Session 1

Introduction to Global Macro Investing

Prepared by: Joseph

Schedule

Session No.	Week Number	Session Outline	Deliverables
1	2 Sep (Week 3)	• General Introduction to Macroeconomics and Global Macro Investing	• Finalize Report Theme • Data Consolidation on Current Economic Outlook
2	9 Sep (Week 4) *TMA Week*	• Qualitative Analysis • Macro Indicators	• Finalize Qualitative Indicators • Analysis of Historical Qualitative Indicators
3	16 Sep (Week 5) *TMA Week*	• Quantitative Analysis	• Finalize Quantitative Indicators • Analysis of Historical Quantitative Indicators
4	23 Sep (Week 6) *TMA Week*	• Asset Allocation Strategies	• Selection of Relevant Assets
5	30 Sep (Week 7) *GBA Week*	• Technical Analysis	• Technical Analysis on Relevant Assets

Schedule

Session No.	Week Number	Session Outline	Deliverables
6	7 Oct (Week 8) *GBA Week*	• Portfolio Optimisation Techniques • Portfolio Performance Evaluation and Monitoring	• Portfolio Optimisation • Portfolio Evaluation and Monitoring
7	14 Oct (Week 9 *GBA Week*	• Geopolitical Analysis and its Impact on Global Macro Investing	• Historical Performance Evaluation and Analysis
8	21 Oct (Week 10) *GBA Week*	• Slide Deck Design (Hands-on) • Chart Plotting and Formatting (Hands-on)	• Report Draft #1
9	28 Oct (Week 11) *BUS100 Class Test**	• Summary & Recap of Global Macroeconomics • Team Discussion	• Report Draft #2 • Slide Deck Draft #1
10	4 Nov (Week 12) *ECA Week*	• No session	• Report Draft #2 • Slide Deck Draft #1

Important Dates

Hard Deadline: **2 December 2023**

Internal Presentation Day: **9 December 2023**

Resources

- CapitalIQ
https://libguides.suss.edu.sg/SNPCapital

- Financial Times
https://www.ft.com/

- Factset
https://my.apps.factset.com/flagship-streetaccount/Today'sTopNews/asia

- Factiva
https://snapshot-factiva-com.suss.remotexs.co/Pages/Index

- Statista
https://www-statista-com.suss.remotexs.co/

- Economist Intelligence
https://eresources.nlb.gov.sg/main

- Marketline
https://eresources.nlb.gov.sg/main

- Bloomberg
https://www.bloomberg.com/asia

Lesson Outline

1. Admin
2. Why Global Macro
3. Hedge Funds
4. Global Macro Strategy
5. Risk: Alpha and Beta
6. Asset Classes
7. Real Life Examples
8. Summary

Why Global Macro?

What is Macroeconomics

- In contrast to equity research which is more specialized, macroeconomics looks at the performance of economies.
- Proper understanding of macroeconomics can help to reduce poverty, increases social equity and promote sustainable growth through sound monetary and fiscal policies.
- That is the high-level use of macroeconomics but what is the relevance to retails investors or fund managers?
- Macroeconomic study can help identify both short & long term investment opportunities on a global scale.
- You study the impacts of one economy has on the other and from there you can craft your investment strategies.
- You study the economic trends of key economies (mainly United States) to do trend analysis and forecast the economic outlook.
- Macroeconomic is dynamic and ever changing.

What are Hedge Funds

Pooled investment structure set up by money managers that employ a wide range of strategies to earn active returns (*alpha*) for *accredited investors*

Core Characteristics

- **Restrictions:** Unlike mutual funds, HF has fewer restrictions on their investment decisions
- **Flexibility:** HF can short and leverage their positions and have access to wider range of asset classes
- **Fees:** Typically charges both management and performance fees (2/20 model)

Brief History

- Coined and first started by Alfred W. Jones
- Made investments while hedging financial losses, hence 'Hedged Fund'
- Minimised risks on long-term stocks by short-selling underperforming assets

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Core Differences

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Risk & Reward Profiles

HF: engages in high-risk, high reward strategies
MF: sticks to a defined strategy
PE: focuses on long term returns by investing in companies

Investment Horizons

HF: Varying investment horizons
MF: More liquid
PE: Requires long term commitment

Regulations

HF: Very flexible in terms of investment decisions
MF: Tend to be heavily regulated
PE: Has its own sets of regulations, especially regarding company M&As

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Common Strategies

LONG/SHORT EQUITY

- Maintains long and short position in equities and equity derivatives
- Purchase undervalued stocks; sell overvalued stocks
- Can be broadly diversified or sector specific

RELATIVE VALUE

- Compares value of asset to a related asset or benchmark
- Assumes prices will revert to historical average in the long run; mean reversion
- Pairs trading is a common strategy

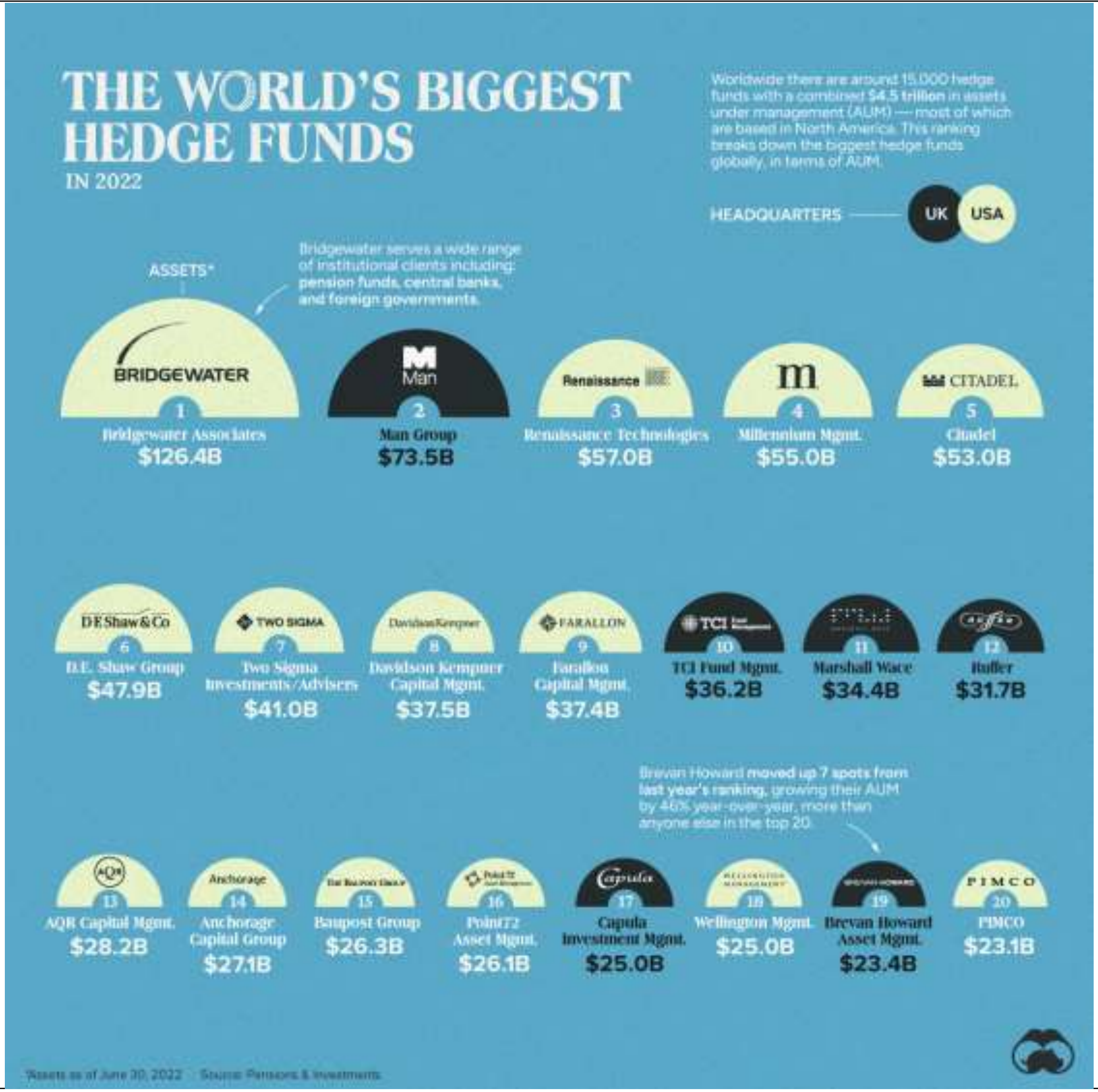
GLOBAL MACRO

- Looks to profit from economic and political changes around the world
- Analyses how macroeconomic trends affects interest rates, currencies, equities
- Take up position in asset classes that are most sensitive to their views

EVENT DRIVEN

- Performs during a strong economy where corporate activities are high
- Maintains positions in companies that are involved in mergers, restructuring, tender offers, share buyback etc.
- Usually higher risk and longer horizons

Top Hedge Funds



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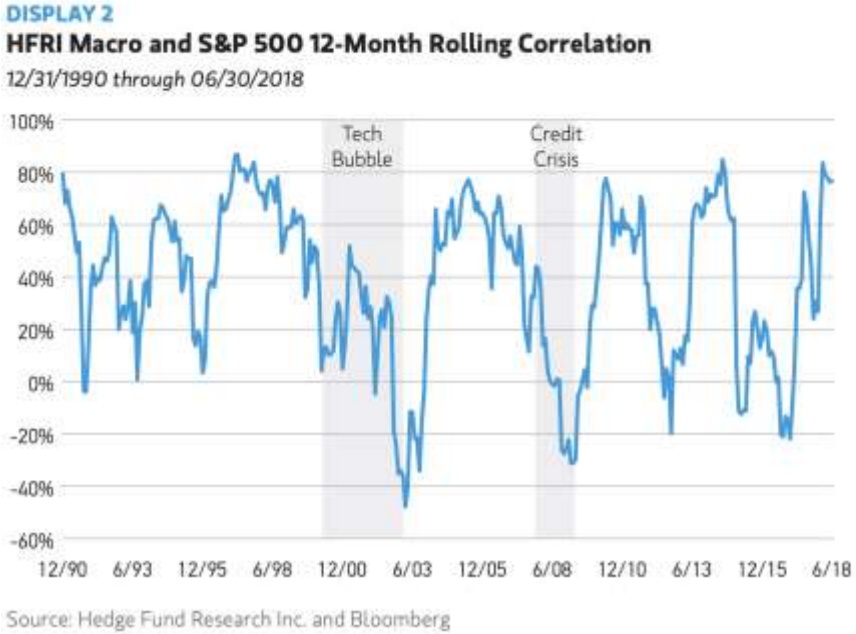
Why Adopt a Global Macro Strategy

- Very **opportunistic** strategy
- Embraces Volatility, Uncertainty, Complexity and Ambiguity
- **Low Correlation** with markets
- Generates strong risk-adjusted **returns** regardless of prevailing market conditions



Why Adopt a Global Macro Strategy

ALPHA (α)

BETA (β)

Macro generates **Alpha** by successfully timing **Beta** !

If predictions are correct and market exposure is timed correctly, portfolio will outperform benchmark
→ Generates *a*

Adjusting the market exposure (β) of portfolio based on macroeconomic views
→ Essentially 'timing the market' based on Macro views

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Alpha and Beta

ALPHA (α)

- Risk-adjusted measure of the so-called “excess return” on an investment
- Measure of assessing a manager’s performance; ie. Measured against a benchmark
- α > 0 suggest overperformance

$$\alpha = R - Rf - (\beta * Market\ Risk\ Premium)$$

Where:

$$R_f = Risk\ Free\ Rate$$
$$Market\ Risk\ Premium = Market\ Return - R_f$$

BETA (β)

- Measures the sensitivity of a manager’s returns to the performance of the markets
- Estimates how a 1% change in a particular market will be reflected in the returns
- β > 1 → More volatile than benchmark, vice versa

$$\beta = \frac{Cov(r_i, rm)}{Var(rm)}$$

Where:

$$r_m = average\ expected\ return\ on\ the\ market$$
$$r_i = expected\ return\ on\ an\ asset, i$$

Alpha and Beta Calculation

a) Find the Beta of Alphabet (GOOG) and Tesla (TSLA)

b) Assuming a portfolio containing 100% of GOOG, calculate its **alpha** (Assume R_f = 3%)

c) Assuming a portfolio containing 100% of TSLA, calculate its **alpha** (Assume R_f = 3%)

Global Macro

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Styles

Discretionary

- An investment theme is established based on macroeconomic analysis
- Analysis can span wide range of global economies and asset classes
  - Macro indicators like inflation and growth rates
  - Specific policies and its impact on the economy
- Risk management implemented by portfolio manager

Systematic

- Fund develops computerized algorithm to identify market & price movements
- Algorithm makes decision to buy/sell on a variety of proprietary indicators
- Success is determined by robustness and research process behind model
- Risk management integrated into model → little or no discretionary intervention

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Global Macro

Inputs

Fundamental

- Evaluate opportunities based on criteria such as valuation metrics, economic forecasts, interest rate and currency outlooks, and fiscal and monetary policy
- The information employed may be macro-economic or the aggregation of micro-level information

Technical

- Technical managers employ predictive signals that are generated from market-related information (e.g., price, volume, order book)
- Often involve the use of pattern recognition and other types of advanced statistical forecasting tools

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Global Macro

Time Horizon

Short-Term

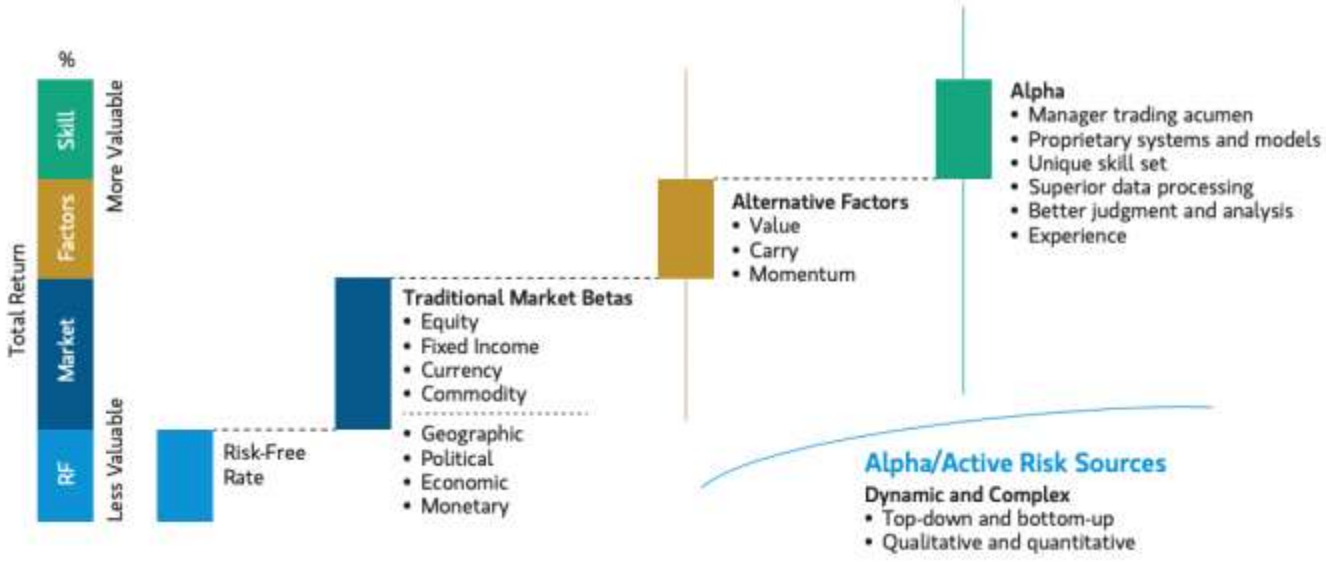
- Short-term managers express trades with holding periods typically less than one week, often capitalizing on intra-day mispricing
- These strategies are trading and resource intensive, and they can only be implemented in highly liquid markets

Long-Term

- Long-term managers express trades with multi-week to multi-month time horizons.
- Transaction costs are less important in long-term strategies than in short-term ones.

Global Macro

DISPLAY 1
Return Decomposition



For illustrative purposes only.

GLOBAL MACRO

ANNUALISED RETURNS **10.15 %**

ANNUALISED VOLATILTIY **7.15 %**

S&P 500

ANNUALISED RETURNS 9.75 %

ANNUALISED VOLATILTIY 14.26 %

Asset Classes

Equities

- Represents ownership in a company
- Constitutes a claim on part of the company's assets and earnings

Why Equities?

- **Growth Potential:** Potentially offer higher returns, especially if managers identify undervalued companies or sectors poised for growth
- **Short Selling:** Conversely, funds can profit from declining stock prices.

Asset Classes

Fixed Income (Bonds)

- Debt instruments issued by governments or corporations to **raise debt**
- Debt holders receives **periodic interest payments** and **return of principal upon maturity**

Why Fixed Income?

- **Income Generation:** Provides steady income through interest payments
- **Diversification:** Acts as a counterbalance to equities; often rising in value when stocks decline
- **Macro Plays:** Proxy for interest rate movements, credit spreads, or sovereign credit risks

Prepared by: Ryan Ho, Wei Sheng, Dorcas

Asset Classes

Commodities

- Physical goods such as gold, oil and agricultural products

Why Commodities?

- **Inflation Hedge:** Real assets can act as a hedge against inflation
- **Diversification:** Often have a low correlation with stocks and bonds
- **Macro Insights:** Influenced by global macroeconomic factors (Geopolitical events, supply-demand imbalances)

Prepared by: Ryan Ho, Wei Sheng, Dorcas

Asset Classes

Foreign Exchange

- Currencies of various countries

Why FX?

- **Macro Plays:** Can be predicted based on interest rate differentials, economic policies and geopolitical events
- **Diversification:** Currency plays can be uncorrelated with traditional asset classes
- **Leverage:** FX market allows for significant leverage, amplifying potential returns (and risks).

Asset Classes

Derivatives

- Financial contracts whose value derives from underlying assets
- Common derivatives include options, futures, and swaps.

Why Derivatives?

- **Hedging**: Used to hedge against potential losses in other investments.
- **Leverage**: Gain large exposures with a relatively small amount of capital.
- **Speculation**: A bet on the direction of interest rates, stock indices, or other financial metrics

Asset Classes

Private Equity

- Investment in private companies; not publicly traded companies

Why PE?

- **High Return Potential**: Private companies, especially start-ups, can offer significant returns if they grow or go public.
- **Control**: Investors often get a say in the company's management or strategic decisions.

Asset Classes

Real Estate

- Investment in physical properties
- Either owning real assets or through Real Estate Investment Trusts (REITs)

Why Real Estate?

- **Stable Cash Flows:** Rental properties often provide a steady income
- **Inflation Hedge**: Real estate often appreciates over time, acting as a hedge against inflation
- **Diversification:** Returns can be uncorrelated with traditional financial markets

Asset Classes

Real Estate

- Securities of companies facing bankruptcy or financial troubles
- Could be Equities or Debt

Why Real Estate?

- **Deep Discounts:** Securities often purchased at significant discounts to their intrinsic value
- **Turnaround Potential**: Substantial upside if company recovers or undergoes successful restructuring,

Global Macro Strategies in real life

Black Wednesday (1992)

George Soros, “the man who broke the Bank of England’’, placed a $10million against the pound and nearly bankrupted BoE

Background

- Exchange Rate Mechanism (ERM) set up stabilize exchange rates, reduce inflation, and prepare for monetary integration
- UK was not originally involved but joined eventually in 1990; pegged at a rate of DM2.95 and fluctuation band of +/- 6%
- Appeared to be a success until mid-1992, its disciplinary effect had reduced inflation throughout Europe under the leadership of the German Bundesbank.

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Global Macro Strategies in real life

Sterling Withdrawal from ERM

- Investors feared that the exchange rate value of several currencies within ERM were inappropriate
- German reunification in 1989 spurred government expenditure → Bundesbank printed more money
- Led to inflation in Germany; Bundesbank had to raise interest rates
- Placed upwards pressure on German mark and other central banks had to raise rates to maintain their pegged exchange rates

UK historic inflation rate

PA graphic. Source: ONS Consumer Prices Index. Figures for 1950-88 are estimates

Global Macro Strategies in real life

Soros' Investment Thesis

- Thesis: UK's weak economy and high unemployment rate would not permit them to maintain this policy for long
- Bet that UK would either devalue the pound of leave the ERM

The Trade

- Established short positions in pounds → borrowed pounds
- Opened long positions in marks → purchased mark-denominated assets
- Made great use of derivatives like options and futures; Position amounted to $10 billion
- Many investors followed suit, placing huge downward pressure on the pound

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Global Macro Strategies in real life

BoE Intervention

- Central Bank tried to defend the peg by purchasing 15 billion pounds with their reserves → limited effectiveness and pound fell dangerously close to lower band
- On 16 Sept 1992, BoE announced 2% rate hike to 12% to boost pound’s appeal
- A few hours later promised to raise rates to 15%, but investors refused to budge
- Traders kept selling and BoE kept buying
- Finally, UK decided to leave ERM and rates returned to initial level of 10%.

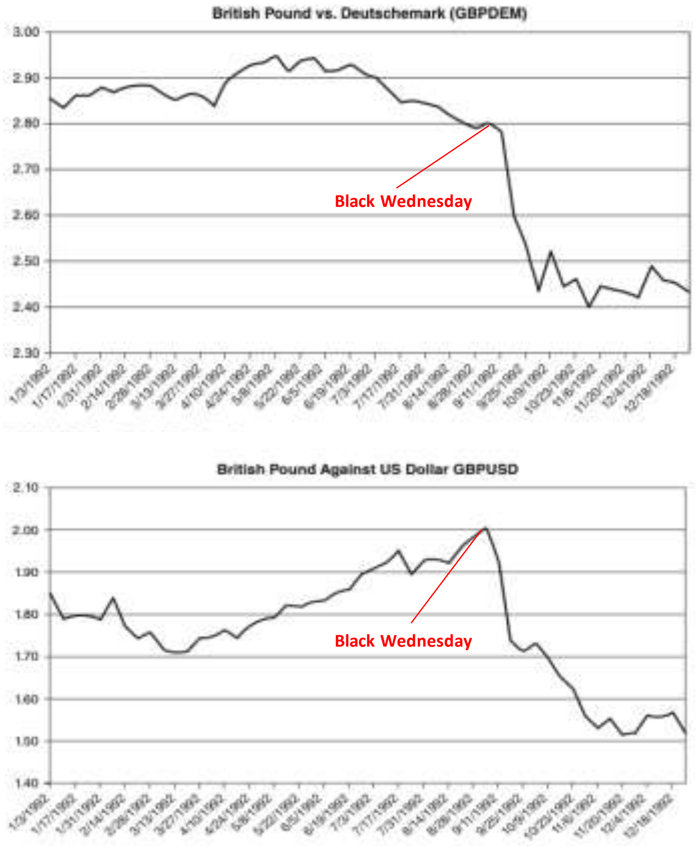

FIGURE 2.3 GBPUSD after Soros

Activity

Actionable Trades

- Identify **one** ongoing global macroeconomic trend (economic, political ie.)
- Form **one** investment idea based off the macroeconomic trend
- Suggest **one** actionable trade to capitalize on this trend

Summary

- The list of factors to examine mentioned here is non-exhaustive but these are the fundamentals that being a global macro analysts should be familiar with.
- Understanding these factors will open numerous ways to approach evaluating the state of the macroeconomics of a country and the world.
- In macroeconomics we are simply using the data we have on hand to make analysis and forecast trends to the best of our abilities. However, the situation can change with a snap of a finger.
- There are numerous unpredictable events such as government policies not resulting of sensible reasoning but politics, economic shocks like covid and outbreak of war such as Russia and Ukraine.

Thank You
&
See You Next Week!