



In this week's *Highlights*, Chris Orcutt comments on the impact of macro-thematic investing.



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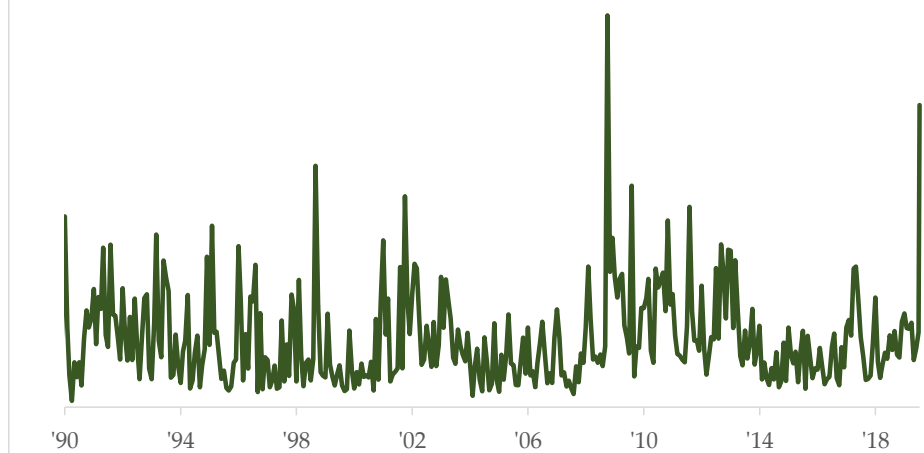
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Thematic investing has continued to become more and more prominent in the investment community. In the passive versus active fund management debate, "other" genres have emerged which have grown in popularity amongst investors. Sophisticated acronyms like ESG (Environmental, Social and Governance) and SRI (Socially responsible investing) have driven headlines, but in its simplest form, thematic investing has always been the objective behind funds. As we see it, thematic investing can be defined as the identification of an opportunity in the market - a theme - and a resulting investment model to ideally generate consistent returns over long periods of time. At Strategas, we have long used themes to help drive and form investment conclusions. In 2016, with the dysfunction in Washington rising, central banks around the world becoming more accommodative than ever and demand from clients growing, we felt it was time to incorporate our own strategies into the markets. Our Policy Opportunities Portfolio is intended to exploit the under appreciation the markets have for the impact companies lobbying efforts ultimately have on their share price and our New Sovereigns Portfolio was created in the throes of the global financial crisis when investors started to worry about the value of their cash as a "safe harbor" equity portfolio. We've found that those longer time horizons have reaped the rewards of investing in these portfolios.

U.S. Economic Policy Uncertainty Index



Source: Baker, Bloom & Davis

In this week's *Highlights*, Ryan Grabinski discusses the U.S. macro landscape.



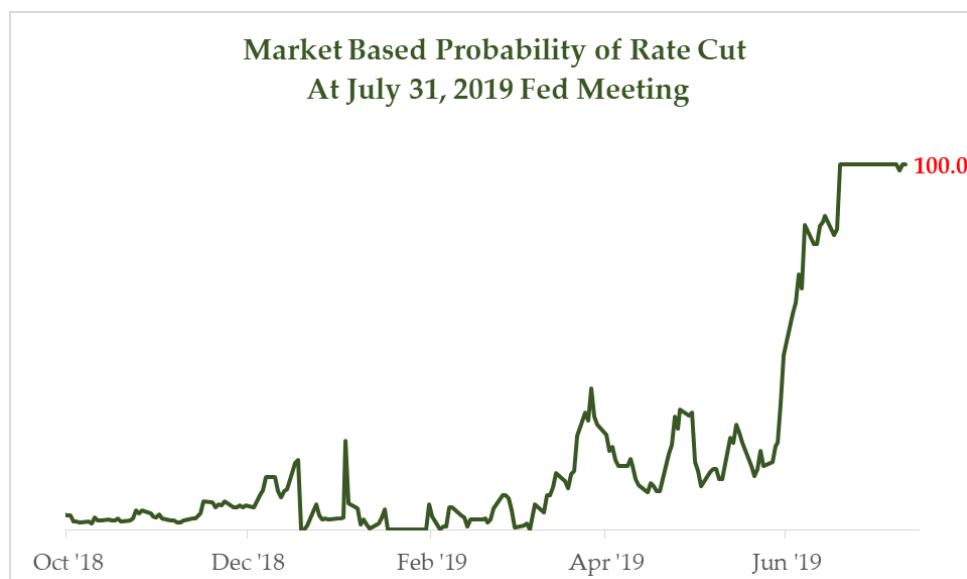
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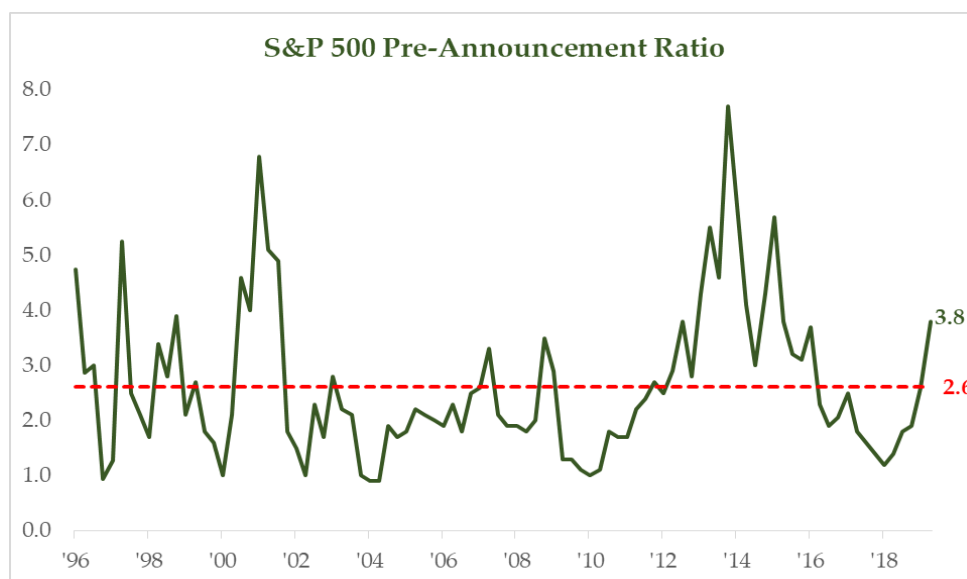
5 CHARTS ON THE MACRO BACKDROP

Uncertainty is elevated and global growth is slowing but neither of these stories are new. The response from monetary policy appears to be coming with the probability of a Fed rate cut (-25bps) at their July meeting near certain. Risk assets have already priced this in with downside vulnerability if rates remain the same.



Source: Bloomberg

While liquidity appears to be less of a headwind, earnings may be a roadblock but with pre-announcements at elevated levels, it's hard to be short as much of the negative news appears to be priced in. The more companies guide down before earnings season, the greater the chances that companies can beat lowered expectations. Currently the preannouncement ratio is at its highest level since 1Q 2016.



Source: ReFinitiv

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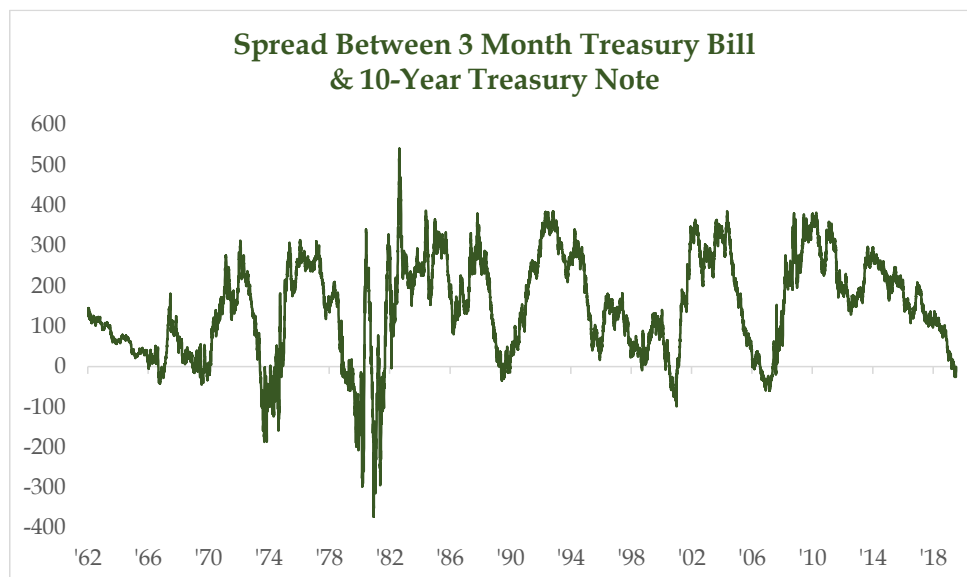
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The yield curve warrants watching as the 3-month/10-year differential continues to remain negative. Since 1962, the current inversion is the 11th longest stretch where it was inverted. What looks comforting is that the inversion now stands at -1bp, which is much improved, from the -25bps at the beginning of the month.



Source: Bloomberg

The economic data remains decent at the moment but does not appear to be strengthening. The pricing in of political risk has clearly become more complicated and as a result business sentiment & spending remains suppressed. Consumer confidence has weakened as of late but fortunately, the labor market is hanging in there with U.S. payrolls bouncing back in June.

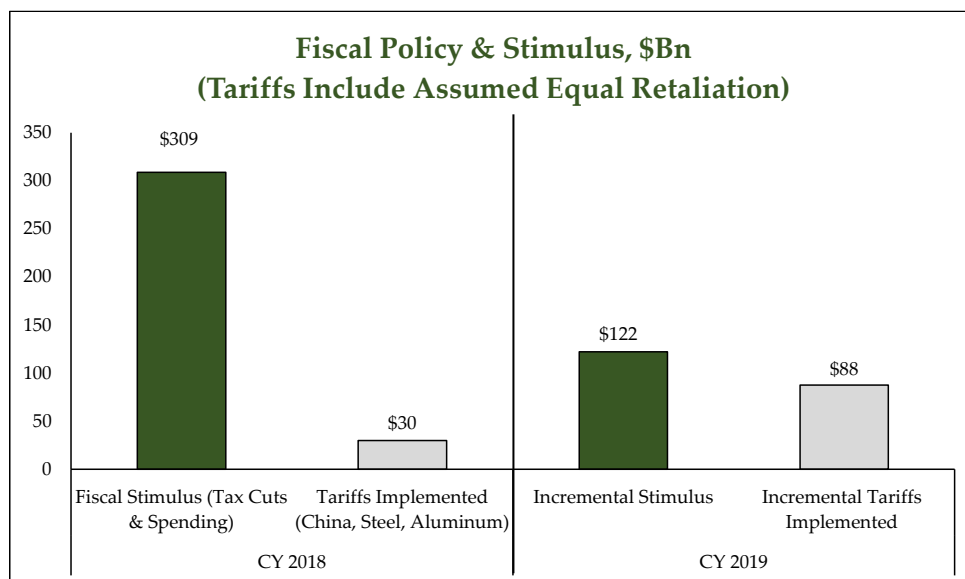


Source: Conference Board

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Nearly all of the data points since the G-20 Osaka summit have been negative with respect to a US-China trade agreement. Negotiators failed to come up with a face-to-face meeting on their most recent call; China is saying it never agreed to any Agriculture purchases; and the US negotiators have started to believe the hardliners have taken over completely. Without a break in the coming weeks, we would have to start believing that China may be trying to wait out Trump past the 2020 election. No action from China raises the probability of more tariffs coming which would be detrimental to U.S. economic growth as well as corporate profits.



Source: JCT

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