



42

Macro



**Darius Dale Macro Voices Interview**  
**Thursday, October 31, 2024**

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<https://www.42macro.com/kiss-portfolio-construction-process>

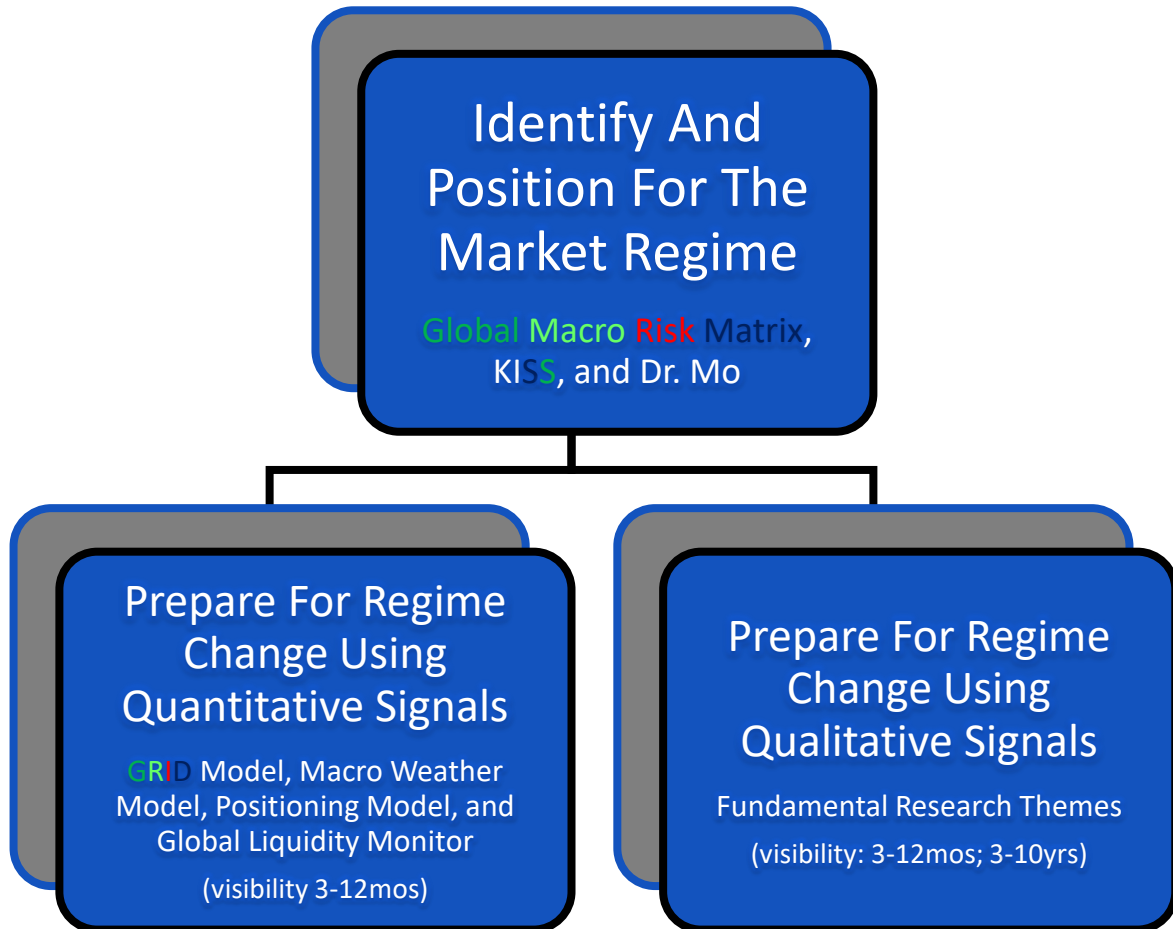
Dr. Mo FAQ

<https://www.42macro.com/discretionary-risk-management-overlay>

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# The 42 Macro Risk Management Process



42 Macro Factor Long-Short Preferences	Risk-On Market Regimes		Risk-Off Market Regimes	
	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION
General Bias	Risk Assets Defensive Assets	Risk Assets Defensive Assets	Defensive Assets Risk Assets	Defensive Assets Risk Assets
Beta	High Beta Low Beta	High Beta Low Beta	Low Beta High Beta	Low Beta High Beta
Cyclicality	Cyclicals Defensives	Cyclicals Defensives	Defensives Cyclicals	Defensives Cyclicals
Style	Growth Value	Growth Value	Value Growth	Growth Value
Market Cap	SMID Caps Large Caps	SMID Caps Large Caps	Large Caps SMID Caps	Large Caps SMID Caps
Regional	US International	International US	US International	US International
Geographic	Emerging Markets Developed Markets	Emerging Markets Developed Markets	Developed Markets Emerging Markets	Developed Markets Emerging Markets
Fixed Income	Spread Products Treasuries	Spread Products Treasuries	Treasuries Spread Products	Treasuries Spread Products
Treasury Curve	Short Rates Belly Long Rates	Short Rates Belly Long Rates	Short Rates Belly Long Rates	Long Rates Belly Short Rates
Credit	High Yield Investment Grade	High Yield Investment Grade	Investment Grade High Yield	Investment Grade High Yield
Commodities	Industrial Commodities Energy Commodities Agricultural Commodities	Industrial Commodities Energy Commodities Agricultural Commodities	Agricultural Commodities Energy Commodities Industrial Commodities	Agricultural Commodities Energy Commodities Industrial Commodities
Currencies	Gold Foreign Currencies US Dollar	Gold Foreign Currencies US Dollar	US Dollar Gold Foreign Currencies	US Dollar Gold Foreign Currencies

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Global Macro Risk Matrix Market Regime Backtest sample = Jan-98 through present.  
 GOLDDILOCKS = risk on with a disinflationary bias. REFLATION = risk on with an inflationary bias.  
 INFLATION = risk off with an inflationary bias. DEFLATION = risk off with a disinflationary bias.

# Executive Summary: Tuesday, October 29, 2024

## Modal Outcome Themes (conviction level):

- Resilient US Economy (high)
- Jay Wants A Soft Landing (high)

## Right Tail Risk Themes (conviction level):

- Here Comes The Liquidity (medium)

## Left Tail Risk Themes (conviction level):

- Sticky Inflation (high)

# Fundamental Research Summary: Tuesday, October 29, 2024

## Sticky Inflation (Jan-22): high conviction

- US inflation is unlikely to durably return to the Fed's stated 2% and de facto 2.5% targets in the absence of a recession. Inflation has likely bottomed in sequential terms and is likely to meander higher over the next year.
- Upside surprises in inflation are unlikely to cause problems for asset markets until the Fed downgrades the labor market in its reaction function, which may not occur until labor market resiliency is confirmed by data well into 2025.

## Resilient US Economy (Sep-22): high conviction

- The US economy remains resilient due to historically strong private sector balance sheets, the “West Village-Montauk Effect”, limited exposure to the policy rate, limited exposure to the more-cyclical manufacturing sector, labor hoarding, and easy financial conditions. We believe growth is likely to continue to surprise to the upside over the medium term.
- Growth is, however, likely to slow over the medium term due to ongoing retrenchment among low-income consumers and small businesses – the both of which are far more sensitive to the level of the policy rate than the median household or median enterprise.

## Jay Wants A Soft Landing (Nov-23): high conviction

- The Fed has an asymmetrically dovish reaction function that is geared towards engineering a soft landing in the US economy.
- The Fed is implementing its typical Fourth Turning playbook, which is to kowtow to fiscal dominance by artificially inflating demand for US Treasuries amid above-target inflation and explosive growth in federal debt.

## Here Comes The Liquidity (Sep-24): medium conviction

- A weaker USD should accelerate global dollar recycling and provide Chinese authorities scope to accelerate support of their economy with fiscal and monetary stimulus to counter the development of a balance sheet recession akin to 1990's Japan.
- The US fiscal impulse and Treasury's net financing policy are getting incrementally positive in Q4 ahead of a potential ~\$700bn spenddown of the Treasury General Account (TGA) in Q1. The Fed may slow the pace of [fake] QT in the coming months too if economic support for rate cuts declines.

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Highlighted callouts include material changes from the preceding 42 Macro research report.

Red = bearish for risk assets. Green is bullish for risk assets. Orange = neutral for risk assets.

Active Themes sourced from our monthly Macro Scouting Reports and daily Leadoff Morning Notes. In chronological order.

# Quantitative Risk Management Summary: Tuesday, October 29, 2024

## Short-Term Signals (<1 month):

- **Crowding Model:** Not currently generating any bearish or bullish signals.
- **Probable Range Model:** No key macro market indicator is currently overbought or oversold.

## Short-to-Medium-Term Signals (1-3 months):

- **Dispersion Model:** Rotational flows have favored Cyclical on a trending basis, but not yet to an extreme degree that risks a violent factor reversal.
- **Positioning Model:** Short-to-medium-term positioning indicators indicate retail traders are neutral stocks and active managers are neutral stocks. In totality, our **Positioning Model** indicates low risk of a correction in risk assets over the short-to-medium term. Inflation expectations are currently the dominant driver of Global Liquidity. Long-term nominal interest rate differentials are currently the dominant driver of the US Dollar. Real bond yields are currently the dominant driver of the RRP. Structural inflation expectations are currently the dominant driver of the S&P 500. Structural inflation expectations are currently the dominant driver of Bitcoin. Structural growth expectations are currently the dominant driver of Gold.
- **Volatility-Adjusted Momentum Signal (VAMS):** Among the **Four Horsemen of Market Risk**, the Equal Weight/Market Cap S&P 500 Ratio is bearish, the High Beta/Low Beta Ratio is neutral, the Small Cap/Mega Cap Ratio is bearish, and the Value/Growth Ratio is bearish. Risk assets are mixed. Stocks are bullish. **Crypto is bullish**. Commodities are mixed. Defensive assets are mixed. The VIX and Treasury Bonds are bearish. The CVIX, MOVE Index, US Dollar Index, and Gold are bullish.

## Medium-to-Long-Term Signals (3-12+ months):

- **Global Macro Risk Matrix:** REFLATION is the Market Regime. REFLATION is a risk-on regime in which investors are generally rewarded for increasing risk because policymakers are supporting or unlikely to restrain nominal economic growth that is perceived to be accelerating or persistently better than expectations. *Key portfolio construction considerations in REFLATION: Risk Assets > Defensive Assets, High Beta > Low Beta, Cyclical > Defensives, Growth > Value, SMID Caps > Large Caps, International > US, EM > DM, Spread Products > Treasuries, Short Rates > Belly > Long Rates, High Yield > Investment Grade, Industrial Commodities > Energy Commodities > Agricultural Commodities, and Gold > FX > USD.*
- **Global Liquidity Monitor:** Key leading indicators of global liquidity currently signal a significant increase over the medium term.
- **GRID Model:** REFLATION (growth ↑ and inflation ↑) is the modal outcome from a Bottom-Up Macro Regime perspective in the US economy over the next 3-6mos. INFLATION (growth ↓ and inflation ↑) is the modal outcome from a Bottom-Up Macro Regime perspective in the US economy over the next 6-12mos.
- **Macro Weather Model:** Currently generating a bullish three-month outlook for Stocks and Bonds, a neutral three-month outlook for Commodities and Bitcoin, and a bearish three-month outlook for the US Dollar. The composite signals currently indicate a reasonable probability of sustaining a risk-on Market Regime over the next three months.
- **Positioning Model:** Medium-to-long-term positioning indicators indicate investment advisors are overweight stocks, underweight bonds, and underweight cash. Speculators are neutral stocks, underweight Treasuries, neutral the US dollar, and underweight commodities. Systematic funds are neutral stocks. Market-neutral hedge funds are overweight risk assets from a gross exposure perspective. Risk asset valuations are currently consistent with major bull market peaks. In totality, our **Positioning Model** indicates reasonable risk of crash in risk assets over the medium-to-long term.

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Highlighted callouts include material changes from the preceding 42 Macro research report.

**Positioning Model** correction/crash risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.

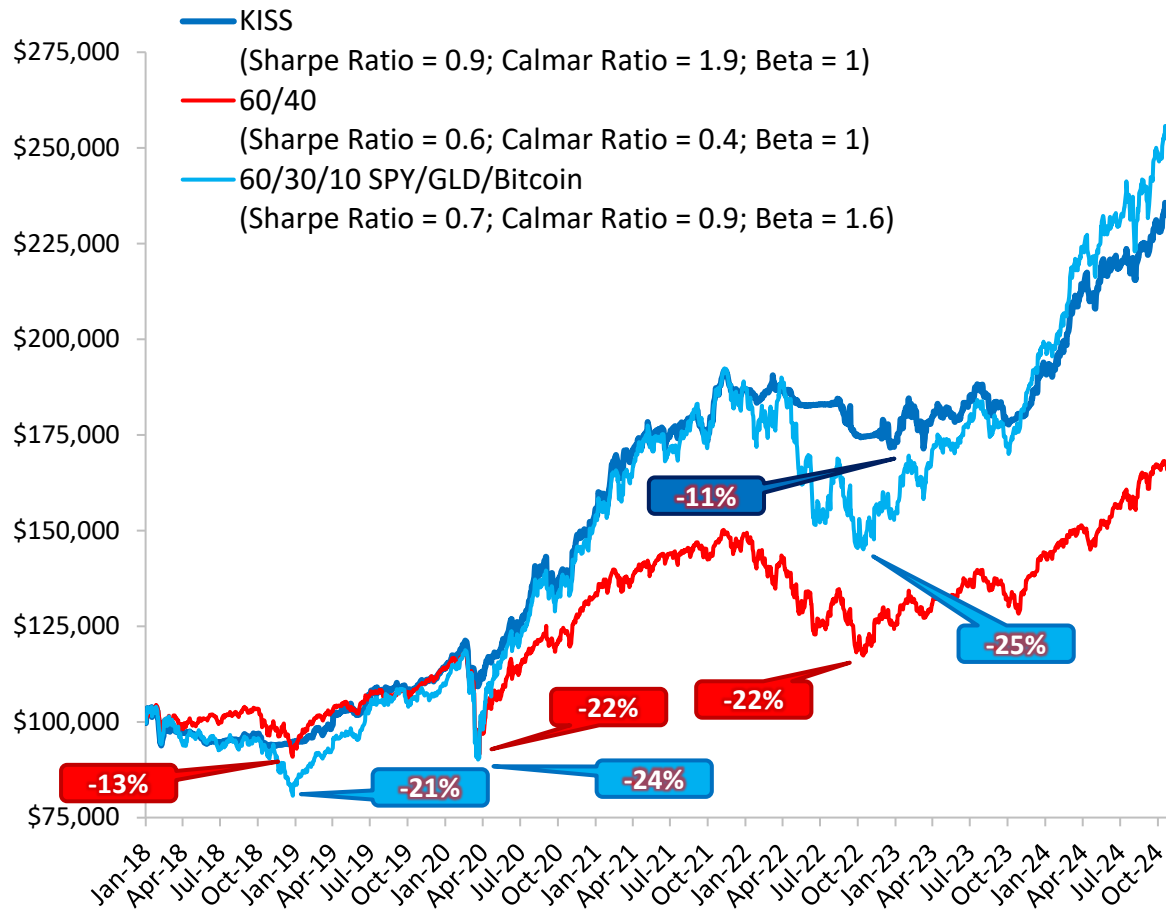
**Macro Weather Model** RORO phase transition risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.

# KISS Portfolio Construction Process: Keep It Simple & Systematic

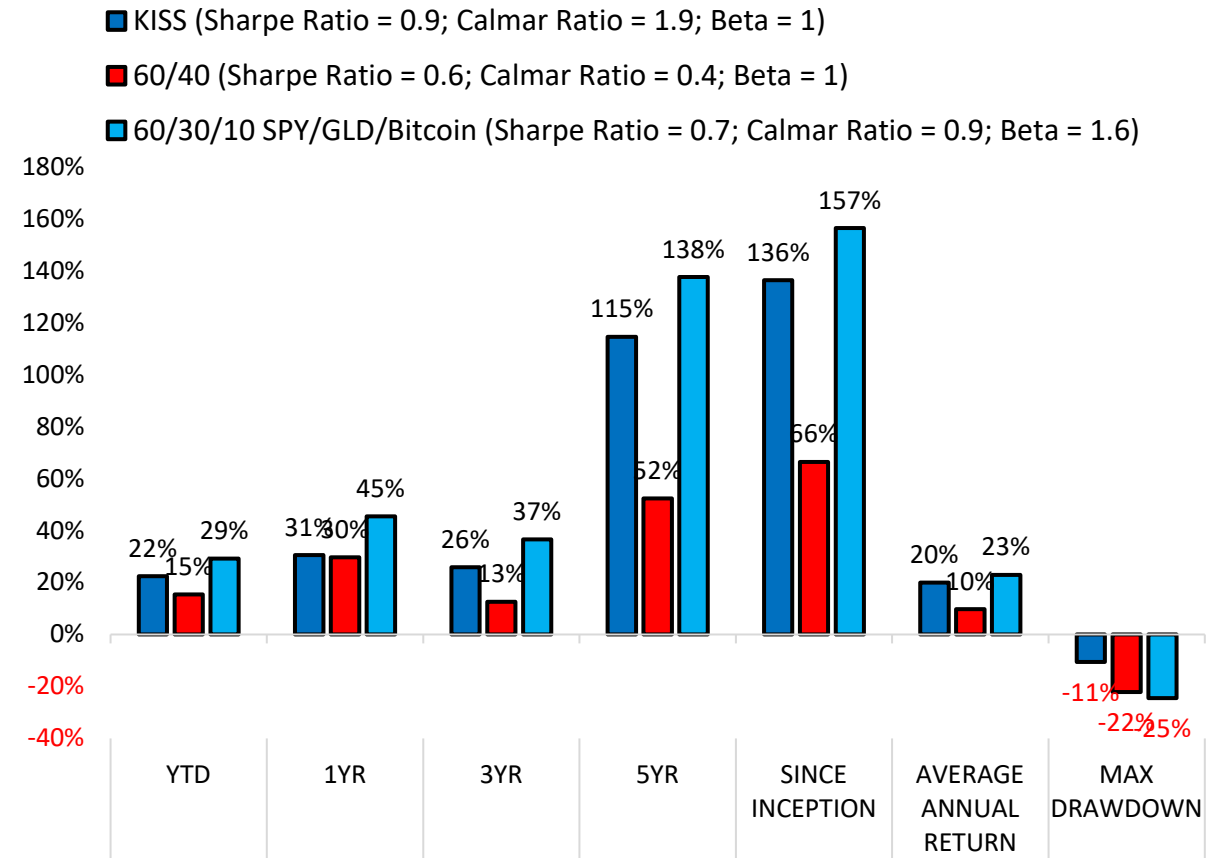
- I. **Factor Selection Process: We have developed a 60/30/10 trend-following strategy that is likely to materially outperform the standard 60/40 portfolio over the long term.**
  - The 42 Macro KISS Portfolio Construction Process is a thoughtful alternative to the 60/40 portfolio framework – especially during a Fourth Turning regime. Our 60/30/10 trend-following strategy is designed to simplify investing, maximize upside capture during bull markets, and minimize downside capture during bear markets.
  - **60% Equities:** Our default exposure is the S&P 500 (\$SPY). Investors may allocate that 60% to an alternate equity ETF or basket of equity ETFs that is better aligned with their individual investment preferences, risk tolerance, and/or product availability. Consult our Discretionary Risk Management Overlay for ideas.
  - **30% Gold:** Our default exposure is Gold (\$GLD). Investors may allocate that 30% to a diversified fixed income ETF or basket of fixed income ETFs that is better aligned with their individual investment preferences, risk tolerance, and/or product availability. Consult our Discretionary Risk Management Overlay for ideas.
  - **10% Bitcoin:** Our default exposure is Bitcoin (\$FBTC). Investors may allocate that 10% to the Bitcoin token directly, a basket of cryptocurrencies, a diversified physical commodities ETF, or a basket of physical commodities that is better aligned with their individual investment preferences, risk tolerance, and/or product availability. Consult our Discretionary Risk Management Overlay for ideas.
- II. **Top-Down Risk Management Overlay: We use our Global Macro Risk Matrix to incorporate volatility targeting into our 60/30/10 trend-following strategy.**
  - **Equities:** If the Market Regime is in a risk-on condition (i.e., **GOLDILOCKS** or **REFLATION**), then the Target Allocation for the \$SPY ETF = 60%. If the Market Regime is in a risk-off condition (i.e., **INFLATION** or **DEFLATION**), then the Target Allocation for the \$SPY ETF = 30%.
  - **Gold:** Gold has historically performed reasonably well in each Market Regime, so the Target Allocation for the \$GLD ETF is fixed at 30%. The Bottom-Up Risk Management Overlay will serve as the core risk management system for Gold.
  - **Bitcoin:** If the Market Regime is in a risk-on condition (i.e., **GOLDILOCKS** or **REFLATION**), then the Target Allocation for the \$FBTC ETF = 10%. If the Market Regime is in a risk-off condition (i.e., **INFLATION** or **DEFLATION**), then the Target Allocation for the \$FBTC ETF = 5%.
- III. **Bottom-Up Risk Management Overlay: We use our Volatility-Adjusted Momentum Signal to incorporate dynamic positioning sizing into our 60/30/10 trend-following strategy.**
  - If an ETF is **Bullish VAMS**, then the Actual Exposure = **100%** of the Target Allocation.
  - If an ETF is **Neutral VAMS**, then the Actual Exposure = **50%** of the Target Allocation.
  - If an ETF is **Bearish VAMS**, then the Actual Exposure = **0%** of the Target Allocation.

# KISS Portfolio Construction Process Backtest

Hypothetical Performance of a \$100,000 Portfolio Since January 1, 2018



Hypothetical Performance of a \$100,000 Portfolio Over Industry-Standard Reporting Horizons (Inception = January 1, 2018)

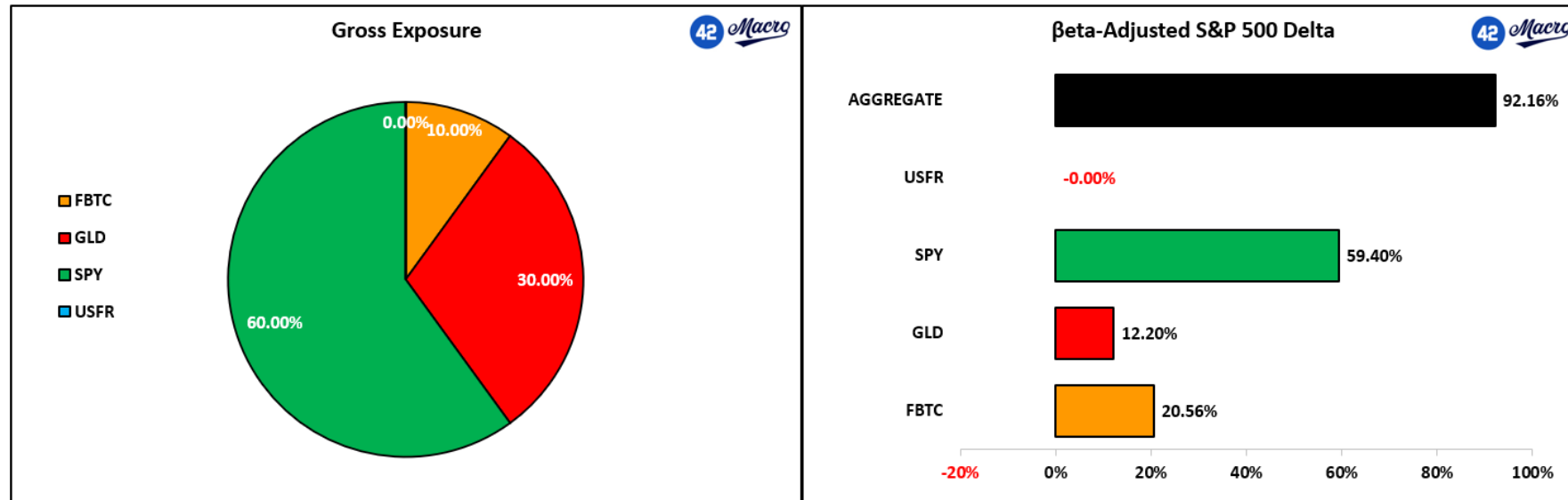


© 42 Macro LLC. Data Source: Bloomberg. Total returns based on daily closing prices. Out-of-sample backtest. KISS' Top-Down and Bottom-Up Risk Management Overlay pivots are lagged by a full day to simulate real-world trading conditions. KISS averages four trades per month since inception.

# Current KISS Portfolio Construction (Implement The Pie Chart)

42 Macro KISS Portfolio Construction: 10/29/24

Liquidity (Percent of MAX Exposure of 100%): 0%	Market Regime Target Allocation	VAMS Actual Exposure	Δ Since Prior Update	6mo β to S&P 500
USFR	n/a	0.00%		-0.0
Equities (Percent of MAX Exposure of 60%): 100%	Market Regime Target Allocation (G&R=60%; I&D=30%)	VAMS Actual Exposure (100%/50%/0%)	Δ Since Prior Update	6mo β to S&P 500
SPY	60.00%	60.00%		1.0
Gold (Percent of MAX Exposure of 30%): 100%	Market Regime Target Allocation (G&D=30%; R&I=15%)	VAMS Actual Exposure (100%/50%/0%)	Δ Since Prior Update	6mo β to S&P 500
GLD	30.00%	30.00%		0.4
Bitcoin (Percent of MAX Exposure of 10%): 100%	Market Regime Target Allocation (G&R=10%; I&D=5%)	VAMS Actual Exposure (100%/50%/0%)	Δ Since Prior Update	6mo β to S&P 500
FBTC	10.00%	10.00%		2.1



# Investors May Use Our Discretionary Risk Management Overlay aka “Dr. Mo” To Implement A Customized Version Of KISS OR As A Market Timing And Position Sizing Guide For Factor Long-Short Bets: Tuesday, October 29, 2024

## MARKET REGIME: REFLATION

US EQUITY SECTORS	VAMS	RSI	PROPER TRADE	US EQUITY FACTORS	VAMS	RSI	PROPER TRADE	GLOBAL EQUITIES	VAMS	RSI	PROPER TRADE	FIXED INCOME SECTORS	VAMS	RSI	PROPER TRADE	MACRO EXPOSURES	VAMS	RSI	PROPER TRADE
USA (SPY)	✓	59	LONG: Max Position	Dividend Compounders (SPHD)	✓	50	LONG: Max Position	Australia (EWA)	✓	43	LONG: Max Position	0-5yr TIPS (STIP)	✓	38	LONG: Max Position	Agriculture (PDBA)	!	43	LONG: Half Position
Communication Services (XLC)	✓	62	LONG: Max Position	Growth (IWF)	✓	61	LONG: Max Position	Brazil (EWZ)	!	47	LONG: Half Position	1-3yr Treasuries (SHY)	!	37	SHORT: Half Position	Australian Dollar (FXA)	✗	34	No Position
Consumer Discretionary (XLY)	✓	60	LONG: Max Position	High Beta (SPHB)	✓	56	LONG: Max Position	Canada (EWC)	✓	52	LONG: Max Position	3-12mo Treasury Bills (BILS)	n/a	64	SHORT: Max Position	Base Metals (DBB)	✓	54	LONG: Max Position
Consumer Staples (XLP)	✓	43	LONG: Max Position	Large Caps (IWB)	✓	58	LONG: Max Position	China (FXI)	✓	55	LONG: Max Position	5-10yr TIPS (TIP)	!	31	LONG: Half Position	Bitcoin	✓	68	LONG: Max Position
Energy (XLE)	!	45	LONG: Half Position	Low Beta (SPLV)	✓	49	LONG: Max Position	Commodity Producers (GNR)	!	45	LONG: Half Position	5-10yr Treasuries (IEF)	✗	28	SHORT: Max Position	British Pound (FXB)	!	42	LONG: Half Position
Financials (XLF)	✓	62	LONG: Max Position	Mega Cap Growth (QQQ)	✓	59	LONG: Max Position	Emerging Markets (EEM)	✓	50	LONG: Max Position	25+ Year Treasuries (TLT)	✗	30	SHORT: Max Position	Canadian Dollar (FXC)	✗	28	No Position
Health Care (XLV)	✓	34	LONG: Max Position	Mid Caps (IWR)	✓	56	LONG: Max Position	Eurozone (EZU)	!	47	LONG: Half Position	US Aggregate (AGG)	!	29	LONG: Half Position	Commodities (PDBC)	!	44	LONG: Half Position
Industrials (XLI)	✓	51	LONG: Max Position	Momentum (MTUM)	✓	57	LONG: Max Position	Global Equities (ACWX)	✓	46	LONG: Max Position	BDCs (BIZD)	!	58	LONG: Half Position	Crude Oil (USO)	!	42	LONG: Half Position
Information Technology (XLK)	✓	57	LONG: Max Position	Quality (QUAL)	✓	52	LONG: Max Position	India (INDA)	!	35	LONG: Half Position	Convertibles (CWB)	✓	65	LONG: Max Position	Ethereum	✓	57	LONG: Max Position
Materials (XLB)	✓	47	LONG: Max Position	Small Caps (IWM)	✓	55	LONG: Max Position	Japan (EWJ)	!	39	LONG: Half Position	EM Local Currency Bonds (EMLC)	!	29	LONG: Half Position	Euro (FXE)	✗	36	No Position
Real Estate (XLRE)	✓	52	No Position	Value (IWD)	✓	52	LONG: Max Position	United Kingdom (EWU)	✓	46	LONG: Max Position	EM USD Bonds (EMB)	✓	40	LONG: Max Position	Gold (GLD)	✓	69	LONG: Max Position
Utilities (XLU)	✓	55	No Position									High Yield Credit (HYG)	✓	49	LONG: Max Position	Japanese Yen (FXJ)	✗	30	SHORT: Max Position
												International Aggregate (BNDX)	!	49	LONG: Half Position	Silver (SLV)	✓	63	LONG: Max Position
												International Bonds (BWXX)	✗	31	No Position	Swiss Franc (FXF)	!	41	LONG: Half Position
												Investment Grade Credit (LQD)	✓	30	LONG: Max Position	Uranium (SRUUF)	!	45	LONG: Half Position
												Leveraged Loans (BKLN)	!	46	LONG: Half Position	US Dollar (UUP)	✓	72	No Position
												MBS (MBB)	!	24	SHORT: Half Position	60/40 Portfolio (BIGPX)	!	49	LONG: Half Position
												Preferreds (PFF)	✓	43	LONG: Max Position				

Data Source: Bloomberg. Intellectual Property of 42 Macro LLC. VAMS = Volatility-Adjusted Momentum Signal. RSI = 14-Day Relative Strength Index. Highlighted exposures indicate change in PROPER TRADE signal from the previous report. GREEN = directionally bullish change. RED = directionally bearish change. The PROPER TRADE signals do NOT correspond to KISS.

Key portfolio construction considerations in GOLDILOCKS: Risk Assets > Defensive Assets, High Beta > Low Beta, Cyclical > Defensive, Growth > Value, SMID Caps > Large Caps, US > International, EM > DM, Spread Products > Treasuries, Short Rates > Belly > Long Rates, High Yield > Investment Grade, Industrial Commodities > Energy Commodities > Agricultural Commodities, and Gold > FX > USD

© 42 Macro LLC. Data Source: Bloomberg. GREEN ✓ = bullish VAMS, ORANGE ! = neutral VAMS, and RED ✗ = bearish VAMS.

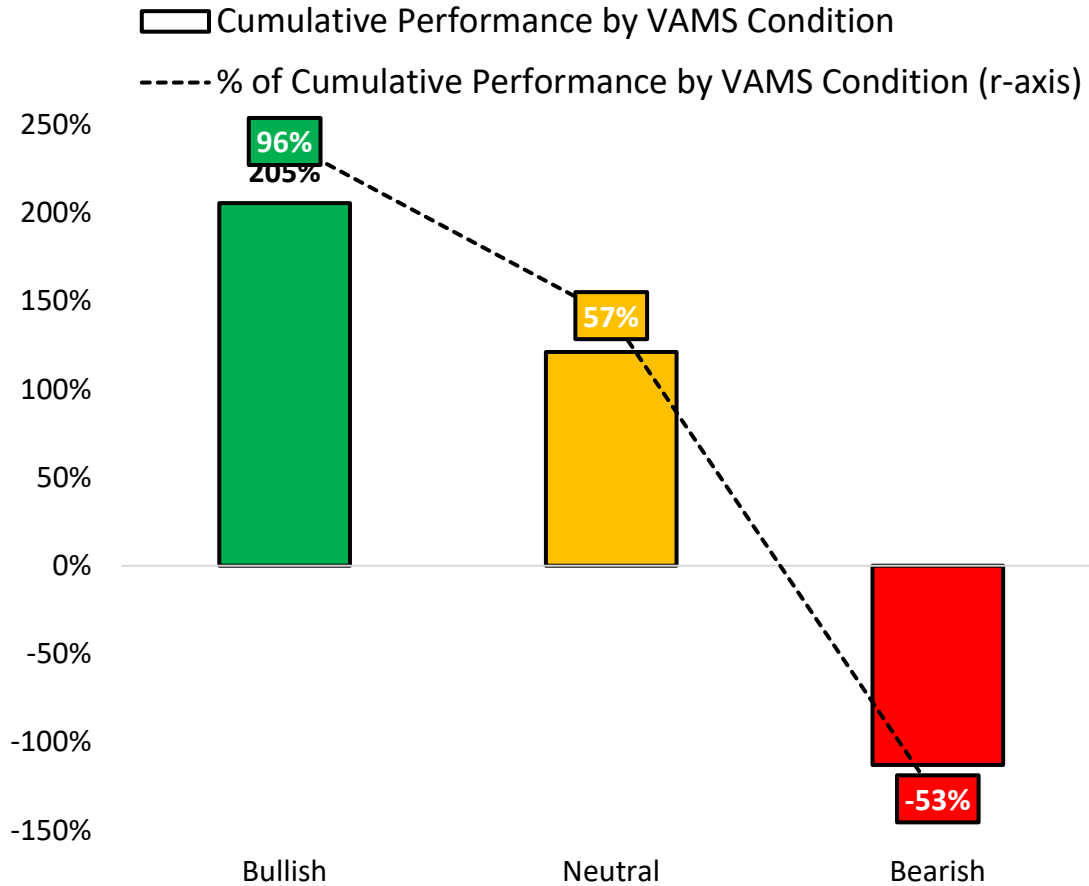
If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a “LONG (SHORT): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a “LONG (SHORT): Half Position”. **Dr. Mo** will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.

Highlighted ETFs = changes in Proper Trade signal from the preceding 42 Macro research report. **The Proper Trade recommendations do NOT correspond to KISS.**



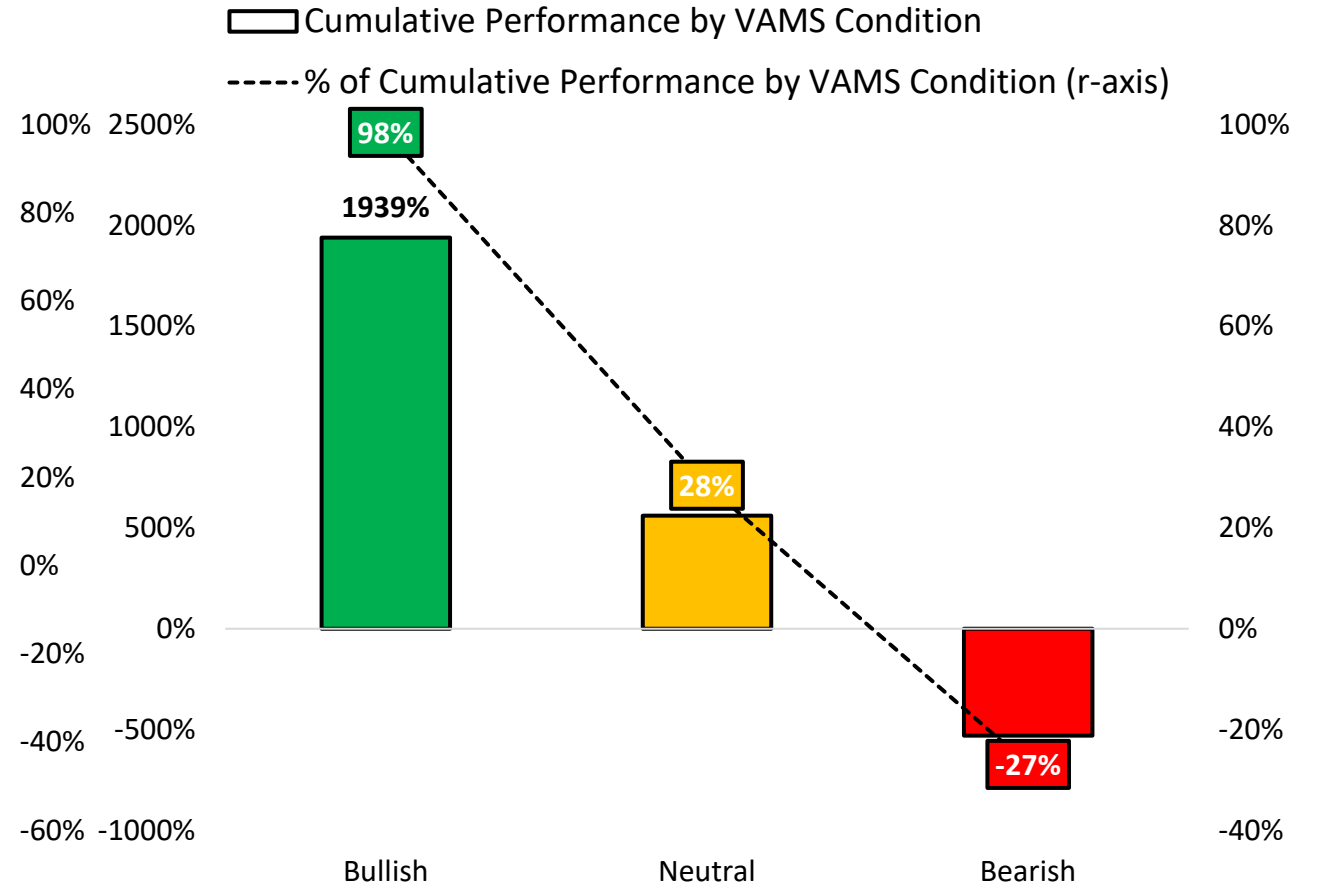
# Volatility-Adjusted Momentum Signal (VAMS) Backtest: Stocks

S&P 500 Index



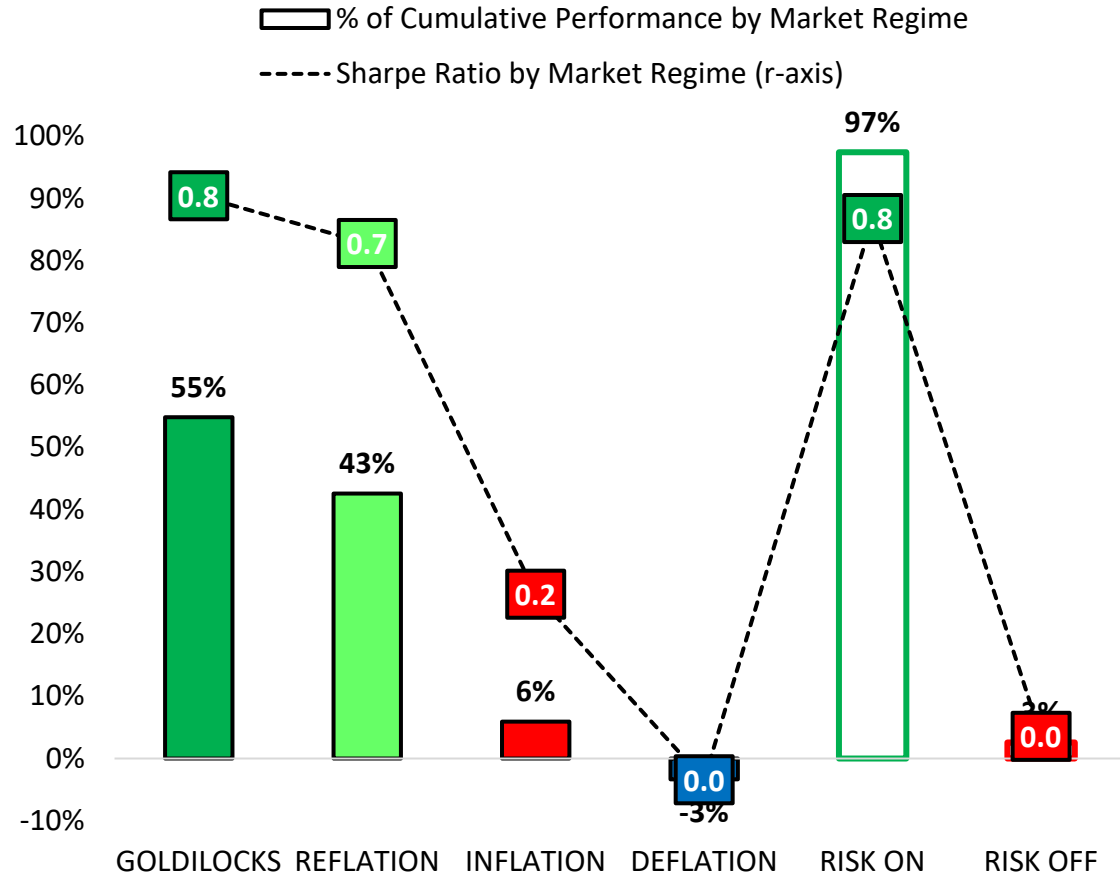
# Volatility-Adjusted Momentum Signal (VAMS) Backtest: Crypto

Bitcoin



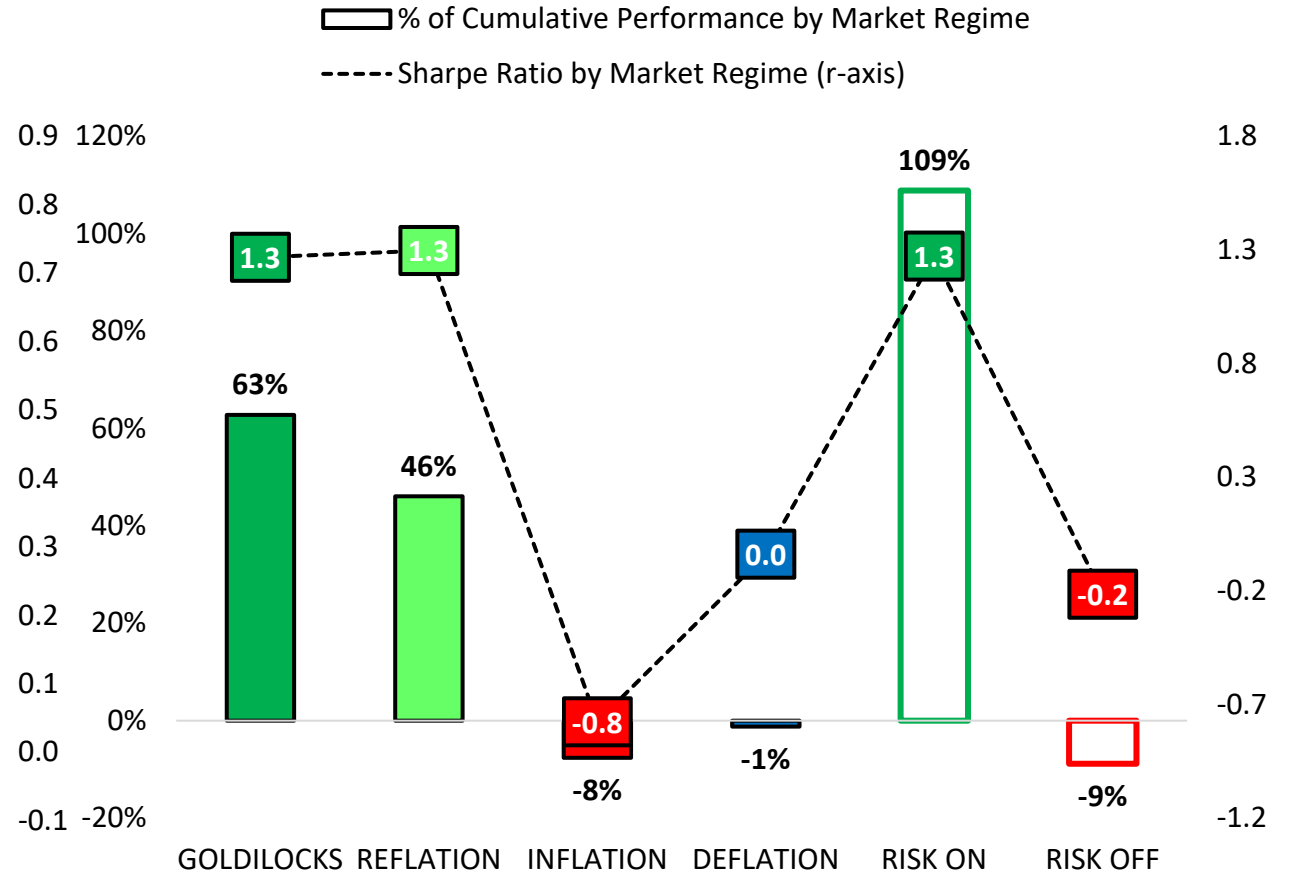
# Global Macro Risk Matrix: Market Regime Backtest: Stocks

S&P 500



# Global Macro Risk Matrix: Market Regime Backtest: Crypto

Bitcoin



© 42 Macro LLC. Data Source: Bloomberg.

Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98.

Market Regime = GRID regime with highest Sum and Share of Confirming Markets.

GOLDILOCKS = risk on with a disinflationary bias. REFLATION = risk on with an inflationary bias.

INFLATION = risk off with an inflationary bias. DEFLATION = risk off with a disinflationary bias.

# Volatility-Adjusted Momentum Signal (VAMS) And Global Macro Risk Matrix Market Regime Backtests

42 Macro Market Regime & VAMS Backtests		% of Cumulative Performance by VAMS Condition			% of Cumulative Performance by Market Regime						Sharpe Ratio by Market Regime						42 Macro Market Regime & VAMS Backtests		% of Cumulative Performance by VAMS Condition			% of Cumulative Performance by Market Regime						Sharpe Ratio by Market Regime					
		BULLISH	NEUTRAL	BEARISH	GOLDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF	GOLDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF			BULLISH	NEUTRAL	BEARISH	GOLDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF	GOLDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF
SPY	USA	96%	57%	-53%	55%	43%	6%	-3%	97%	3%	0.8	0.7	0.2	0.0	0.8	0.0	STIP	0-5yr TIPS	43%	46%	11%	49%	44%	-3%	10%	93%	7%	0.9	0.7	-0.1	0.2	0.8	0.1
XLC	Communication Services	213%	165%	-277%	109%	14%	-24%	1%	123%	-23%	0.4	0.1	-0.3	0.0	0.3	-0.1	SHY	1-3yr Treasurys	61%	38%	0%	32%	23%	6%	40%	55%	45%	1.9	1.3	0.7	2.5	1.5	1.9
XLY	Consumer Discretionary	91%	100%	-91%	66%	32%	-4%	6%	98%	2%	1.0	0.6	-0.1	0.1	0.8	0.0	TIP	5-10yr TIPS	70%	24%	6%	50%	31%	-2%	21%	81%	19%	1.0	0.6	-0.1	0.4	0.8	0.3
XLP	Consumer Staples	71%	56%	-27%	46%	23%	12%	20%	69%	31%	0.6	0.3	0.3	0.2	0.5	0.2	IEF	5-10yr Treasurys	83%	14%	3%	30%	6%	5%	59%	36%	64%	0.7	0.1	0.3	1.6	0.4	1.2
XLE	Energy	87%	128%	-115%	24%	63%	18%	-5%	87%	13%	0.3	0.8	0.5	0.0	0.5	0.1	TLT	25+ Year Treasurys	160%	25%	-84%	3%	-13%	-35%	146%	-10%	110%	0.0	-0.1	-0.3	0.6	0.0	0.3
XLF	Financials	138%	114%	-152%	86%	39%	15%	-40%	125%	-25%	0.8	0.5	0.4	-0.3	0.7	-0.2	AGG	US Aggregate	73%	21%	6%	40%	17%	3%	39%	57%	43%	1.3	0.5	0.2	1.5	0.9	1.0
XLV	Health Care	75%	62%	-37%	37%	32%	14%	17%	69%	31%	0.6	0.5	0.6	0.2	0.5	0.3	BIZD	BDCs	140%	87%	-128%	88%	41%	9%	-39%	129%	-29%	0.7	0.5	0.3	-0.3	0.6	-0.2
XLI	Industrials	94%	67%	-61%	50%	48%	3%	-2%	98%	2%	0.7	0.8	0.1	0.0	0.7	0.0	CWB	Convertibles	117%	12%	-29%	86%	53%	-19%	-20%	139%	-39%	1.4	0.9	-0.7	-0.3	1.1	-0.4
XLK	Information Technology	84%	90%	-74%	43%	38%	5%	13%	81%	19%	0.7	0.8	0.3	0.2	0.7	0.2	EMLC	EM Local Currency Bonds	144%	27%	-71%	125%	38%	-17%	-46%	163%	-63%	0.8	0.3	-0.4	-0.3	0.5	-0.3
XLB	Materials	98%	110%	-108%	65%	42%	-4%	-3%	107%	-7%	0.8	0.6	-0.1	0.0	0.7	-0.1	EMB	EM USD Bonds	79%	50%	-29%	58%	34%	3%	5%	92%	8%	2.0	1.5	0.3	0.1	1.8	0.2
XLRE	Real Estate	88%	184%	-172%	97%	-7%	27%	-16%	89%	11%	0.7	-0.1	0.7	-0.1	0.4	0.1	HYG	High Yield Credit	100%	30%	-30%	76%	39%	-1%	-15%	116%	-16%	3.2	2.1	-0.1	-0.4	2.7	-0.4
XLU	Utilities	78%	114%	-93%	38%	24%	18%	20%	61%	39%	0.4	0.3	0.5	0.2	0.3	0.2	BNDX	International Aggregate	72%	29%	-1%	69%	21%	-6%	17%	89%	11%	1.1	0.3	-0.3	0.3	0.7	0.1
SPHD	Dividend Companders	80%	61%	-40%	52%	25%	13%	10%	77%	23%	0.9	0.5	0.6	0.1	0.7	0.2	BWX	International Bonds	97%	23%	-20%	74%	23%	-17%	20%	97%	3%	0.9	0.3	-0.6	0.3	0.6	0.0
IWF	Growth	92%	75%	-67%	49%	47%	1%	3%	96%	4%	0.8	0.8	0.0	0.0	0.8	0.0	LQD	Investment Grade Credit	70%	29%	1%	51%	27%	-1%	23%	78%	22%	1.4	0.7	-0.1	0.7	1.1	0.5
SPHB	High Beta	143%	122%	-164%	66%	41%	2%	-9%	107%	-7%	0.7	0.6	0.1	-0.1	0.6	-0.1	BKLN	Leveraged Loans	107%	36%	-43%	72%	53%	2%	-28%	126%	-26%	3.7	3.6	0.3	-0.6	3.6	-0.5
IWB	Large Caps	79%	53%	-32%	44%	29%	16%	12%	72%	28%	0.7	0.5	0.6	0.1	0.6	0.3	MBB	MBS	69%	19%	11%	36%	17%	8%	40%	52%	48%	1.4	0.5	0.5	1.9	0.9	1.2
SPLV	Low Beta	90%	70%	-60%	54%	45%	5%	-4%	100%	0%	0.8	0.8	0.2	-0.1	0.8	0.0	PFF	Preferreds	126%	23%	-48%	99%	58%	-3%	-55%	157%	-57%	0.9	0.8	-0.1	-0.4	0.8	-0.4
QQQ	Mega Cap Growth	79%	95%	-74%	40%	43%	3%	14%	83%	17%	0.7	0.9	0.2	0.2	0.8	0.2	PDBA	Agriculture	99%	78%	-77%	81%	88%	9%	-78%	169%	-69%	0.6	0.7	0.2	-0.7	0.7	-0.5
IWR	Mid Caps	102%	55%	-58%	59%	44%	5%	-8%	103%	-3%	1.0	0.9	0.2	-0.1	1.0	0.0	FXA	Australian Dollar	329%	88%	-317%	159%	175%	-67%	-167%	334%	-234%	0.3	0.4	-0.4	-0.3	0.4	-0.4
MTUM	Momentum	90%	46%	-36%	54%	45%	-1%	2%	99%	1%	1.1	1.0	0.0	0.0	1.0	0.0	DBB	Base Metals	263%	25%	-188%	100%	158%	-18%	-141%	259%	-159%	1.0	1.5	-0.5	-1.5	1.2	-1.2
QUAL	Quality	80%	47%	-27%	44%	37%	3%	15%	81%	19%	0.9	0.8	0.2	0.3	0.9	0.2	Bitcoin	Bitcoin	98%	28%	-27%	63%	46%	-8%	-1%	109%	-9%	1.3	1.3	-0.8	0.0	1.3	-0.2
IWM	Small Caps	112%	68%	-80%	63%	50%	4%	-16%	113%	-13%	0.8	0.8	0.1	-0.2	0.8	-0.1	FXB	British Pound	2584%	-418%	-2265%	186%	242%	-30%	-498%	428%	-528%	0.3	0.5	-0.1	-1.1	0.4	-0.8
IWD	Value	125%	44%	-69%	64%	44%	10%	-17%	108%	-8%	0.8	0.6	0.3	-0.2	0.7	-0.1	FXC	Canadian Dollar	316%	40%	-257%	268%	195%	-84%	-279%	463%	-363%	0.5	0.4	-0.5	-0.6	0.4	-0.5
EWA	Australia	85%	67%	-52%	65%	53%	7%	-25%	118%	-18%	0.8	0.7	0.2	-0.2	0.7	-0.1	PDBC	Commodities	159%	97%	-156%	94%	130%	-7%	-118%	224%	-124%	1.1	1.3	-0.2	-1.4	1.2	-1.1
EWZ	Brazil	207%	203%	-310%	87%	51%	9%	-47%	138%	-38%	0.6	0.4	0.2	-0.3	0.5	-0.2	USO	Crude Oil	149%	115%	-164%	57%	138%	6%	-101%	195%	-95%	0.5	1.5	0.1	-0.9	0.9	-0.6
EWC	Canada	113%	79%	-91%	59%	64%	1%	-24%	123%	-23%	0.8	0.9	0.0	-0.2	0.8	-0.2	Ethereum	Ethereum	123%	68%	-91%	80%	72%	-60%	8%	152%	-52%	0.4	0.4	-0.9	0.0	0.4	-0.2
FXI	China	274%	259%	-433%	85%	83%	-20%	-48%	169%	-69%	0.4	0.5	-0.3	-0.2	0.5	-0.2	FXE	Euro	347%	-32%	-216%	444%	52%	11%	-408%	496%	-396%	0.5	0.1	0.0	-0.5	0.3	-0.4
GNR	Commodity Producers	89%	130%	-119%	24%	58%	11%	7%	82%	18%	0.3	0.7	0.3	0.1	0.5	0.1	GLD	Gold	89%	59%	-49%	45%	26%	14%	14%	72%	28%	0.8	0.5	0.7	0.3	0.7	0.4
EEM	Emerging Markets	196%	76%	-172%	107%	76%	-17%	-67%	184%	-84%	1.1	0.9	-0.4	-0.6	1.0	-0.5	FXV	Japanese Yen	372%	94%	-566%	-1453%	-384%	-3829%	5766%	-1837%	1937%	-0.1	0.0	-0.7	0.4	-0.1	0.1
EZU	Eurozone	204%	87%	-191%	110%	49%	8%	-67%	159%	-59%	0.7	0.4	0.2	-0.4	0.5	-0.3	SLV	Silver	78%	79%	-57%	41%	34%	15%	10%	75%	25%	0.6	0.5	0.6	0.2	0.5	0.3
ACWX	Global Equities	167%	70%	-137%	110%	71%	-2%	-78%	181%	-81%	0.9	0.7	-0.1	-0.6	0.8	-0.5	FXF	Swiss Franc	133%	-17%	-16%	88%	20%	5%	-12%	107%	-7%	0.7	0.2	0.1	-0.1	0.4	0.0
INDA	India	111%	38%	-49%	65%	55%	6%	-27%	120%	-20%	1.3	1.0	0.3	-0.5	1.1	-0.3	SRUUF	Uranium	49%	53%	-1%	-66%	-33%	0%	-1%	-99%	-1%	-0.2	-0.1	0.0	0.0	-0.1	0.0
EWJ	Japan	117%	131%	-148%	47%	83%	10%	-40%	130%	-30%	0.4	0.7	0.2	-0.3	0.5	-0.2	UUP	US Dollar	1506%	820%	-2226%	-144%	-15%	37%	222%	-159%	259%	-0.4	0.0	0.3	0.7	-0.2	0.6
EWU	United Kingdom	172%	57%	-129%	70%	19%	38%	-27%	89%	11%	0.4	0.1	0.6	-0.1	0.3	0.0	BIGPX	60/40 Portfolio	93%	52%	-45%	100%	48%	-15%	-34%	148%	-48%	0.9	0.5	-0.3	-0.2	0.7	-0.2

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Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98.

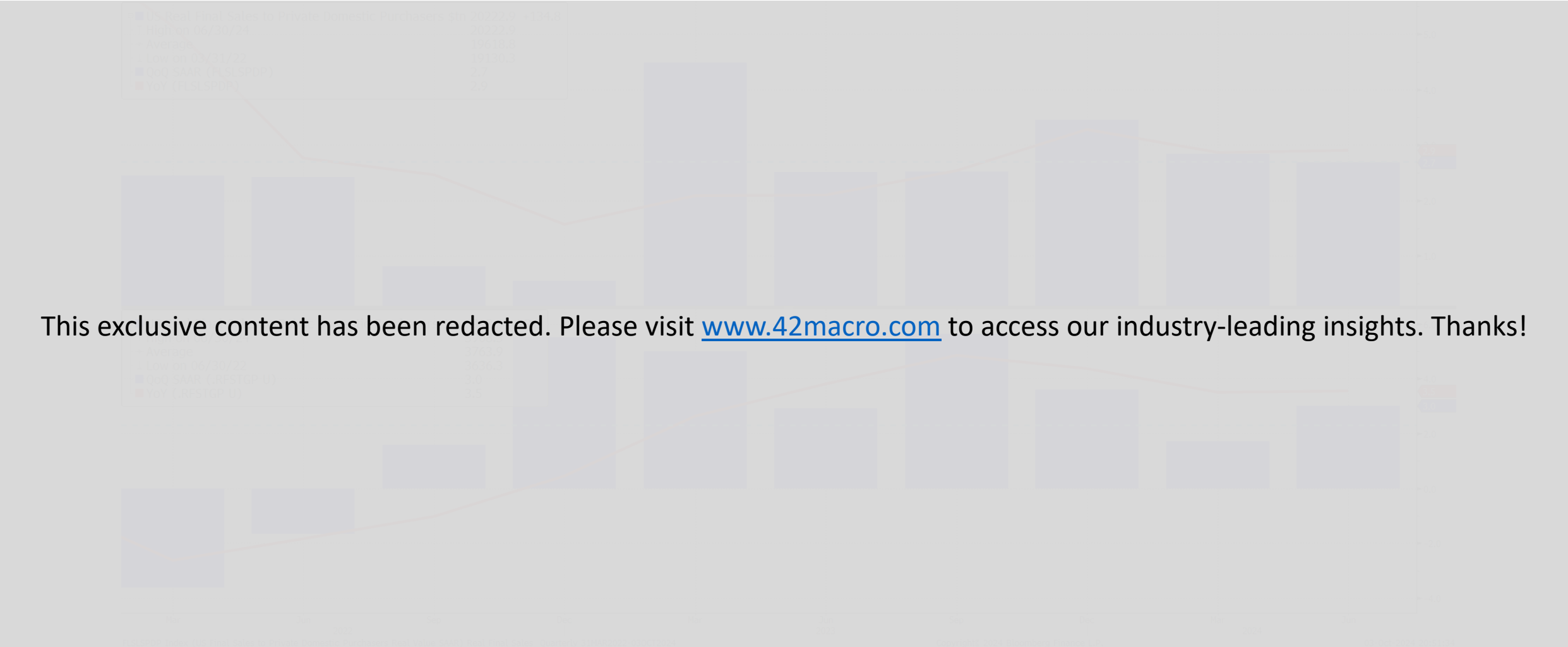
**GOLDILOCKS** = risk on with a disinflationary bias. **REFLATION** = risk on with an inflationary bias.

**INFLATION** = risk off with an inflationary bias. **DEFLATION** = risk off with a disinflationary bias.



# Modal Outcome

# Our “Resilient US Economy” Theme Persists



# There Are Six Pillars Upholding Our “Resilient US Economy”

## Theme: 1) A Historically Strong Household Sector Balance Sheet

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# There Are Six Pillars Upholding Our “Resilient US Economy”

## Theme: 2a) The “West Village-Montauk Effect”

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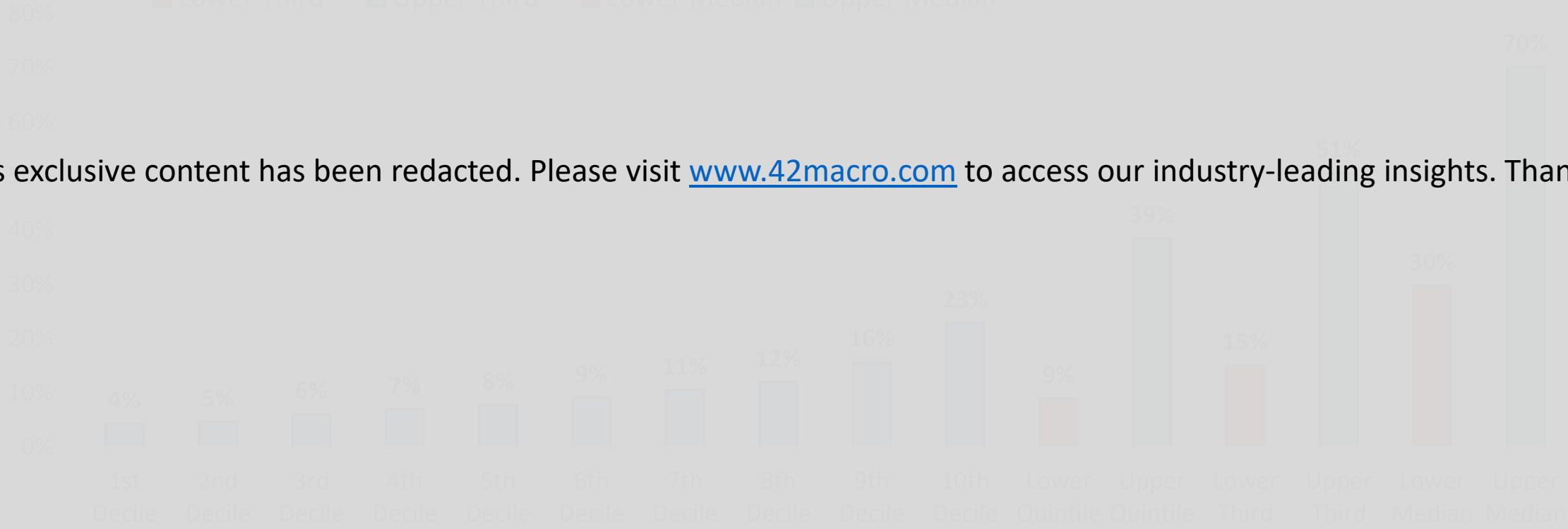
# There Are Six Pillars Upholding Our “Resilient US Economy”

## Theme: 2b) The “West Village-Montauk Effect”

Share of US Consumer Spending by Income Cohorts

- 1st Decile
- 2nd Decile
- 3rd Decile
- 4th Decile
- 5th Decile
- 6th Decile
- 7th Decile
- 8th Decile
- 9th Decile
- 10th Decile
- Lower Quintile
- Upper Quintile
- Lower Third
- Upper Third
- Lower Median
- Upper Median

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# There Are Six Pillars Upholding Our “Resilient US Economy”

## Theme: 3) A Historically Strong Corporate Sector Balance Sheet

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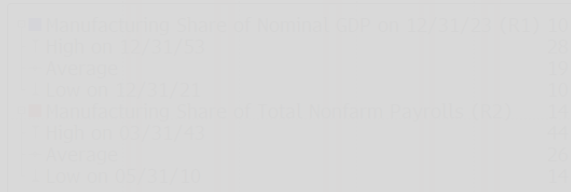
# There Are Six Pillars Upholding Our “Resilient US Economy” Theme: 4) Limited Exposure To The Policy Rate

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# There Are Six Pillars Upholding Our “Resilient US Economy”

## Theme: 5) Limited Exposure To The Volatile Manufacturing Sector

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# There Are Six Pillars Upholding Our “Resilient US Economy”

## Theme: 6) “Jay Wants A Soft Landing”



- Jay Powell at the National Association of Business Economics (NABE) on 9/30/24: *“Our goal all along has been to restore price stability without the kind of painful rise in unemployment that has frequently accompanied efforts to bring down high inflation. While the task is not complete, we have made a good deal of progress toward that outcome.”*
- While Powell signaled that the path to a “more neutral” policy setting is “not on a preset course”, our reading of the tea leaves indicates that the near-term path to lower rates is likely far more preset than Powell was willing to admit: *“We do not believe that we need to see further cooling in labor market conditions to achieve 2% inflation.”*

# We Are Currently On Team No Landing In The Soft Landing vs. Hard Landing vs. No Landing Debate

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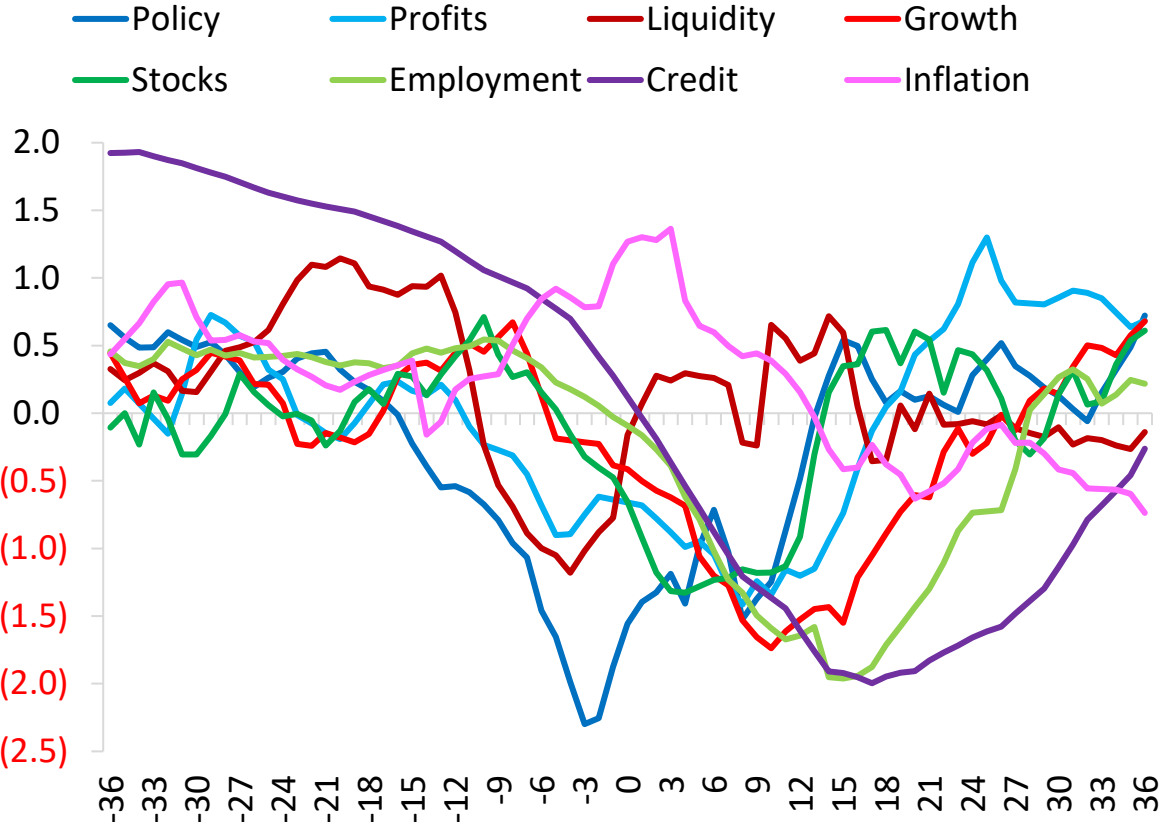
Indicators that lead in business cycle downturns and business cycle upturns are shaded blue.

All underlying time series = 3MMA of YoY % change unless otherwise denoted.

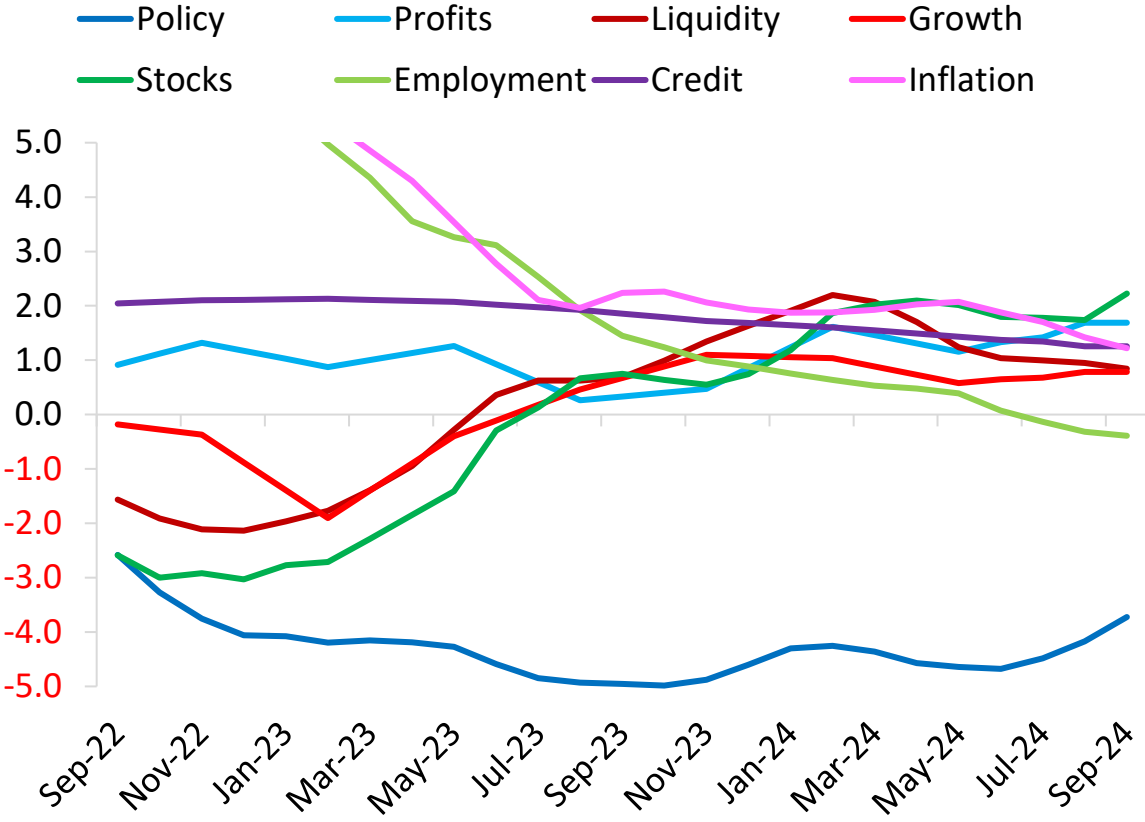
"Delta-Adjusted" = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

# Persistent Leading Indicators Of The Business Cycle Signal Limited Risk Of A Recession Over The Medium Term

Median Trailing 10yr Delta-Adjusted Z-Score n- Months Before/After A Recession Begins



Delta-Adjusted Z-Score Of Select Real And Financial Economy Cycles



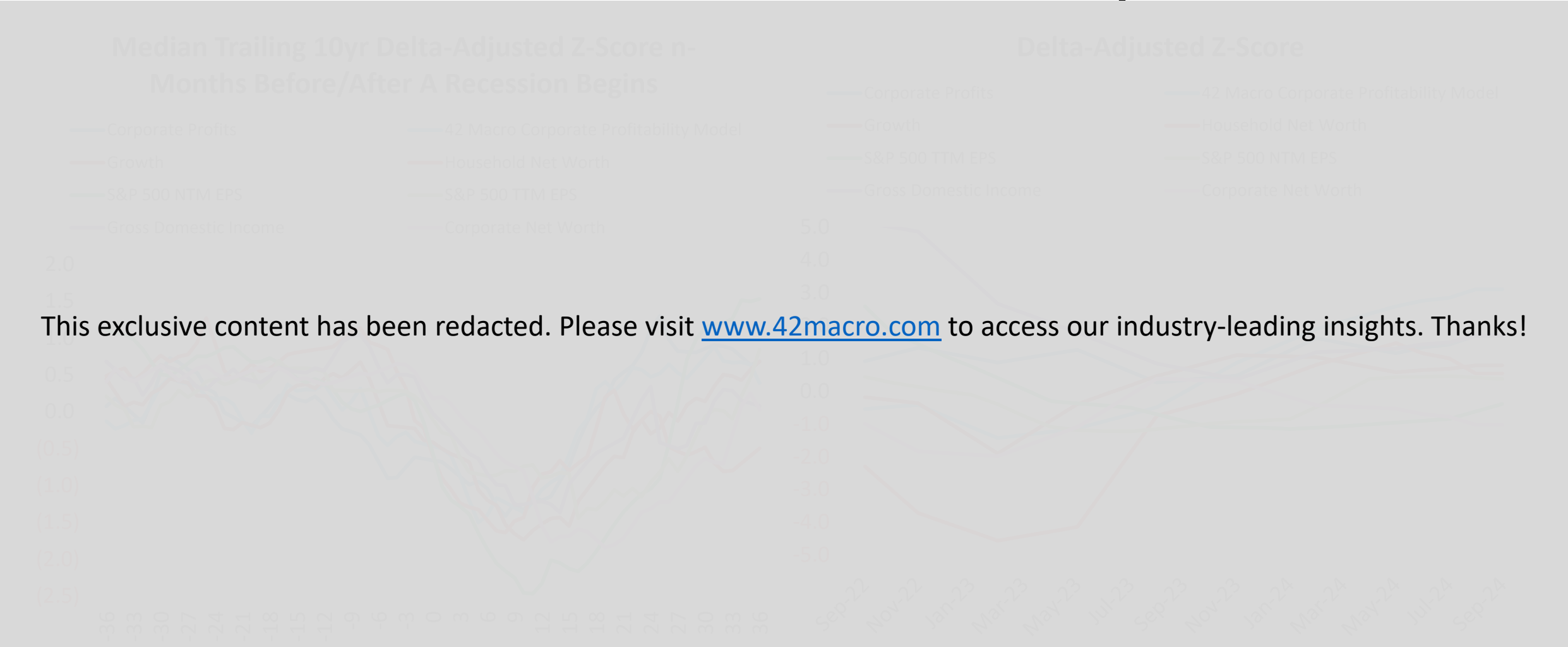
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Accelerating/Moderating Upturn: above-trend and increasing/decreasing. Accelerating/Moderating Downturn: below-trend and decreasing/increasing.

All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

"Delta-Adjusted" = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

# Persistent Leading Indicators Of The Business Cycle Signal Limited Risk Of A Recession Over The Medium Term: Corporate Profits



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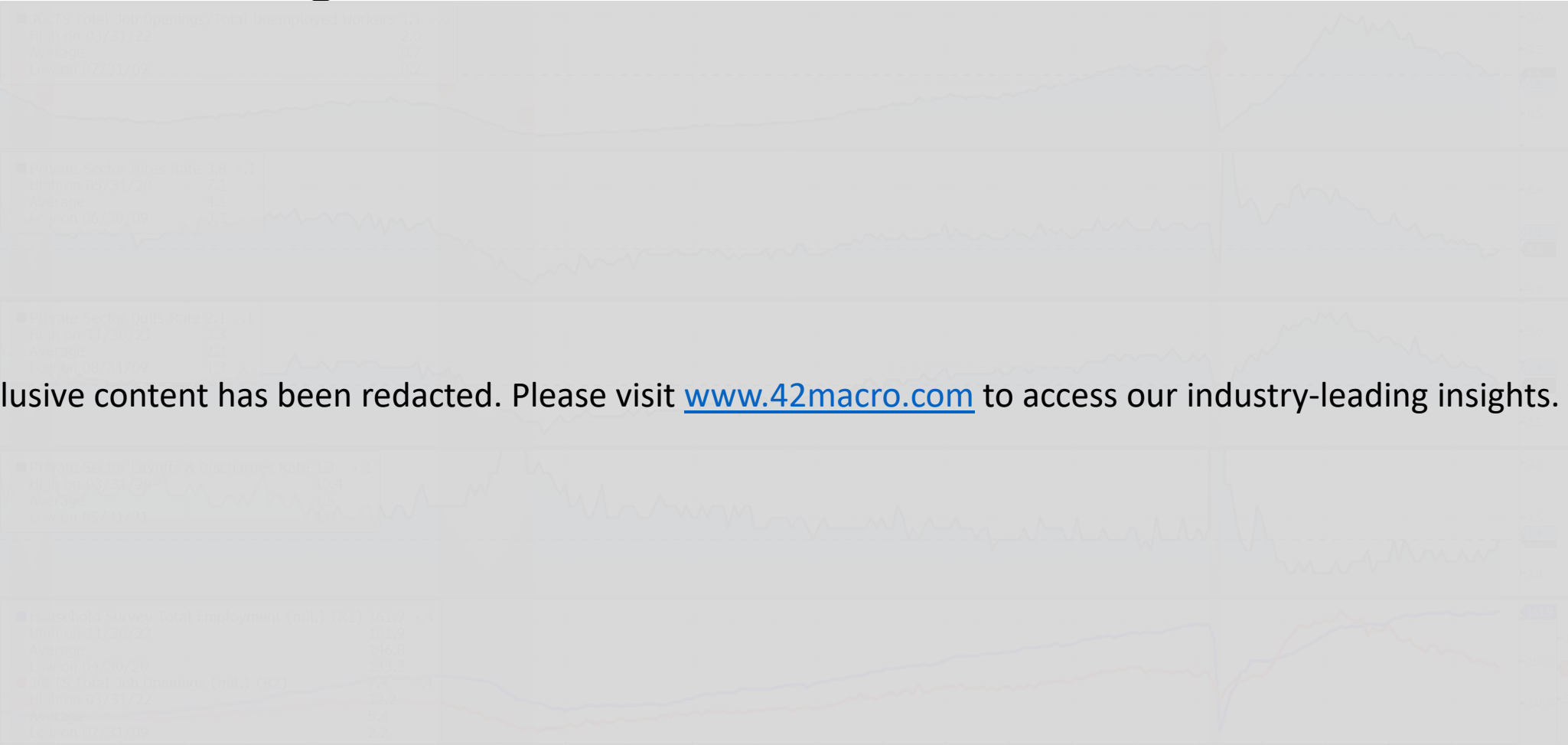
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# The Corporate Profits Cycle Upturn Is Likely Contributing To The “Labor Hoarding” Phenomenon

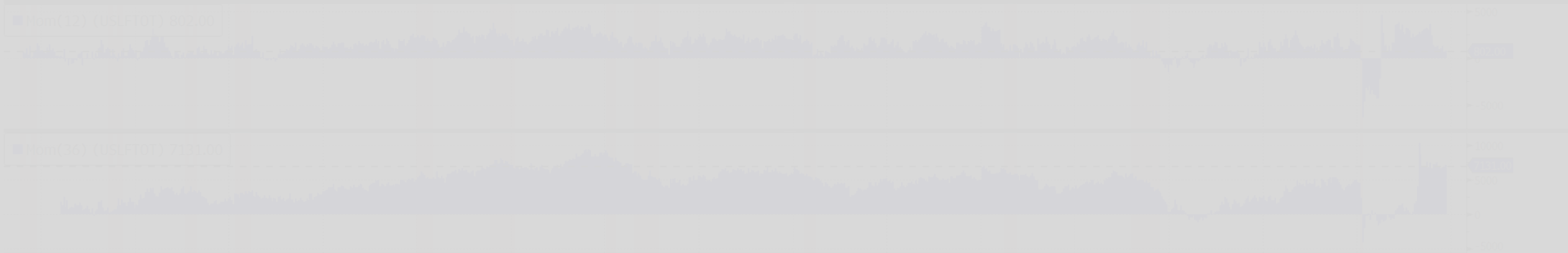


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# Structurally Depressed Labor Supply Is Likely Contributing To The “Labor Hoarding” Phenomenon As Well



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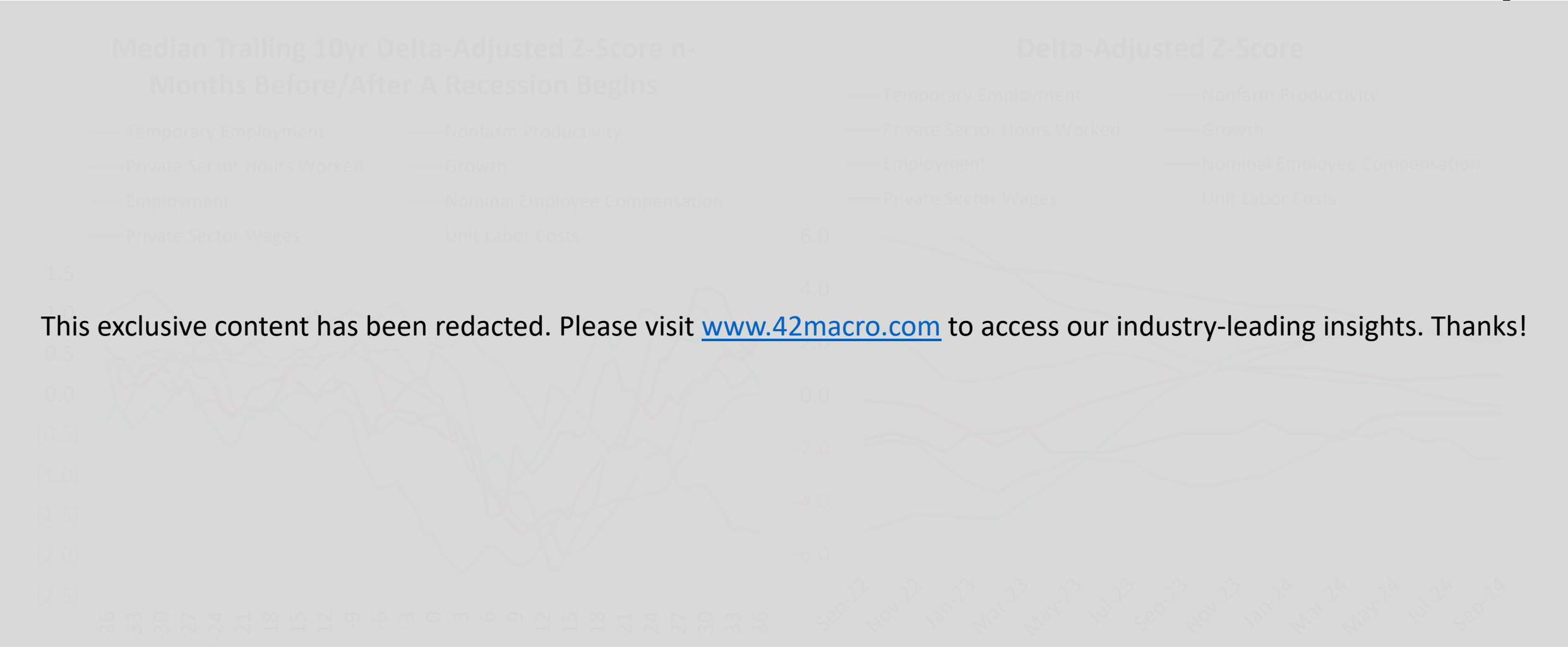
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The latest **Labor Force Participation Rate** is on par with the structurally depressed levels of the mid-1970s.  
The latest **Employment-to-Population Ratio** is on par with the structurally depressed levels of the mid-1980s.

# “Labor Hoarding” Is Likely To Persist For At Least As Long As The Corporate Profits Cycle Upturn Persists

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# Persistent Leading Indicators Of The Business Cycle Signal Limited Risk Of A Recession Over The Medium Term: Nonfarm Productivity



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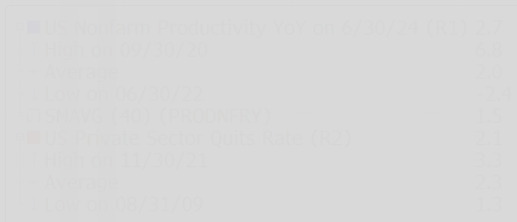
All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

“Delta-Adjusted” = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.



# The Work-From-Home Phenomenon Is Lowering Labor Turnover And Boosting Productivity As Workers Accumulate Experience

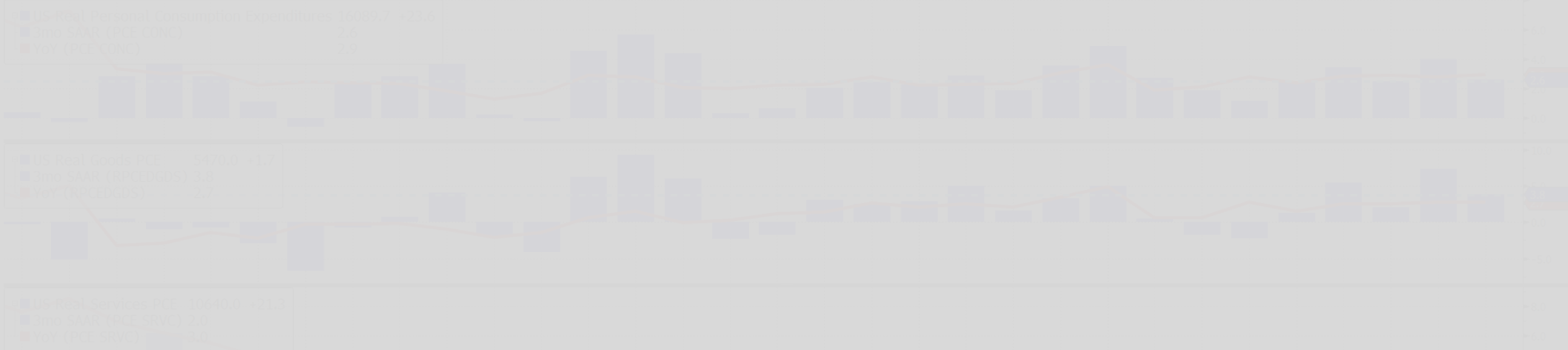
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# The US Private Sector Is Currently Full Of Productive Workers Generating At-Trend Income Growth

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# The US Consumer Should Hang In There As Long As Income Growth Continues



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# The September Monthly Federal Budget Statement Was Modestly Supportive Of Our “Resilient US Economy” Theme

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# The Biden Administration Is Supporting Their Preferred Candidate With A Well-Timed Positive Fiscal Impulse

US Fiscal Policy Monitor	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
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2023 COLA = 8.7%. 2024 COLA = 3.2%.

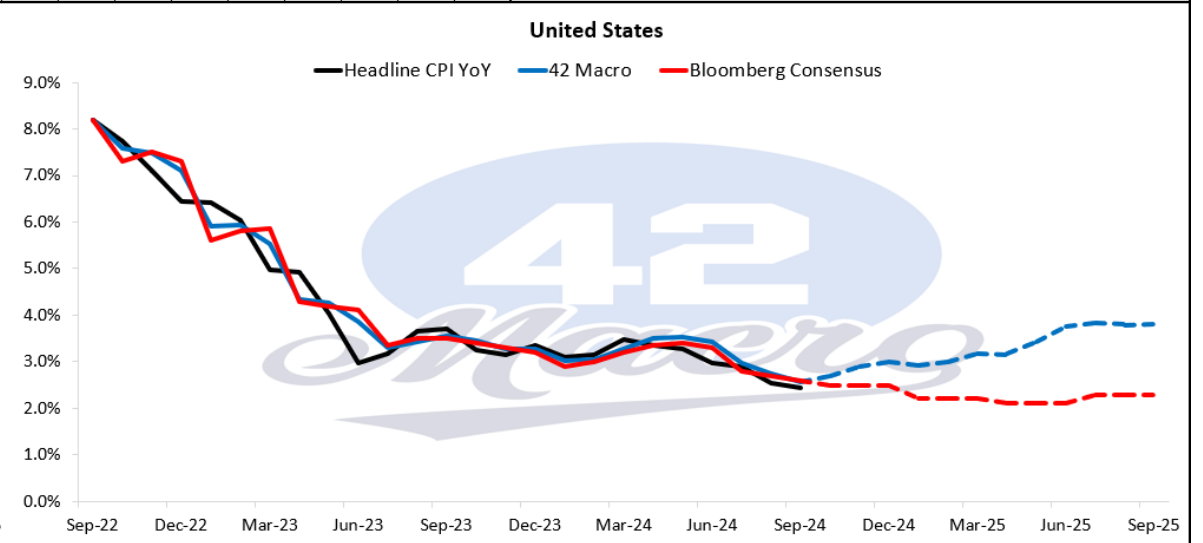
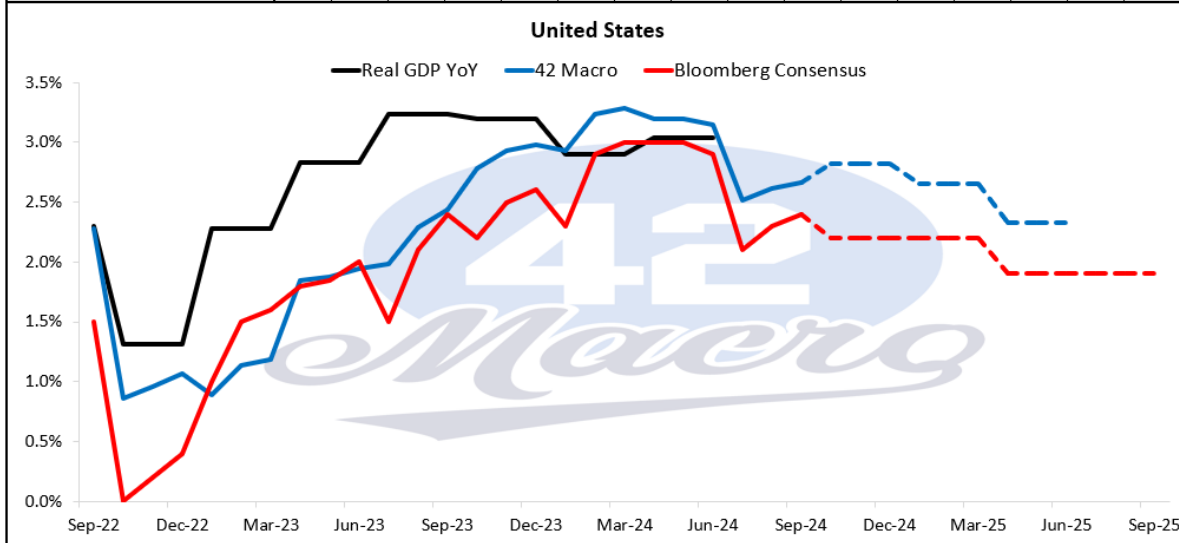
YoY Nominal Δ in the Calendar YTD Federal Budget Deficit =

+\$389bn in Mar-23, +\$834bn in Jun-23, +\$276bn in Sep-23, +\$364bn in Dec-23, +\$284bn in Aug-24, and +\$49bn in Sep-24.



# All Told, We Expect US Growth To Generally And Persistently Surprise To The Upside Over The Medium Term

United States	10-22	11-22	12-22	1-23	2-23	3-23	4-23	5-23	6-23	7-23	8-23	9-23	10-23	11-23	12-23	1-24	2-24	3-24	4-24	5-24	6-24	7-24	8-24	9-24	10-24	11-24	12-24	1-25	2-25	3-25	4-25	5-25	6-25	7-25	8-25	9-25			
<b>Bottom-Up Macro Regime</b>	D	D	D	D	G	G	G	G	G	G	G	G	R	I	D	D	D	I	I	R	R	G																	
42 Macro	I	D	D	D	G	G	G	G	G	G	G	G	R	G	G	G	G	G	G	R	I	I	D	D	D														
Hit Rate (t10yrs; Luck = 25%)	48%	49%	50%	51%	52%	53%	53%	54%	55%	56%	57%	58%	58%	57%	56%	56%	56%	56%	56%	57%	57%	57%																	
Bloomberg Consensus	I	D	D	D	G	G	G	G	G	G	D	G	G	R	G	G	G	R	R	I	I	D	D	D															
Hit Rate (t10yrs; Luck = 25%)	38%	38%	39%	40%	41%	42%	43%	43%	44%	45%	45%	46%	46%	46%	45%	45%	45%	45%	45%	46%	47%	47%																	
<b>Real GDP YoY</b>	2.3%	1.3%	1.3%	1.3%	2.3%	2.3%	2.3%	2.8%	2.8%	2.8%	3.2%	3.2%	3.2%	3.2%	3.2%	2.9%	2.9%	2.9%	3.0%	3.0%	3.0%																		
42 Macro	2.3%	0.9%	1.0%	1.1%	0.9%	1.1%	1.2%	1.8%	1.9%	1.9%	2.0%	2.3%	2.4%	2.8%	2.9%	3.0%	3.2%	3.3%	3.2%	3.2%	3.1%	2.5%	2.6%	2.7%															
Z-Score (vs. 2015-19 Trend)	-0.4	-3.3	-3.1	-2.9	-3.2	-2.7	-2.6	-1.3	-1.2	-1.1	-1.0	-0.4	-0.1	0.6	0.9	1.0	0.9	1.6	1.7	1.5	1.5	1.4	0.1	0.3	0.4														
Directional Accuracy (t10yrs; Luck = 50%)	63%	65%	65%	65%	65%	65%	68%	68%	68%	70%	70%	70%	68%	68%	68%	70%	70%	70%	70%	70%	70%																		
Average Absolute Forecast Error (t10yrs)	71bps	70bps	70bps	69bps	70bps	71bps	72bps	72bps	73bps	74bps	74bps	75bps	75bps	74bps	74bps	73bps	72bps	72bps	71bps	71bps	71bps																		
Bloomberg Consensus	1.5%	0.0%	0.2%	0.4%	1.0%	1.5%	1.6%	1.8%	1.9%	2.0%	1.5%	2.1%	2.4%	2.2%	2.5%	2.6%	2.3%	2.9%	3.0%	3.0%	2.9%	2.1%	2.3%	2.4%															
Z-Score (vs. 2015-19 Trend)	-1.8	-4.7	-4.3	-3.9	-2.8	-1.8	-1.6	-1.2	-1.1	-0.8	-1.8	-0.6	-0.1	-0.4	0.1	0.3	-0.3	0.9	1.1	1.1	0.9	-0.6	-0.3	-0.1															
Directional Accuracy (t10yrs; Luck = 50%)	58%	60%	60%	60%	63%	63%	63%	65%	65%	65%	65%	65%	65%	65%	65%	68%	68%	68%	68%	68%	68%																		
Average Absolute Forecast Error (t10yrs)	74bps	74bps	74bps	73bps	74bps	74bps	75bps	75bps	76bps	77bps	78bps	78bps	79bps	79bps	79bps	78bps	77bps	75bps	75bps	75bps	75bps																		
<b>Headline CPI YoY</b>	8.2%	7.7%	7.1%	6.5%	6.4%	6.0%	5.0%	4.9%	4.0%	3.0%	3.2%	3.7%	3.7%	3.2%	3.1%	3.4%	3.4%	3.5%	3.4%	3.3%	3.0%	2.9%	2.5%	2.4%															
42 Macro	8.2%	7.6%	7.5%	7.1%	5.9%	5.9%	5.5%	4.3%	4.3%	3.9%	3.3%	3.4%	3.6%	3.5%	3.3%	3.0%	3.0%	3.3%	3.5%	3.5%	3.4%	3.0%	2.7%	2.6%															
Z-Score (vs. 2015-19 Trend)	8.0	7.2	7.1	6.7	5.2	5.3	4.8	3.3	3.3	2.7	2.1	2.2	2.4	2.3	2.1	1.8	1.8	2.0	2.3	2.3	2.2	1.7	1.4	1.2															
Directional Accuracy (t10yrs; Luck = 50%)	69%	69%	70%	70%	70%	71%	71%	72%	73%	72%	73%	73%	73%	73%	73%	73%	73%	73%	72%	71%	71%	72%	72%	72%															
Average Absolute Forecast Error (t10yrs)	26bps	26bps	26bps	26bps	27bps	26bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps	27bps															
Bloomberg Consensus	8.2%	7.3%	7.5%	7.3%	5.6%	5.8%	5.9%	4.3%	4.2%	4.1%	3.4%	3.5%	3.5%	3.4%	3.3%	3.2%	2.9%	3.0%	3.2%	3.4%	3.4%	3.3%	2.8%	2.6%															
Z-Score (vs. 2015-19 Trend)	8.1	7.0	7.2	7.0	4.9	5.1	5.2	3.3	3.2	3.0	2.1	2.3	2.3	2.2	2.1	1.9	1.6	1.7	1.9	2.1	2.2	2.1	1.4	1.3	1.2														
Directional Accuracy (t10yrs; Luck = 50%)	58%	58%	58%	59%	59%	59%	60%	61%	62%	62%	63%	63%	63%	63%	63%	64%	65%	66%	65%	64%	65%	66%	67%	67%															
Average Absolute Forecast Error (t10yrs)	30bps	30bps	30bps	31bps	31bps	31bps	32bps	32bps	31bps	32bps	32bps	32bps	32bps	32bps	31bps	31bps	31bps	31bps	31bps	31bps	31bps	31bps	31bps	31bps															



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G = **GOLDILOCKS** = growth ↑ and inflation ↓; R = **REFLATION** = growth ↑ and inflation ↑;

I = **INFLATION** = growth ↓ and inflation ↑; and D = **DEFLATION** = growth ↓ and inflation ↓.

The 42 Macro model applies a proprietary methodology to smooth and nowcast quarterly GDP data on a monthly frequency.



# Right Tail Risks

# Rising US And Global Liquidity Is Positive For Asset Markets

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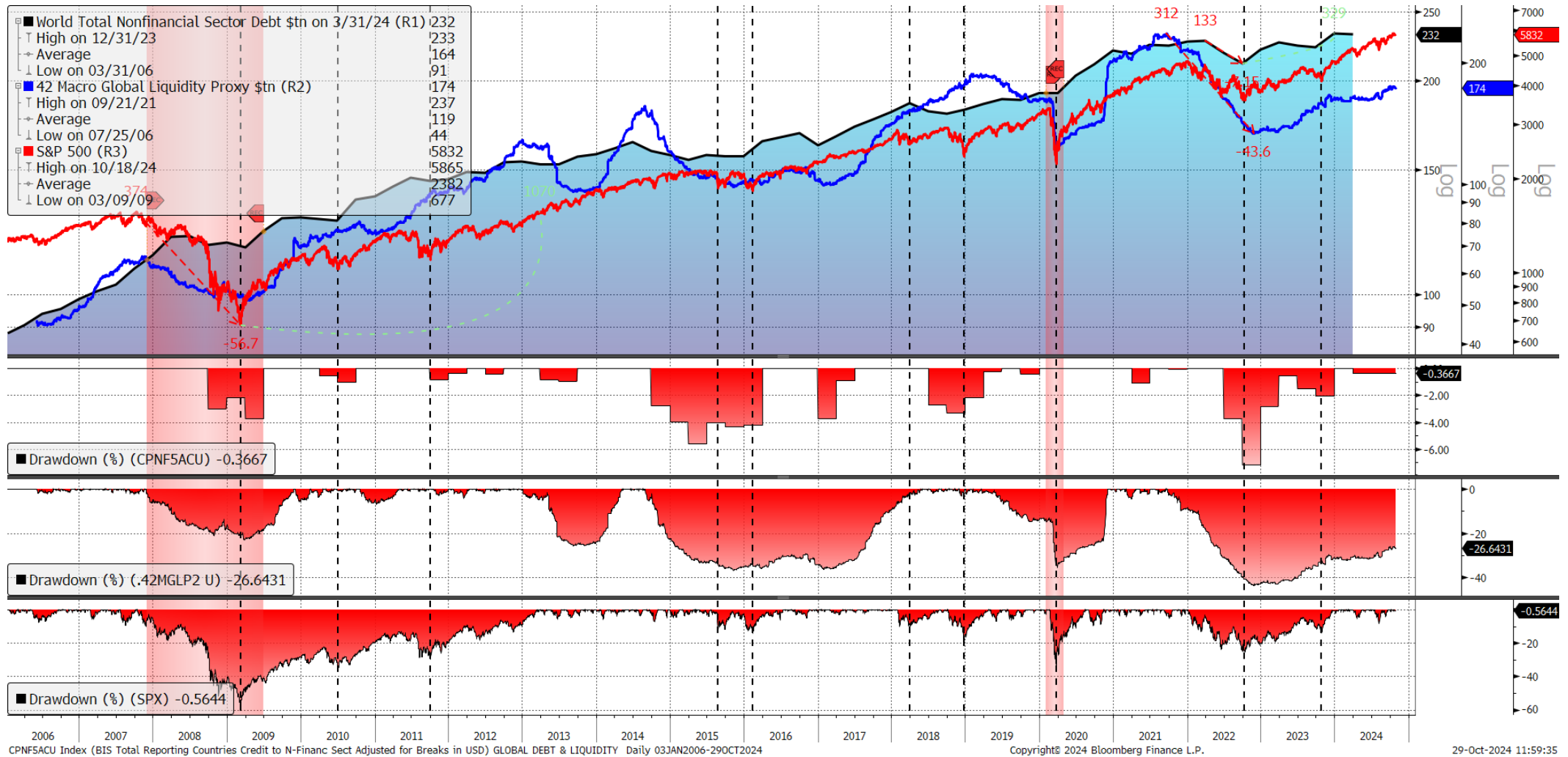


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42 Macro Net Liquidity = Fed Balance Sheet Total Assets - TGA - RRP.

42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) / Log<sub>10</sub>(Bloomberg Global Treasury Bond Aggregate Index Volatility)

# Since The GFC, Risk Assets Have Corrected Or Crashed For Only Two Reasons: 1) Global Refinancing Air Pockets And 2) Declining Global Liquidity; “Volmageddon” Was The Lone Exception



CPNF5ACU Index (BIS Total Reporting Countries Credit to N-Financ Sect Adjusted for Breaks in USD) GLOBAL DEBT & LIQUIDITY Daily 03JAN2006-29OCT2024

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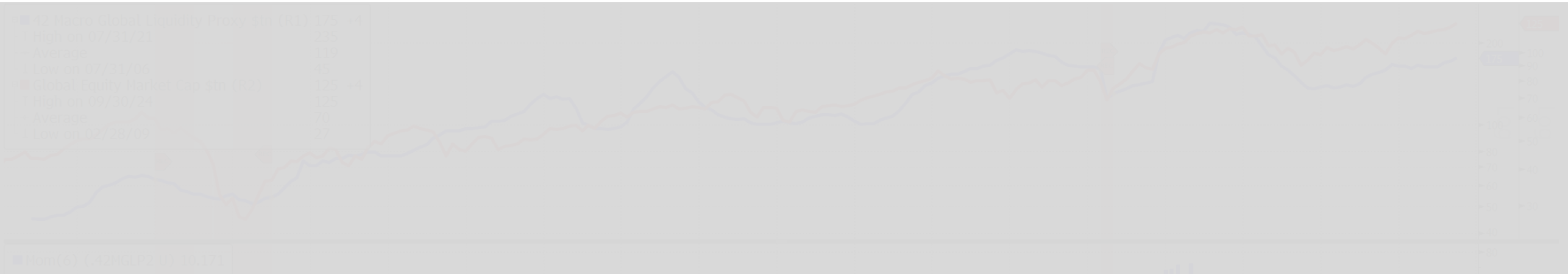
29-Oct-2024 11:59:35

© 42 Macro LLC. Data Source: Bloomberg. Black dotted lines = S&P 500 corrections and crashes since 2007.

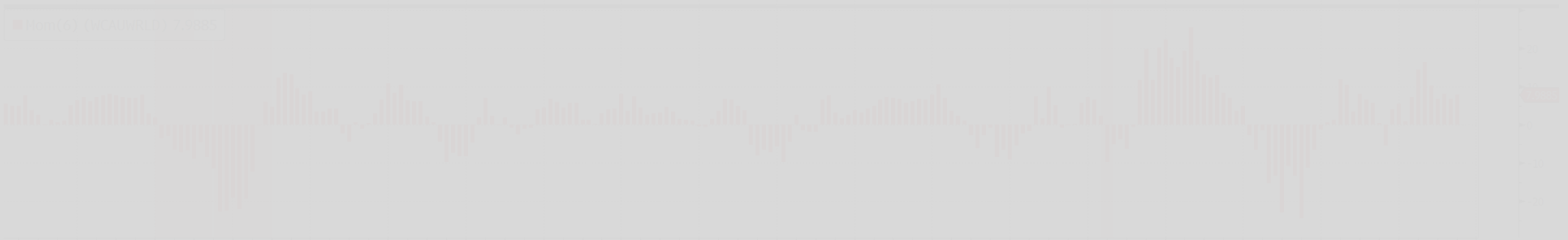
42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) / Log<sub>10</sub>(Bloomberg Global Treasury Bond Aggregate Index Volatility)



# Global Liquidity Is Currently Trending Higher



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42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) /  $\text{Log}_{10}(\text{Bloomberg Global Treasury Bond Aggregate Index Volatility})$

# In Fact, Liquidity Is Currently Trending Higher In Every Major Economy In The World Except Brazil

42 Macro Global Liquidity Monitor (10/29/24)	GROWTH									INFLATION											POLICY											SYSTEMATIC TRADE IDEAS										
	Composite PMI			Consensus R-GDP Exp.			Econ Surprises			Headline CPI YoY			Core CPI YoY*			Consensus H-CPI Exp.			Inflation Surprises			Consensus N-GDP Exp.			Liquidity Proxy			Policy Rate			Fiscal Balance*			Current Account			REER*			Stocks	Bonds	FX
	Delta	Level	Trend*	Delta	Level	Trend*	Delta	Level	Trend	Delta	Level	Trend	Delta	Level	Trend	Delta	Level	Trend*	Delta	Level	Trend	Delta	Level	Trend*	Delta	Level	Trend	Delta	Level	Trend	Delta	Level	Trend	Delta	Level	Trend						
Global	↓	52.0	0.1	→	3.1%	1.4	↑	1	(0.3)	↓	4.7%	0.4	↓	5.2%	0.9	↓	4.0%	1.0	↑	(9)	(0.5)	↓	7.1%	1.6	↑	\$174	0.6	↓	4.16%	1.8	↓	-5.1%	(0.4)	↓	-0.4%	(1.5)	↑	91	(1.5)	n/a	↑	n/a
Australia	↓	49.8	(0.4)	↓	1.6%	(2.0)	↑	34	0.2	↓	2.7%	(0.3)	↓	3.9%	0.8	→	3.1%	0.7	↓	(22)	(0.5)	↓	4.7%	(1.7)	↑	\$2.4	1.2	→	4.34%	2.0	↓	0.4%	0.6	↓	-0.7%	0.1	↓	110	0.9	n/a	n/a	↓
Brazil	↑	55.2	0.9	↑	2.5%	3.4	↓	(3)	(0.3)	↑	4.4%	(0.5)	↑	3.9%	(0.7)	→	3.1%	0.7	↓	(13)	(0.5)	↑	5.6%	2.7	↓	\$2.4	0.1	↑	10.75%	0.3	↑	-9.8%	(0.8)	↓	-1.4%	1.0	↓	104	(1.0)	n/a	n/a	↑
Canada	↓	47.0	(0.8)	↑	1.5%	0.2	↓	(42)	(1.2)	↓	1.6%	(0.5)	↓	2.4%	(0.0)	↓	2.3%	(0.1)	↓	(22)	(0.5)	↓	3.7%	0.5	↑	\$2.2	1.0	↓	3.75%	1.3	↑	-1.2%	0.2	↓	-0.8%	1.0	↓	100	(0.8)	n/a	↑	n/a
China	↓	50.4	(0.2)	↓	4.7%	(0.0)	↑	(5)	(0.0)	↑	0.4%	(1.1)	↓	0.1%	(2.0)	↓	0.9%	(1.5)	↑	(24)	(0.5)	↓	5.6%	(1.2)	↑	\$54.0	1.0	-	3.10%	(2.6)	↑	-4.6%	(0.5)	↓	1.2%	(0.6)	↑	91	(1.9)	↓	↑	n/a
Eurozone	↓	49.7	(0.4)	↓	1.0%	(1.1)	↑	(6)	(0.2)	↓	1.8%	(0.2)	↓	2.7%	0.6	↓	2.2%	(2.1)	↑	(4)	(0.4)	↓	3.1%	(1.6)	↑	\$23.6	0.5	↓	3.25%	1.9	↑	-3.4%	(0.4)	↑	2.5%	0.3	↓	102	1.2	↓	↑	↓
India	↓	58.6	(0.0)	↓	7.4%	1.5	↓	(3)	(0.3)	↑	5.5%	0.4	↑	3.6%	(1.5)	↓	4.7%	(1.7)	↓	(13)	(0.5)	↓	12.0%	1.3	↑	\$3.7	1.6	→	6.50%	0.7	↑	-4.4%	0.3	↓	-0.7%	0.4	↓	99	0.1	↓	↑	n/a
Japan	↓	49.4	(1.1)	↓	0.6%	(1.9)	↓	(20)	(0.7)	↓	2.5%	1.1	↓	2.4%	1.1	↑	2.3%	1.3	↑	8	0.4	↑	2.9%	0.7	↑	\$14.5	(0.1)	↑	0.25%	3.5	↑	-5.2%	(0.1)	↑	4.4%	1.2	↑	74	(1.6)	↓	↓	↑
Switzerland	↑	49.9	(0.4)	→	1.4%	(0.1)	↓	(14)	(0.3)	↓	0.8%	0.2	↓	1.0%	0.6	↓	1.1%	(2.3)	↓	(38)	(1.1)	↓	2.5%	(1.8)	↑	\$3.1	0.2	↓	1.00%	(1.1)	↓	-0.0%	(0.2)	↑	7.1%	0.5	↑	103	1.6	n/a	↑	↓
United Kingdom	↓	51.7	(0.3)	↑	1.2%	0.7	↓	(8)	(0.5)	↓	1.7%	(0.4)	↓	3.2%	0.2	↑	2.5%	0.3	↓	(1)	(0.5)	↑	3.6%	1.0	↑	\$5.1	1.0	↓	5.00%	2.1	↑	-4.2%	0.3	↓	-2.2%	0.7	↑	112	1.4	n/a	n/a	n/a
United States	↑	54.1	(0.1)	↑	2.3%	1.8	↑	26	0.3	↓	2.4%	(0.2)	↑	2.7%	0.1	↓	2.6%	0.1	↓	(5)	(0.2)	↑	4.8%	1.4	↑	\$28.2	0.9	↓	5.00%	1.7	↓	-6.3%	(0.1)	↓	-3.3%	(1.0)	↓	109	1.5	↑	↑	n/a

Intellectual property of 42 Macro LLC. Bloomberg data. Delta = trailing 3mos, except for the 42 Macro Global Liquidity Proxy, which = trailing 6mos. Trend = trailing 10yr Z-Score of latest value, except for the Composite PMI and Blended Consensus Real GDP, Headline CPI, and Nominal GDP Expectations, which are trailing 3yr Z-Scores. Geographies in alphabetical order. The 42 Macro Liquidity Proxy is the nominal \$tn sum of the Central Bank Balance Sheet, Broad Money Supply, and FX Reserves ex-Gold. Citi Economic and Inflation Surprise indices. Sovereign Fiscal Balance and Current Account Balance quoted as shares of Nominal GDP. REER = Real Effective Exchange Rate. \*US Core PCE Deflator. \*Sovereign Fiscal Balance for the World, China, and Japan are annual figures. \*Global REER = inverse USD REER. STI: long/short Stocks = Consensus R-GDP Expectation rising/falling with positive/negative Economic Surprises; long/short Bonds = Consensus H-CPI Expectation falling/rising with negative/positive Inflation Surprises; and long/short FX = Blended N-GDP Expectation rising/falling with a flat-to-up/flat-to-down Policy Rate. Consensus Expectations = blended current and next year.

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42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) / Log<sub>10</sub>(Bloomberg Global Treasury Bond Aggregate Index Volatility).

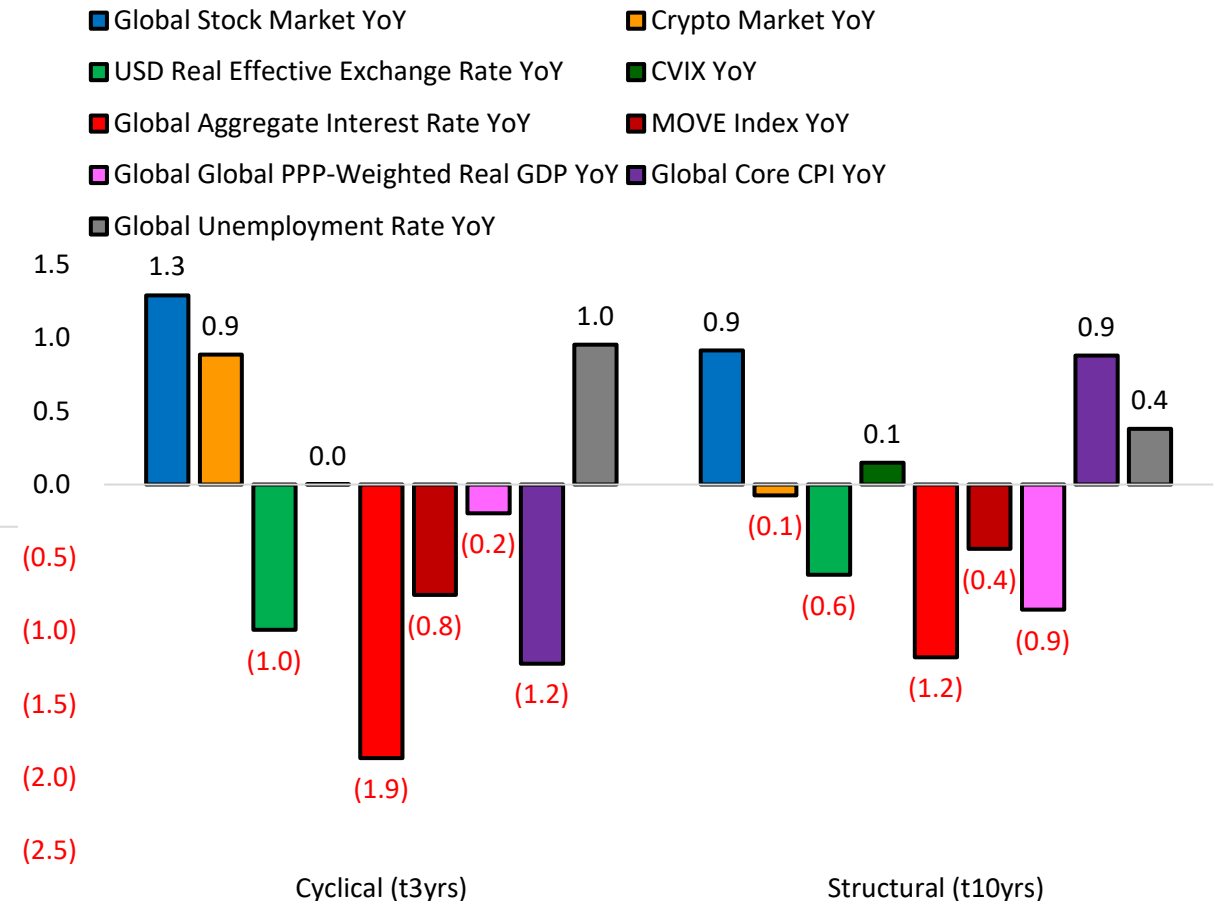
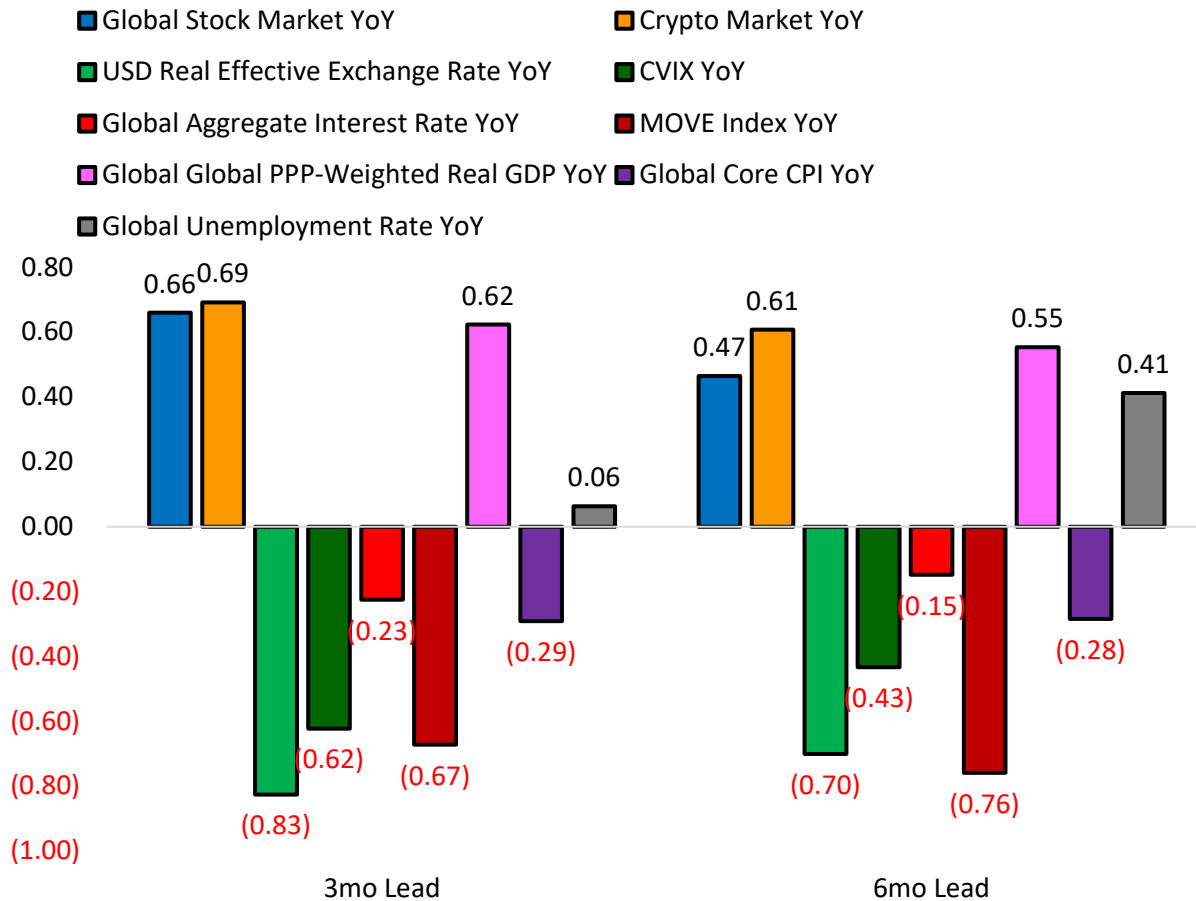
Highlighted systematic trade ideas include changes from the preceding 42 Macro research report.



# What Leads Global Liquidity Over The Medium Term? Stocks, Crypto, US Dollar, FX Vol, Interest Rates, Fixed Income Vol, Growth, Inflation, And Unemployment

Trailing 10yr Correlation of Key Leading Indicators of the YoY % Change of the 42 Macro Global Liquidity Proxy

Z-Scores of the Latest Values of Key Leading Indicators of the 42 Macro Global Liquidity Proxy

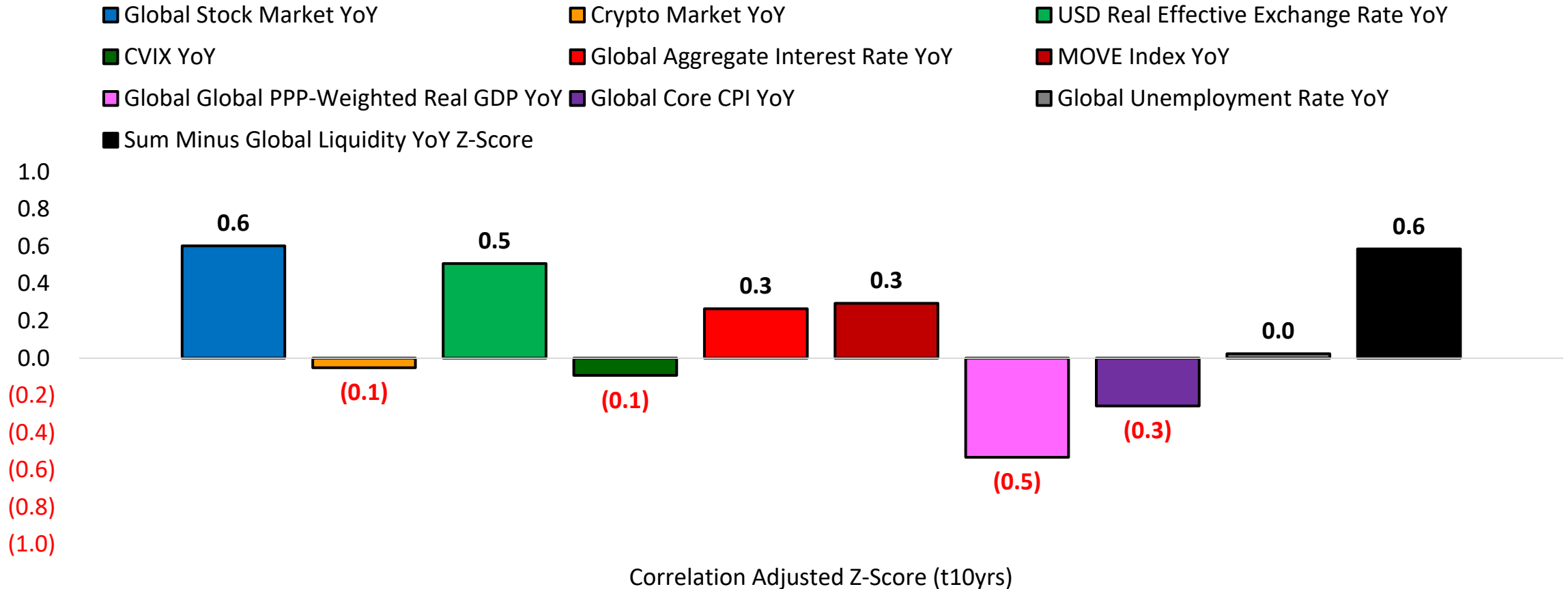


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42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) / Log<sub>10</sub>(Bloomberg Global Treasury Bond Aggregate Index Volatility).

# Key Leading Indicators Of Global Liquidity Signal A Significant Increase Over The Medium Term

Correlation-Adjusted Z-Score (t10yrs) of Key Leading Indicators of the 42 Macro Global Liquidity Proxy

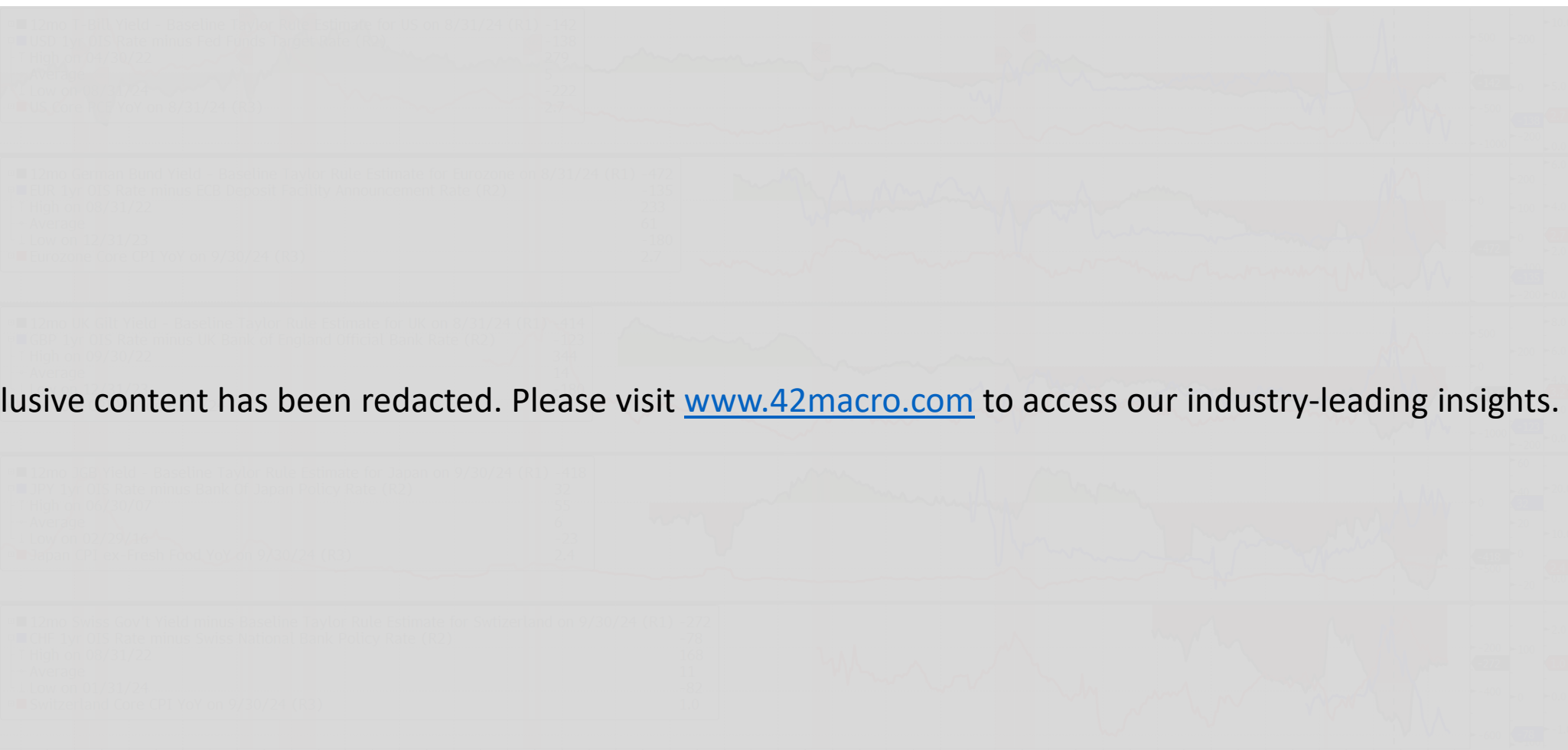


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42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) / Log<sub>10</sub>(Bloomberg Global Treasury Bond Aggregate Index Volatility).

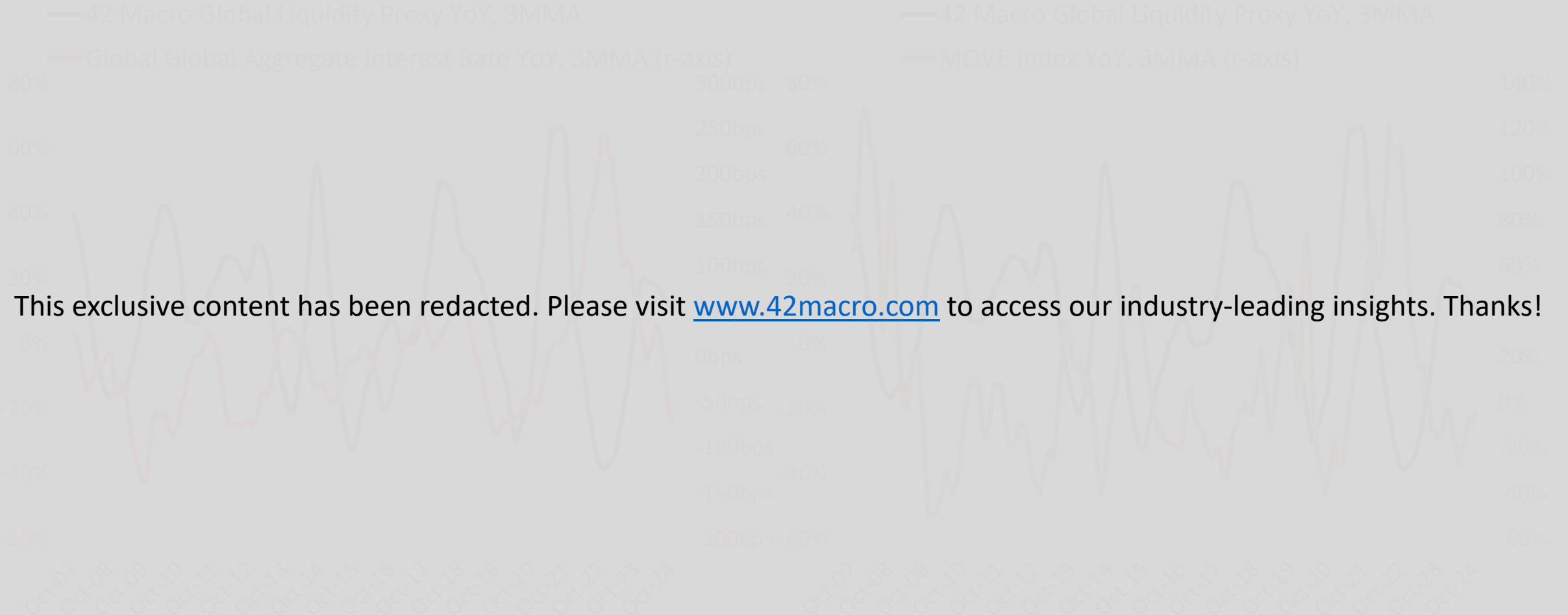
If Sum Minus GLP Z-Score = y = [0.0-0.5], then “modest” increase/decrease. If y = [0.5-1.0], then “significant” increase/decrease.

# The World's Major Central Banks Are Currently Engaged In Globally Coordinated Easing – Either Outright Via Rate Cuts (Fed, ECB, BOE, SNB) Or Directionally Via Forward Guidance (BOJ)



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# Interest Rates And Bond Market Volatility Are Key Countercyclical Leading Indicators Of Global Liquidity



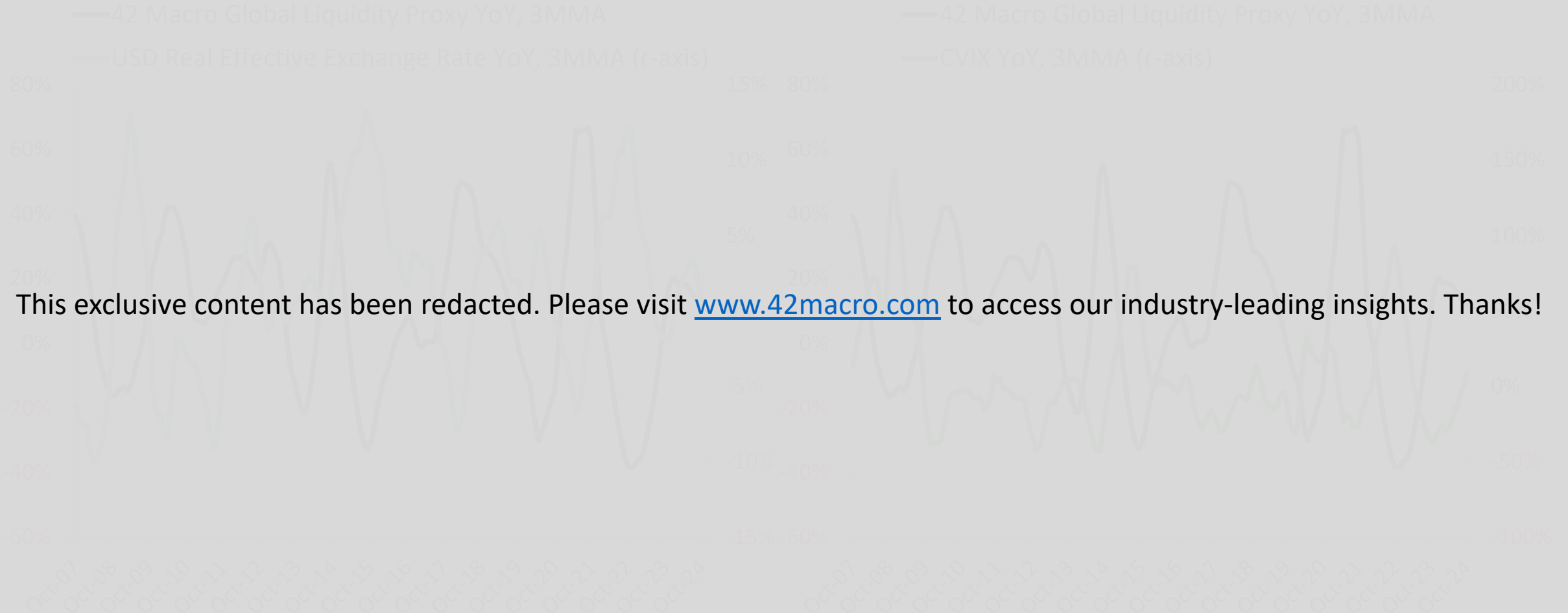
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42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) /  $\text{Log}_{10}(\text{Bloomberg Global Treasury Bond Aggregate Index Volatility})$ .

# Forward Rate Pricing Favors A Weak US Dollar Over The Next 3-6 Months

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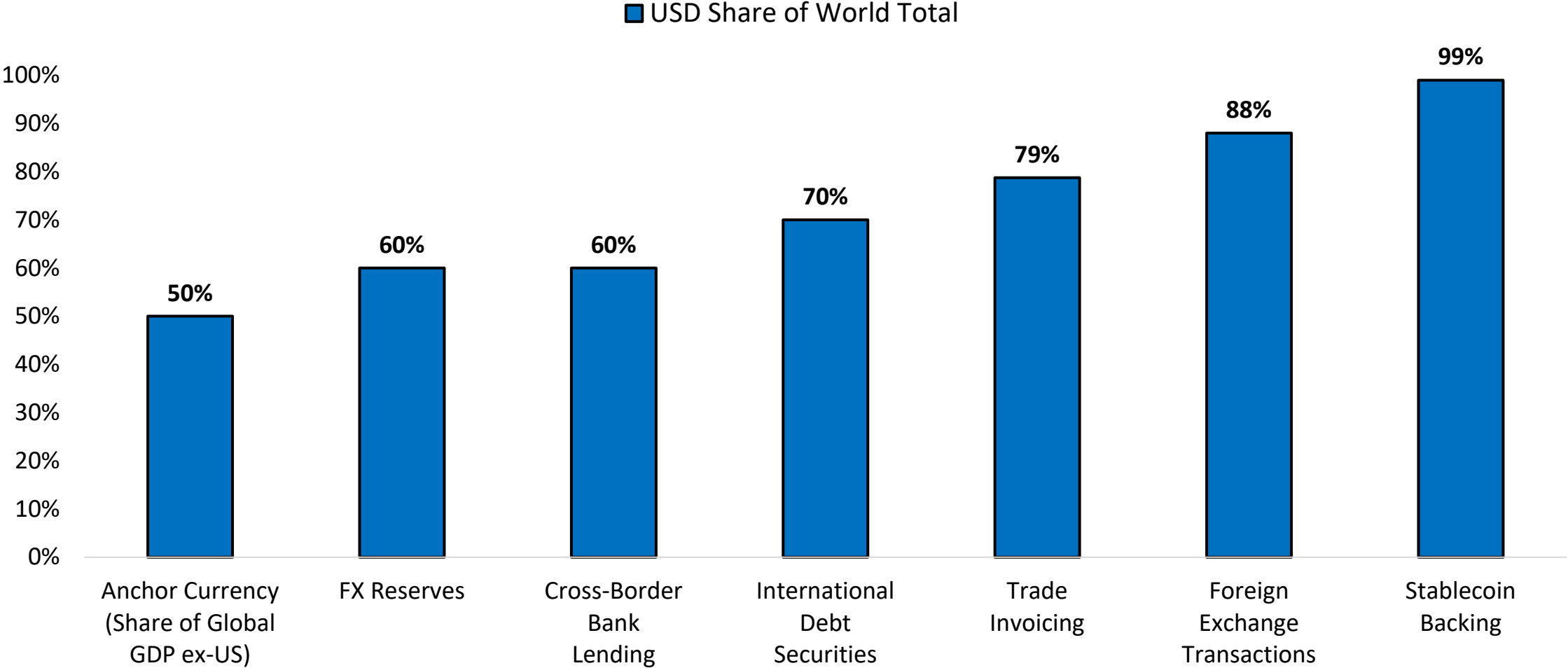
# The US Dollar And Currency Volatility Are Key Countercyclical Leading Indicators Of Global Liquidity



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42 Macro Global Liquidity Proxy = (Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves Minus Gold) /  $\text{Log}_{10}(\text{Bloomberg Global Treasury Bond Aggregate Index Volatility})$ .

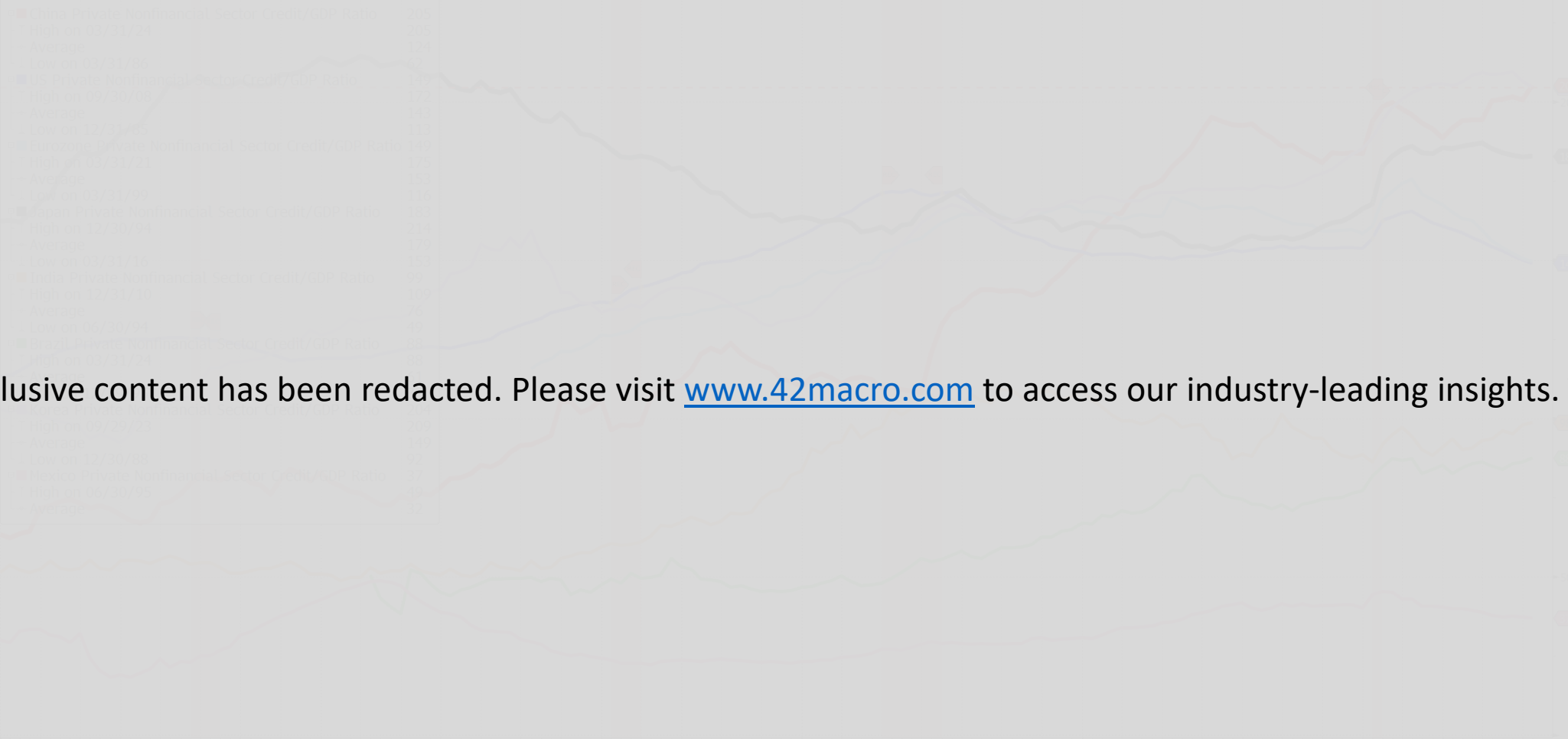
# A Weak Dollar Is Almost Always A Boost To Global Liquidity Via Increases In The Supply And Demand Cross-Border Financing And Increased Recycling Of Global Trade Flows



# The Weak Dollar Catalyzed Over \$500 Billion In Recent Monetary And Fiscal Stimulus Accountments By Beijing

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# China's Stimulus Won't Prevent A Balance Sheet Recession, But It Is Likely To Delay It And Delaying It Is Bullish: Excessive Debt



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# China's Stimulus Won't Prevent A Balance Sheet Recession, But It Is Likely To Delay It And Delaying It Is Bullish: Capital Misallocation

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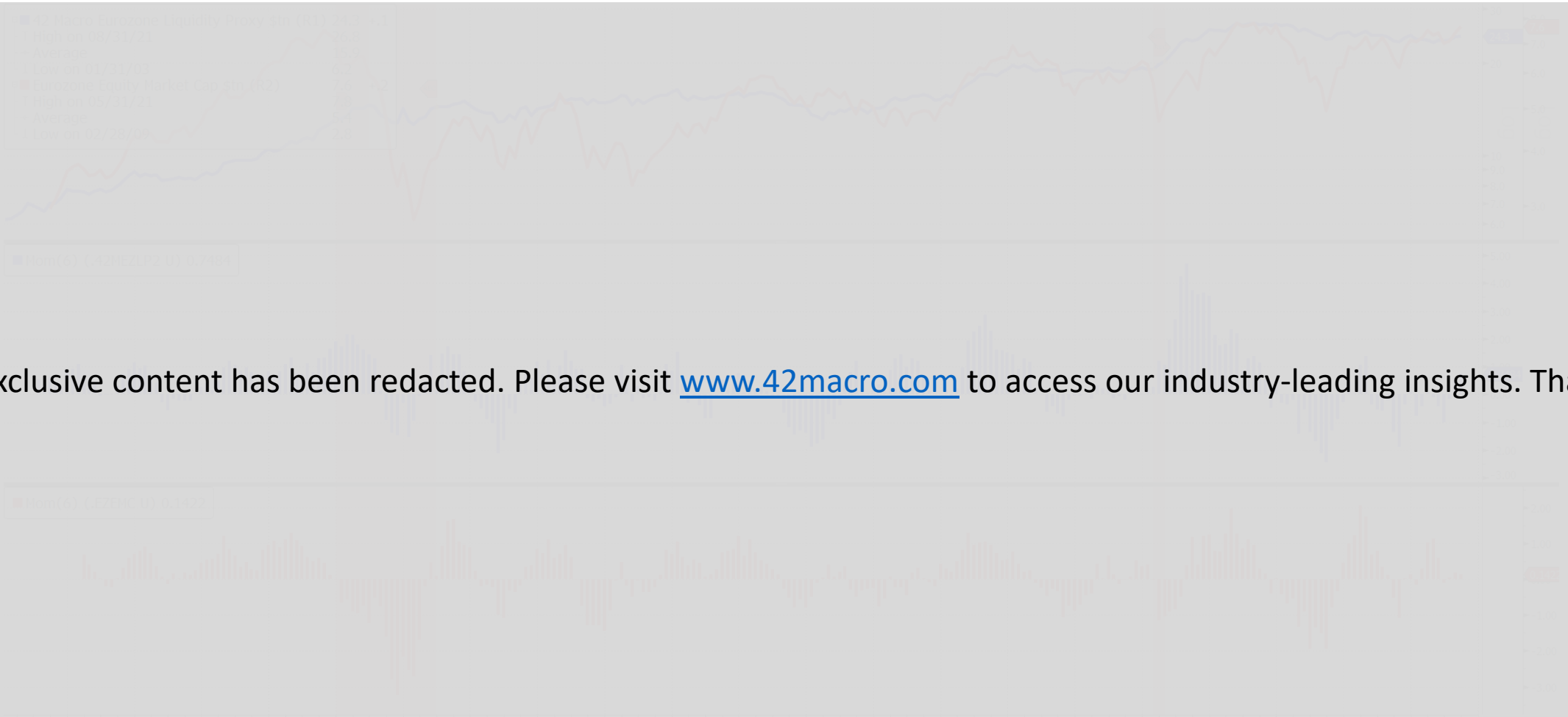
# China's Stimulus Won't Prevent A Balance Sheet Recession, But It Is Likely To Delay It And Delaying It Is Bullish: Shrinking Labor Force

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# The Weak Dollar Stopped BOJ Policy Normalization Dead In Its Tracks Via A Strong Yen And A Historic Japanese Stock Market Crash

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# Eurozone Liquidity Is Accelerating As Well

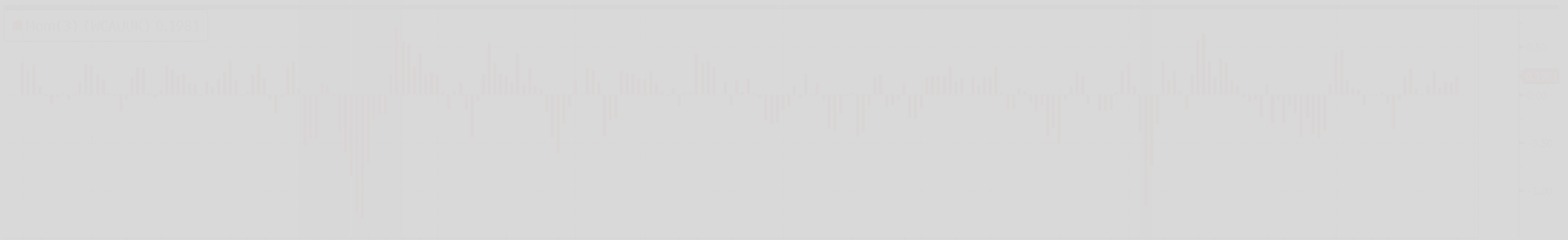


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# UK Liquidity Is Accelerating Too



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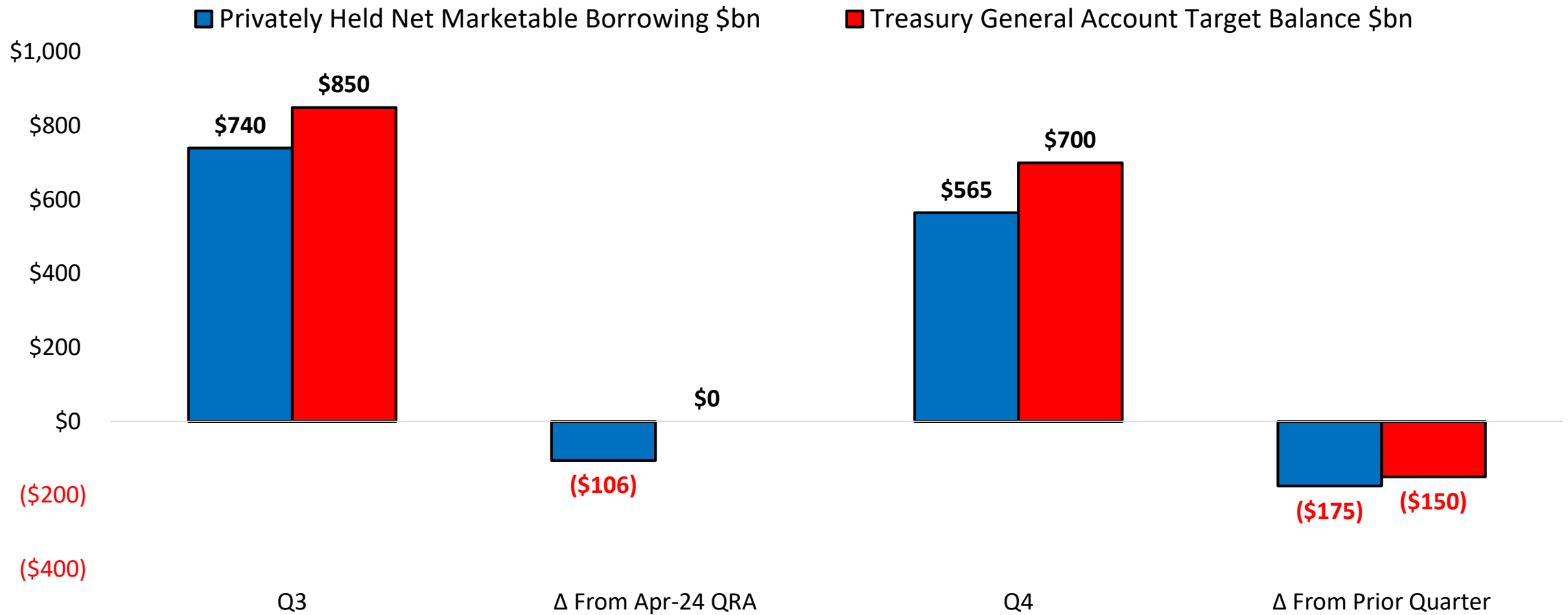


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42 Macro UK Liquidity Proxy = (BOE Balance Sheet + UK Broad Money Supply + UK FX Reserves Minus Gold) /  $\text{Log}_{10}(\text{Bloomberg Global Treasury Bond Aggregate Index Volatility})$

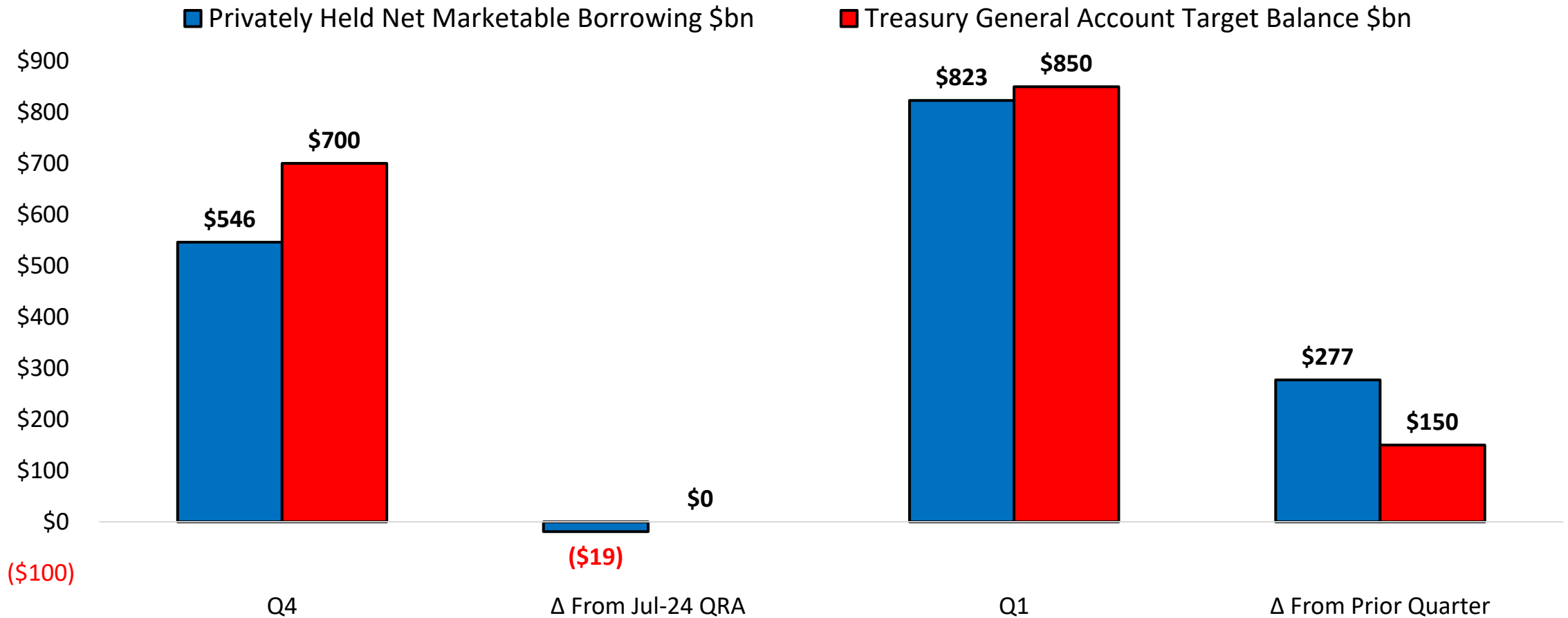
# Q3 QRA: The Outlook For US Liquidity Is Mildly Positive For Q4

## US Treasury Quarterly Refunding Announcement Part I

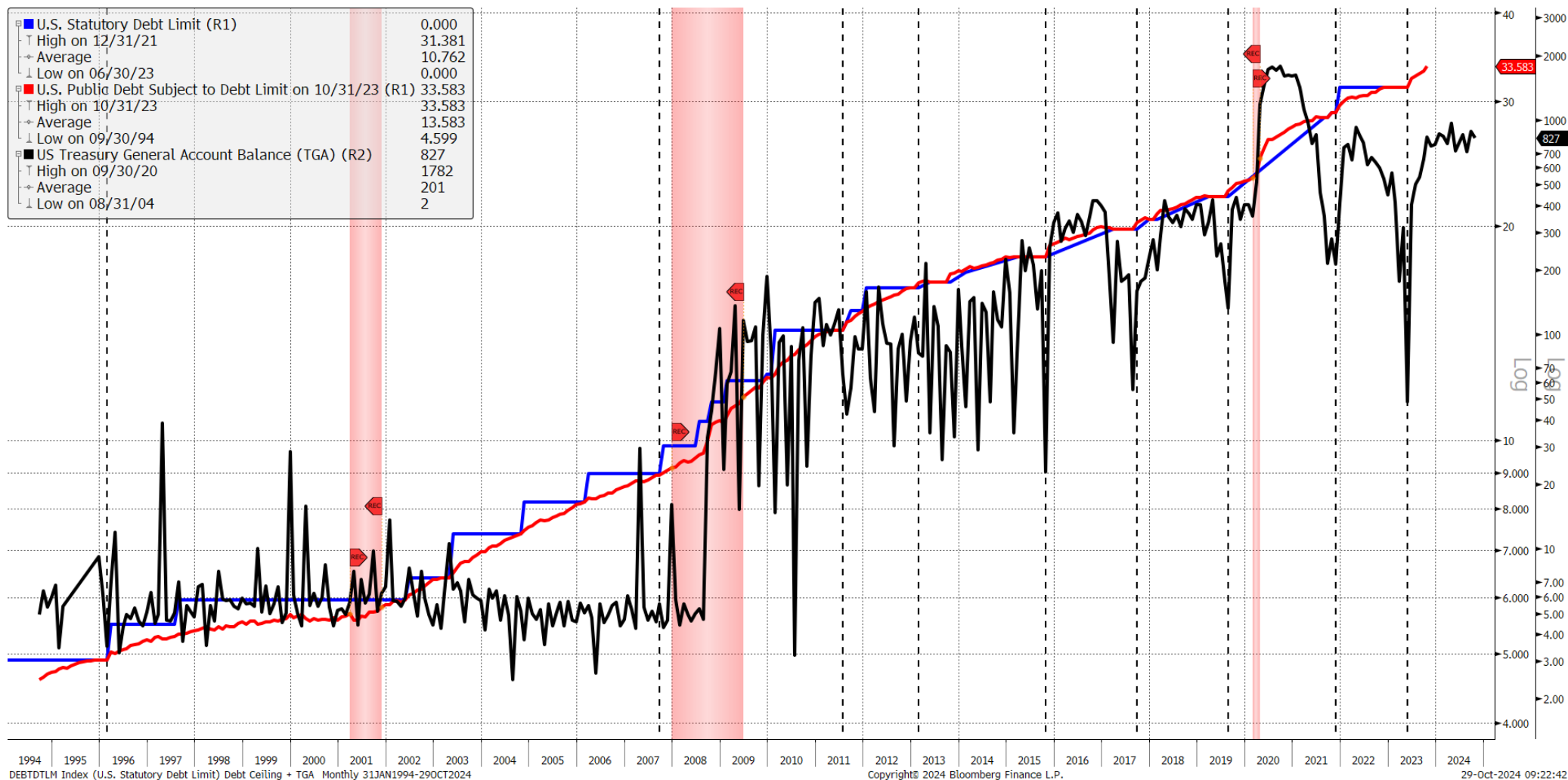


# Q4 QRA: The Treasury Expects To Incrementally Crowd Out The Private Sector And Drain US Liquidity In Q1

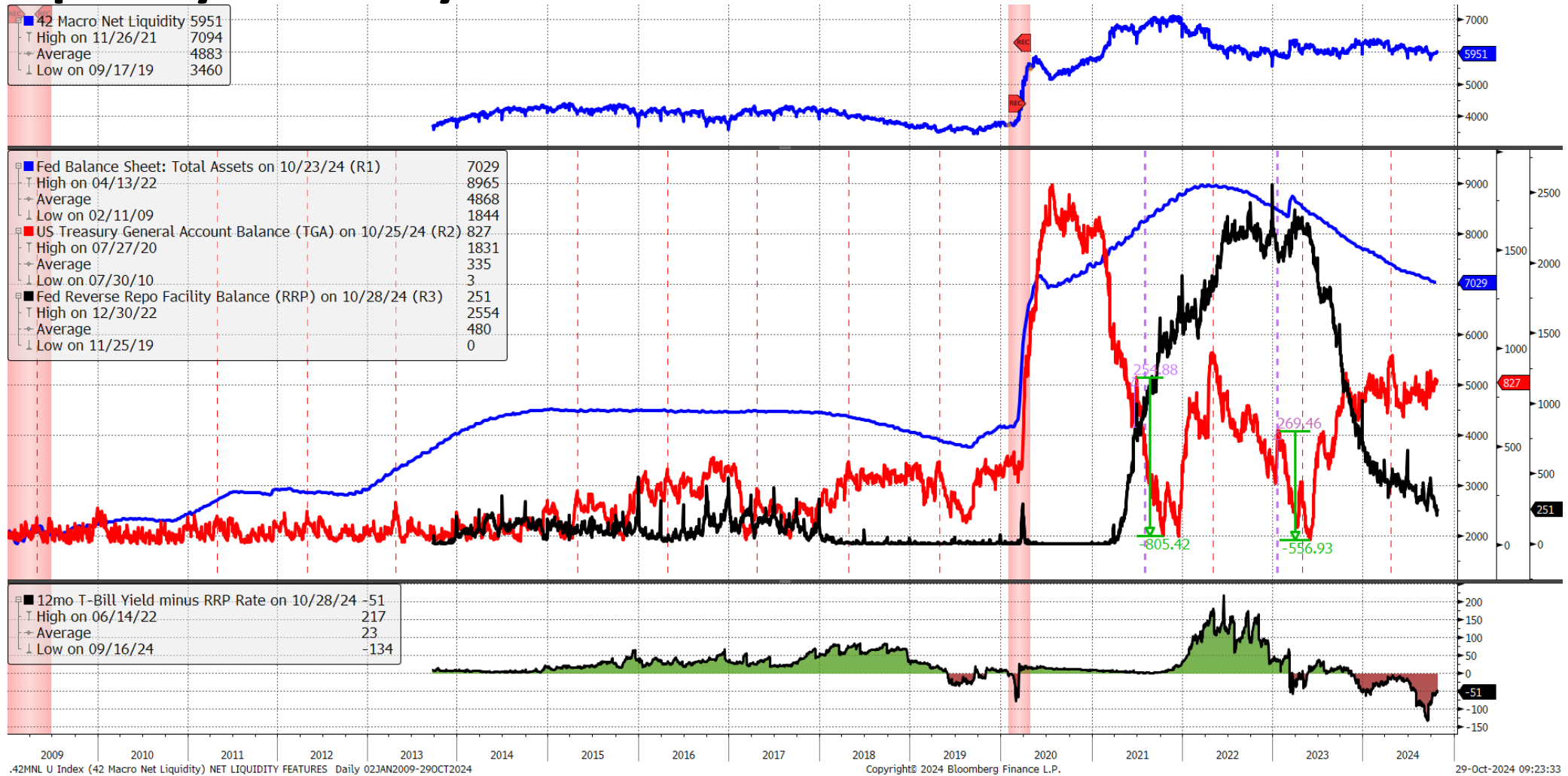
## US Treasury Quarterly Refunding Announcement Part I



# Due To The Expiring Debt Ceiling Moratorium On January 1<sup>st</sup>, The Treasury Will Be Unable To Incrementally Crowd Out The Private Sector Or Drain US Liquidity In Q1



# With A Potential \$700bn Spenddown Of The TGA, The Outlook For US Liquidity Is Wildly Positive For Q1



.42MNL U Index (42 Macro Net Liquidity) NET LIQUIDITY FEATURES Daily 02JAN2009-29OCT2024

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Red dotted lines = spikes in TGA due to the April federal tax deadline.

Purple dotted lines = debt ceiling breach dates. The current moratorium ends on January 1<sup>st</sup>, 2025.

Jul-24 end-of-Q4 TGA estimate = \$700bn. Mean TGA spenddown during the 2021 and 2023 Debt Ceiling negotiations = \$681bn.



**Issuance Composition: \$90bn Of Bills In Q4 = The Lowest Seasonality-Adjusted Sum Since 4Q22; \$475bn Of Coupons In Q4 = The Lowest Sum Since 1Q24**

US Treasury Net Marketable Borrowing Composition

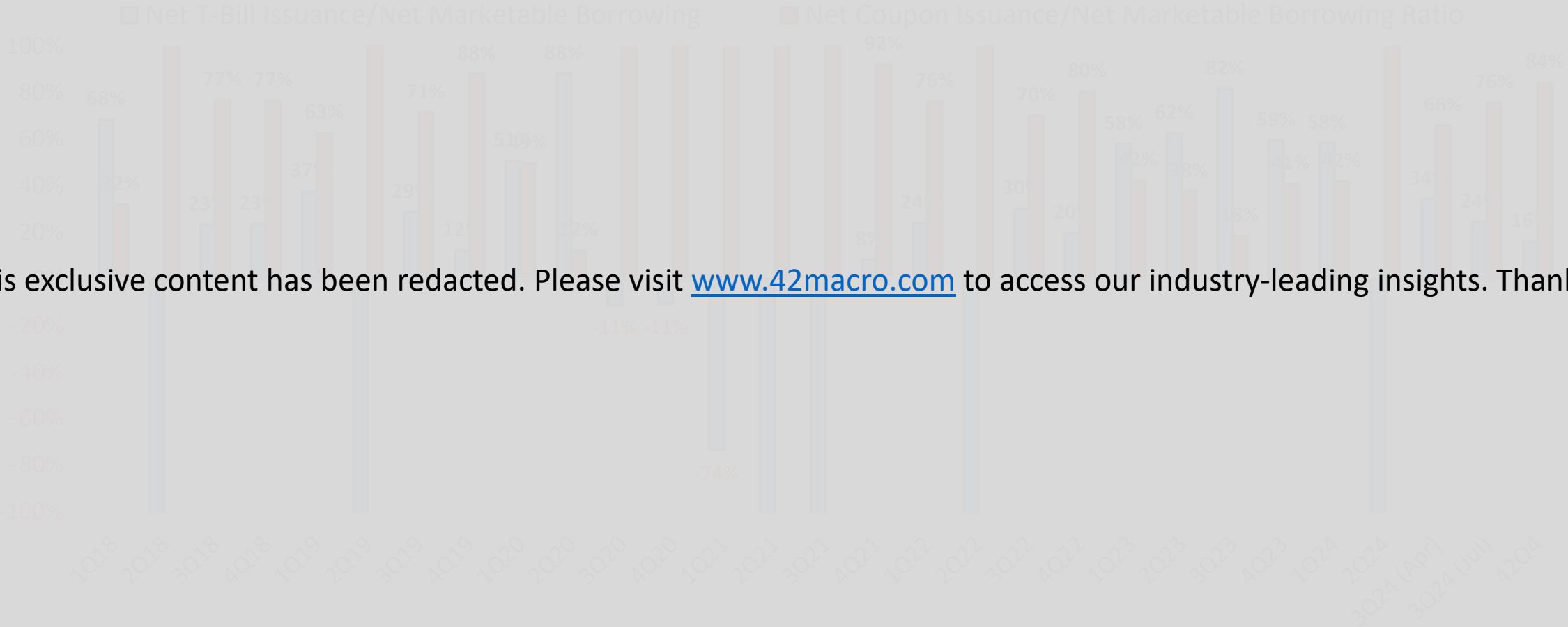
Net Bill Issuance \$bn    Net Coupon Issuance \$bn



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# Quarterly Bill Supply: 16% Bills In Q4 = The Lowest Seasonality-Adjusted Share Since 4Q21

US Treasury Net Marketable Borrowing Composition Ratios

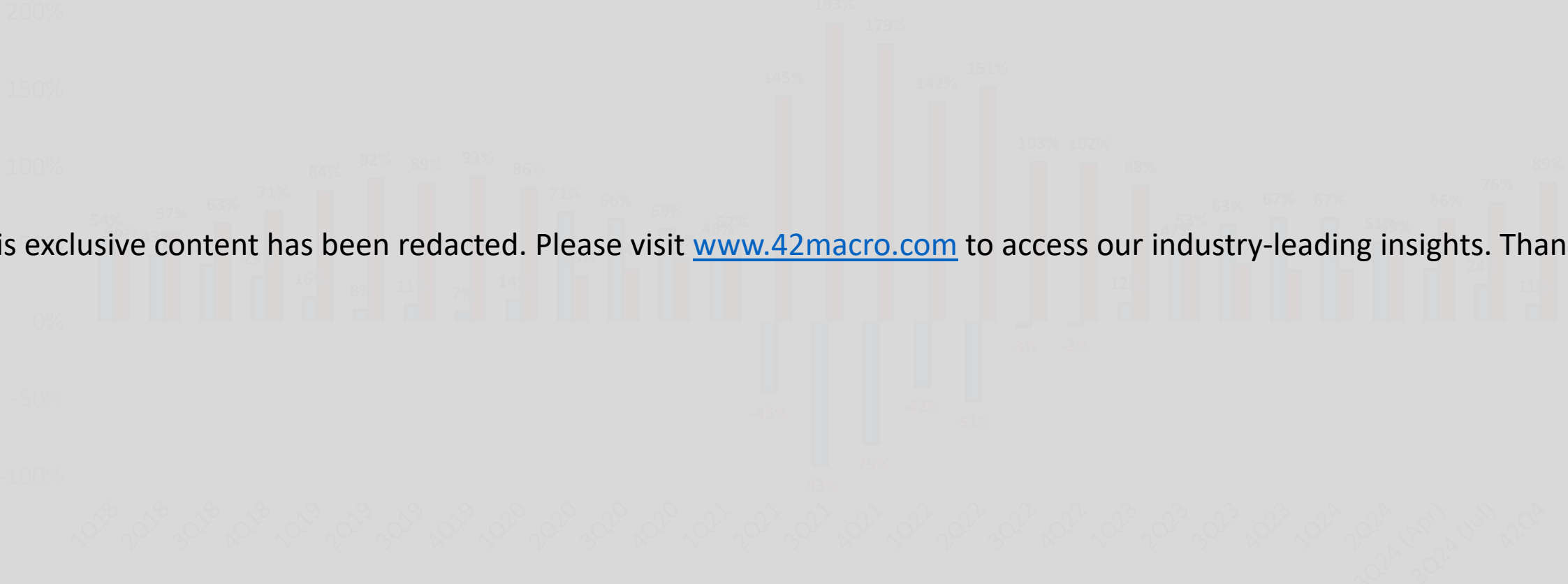


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# TTM Bill Supply: 11% Bills On A TTM Basis Through Q4 = The Lowest Share Since 4Q22

US Treasury Net Marketable Borrowing Composition Ratios

■ TTM Bills/Net Marketable Borrowing      ■ TTM Coupons/Net Marketable Borrowing Ratio

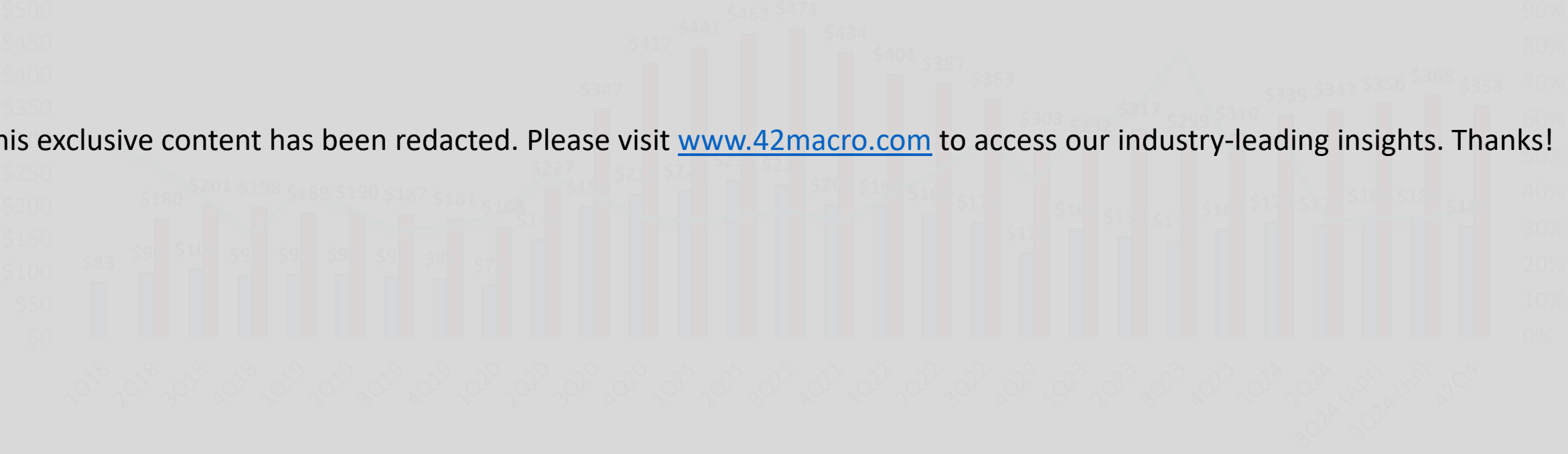


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# Bond Supply: \$169bn Of Bonds In Q4 = The Lowest Sum Since 4Q23

US Treasury Net Nominal Bond Issuance

■ Net Nominal Bond Issuance \$bn  
■ Net Nominal Bond Issuance \$bn Trailing 2qtr Sum  
— Net Nominal Bond Issuance/Total Net Coupon Issuance Ratio (rhs)

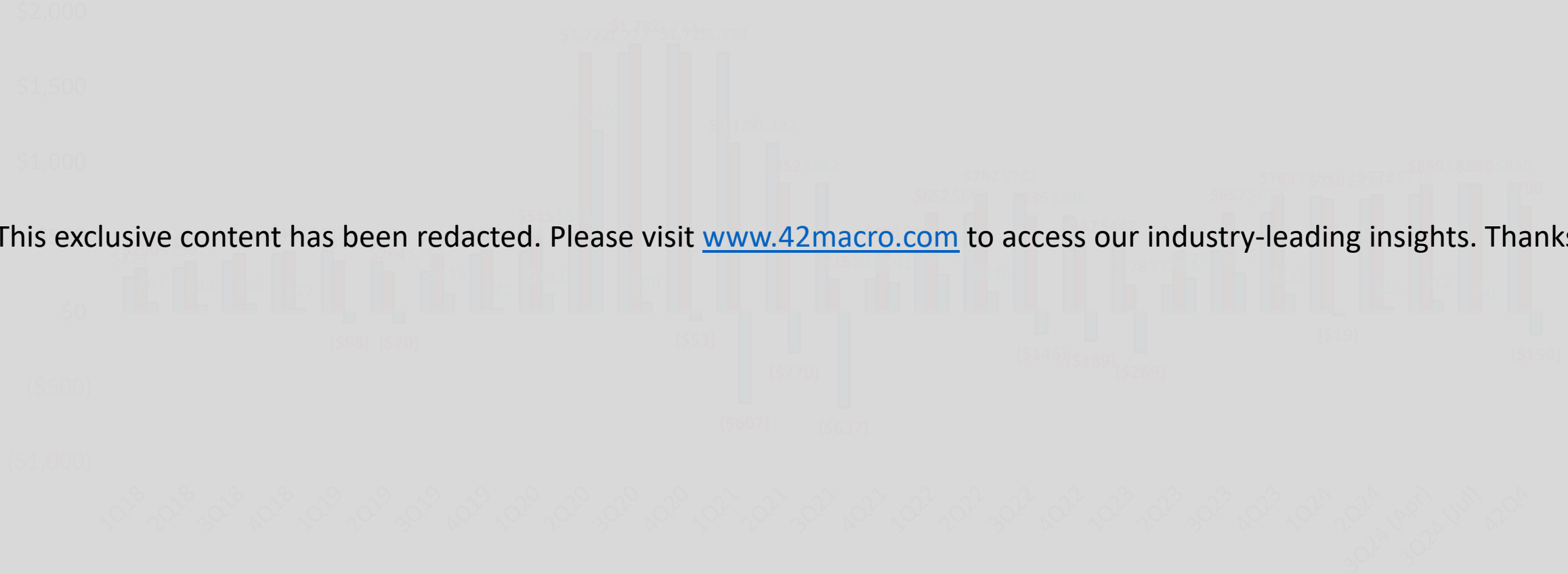


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# Treasury General Account: -\$150bn Of TGA Reduction In Q4 = The Largest Projected Decline Since 1Q23

US Treasury General Account Projections

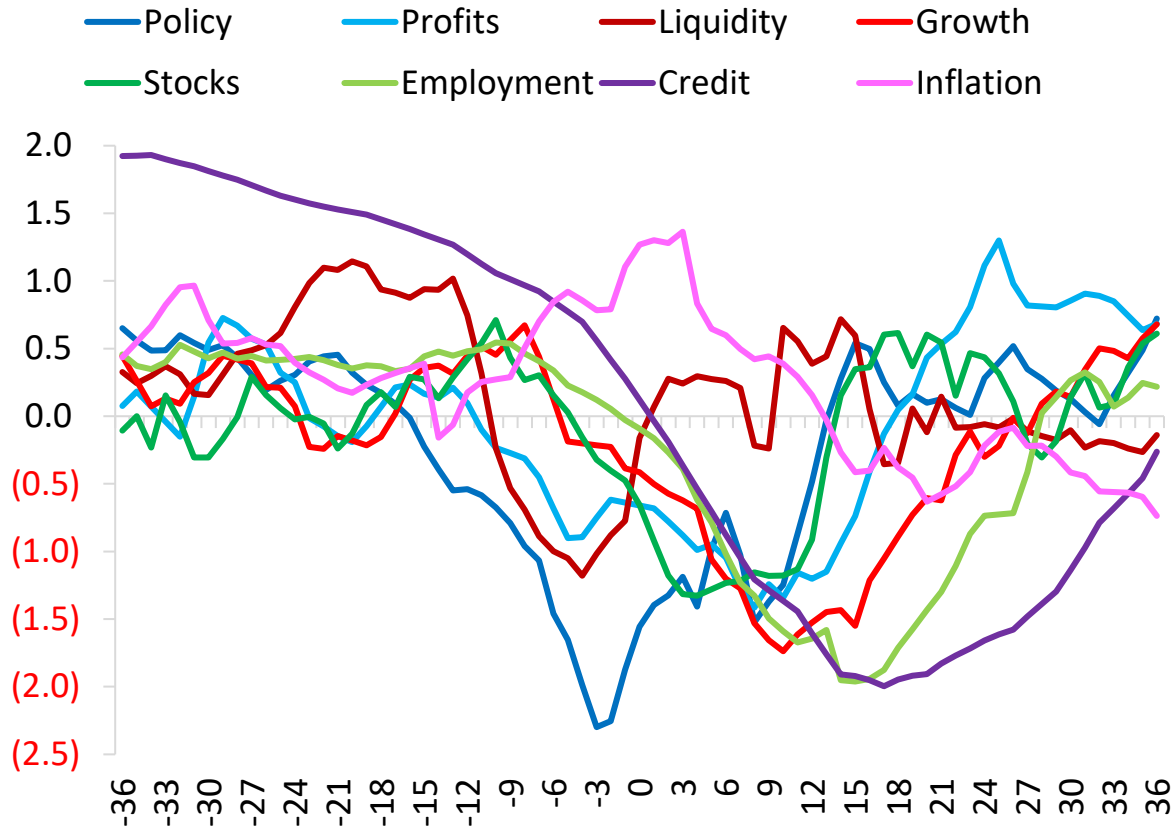
■ Beginning Cash Balance \$bn ■ Ending Cash Balance \$bn



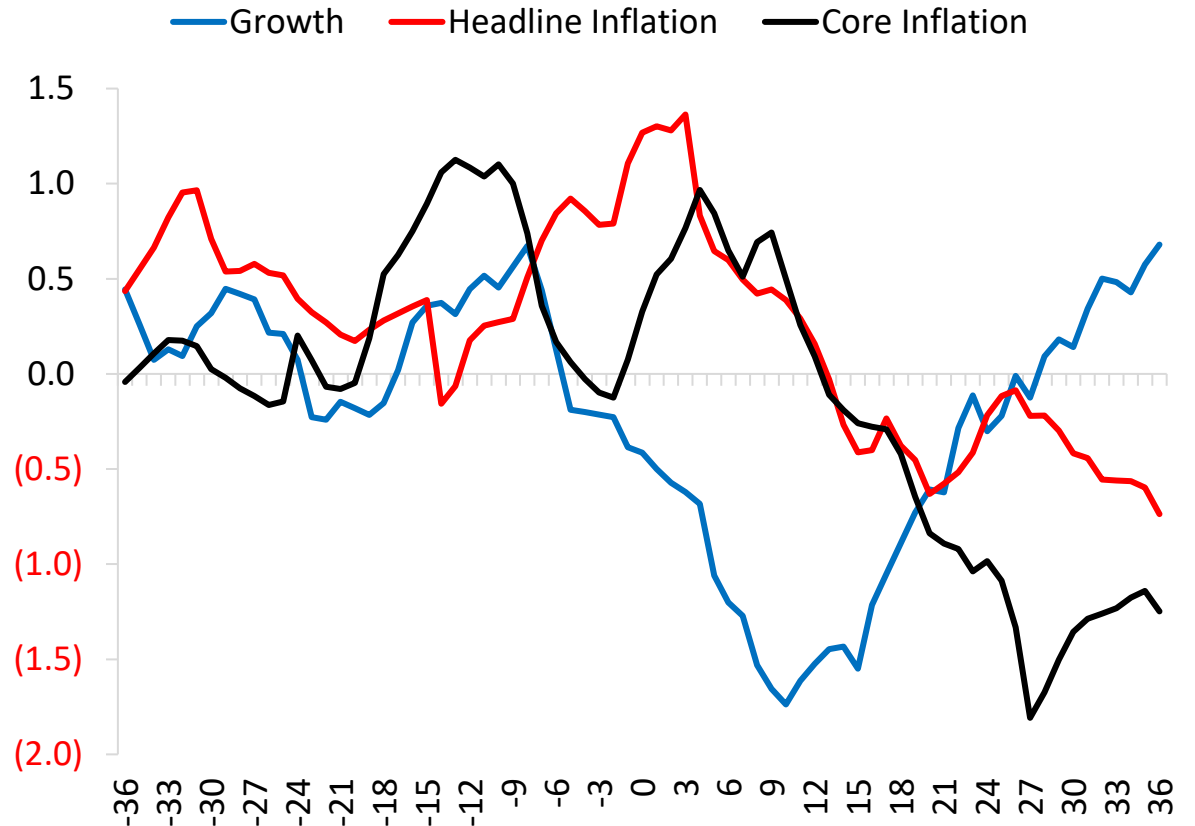
# Left Tail Risks

# Inflation Is The Most Lagging Indicator Of The Business Cycle And Is Unlikely To Return Durably To Trend Absent A Recession

Median Trailing 10yr Delta-Adjusted Z-Score n-  
Months Before/After A Recession Begins



Median Trailing 10yr Delta-Adjusted Z-Score n-  
Months Before/After A Recession Begins



© 42 Macro LLC. Data Source: Bloomberg. Data since Jan-48 or as far back as the time series allows.

Accelerating/Moderating Upturn: above-trend and increasing/decreasing. Accelerating/Moderating Downturn: below-trend and decreasing/increasing.

All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

"Delta-Adjusted" = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

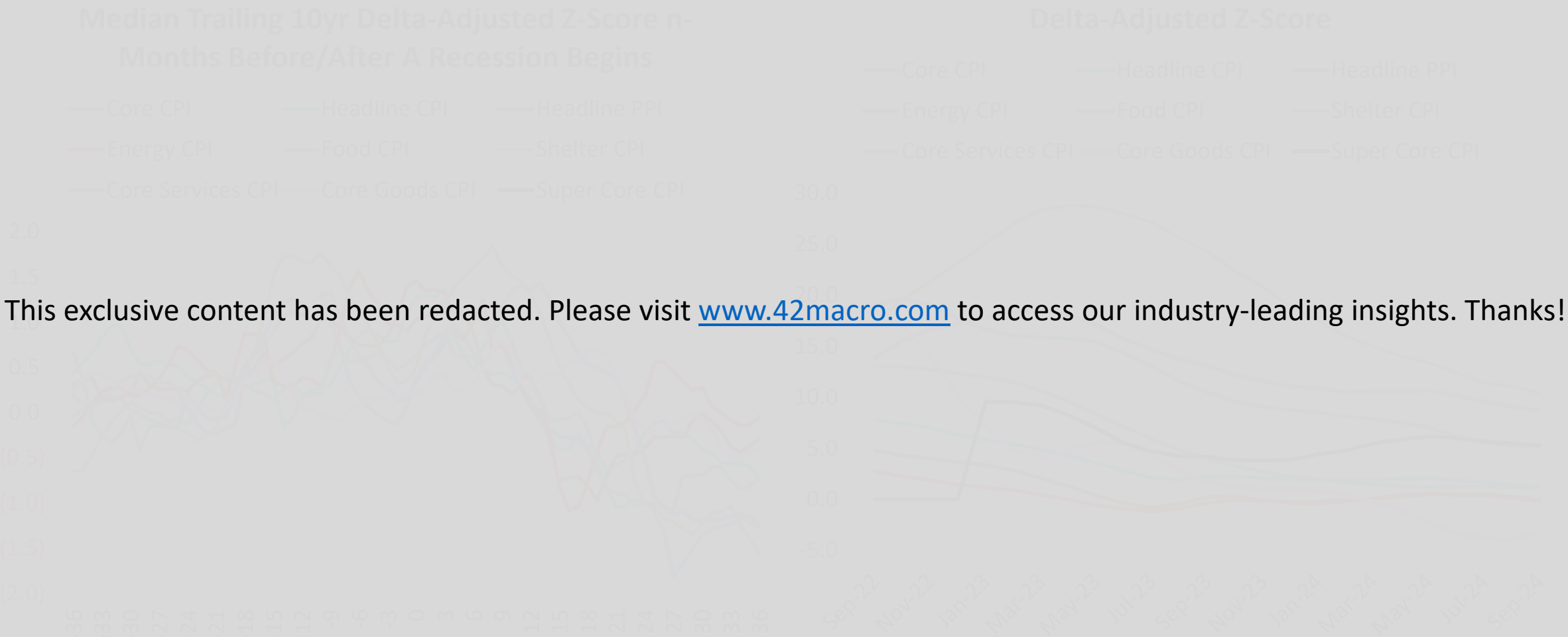
# Headline CPI Is Unlikely To Return Durably To Trend Absent A Recession

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# Core CPI Is Unlikely To Return Durably To Trend Absent A Recession

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# It Is Typical For Shelter CPI To Decelerate Meaningfully Late In The Business Cycle, Followed By A Recession-Perpetuating Reacceleration



© 42 Macro LLC. Data Source: Bloomberg. Data since Jan-48 or as far back as the time series allows.

Accelerating/Moderating Upturn: above-trend and increasing/decreasing. Accelerating/Moderating Downturn: below-trend and decreasing/increasing.

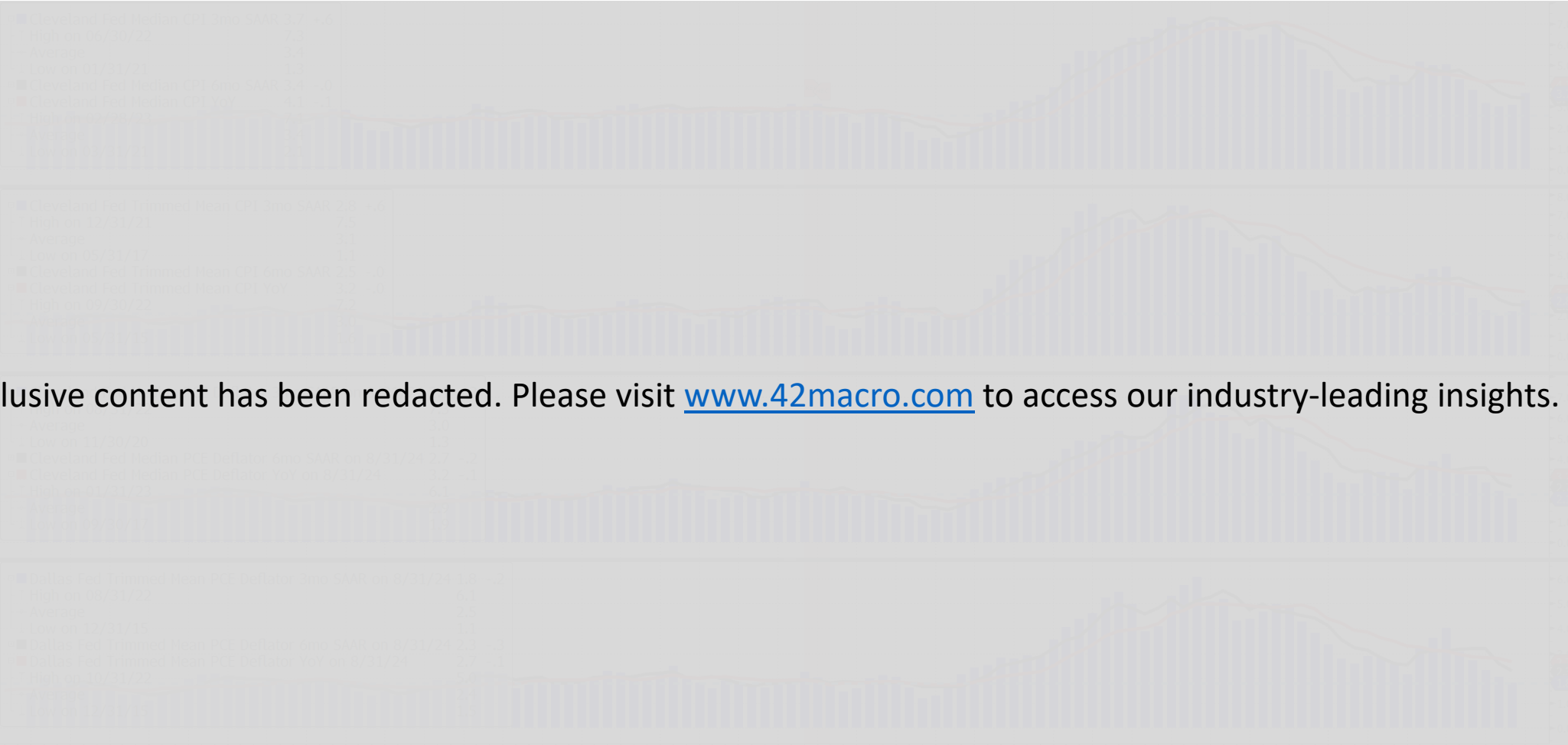
All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

“Delta-Adjusted” = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

# PCE Inflation Is Unlikely To Return Durably To Trend Absent A Recession

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# Underlying Inflation Is Unlikely To Return Durably To Trend Absent A Recession

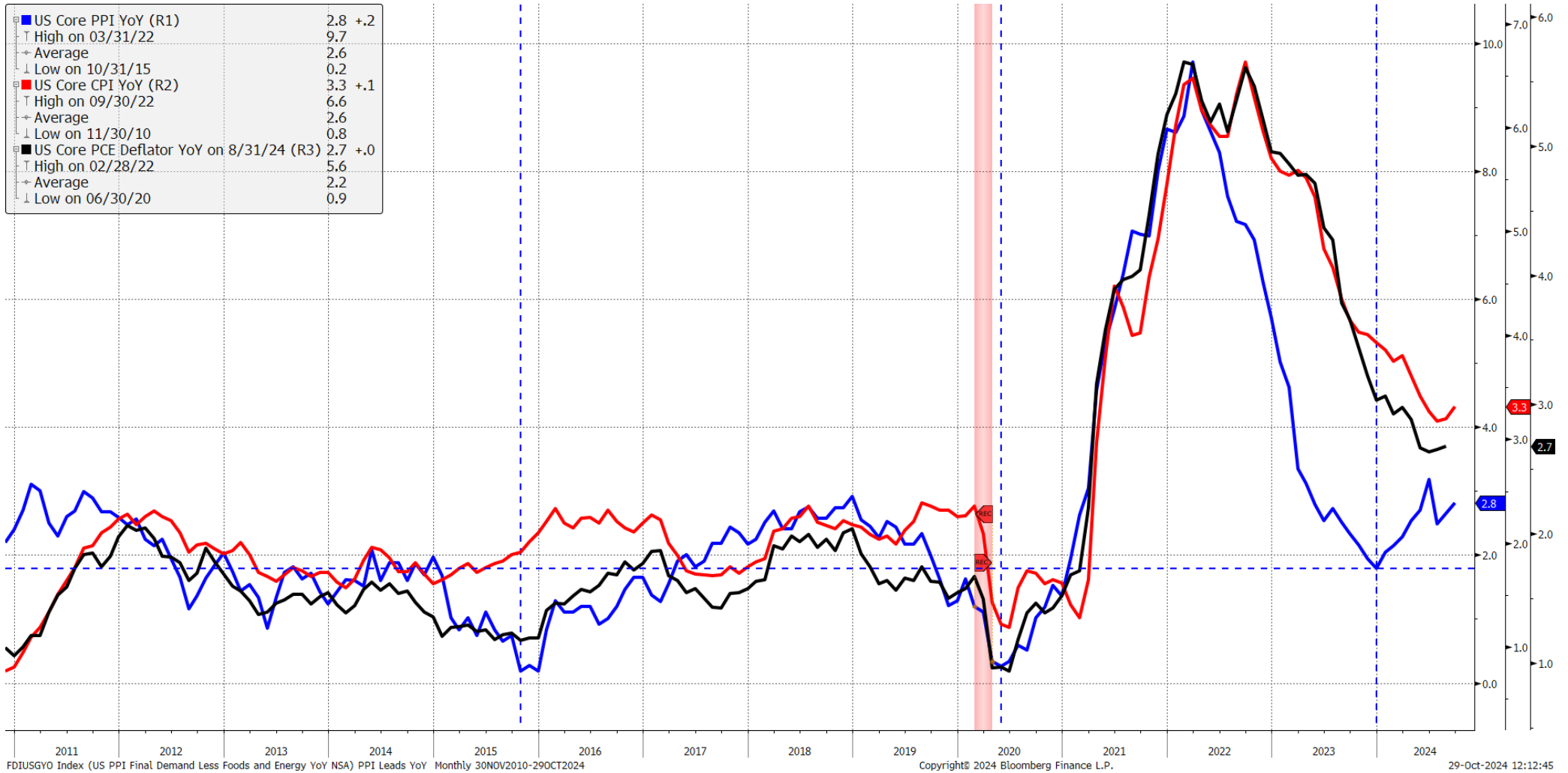


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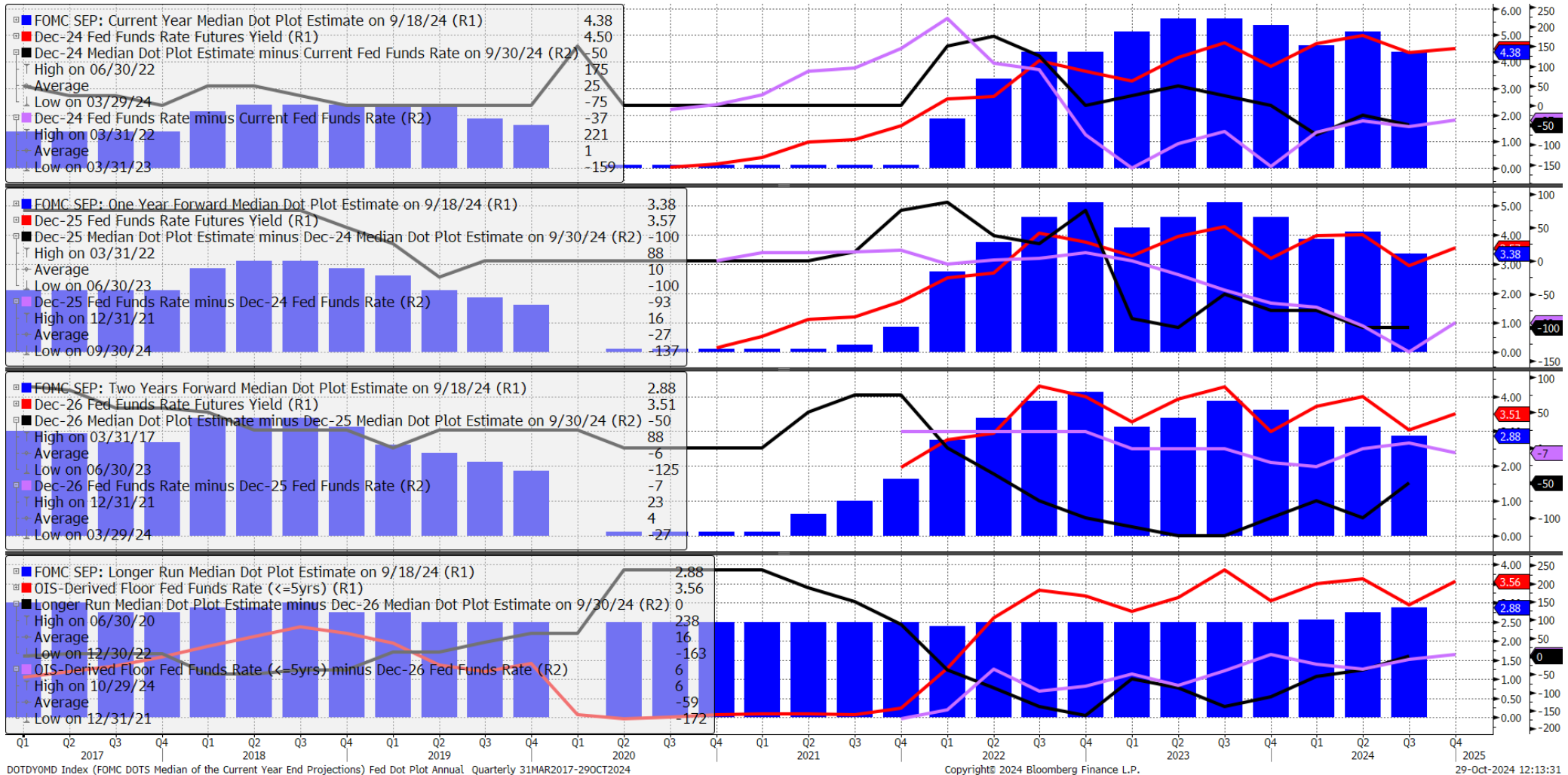
# Producer Price Inflation Is Unlikely To Return Durably To Trend Absent A Recession

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# Leading Indicators Agree With Our Hawkish NTM Outlook For Inflation



# USD Money Markets Do NOT Agree With Our Hawkish NTM Outlook For Inflation; We Were Correct To Call The Top In Bonds Last Month



# Historically, Bonds Tend To Peak Within A Few Months Of The Initial Late-Cycle Rate Cut If The Economy Avoids Recession

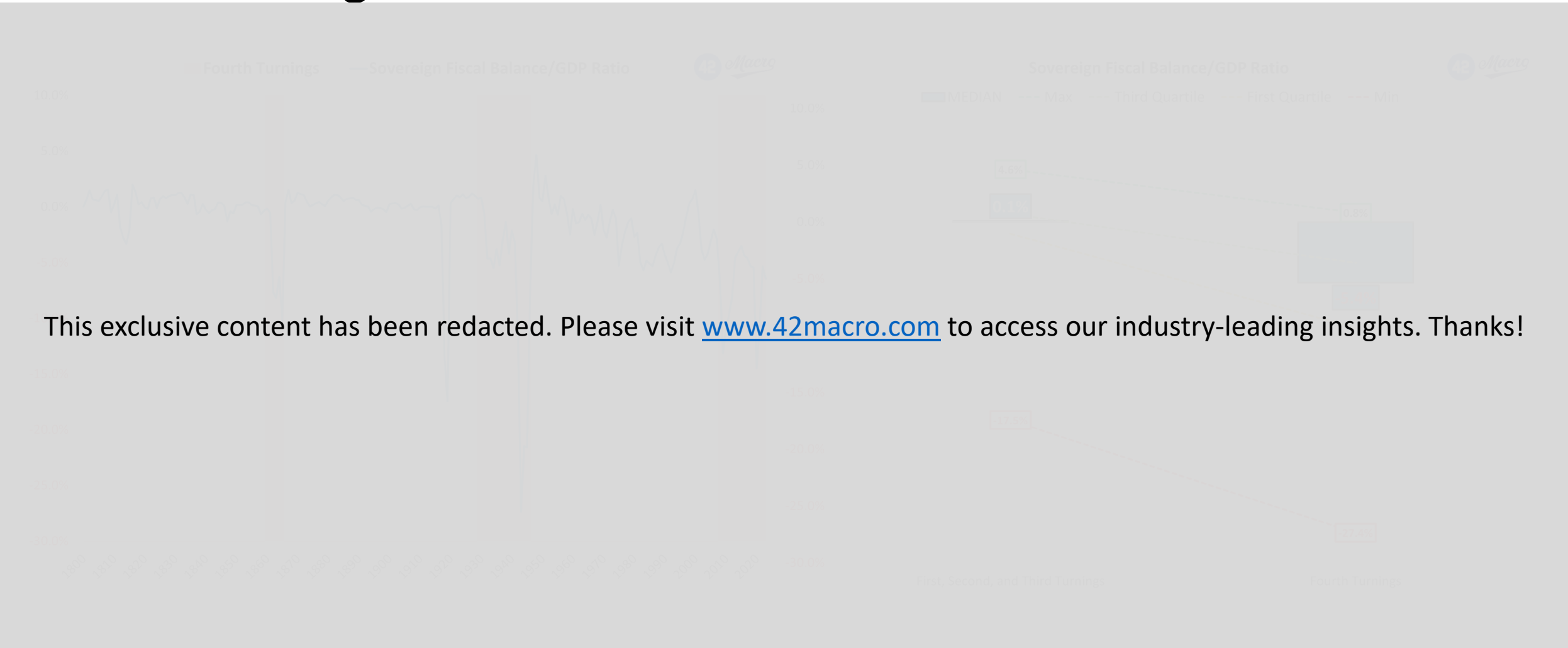
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# Appendix: Investing During A Fourth Turning Regime

# Key Fourth Turning Fiscal Policy Risks: Explosive Growth In Sovereign Deficits, Debt, The Size Of Government, And The Cost To Finance The Government

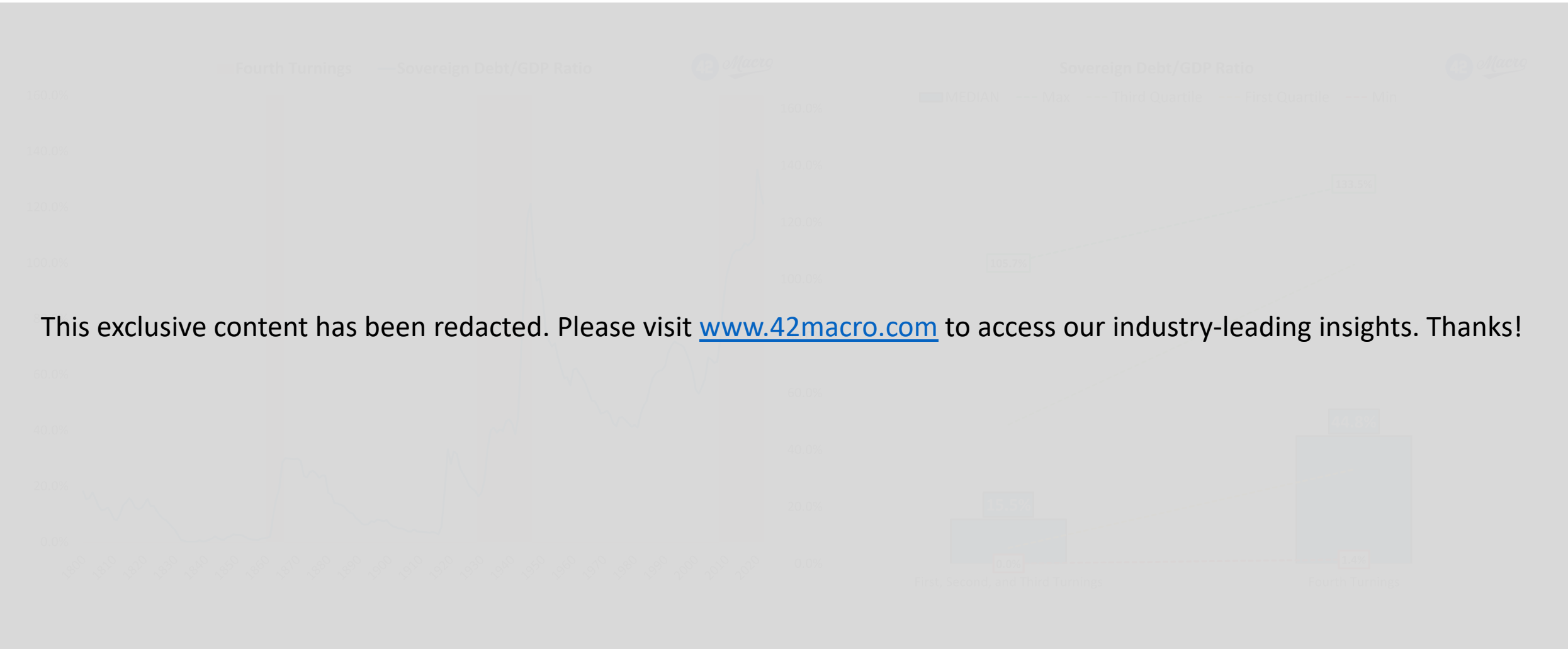
Fiscal Policy		
Metric	Fourth Turning Median vs. Baseline	Consistent Fourth Turning Delta?
Sovereign Fiscal Balance/GDP Ratio	↓	↓
Sovereign Debt/GDP Ratio	↑	↑
Government Revenues/GDP Ratio	↑	↑
Government Expenditures/GDP Ratio	↑	↑
Government Interest Expense/GDP Ratio	↑	↑

# The Sovereign Fiscal Balance Tends To Deteriorate Sharply During Fourth Turnings

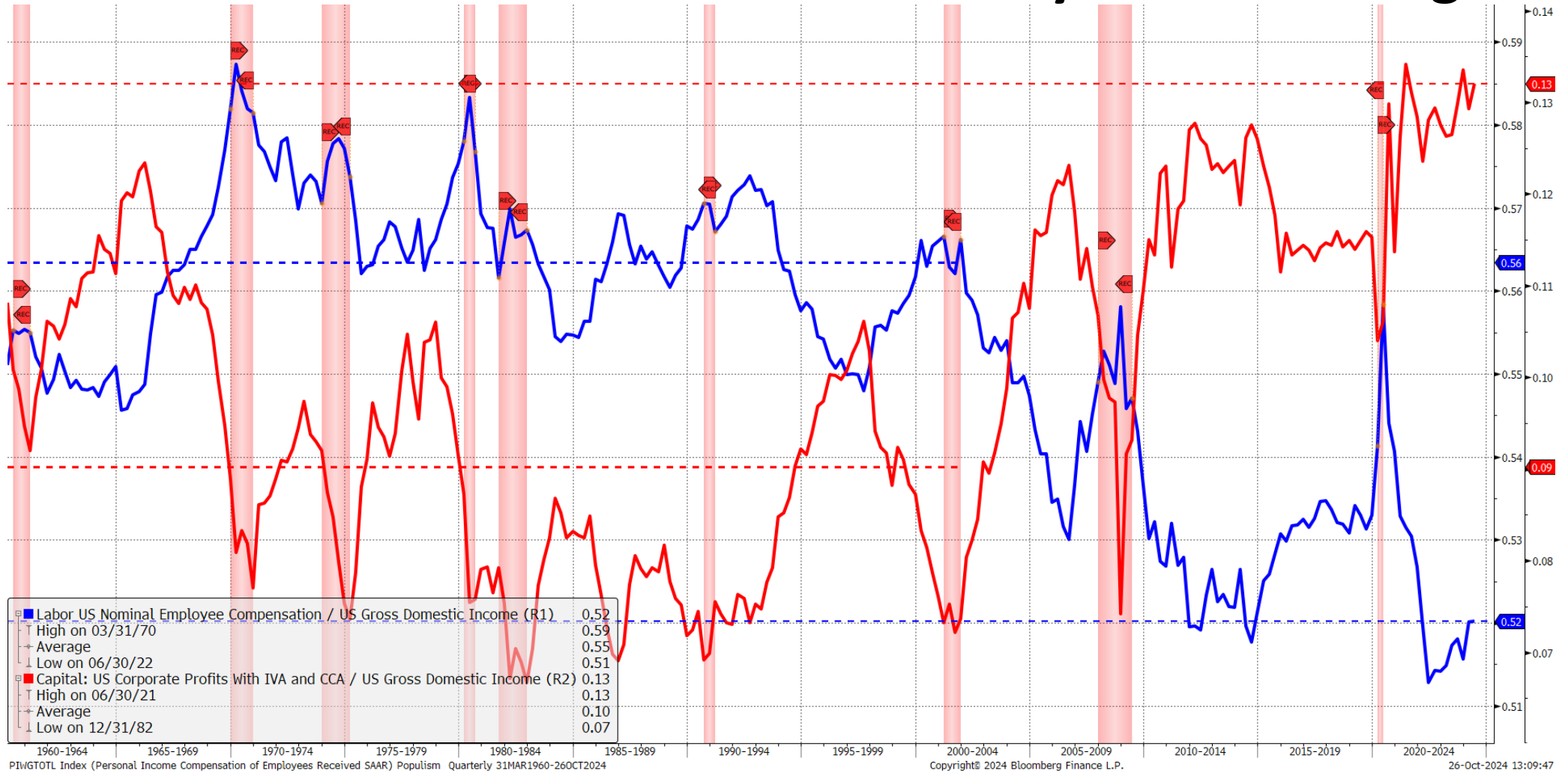


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# Sovereign Debt Tends To Increase Sharply During Fourth Turnings



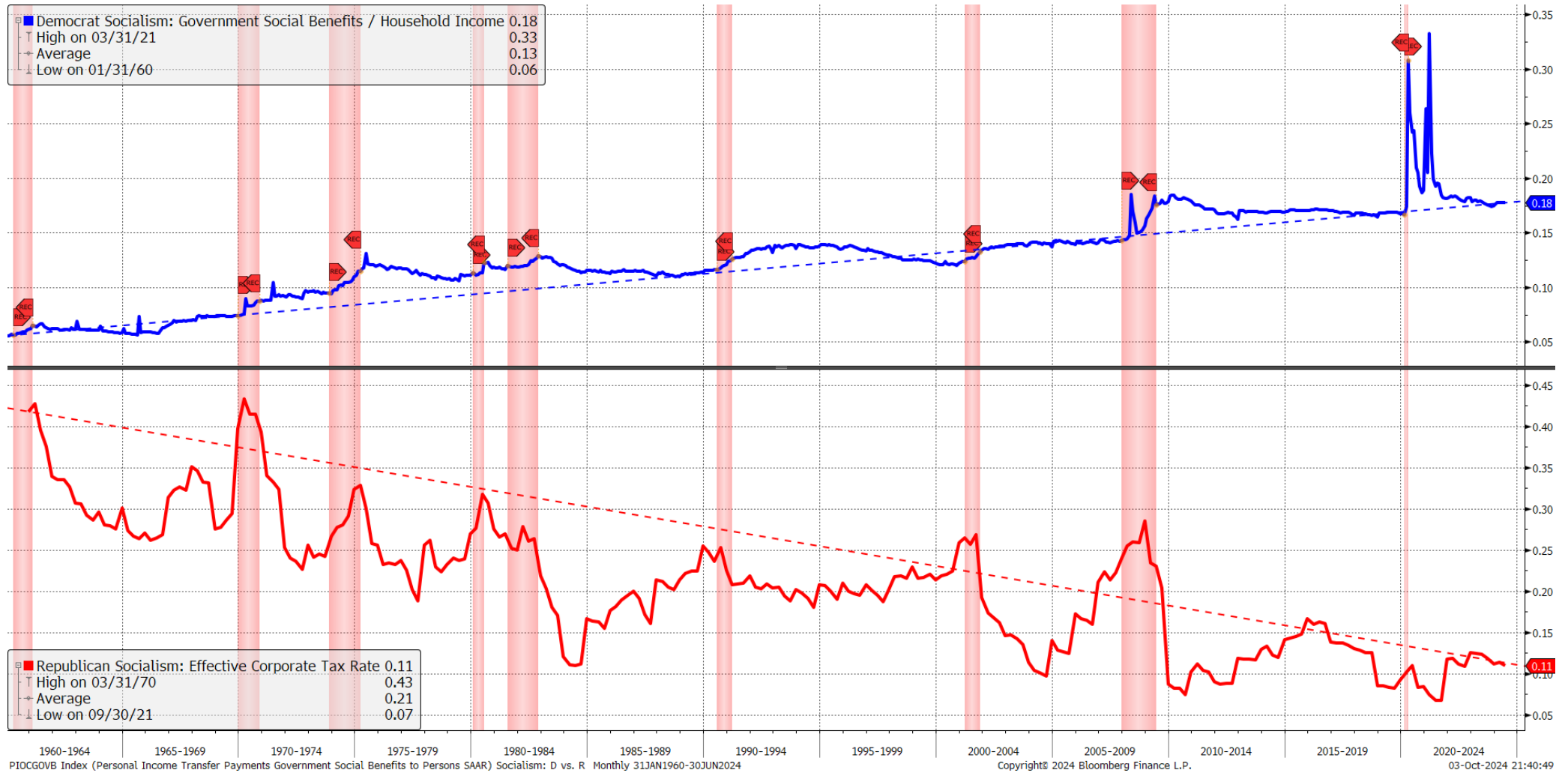
# More Populism Is The Highest Probability Outcome No Matter Who Takes The White House Or Which Party Controls Congress



© 42 Macro LLC. Data Source: Bloomberg.

The 400bps swing in the share of Gross Domestic Income going to Capital from Labor = \$1.2 trillion per the latest data.  
 \$1.2tn the equivalent of ~\$8,500 in annualized lost income per private sector employee, or 11% of the Median Household Income.

# Democrats Practice Socialism For The Poor, Republicans Practice Socialism For The Rich, And Both Parties Love Piling On Debt To Socialize The Incomes Of Their Constituents



# In The Postwar Era, **Republican** Administrations Have Outpaced Democrat Administrations When It Comes To Burdening The Country With Debt

Cumulative Growth Of US Public Debt During US Presidential Administrations					Cumulative Monetization Of US Public Debt During US Presidential Administrations				
Presidential Administration	Year 1	Year 2	Year 3	Year 4	Presidential Administration	Year 1	Year 2	Year 3	Year 4
Theodore Roosevelt I	0%	1%	3%	6%	Theodore Roosevelt I	-	-	-	-
Theodore Roosevelt II	0%	4%	9%	16%	Theodore Roosevelt II	-	-	-	-
William H. Taft	0%	1%	5%	9%	William H. Taft	-	-	-	-
Woodrow Wilson I	2%	1%	7%	26%	Woodrow Wilson I	-	-	-	-
Woodrow Wilson II	58%	304%	659%	619%	Woodrow Wilson II	-	-	-	-
Warren G. Harding	-8%	-12%	-	-	Warren G. Harding	-	-	-	-
Calvin Coolidge I	-3%	-7%	-	-	Calvin Coolidge I	-	-	-	-
Calvin Coolidge II	-3%	-8%	-13%	-17%	Calvin Coolidge II	-	-	-	-
Herbert Hoover	-4%	-8%	-5%	11%	Herbert Hoover	-	-	-	-
Franklin D. Roosevelt I	16%	39%	47%	73%	Franklin D. Roosevelt I	-	-	-	-
Franklin D. Roosevelt II	8%	10%	20%	27%	Franklin D. Roosevelt II	-	-	-	-
Franklin D. Roosevelt III	14%	69%	218%	368%	Franklin D. Roosevelt III	-	-	-	-
Harry S. Truman I	29%	34%	29%	26%	Harry S. Truman I	-	-	-	-
Harry S. Truman II	0%	2%	1%	3%	Harry S. Truman II	-896%	-53%	31%	6%
Dwight D. Eisenhower I	6%	8%	8%	7%	Dwight D. Eisenhower I	12%	0%	8%	13%
Dwight D. Eisenhower II	-1%	2%	5%	5%	Dwight D. Eisenhower II	555%	-13%	-6%	-7%
John F. Kennedy	2%	5%	-	-	John F. Kennedy	24%	8%	-	-
Lyndon B. Johnson I	2%	5%	-	-	Lyndon B. Johnson I	71%	50%	-	-
Lyndon B. Johnson II	1%	4%	8%	13%	Lyndon B. Johnson II	78%	49%	34%	36%
Richard Nixon I	3%	9%	18%	25%	Richard Nixon I	34%	31%	25%	21%
Richard Nixon II	5%	-	-	-	Richard Nixon II	33%	-	-	-
Gerald Ford	5%	23%	39%	-	Gerald Ford	18%	17%	9%	-
Jimmy Carter	10%	21%	29%	42%	Jimmy Carter	19%	22%	20%	16%
Ronald Reagan I	11%	29%	52%	79%	Ronald Reagan I	3%	6%	5%	5%
Ronald Reagan II	17%	28%	41%	56%	Ronald Reagan II	7%	12%	9%	8%
George H.W. Bush	10%	24%	41%	56%	George H.W. Bush	5%	6%	5%	5%
Bill Clinton I	9%	15%	22%	29%	Bill Clinton I	9%	10%	9%	9%
Bill Clinton II	4%	6%	8%	10%	Bill Clinton II	18%	22%	39%	24%
George W. Bush I	1%	11%	21%	32%	George W. Bush I	113%	15%	11%	9%
George W. Bush II	8%	14%	21%	41%	George W. Bush II	6%	6%	4%	30%
Barack Obama I	15%	31%	42%	54%	Barack Obama I	13%	7%	21%	16%
Barack Obama II	6%	10%	15%	22%	Barack Obama II	112%	60%	37%	22%
Donald Trump	3%	10%	16%	39%	Donald Trump	72%	-2%	2%	24%
Joe Biden	7%	13%	23%	27%	Joe Biden	60%	3%	9%	5%
<b>MEDIAN</b>	<b>4%</b>	<b>10%</b>	<b>20%</b>	<b>26%</b>	<b>MEDIAN</b>	<b>19%</b>	<b>9%</b>	<b>9%</b>	<b>13%</b>
<b>DEMOCRAT MEDIAN (All)</b>	<b>7%</b>	<b>12%</b>	<b>22%</b>	<b>27%</b>	<b>DEMOCRAT MEDIAN (All)</b>	<b>21%</b>	<b>16%</b>	<b>26%</b>	<b>16%</b>
<b>REPUBLICAN MEDIAN (All)</b>	<b>2%</b>	<b>8%</b>	<b>16%</b>	<b>21%</b>	<b>REPUBLICAN MEDIAN (All)</b>	<b>18%</b>	<b>6%</b>	<b>6%</b>	<b>9%</b>
<b>DEMOCRAT MEDIAN (Postwar)</b>	<b>6%</b>	<b>10%</b>	<b>22%</b>	<b>26%</b>	<b>DEMOCRAT MEDIAN (Postwar)</b>	<b>21%</b>	<b>16%</b>	<b>26%</b>	<b>16%</b>
<b>REPUBLICAN MEDIAN (Postwar)</b>	<b>5%</b>	<b>12%</b>	<b>21%</b>	<b>39%</b>	<b>REPUBLICAN MEDIAN (Postwar)</b>	<b>18%</b>	<b>6%</b>	<b>6%</b>	<b>9%</b>
<b>REPUBLICAN MEDIAN (Postwar ex-COVID)</b>	<b>5%</b>	<b>12%</b>	<b>21%</b>	<b>36%</b>	<b>REPUBLICAN MEDIAN (Postwar ex-COVID)</b>	<b>18%</b>	<b>6%</b>	<b>6%</b>	<b>9%</b>

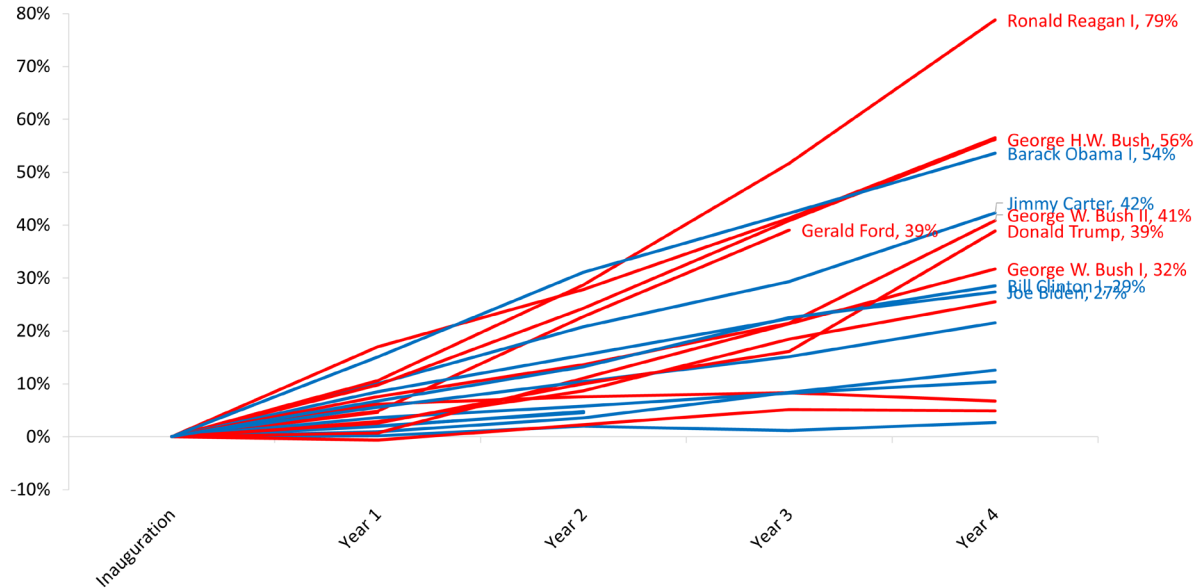
Intellectual Property of 42 Macro LLC. Data Source: Bloomberg, Library of Congress. Monetization = growth of the US monetary base as a ratio of the growth of US public debt.

# Obviously, Democrats Spend Way Too Much, But More Light Needs To Be Shed On How Republican Tax Cuts Contribute To The Risk Of A Fiscal Crisis

Cumulative Growth Of US Public Debt During Presidential Administrations



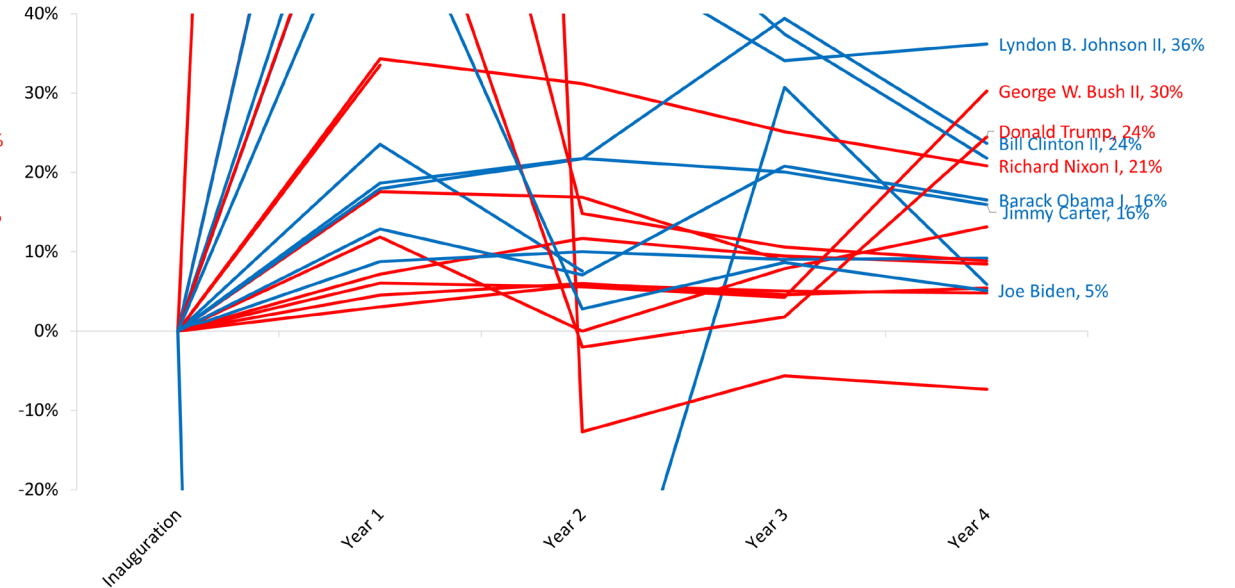
- Harry S. Truman II
- Lyndon B. Johnson I
- Gerald Ford
- George H.W. Bush
- George W. Bush II
- Joe Biden
- Dwight D. Eisenhower I
- Lyndon B. Johnson II
- Jimmy Carter
- Bill Clinton I
- Barack Obama I
- Dwight D. Eisenhower II
- Richard Nixon I
- Ronald Reagan I
- Bill Clinton II
- Barack Obama II
- John F. Kennedy
- Richard Nixon II
- Ronald Reagan II
- George W. Bush I
- Donald Trump



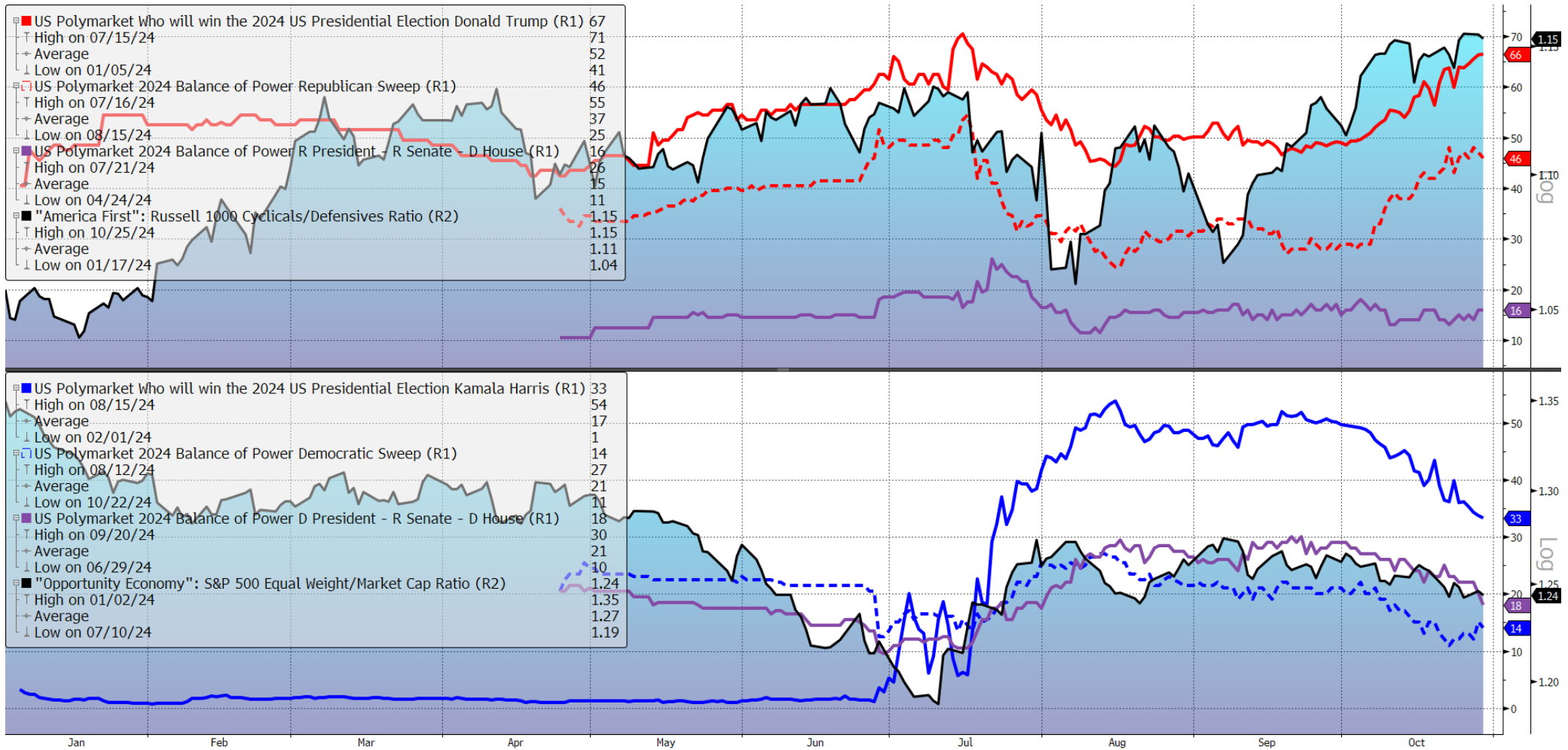
Cumulative Monetization Of US Public Debt During Presidential Administrations



- Harry S. Truman II
- Lyndon B. Johnson I
- Gerald Ford
- George H.W. Bush
- George W. Bush II
- Joe Biden
- Dwight D. Eisenhower I
- Lyndon B. Johnson II
- Jimmy Carter
- Bill Clinton I
- Barack Obama I
- Dwight D. Eisenhower II
- Richard Nixon I
- Ronald Reagan I
- Bill Clinton II
- Barack Obama II
- John F. Kennedy
- Richard Nixon II
- Ronald Reagan II
- George W. Bush I
- Donald Trump



# Asset Markets Are Currently Assigning A High Probability Of A Republican-Controlled Government



PLYMUS4T Index (US Polymarket who will win the 2024 US Presidential Election Donald Trump) Polymarket Betting Odds Daily 01JAN2024-29OCT2024

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29-Oct-2024 12:19:35

# Conservative Estimates See Trump's Proposals As Adding +\$7.5tn To The Federal Deficit Over 10yrs, Compared To +\$3.5tn For Harris

The Trump Plan (billions, 2025-2035)			
Policy Proposals	Low	Central	High
Expand and Modify the Tax Cuts & Jobs Act (TCJA)	\$1,000	\$5,350	\$5,000
Exempt Overtime Income from Taxes	\$0	\$2,000	\$0
End Taxation of Social Security Benefits	\$0	\$1,000	\$0
Lower the Corporate Tax Rate to 15% for Domestic Manufacturers	\$0	\$200	\$0
Exempt Tip Income from Taxes	\$0	\$200	\$0
Strengthen and Modernize the Military	\$0	\$400	\$0
Secure the Border and Deport Unauthorized Immigrants	\$0	\$500	\$0
Subtotal, Revenue Increases and Spending Reductions	\$1,000	\$9,450	\$5,000
Net Interest	\$0	\$2,000	\$0
<b>Total Net Deficit Impact</b>	<b>\$1,000</b>	<b>\$11,450</b>	<b>\$5,000</b>

The Harris Plan (billions, 2025-2035)			
Policy Proposals	Low	Central	High
Extend the TCJA for Households Making Less than \$400k	\$0	\$0	\$0
Expand the Child Tax Credit and Earned Income Tax Credit	\$0	-\$1,400	\$0
Extend and Expand the Enhanced ACA Premium Subsidies	\$0	-\$300	\$0
Support Affordable Housing	\$0	-\$200	\$0
Exempt Tips from Income Taxes and Raise the Minimum Wage	\$0	-\$100	\$0
Improve Border Security	\$0	\$0	\$0
Support Manufacturing, Research, and Small Businesses	\$0	-\$100	\$0
Expand Access and Funding for Pre-K and Child Care	\$0	-\$700	\$0
Establish National Paid Family and Medical Leave	\$0	-\$200	\$0
Support Affordable and Quality Education	\$0	-\$100	\$0
Subtotal, Revenue Increases and Spending Reductions	\$0	-\$2,700	\$0
Net Interest	\$0	\$0	\$0
<b>Total Net Deficit Impact</b>	<b>\$0</b>	<b>-\$2,700</b>	<b>\$0</b>

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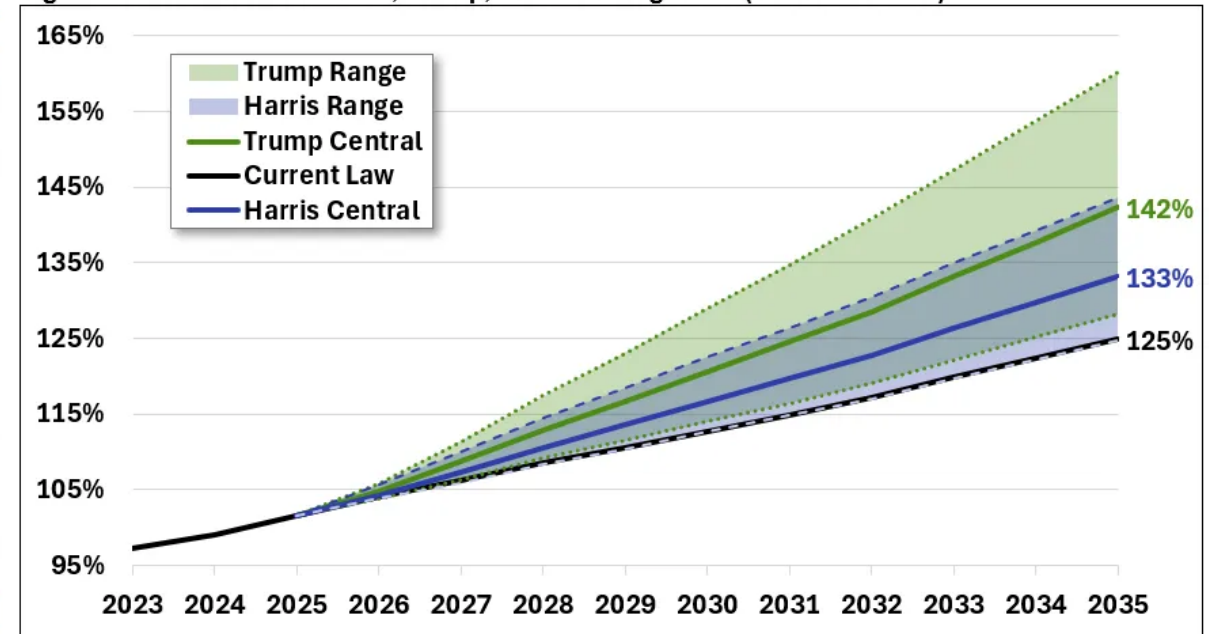
# The US' Debt-To-GDP Ratio Is Set To Accelerate Dramatically No Matter Who Wins The Election Or Which Party Controls Congress

Fig. 2: Candidate Proposals Under Our Central Estimate, Savings/Costs(-) (billions, 2026-2035)

	Harris	Trump
Extend and Modify Parts of the Tax Cuts & Jobs Act (TCJA)	-\$3,000	-\$5,350
Reduce Individual Taxes and Expand Tax Breaks	-\$1,600	-\$3,600
Reduce Business Taxes and Expand Tax Breaks	-\$150	-\$200
Increase Resources for Health Care and Long-Term Care	-\$750	-\$150
Increase Defense Spending	n/a	-\$400
Support Paid Leave, Preschool, Child Care, and Education	-\$1,400	n/a
Restrict Immigration and Strengthen Border Security	-\$100	-\$350
Increase Housing-Related Spending and Tax Breaks	-\$250	-\$150
<b>Subtotal, Deficit-Increasing Policies</b>	<b>-\$7,250</b>	<b>-\$10,200</b>
Increase Taxes on Corporations and High-Earners	\$4,000	n/a
Increase Tariffs	n/a	\$2,700
Reduce Other Spending and Tax Breaks	\$250	\$1,000
<b>Subtotal, Deficit-Reducing Policies</b>	<b>\$4,250</b>	<b>\$3,700</b>
<b>Net Interest</b>	<b>-\$500</b>	<b>-\$1,000</b>
<b>Total, Net Deficit Impact</b>	<b>-\$3,500</b>	<b>-\$7,500</b>

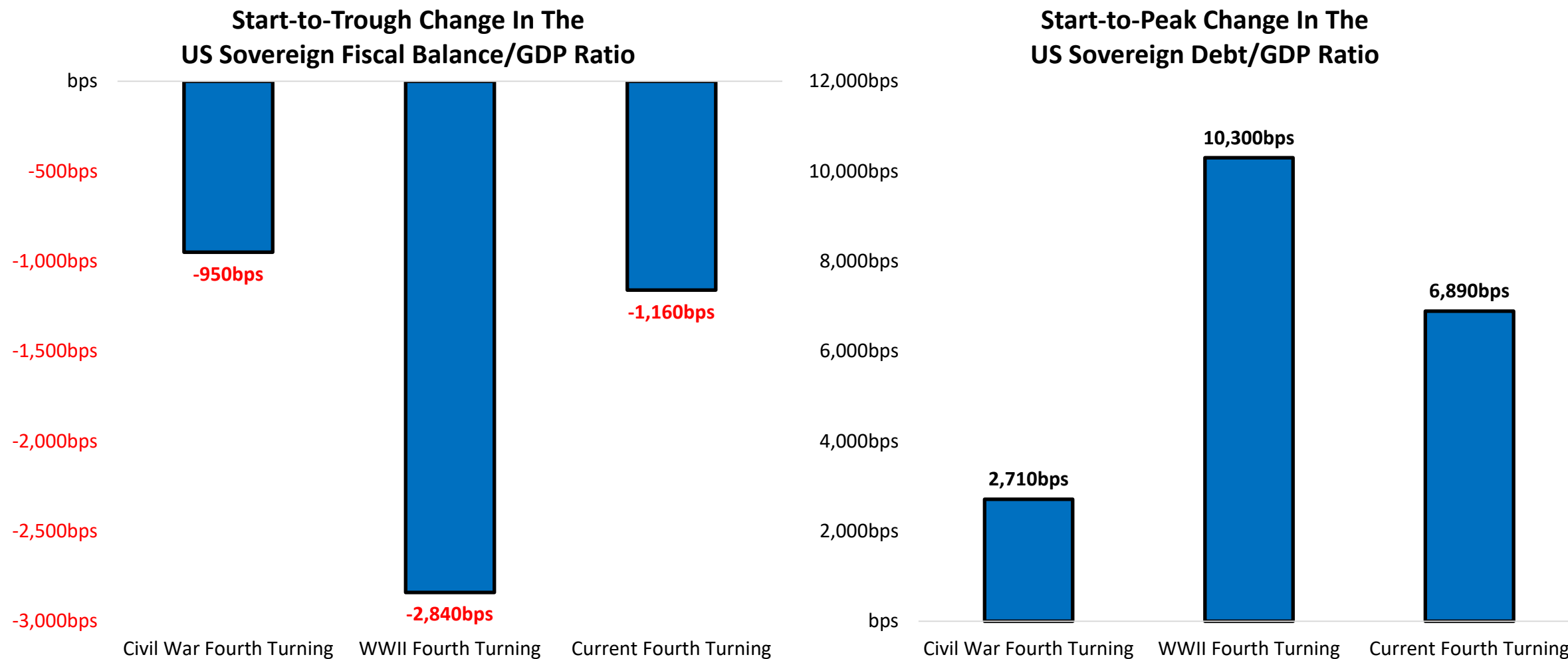
Note: Figures rounded to the nearest \$50 billion.

Fig. 4: Debt Under Current Law, Trump, and Harris Agendas (Percent of GDP)



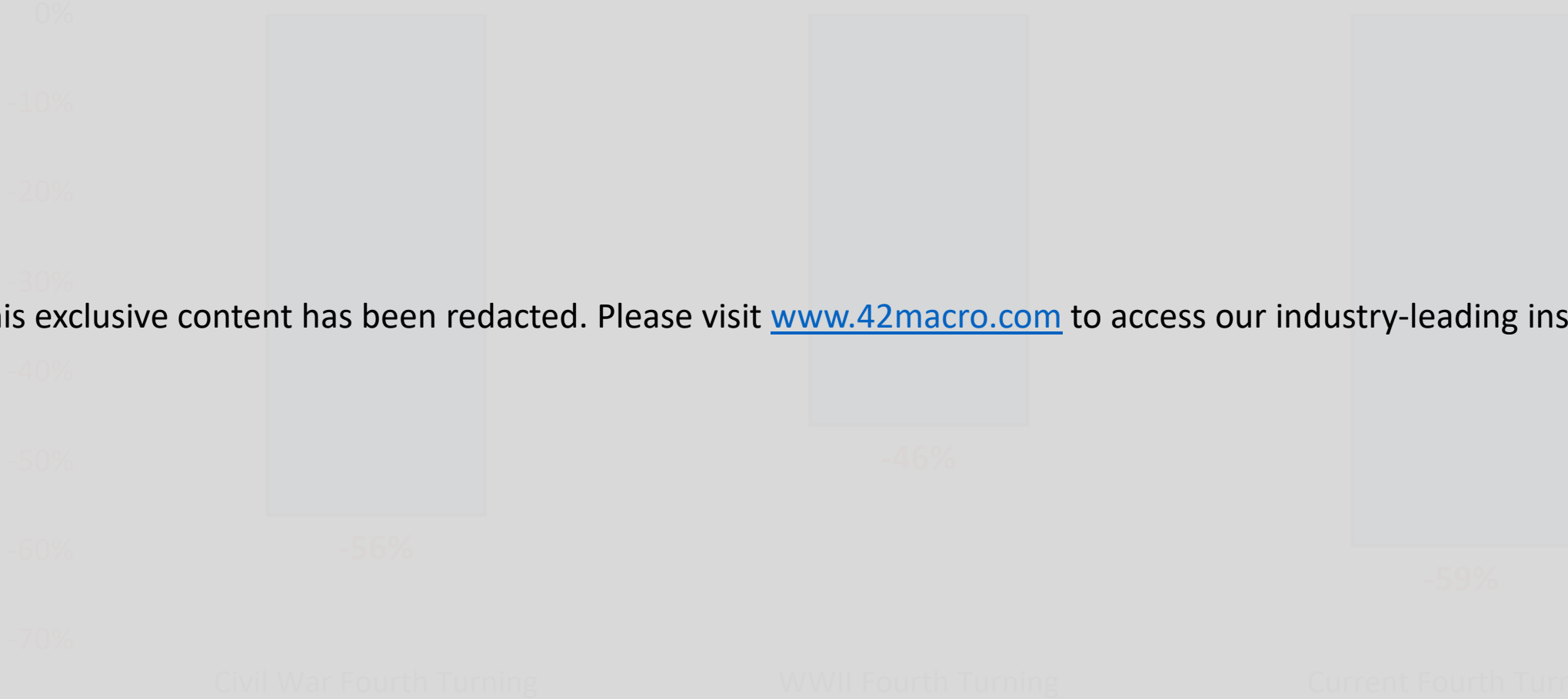
Source: Committee for a Responsible Federal Budget based on Congressional Budget Office baseline.

# From A Fiscal Policy Perspective, The US Is Already Experiencing A Fourth Turning Crisis... BEFORE THE ACTUAL FOURTH TURNING CRISIS OCCURS



# The Change In The US Dollar's Value vs. Gold Reflects The Unsustainable Fiscal Path The US Is Already On... PRIOR TO THE ACTUAL FOURTH TURNING CRISIS

Cumulative Debasement of the USD vs. Gold



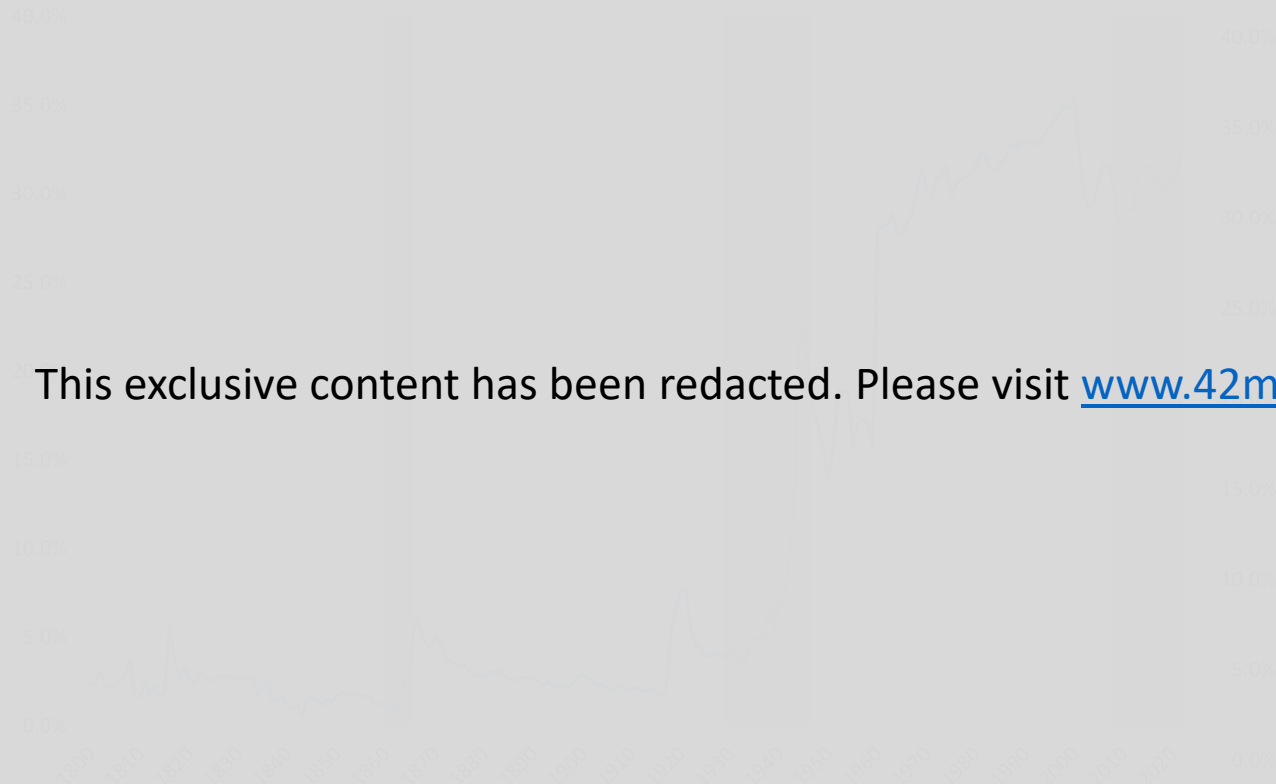
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# The Treasury Bond Market Is Likely Underpricing Structural Tailwinds For Both Supply And Inflation

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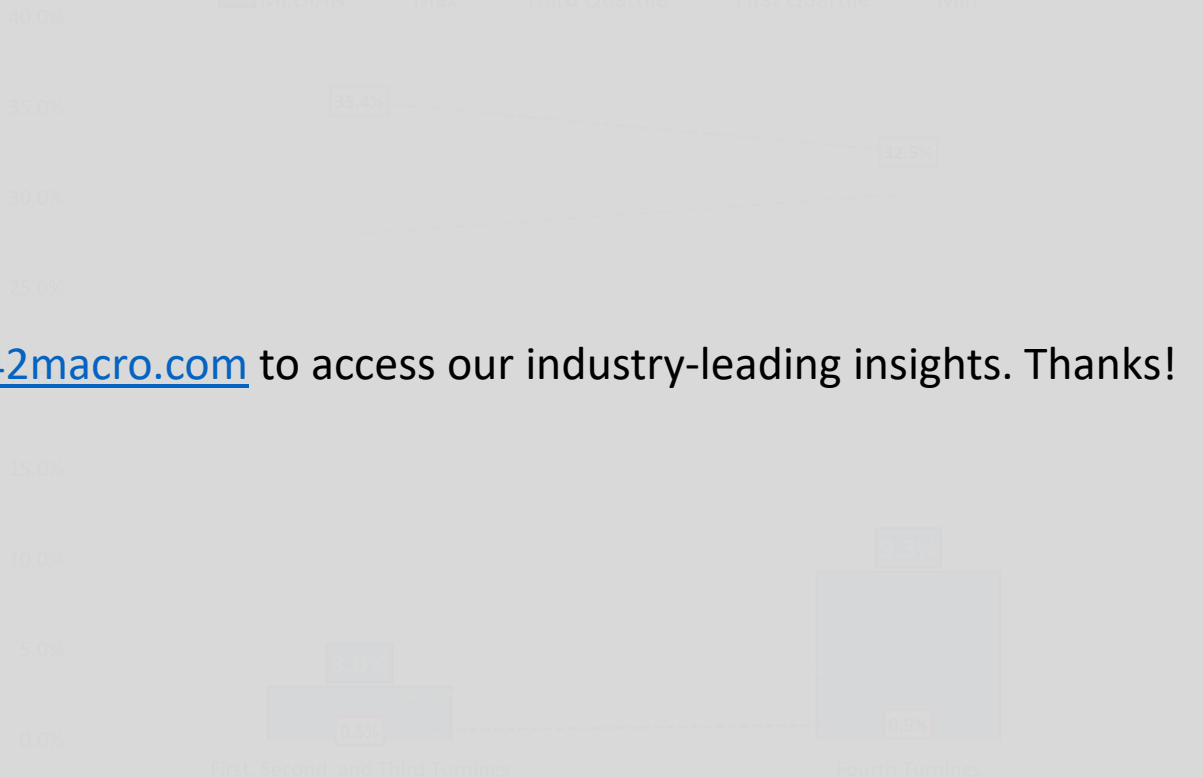
# Government Revenues Tend To Increase Sharply During Fourth Turnings

Fourth Turnings — Government Revenues/GDP Ratio



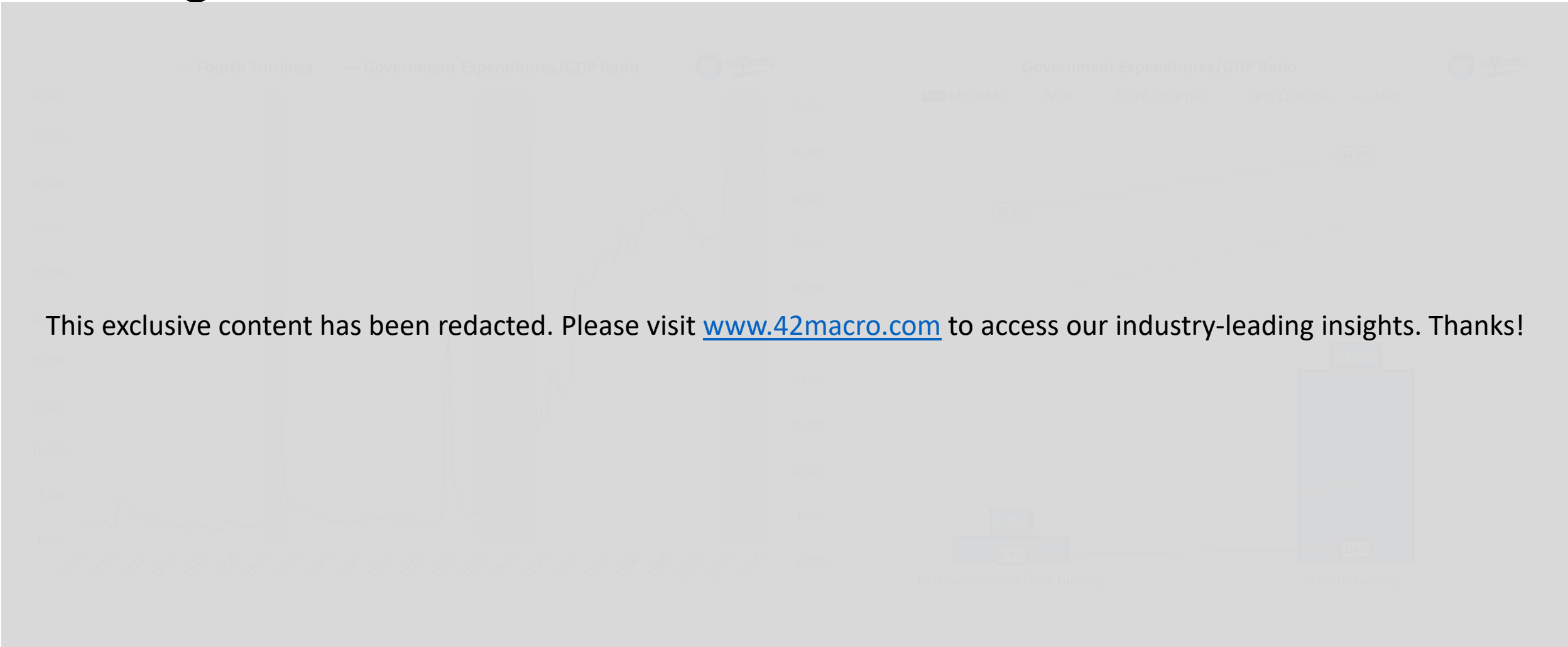
Government Revenues/GDP Ratio

MEDIAN Max Third Quartile First Quartile Min



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# Government Expenditures Tend To Increase Sharply During Fourth Turnings



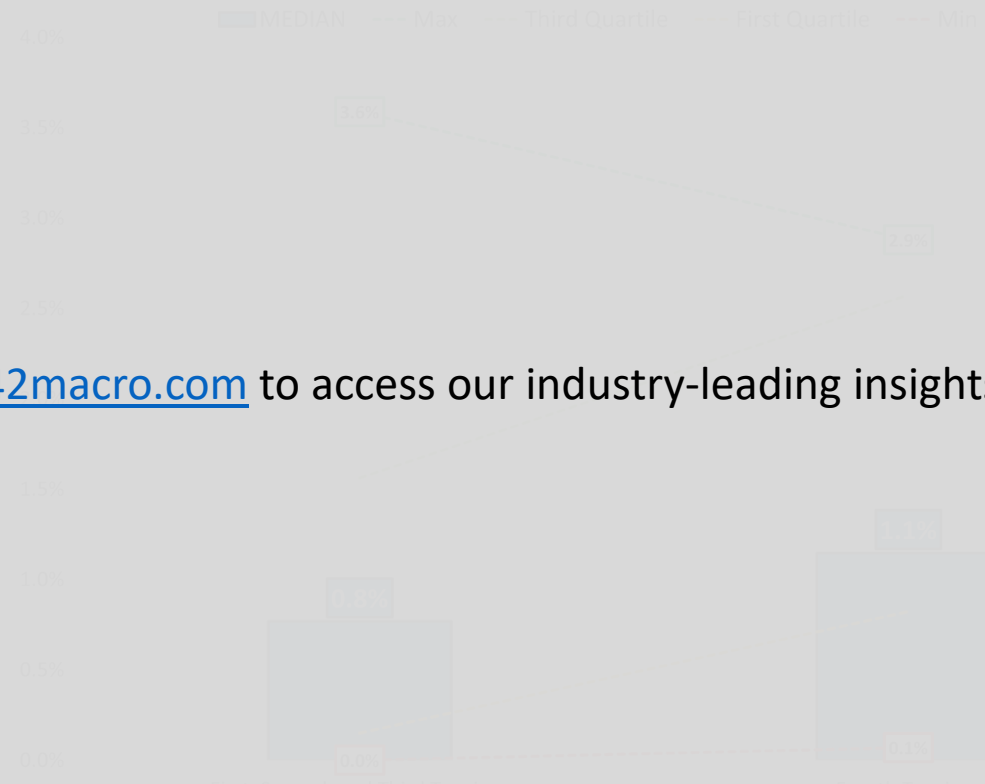
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# The Public Interest Burden Tends To Increase Sharply During Fourth Turnings

Fourth Turnings — Government Interest Expense/GDP Ratio



Government Interest Expense/GDP Ratio

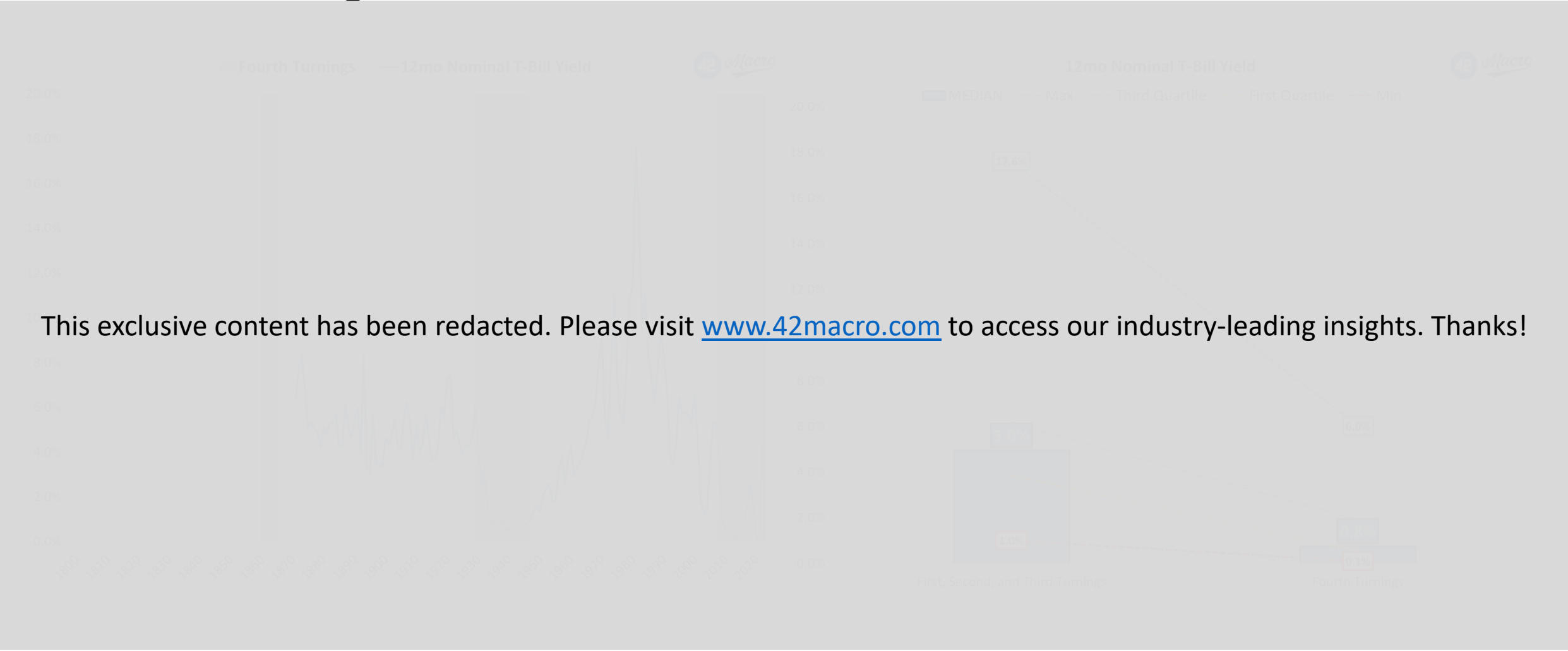


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# Key Fourth Turning Monetary Policy Risks: Financial Repression And Monetary Debasement

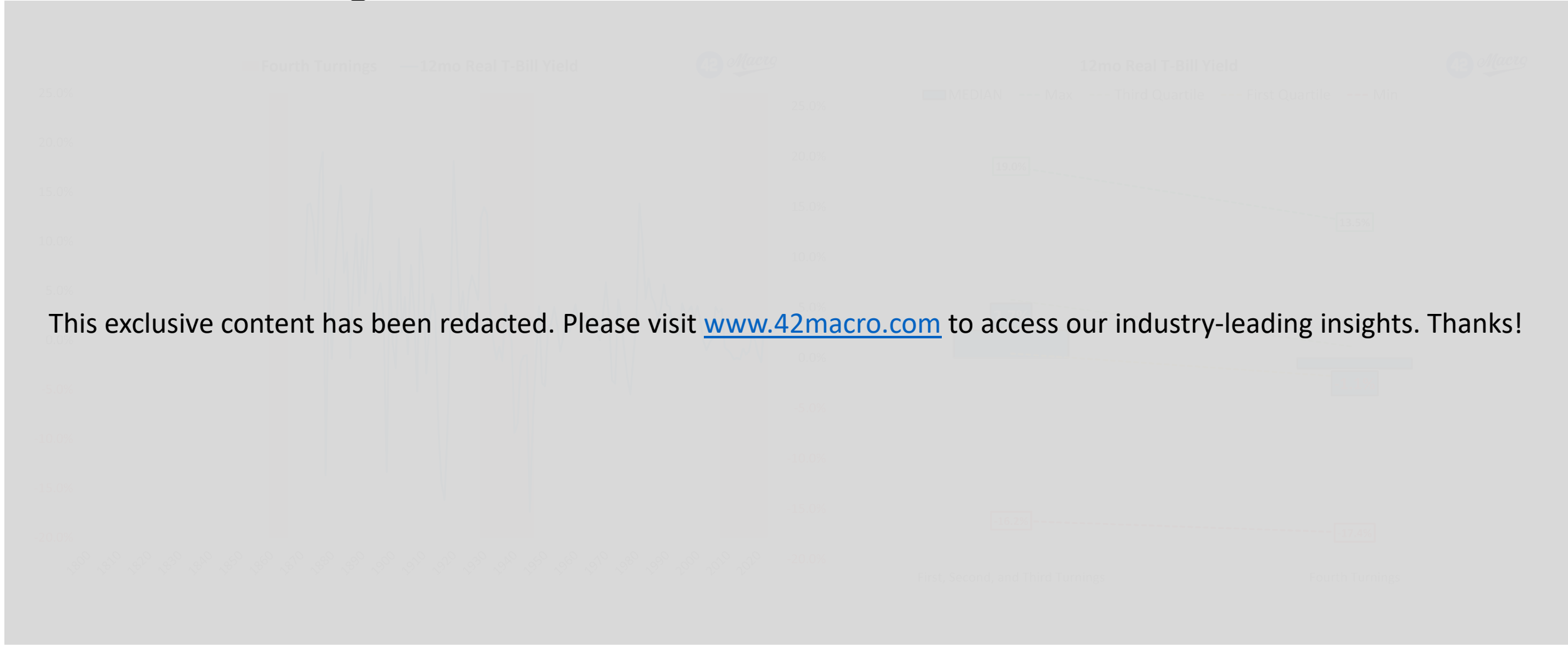
Monetary Policy		
Metric	Fourth Turning Median vs. Baseline	Consistent Fourth Turning Delta?
Nominal 12mo T-Bill Yield	↓	n/a
Real 12mo T-Bill Yield	↓	↓
Nominal 10yr Yield	↓	n/a
Real 10yr Yield	↓	↓
USD/Gold YoY	→	↓
Broad Money Supply YoY	↑	↑

# The 12mo Nominal T-Bill Yield Tends To Be Relatively Weak During Fourth Turnings



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# The 12mo Real T-Bill Yield Tends To Decline Substantially During Fourth Turnings



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# The 10yr Nominal Treasury Yield Tends To Be Relatively Weak During Fourth Turnings

Fourth Turnings — 10yr Nominal Treasury Note Yield



10yr Nominal Treasury Note Yield



15.0%

14.0%

12.0%

10.0%

8.0%

6.0%

4.0%

2.0%

0.0%

15.0%

14.0%

12.0%

10.0%

8.0%

6.0%

4.0%

2.0%

0.0%

MEDIAN

Max

Third Quartile

First Quartile

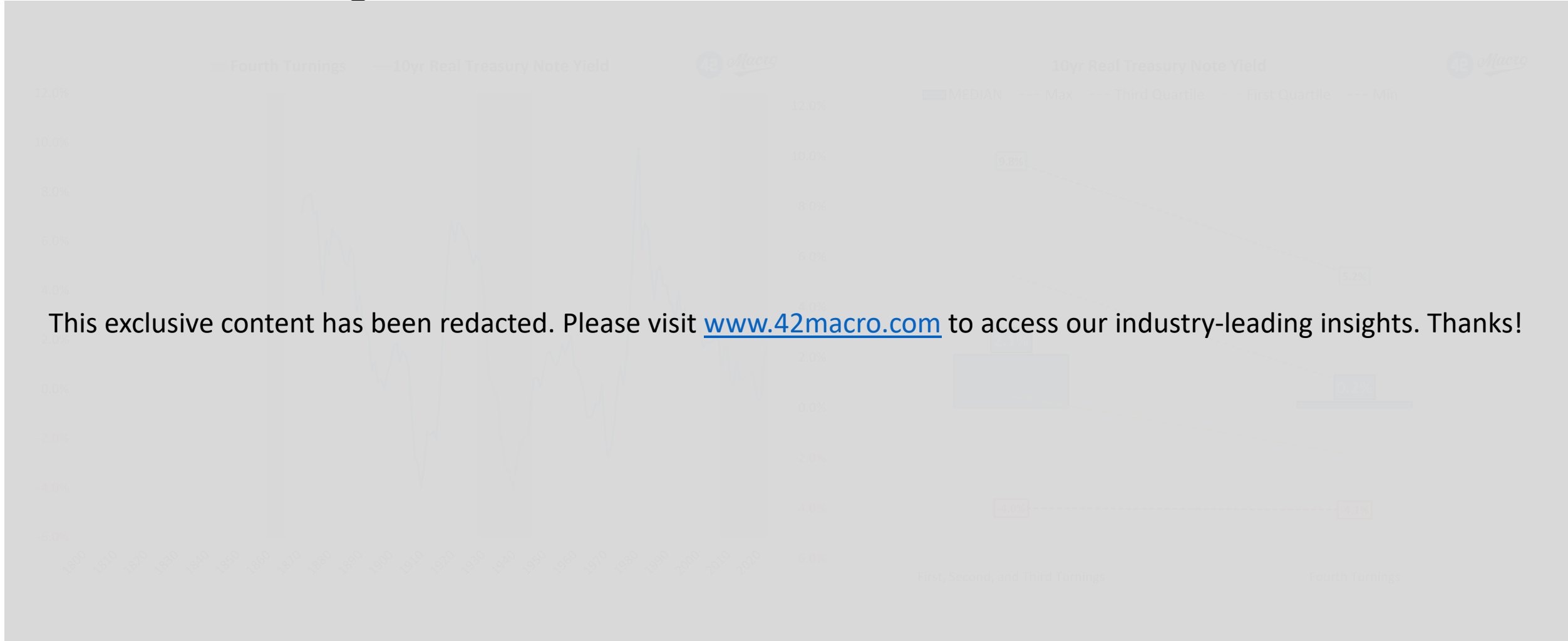
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First, Second, and Third Turnings

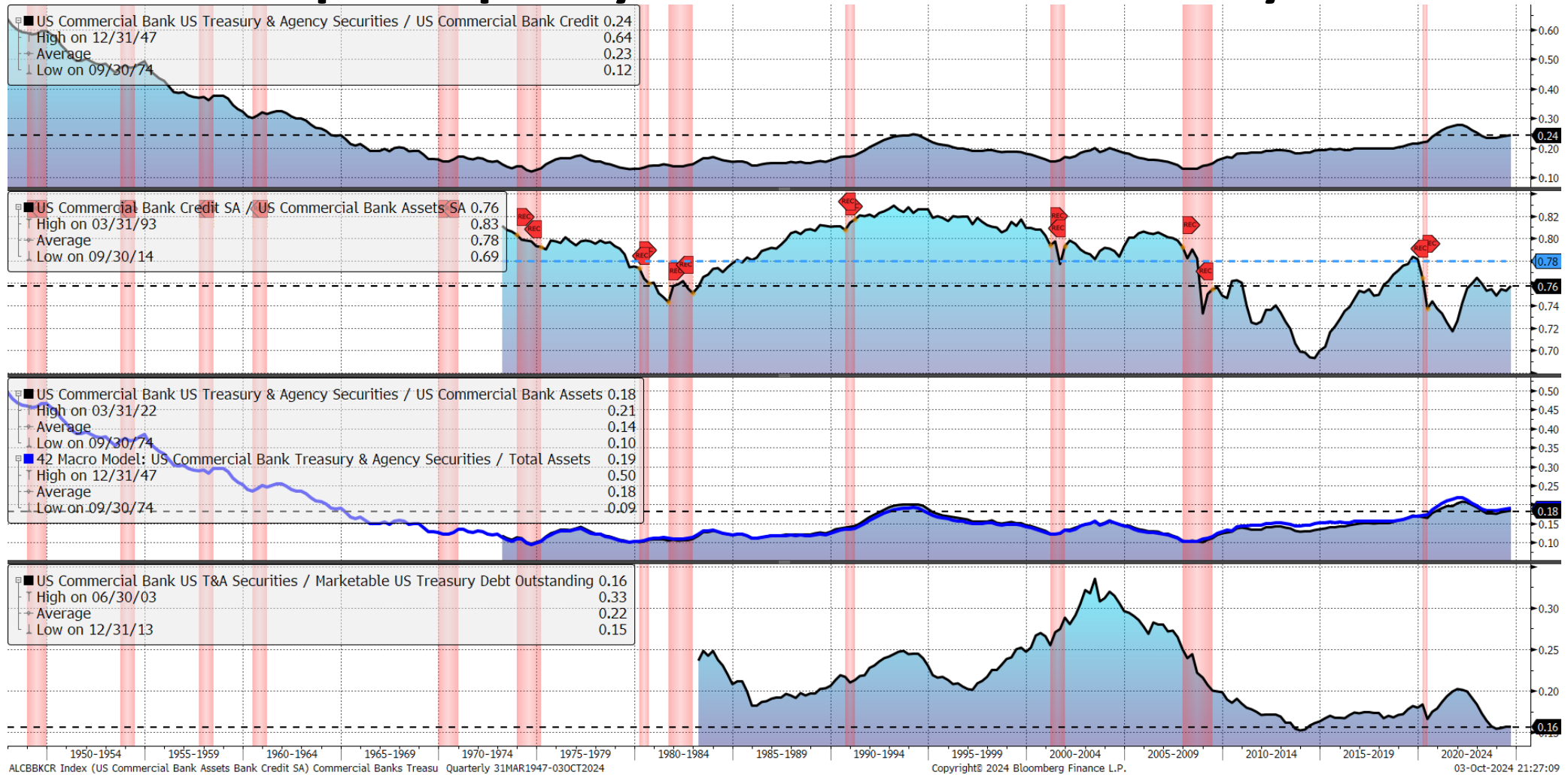
Fourth Turnings

# The 10yr Real Treasury Yield Tends To Decline Substantially During Fourth Turnings

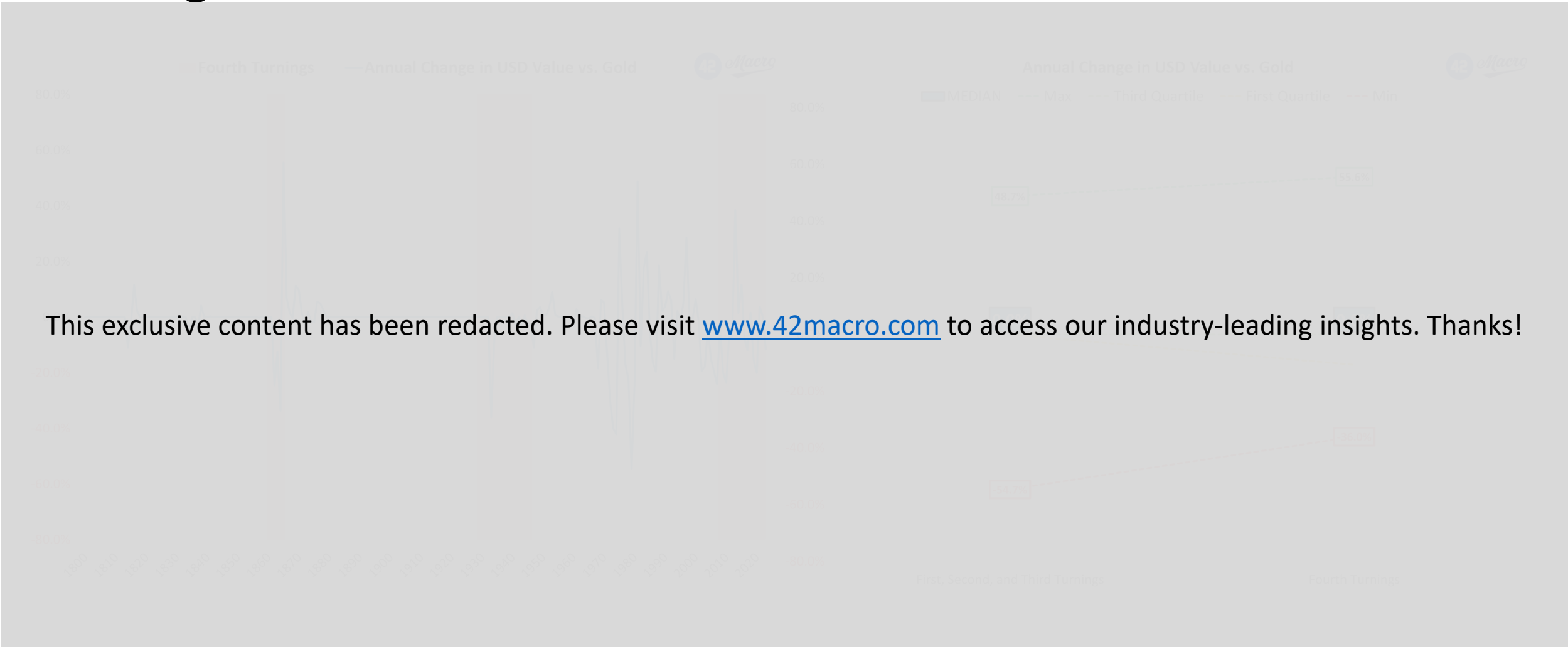


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# Investors Should Expect Incremental Financial Repression Because Banks Have Ample Capacity To Lend To The Treasury Market

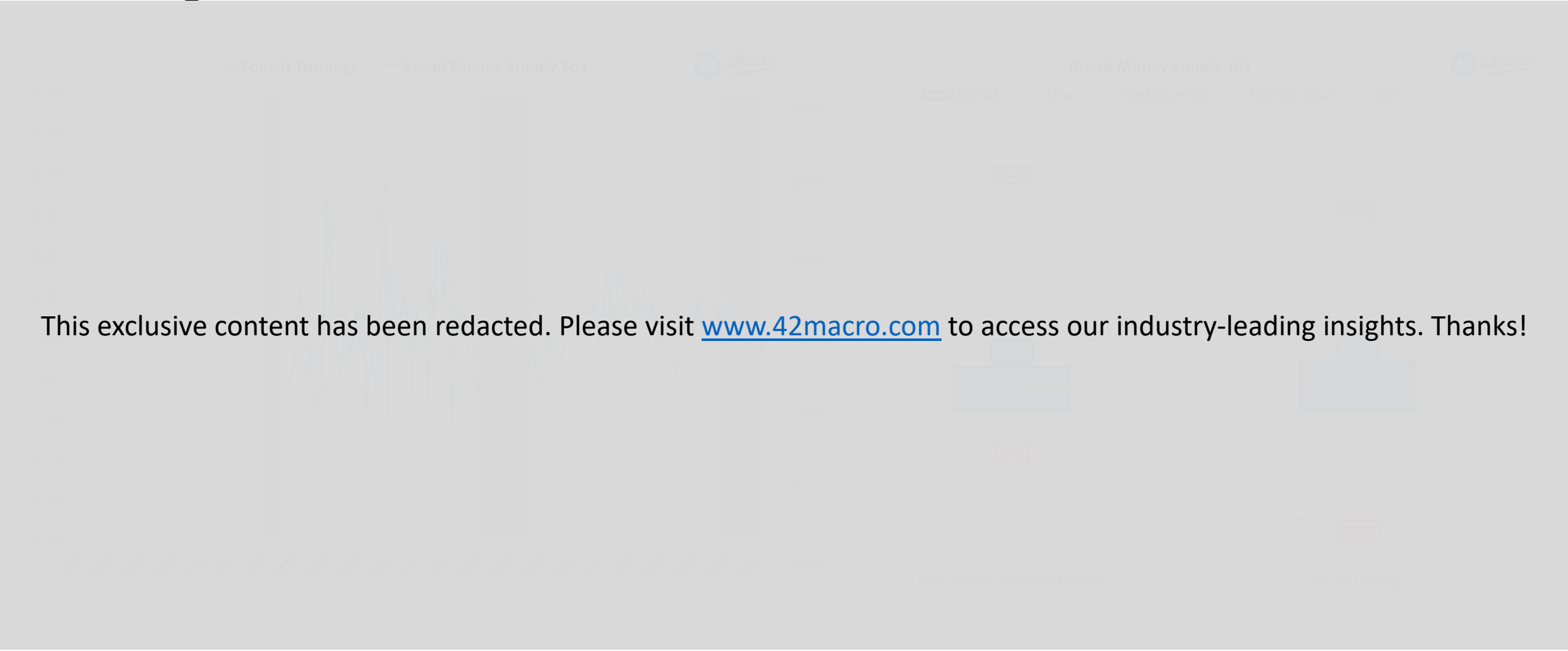


# The US Dollar Tends To Be Debased Substantially During Fourth Turnings



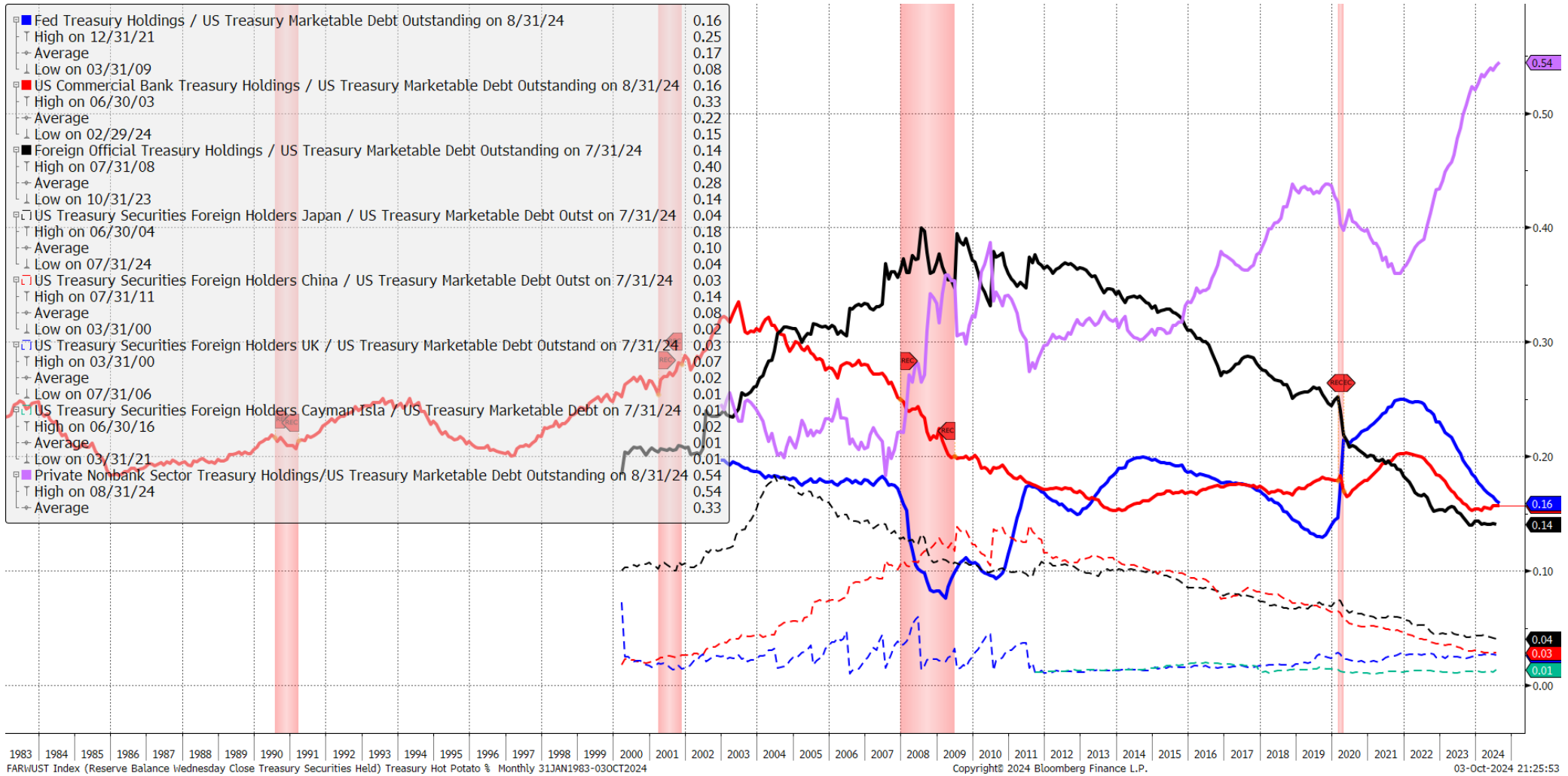
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# Money Supply Growth Tends To Accelerate Sharply During Fourth Turnings

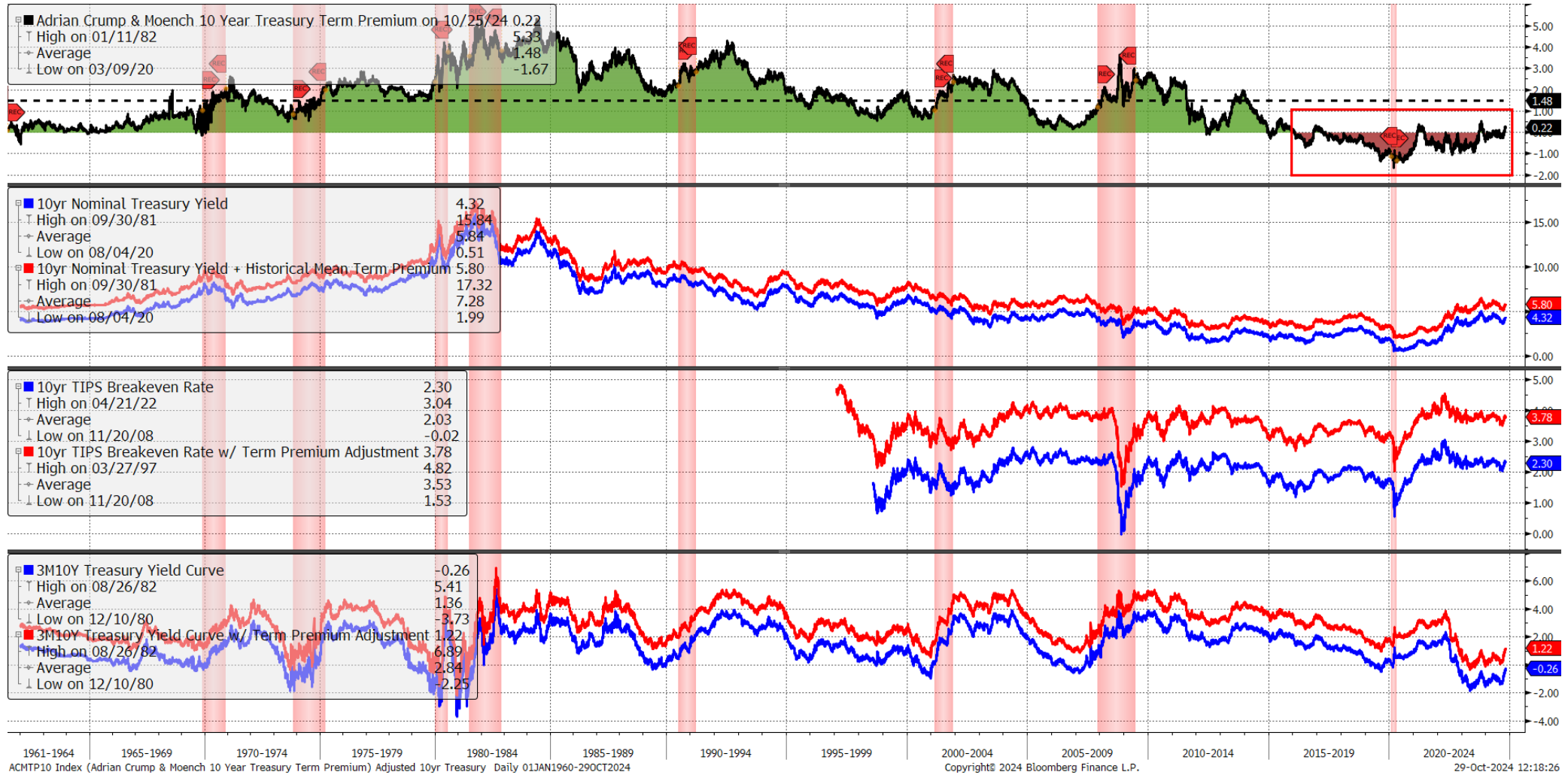


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# Investors Should Expect Incremental Monetary Debasement Because The Private Sector Will Demand Higher Yields To Capitalize Uncle Sam



# We Are All Frogs Being Boiled Alive In A Pot Of Monetary Debasement And Financial Repression Water Due To Fourth Turning-Style Fiscal Dominance



# KISS And Dr. Mo Will Make Your #FrogLife Better

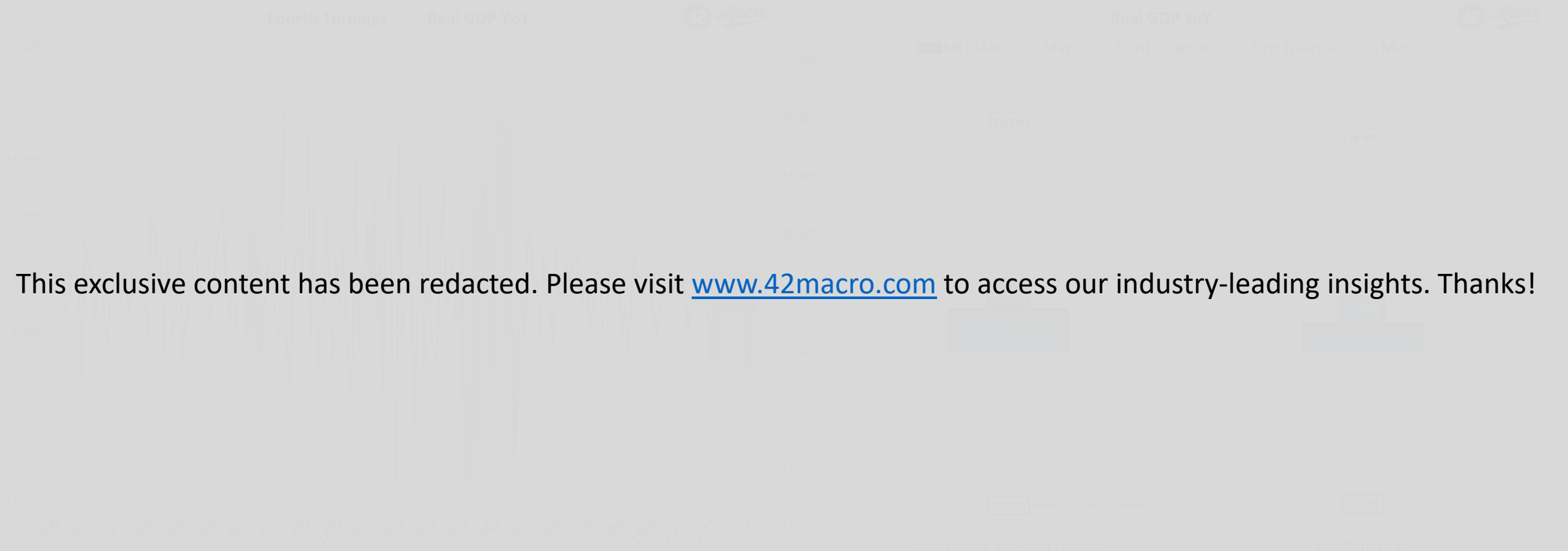


# Key Fourth Turning Economic Risks: Structural Uptrends In Nominal GDP, Inflation, Wage Growth, And Asset Price Inflation

Metric	Fourth Turning Median vs. Baseline	Consistent Fourth Turning Delta?
Real GDP YoY	↓	n/a
Nominal GDP YoY	↑	↑
Headline CPI YoY	↑	↑
Nonfarm Productivity YoY	↓	n/a
Corporate Profits/GDP Ratio	↑	n/a
S&P 500 EPS YoY	↑	n/a
S&P 500 YoY	↑	n/a
S&P 500 CAPE Ratio	↑	n/a
Nominal Home Prices YoY	↑	↑

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# Real GDP Growth Tends To Be Relatively Weak During Fourth Turnings



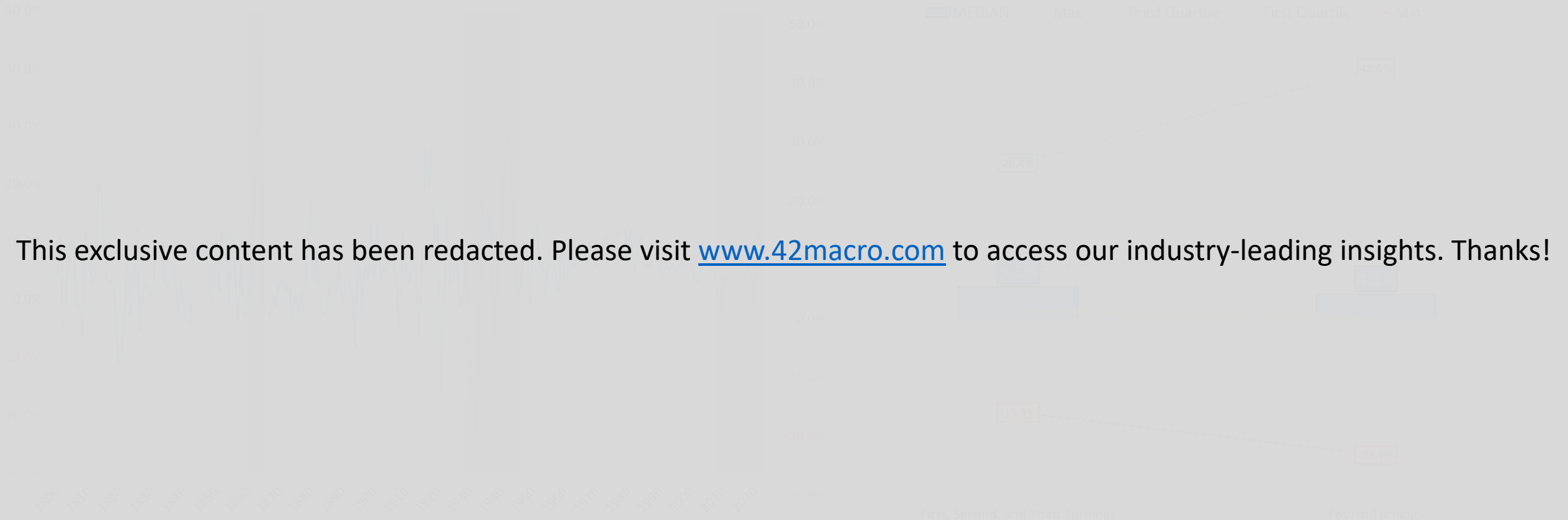
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# Nominal GDP Growth Tends To Accelerate Sharply During Fourth Turnings

Fourth Turnings — Nominal GDP YoY

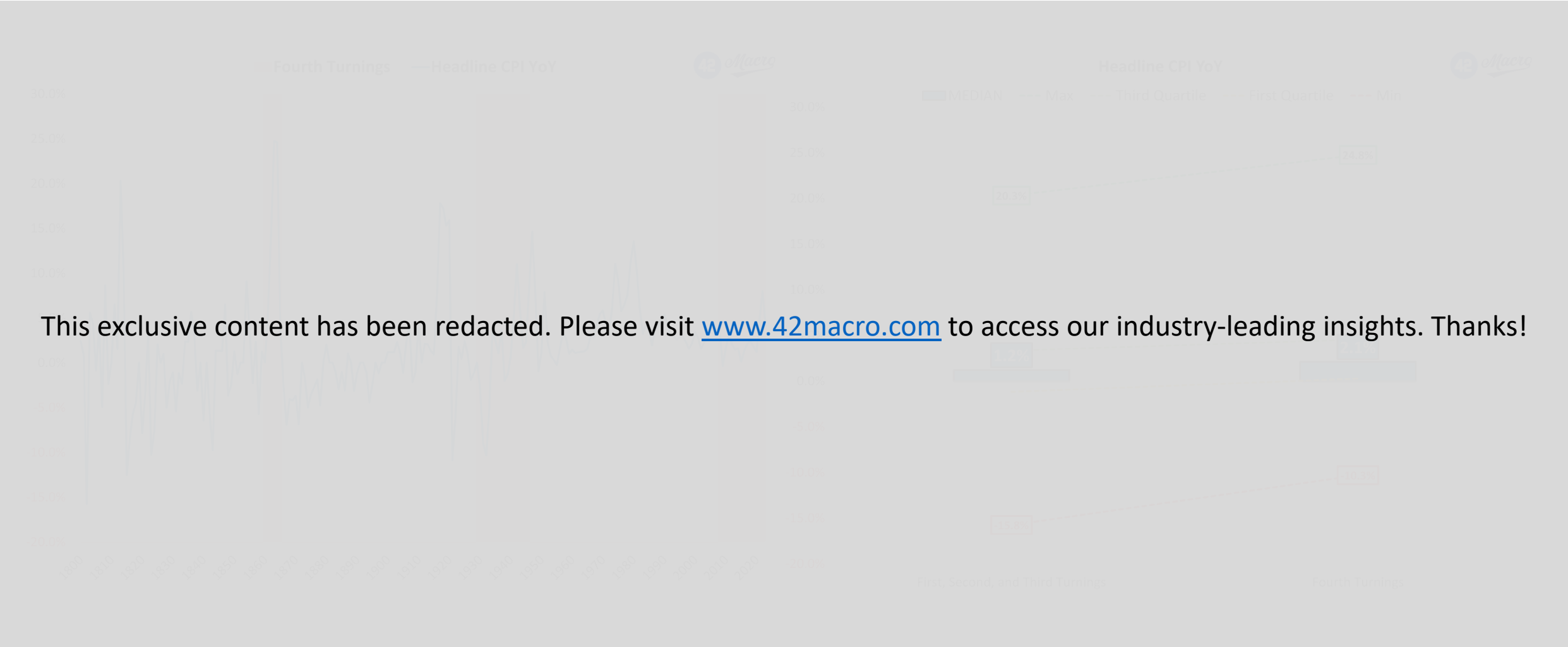


Nominal GDP YoY



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# Headline CPI Tends To Accelerate Sharply During Fourth Turnings



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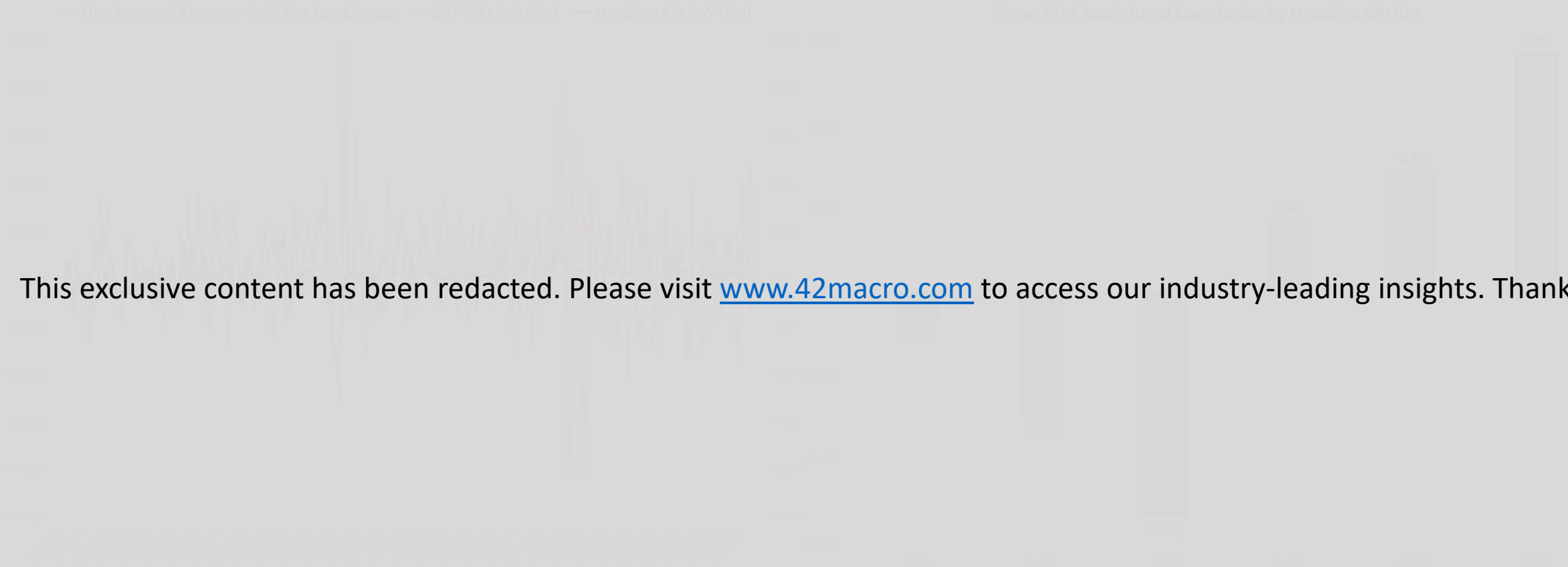
# The 42 Macro Secular Inflation Model Suggests Core PCE May Compound Nearly Twice As Fast This Decade... Is 3% The New 2%?

US SECULAR INFLATION MODEL FEATURES	Δ-ADJUSTED Z-SCORE (Latest Value vs. 2010-19 Sample)
Automation: Capex/Employee Compensation (Latest Value = 27%)	0.0
Commodities: CRB Index (Latest Value = 536)	2.1
Demographics: Share of Population ≥ 65 Years Old (Latest Value = 17%)	2.0
Fed Reaction Function: Fed Balance Sheet as a % of GDP (Latest Value = 25%)	1.3
<b>Fiscal Policy: Sovereign Fiscal Balance as a % of GDP (Latest Value = -7.2%)</b>	<b>1.2</b>
<b>Globalization: Imports of Goods and Services as a % of GDP (Latest Value = 15%)</b>	<b>0.3</b>
Household Formation: Net Change in Domestic Households (Latest Value = 1411)	1.1
Income Inequality: Gini Coefficient (Latest Value = 0.49)	(1.3)
Labor Supply: Labor Force Participation Rate (Latest Value = 62.7)	0.9
Money Supply: M2 YoY (Latest Value = 2%)	(2.1)
Money Velocity: M2/Nominal GDP (Latest Value = 1.4)	(1.6)
Monopsony Power: S&P 100 Market Cap/S&P 500 Market Cap (Latest Value = 69%)	(6.5)
Populism: 25-54 Employment-to-Population Ratio (Latest Value = 80%)	(1.5)
<b>Productivity: Output Per Hour of Nonfarm Labor YoY (Latest Value = 2.7%)</b>	<b>(1.4)</b>
Public Debt: Federal Debt Held by the Public as a % of GDP (Latest Value = 106%)	6.0
Technology: NASDAQ 100 Market Cap/Russell 3000 Market Cap (Latest Value = 43%)	(5.0)
<b>Wages: Employment Cost Index YoY (Latest Value = 4.1%)</b>	<b>5.2</b>
<b>Wealth Effect: Household Checkable Deposits as a % of Total Assets (Latest Value = 2%)</b>	<b>9.6</b>
Wealth Inequality: Top-10% Share of Household Wealth (Latest Value = 50%)	3.6
Mean Z-Score	0.7
Weighted Z-Score	1.9
2010-19 Trend of Core PCE YoY	1.6%
2020-29 Trend Projection: Mean Z-Score Model	2.7%
2020-29 Trend Projection: Weighted Z-Score Model	3.1%
2020-to-date Trend of Core PCE YoY	3.5%

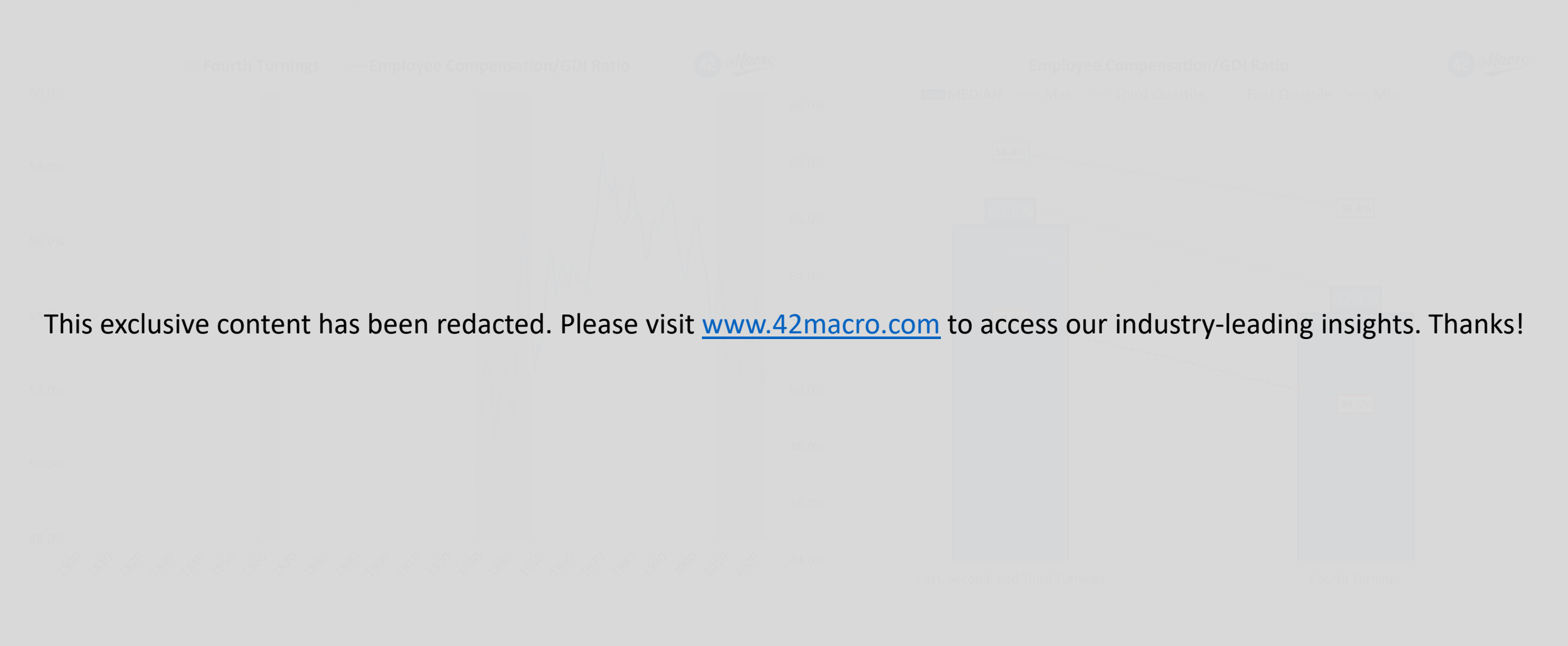
© 42 Macro LLC. Data Source: Bloomberg.

The 42 Macro Secular Inflation Model interpolates the normalized change of key indicators upon the underlying trend of Core PCE inflation on a raw and weighted basis. **Bold** font = highest weighted features.

# The Level Of Inflation Has Important Implications For The Stock-Bond Correlation And, By Extension, Portfolio Construction

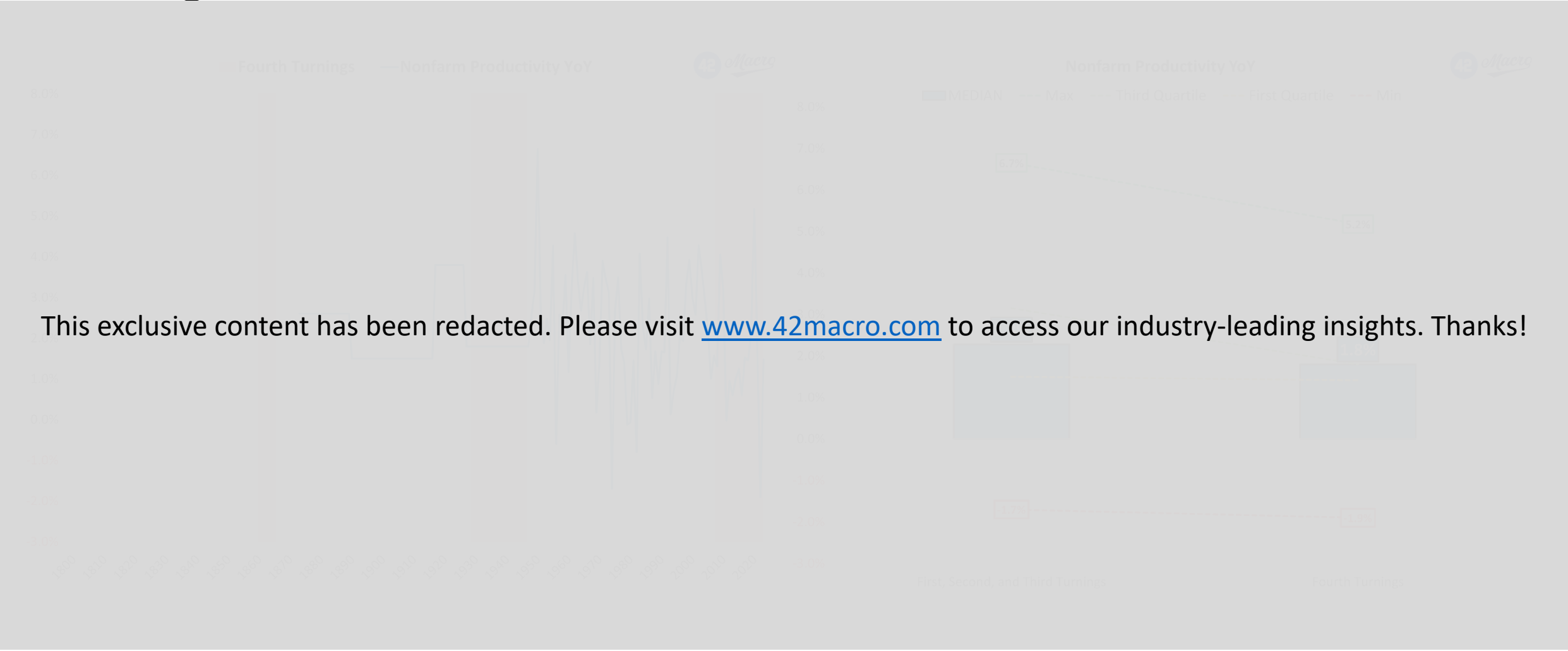


# Employee Compensation Tends To Accelerate Significantly During Fourth Turnings



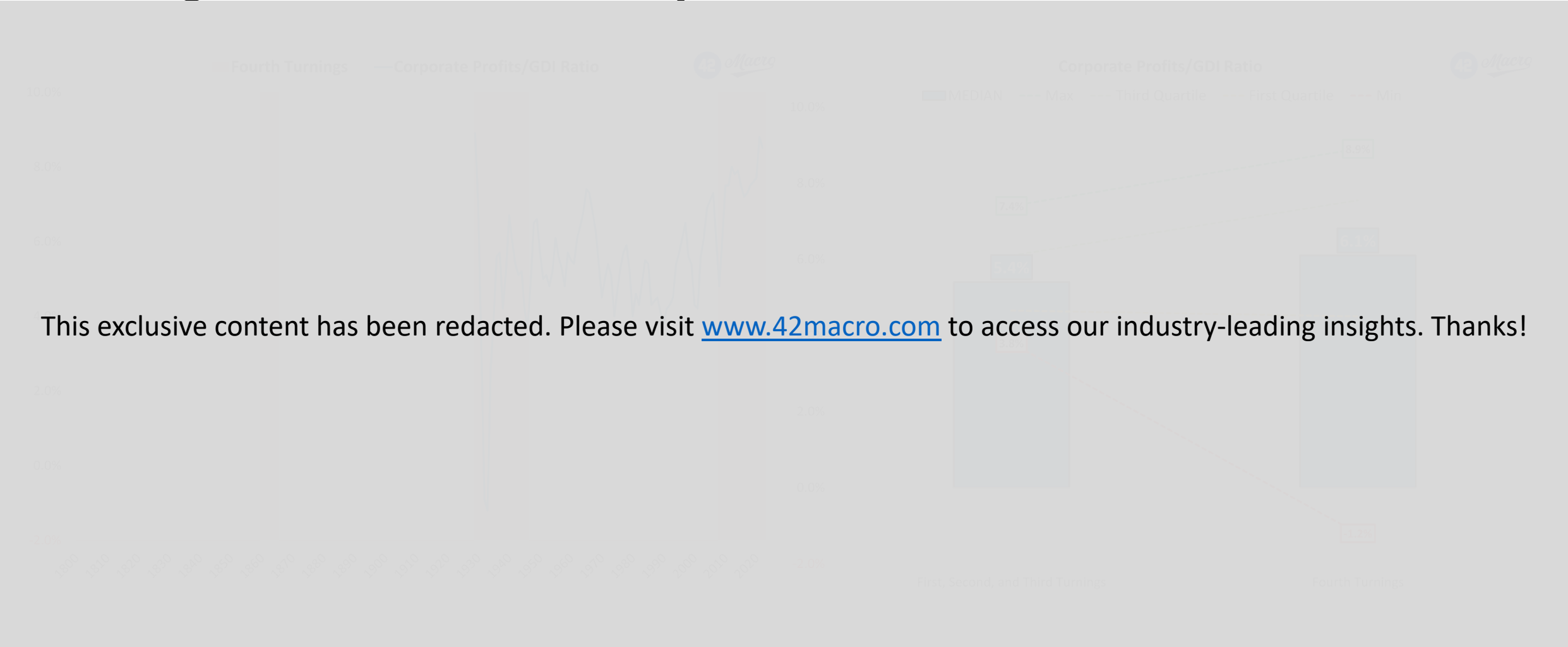
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# Productivity Growth Tends To Be Relatively Weak During Fourth Turnings



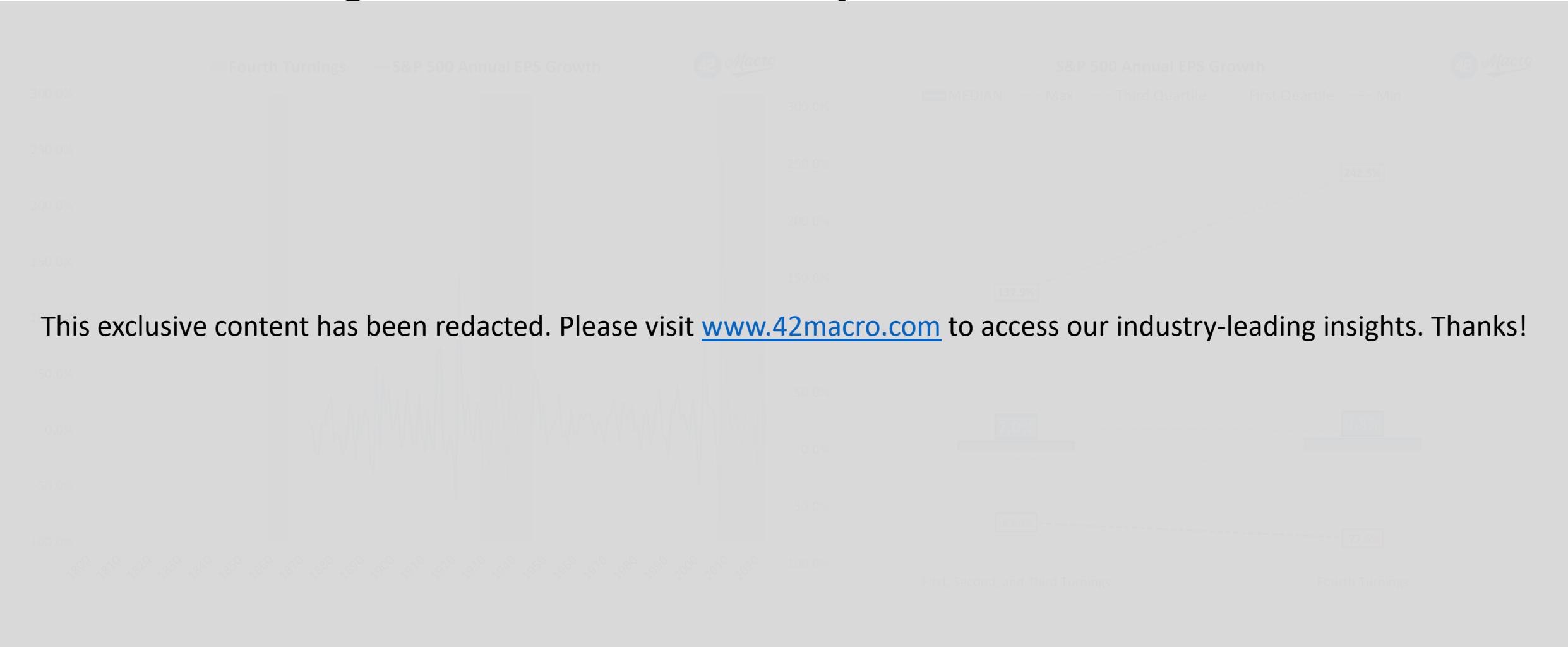
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# Corporate Profitability Tends To Be Relatively Strong During Fourth Turnings With More Volatility



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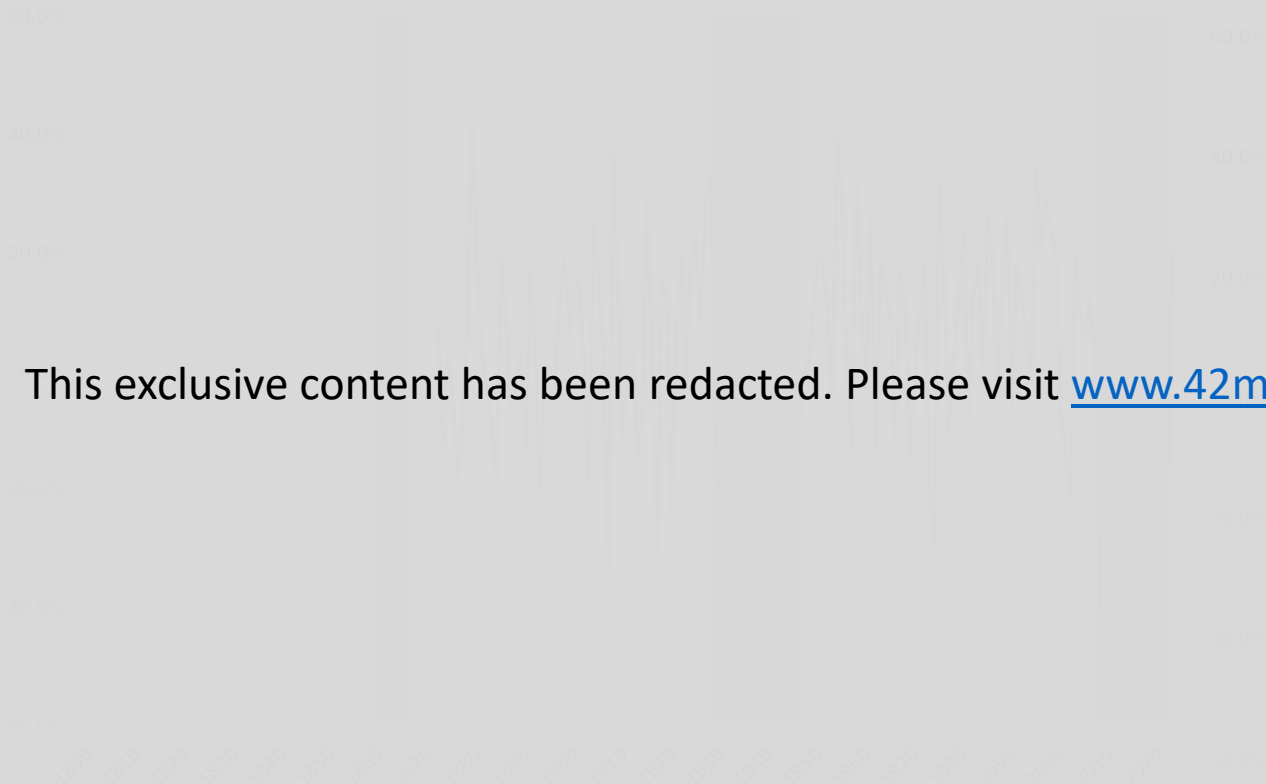
# S&P 500 Earnings Growth Tends To Be Relatively Strong During Fourth Turnings With More Volatility



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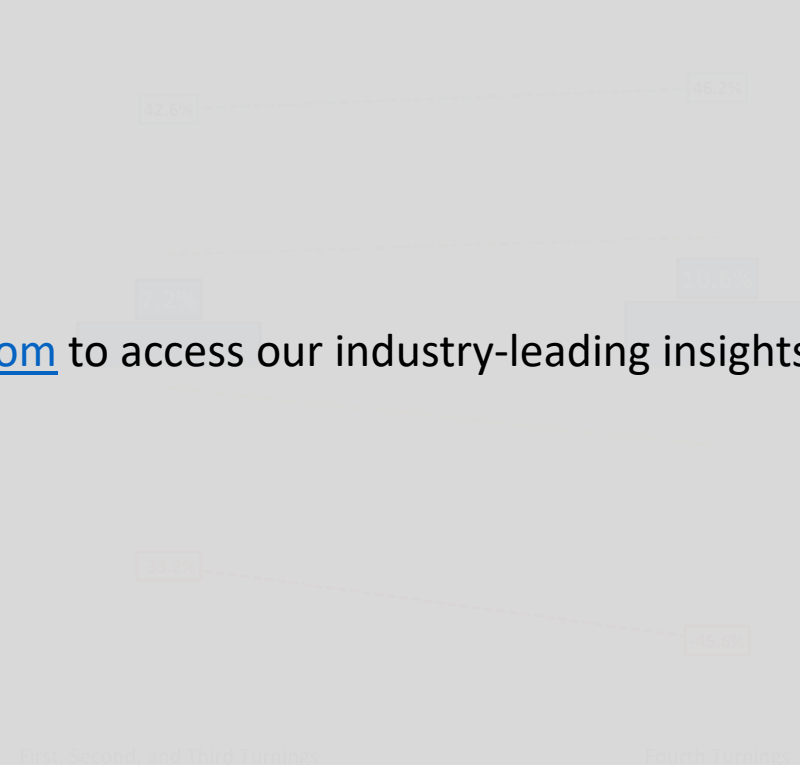
# S&P 500 Returns Tend To Be Relatively Strong During Fourth Turnings With More Volatility

Fourth Turnings — S&P 500 Annual Returns



S&P 500 Annual Returns

MEDIAN Max Third Quartile First Quartile Min



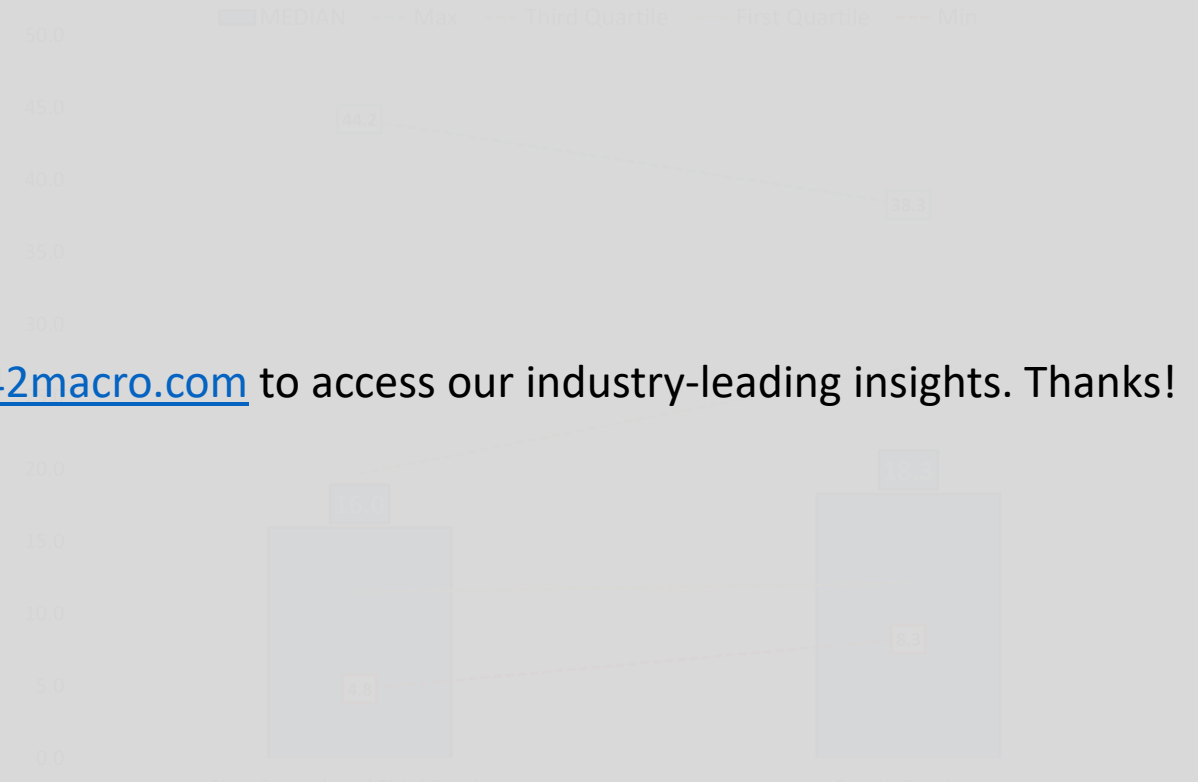
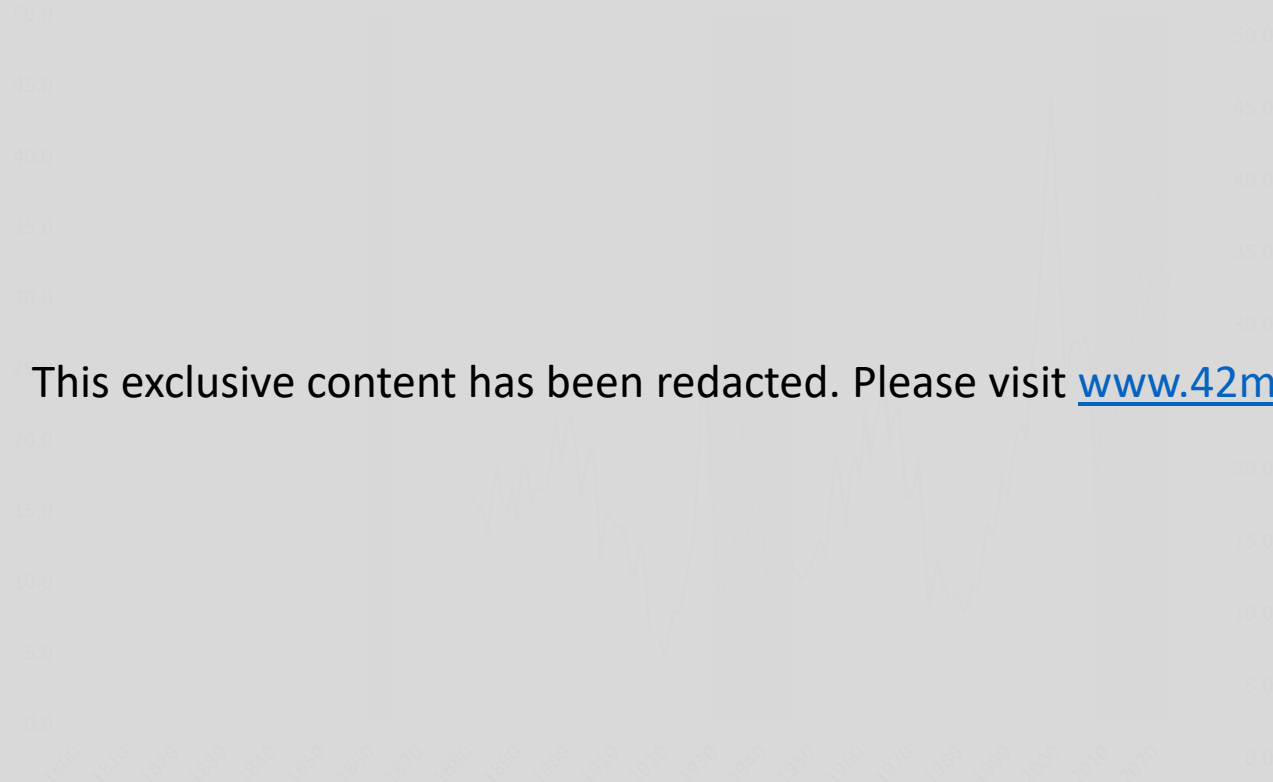
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# S&P 500 Valuations Tend To Be Relatively Strong During Fourth Turnings

Fourth Turnings — S&P 500 CAPE Ratio



S&P 500 CAPE Ratio



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# Nominal Home Price Growth Tends To Accelerate Sharply During Fourth Turnings

Fourth Turnings — Annual Nominal Home Price Growth



Annual Nominal Home Price Growth



30.0%  
25.0%  
20.0%  
15.0%  
10.0%  
0.0%

30.0%  
25.0%  
20.0%  
15.0%  
10.0%  
0.0%

MEDIAN Max Third Quartile First Quartile Min

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0.0%  
5.0%  
10.0%  
15.0%  
20.0%

0.0%  
5.0%  
10.0%  
15.0%  
20.0%

First, Second, and Third Turnings Fourth Turnings

# Key Fourth Turning Geopolitical Risks: A Structural Downtrend In Income Inequality, Declining Birth Rates, Increased Trade Protectionism, And Total War

Metric	Fourth Turning Median vs. Baseline	Condition: Fourth Turning Delta?
Top 10% share of National Income	↑	↑
Real Crude Oil Price YoY	↓	↓
Fertility Rate	↓	↓
Immigration YoY	↓	↓
Trade/GDP Ratio	↑	↑
Global War Deaths	↑	↑

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# Income Inequality Tends To Decline Sharply From Relatively Elevated Levels During Fourth Turnings

Fourth Turnings — Top-10% Share of National Income



Top-10% Share of National Income



55.0%

50.0%

45.0%

40.0%

35.0%

30.0%

60.0%

50.0%

40.0%

20.0%

10.0%

0.0%

MEDIAN

Max

Third Quartile

First Quartile

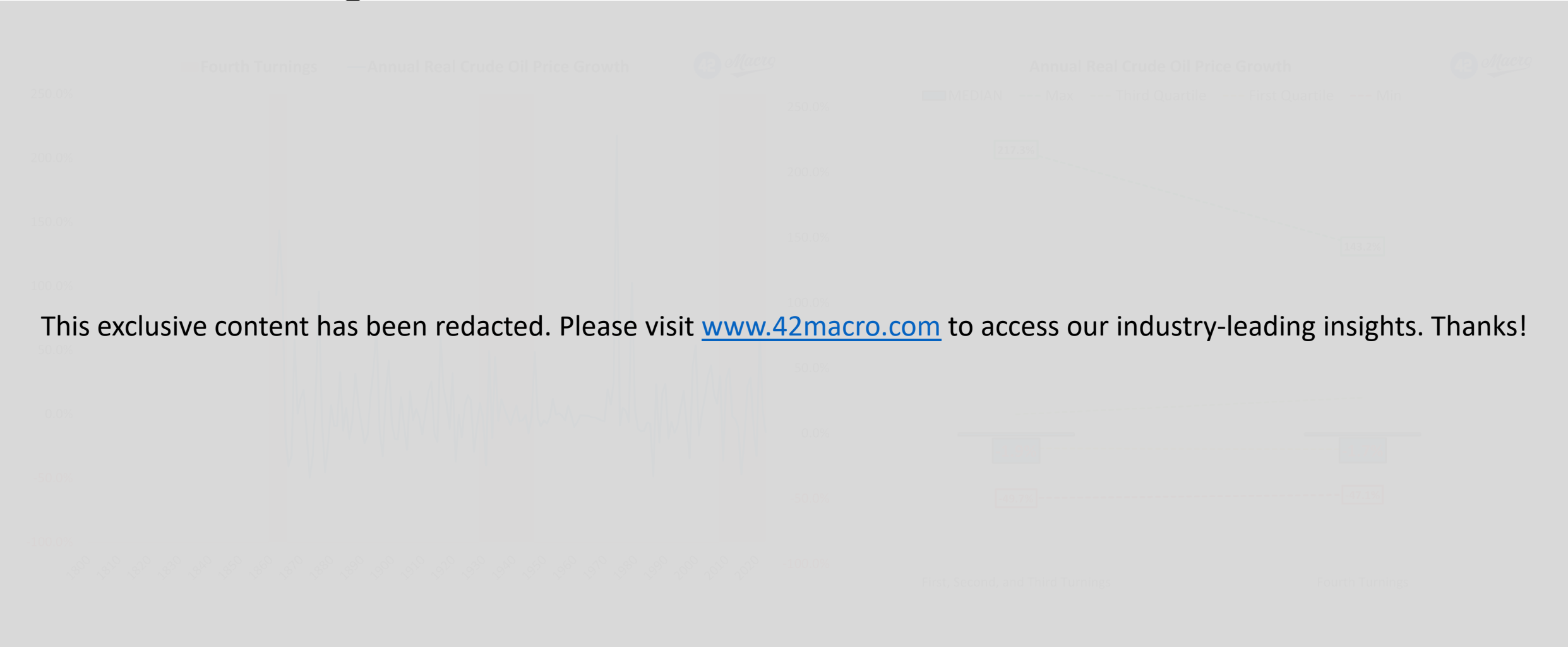
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First, Second, and Third Turnings

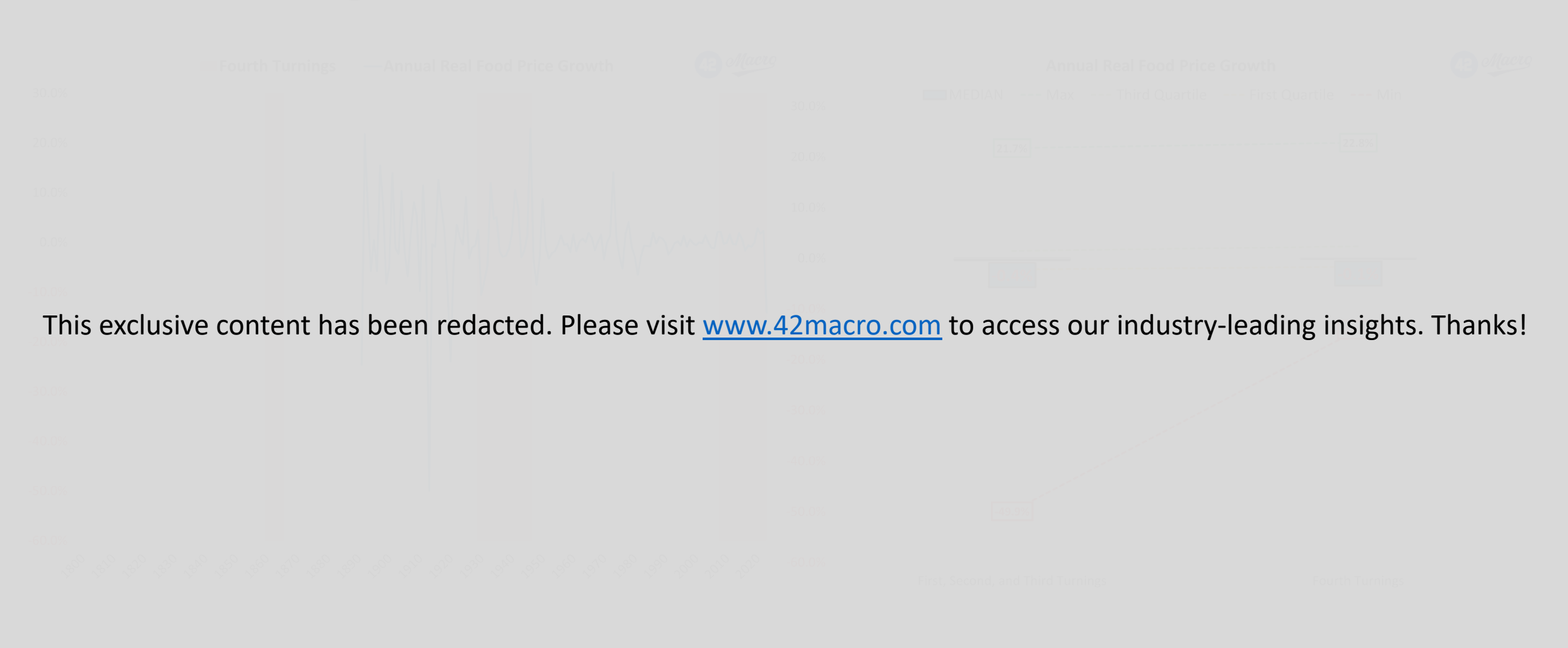
Fourth Turnings

# Real Crude Oil Price Growth Tends To Be Relatively Stable During Fourth Turnings



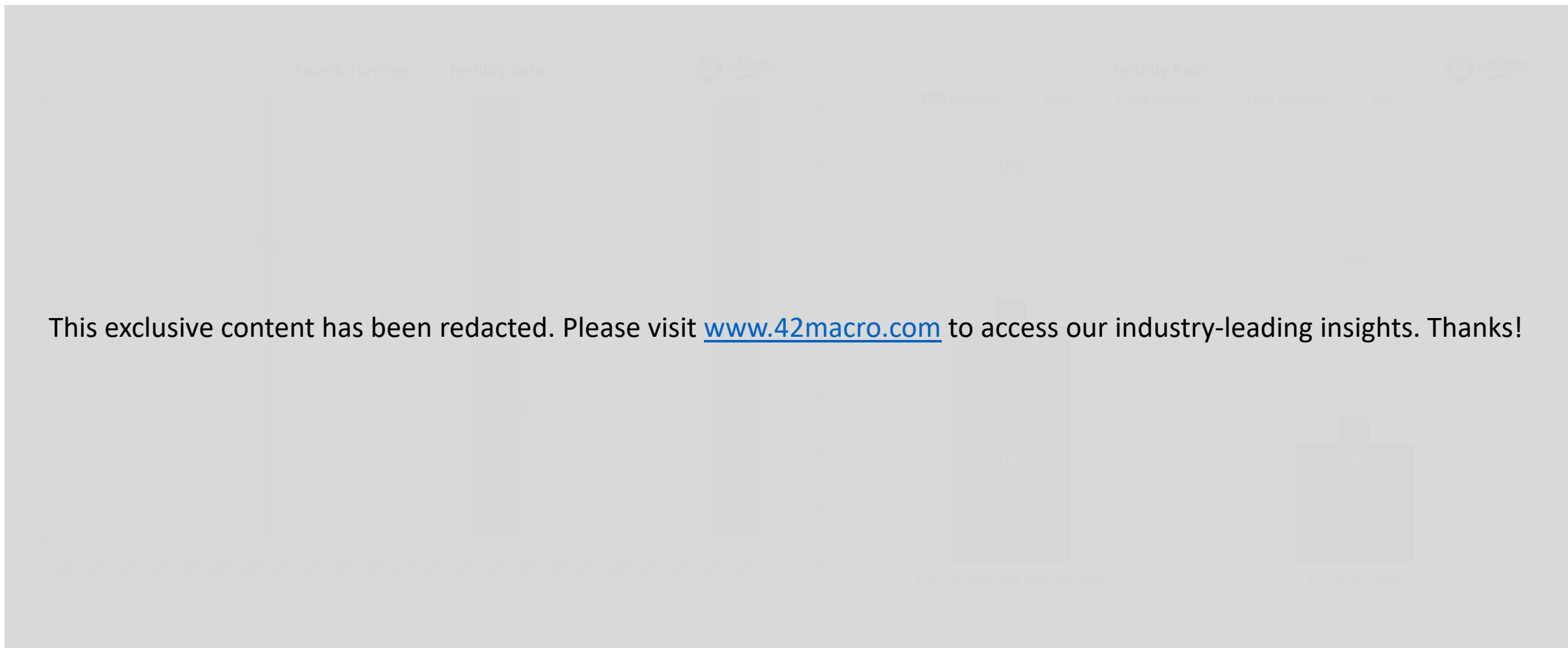
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# Real Food Prices Growth Tends To Be Relatively Stable During Fourth Turnings



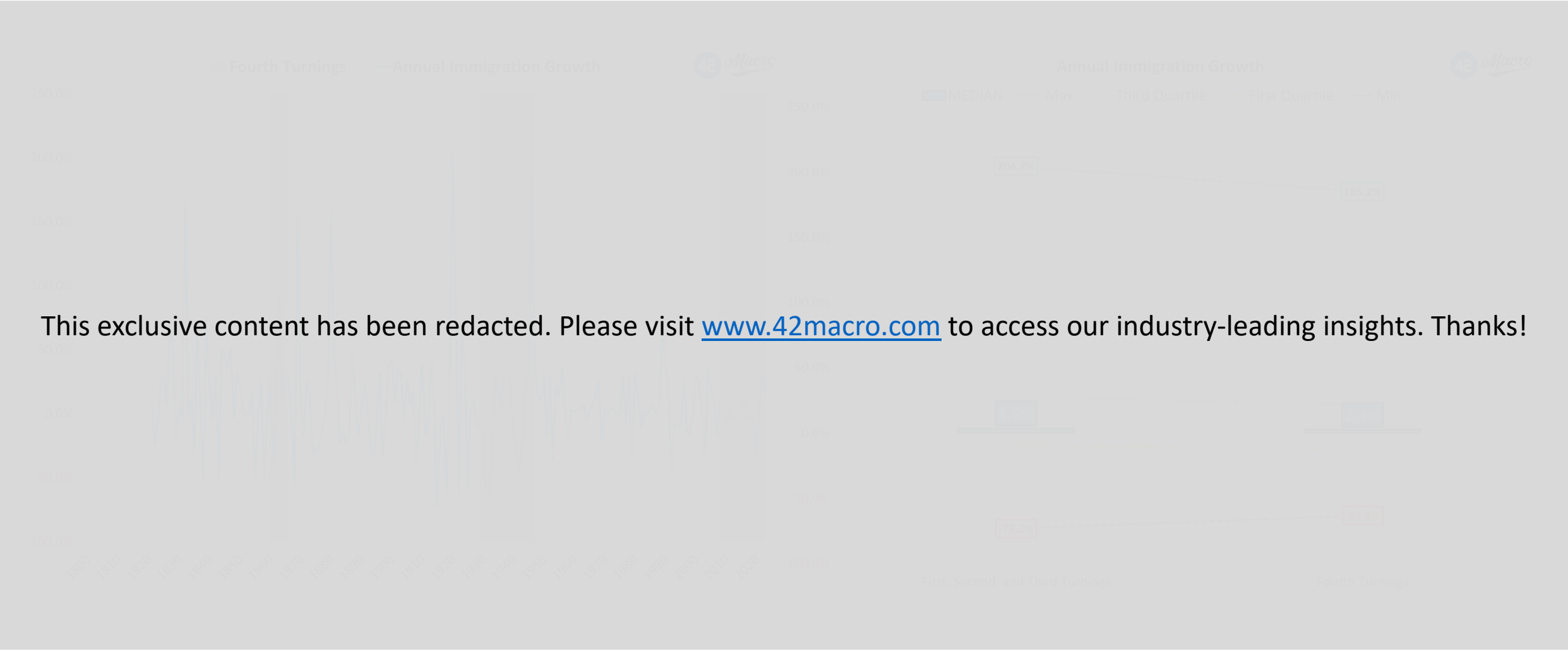
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# Fertility Rates Tend To Decline Sharply During Fourth Turnings



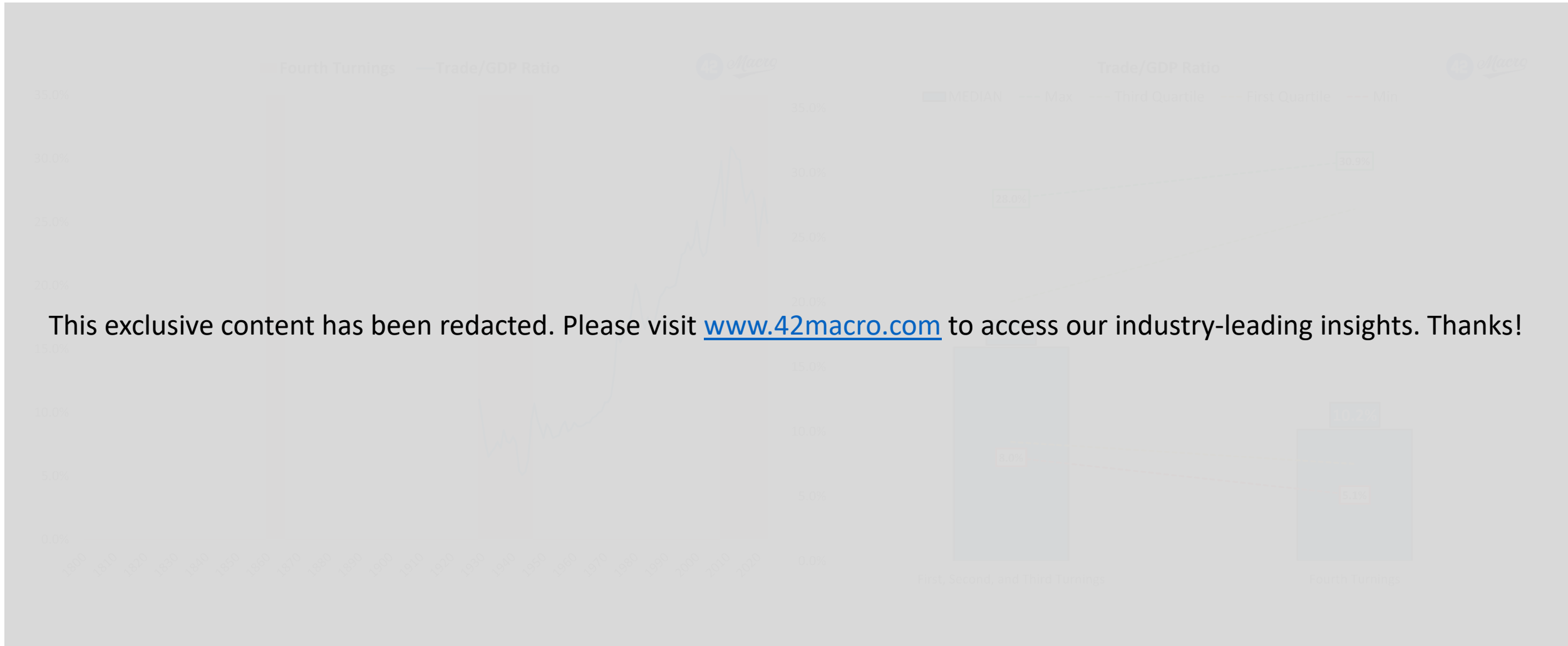
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# Immigration Tends To Be Relatively Weak During Fourth Turnings



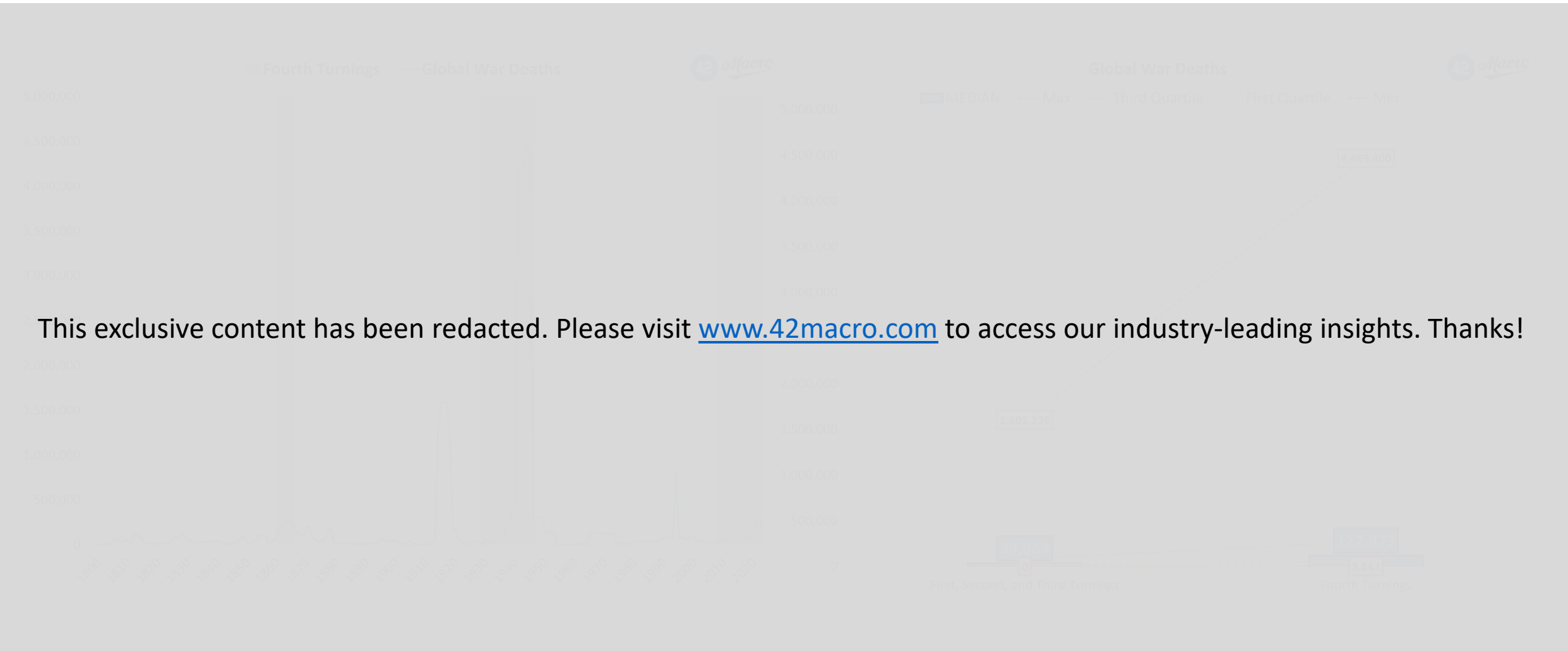
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# Trade Tends To Decline Sharply During Fourth Turnings



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# Wars Tend To Accelerate Globally During Fourth Turnings



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# Every Fourth Turning In Modern Anglo-Saxon History Has Featured Total War

Seculum	First Turning (High)	Second Turning (Awakening)	Third Turning (Unraveling)	Fourth Turning (Crisis)
Late Medieval			Retreat from France (1435-1455)	War of the Roses (1455-1487)
Tudor	Tudor Renaissance (1487-1525)	Protestant Reformation (1525-1551)	Intolerance & Martyrdom (1551-1583)	Armada Crisis (1583-1597)
New World	Merrie England (1597-1621)	Puritan Awakening (1621-1649)	Reaction & Restoration (1649-1675)	Glorious Revolution (1675-1706)
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Civil War	Era of Good Feelings (1794-1822)	Transcendental Awakening (1822-1844)	Mexican War & Sectionalism (1844-1860)	Civil War (1860-1865)
Great Power	Reconstruction & Gilded Age (1865-1886)	Third Great Awakening (1886-1908)	World War I & Prohibition (1908-1929)	Great Depression & World War II (1929-1946)
Millennial	American High (1946-1964)	Consciousness Revolution (1964-1984)	Culture Wars (1984-2008)	Millennial Crisis (2008-2033?)

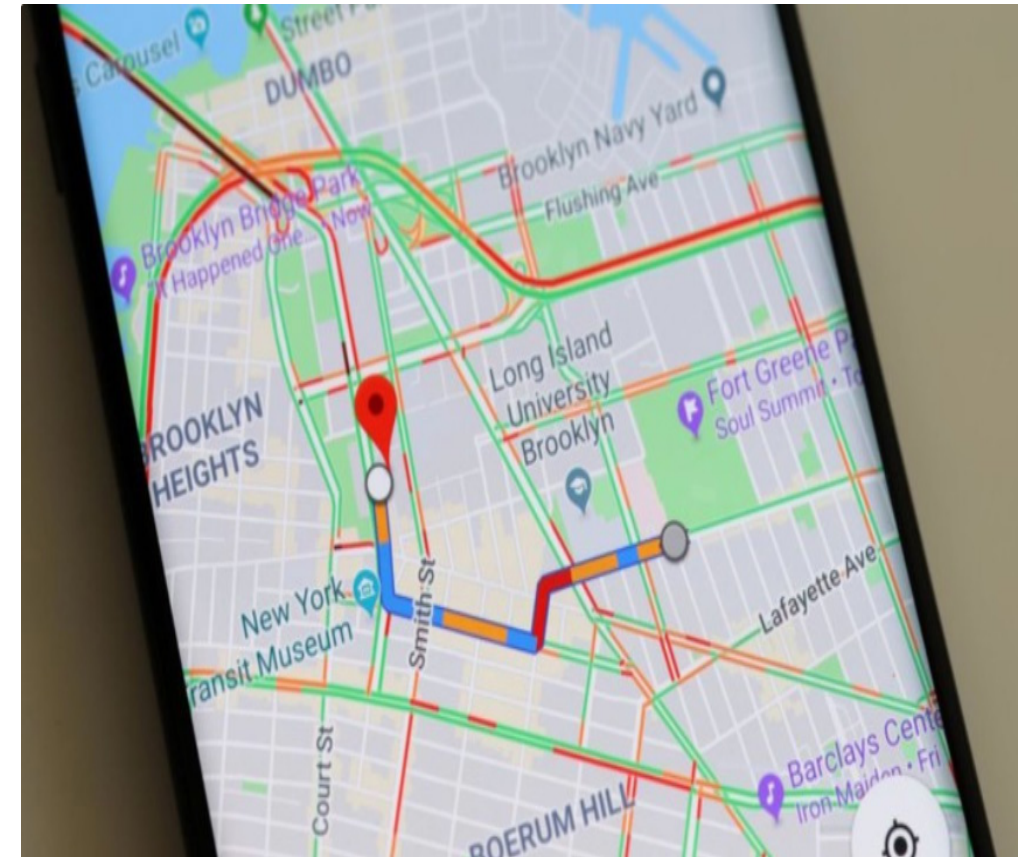
# Appendix: Overcoming Behavioral Heuristics

# The 42 Macro Risk Management Process Is Orthogonal And Likely Additive To What You Already Do

How Investors Generally Manage Risk:  
**Responding To Failed Predictions**



How 42 Macro Manages Risk:  
**Responding To Bayesian Observations**



© 42 Macro LLC. Images sourced from Google. **Investors broadly failed to predict the most important catalyst of each of the past five years:**

**2019:** COVID-19 in 2020; **2020:** vaccine-and-stimulus-fueled jump condition from COVID to a booming economy in 2021;

**2021:** jump condition to a ~40yr high in inflation in 2022; **2022:** jump condition from a technical recession to a booming US economy in 2023; and

**2023:** jump condition from a deflationary regional banking crisis and a ~40yr high in the Fed Funds Rate to a boom in asset markets in 2024

# Why The 42 Macro Risk Management Process Works

- **Regime Segmentation:** *“I knew which shifts in the environment caused asset classes to move around, and I knew that those relationships had remained essentially the same for hundreds of years. There were only two big forces to worry about: growth and inflation. Each could be rising or falling, so I saw that by finding four different investment strategies – each one of which would do well in a particular environment (rising growth with rising inflation, rising growth with falling inflation, and so on) – I could construct an asset allocation mix that was balanced to do well over time while being protected against unacceptable losses.”*  
–Ray Dalio, Principles pg. 70
- **Bayesian Inference:** *“Subjective confidence in a judgment is not a reasoned evaluation of the probability that this judgment is correct. Confidence is a feeling, which reflects the coherence of the information and the cognitive ease of processing it. It is wise to take admissions of uncertainty serious, but declarations of high confidence mainly tell you that an individual has constructed a coherent story in his mind, not necessarily that the story is true.”*  
–Danny Kahneman & Amos Tversky, Thinking, Fast and Slow pg. 212
- **Volatility as a Leading Indicator for Price:** *“You cannot beat the market, says the standard market doctrine. Granted. But you can sidestep its worst punches.”*  
–Benoit Mandelbrot, The (Mis)Behavior of Markets pg. 249

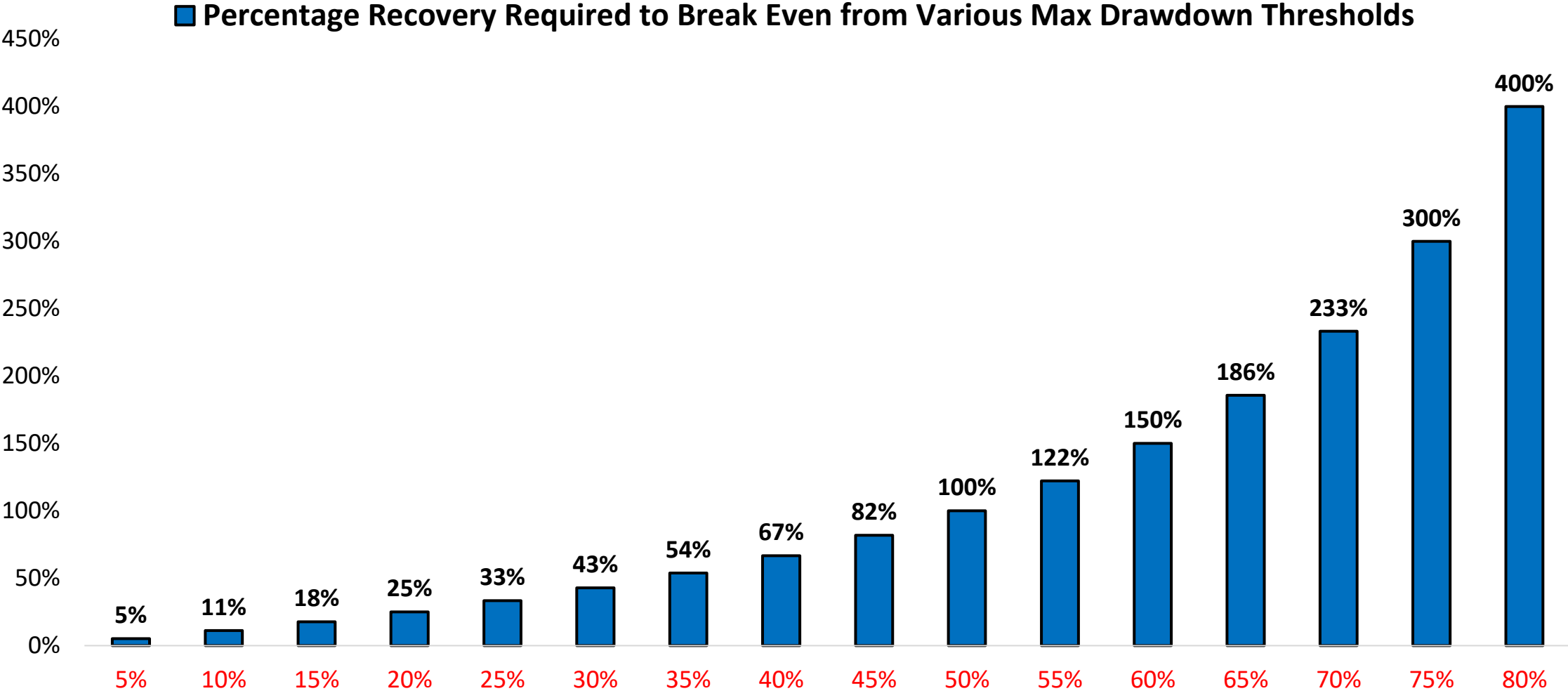
# Common Behavioral Heuristics That Prevent Investors From Achieving Their Strategic Investment Objectives, Part I

- **Action Bias:** The action bias describes our tendency to favor action over inaction. Source: <https://thedecisionlab.com/biases/action-bias>
- **42 Macro Solution:** Clear risk management signals that communicate DO NOTHING when there is no change in signal and TAKE ACTION only when the signal changes.
- **Availability Heuristic:** The availability heuristic describes our tendency to use information that comes to mind quickly and easily when making decisions about the future. Source: <https://thedecisionlab.com/biases/availability-heuristic>
- **42 Macro Solution:** Our [Quantitative Risk Management Summary](#) and [Fundamental Research Summary](#), each refreshed daily.
- **Confirmation Bias:** The confirmation bias describes our underlying tendency to notice, focus on, and give greater credence to evidence that fits with our existing beliefs. Source: <https://thedecisionlab.com/biases/confirmation-bias>
- **42 Macro Solution:** Consistently performing research on the full distribution of probable economic outcomes, as evidenced by the [Modal Outcome](#), [Left Tail Risk](#), and [Right Tail Risk](#) sections of our monthly Macro Scouting Reports, and reviewing every meaningful economic release in our daily Leadoff Morning Note – bullish or bearish.
- **Disposition Effect:** The disposition effect refers to our tendency to prematurely sell assets that have made financial gains, while holding on to assets that are losing money. Source: <https://thedecisionlab.com/biases/disposition-effect>
- **42 Macro Solution:** The Top-Down and Bottom-Up Risk Management Overlays featured in our [KISS Portfolio Construction Process](#) help investors block out countercyclical noise to maximize upside capture in bull markets and minimize downside capture in bear markets.
- **Hindsight Bias:** The hindsight bias describes our tendency to look back at an unpredictable event and think it was easily predictable. Source: <https://thedecisionlab.com/biases/hindsight-bias>
- **42 Macro Solution:** Consistent and thorough discussions regarding the then-consensus narratives and positioning dynamics of past market cycles, as well as backtesting each of our quantitative risk management signals and econometric models on a rolling out-of-sample basis.
- **Hyperbolic Discounting:** Hyperbolic discounting is our inclination to choose immediate rewards over rewards that come later in the future, even when these immediate rewards are smaller. Source: <https://thedecisionlab.com/biases/hyperbolic-discounting>
- **42 Macro Solution:** Avoiding frameworks that [often erroneously] attempt to predict every wiggle in the stock market like dealer flows, CTA positioning, etc.
- **Illusion of Explanatory Depth:** The illusion of explanatory depth describes our belief that we understand more about the world than we actually do. Source: <https://thedecisionlab.com/biases/the-illusion-of-explanatory-depth>
- **42 Macro Solution:** The 10 principal component features in our [Macro Weather Model](#), refreshed daily, remind investors that the narrow scope of oft-esoteric topics being discussed on Twitter/X, TikTok, and other social media platforms are not the only drivers of asset markets at any given interval.

# Common Behavioral Heuristics That Prevent Investors From Achieving Their Strategic Investment Objectives, Part II

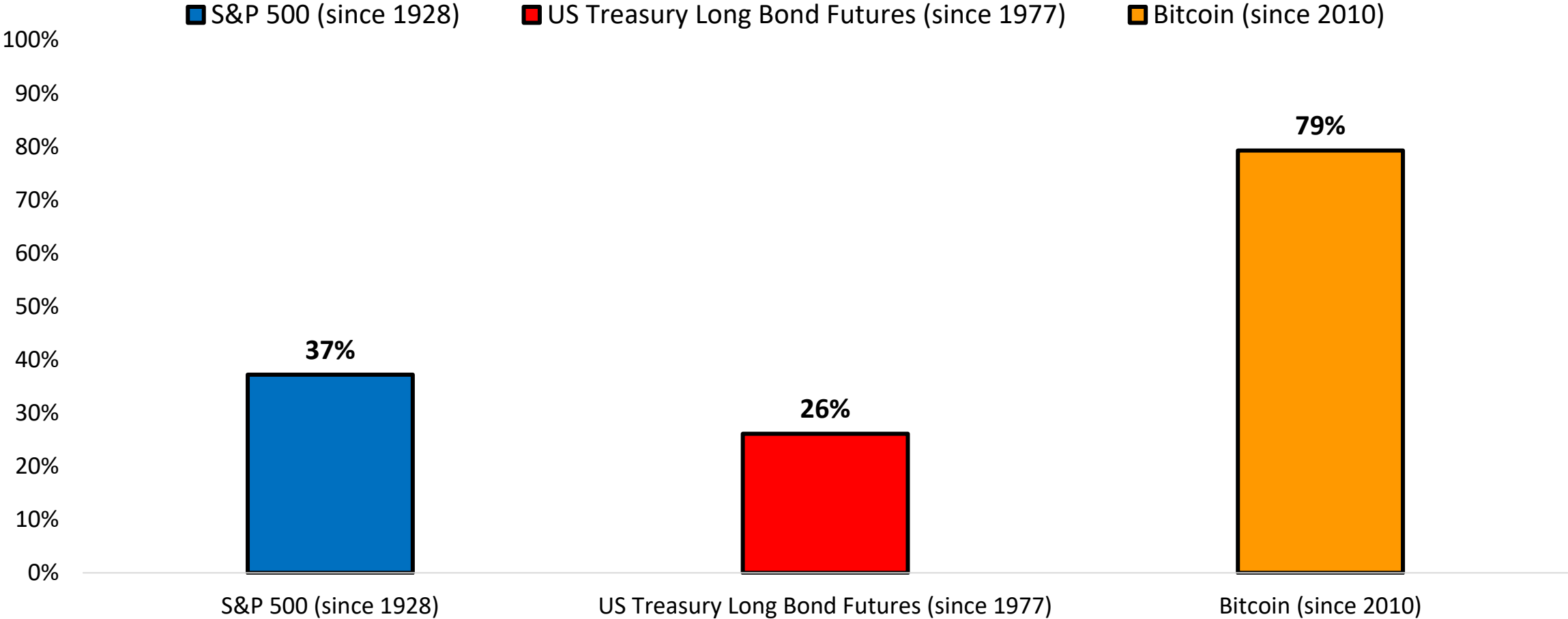
- **Illusion of Validity:** The illusion of validity is a cognitive bias that describes our tendency to be overconfident in the accuracy of our predictions. Source: <https://thedecisionlab.com/biases/illusion-of-validity>
- **42 Macro Solution:** An institutional research process that is heavy on observation and light on predictions. When we do make predictions, they are generated by models that apply proven quantitative techniques to time series that span multiple economic and market cycles, while also quantifying and proudly publishing the error rate of each of our econometric models.
- **Negativity Bias:** The negativity bias is a cognitive bias that results in adverse events having a more significant impact on our psychological state than positive events. Source: <https://thedecisionlab.com/biases/negativity-bias>
- **42 Macro Solution:** Avoiding bear porn at all costs – even to the point of ridiculing it publicly. Asset markets tend to appreciate over time, so our general disposition towards them is “long, until a risk management signal(s) instructs us to book gains”.
- **Optimism Bias:** The optimism bias refers to our tendency to overestimate our likelihood of experiencing positive events and underestimate our likelihood of experiencing negative events. Source: <https://thedecisionlab.com/biases/optimism-bias>
- **42 Macro Solution:** An institutional risk management process that values being the second investor in a confirmed trade more than being first in a trade that may or may not come to fruition.
- **Recency Bias:** The recency bias refers to our tendency to better remember and recall information presented to us most recently, compared to information we encountered earlier. Source: <https://thedecisionlab.com/biases/recency-effect>
- **42 Macro Solution:** Only making marginal changes to our [Fundamental Research Summary](#) when new data builds or erodes our conviction in a theme, rather than making wholesale changes.
- **Saliency Bias:** The saliency bias describes our tendency to focus on items or information that are more noteworthy while ignoring those that do not grab our attention. Source: <https://thedecisionlab.com/biases/saliency-bias>
- **42 Macro Solution:** Consistently performing research on the full distribution of probable economic outcomes, as evidenced by the [Modal Outcome](#), [Left Tail Risk](#), and [Right Tail Risk](#) sections of our monthly Macro Scouting Reports, and reviewing every meaningful economic release in our daily Leadoff Morning Note – bullish or bearish.
- **Sunk Cost Fallacy:** The sunk cost fallacy is our tendency to follow through on something that we’ve already invested heavily in (be it time, money, effort, emotional energy, etc.), even when giving up is clearly a better idea. Source: <https://thedecisionlab.com/dailybiases/the-sunk-cost-fallacy>
- **42 Macro Solution:** Proven risk management signals that help investors dispassionately book small losses before they turn into big losses.
- **Zero Risk Bias:** Zero risk bias relates to our preference for absolute certainty. Source: <https://thedecisionlab.com/biases/zero-risk-bias>
- **42 Macro Solution:** Having enough humility to avoid declarations of certainty and/or extreme confidence regarding our predictions at all cost. No reputable institutional investor speaks with certainty about the future, and you shouldn’t either.

# The Three Most Important Concepts In Investing: Rule #1 = Don't Lose Money



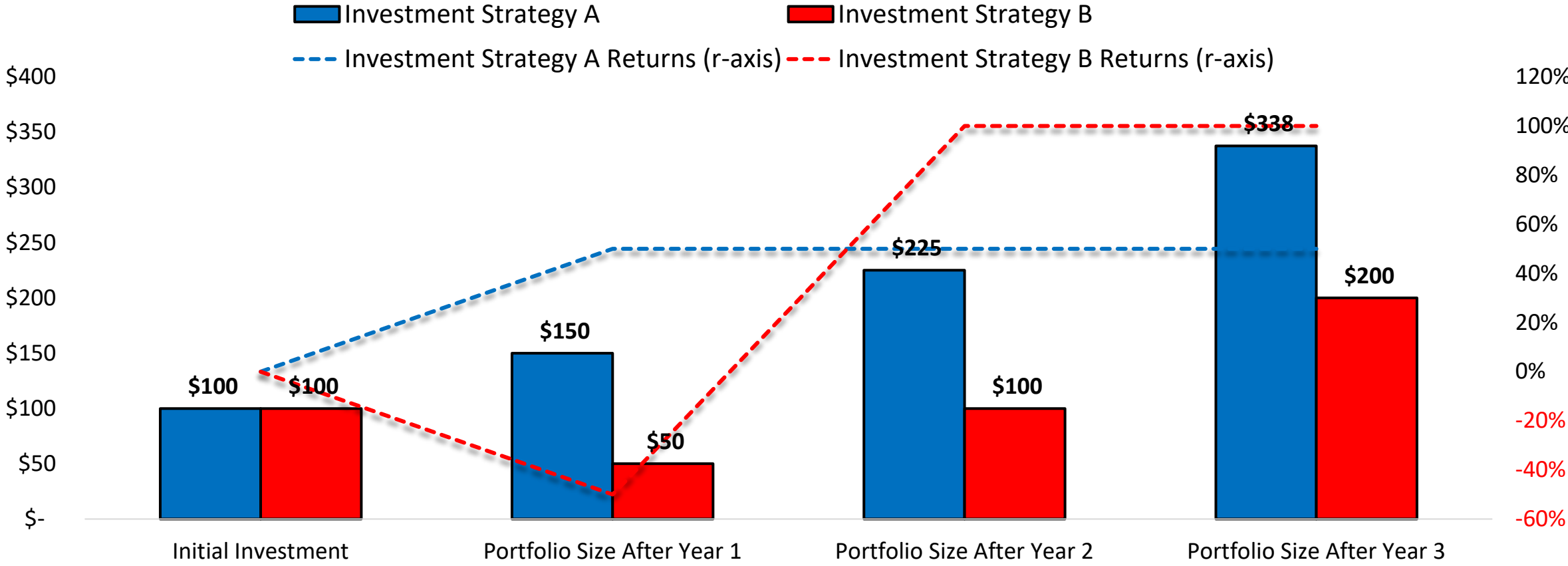
# The Three Most Important Concepts In Investing: Rule #2 = Don't Invest Money You Cannot Afford To Lose

Percentage of Time **-20%** or More Off the Highs



# The Three Most Important Concepts In Investing: Rule #3 = Your Average Return Is NOT Equal To The Amount Of Money You Make

Both Investment Strategies Feature Identical +50% Average Annual Returns.  
Which One Would You Choose?



Thanks for reviewing.  
See you next month!

## New to 42 Macro research?

Take advantage of the following resources to speed up your learning journey:

The Macro Class:

<https://42macro.com/macroclass>

42 Macro Glossary:

<https://app.42macro.com/glossary>

KISS Portfolio Construction Process FAQ:

<https://www.42macro.com/kiss-portfolio-construction-process>

Dr. Mo FAQ

<https://www.42macro.com/discretionary-risk-management-overlay>