

# Brandeis Investment Club

## Intro to Macroeconomic Analysis

Brandeis  
Investment  
Club



## Today's Framework

### 1. Key Statistics

- a. Inflation
- b. Labor market
- c. GDP growth/ PMI

### 2. Monetary & Fiscal Policy

- a. Monetary Policy
- b. Fiscal Policy

### 3. Geopolitical Issues





# 1. Key Statistics

## **CPI - Consumer Price Index**

- ❖ Based off a predetermined basket of commonly bought goods/services.
- ❖ Shows how said basket changes over time.

## **PPI - Producer Price Index**

- ❖ The prices domestic producers get for their product.
- ❖ Shows how prices change internally within the USA.

## **PCE - Personal Consumption Expenditures**

- ❖ Includes all expenditures, and gets basket of goods from BEA.
- ❖ Adjusts the basket of goods and services; more accommodating.
- ❖ Shows how said basket changes over time.



### **Non Farm Payroll -**

- ❖ Shows all labor statistics, unemployment, job change, etc.
- ❖ Very dense, updated monthly

### **Initial Claims (FRED) -**

- ❖ Shows unemployment claims from an employee leaving work
- ❖ Shows change in unemployment.

### **Discouraged workers (BLS)**

- ❖ <https://www.bls.gov/cps/lfcharacteristics.htm#discouraged>
- ❖ Shows people who stopped looking for jobs.



### **GDP Growth - Gross Domestic Product**

- ❖ Look at it in real terms (not nominal)
- ❖ Shows how much the economy has grown on a quarterly basis.
- ❖ Useful for predicting how markets will react.

### **PMI - Purchasing Managers Index**

- ❖ Covers change in manufacturing activity
- ❖ Looks at supply chain operators
- ❖ Is a leading indicator (can be used to forecast)





## 2. Monetary and Fiscal Policy

# Monetary Policies

- ❖ **Federal Reserve:** *U.S.'s central bank*
  - *Key functions:*
    - *Controls money supply: determine how much money will be available in the economy*
    - *Regulates and supervises the activity of commercial banks*
    - *Acts as the treasury department of banks (takes deposits from the government)*
    - *Clear interbank payments (facilitate sending excess reserves from one bank to another)*
    - *Lender of last resort*
- ❖ **Dual mandate:** *Fed's economic goals of maximum employment & price stability*
- ❖ **FOMC:** *Federal Open Market Committee: Fed's chief body for monetary policy*
  - **FOMC Meetings:** *FOMC holds 8 regularly scheduled meetings during the year and other meetings as needed.*
    - *Main purpose: set the guidelines for monetary policy and targets for short-run interest rates.*
    - *Key resources to look at: [Meeting calendars, statements, and minutes](#)*
- ❖ **Monetary policy tools to control money supply:** *Required reserve ratio, Discount rate, Open market operations, interest (paid by Fed) on reserve balances, federal funds rate, quantitative easing/ tightening, forward guidance.*





# Monetary Policies

## ❖ Fed Funds Target Range:

- *Federal funds: funds in the bank's reserve account*
- *Banks with excess funds in reserve lend to those with a shortage*
  - *These loans (usually are overnight transactions) are arranged at a **fed funds rate**.*
- ***Current rate hike to combat inflation: fed funds target range = 4.75% - 5.0%***

## ❖ CME FED Watch Tool: *acts as a barometer for market participants to gauge the markets expectation of potential changes to the fed funds target rate while assessing potential Fed movements around FOMC meetings.*

- *Fed Funds Futures: financial futures contracts based on the fed funds rate and traded on Chicago Mercantile Exchange (CME)*
  - *FFF prices incorporate market expectations of average daily fed funds effective rate (FFER) levels during futures contracts months.*

## ❖ **Open Market Operation**: *the purchase and sale of securities in the open market by the Fed.*

## ❖ **FED speaks**: *a technique for managing investors' expectations by making deliberately unclear statements regarding monetary policy to prevent markets from anticipating, and thus negating its effects.*

## ❖ **Quantitative Easing**: *central bank purchases predetermined amounts of government bonds or other financial assets in order to stimulate economic activity.*

## ❖ **Quantitative Tightening**: *central bank sells its accumulated assets (mainly bonds) in order to reduce the supply of money circulating in the economy.*



# Fiscal Policies

## ❖ Fiscal Policy:

- *Main purpose: (controlled by executive & legislative branches of the U.S. government) to affect the level of economic activity (~GDP) in the short term by changing government's levels of spending and tax revenue.*
- *Expansionary Fiscal Policy: e.g. in recession → increase in government spending and/or decrease in tax to temporarily spur economic activity.*
- *Contractionary Fiscal Policy: e.g. in a boom → decrease in government spending and/or increase in tax to temporarily slow economic activity.*

## ❖ Government Budget, Deficit/Surplus, and Spending :

- *Keep an eye on the federal budget and whether it is in deficit (spending exceeds revenue) or surplus (revenue exceeds spending).*
- *Monitor government spending programs and priorities. (Changes in spending on areas such as defense, healthcare, infrastructure, and social programs can affect various sectors of the economy.)*
- *Sources: [Congressional Budget Office \(CBO\)](#), [USA Spending](#), [Bureau of Fiscal Service's Financial Report of the U.S. government](#), etc.*

## ❖ Taxation Policies:

- *Watch for changes in tax laws and tax rates. (Changes in income tax, capital gains tax, corporate tax rates, and deductions can have significant impacts on investment decisions.)*
- *Sources: [Internal Revenue Service \(IRS\)](#), [Tax Foundation](#), [U.S. Department of Treasury](#), [Congressional Research Services](#), etc.*



# Fiscal Policies

## ❖ Debt Levels:

- Track the national debt, including its size and rate of growth.
- Follow debt ceiling debates.
- Sources: News, [Trading Economics](#), [Fiscal Data](#), [U.S. Department of Treasury](#), [Peter G Peterson Foundation](#), etc.

## ❖ Economic Indicators & Forecasts:

- Fiscal policies are often adjusted in response to economic conditions. Keep an eye on economic indicators such as GDP growth, unemployment rates, inflation, and consumer confidence. Review economic forecasts from government agencies, think tanks, and financial institutions. These forecasts can provide insights into potential policy changes.
- Sources: News, [FRED](#), [Money, Banking, and Financial Markets](#), [Stanford Institute for Economic Policy Research \(SIEPR\)](#), etc.

## ❖ Federal Reserve's Monetary Policy

- Stay informed about the Federal Reserve's monetary policy decisions and understand how they interact with fiscal policies.

## ❖ Political Developments, Legislation & Congressional Actions

- Understand the political landscape, including elections and party control of government branches. Political dynamics can influence the direction of fiscal policy. Follow proposed legislation and Congressional actions related to fiscal policy. Bills related to taxation, spending, and economic stimulus can provide clues about future fiscal policy changes.

## ❖ Trade policies

- Fiscal policies related to trade agreements and tariffs can impact specific industries and companies. Monitor trade negotiations and agreements.





# 3. Geopolitical Issues

## Geopolitical Risks

- Behaviour types
  - Autarky (North Korea, Nazi)
  - Hegemony (Capitalism in the West)
  - Multilateralism (WTO, UN)
  - Bilateralism (China-Myanmar, US-Afghanistan)
- Risk Types
  - Event risk (Brexit)
  - Exogenic risk (invasion, natural disaster)
  - Thematic risk (climate change, cyberattacks)
- Tool Types
  - National security (armed conflict, espionage, alliance)
  - Economic (trade agreements, tariff, nationalization)
  - Financial (foreign investment, currency exchange)



## Geopolitics At a Glance

- Blackrock
  - <https://www.blackrock.com/corporate/insights/blackrock-investment-institute/interactive-charts/geopolitical-risk-dashboard>
- S&P Global
  - <https://www.spglobal.com/en/enterprise/geopolitical-risk/#:~:text=Some%20examples%20of%20geopolitical%20risks,debt%20exposures%2C%20critical%20mineral%20competition.>
- READ. THE. NEWS.



## Geopolitics At a Glance

Russian equities



### Russia-NATO conflict

Russian ruble



Brent crude oil



Germany 10-year government bond



### Major terror attack(s)

Japanese yen



Europe airlines sector



## Geopolitics At a Glance

Italy 10-year government debt



### European fragmentation

EMEA hotels and leisure



Russian rouble



Taiwanese dollar



### U.S.-China strategic competition

Taiwanese equities



China high yield

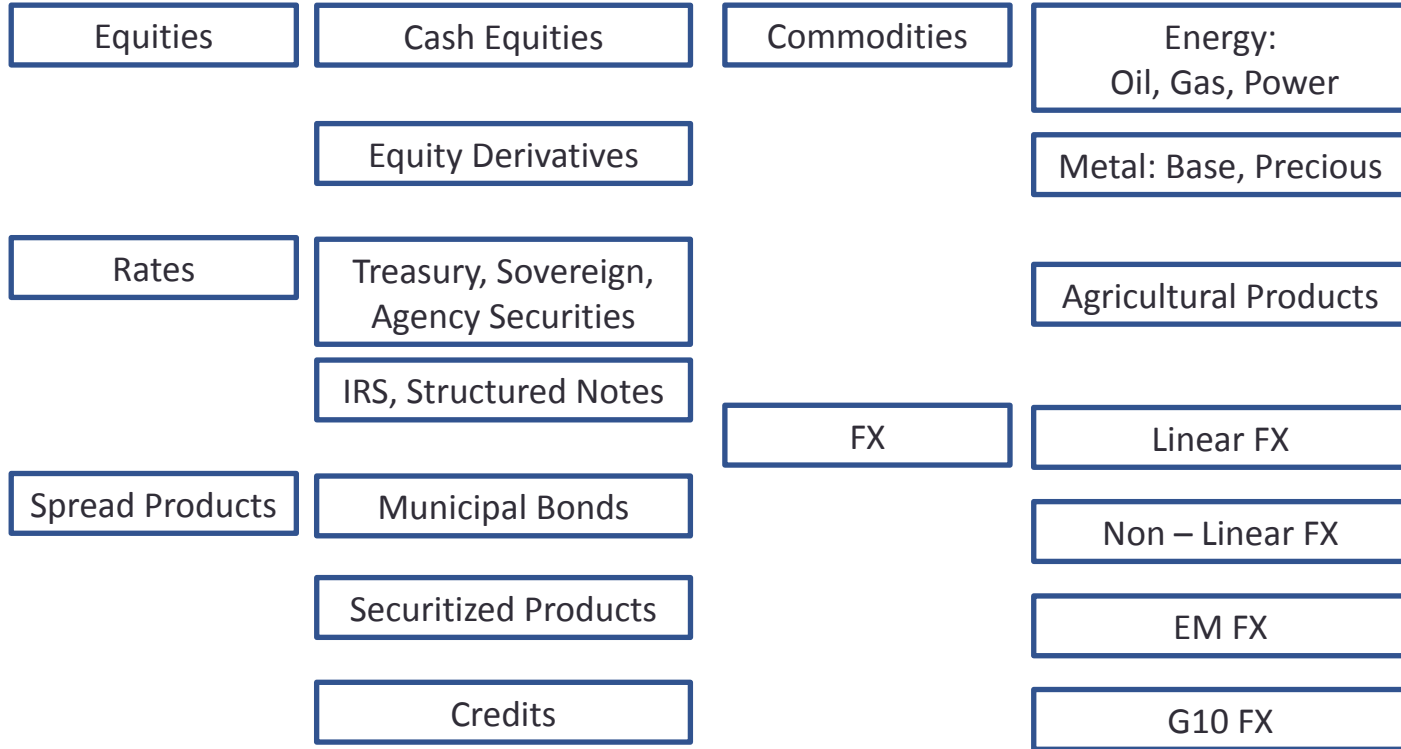




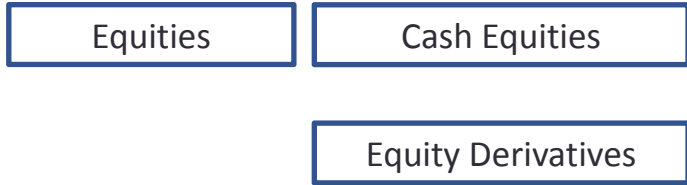


# Asset Class Breakdown

## Asset Class Breakdown



## Asset Class Breakdown: Equities



### Categories

- **Equities:** Stocks (common & preferred shares)
- **Cash Equities:** Direct ownership of shares (Spots)
- **Equity Derivatives:** Options, futures, swaps that derive value from underlying equities.

### Catalysts

- **Earnings Reports:** Quarterly/annual company results
- **Economic Data:** GDP, employment rates, and inflation affect market sentiment and valuation multiples.
- **Geopolitical Events:** Trade wars, global conflicts, and elections influence investor confidence and equity markets.



## Asset Class Breakdown: Rates

Rates

Treasury, Sovereign,  
Agency Securities

IRS, Structured Notes

### Categories

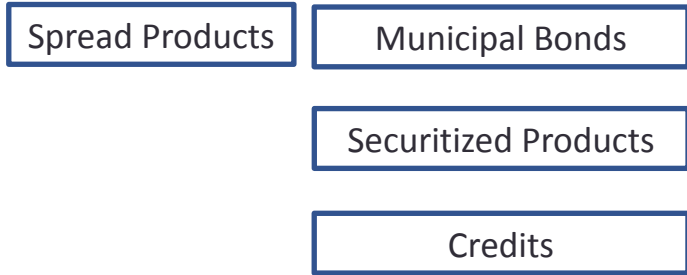
- **Treasury Securities:** Government bonds (T-bills, notes, bonds)
- **Sovereign Securities:** Bonds issued by national governments.
- **Agency Securities:** Bonds issued by government-sponsored entities (GSEs).
- **Interest Rate Swaps (IRS):** Derivatives where counterparties exchange fixed for floating interest payments.

### Catalysts

- **Central Bank Policy:** Rate hikes or cuts by the Federal Reserve or ECB affect bond yields and swap rates.
- **Inflation Data:** Higher inflation typically leads to higher rates.
- **Global Debt Levels:** Increased sovereign borrowing raises supply of debt, potentially increasing yields.



## Asset Class Breakdown



### Categories

- **Municipal Bonds:** Debt issued by local governments or states
- **Securitized Products:** Asset-backed securities (ABS), mortgage-backed securities (MBS).
- **Structured Notes:** Customized debt instruments with embedded derivatives.
- **Credit Products:** Corporate bonds & CDS.

### Catalysts

- **Credit Rating Changes:** Downgrades or upgrades affect bond spreads.
- **Corporate Earnings:** A company's creditworthiness and bond spreads are influenced by its profitability.
- **Economic Cycles:** Recessions lead to higher default risk and wider credit spreads (bearish)



## Asset Class Breakdown

Commodities

Energy:  
Oil, Gas, Power

Metal: Base, Precious

Agricultural Products

### Categories

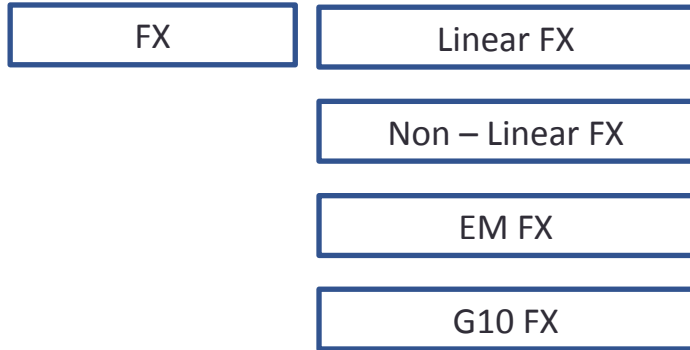
- **Energy:** Oil, Gas, Power.
- **Metals:** Base Metals (e.g., copper, aluminum), Precious Metals (e.g., gold, silver).
- **Agricultural Products:** Wheat, corn, soybeans, livestock.

### Catalysts

- **Supply/Demand Shocks:** Weather events, geopolitical tensions, or OPEC decisions impact energy and agricultural commodities.
- **Economic Growth:** Strong global growth increases demand for industrial metals and energy.
- **Inflation:** Commodities often act as an inflation hedge.



## Asset Class Breakdown



### Categories

- **Linear FX:** Spot, involving direct exchange of currencies.
- **Non-Linear FX:** FX options that give the right, but not the obligation, to exchange currencies.
- **EM FX:** Currencies from emerging market economies.
- **G10 FX:** Major currencies such as USD, EUR, JPY, GBP, CAD

### Catalysts

- **Interest Rate Differentials:** Traders take advantage of interest rate differentials between countries (carry trade).
- **Geopolitical Stability:** Political events or instability can devalue a currency.
- **Trade Balances:** Large trade surpluses or deficits influence currency supply/demand.



## Connections Between Asset Classes

- **Equities & Fixed Income (Rates & Spread):**
  - **Inflationary Environment:** Equities and fixed income typically show a positive correlation (rise together)
  - **Deflationary Environment:** They often move inversely, with one rising while the other falls
- **Commodities, Equities & Fixed Income:** Rising commodity prices often signal economic growth, benefiting equities but negatively impacting bond prices.
- **FX & Commodities: Currency movements vary based on the specific economy and market conditions.**
  - **Gold & USD:** Economic uncertainty -> investors tend to sell USD and buy gold, which holds intrinsic value.
  - **Gold & EUR/USD:** Both are seen as "anti-dollars." When gold rises, EUR/USD often follows.
  - **Gold & USD/CAD:** As Canada is a top gold producer, rising gold prices usually strengthen CAD, pushing USD/CAD down.
  - **Oil & Oil-Producing Countries:** Changes in oil prices affect the economies of oil-exporting nations, influencing their currencies.
- **Fixed Income & Currencies:** Higher bond yields attract foreign investment, boosting the local currency. Rising interest rates can increase currency demand as investors seek better returns.







# Resources for Analysis

## FinViz

- Overview of change in daily stock market by sector (Maps)
- Ability to filter (Screener) stocks, futures, etc. on variety of methods.
- Read market news
- Paid version has backtesting

## Capitol Tradesa

<https://www.capitoltrades.com/trades#>

<https://www.quiverquant.com/sources/senatetrading>

- Used for tracking politician trades



## Factset

- Database for markets
- Easy to get Financial Statements for analysis
- Market analysis, analyst reports
- Charts, Options and News

## CME FedWatch Tool

- <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>
- Above link for target rate the FED is aiming for.
- Many global benchmark products
- Similar to FinViz

