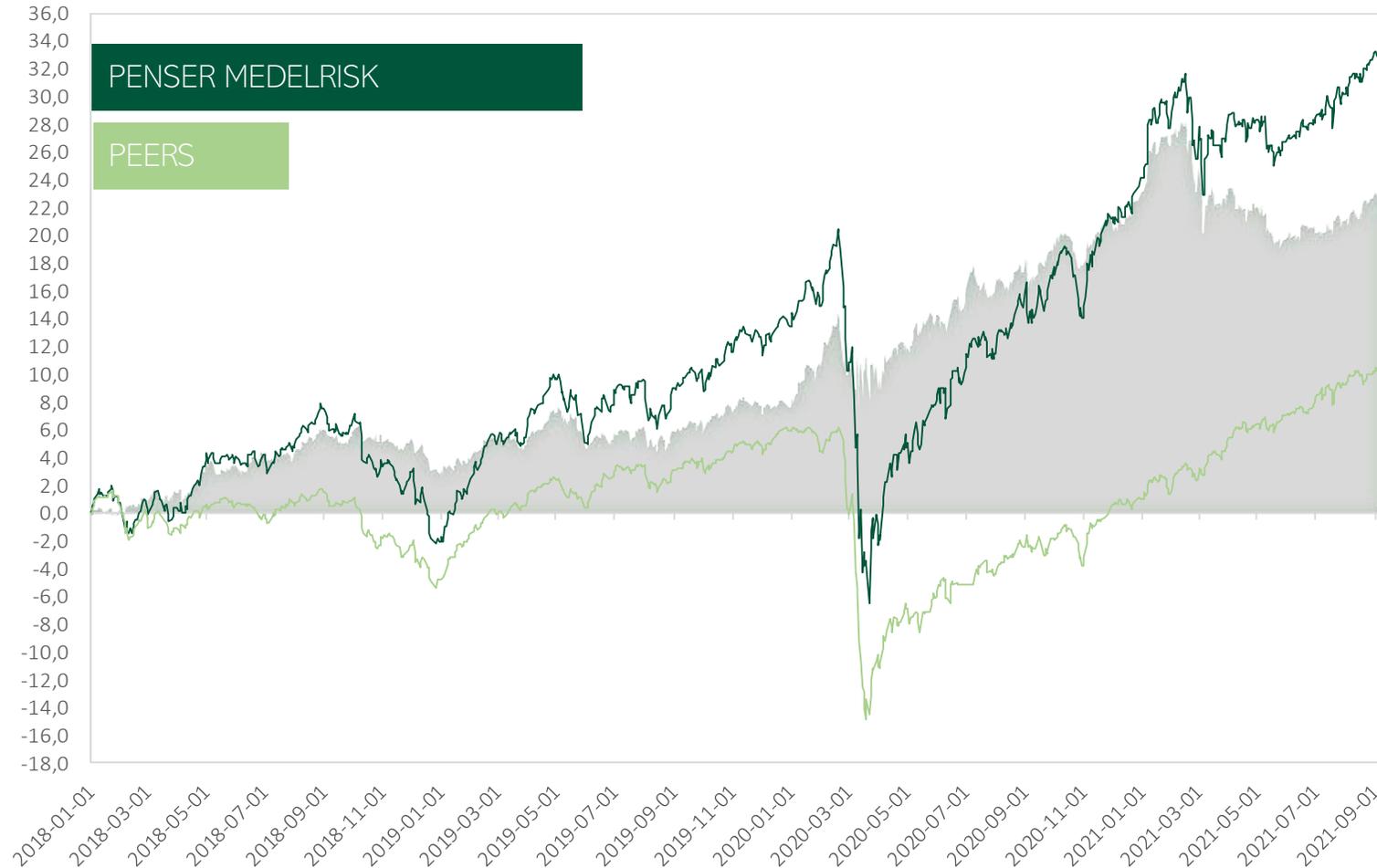
ERIK PENSER BANK

We analyse the world with 1600 models, 28 000 dataseries per week



Compared to Swedish and global competitors we keep our outperformance

Competitors are defined as all products listed in Sweden, local banks', asset managers' and foreign banks', with an equity share of 45%, an average of the same as Penser Medium Risk's strategic asset allocation.



Historisk avkastning är ingen garanti för framtida avkastning. De pengar som placeras i fonden kan både öka och minska i värde och det är inte säkert att du får tillbaka hela det insatta kapitalet. Avkastningen anges i SEK.

Historical returns are no guarantee of future returns. The money invested in the fund can both increase and decrease in value and it is not certain that you will get back the entire invested capital. The return is stated in SEK.

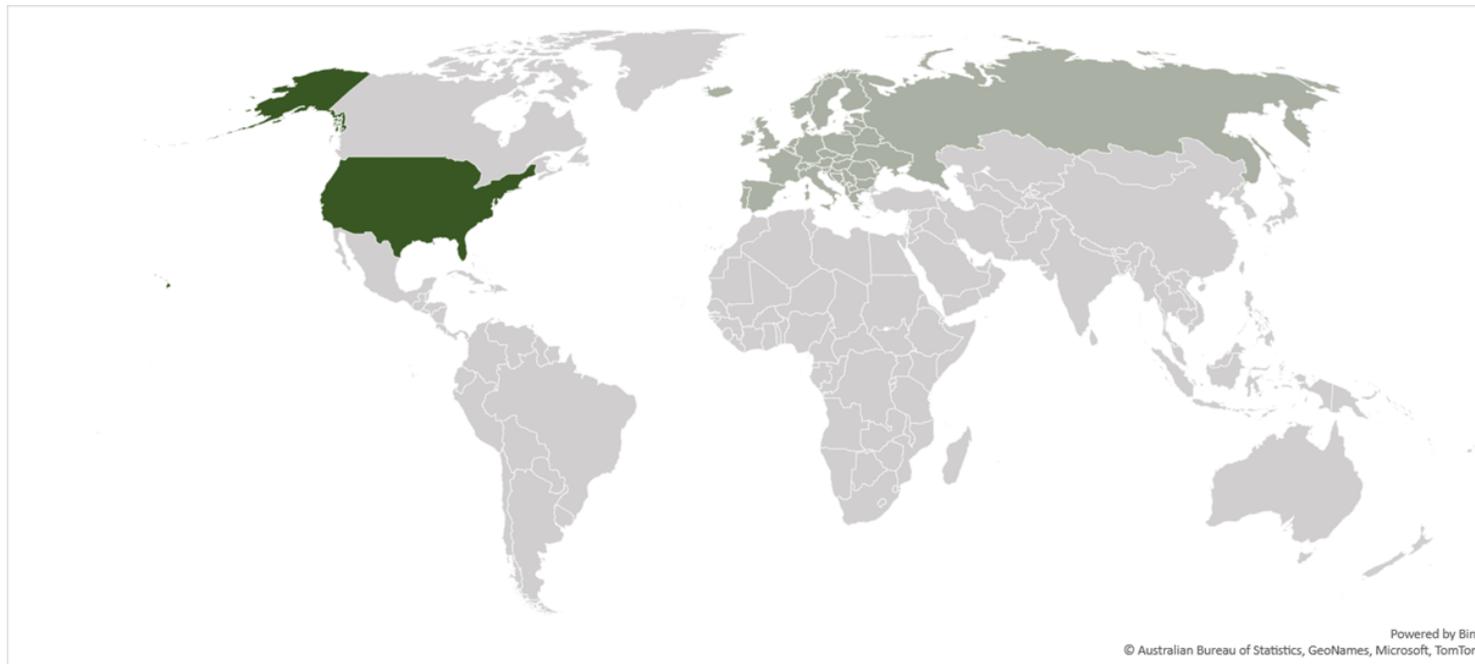




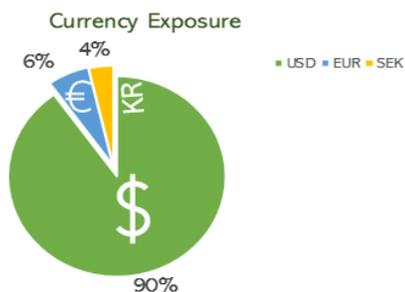
Global Equities as of the 8:th of September

	YTD	1Y	2018-01-01
Global Equities vs. MSCI ACWI NR USD Index	11,69% vs. 16,20%	33,83% vs. 32,06%	79,16% vs. 54,91%

Geographic Exposure



Strategy	Avk. sedan köp
Investing in real estate American tower Corp, Prologis Inc, Crown Castle International, Equinix Inc	17,22%
Investing in Cloud computing Asana Inc, Box Inc, Dropbox, Adobe Inc, Proofpoint Inc	13,24%
Investing in USA Technology Microsoft, Apple, Amazon.com, Facebook, Alphabet	10,12%
Investing in Buyback American Airlines Group, Southwest Airlines, Diamondback Energy, Hanesbrands	9,14%
Investing in medtech Abbott laboratories, Thermo Fisher Scientific, Danaher Corp, Medtronic PLC	8,95%
Investing in USA Telecommunication NVIDIA, Adobe, Intel Corp, Apple Inc, Visa Inc	7,36%
Investing in Eastern Europe OTP Bank Nyrt, Powszechna Kasa Oszczednosci B, KGHM Polska Miedz SA	6,78%
Investing in Cybersecurity Zscaler Inc, Crowdstrike Holdings Inc, Okta Inc, Accenture PLC.	5,05%

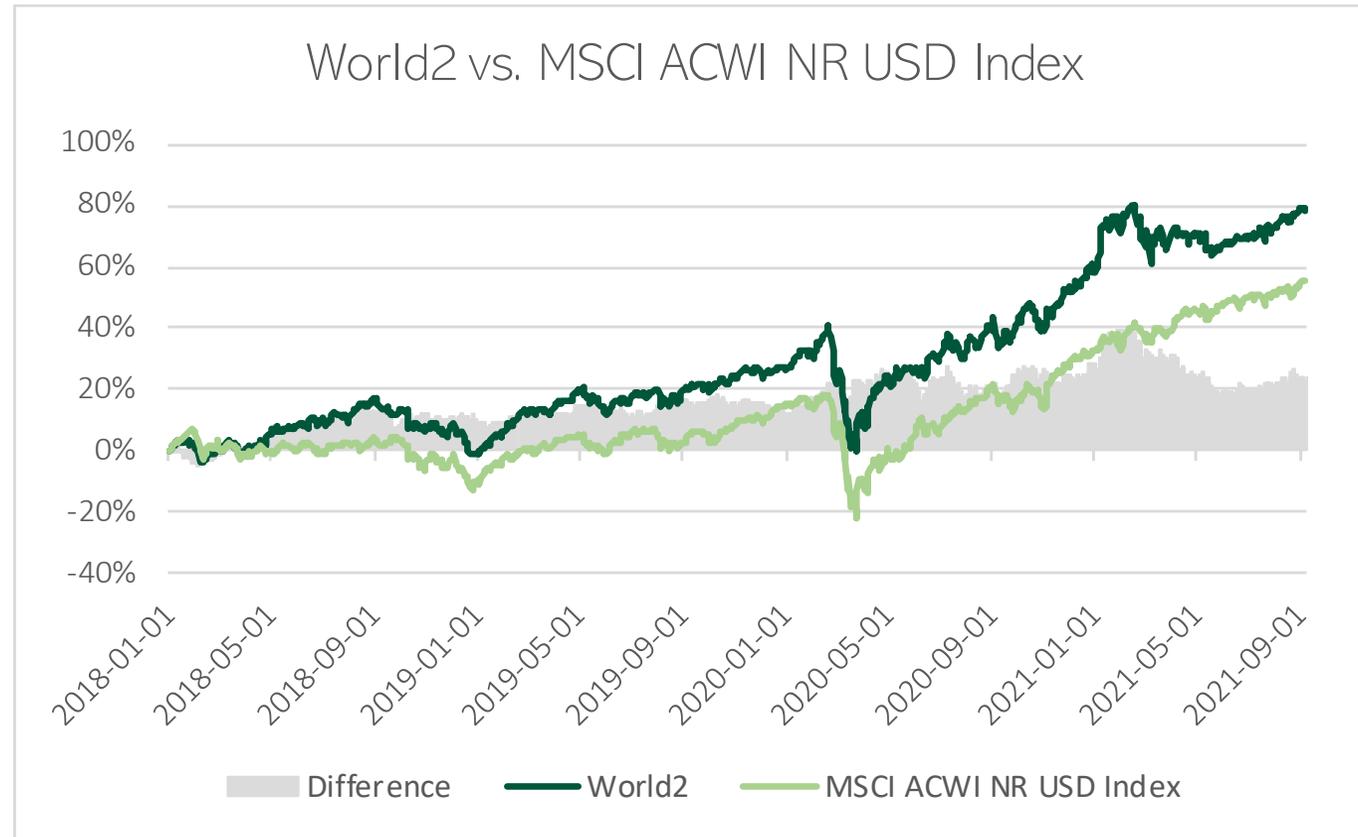


return. %	Global equities	MSCI ACWI NR USD Index
YTD	11,69%	16,20%
1Y	33,83%	32,06%
2018-01-01	79,16%	54,91%

We also LOWER carbon risk by 31,8%!*



Erik Penser Bank global equities



Erik Penser Bank house view

Asset Management's positions and analysis

We believe in transparency, this publication is not mere opinions, it is how we have traded and will trade in order to beat our competitors and benchmarks.

This entirely data driven methodology was founded in late 1990s, developed in the Nordics, London and New York, it e.g. accurately predicted the IT & Great Financial crises with recoveries, notably hit the trough in March 2020, on the day.

Head of Asset Management

Twitter; @jwthulin



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What should we focus on as asset managers?

1. Why has EPB not bought into the virus anxiety as sometimes expressed in the stock market?
2. Is the market nervous?
3. Which theoretical theorems support our optimistic outlook?
4. What does the economic outlook look like in actual data?
5. How big is the risk of recession right now?
6. Are we still in a Supercycle?
7. What part of the economy will pull us in this Supercycle? (we have invested in this theme throughout 2021)
8. What does "peak growth" really mean? Why does EPB see no risk in this reasoning?
9. What does the pandemic crisis look like compared to previous crises?
10. Fiscal stimuluses, will they come back? Why does EPB see upside risk in this?
11. What are the actual risks in the financial markets? EPB sees strength, why?
12. Financial conditions, do they support or not? EPB sees strength, why?
13. How hungry is the market for risk? EPB sees strength, why?
14. What does the stock market's valuation look like? EPB sees strength, why?
15. How strong is the profit cycle? EPB sees continued growth, why?
16. Do companies surprise stock market analysts? What does the situation mean for the stock market?
17. How are the stock market speculators positioned?
18. Which regions do investors consider to be the hottest right now? How has the EPB positioned itself given this?
19. What does inflation pressure really look like, why has the EPB always believed in a transitory inflation spike?
20. Clouds in the sky, what is it?
21. Washington Consensus - is (finally) starting to become a topic with far-reaching consequences, but what does it mean?
22. US government debt, what to look for, what applies to the market - why does the EPB not see that it is a problem?
23. The outlook for SEK? Why does the EPB see the krona fall against the USD?
24. How do we view the German election?



House view – a summary

Cross-Asset Strategy: Unsurprisingly we stick to max equity overweight. Global growth is climbing alongside our Supercycle hypothesis. We are still recovering and we still have support (fiscal and monetary).

Equity sectors thrash around, more below and we stay very very agile.

We are also overweight in commodities.

We are underweight in fixed income and alternatives.

All our asset classes are delivering positive returns and increasing positive momentum.

Market Recap

Although equity positioning has been rising, it is currently around historically average levels, suggesting the risk of a technically-induced correction isn't high. Additionally, 3rd wave of the virus is decelerating.

We remain bullish on stocks thanks to a strong earnings season and continued strong profit growth.

In currencies, we highlight the possibility for increased USD volatility in September due to political uncertainty around the infrastructure package and debt ceiling.

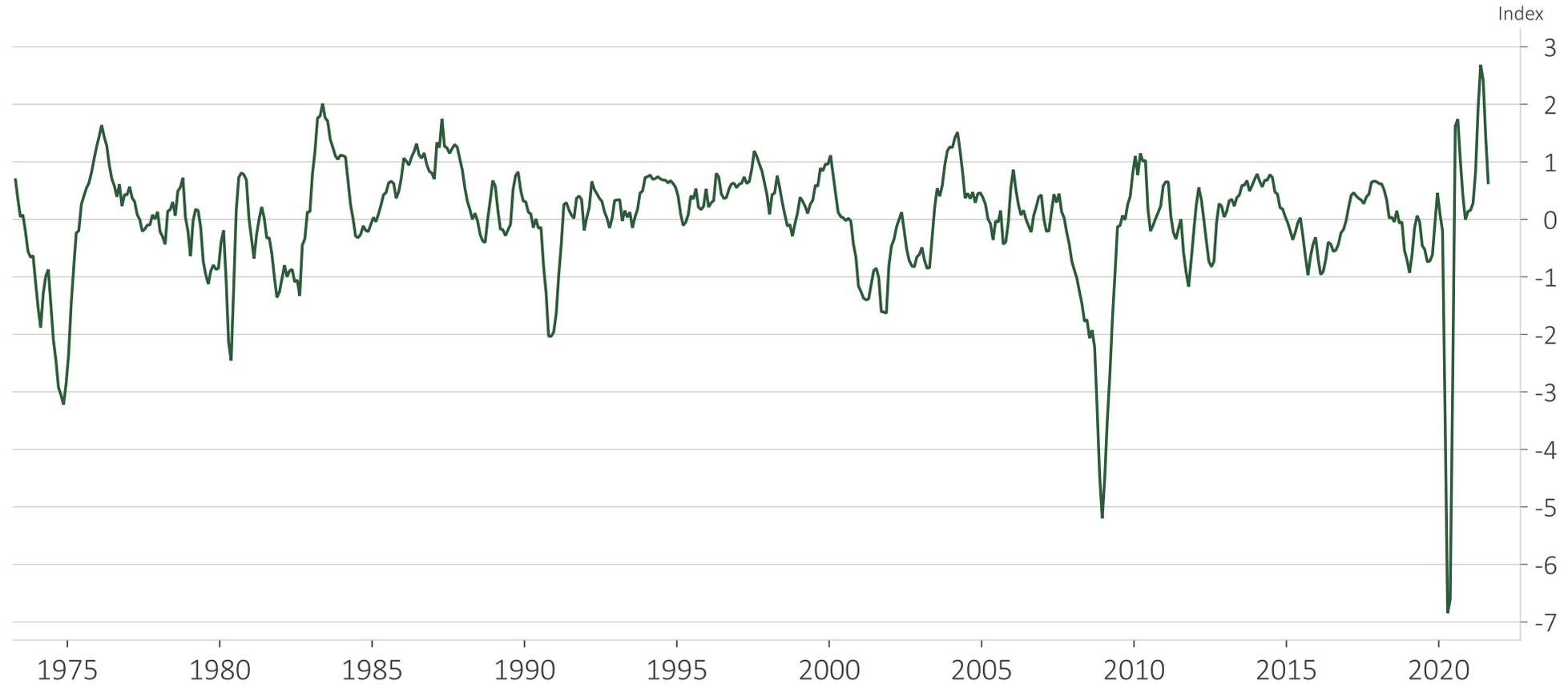
Last month we maintained a strong pro-risk stance in our portfolios and allocations. Max risk. We remain USD bulls given theorems, flows and what drives FX markets right now.

2021 predictions are UNCHANGED



Collapsing growth prospects?, absolutely not

World, Leading Indicator



Source: Erik Penser Bank, Macrobond



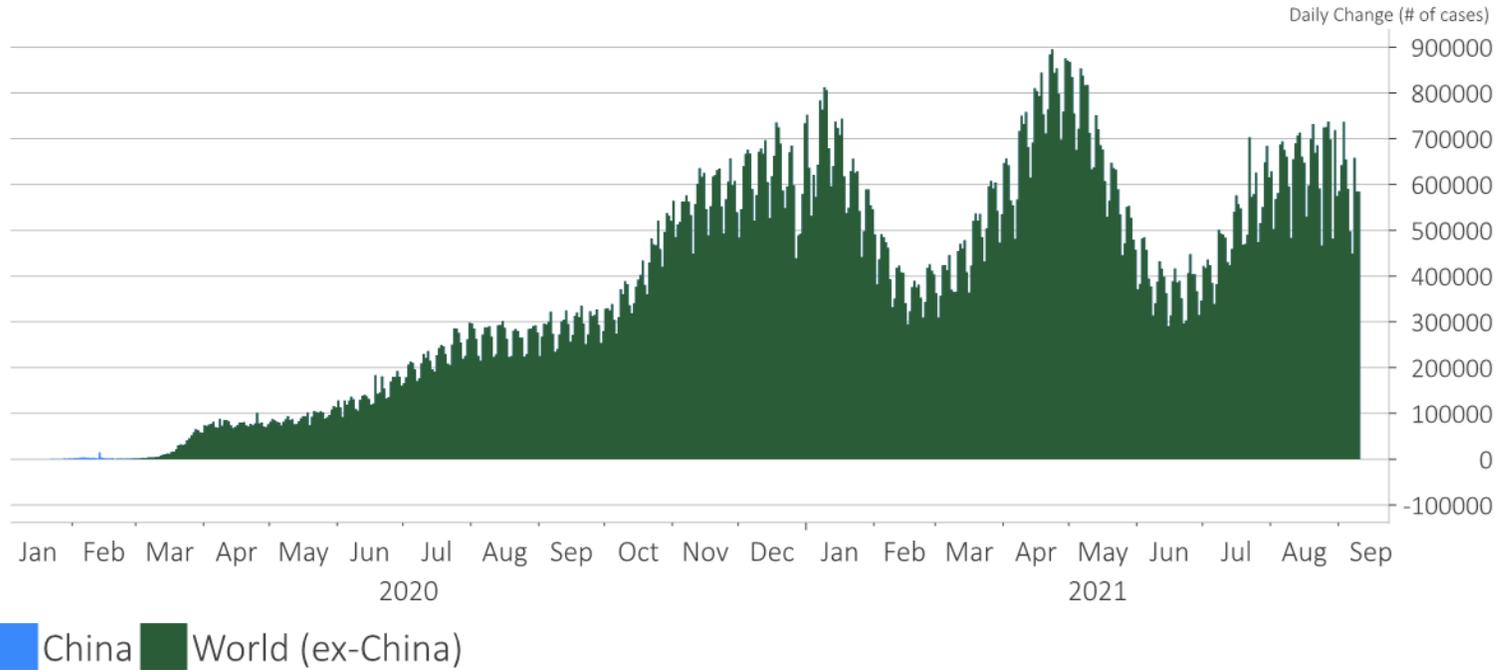
Coronavirus – 3rd wave is slowing

United States: OpenTable data and Card Transactions
Changes compared to baseline Jan. 2020



Source: Erik Penser Bank, Macrobond

New COVID-19 cases

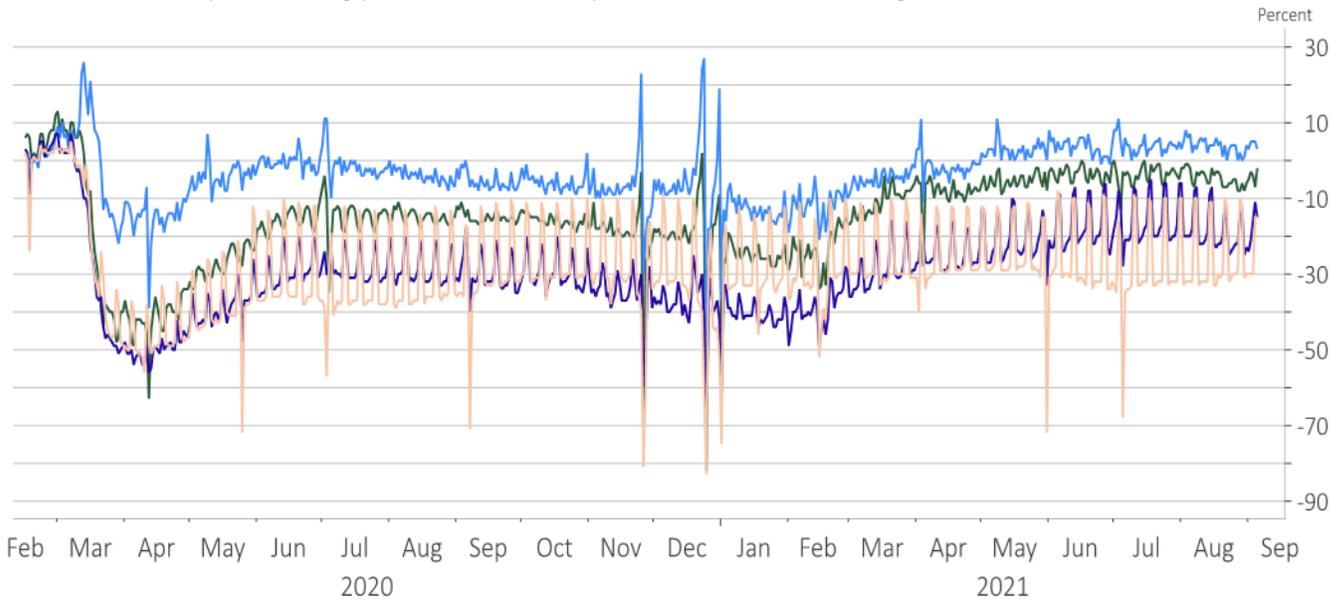


Source: Erik Penser Bank, Macrobond



Driver of growth: Reopening US

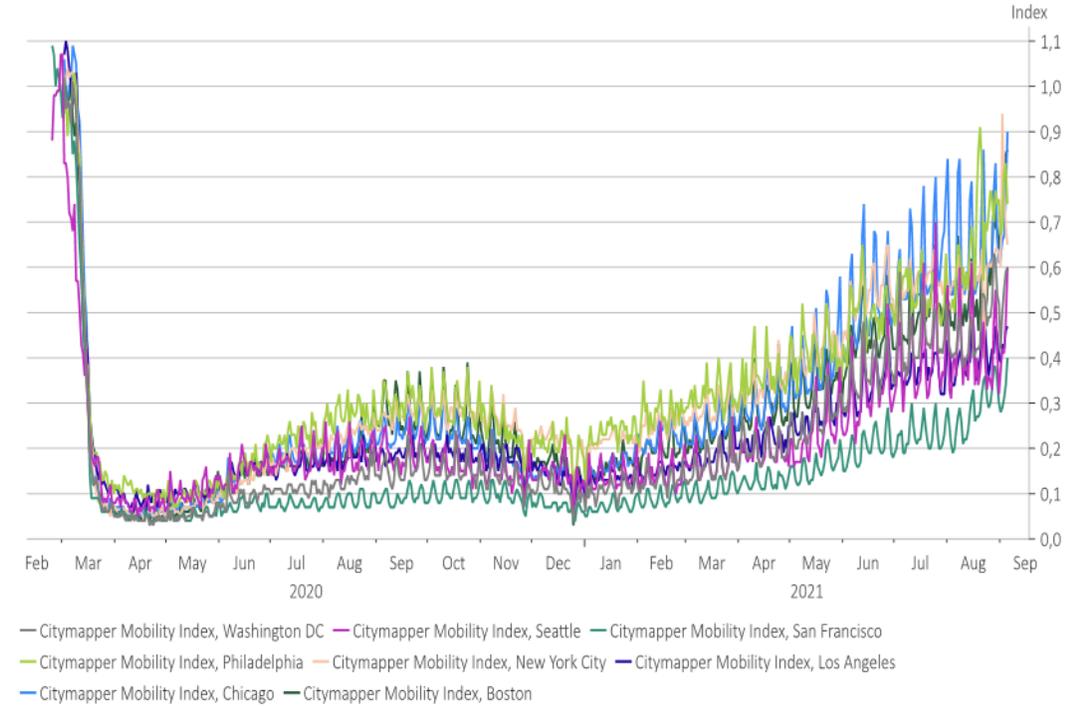
United States, Mobility, Total Visitors, The Whole Country



—Workplaces —Transit Stations —Grocery & Pharmacy —Retail & Recreation

Source: Erik Penser Bank, Macrobond

United States, Index



— Citymapper Mobility Index, Washington DC — Citymapper Mobility Index, Seattle — Citymapper Mobility Index, San Francisco
 — Citymapper Mobility Index, Philadelphia — Citymapper Mobility Index, New York City — Citymapper Mobility Index, Los Angeles
 — Citymapper Mobility Index, Chicago — Citymapper Mobility Index, Boston

Source: Erik Penser Bank, Macrobond



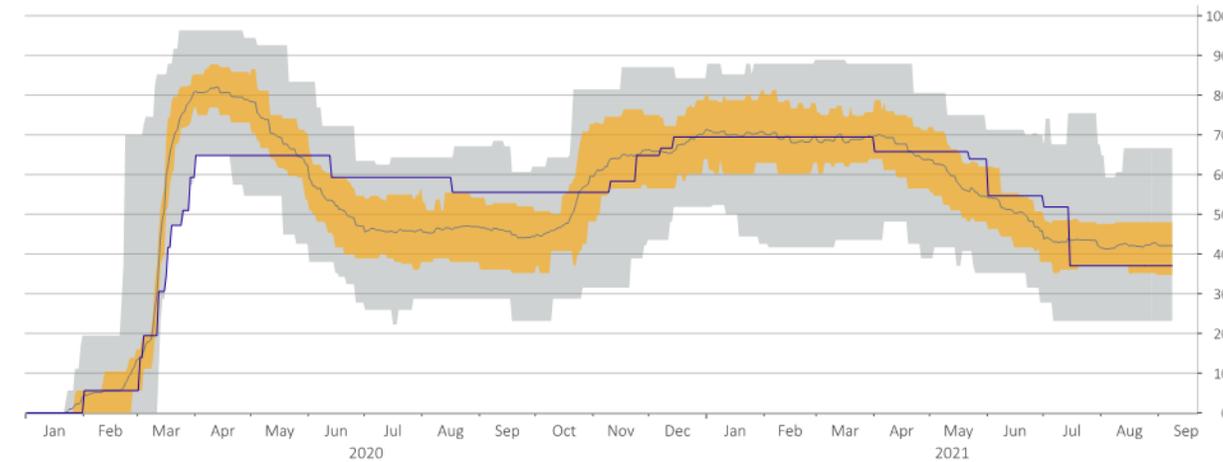
Policy response, despite 3rd wave the re-opening continues

Governments are taking a wide range of measures in response to the COVID-19 outbreak. The Oxford COVID-19 Government Response Tracker (OxCGRT) aims track and compare government responses to the coronavirus outbreak worldwide rigorously and consistently.

The OxCGRT systematically collects information on several different common policy responses governments have taken, scores the stringency of such measures, and aggregates these scores into a common Stringency Index. This is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest).

European Union: Stringency Index

Source: The Oxford COVID-19 Government Response Tracker

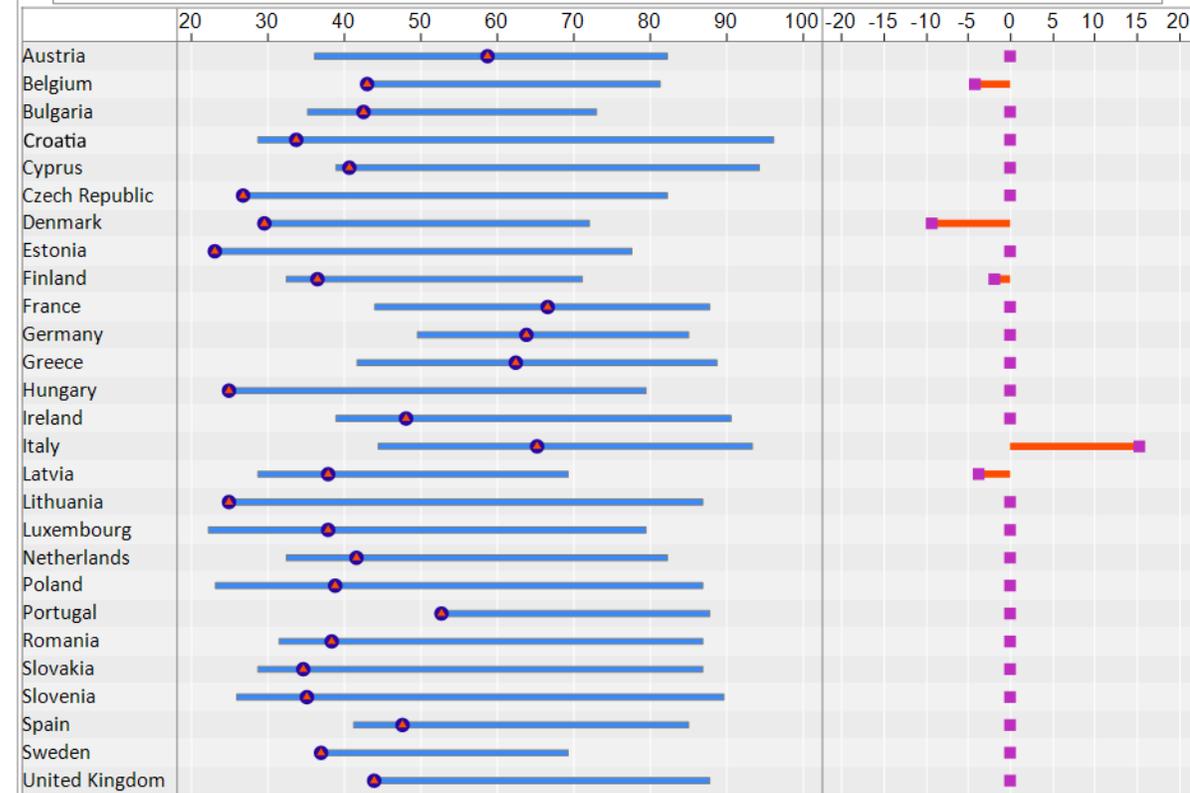


—Sweden—Average Percentile [25-75] High - Low

Source: Erik Penser Bank, Macrobond

European Union + UK : Stringency Index

■ High - Low since May 2020 ● Current Index value ▲ Value yesterday ■ Changes in the past 2 weeks



The Oxford COVID-19 Government Response Tracker

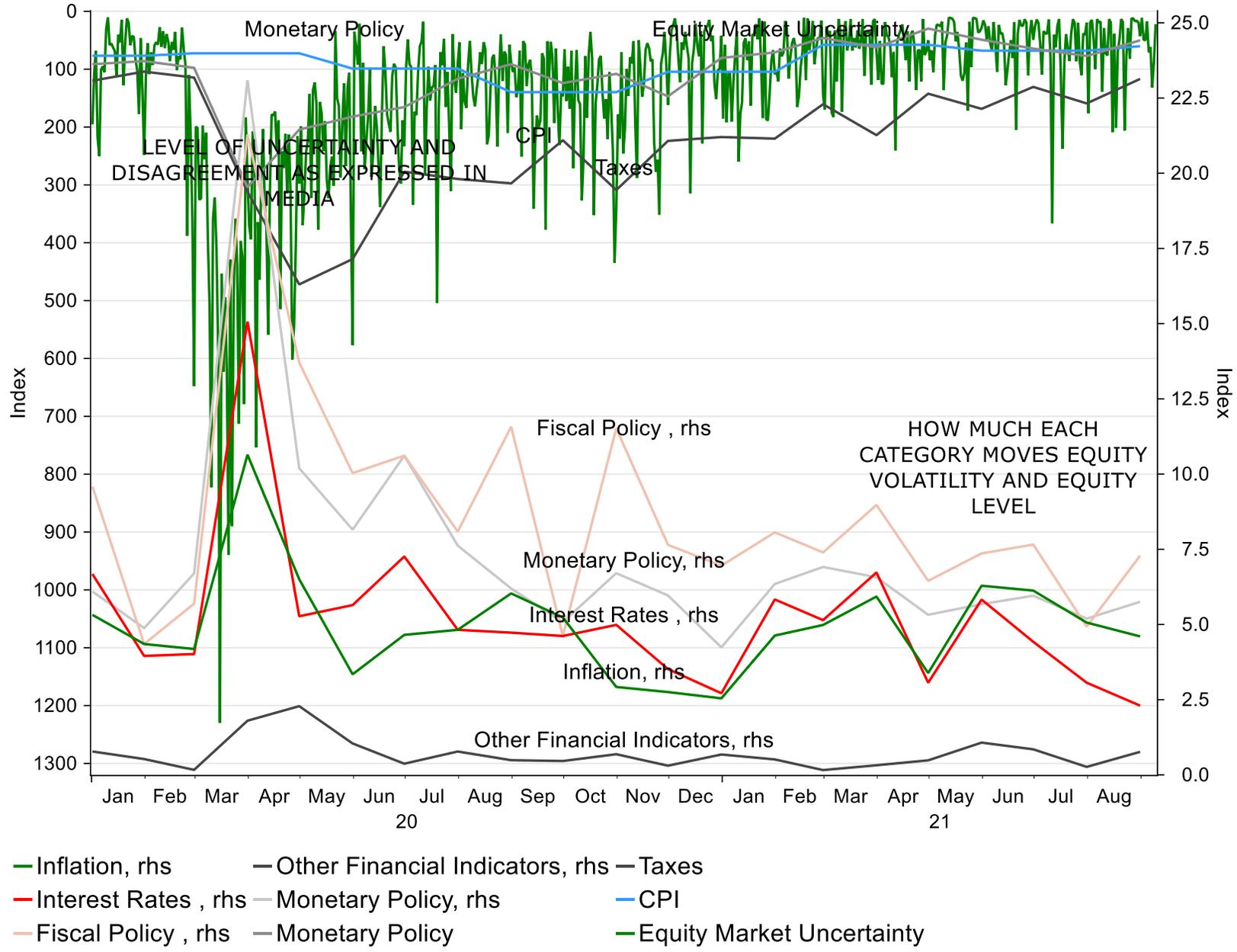
Source: Erik Penser Bank, Macrobond



IS THE MARKET NERVOUS?

A big data exercise that reveals the large discrepancy between "fashionable" discussions and actual market impact!

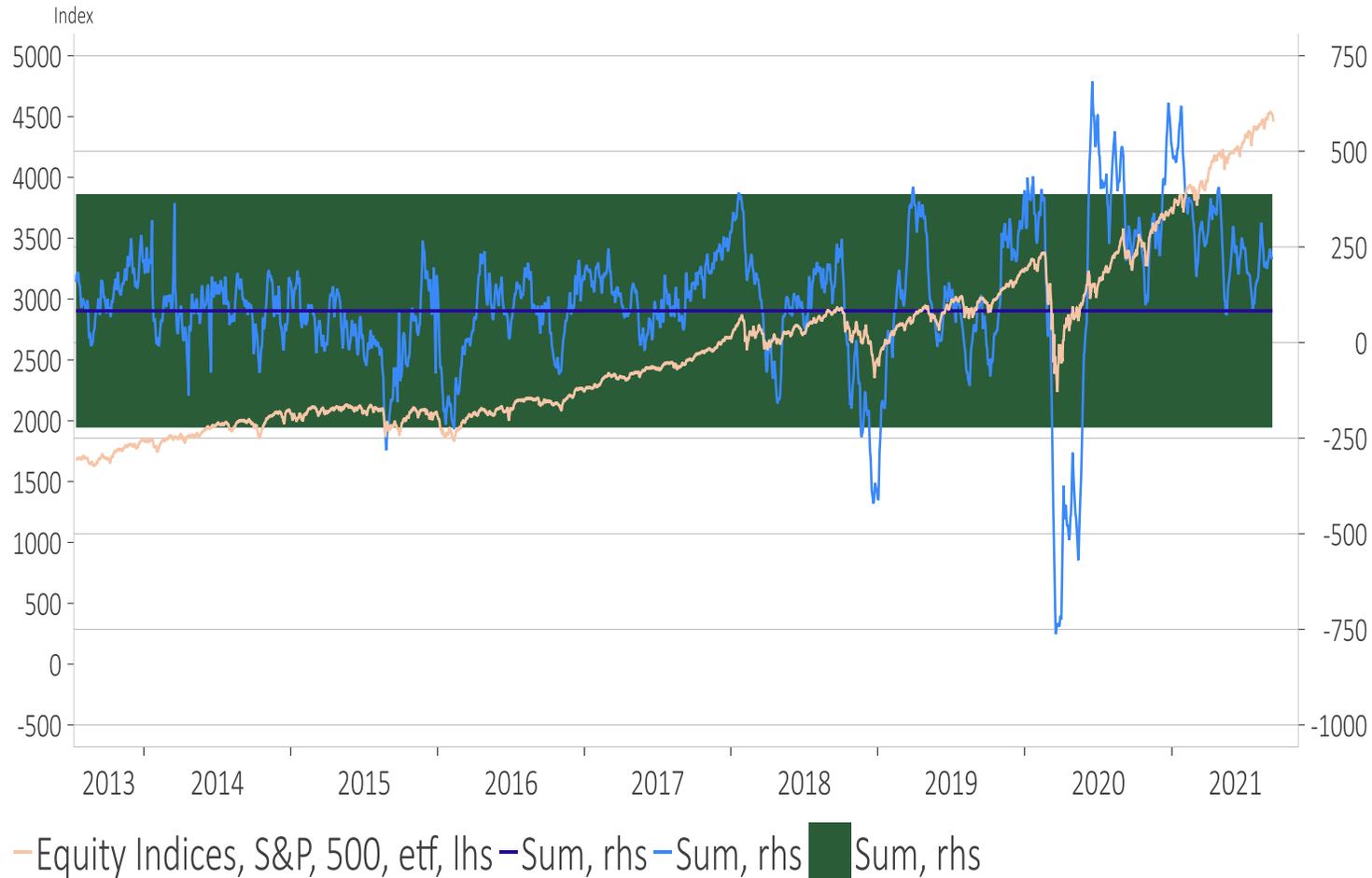
After the OpEx – no!



Source: Erik Penser Bank & Macrobond



Below we combine those sentiment indicators that have the strongest statistical relationship to future equity moves



Source: Erik Penser Bank, Macrobond



Reflation trade indicator

The reflation trade withered away in April and GROWTH came back vs VALUE, as model turned in mid April, then back to GROWTH in June.

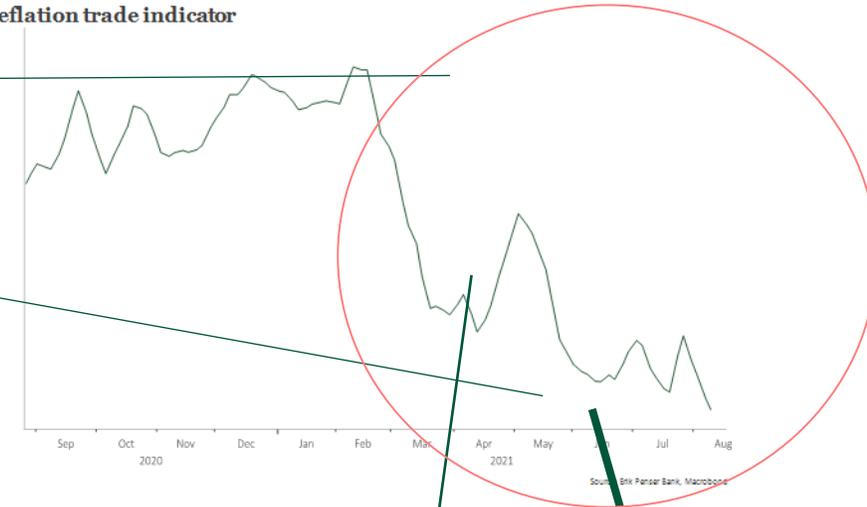
Reflation trading indicator



—0, rhs —Value vs Growth (QoQ % difference), rhs —Reflation trade indicator, lhs

Source: Erik Penser Bank, Macrobond

Reflation trade indicator



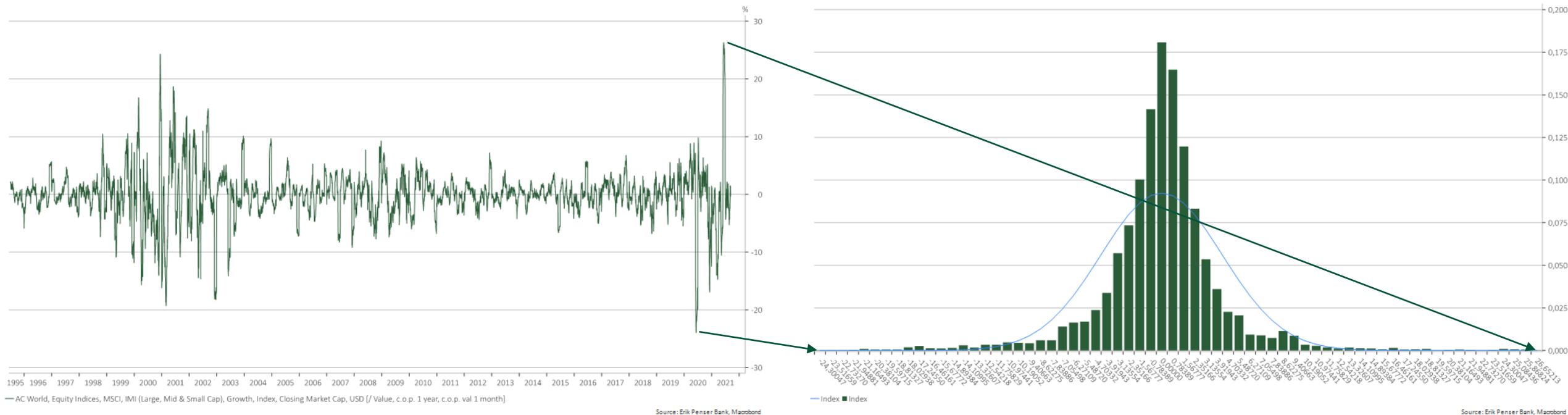
—Value [perf. %]—Growth [perf. %]

Source: Erik Penser Bank, Macrobond

- **Reflation got traction in March (which was late in fact), lost it in April, and got it back early May, just to lose it again in June. This created an environment when, we would argue, you need to be collected and know when and what to do, and of course derive each and every step.**
- **We do not guess, we act on facts and data.**
- **Currently we are back to growth but maintain a diversified portfolio.**



Volatility and distribution in the moves of the ratio (value vs growth) has been historically very high!



Let us take a walk into the world of theorems

What can we learn from **Wicksellian spread** (natural rate of interest, R^*)?

What can **Tobin's Q** teach us in terms of the future of equities?

What is the outlook given **Total Factor Productivity**?

What clues can we see in **Modern portfolio** theory given the **Markowitz-efficiency**?

What does the **FED model** imply? (as derived by Greenspan and Powell in their texts)

What theorem derives market liquidity?, **Hui-Heubel** – what conclusion can we make?

Fair Value Trading in FX – what does it tell us?

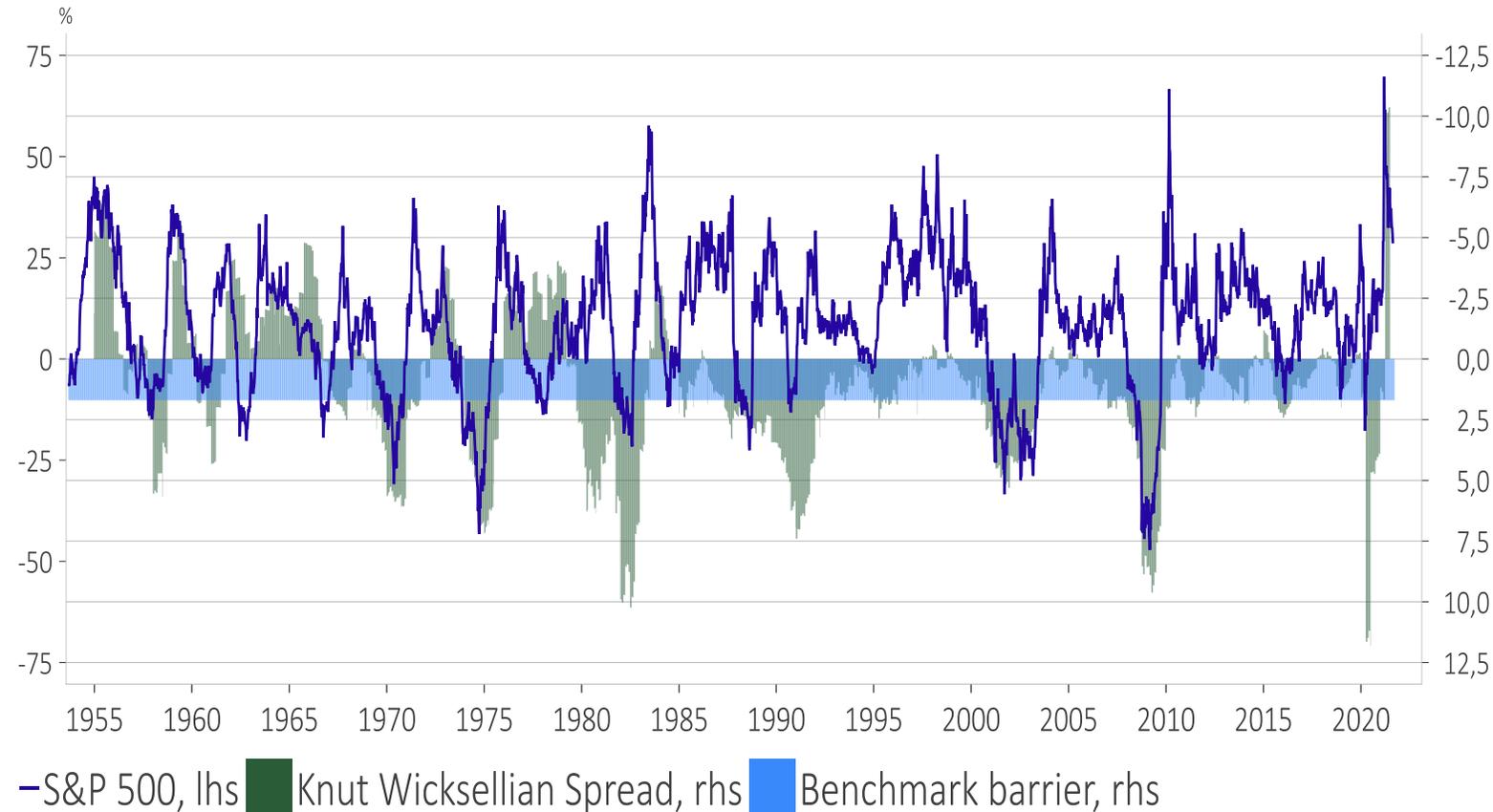
The Fisher Effect – it successfully derived falling yields in 2021, current reading?

Credit Cycle – Minsky / Austrian School



Wicksellian Spread – massive support for the markets and economy

Wicksellian spread versus equities



Source: Erik Penser Bank, Macrobond

Wicksellian Spread
Conclusion: equities are well supported

In fact, equities have never fallen into negative YoY growth without a Wicksellian spread that has turned counter-productive.

Hence, bluntly put – it has never paid off being bearish if you are up against Wicksellian spread.



Why input price pressure can be navigated by corporates!

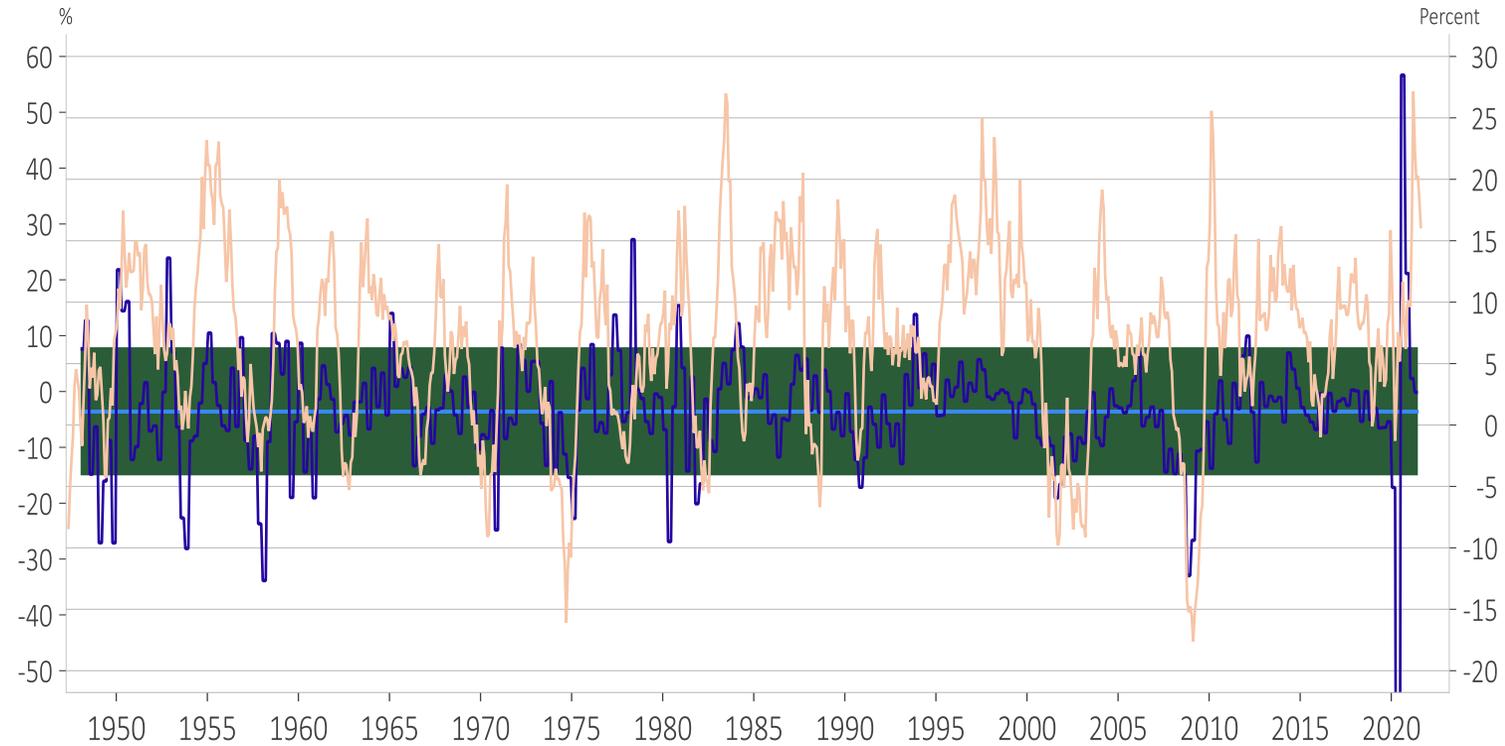
Total Factor Productivity

In plain English – we work smarter

Key is in total factor productivity versus other means to create value (TFP aka multifactor productivity)

Conclusion: equities are well supported

Total factor productivity growth vs productivity, compared to equities



— US equity index, lhs — TFP versus overall productivity, rhs — TFP vs PROD, rhs ■ mean, rhs

Source: Erik Penser Bank, Macrobond

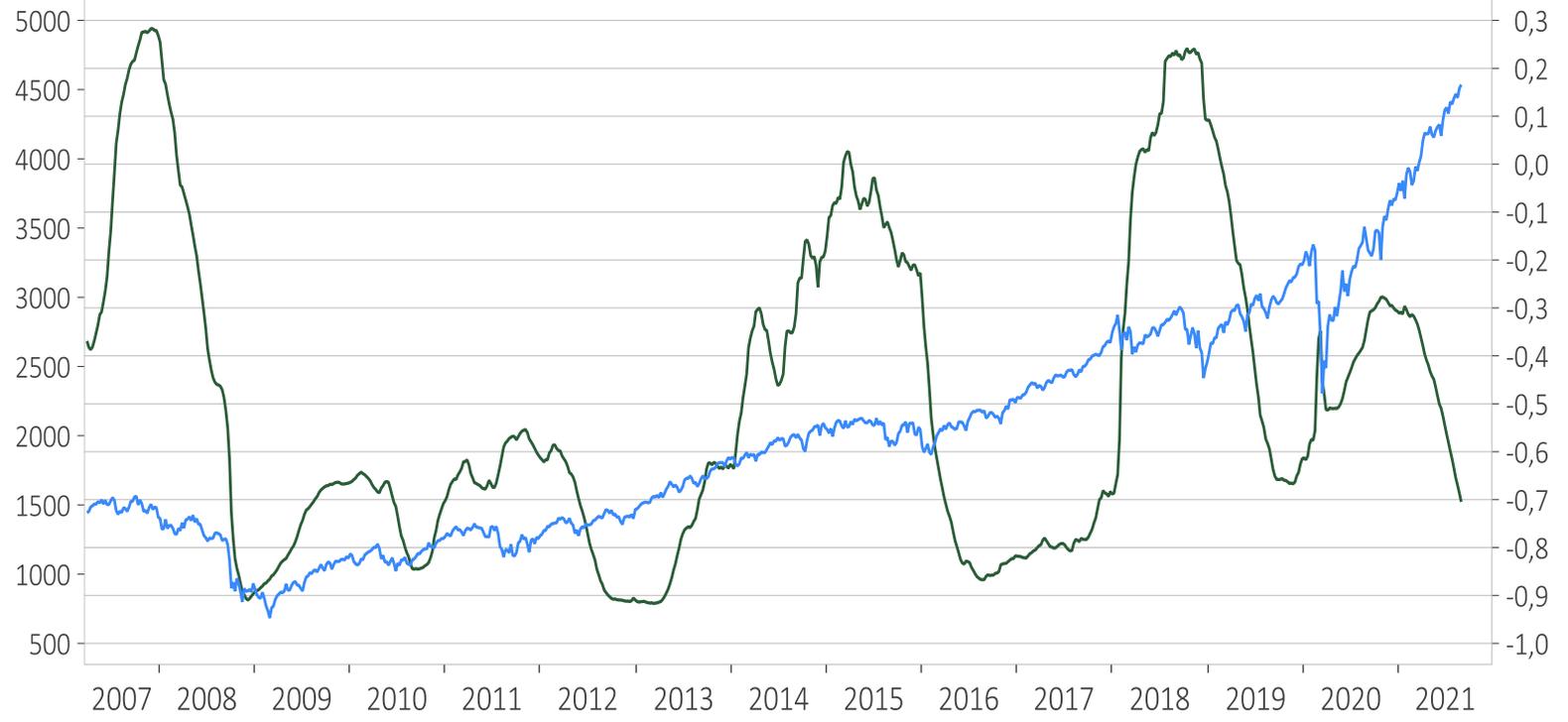


Market correlations are a cloud, but if we muddle through it will quickly turn into a supporting factor

Modern portfolio theory

Markowitz-efficiency

Market correlation(s) versus equities



—S&P500 (etf), lhs —Market corr, EPB's indicator, rhs

Source: Erik Penser Bank, Macrobond



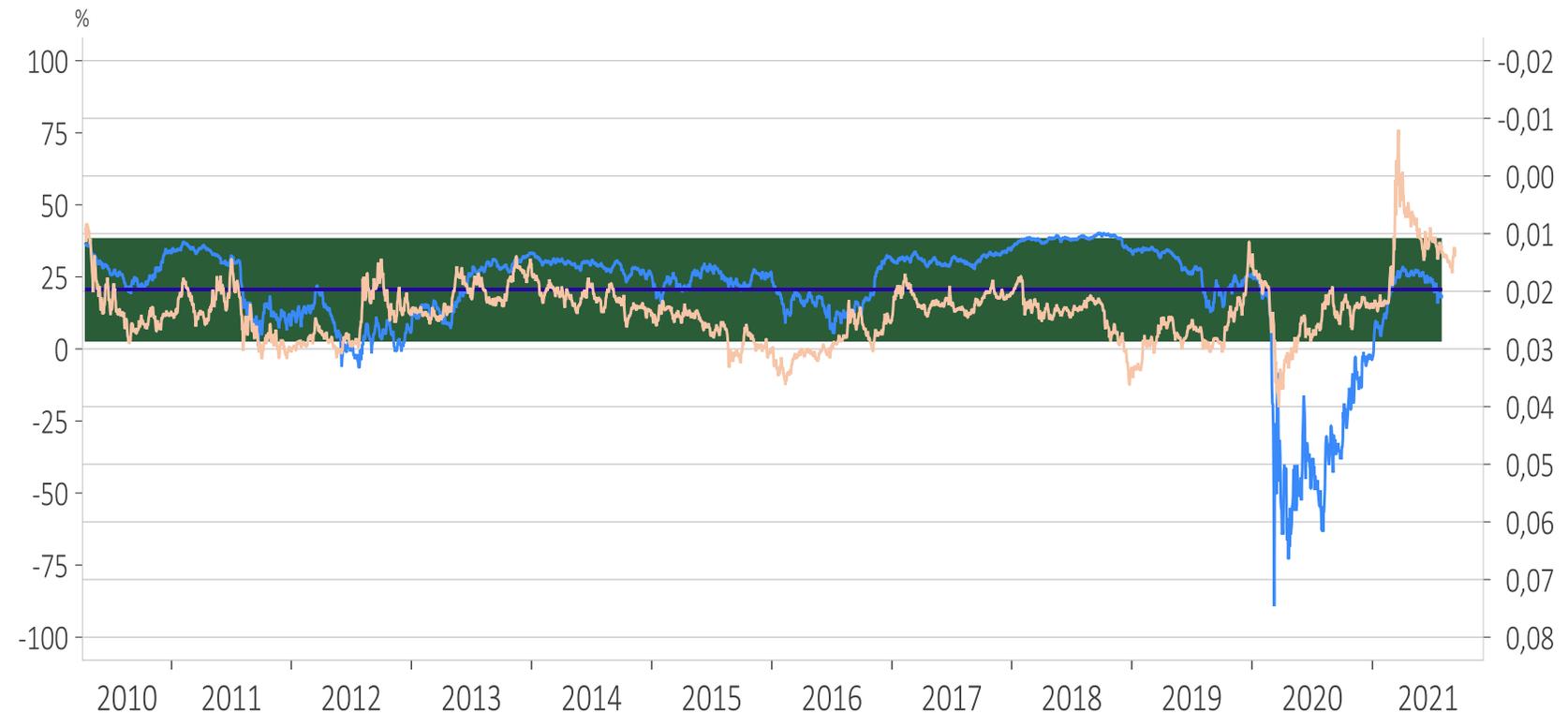
Equity valuation based on P/E and rates

Valuations are BELOW the mean!

FED chariomens' valuation model

Conclusion: equities are well supported

Greenspan / Powell valuation argument versus equities



- SPDR S&P 500 ETF Trust, lhs — Average FED valuation model, rhs
- FED valuation model (calcs start after 2009, due to QE etc), rhs ■ +/- 1 st dev, rhs

Source: Erik Penser Bank, Macrobond



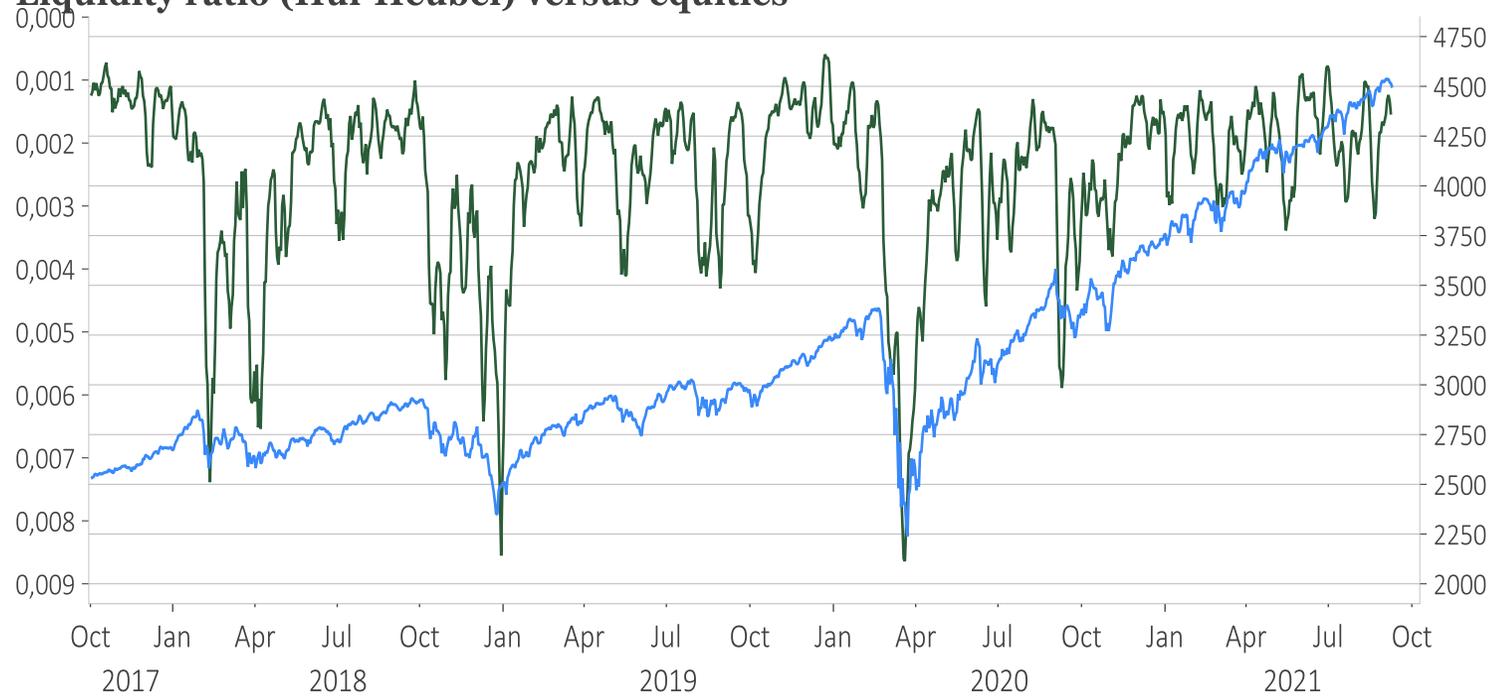
Hui-Heubel Liquidity ratio

$$\frac{(P_{\max} - P_{\min}) / P_{\min}}{V / (S \cdot \bar{P})}$$

V is the average daily volume for a particular futures, SP is the average open interest or amount of outstanding shares over the same period. So V/SP effectively captures turnovers. By its actions the market is demonstrating an enormous propensity to buy!

Conclusion: equities are well supported

Liquidity ratio (Hui-Heubel) versus equities



— S&P 500 (ETF), rhs — Hui-Heubel version 2, lhs

Source: Erik Penser Bank, Macrobond



Weekly data, 30 points, relationship between the correlations SEK & OMX and SEK & FI

Fair Value Trading

Clearly we are in an environment where SEK and OMX have had a positive correlation.

But, this relationship VERSUS FI is mean reverting, never stable in the long term.

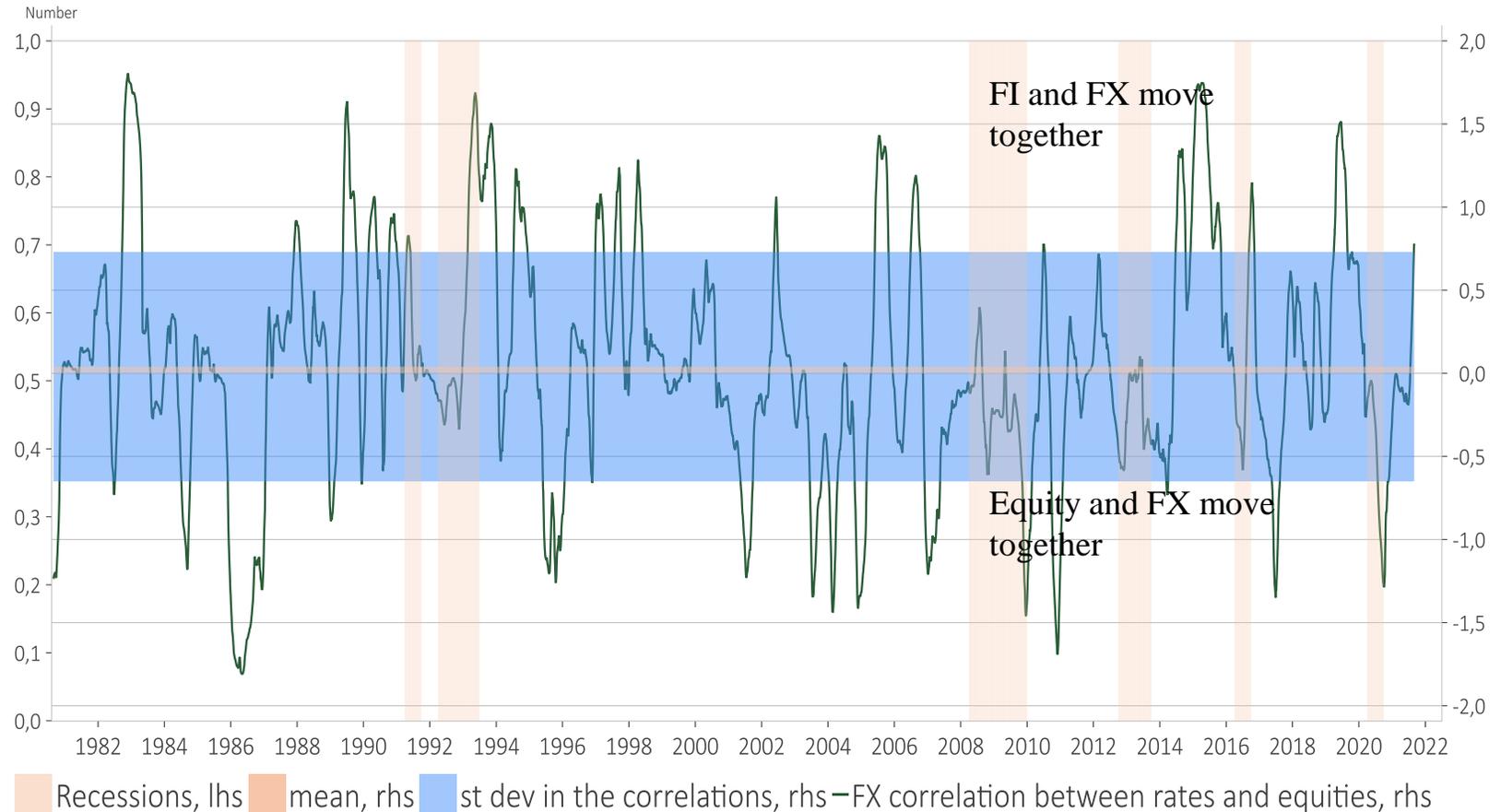
Between x-mas and New Years we were right at the edge of 1 st deviation – hence ready to mean revert.

This is why we rotated further out of SEK into USD and EUR between x-mas and New Year.

NOW THE SEK IS TRADING ON RATES!

HUGE SHIFT FOR SEK MARKET and WE INCREASED LONG USD EXPOSURES DURING THE SUMMER

Correlation between FX and rates & FX and equities



Source: Erik Penser Bank, Macrobond



Most important chart...for a while, **WHY YIELDS PLUMMETED** and we have not re-entered curve steepener and why the transitory CPI burst is the most transitory ever!

The Fisher Effect

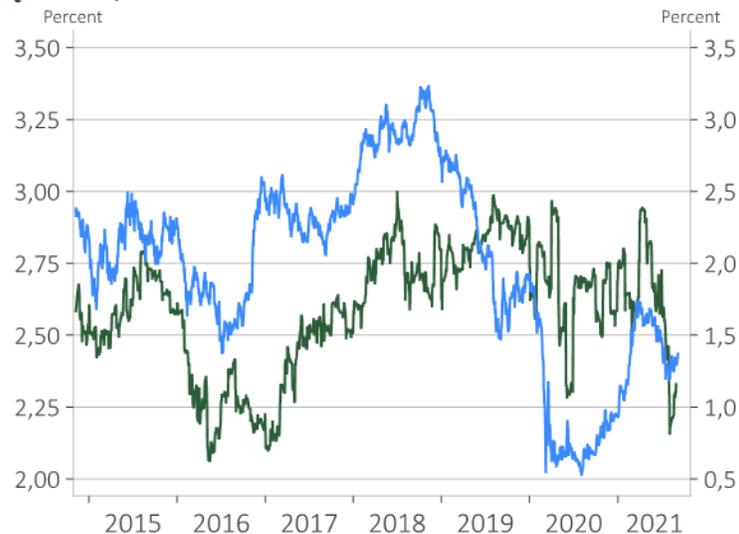
Rate indicator via priced real inflation



- US, 10 yr yield YoY change, rhs
- Inflation model, priced inflation curve vers...

Source: Erik Penser Bank, Macrobond

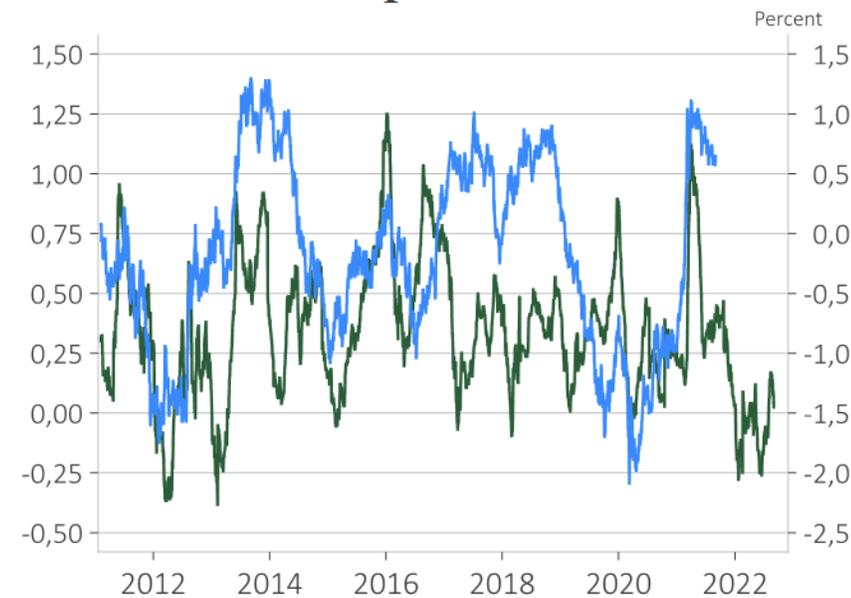
Regression between our indicator and yields, limit on lead time



- Yield, rhs - Yield, lhs

Source: Erik Penser Bank, Macrobond

Rate indicator via priced inflation



- US, 10 yr yield YoY change, rhs
- Inflation model, priced inflation curve, lhs

Source: Erik Penser Bank, Macrobond

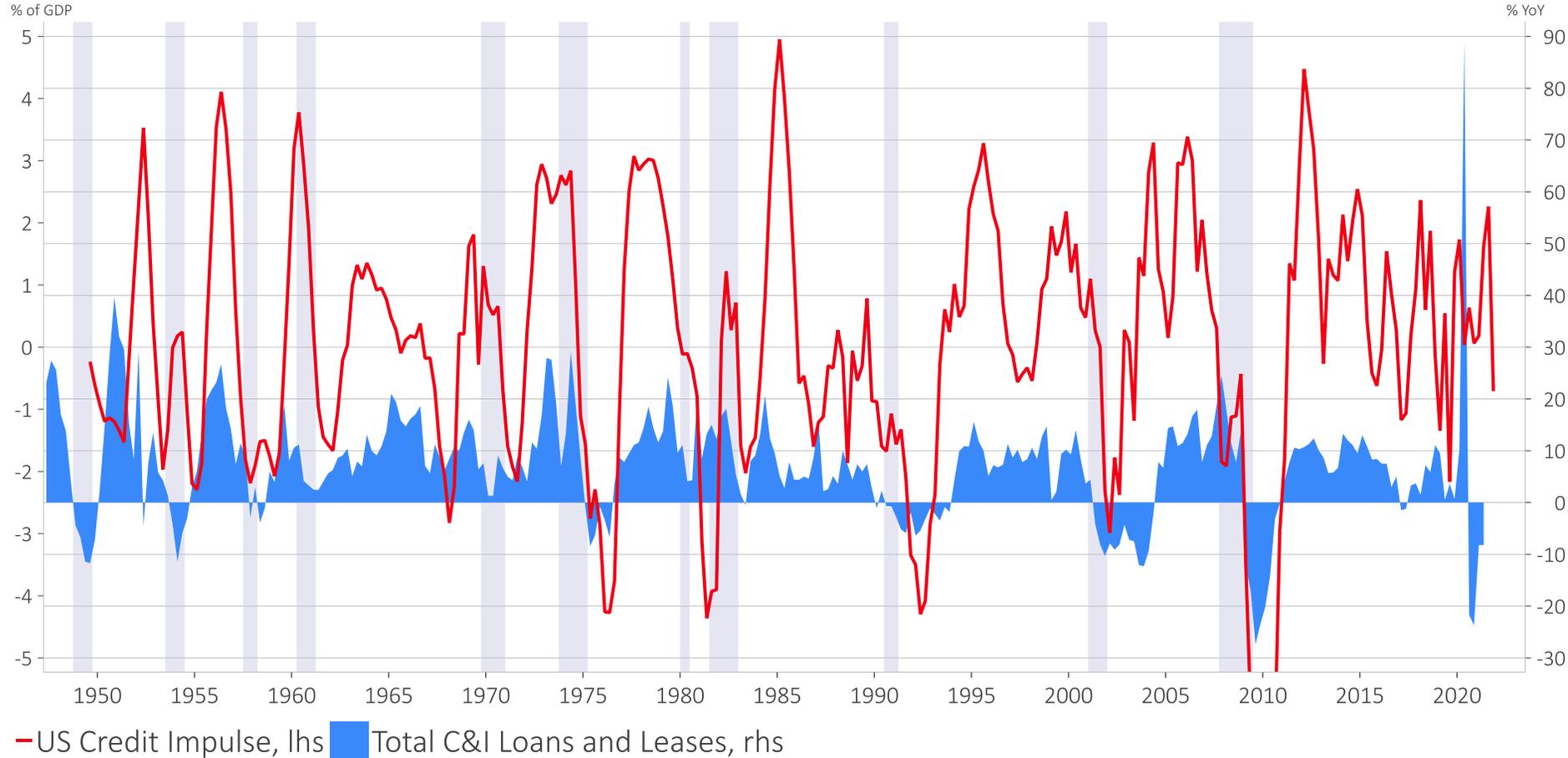


Credit Impulse indicators...looking good!!! (don't get tricked by old Chinese data, they have changed their liquidity channels)

Credit cycle

the graph shows the US and still supportive

US Credit Impulse vs C&I Loans and Leases



Source: Erik Penser Bank, Macrobond



The world of high frequency GDP models

Do not confuse deceleration with weakness



GDP weekly models – following the peak and refuses to fall back to pre-covid levels (Supercycle)

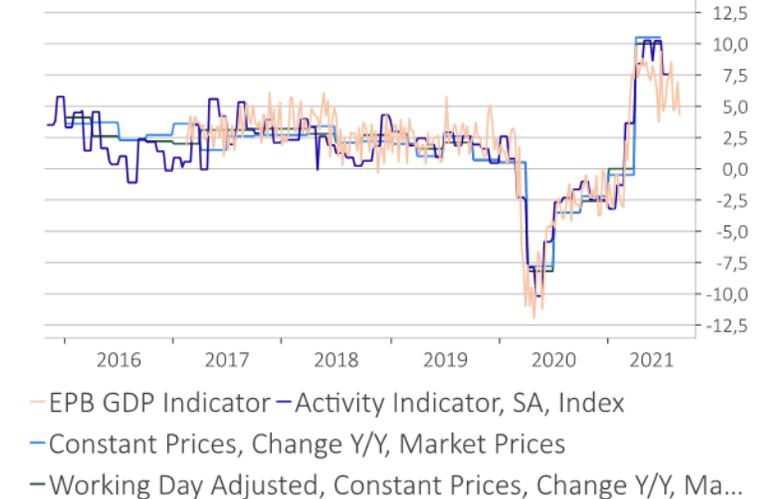
US, now casting GDP model



–GDP model, Weekly, Total, Change Y/Y

Source: Erik Penser Bank, Macrobond

Sweden, GDP Indicator



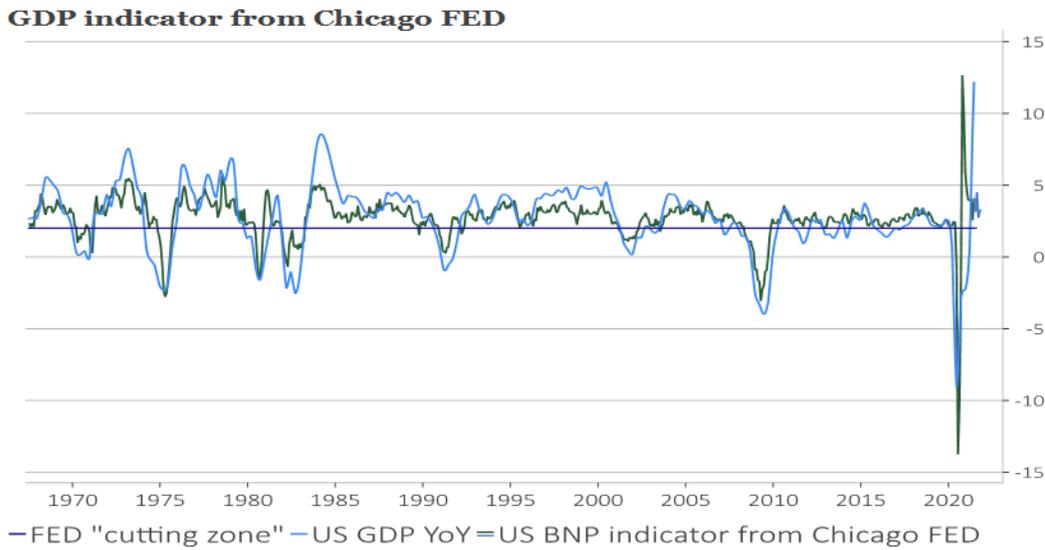
Source: Erik Penser Bank, Macrobond



Supercycle! Growth trajectory is impressive!

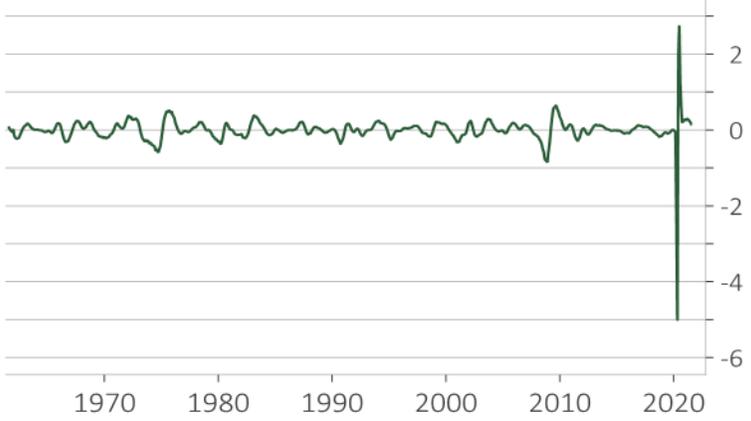
Supported by roughly 4000 individual US data series! Math by FED and US investment Banks.

BTW, the coming peak in GDP, production etc has been traded as this is OLD news!



Source: Erik Penser Bank, Macrobond

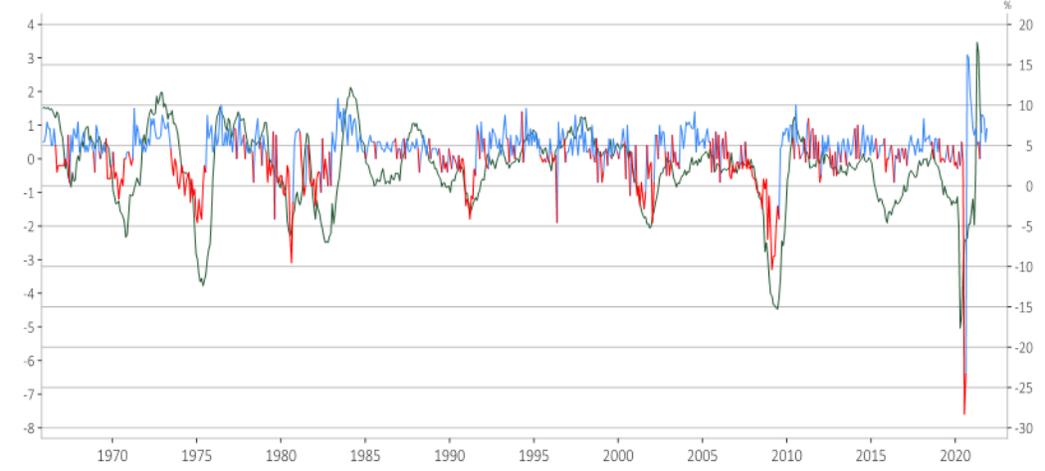
OECD's leading indicator as forecasted by EBP



— OECD's leading indicator, EPB calculations

Source: Erik Penser Bank, Macrobond

GDP model by aggregating leading indicators



= US leading index, lhs
 - United States, Industrial Production, Total, Constant Prices, SA, Index, rhs

Source: Erik Penser Bank, Macrobond



Driver of growth: pent up demand

United States, Income Approach, Total, SA, AR



Source: Erik Penser Bank, Macrobond

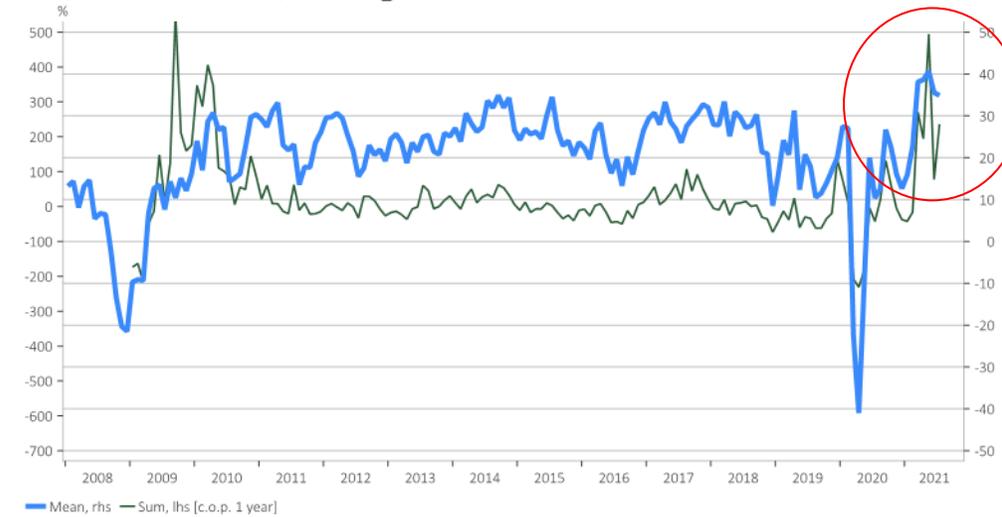
United States: CARTS Index as early indicator for Retail Trade

CARTS: Chicago Fed Advance Retail Trade Summary



Source: Erik Penser Bank, Macrobond

US, Business sales, leading indicator



Source: Erik Penser Bank, Macrobond



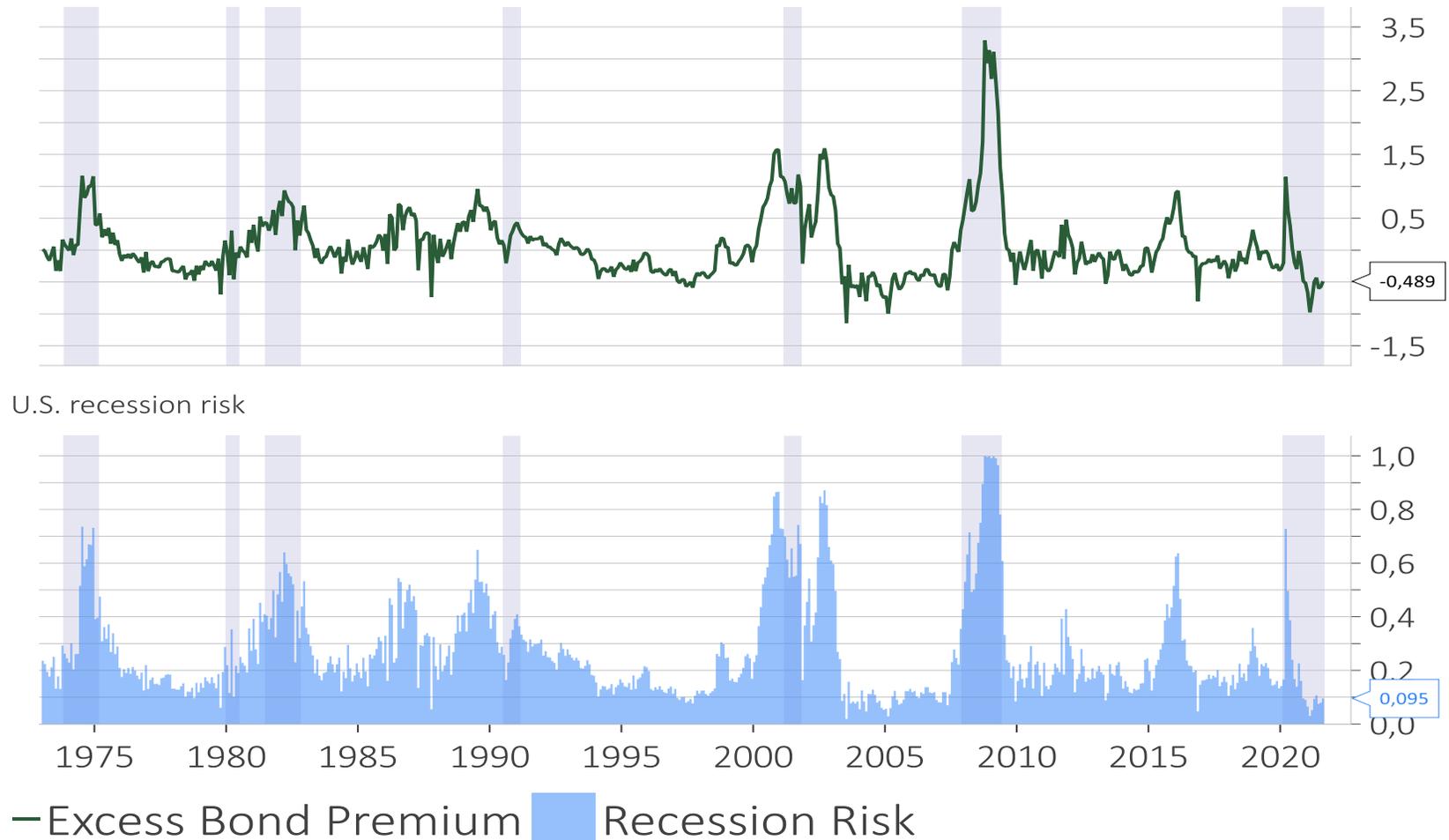
Recession risk, FED's own model, RATES are NOT a threat to equities / growth

US is boosting its economy to close an output gap that is 50% smaller than EU's!!!

At the same time recession risk in the US is the 4th lowest 'ever' recorded following FED research!

Recession risk is now 9,5%.

As the inflation hysteria camp has move camping spot to peak growth hysteria we should remember that the growth outlook is a supercycle and subsequently, the risk of a recession is so low that the market wont care.



Source: Erik Penser Bank, Macrobond



...observe, after the peak (visible since week 15 this year) we face a bounce...we prefer equities and stay maximum overweight

Hence, the real story is not about peak growth, but that several economies look stronger after the pandemic compared before
(obviously only focusing on GDP, market etc and not the human suffering).

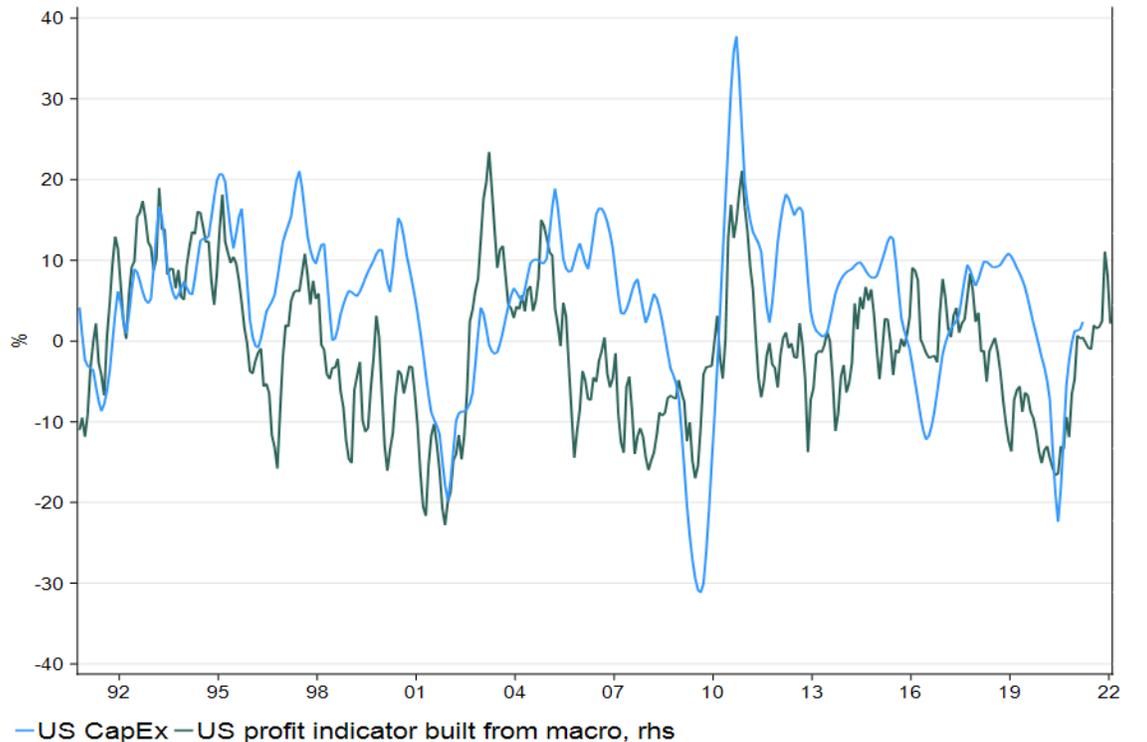
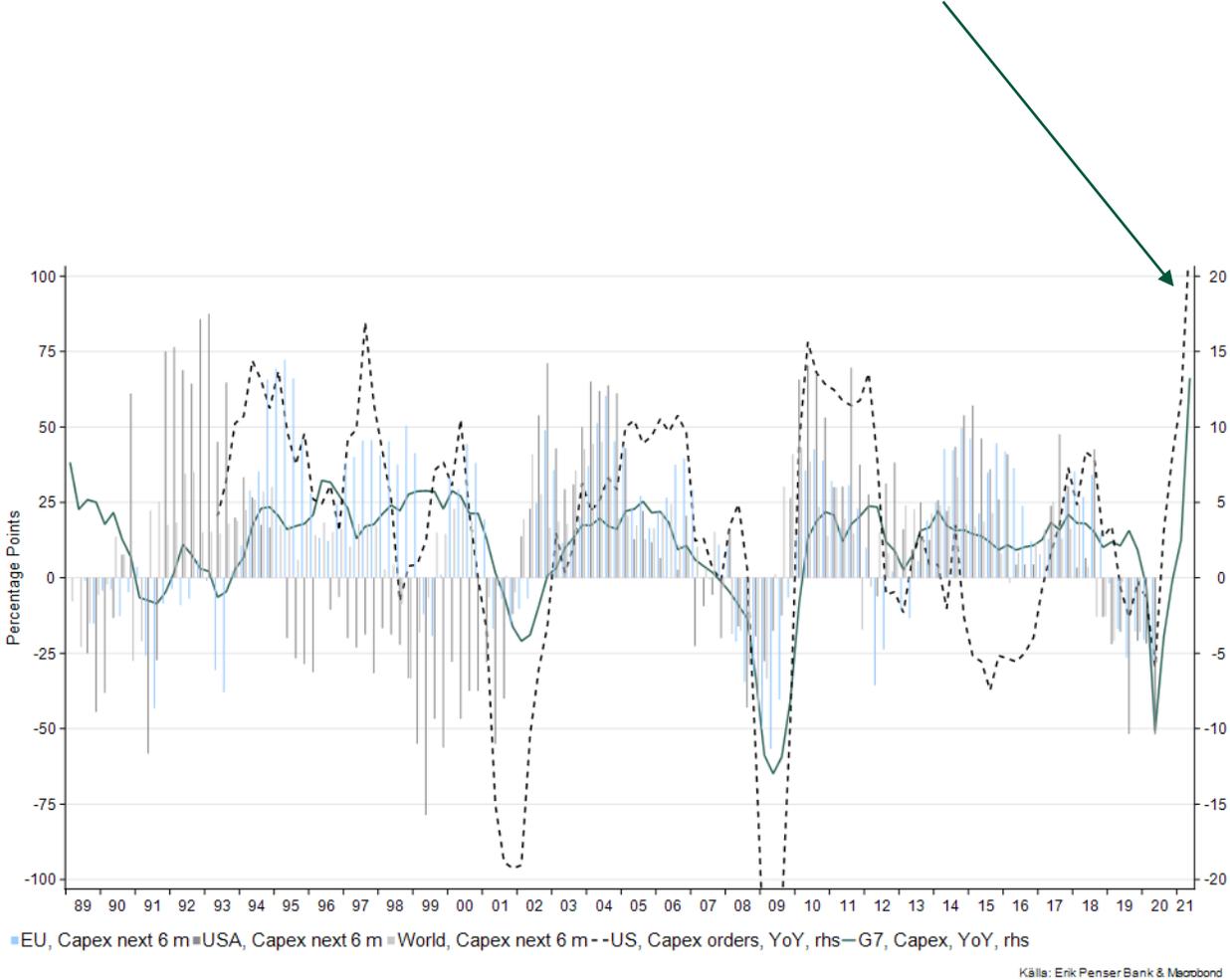
Now casting models



Source: Erik Penser Bank, Macrobond



Part of Supercycle theme, CapEx is back, as we forecasted and been nagging about throughout 2021 😊!

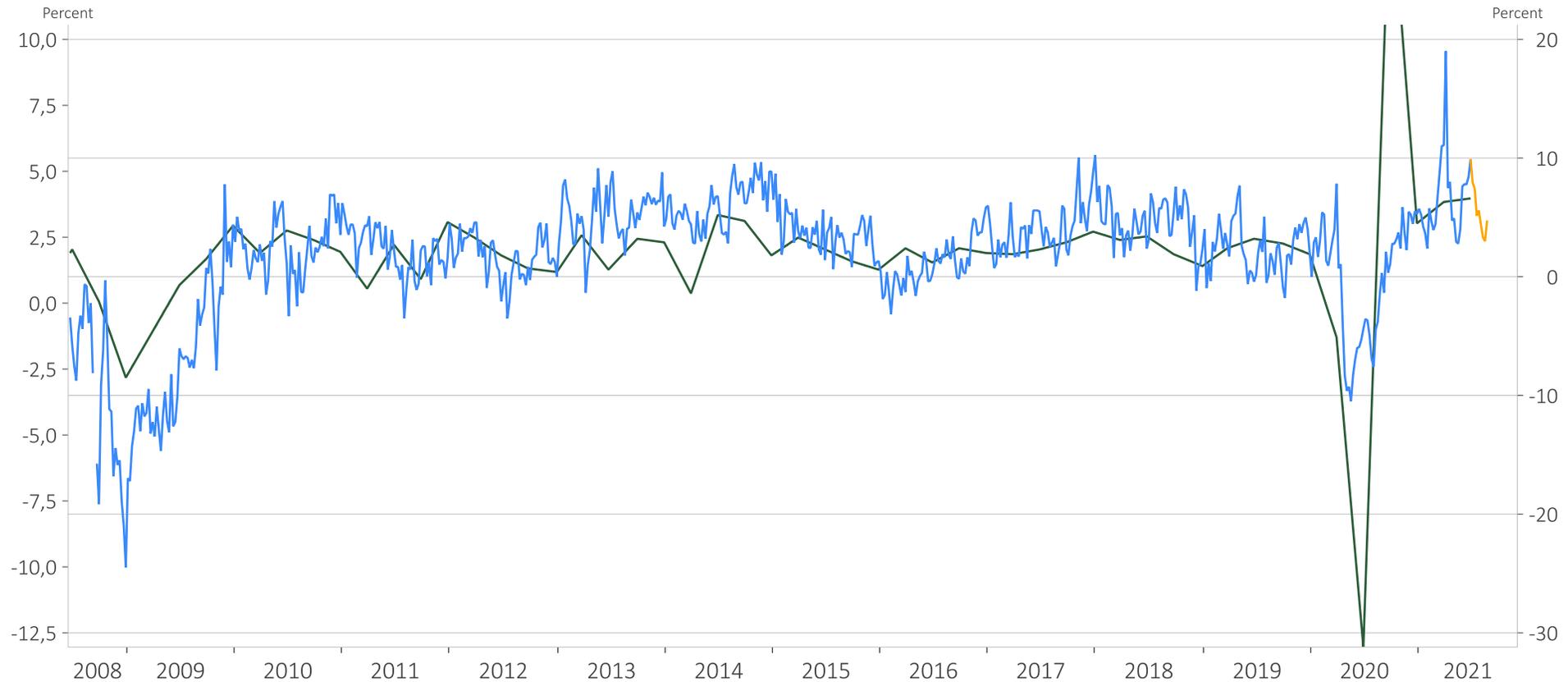


Macro and markets in harmony

Weekly data troughed in April 2020, we have repeated this since April 2020 and see no reason to doubt this trend, growth is growth and has to be traded!

Below is built 217 datavariabes

EPB GDP now model



— EPB model of US GDP, lhs — Actual GDP, rhs

Source: Erik Penser Bank, Macrobond



Timing peak growth to peak equities!

Tip: do not confuse peak growth with weakness!

We include the latest FED research and math, now-casting, TFP / MFP and old school indicators (profit forecasts)

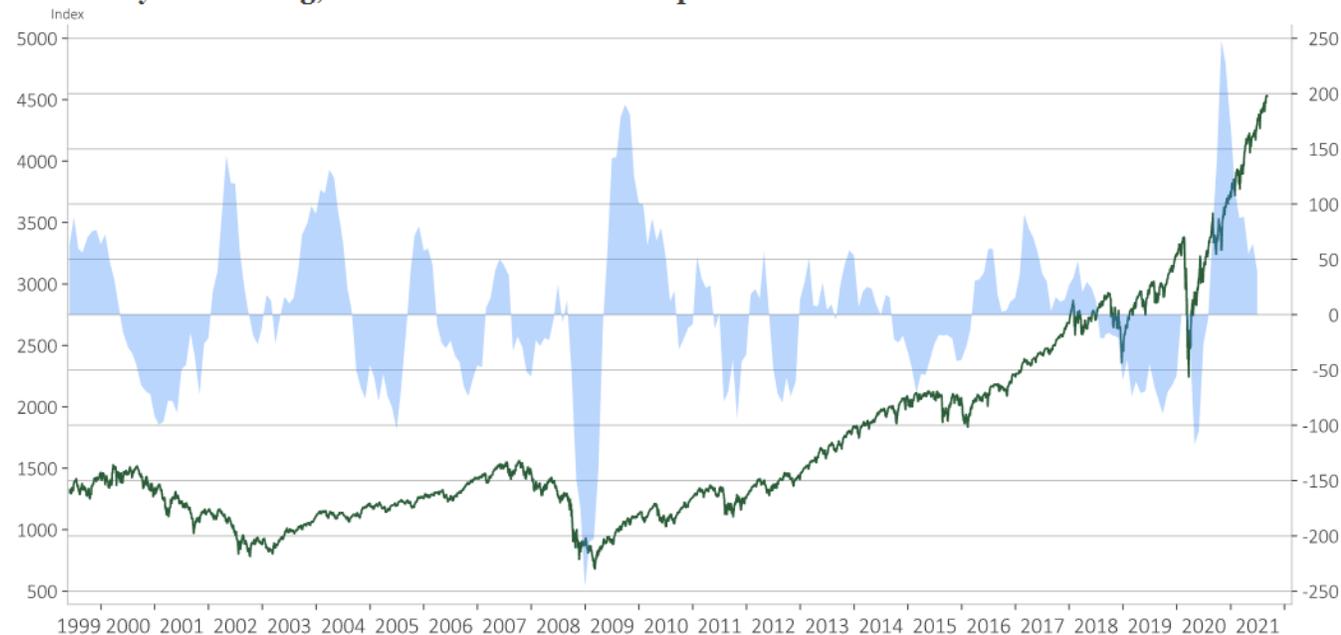
Growth by old school indicators versus equities



— Sum, rhs - United States, Equity Indices, S&P, 500, Index, Price Return, Close, USD, lhs

Source: Erik Penser Bank, Macrobond

Growth by now casting, GDP Now models versus equities



— Sum, rhs - Equity Indices, S&P, 500, Index, Price Return, Close, USD, lhs

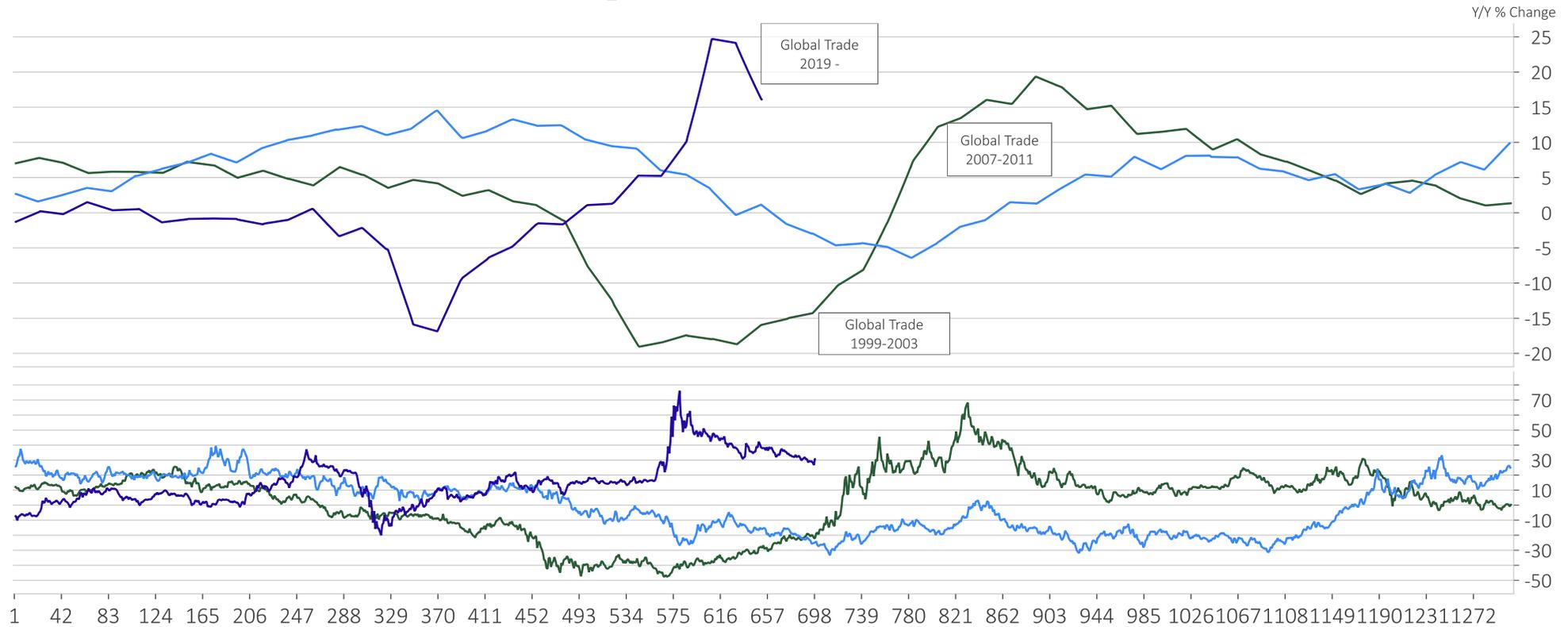
Source: Erik Penser Bank, Macrobond



3 last crises, a look at global trade and S&P

Peak trade is a vague signal for equities, if any signal at all?

Global trade and S&P 500: Three crises compared



Source: Erik Penser Bank, Macrobond

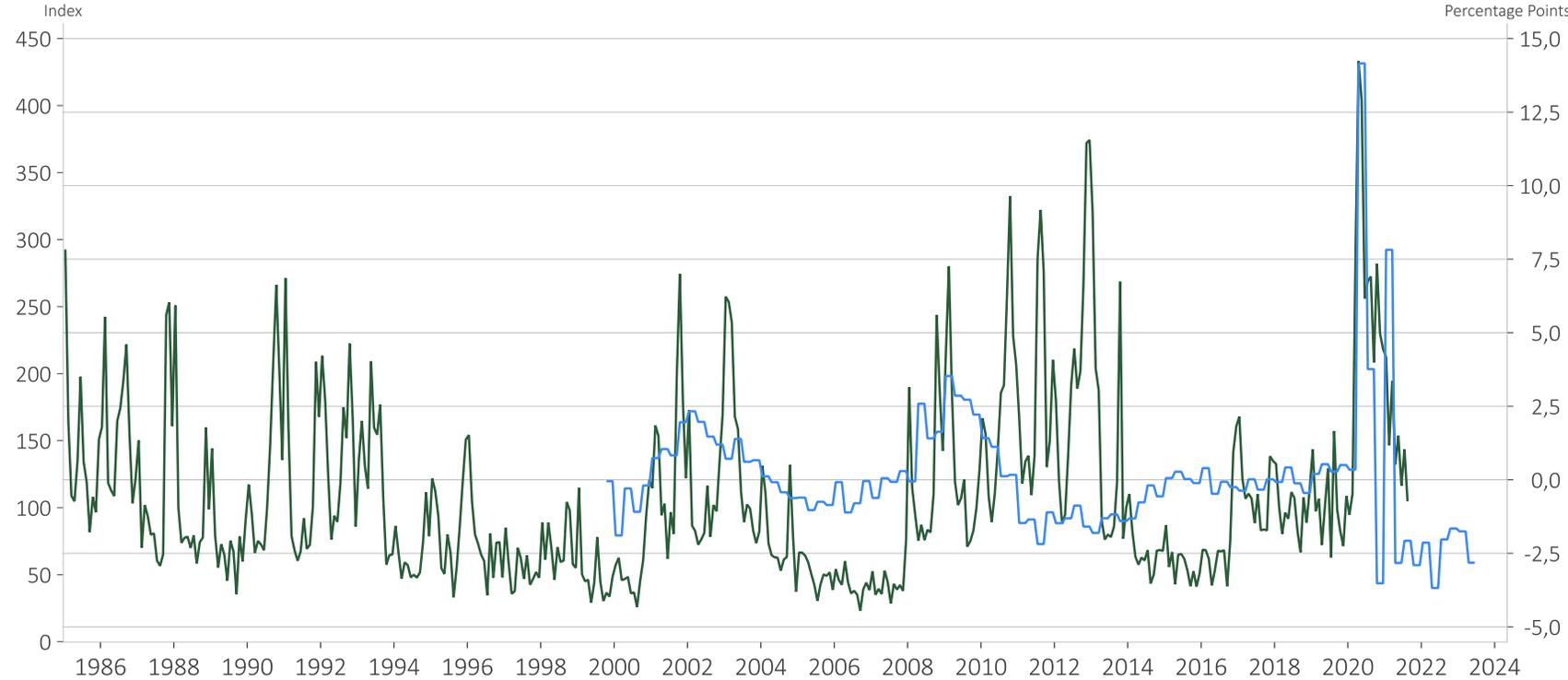


...and you thought fiscal stimulus was over?
 There is another 3.5 Tr USD on its way and it can't be stopped!
 US is adding another +15.5% of its economy
 ...including 550 bUSD in infrastructure spending as well...

Also, last week the European Union finally put to work the first grants released from the 800 billion-euro (\$938.7 billion) NextGeneration EU recovery fund.

China has declared more credit stimulus.

Fiscal programmes' contribution to GDP growth



— Fiscal Policy Impact, Point Contribution to Real GDP Growth, Total, Constant Prices, rhs
 — Fiscal Policy (Taxes or Spending) Uncertainty, lhs

Source: Erik Penser Bank, Macrobond

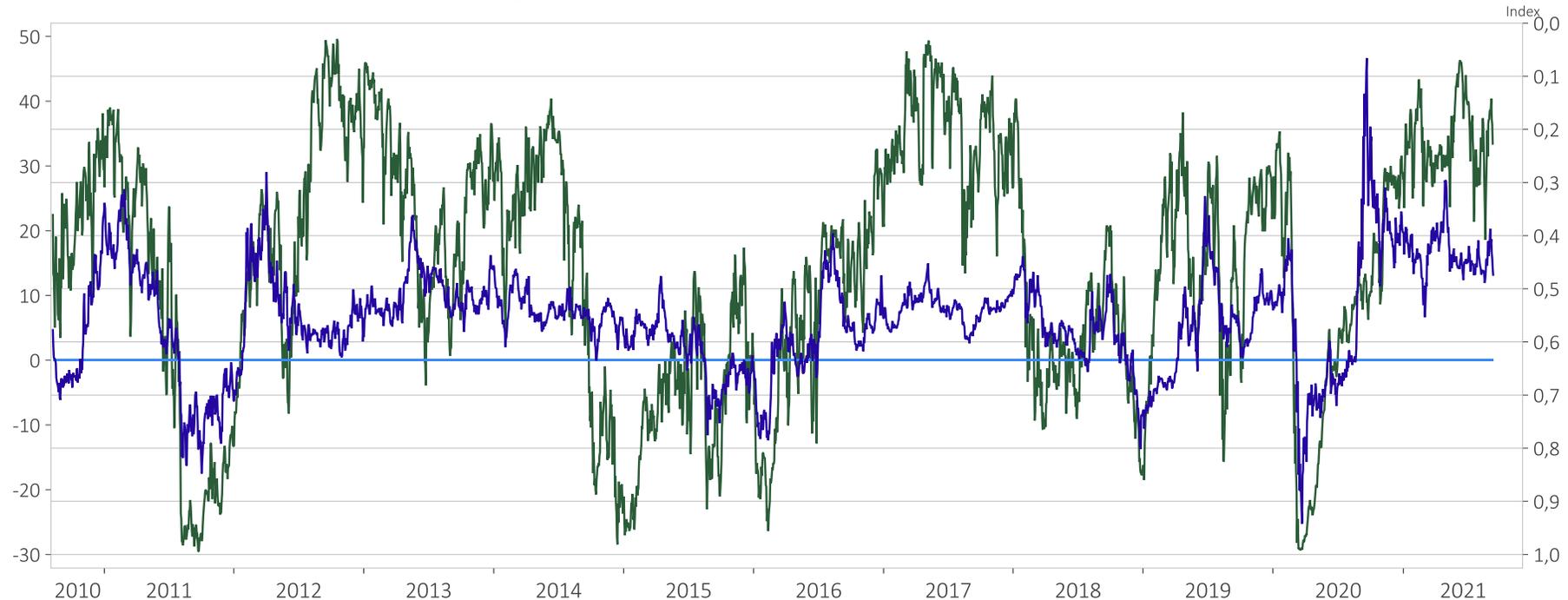


Risk monitor based on broader macro input

Below risk monitor troughed a week before equities (part of our trough call on the 24th of March 2020).

UNLESS yield momentum impacts broader markets, the economy, liquidity etc it will NOT stop equities but cause reallocations.

EPB market risk indicator, built on priced risk in the markets



- SPDR S&P 500 ETF Trust, lhs —Benchmark barrier where equities sell off, lhs
- EPB Macro Risk Indicator (rate spreads, CDS on coporates, FX vol, FI vol, EM rate spread), rhs

Source: Erik Penser Bank, Macrobond

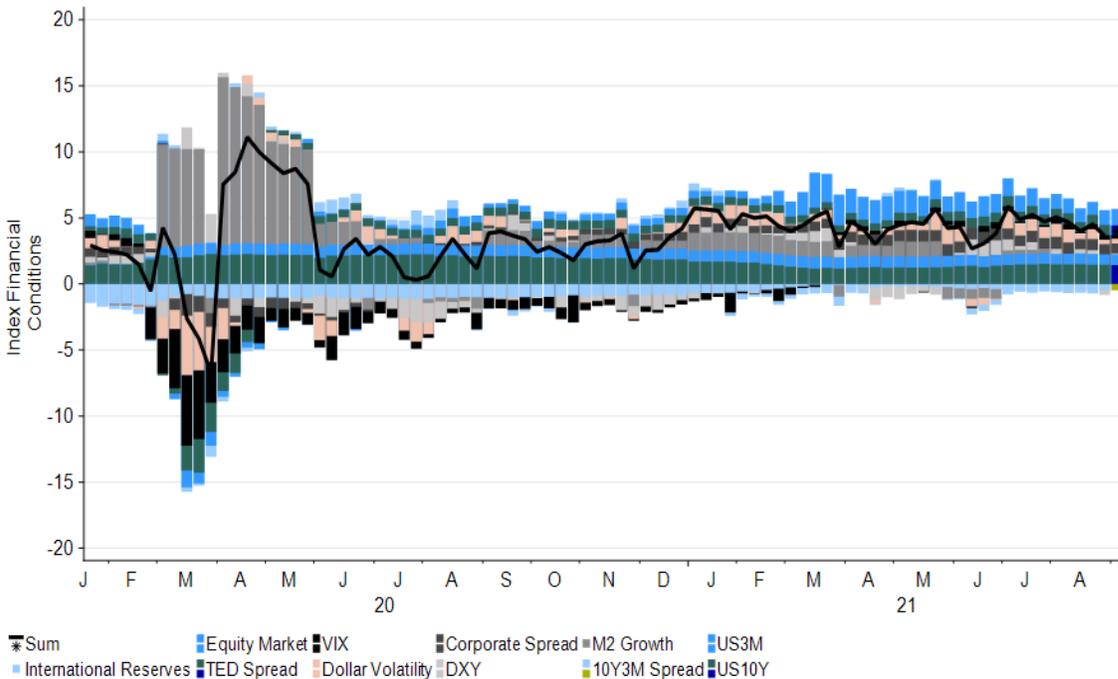


Time to get detailed...US financial conditions / financial stress MUCH better than EZ's!!! This slide continues to be key as stimulus withdraws

This is crucial especially now after the spike in yields, we can now measure just how better things are in US markets compared to EZ....and little wonder that flows have and will be directed to the relative winner, the US

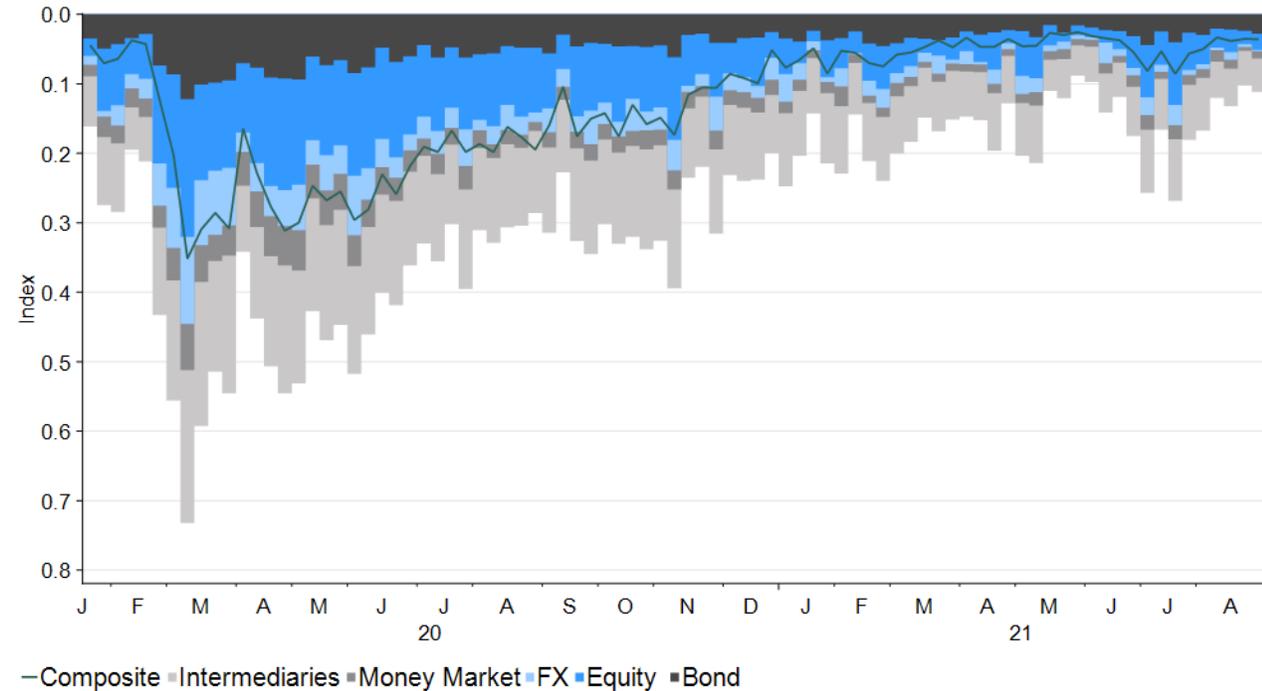
These models build on ECB and FED research! This metric called the 2008 crises in the summer of 2007 and never flinged!

US Financial Conditions Index



Källa: Erik Penser Bank & Macrobond

Euro area



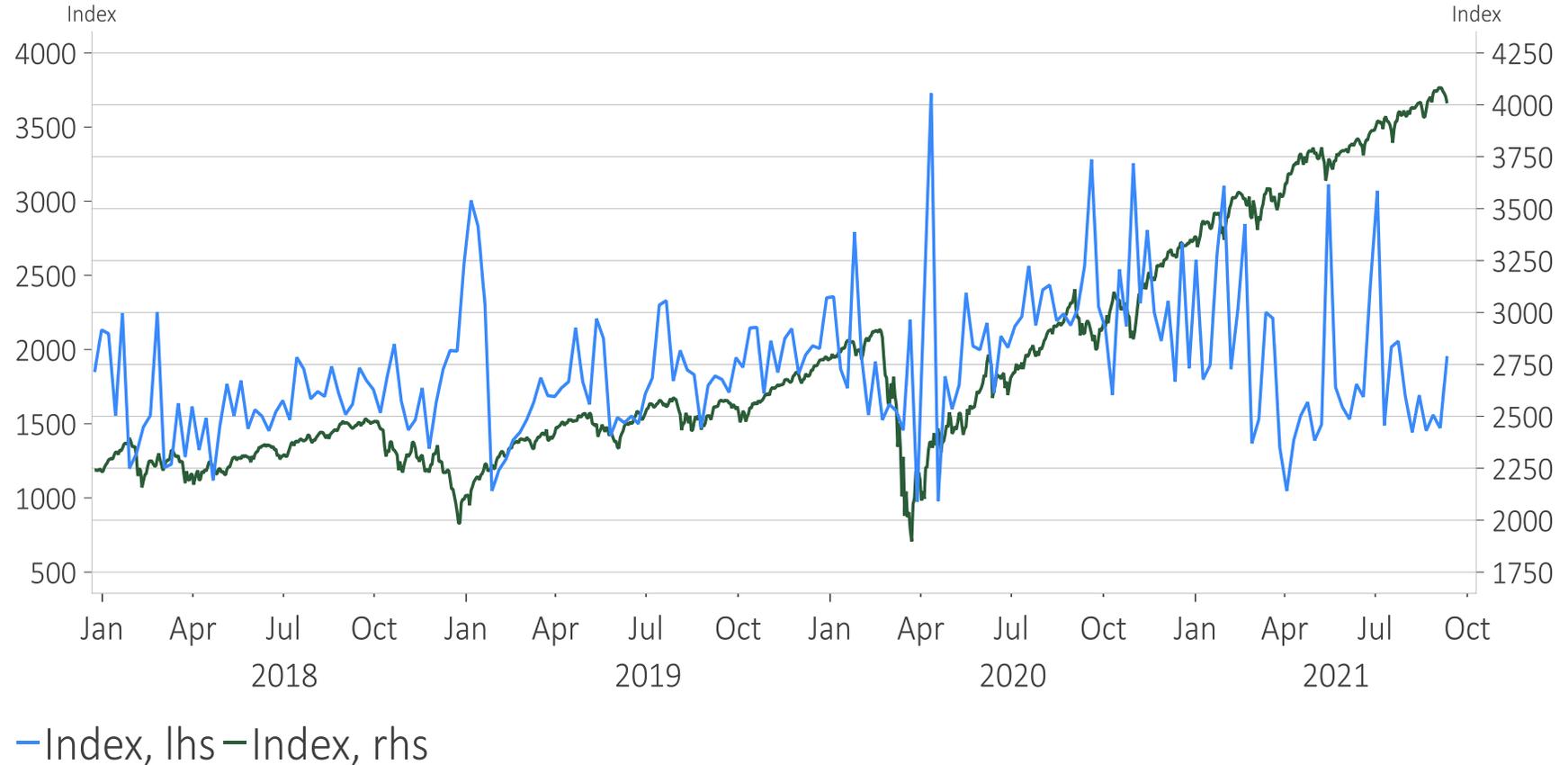
Källa: Erik Penser Bank & Macrobond



So, what could be the NEXT equity trigger? - flows

MSCI US versus net flows to US equities, sell offs met with inflows, but the underlying trend in 2021 is tough...we think, based on investor sentiment, that the flows to equities will come back in 2H of 2021!

US equities and positioning in US equities and what that positions tell us about the level on equity markets



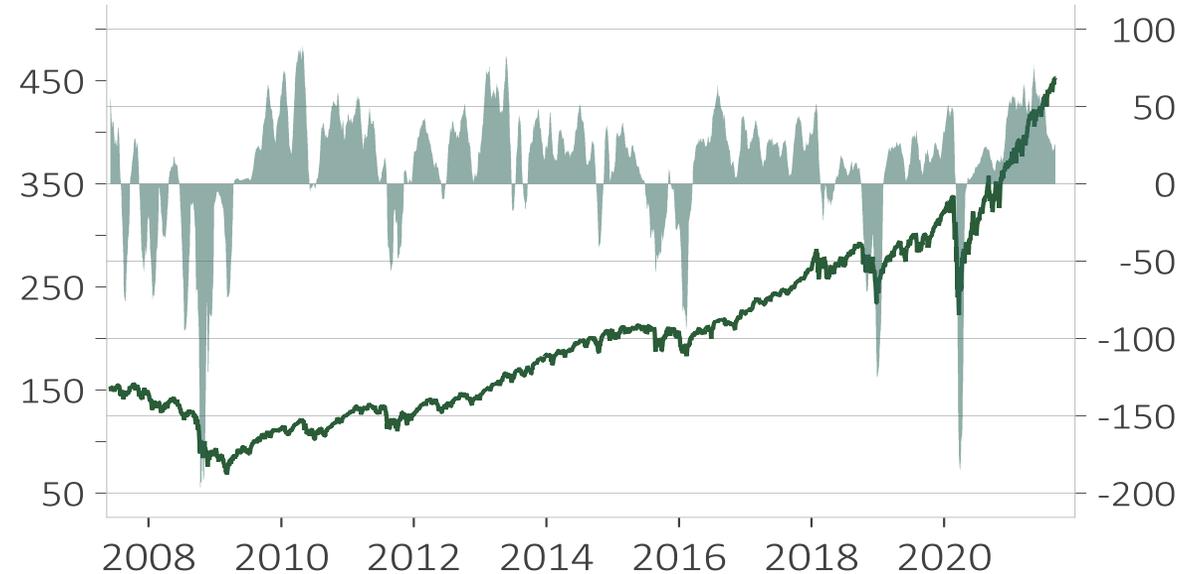
Source: Erik Penser Bank, Macrobond



Fear and Greed, our version is a combination of several so called fear and greed monitors

- This monitor catches the stress in Equity markets
- When green bars rise we are in GREED
- When green bars fall we are in FEAR
- **Currently we are in GREED**

Fear and Greed monitor



■ Fear & Greed Monitor, rhs
— SPDR S&P 500 ETF Trust, lhs

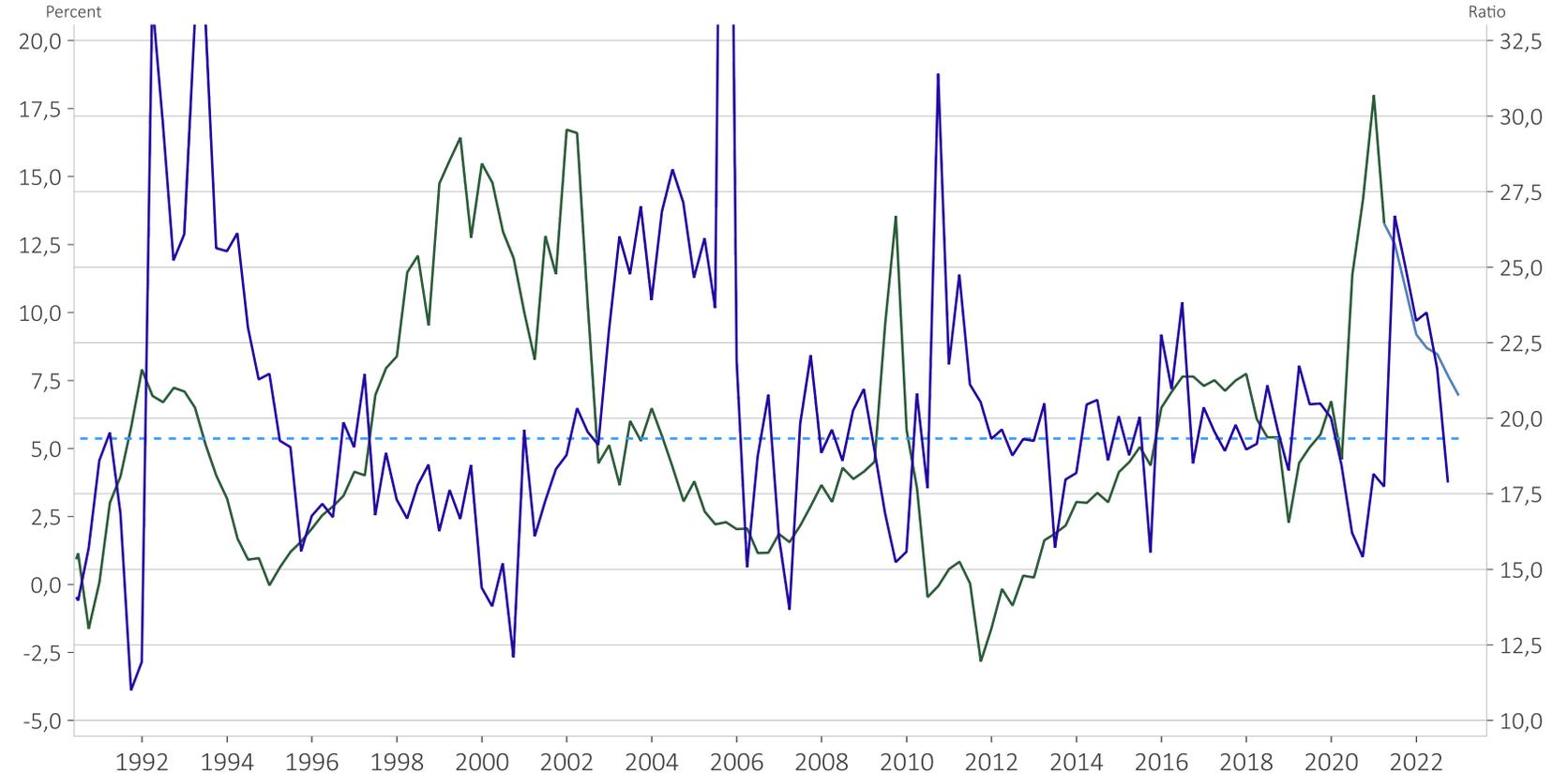
Source: Erik Penser Bank, Macrobond



FED model and future earnings are putting P/E in a **context**

- Valuations are **NEUTRAL!!!**

P/E ratio with forecast and profit growth



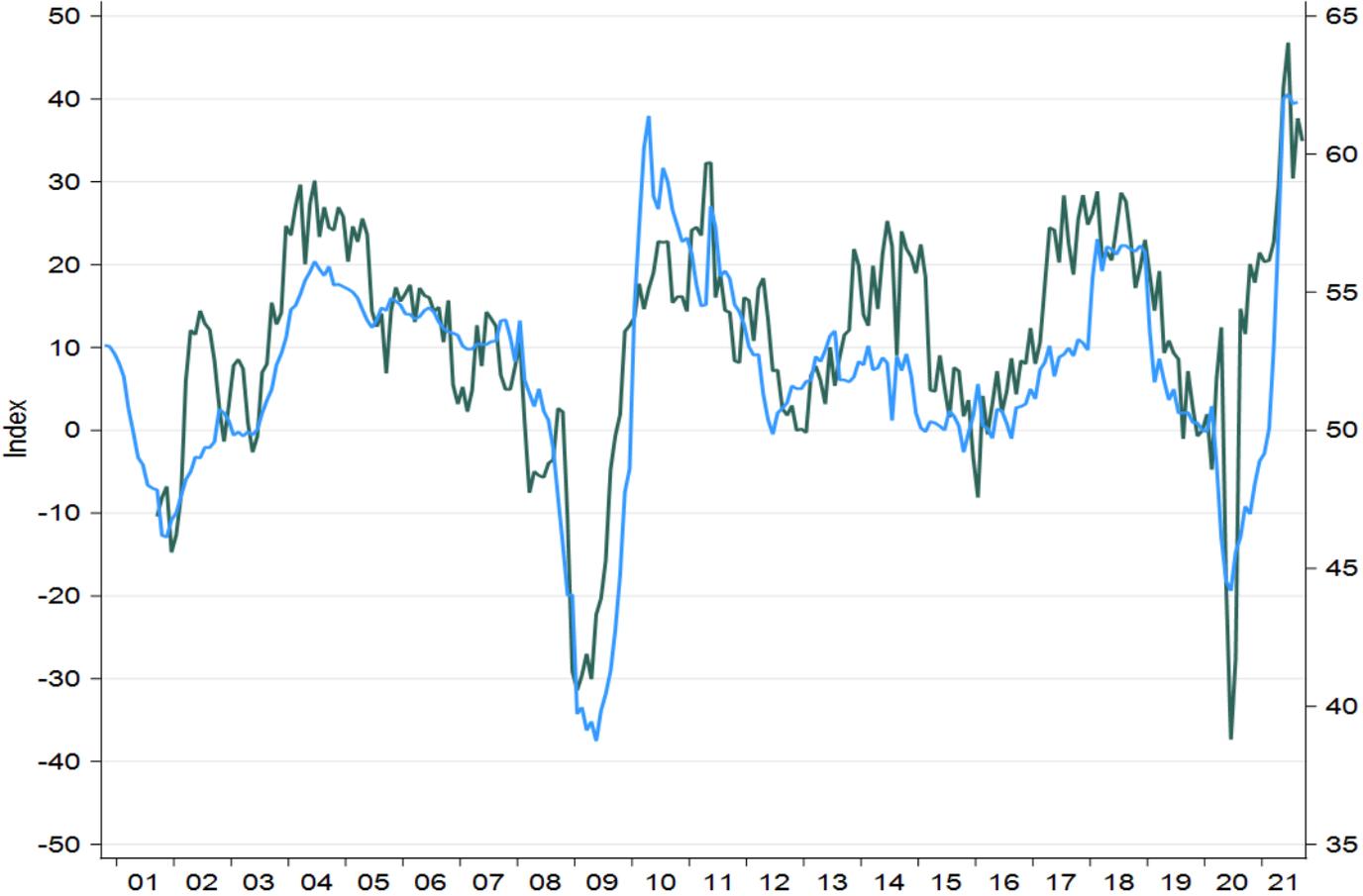
— Federal Reserve Bank Survey of Professional Forecasters, earnings growth, SA, AR, lhs

— average P/E Ratio (Operating Earnings), rhs = P/E Ratio (Operating Earnings), rhs

Source: Erik Penser Bank, Macrobond

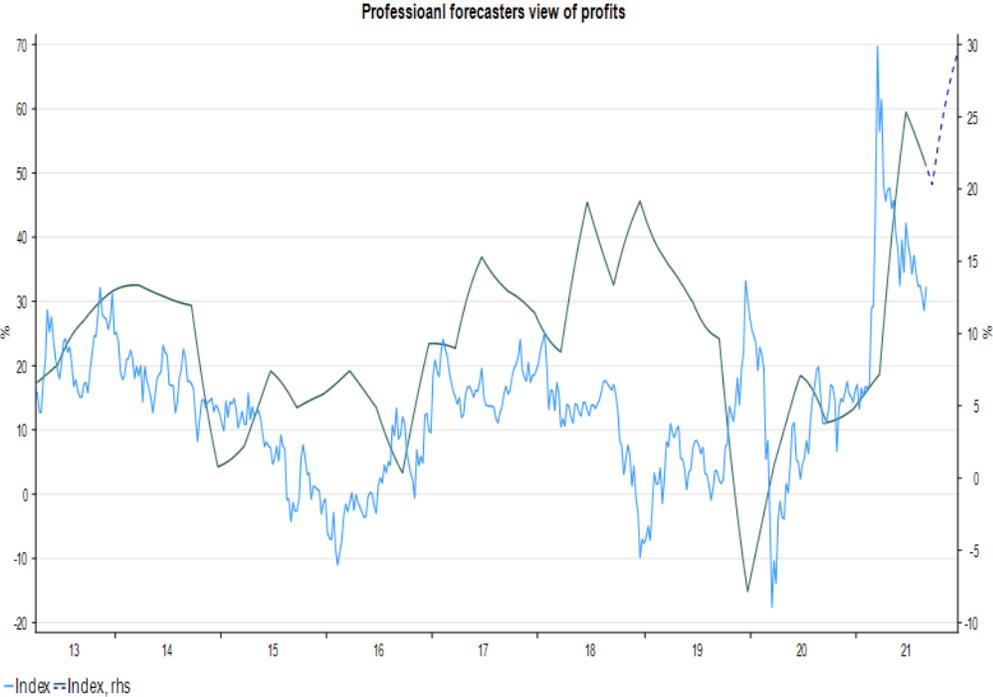


EPS indicators have peaked – note, this does not imply falling equities, but less overall growth – ie be picky!



— 12 Months Forward EPS — Model for predicting 12 months forward EPS, rhs

Source: Erik Penser Bank & Macrobond



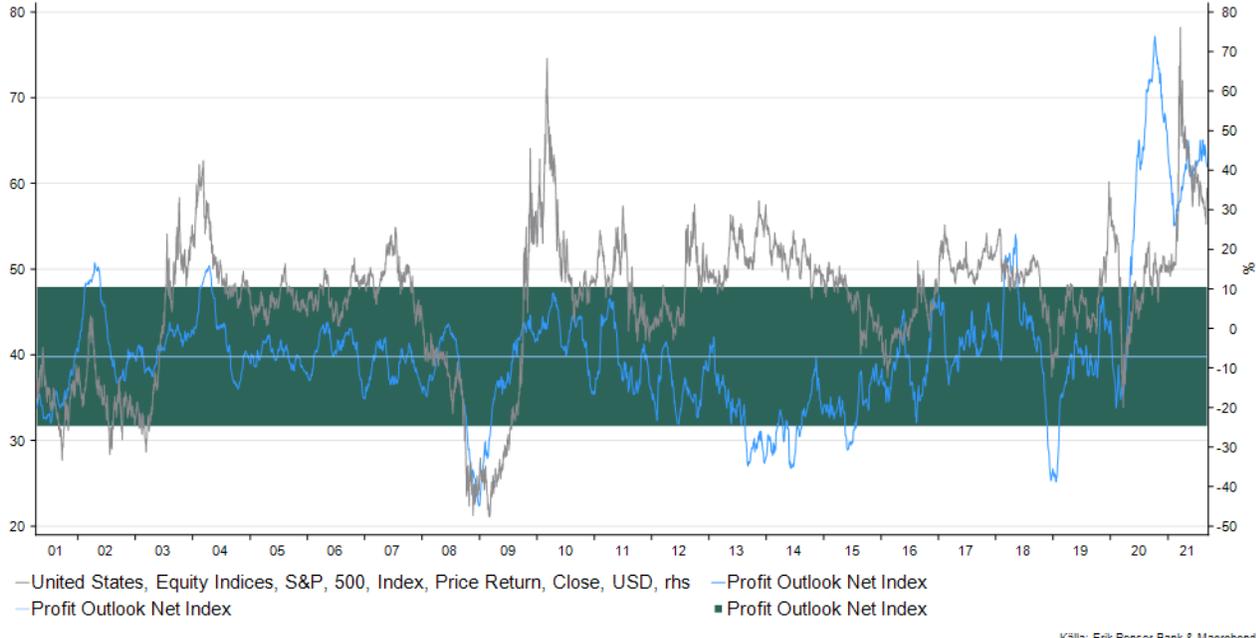
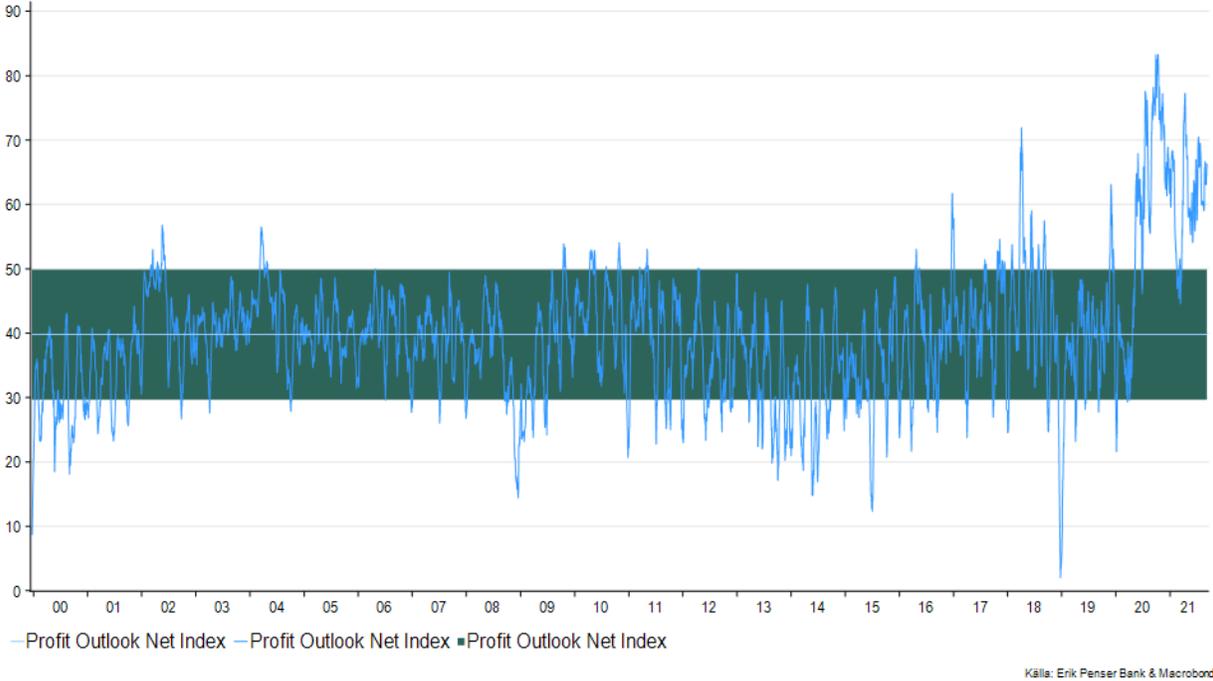
Källa: Erik Penser Bank & Macrobond



Corporate reporting vs buy/sell analysis

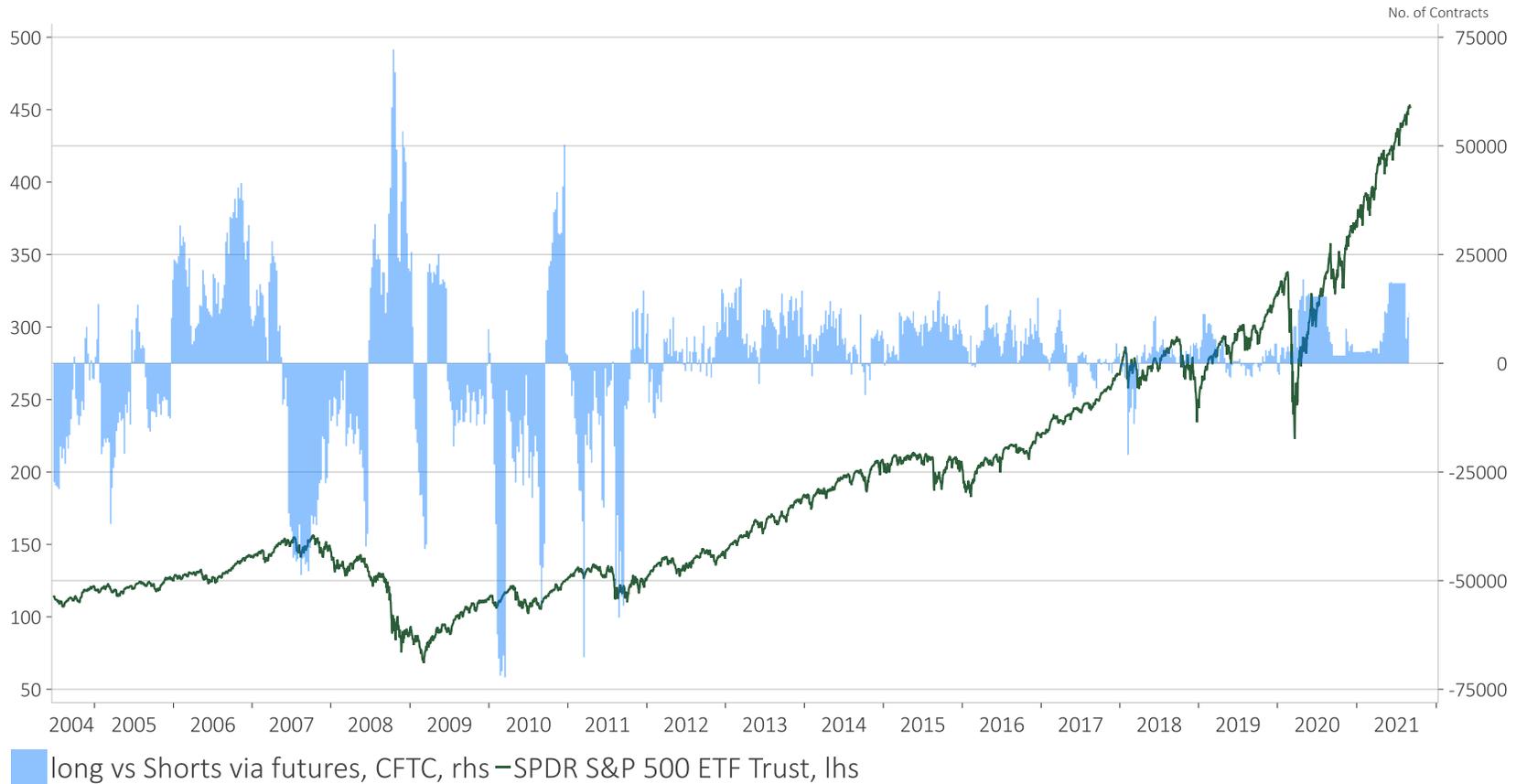
Analysts lag corporates own predictions.

This spread affects markets in a positive way!



Speculative volumes

still **supports LONG positions**, speculative options never doubted the 2020 bounce, impressive or fool hearted?

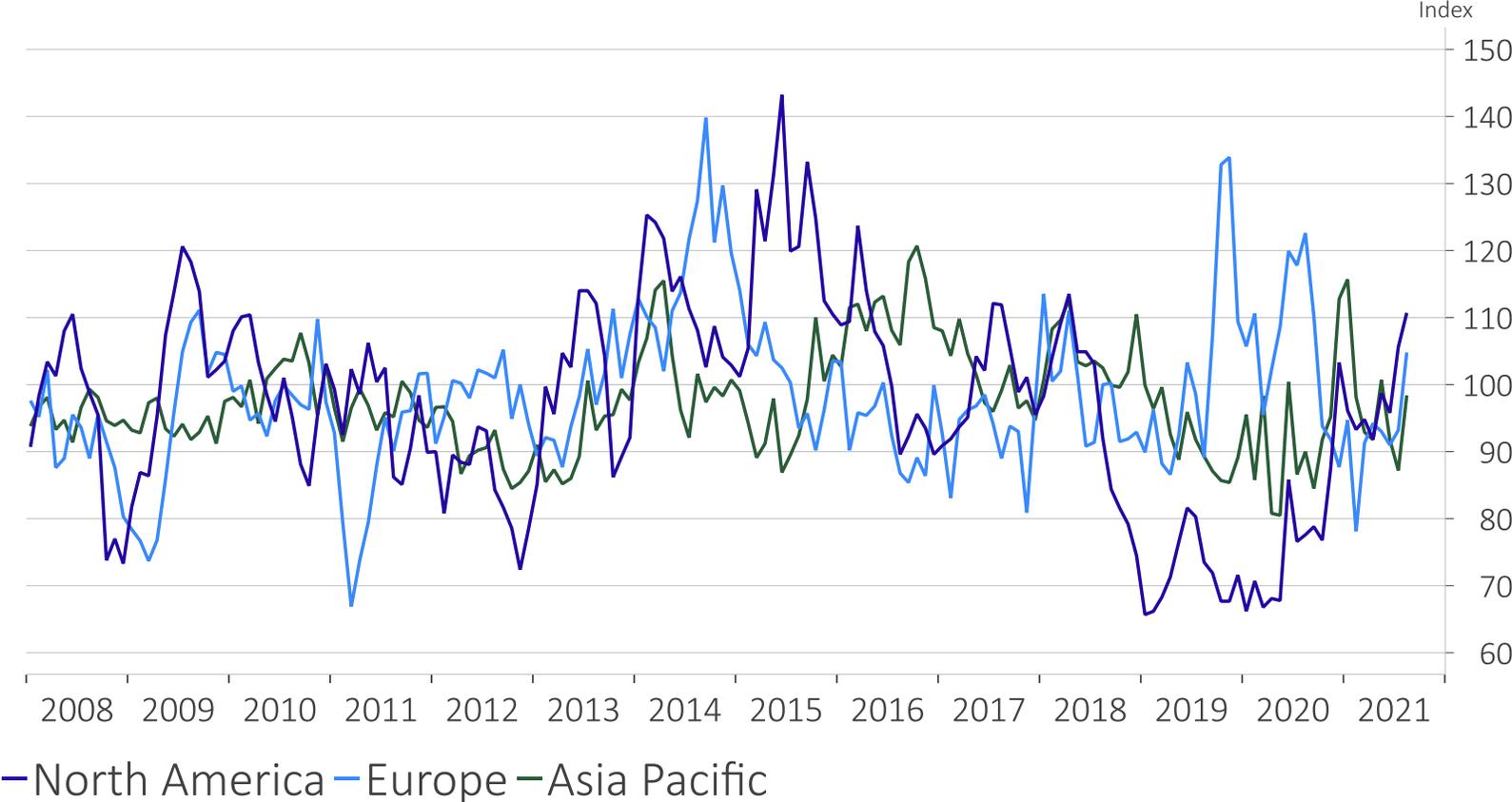


Source: Erik Penser Bank, Macrobond



Investor confidence, over 100 = increased flows to the region, the buy side has spoken...

Equity Investor Confidence Index, Total, Index



Source: Erik Penser Bank, Macrobond



Most alerted data

data is **STILL** beating consensus!!!

USA

- 14e **NFIB, CPI!!!**
- 15e NY FED activity index, **production**
- 16e **Retail sales**, Philly FED activity index
- 17e **Consumer confidence University of Michigan**

China

- 15e Retail sales, production

Japan

- 14e Production
- 15e Orders, Tertiary industry index

Eurozone aggregated

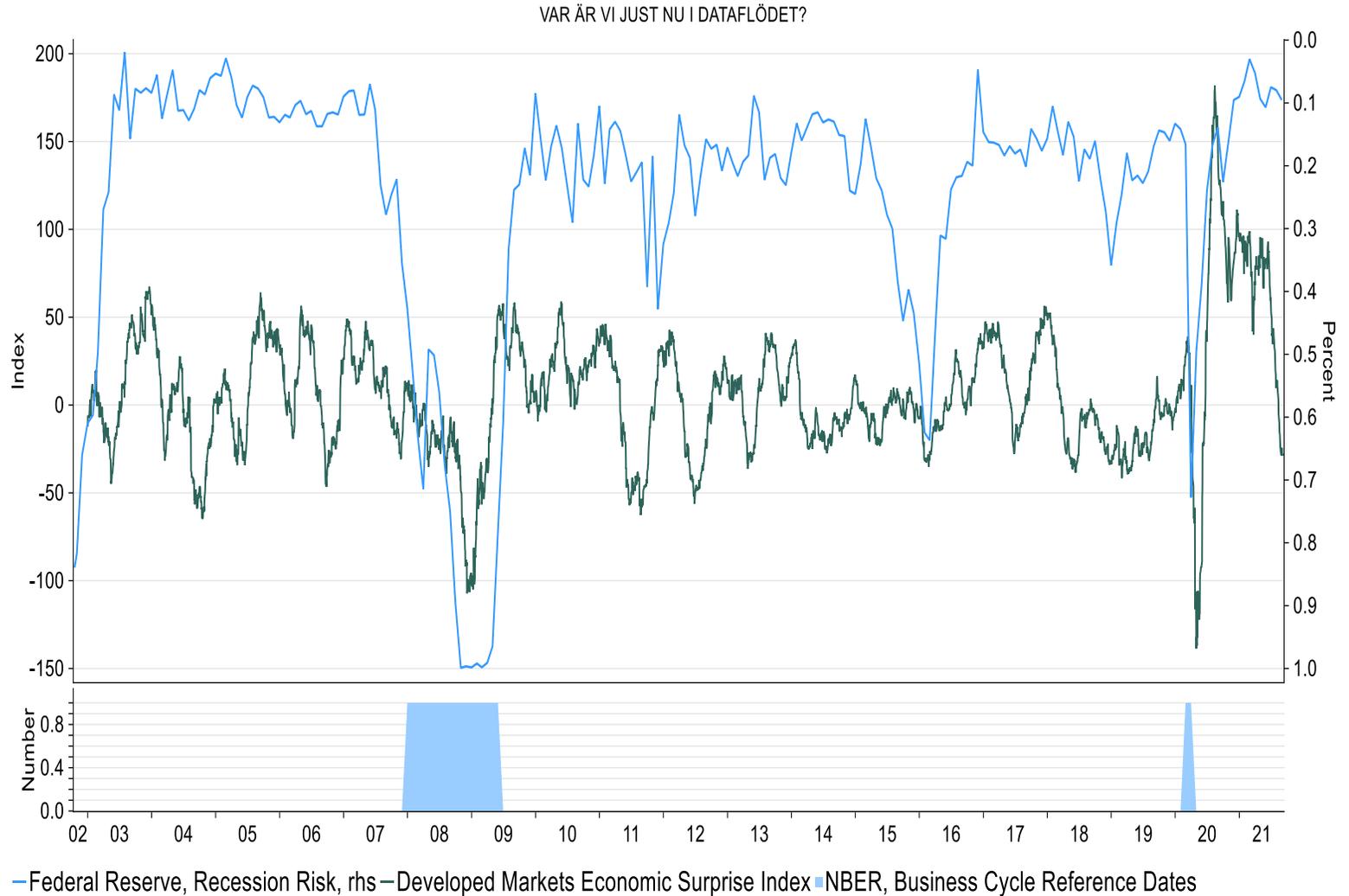
- 15e Production

Germany

- n/a

Sweden

- 14e CPI
- 15e Prospera



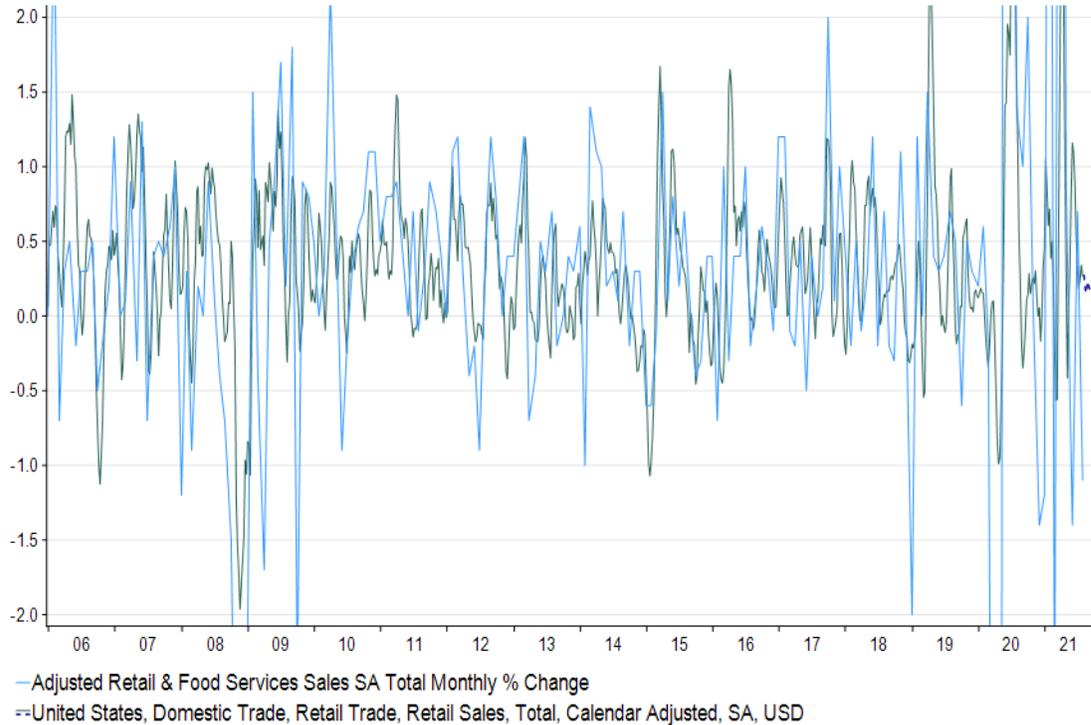
Källa: Erik Penser Bank & Macrobond



US Retail sales – we are **far** above consensus

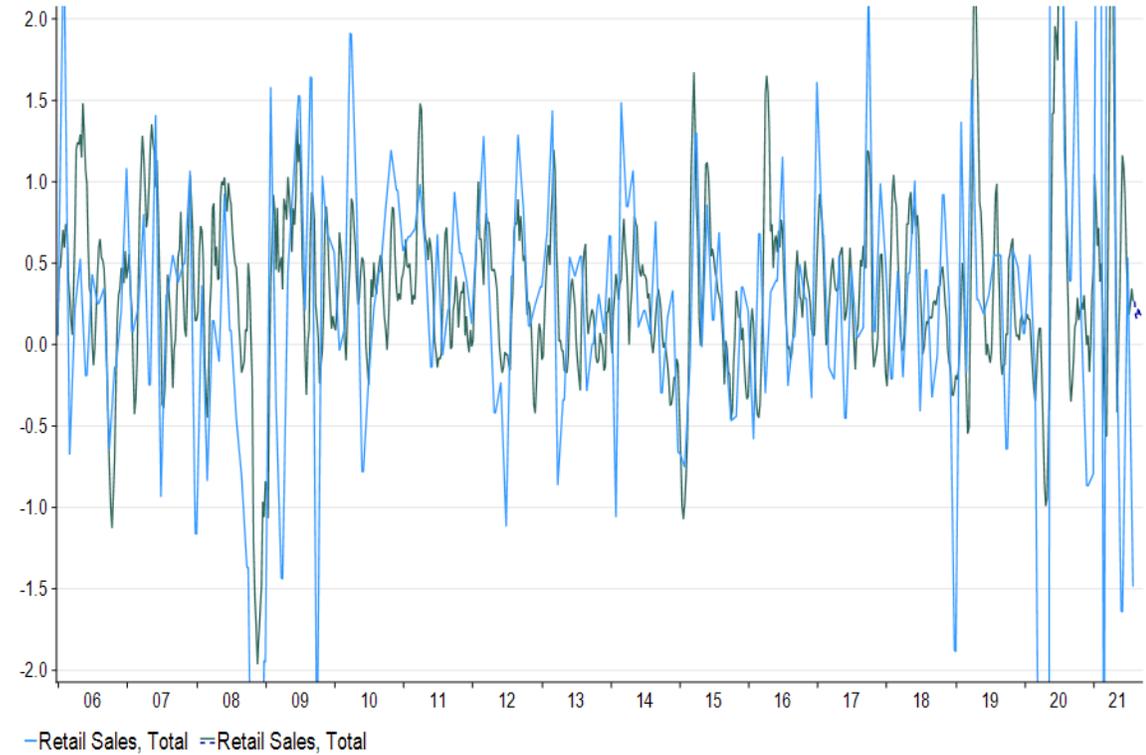
US economy is improving at a rapid rate, just as we have highlighted. This will **still** take some investors by surprise.

BLOOMBERG

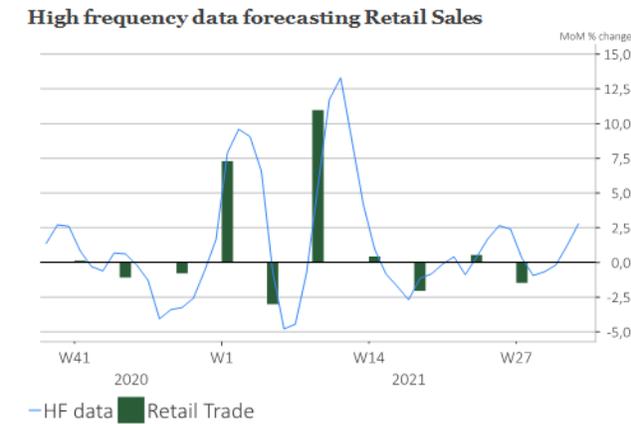


Källa: Erik Penser Bank & Macrobond

MACROBOND



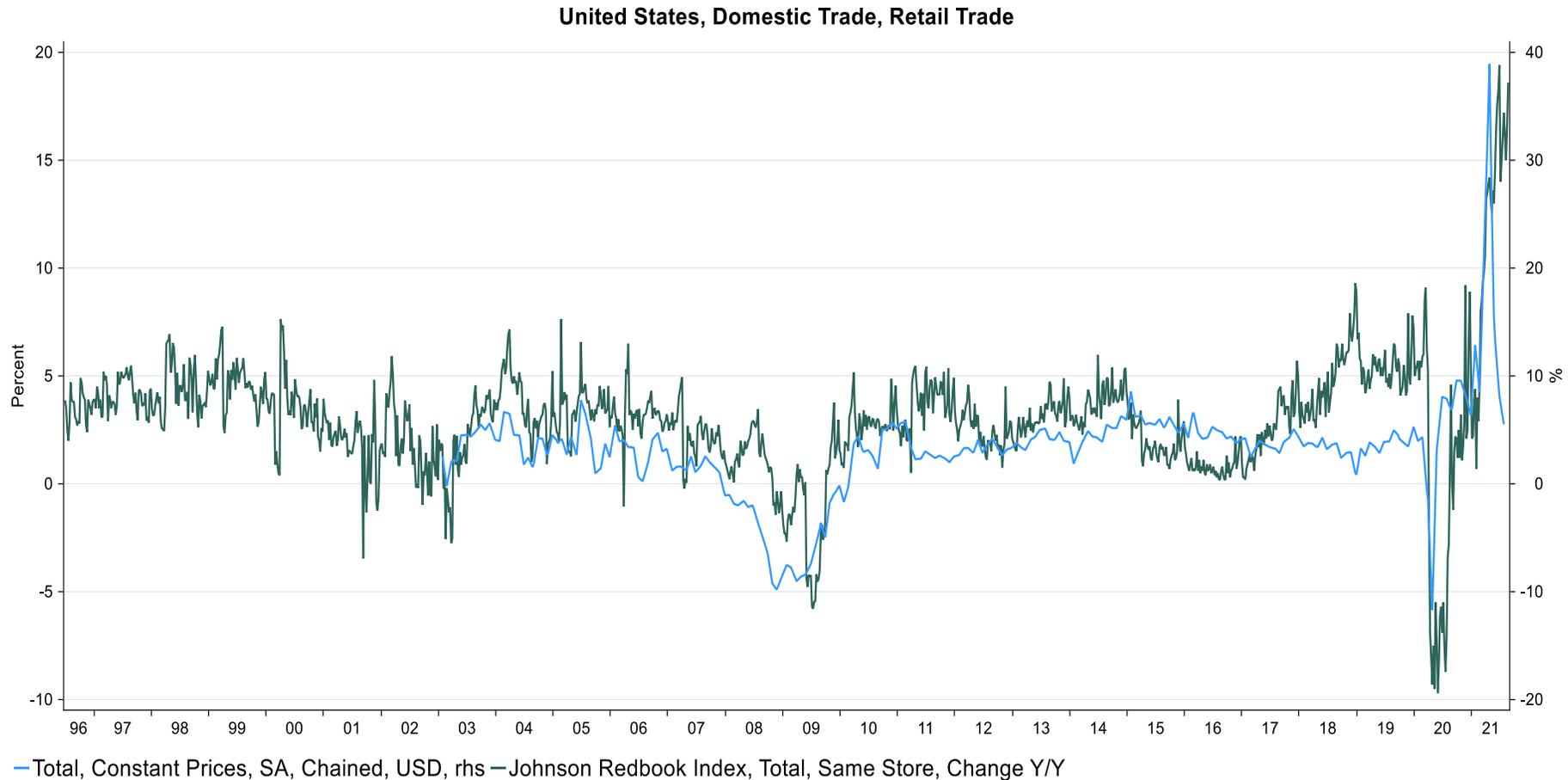
Källa: Erik Penser Bank & Macrobond



Source: Erik Penser Bank, Macrobond



Why bullish, because e.g. weekly same store sales has not slowed

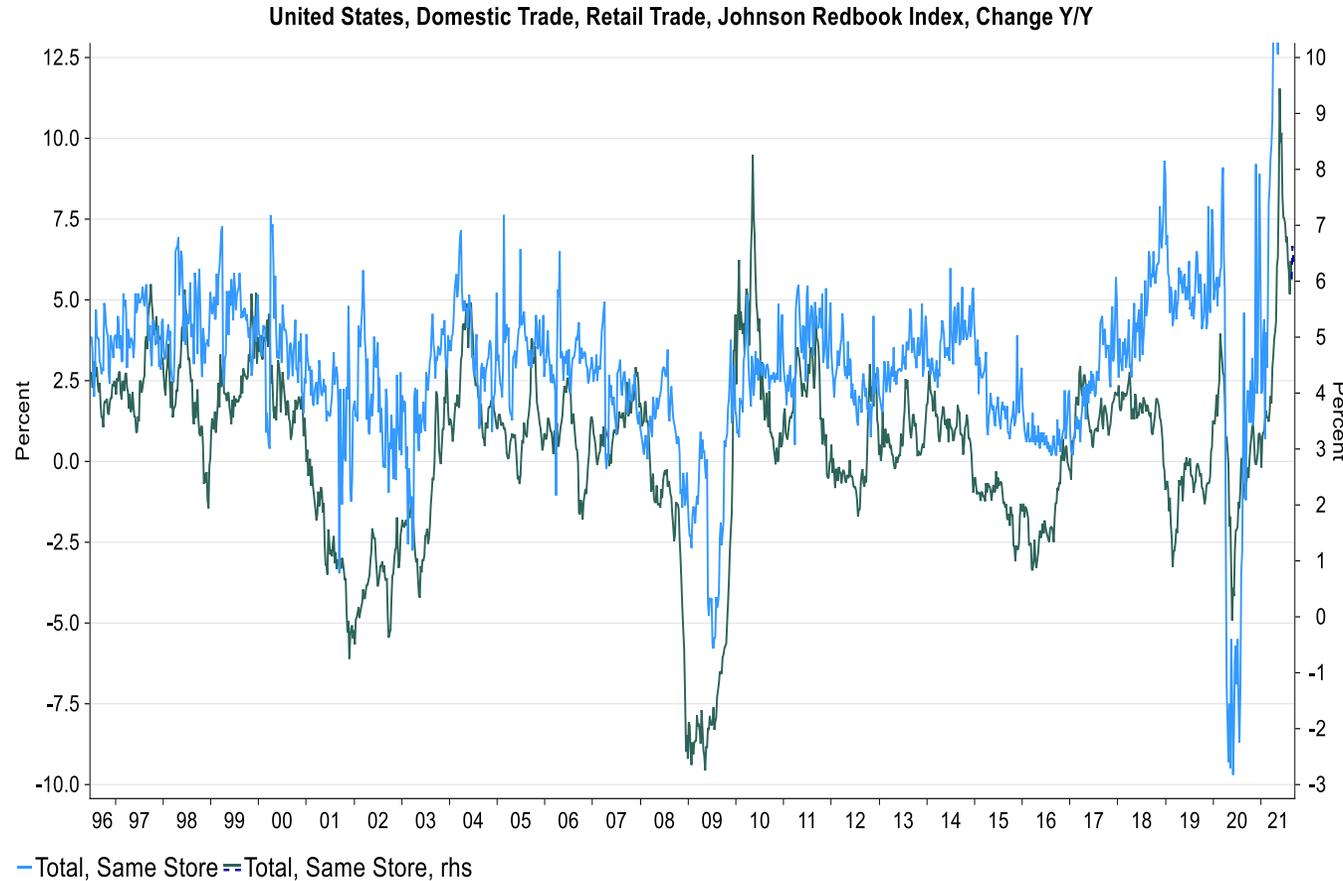


Källa: Erik Penser Bank & Macrobond



We can now calculate the Pent Up demand...at current data it is huge...prepare for the continuation of the Supercycle!

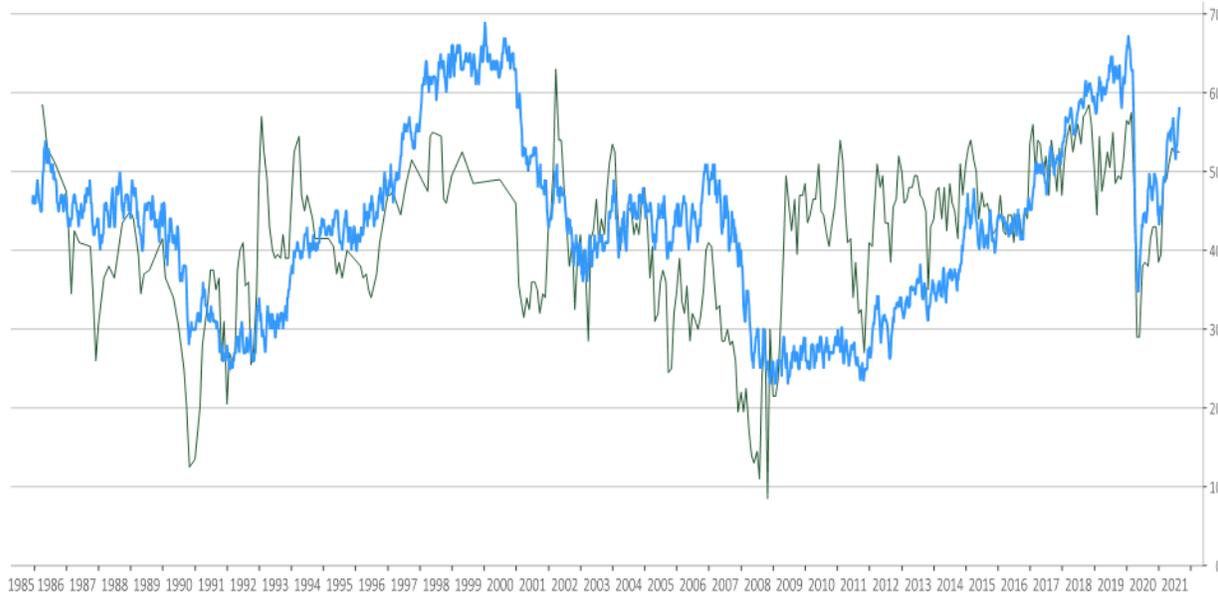
If we combine gasoline prices, refinancing, online shopping, and S&P 500, we get the following prediction for Redbook sales (leading retail sales):



Källa: Erik Penser Bank & Macrobond

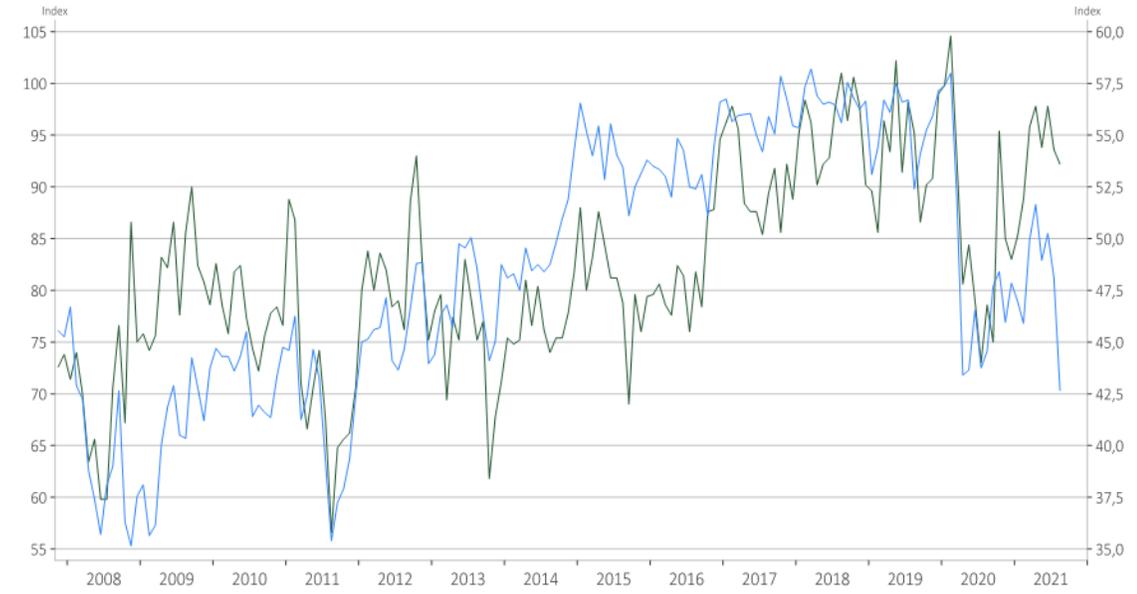


US consumer confidence, University of Michigan's reading to catch up to the economy and the rest of the measurements?



— Langer US Weekly Consumer Comfort Index — Langer US National Economy Expectations Diffusion Index

Source: Erik Penser Bank, Macrobond



— USA, consumer confidence (Michigan), lhs

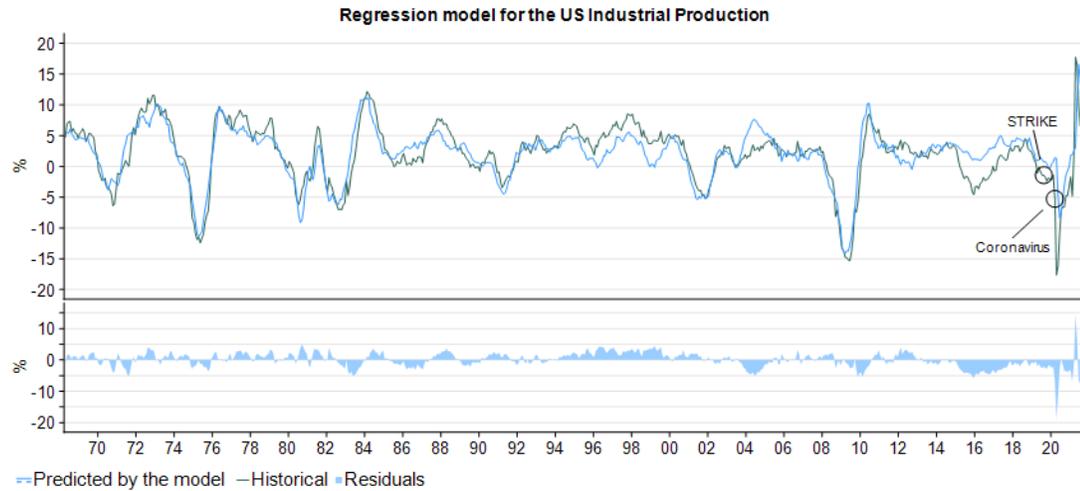
— United States, Consumer Surveys, IBD/TIPP, Economic Optimism Index, Total, Index, rhs

Source: Erik Penser Bank, Macrobond

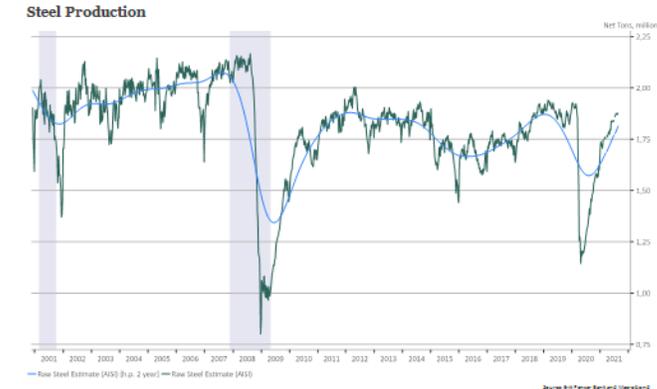


US's production peaked – but this wont affect markets, the new level will!

Given hard data we see a similar trend to OECD's (unsurprisingly).



K&L: Erik Penser Bank & Macrobond



K&L: Erik Penser Bank & Macrobond

If we view Production rather narrowly, assuming that hard data leads the statistics, we get a more volatile but rather interesting reading.

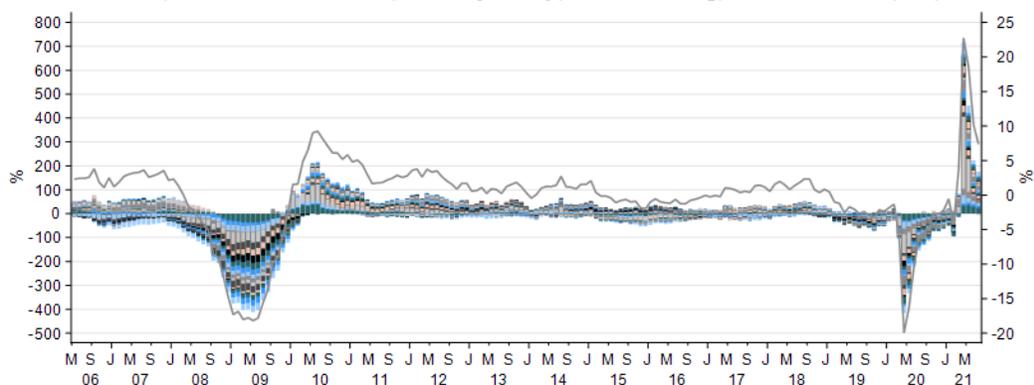


K&L: Erik Penser Bank & Macrobond



US production, sector by sector

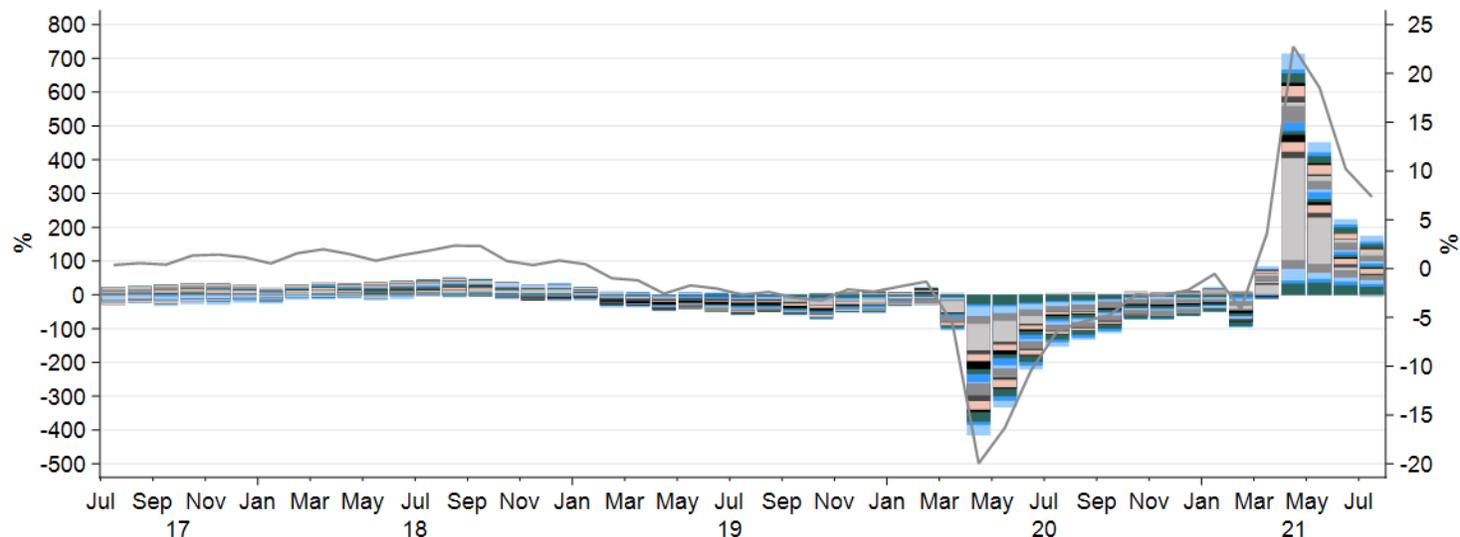
United States, Industrial Production, Industry Group, Manufacturing, Constant Prices, SA, Index



- Total (SIC), rhs
- Apparel & Leather Goods
- Electrical Equipment, Appliances & Components
- Printing & Related Support Activities
- Food, Beverage & Tobacco
- Miscellaneous
- Nonmetallic Mineral Products
- Computer & Electronic Products
- Aerospace & Miscellaneous Transportation Equipment
- Paper
- Plastics & Rubber Products
- Fabricated Metal Products
- Furniture & Related Products
- Machinery
- Wood Products
- Motor Vehicles & Parts
- Petroleum & Coal Products
- Textiles & Products
- Chemicals
- Primary Metal

Källa: Erik Penser Bank & Macrobond

United States, Industrial Production, Industry Group, Manufacturing, Constant Prices, SA, Index

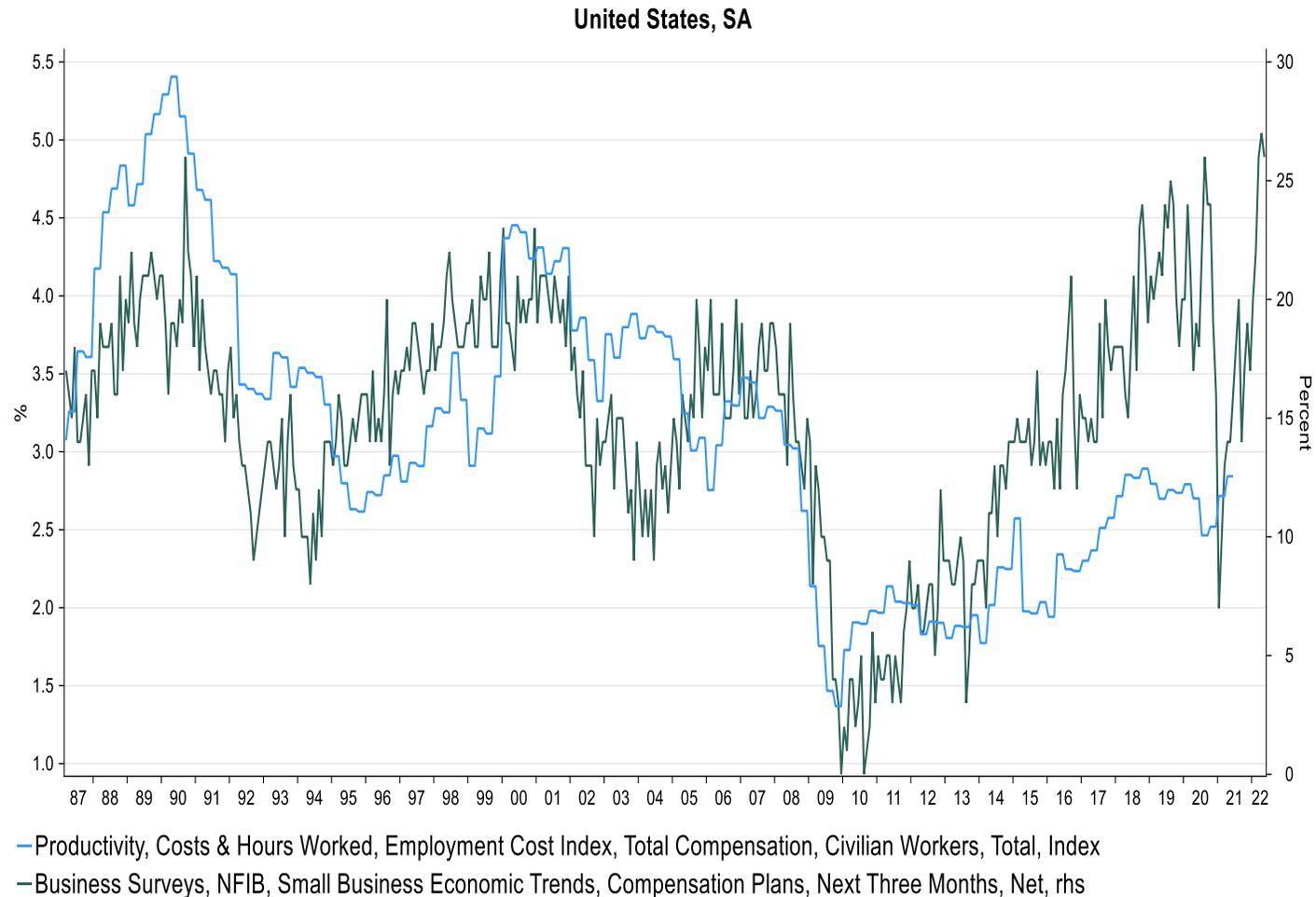


- Total (SIC), rhs
- Apparel & Leather Goods
- Electrical Equipment, Appliances & Components
- Printing & Related Support Activities
- Food, Beverage & Tobacco
- Miscellaneous
- Nonmetallic Mineral Products
- Computer & Electronic Products
- Aerospace & Miscellaneous Transportation Equipment
- Paper
- Plastics & Rubber Products
- Fabricated Metal Products
- Furniture & Related Products
- Machinery
- Wood Products
- Motor Vehicles & Parts
- Petroleum & Coal Products
- Textiles & Products
- Chemicals
- Primary Metal

Källa: Erik Penser Bank & Macrobond



US ECI – NFIB speaks of increasing ECI but the gap to actual data has GROWN



Källa: Erik Penser Bank & Macrobond



3 critical elements of CPI and why did some get nervous in the first place?!

Relationship to equities

What is priced in and what level does the FED anticipate to be the outlook

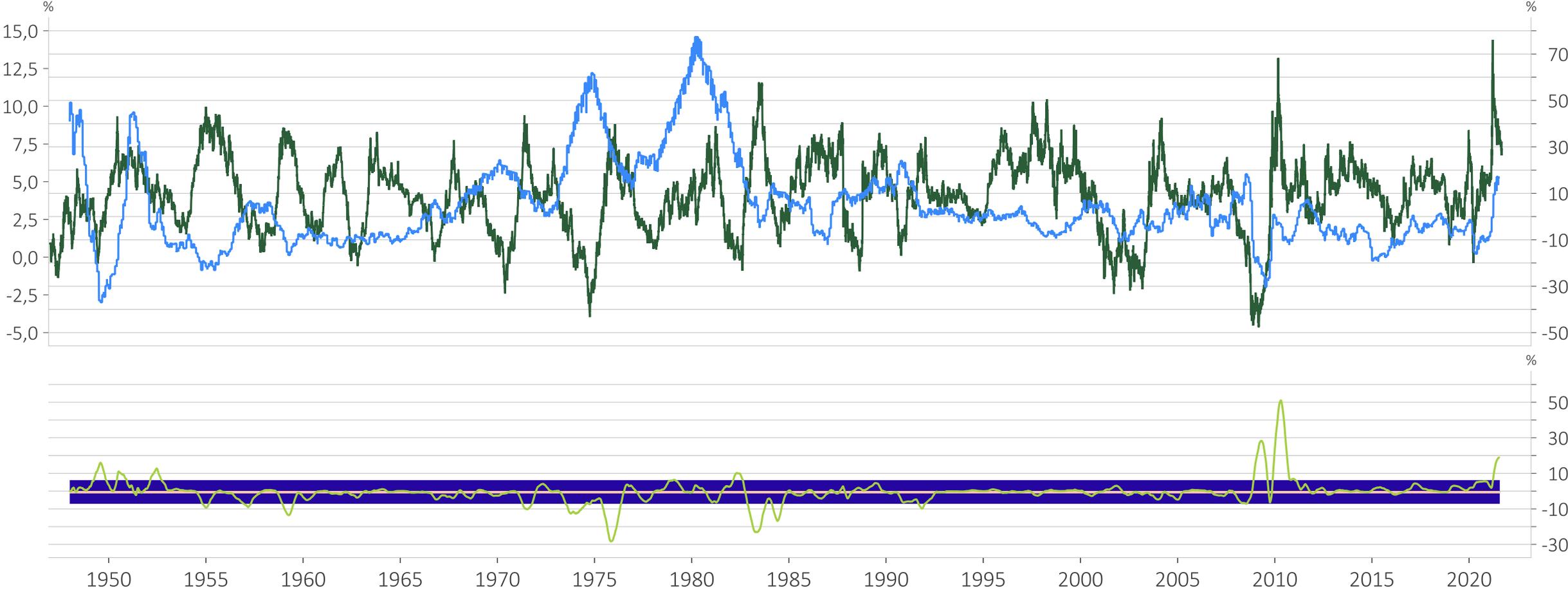
How is the market affected by US Treasury and New York FED

Currently the market has adjusted to the FED outlook, ie the transitory idea is clearly dominant, in fact, neither the market nor professional forecasters EVER doubted the idea of transitory CPI...!!!



CPI – what is the ISSUE?

CPI versus equities and the correlation between them



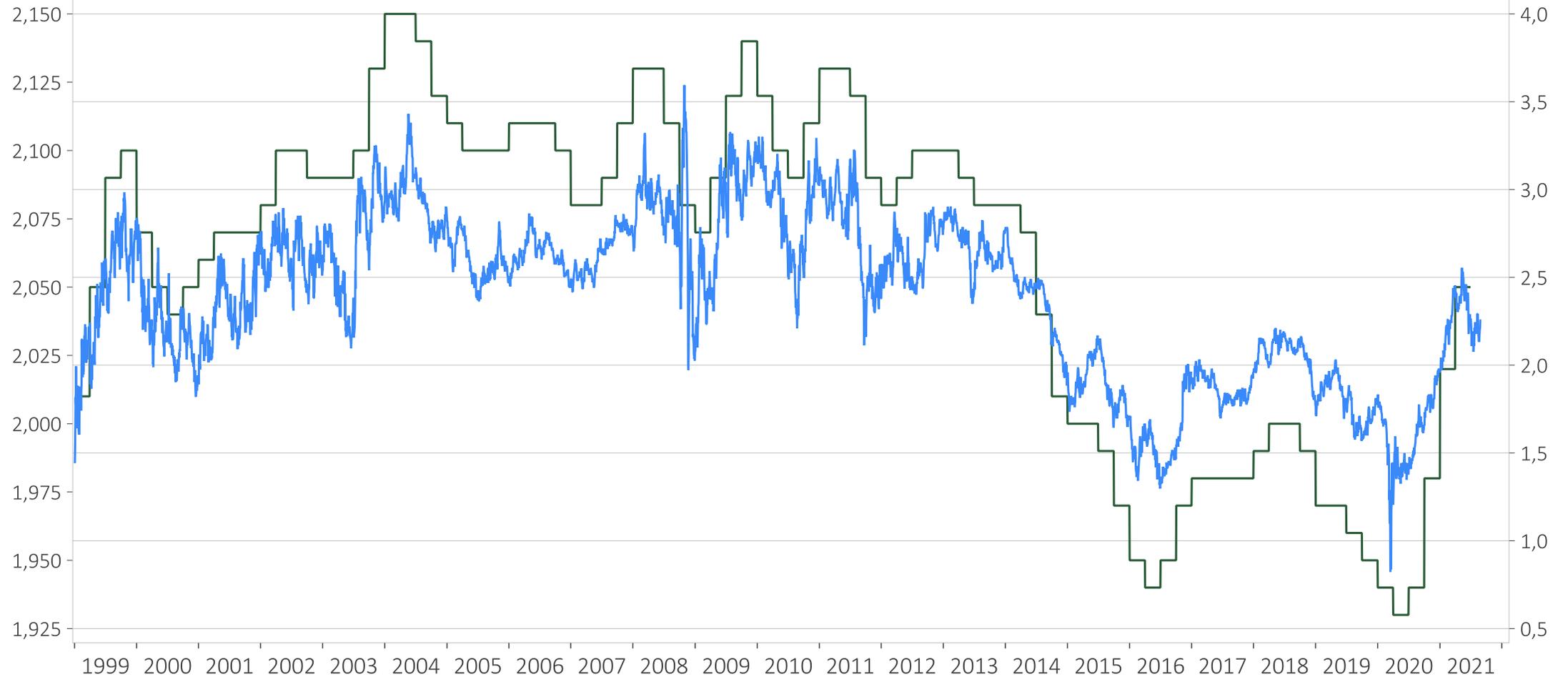
— US, Headline CPI, lhs — US, S&P 500, rhs — Correlation CPI and US Equities — Mean of correlation
■ Correlation mean CPI and US Equities, +/- 1 st dev

Source: Erik Penser Bank, Macrobond



FED's preferred measures (part from PCE of course)

FED's preferred CPI monitor versus priced inflation in the market



— Fed's Five-year Forward Breakeven Inflation Rate, rhs — US Federal Reserve Common Inflation Expectations (CIE), lhs

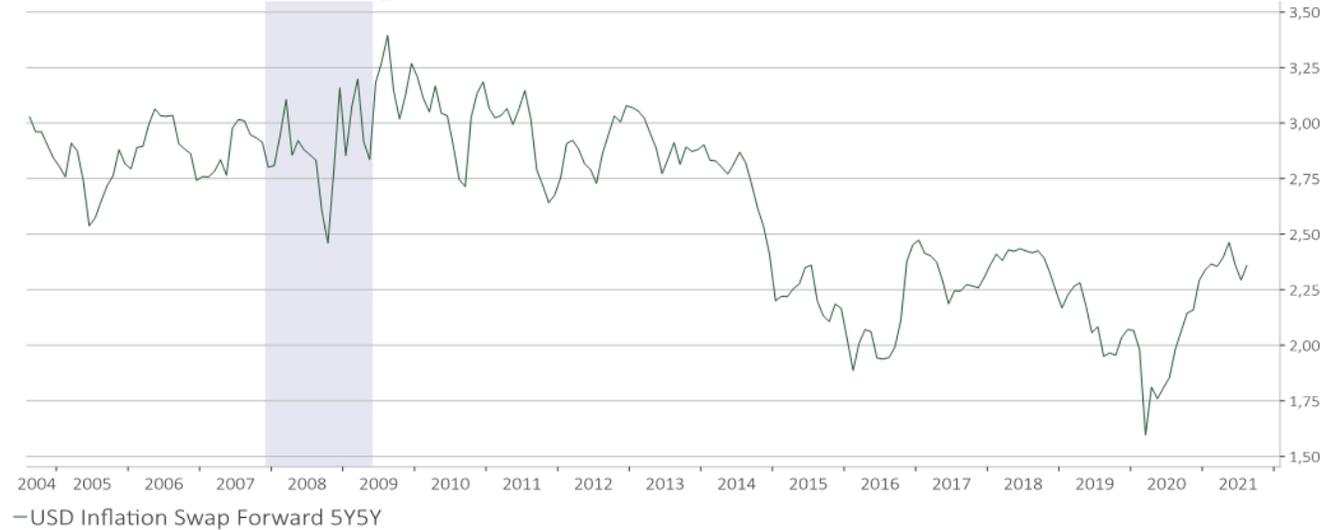
Source: Erik Penser Bank, Macrobond



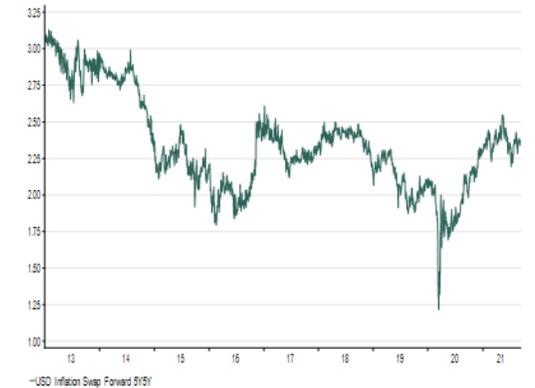
US CPI, why we kept the transitory outlook?

The rate market sees the inflation as transitory, we do not wish to fight the rate market as surveys by FED are in line with the market.

Priced inflation in inflation swap market

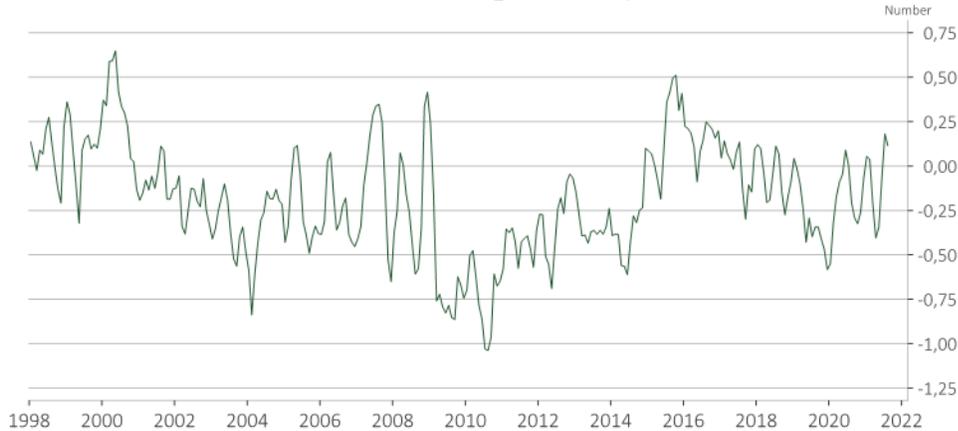


Source: Erik Penser Bank, Macrobond



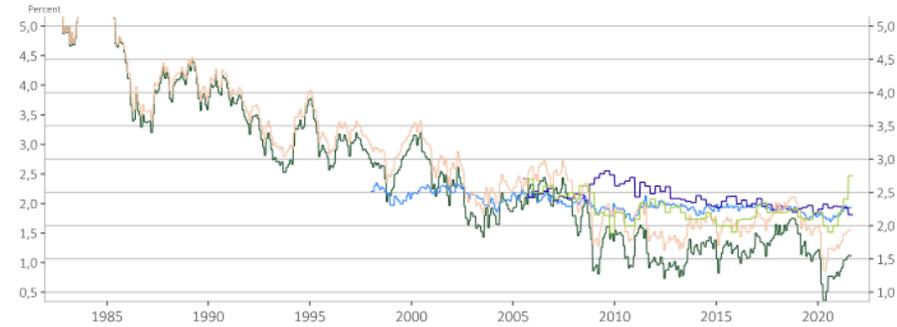
Source: Erik Penser Bank, Macrobond

Aruoba Term Structure of Inflation Expectations, Curvature



Source: Erik Penser Bank, Macrobond

Forecasts of future inflation



- Rate of CPI Inflation over the Next 5 Years, Federal Reserve Bank of Philadelphia, Survey of Profess...
- Expected Inflation, Federal Reserve Bank of Cleveland, 5 Year, lhs
- 5-Year Forward 5-Year Annual-Average Headline CPI Inflation Rate, Federal Reserve Bank of Philad...
- Average Annualized, 60 Months Ahead, Federal Reserve Bank of Philadelphia, Aruoba Term Struct...
- Expected Inflation, Federal Reserve Bank of Cleveland, 5 Year, rhs

Source: Erik Penser Bank, Macrobond



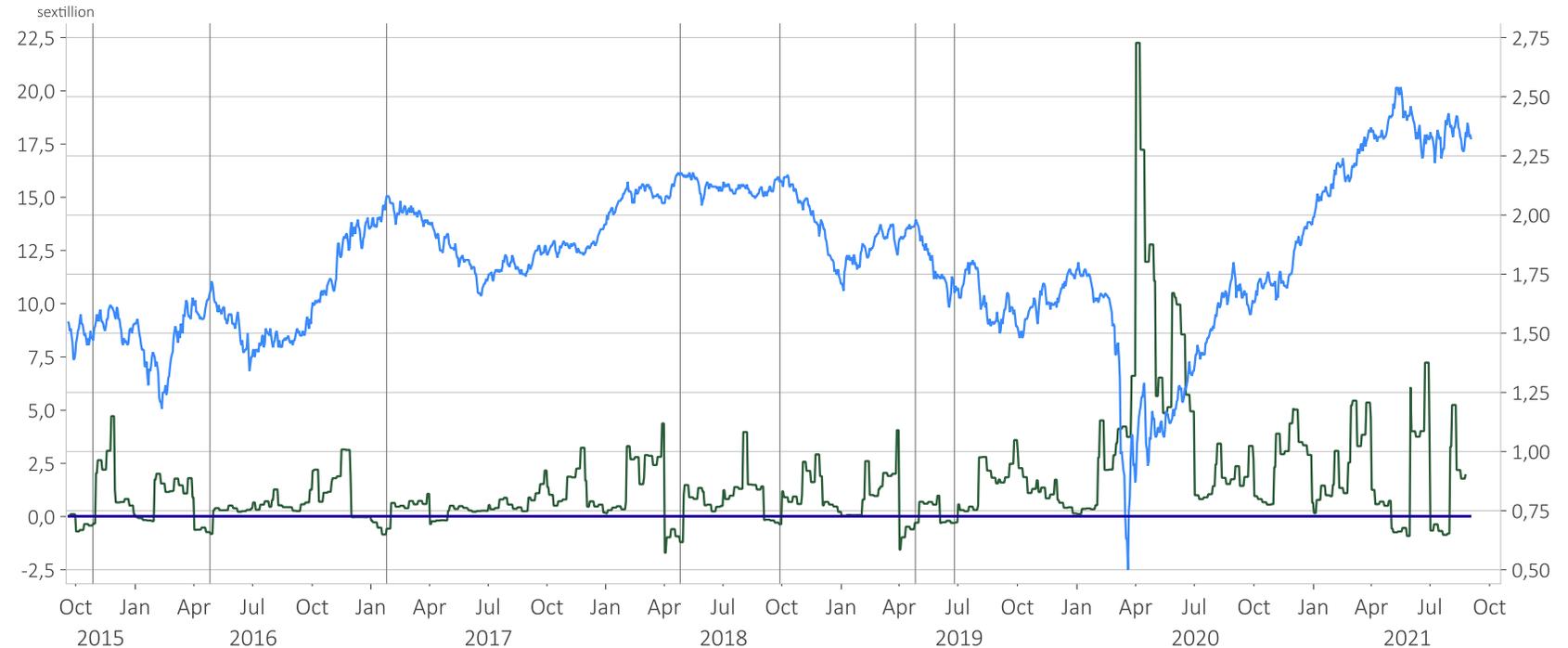
How do the words (from BIS) look in numbers (their report on the supply and demand of papers that form the base for priced inflation)?

CPI priced outlook is micromanaged by policy makers!

Above 0, the effect pushes priced inflation upwards, below 0 the vice versa, priced inflation breaks on the downside.

This means that any graph illustrating TIPS spread, priced inflation etc has to be taken within this context, hence a vast number of sell-side analysis in this matter has to be taken...calmly...

Underlying supply of rate papers used to trade coming inflation



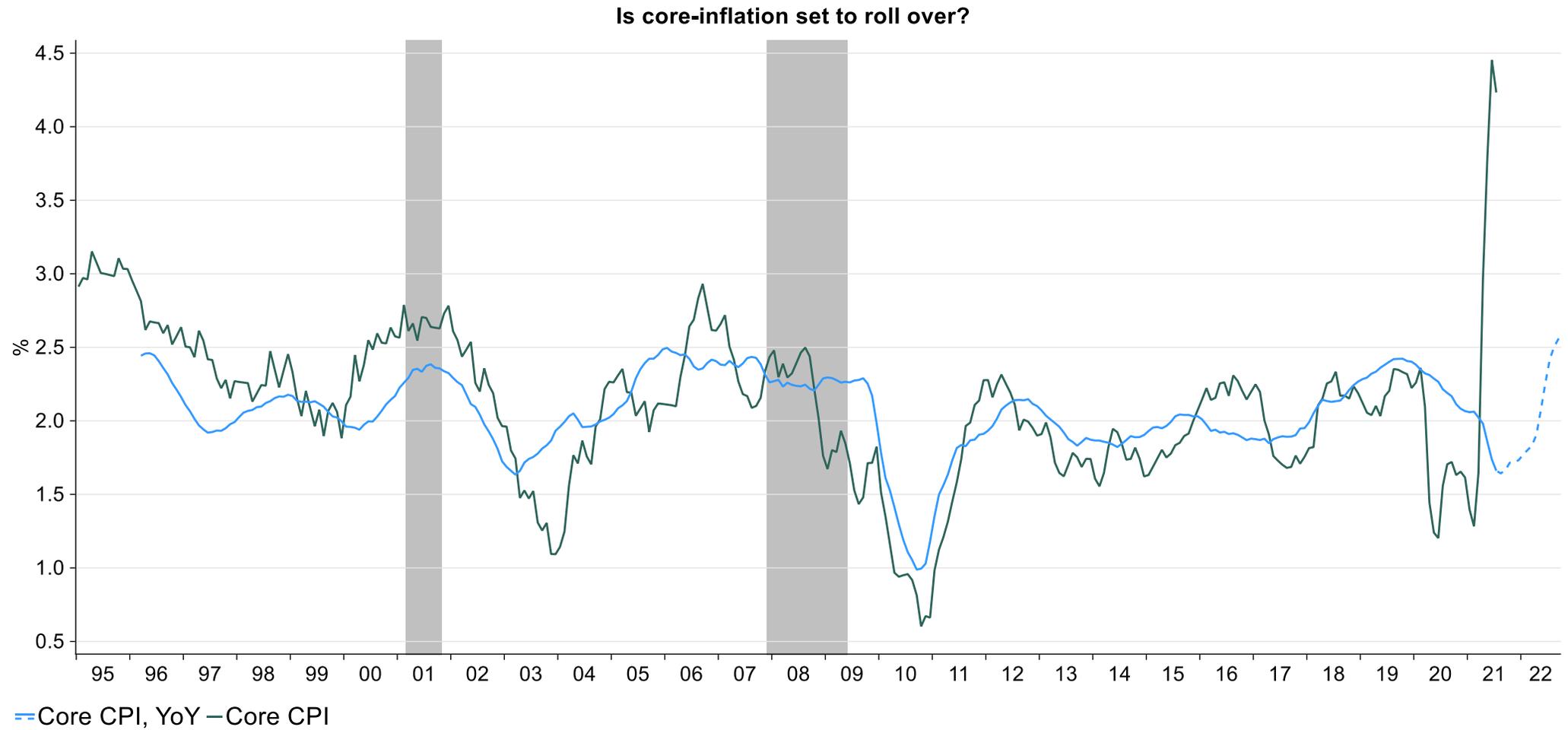
- Benchmark barrier, lhs
- US, 10 yr priced inflation via rates, rhs
- US, supply and demand in TIPS vs nominal yield, lhs

Source: Erik Penser Bank, Macrobond



US CPI

CPI has peaked!



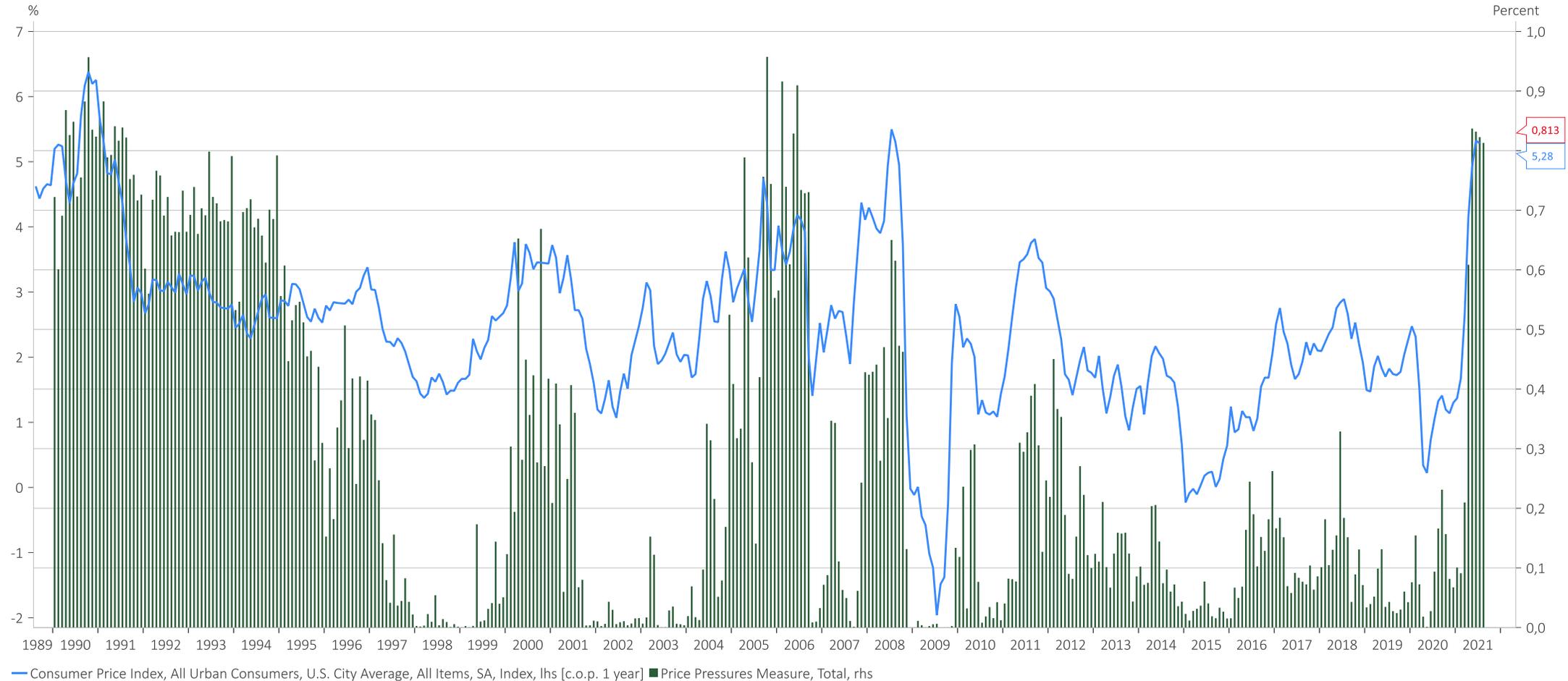
Källa: Erik Penser Bank & Macrobond



Price pressure coming off slightly

ie the probability of YoY PCE exceed 2.5% in 12 months

Price pressure vs. CPI inflation

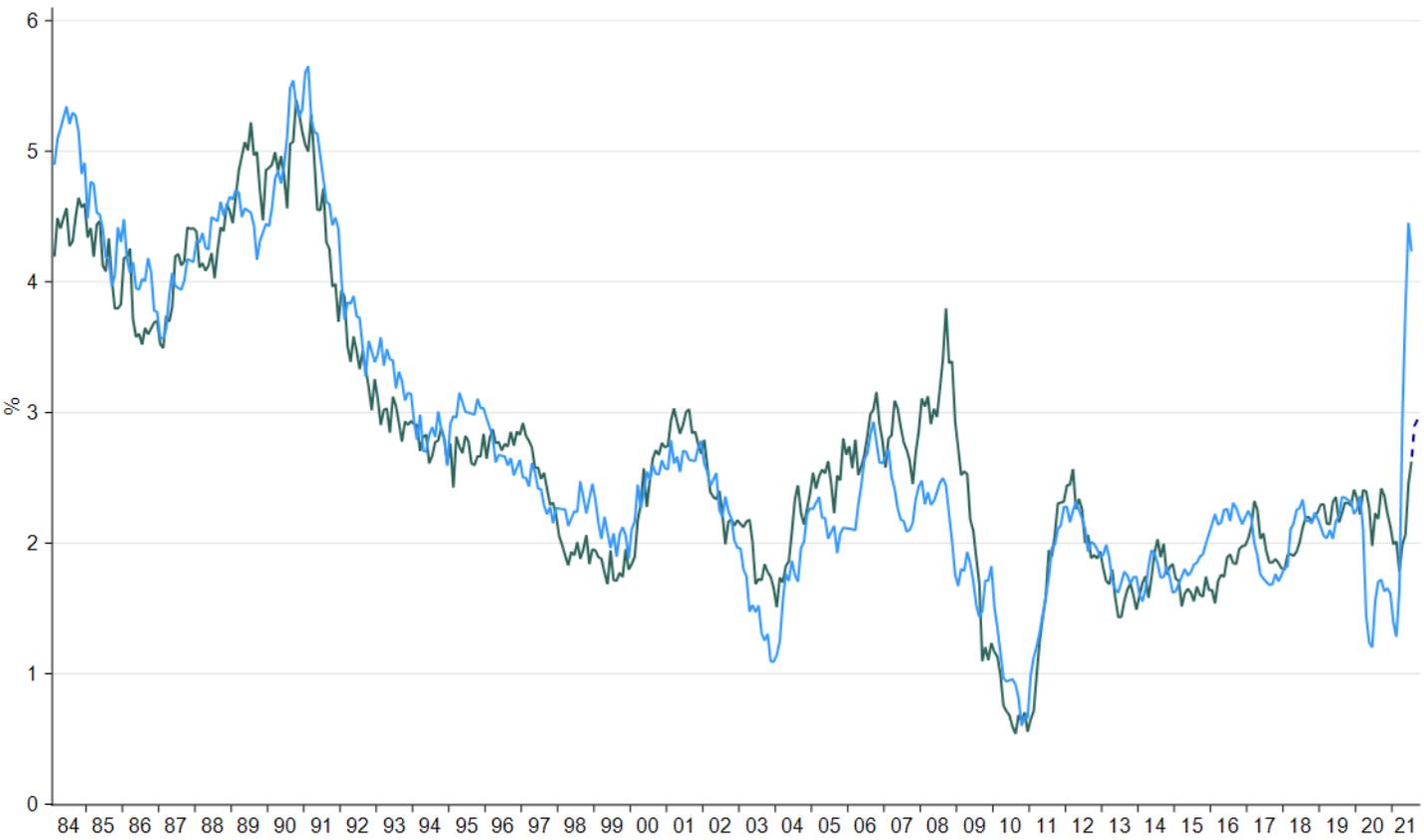


Source: Erik Penser Bank, Macrobond



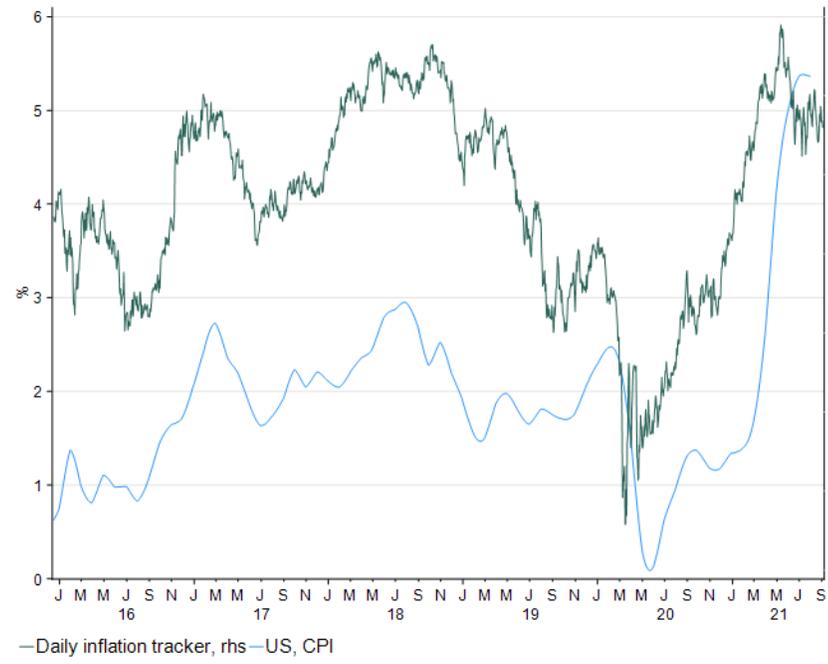
CPI via trimmed mean and our daily traded CPI model

Yet again we see the peak and transitory nature of the recent CPI burst.



— Core CPI, YoY — Regression for Core CPI using trimmed means in CPI

Källa: Erik Penser Bank & Macrobond



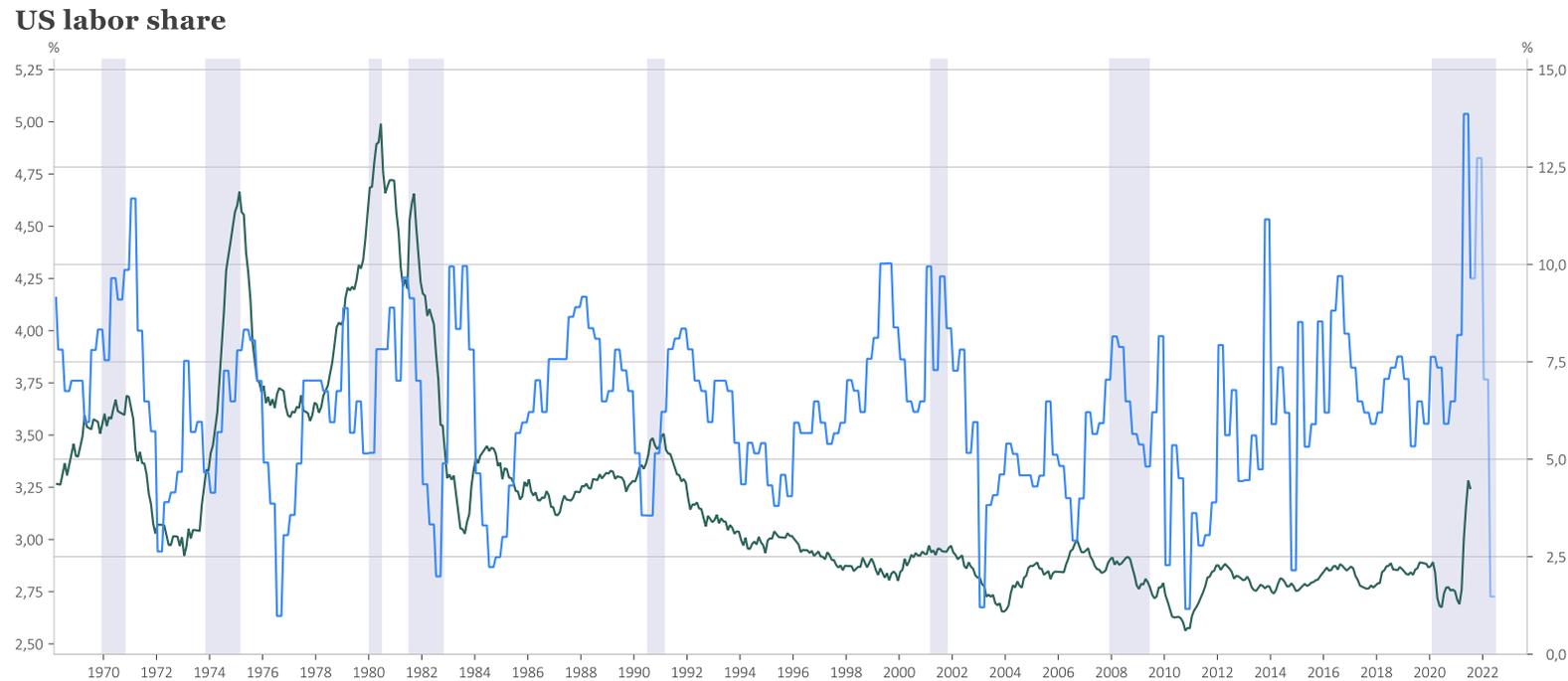
— Daily inflation tracker, rhs — US, CPI

Source: Erik Penser Bank & Macrobond



Long term effects holding down future CPI

- We note the discussion Profits or Labor income but this discussion needs to be expanded to include imputations as well, this could in fact explain a lot more than a simple trade off wages / profits.
- Again, we prefer to follow data and theorems.



—Core CPI VIA LABOR SHARE, lhs [c.o.p. 1 year, predicted]

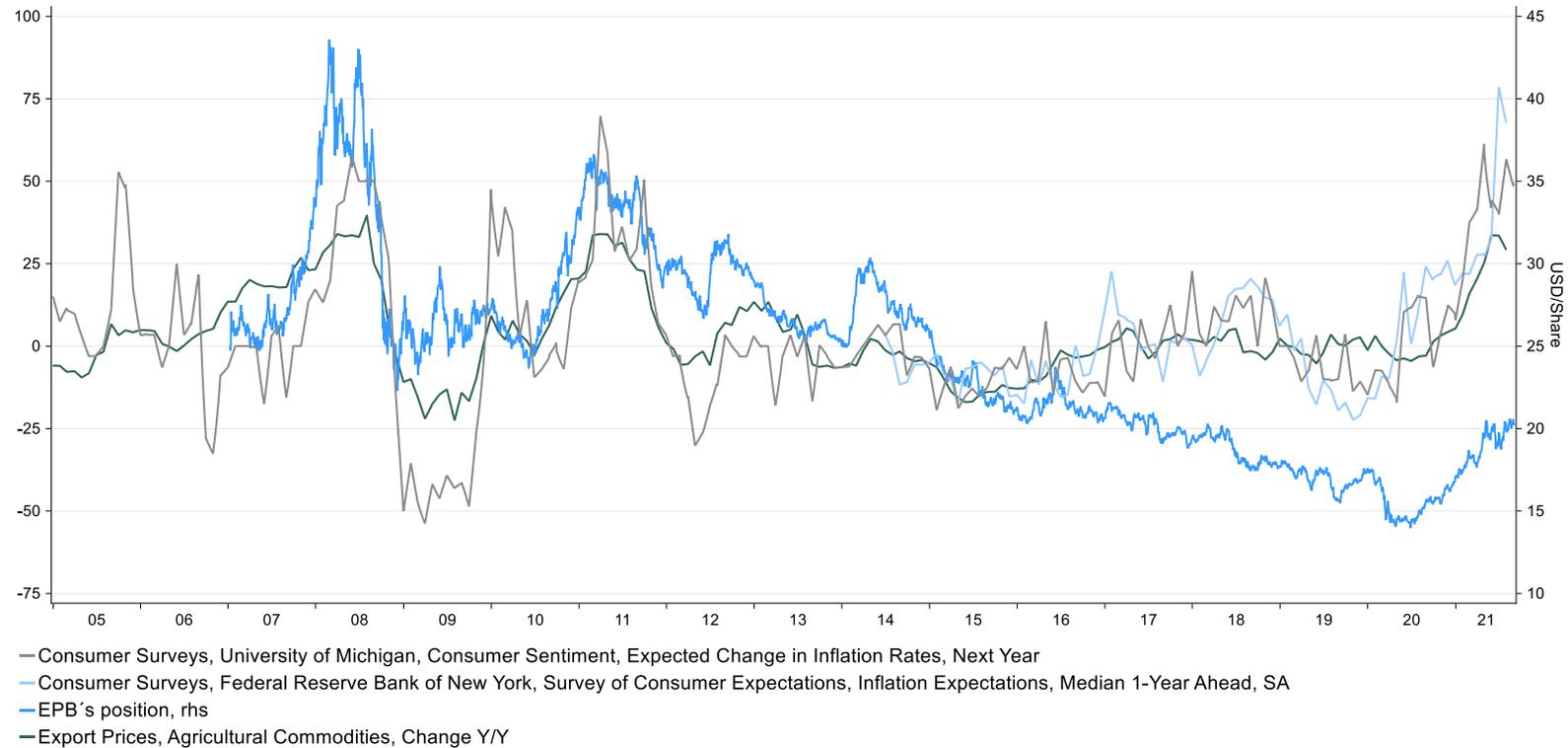
—United States, Consumer Price Index, All Urban Consumers, U.S. City Average, All Items Less Food & Energy, SA,...

Source: Erik Penser Bank and Macrobond



How have we traded CPI?

We are e.g. long agricultural prices in the US (& other commodities)

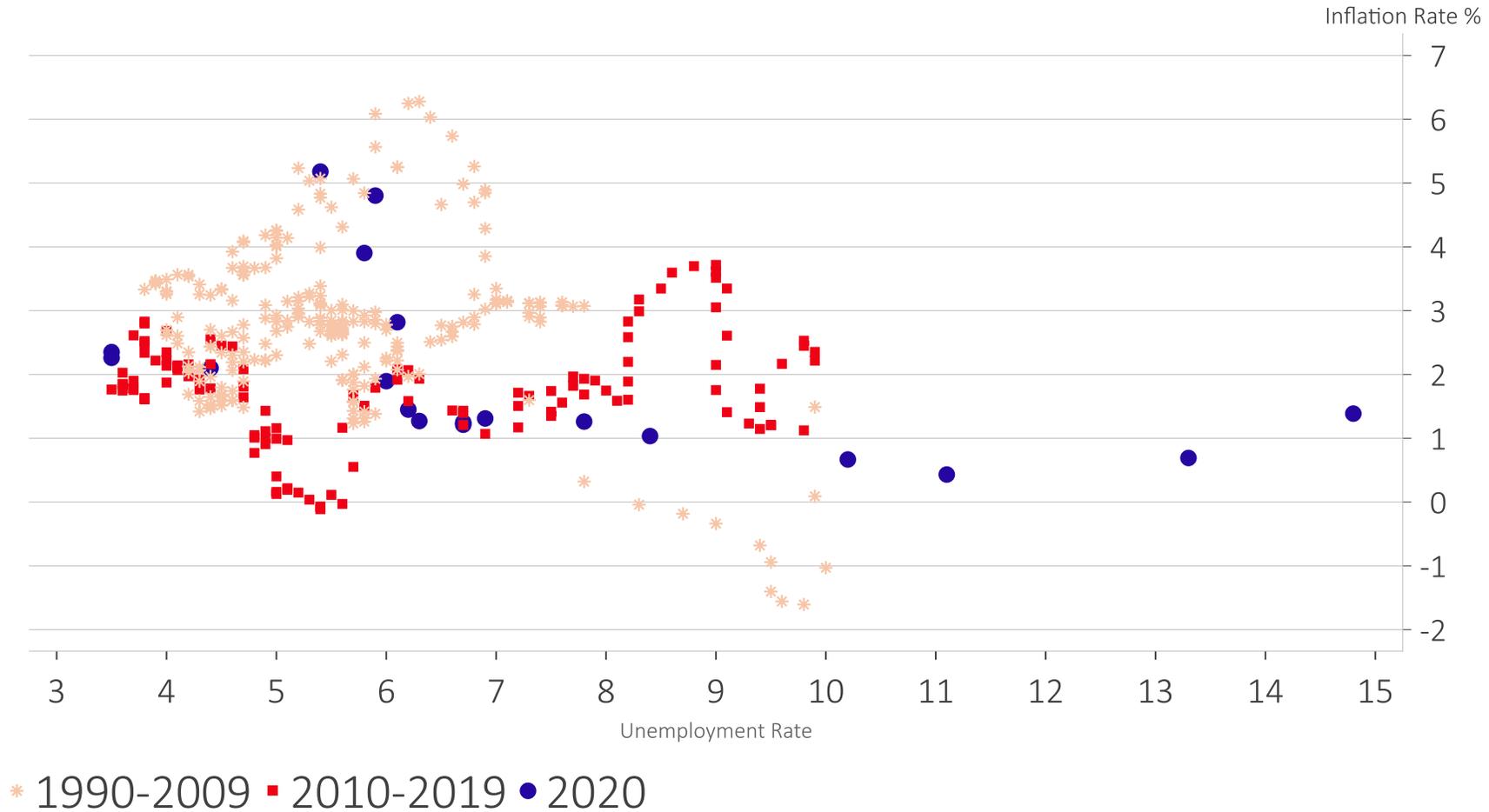


Källa: Erik Penser Bank & Macrobond



We keep an eye out for Phillips but don't expect a comeback

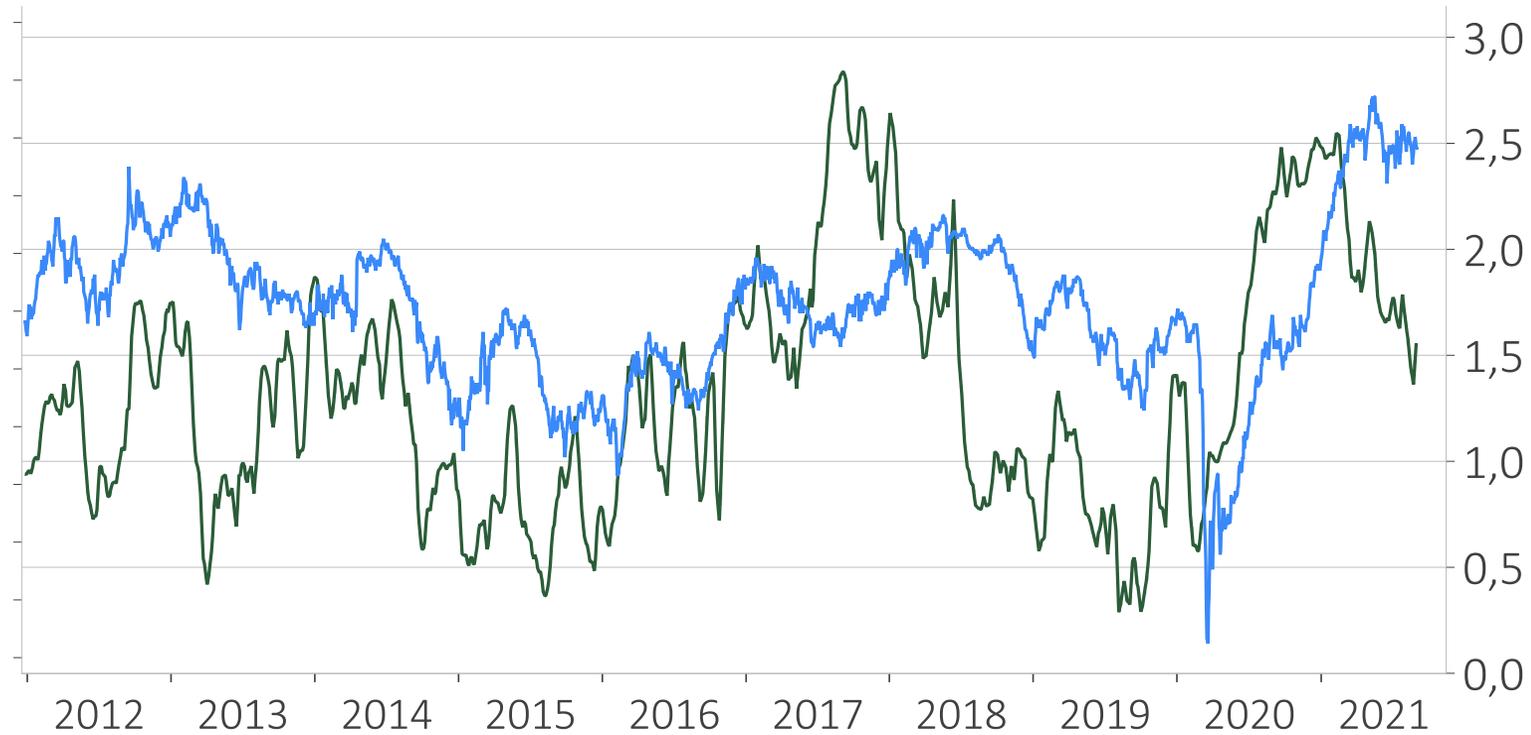
New Keynesian Phillips Curve: 1990 to present



Source: Erik Penser Bank, Macrobond



Our reflation trade indicator, priced inflation at a peak? Would seem so...for now at least!



- Bond market pricing of inflation (5 yr), rhs
- Reflation trade indicator, lhs

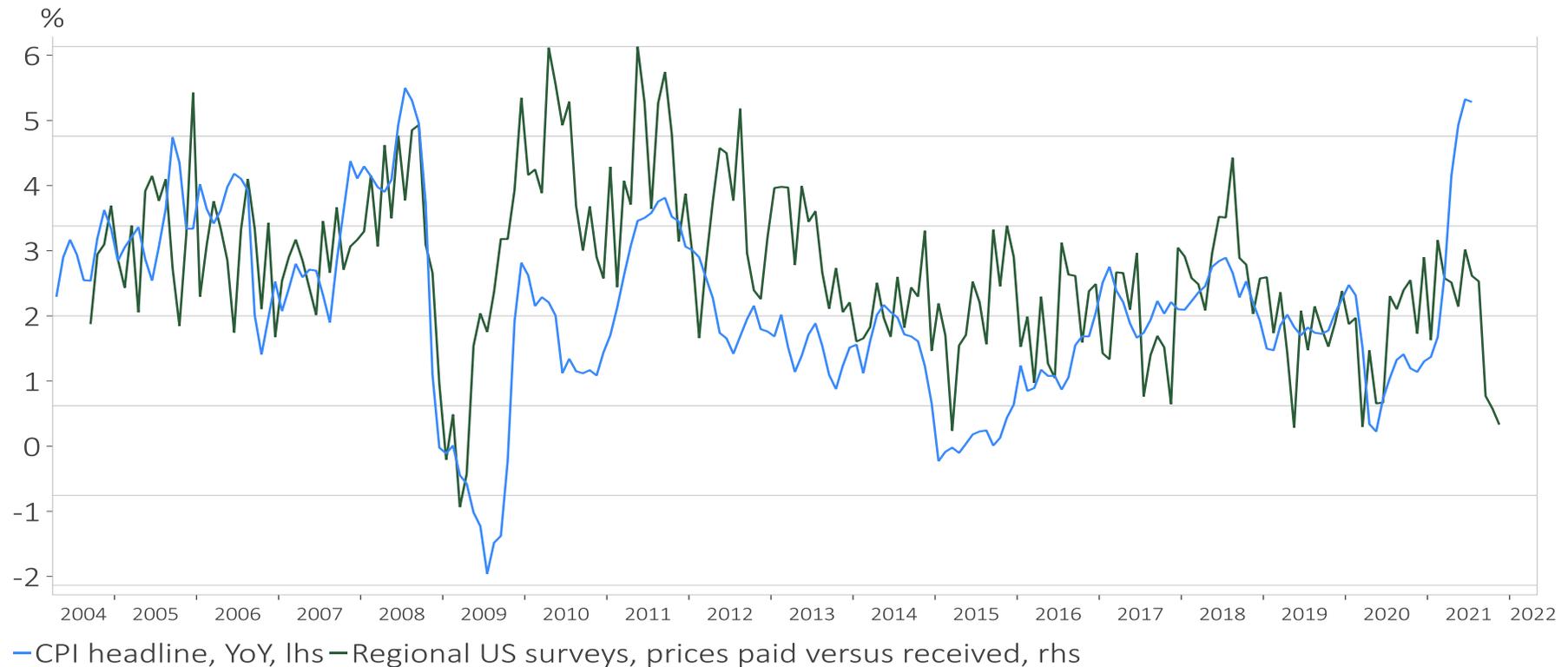
Source: Erik Penser Bank, Macrobond



Do others see the lacklustre CPI growth? Yes

In fact, most FED regions do.

Hence, we never bought into the CPI hysteria



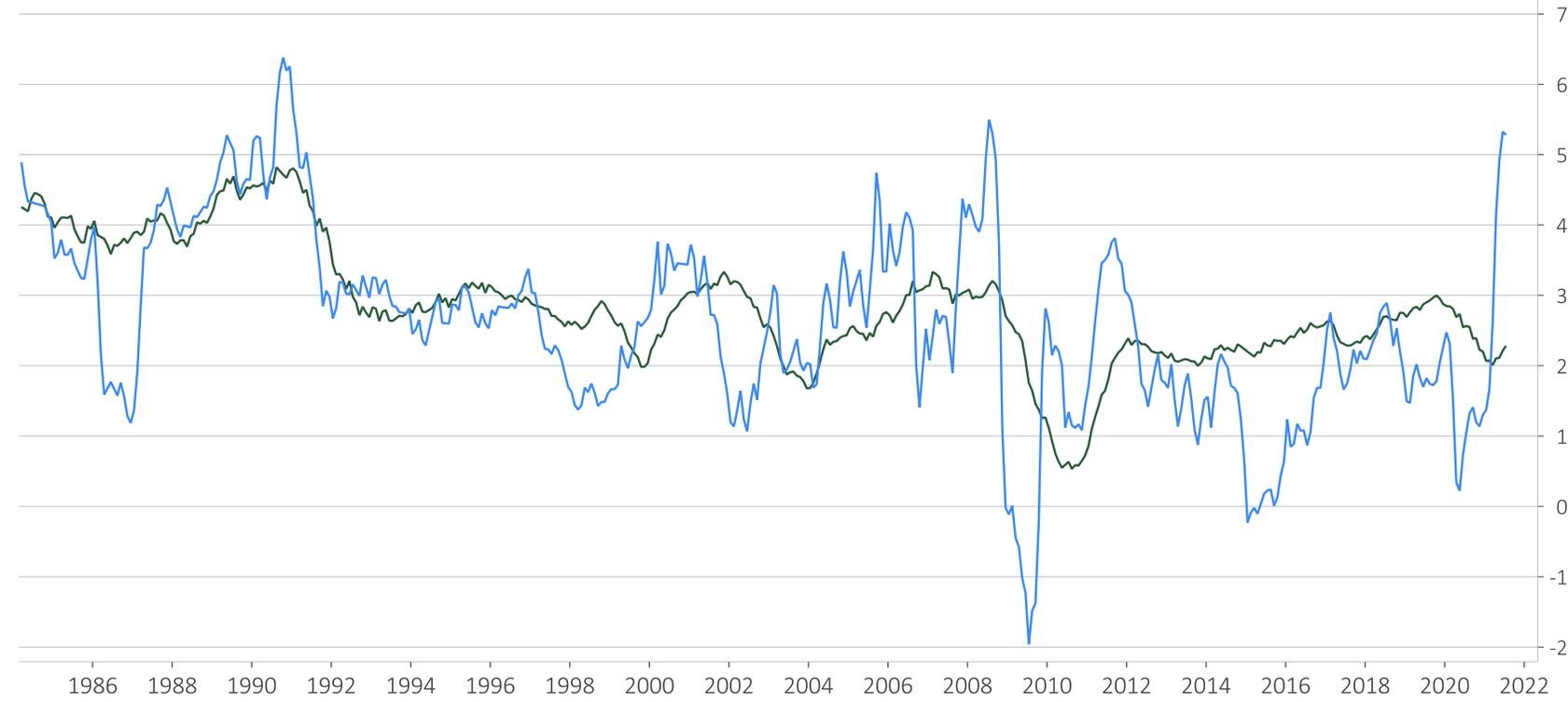
Source: Erik Penser Bank, Macrobond



Transitory...yes, oh yes!

By omitting outliers (small and large price changes) and focusing on the interior of the distribution of price changes, the median CPI and the 16 percent trimmed-mean CPI can provide a better signal of the underlying inflation trend than the all-items CPI

United States, Consumer Price Index, SA



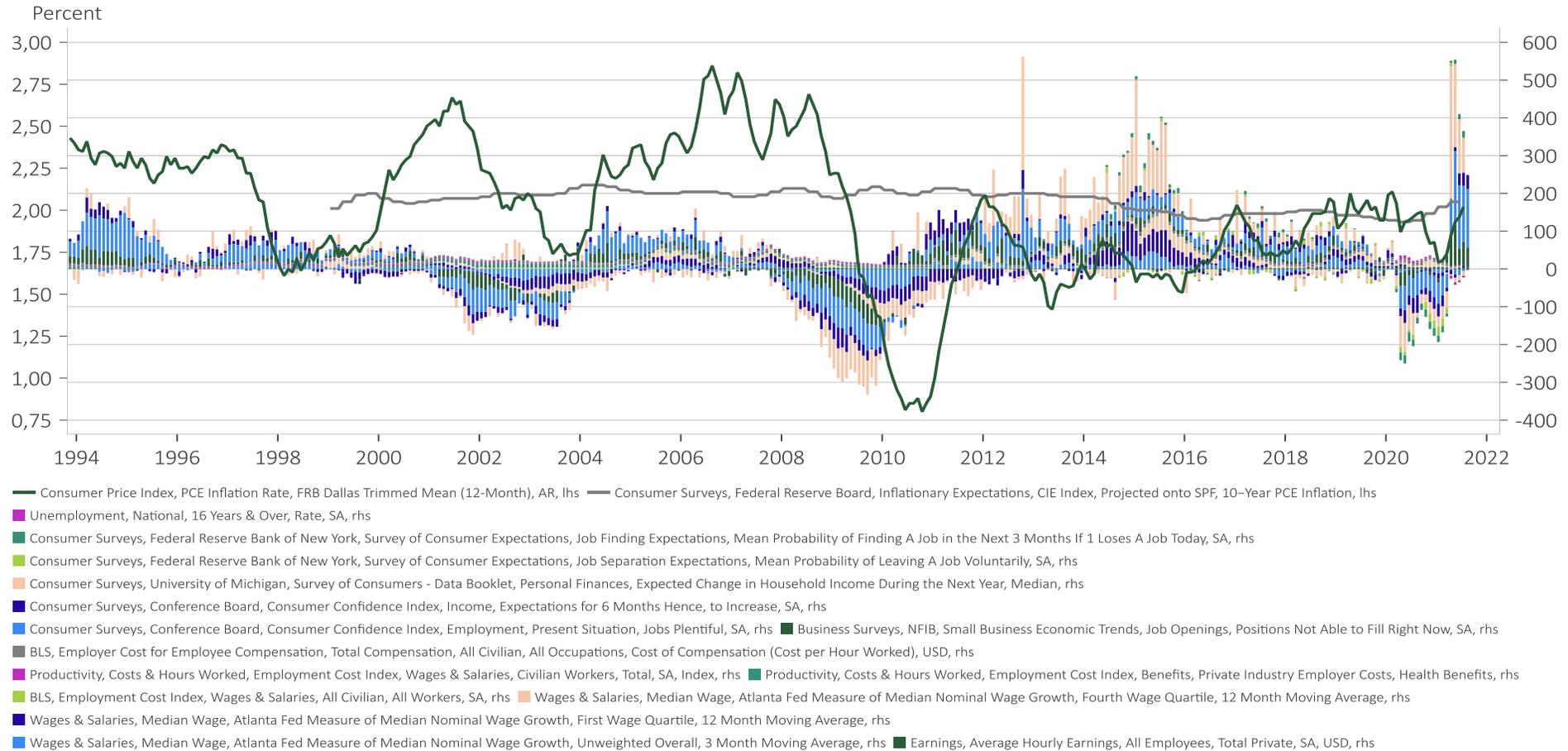
—All Urban Consumers, U.S. City Average, All Items, Index —Current Median CPI, FRB Cleveland Median, Change Y/Y

Source: Erik Penser Bank, Macrobond



All clear? Not necessarily, we do keep an eye on the wage pressure, as designed by Bloomberg,

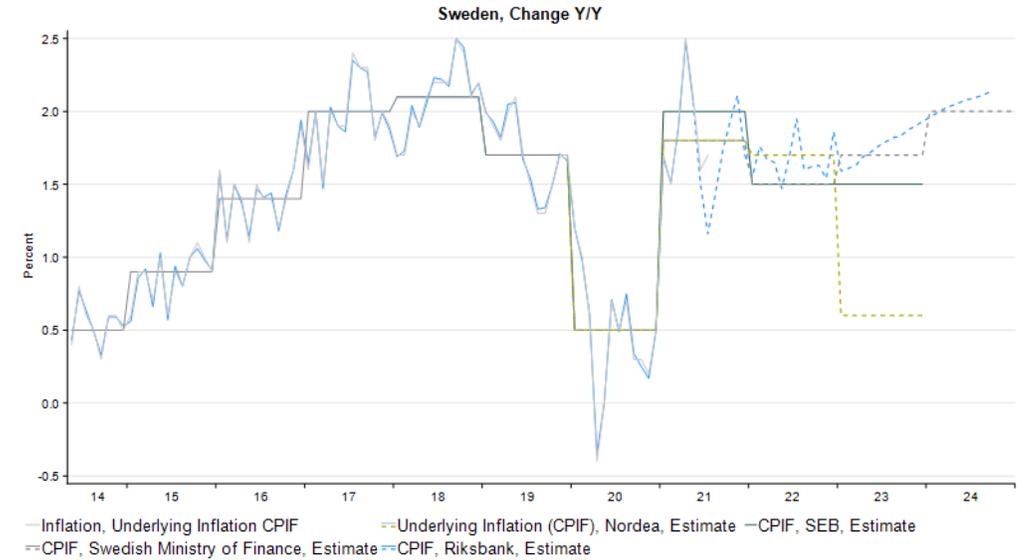
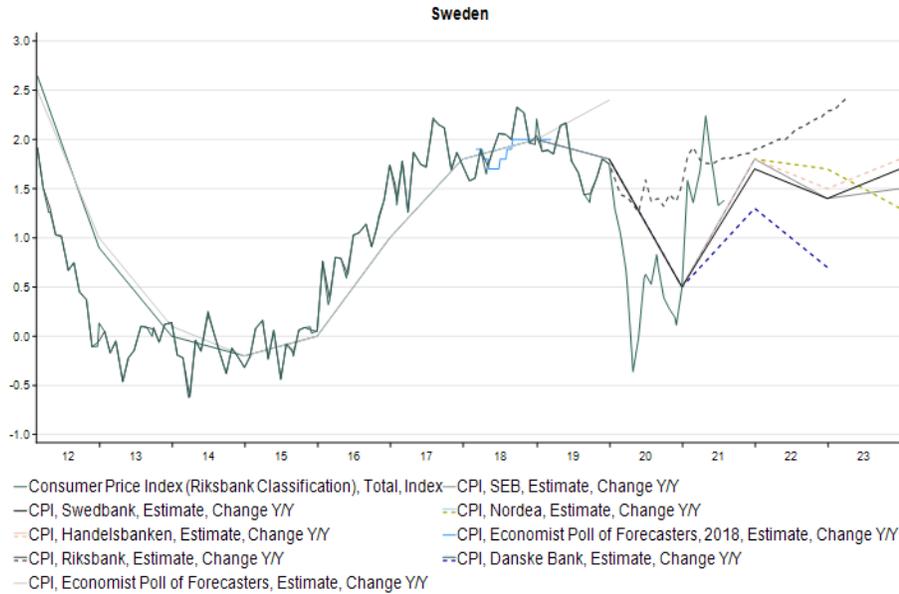
As we have stated time and time again, we must not confuse "transitory" and rising trend, and the significant difference between "good" and "bad" inflation!



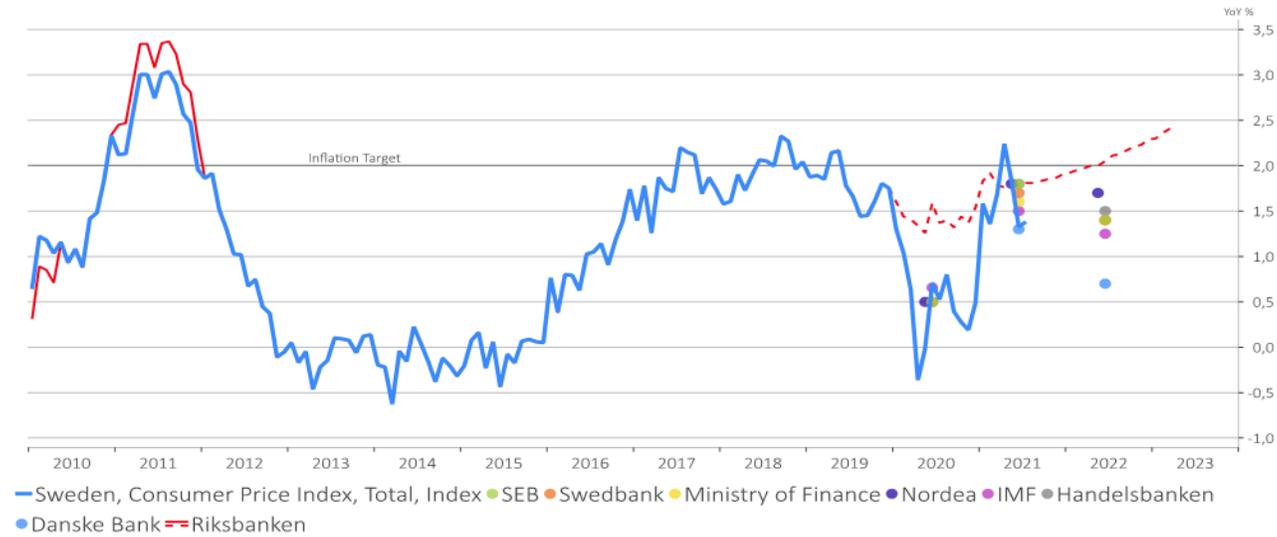
Source: Erik Penser Bank, Macrobond



SWE CPIF, energy and new definition created the 2021 burst



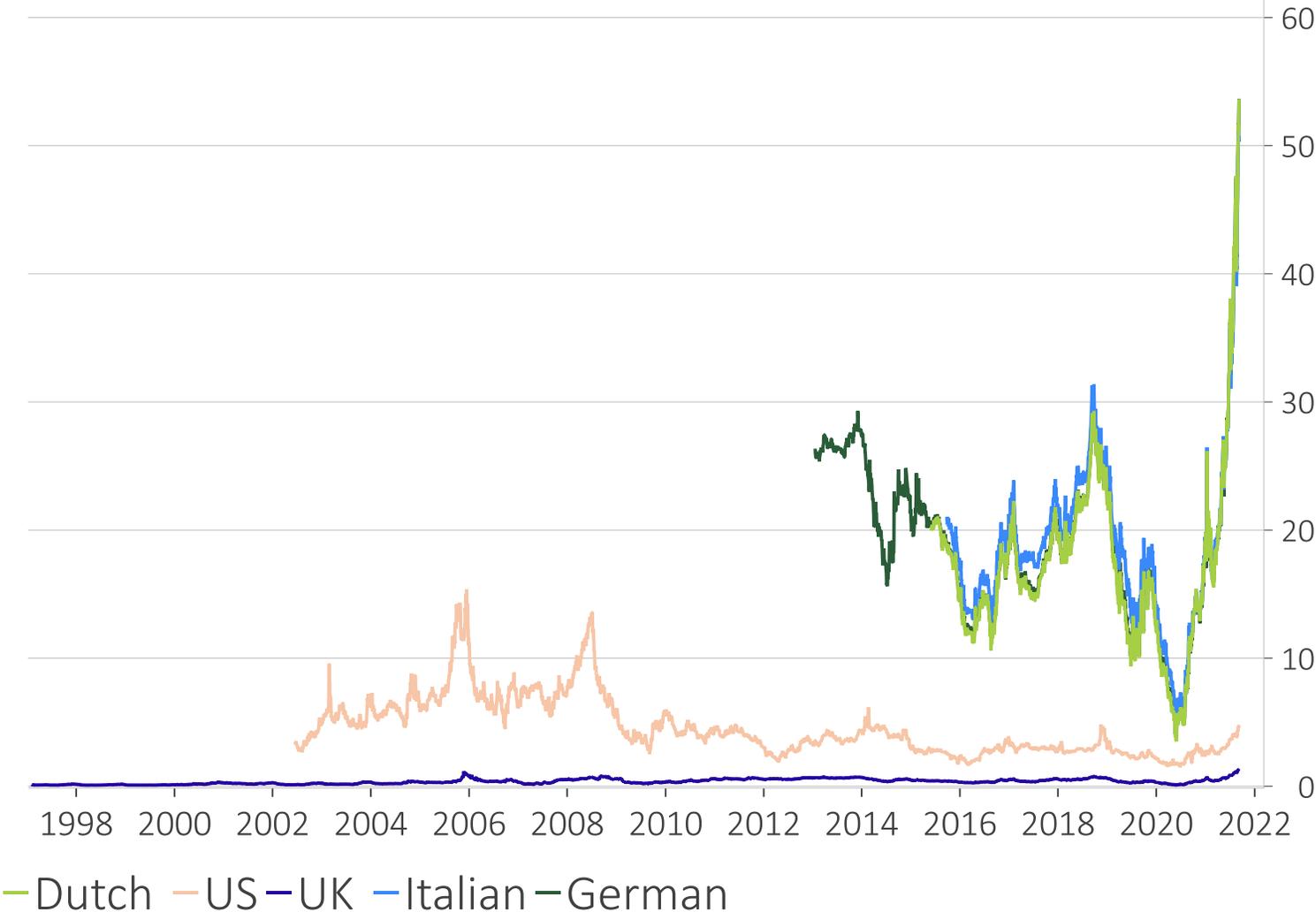
Källa: Erik Penser Bank & Macrobond



Source: Erik Penser Bank, Macrobond



We keep an eye on natural gas prices in Europe



Source: Erik Penser Bank, Macrobond

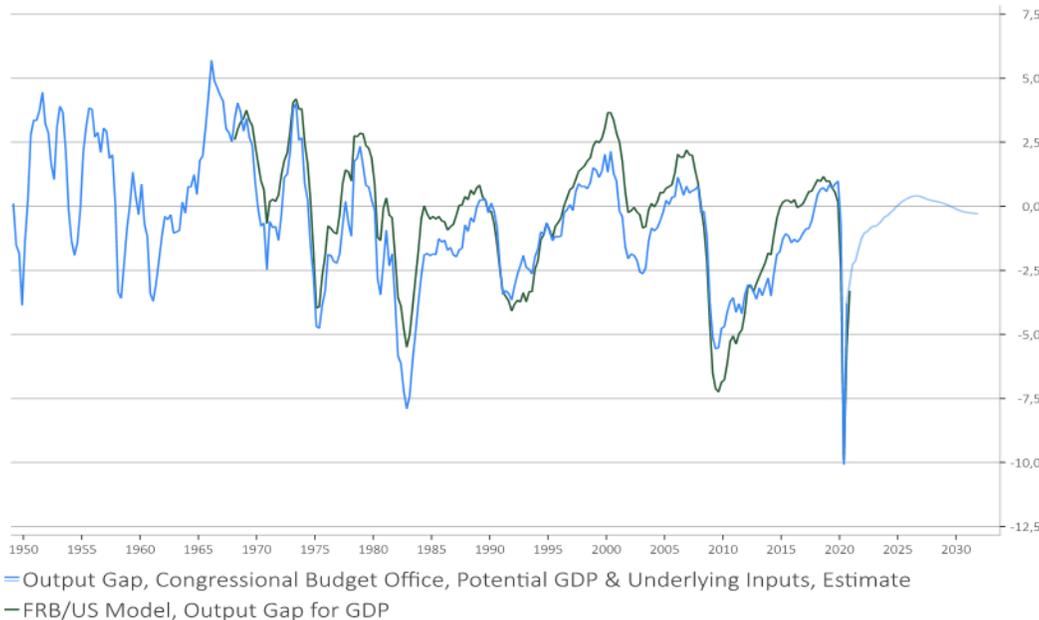


The tilt amongst FED and White House and Congress and Treasury has dramatically changed...why and why we can make a victory lap?!

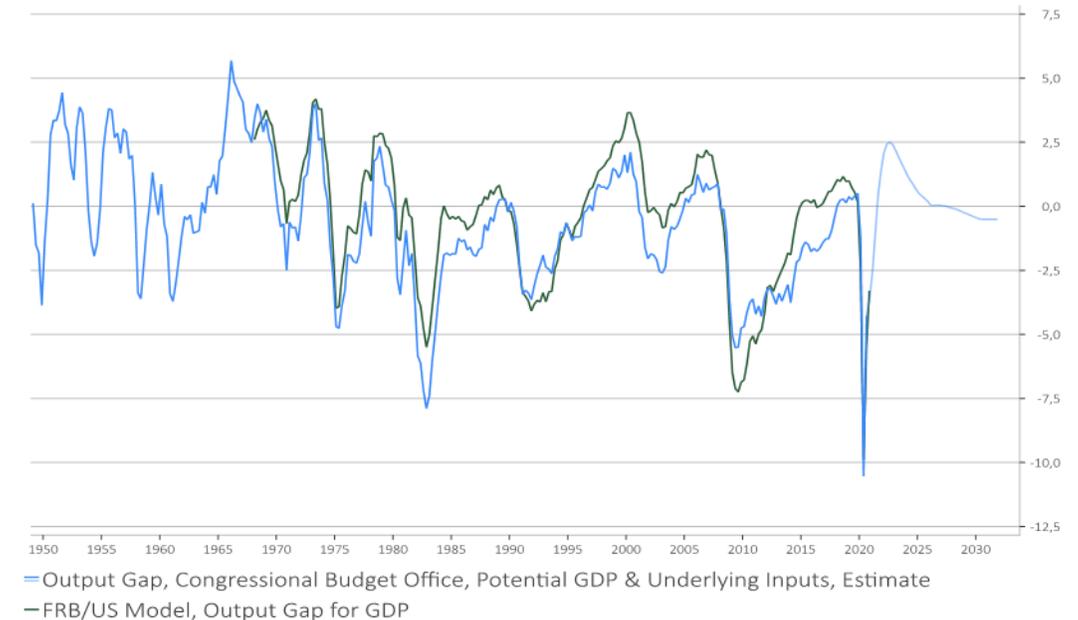
- For decades, the managers of the U.S. economy had a cautionary bias. Central bankers worried that prices might spike at any time. Budget officials fretted that deficits would get out of hand, trigger the bond vigilantes and send interest rates soaring. Both stood permanently on guard, ready to ward off such threats with tighter policy.

The result was an economy that expanded at below its potential growth rate in three-quarters of the years since 1980, according to the Congressional Budget Office. It grew steadily more unequal over that period too.

- **POLITICAL RESPONSE IS CLEAR, THIS FAR OUTWEIGHS CPI CONCERNS AND IF GROWTH MATERIALIZES THE MARKETS WILL FOCUS ON EARNINGS, GROWTH AND THE HISTORICAL RELATIONSHIP - RISING CPI AND RISING EQUITIES - WILL HOLD...YET AGAIN!!!! This is the backdrop of the new Washington Consensus**
- **As we forecasted, output gap turns positive much faster (hence supportive of equities)!**
- **THIS HAS TO BE A TOTAL VICTORY LAP FOR THE US ADMINISTRATION**



Source: Erik Fensler Bank, Macrobond



Source: Erik Fensler Bank, Macrobond



US debt burden, interest rate cost as proportion to GDP

I used to build indicators on Yellen's comments when she chaired the FOMC – a great way to understand her thoughts on US labour market.

She has already started to give out indicators as US Sec of Treasury, below is one that I find important in order to understand how they view US debt:

Average treasury yields north of 2.5% would turn the trend around.

Debt will push it in 2025.



— Interest Expense on the Debt Outstanding as proportion of GDP

Source: Erik Penser Bank, Macrobond

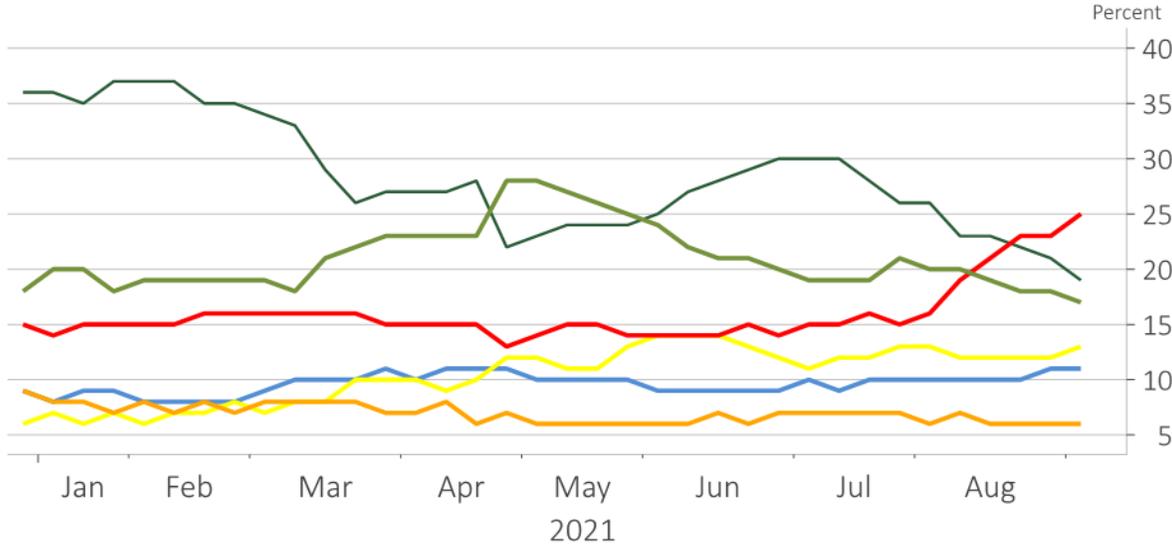


German voter poll – New regime looks likely!

- We can start to expect more fiscal stimuluses!

German federal elections: Voter poll

Source: Wahlrecht.de

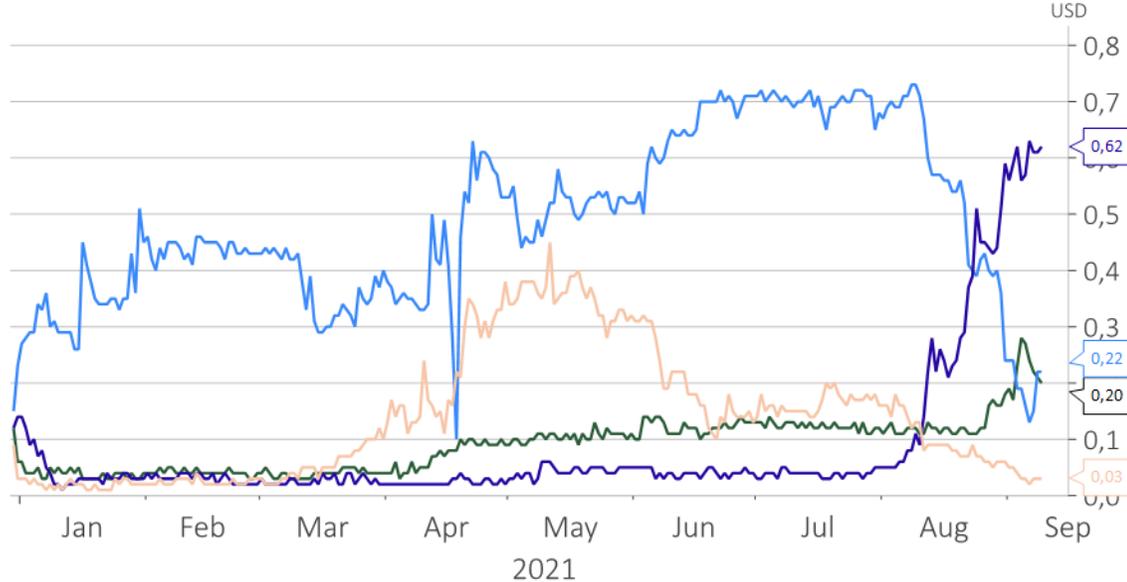


- The Left — The Greens — Social Democratic Party (SPD)
- CDU/CSU — Free Democratic Party (FDP)
- Alternative for Germany (AfD)

Source: Erik Penser Bank, Macrobond

Who will be German chancellor on 31 December?

Source: PredictIt



- Annalena Baerbock — Olaf Scholz — Armin Laschet
- Angela Merkel

Source: Erik Penser Bank, Macrobond



EPB Asset Management, diverse range of Houseview publications

Weekly newsletter

ERIK PENSER BANK

Veckobrev
Utsädesdag: 9 oktober 2020

Veckobrev

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Monthly houseview

ERIK PENSER BANK

DECEMBER 2019
Erik Penser Banks Husvy

Husvy

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Weekly houseview and market analysis

Erik Penser Bank Houseview

Asset Managements' positions and analysis

We believe in transparency, this publication is not mere opinions, it is how we have traded and will trade in order to beat our competitors and benchmarks.

This entirely data driven methodology was founded in late 1990s, developed in the Nordics, London and New York, it e.g. accurately predicted the IT & Great Financial crises with recoveries. So far, the political, economic and financial implications of the pandemic outbreak of 2020 were the hardest to catch, fortunately the rebound was one of the easier, we timed it to the day – 24th of March.

Head of Asset Management
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