rareview macro

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Good morning John,

Overnight Risk-Adjusted Return Monitor

Cross-Asset	Foreign Exchange	Fixed Income	Equities	Commodities
Nikkei	EUR/USD	10-yr Bunds	Nikkei	WTI Oil
Platinum	USD/KRW	10-yr UST	FTSE	Platinum

*This monitor highlights the largest positive and negative risk-adjusted returns overnight on a cross-asset and single-asset basis, including ~60 investment expressions globally. It is designed to hypothesize where the greatest PnL sensitivity exists and whether outlier price moves are impacting sentiment.
**1d RiskAdj = 10x (Percent Change on Day / 30-Day Realized Volatility)

Overnight Summary & View

Prices across assets and regions are trading lifeless; on a risk-adjusted return basis the ranges are uniformly narrow allowing very little market direction to be extracted.

The weak European PMI Manufacturing and Unemployment data (details below) released overnight is falling on deaf ears. Thematically, nothing has changed and the base level of PMI remains very low. The fact that there is no reaction to the weak data highlights that prices have already discounted the majority of economic weakness and the price risk is asymmetrically to the upside.

Second, professionals are highly sensitive to pattern recognition and follow seasonality, especially around US ISM released later today and because of the positive correlation to first of the month money inflows.

Analog: Since March 9, 2009, SPX is +.3% on avg on first day of the moth (48 occurrences); 65% of time avg gain is +1.1% vs. 35% of time avg decline is -1.3%.

The seasonality the last three years is strong US Q1 data, the pattern remains the same thus far in 2013 and today should be no different in confirming that. Additionally, many are mindful of the fact that Equity gains historically coincide with economic expansions, and because ISM is above 50, the benefit of the doubt is skewed to an upside surprise. This is important to recognize because PMI is a leading indicator for YoY SPX revenue growth and a higher reading today will be associated with positive earnings growth further emboldening investor sentiment.

Conclusion: Yield expansion beyond the higher end of the range should a positive ISM materialize is a clear talking point. The highest gearings to this view remains long US Regional Banks on net interest margin (NIM) improvement and Consumer Discretionary on the “non-inflationary growth” argument due to lower input/commodity prices.

Top Overnight Observations

The following illustrations (charts at end of newsletter) highlight the early stages of sustained US Dollar appreciation, prolonged weakness in Emerging Markets and continued positive US Equity price divergence. The risk is these three key themes remain durable into 2H 2013.

Chart 1: US Dollar vs. All Commodities (18) Positioning = Commodity outflows and US Dollar strength

Chart 2: US Dollar vs. All Commodities (18) Positioning vs. SPX = US Equities diverge

Chart 3: Brent Crude Oil + Copper + Blended Global 5-yr Swap Rates of 6 countries = Growth Basket broke multi-year trend line

Chart 4: Growth Basket (Brent + Copper + Rates) vs. SPX = US Equities diverge

Chart 5: Copper divided by SPX vs. 2-10’s US Treasury Curve = US Equities diverge

Rareview Macro Model Portfolio - Updates

1. Adding second unit to existing long US Financial basket (XLF, BAC, C, AIG); this sector and the capital re-deployment theme remains the best mix of growth, beta, asset allocation and valuation.

2. Adding one unit of front-end interest rate futures steepener as a hedge in case US Yield containment view does not hold and interest rates rise beyond expected range due to growth or step-change in Fed strategy. For cheap carry and roll-down risk, the preferred vehicle is long June 14 (EDU4) vs. short June 15 (EDU5) for ~15 bps.

<u>Watch List Additions</u>

1. Long US Dollar Low Beta Basket (JPY, CHF, AUD, GBP, CAD) + EUR Dec 31st 1.30-1.20 put spread.
2. Short MSCI Emerging Markets (EEM ETF) + Short Copper Futures

<u>Performance</u>

Year to Date Return 3.18%
Month to Date Return -.48%

*Source: RVM. Prices as of February 28, 2013

Data & News

PMI Manufacturing

Eurozone PMI Manufacturing Mar 46.8 (flash 46.6) vs. 46.6 exp vs. 47.9 Feb (20th straight monthly contraction)

- Decline in output and new orders gathered pace and drove further job losses.
- Eurozone countries either experienced sharper rates of decline or – in the cases of Germany and Ireland – slid back into contraction.

German PMI Manufacturing Mar 49 (flash 48.9) vs. 48.9 exp vs. 50.3 Feb (lowest reading since Dec)

- Markit: "A return to falling new order levels was the main factor behind the negative outturn, while production volumes stalled.
- "Manufacturers cited heightened uncertainty about the economic outlook, especially across export markets within the euro area, as having curtailed client spending,"

France PMI Manufacturing Mar 44 (flash 43.9) vs. 43.9 exp vs. 43.9 Feb (3-month high but 13th straight reading in contraction territory)

- Q1 avg PMI reading 43.6, the lowest since a print of 43.1 in Q2 2009.
- Markit: March's "very slight improvement...does little to disguise an ongoing sharp deterioration; with output, new orders and employment falling further."

Italy PMI Manufacturing Mar 44.5 vs. 45.3 exp vs. 45.8 Feb

Spain PMI Manufacturing Mar 44.2 vs. 46 exp vs. 46.8 Feb (23rd straight contraction)

U.K. Manufacturing PMI Mar 48.3 vs. 48.7 exp vs. 47.9 Feb (second straight contraction)

- Q1 avg PMI slips to 49 from 49.2 in Q4.
- Markit: "These weak numbers may be sufficient to tip the balance and convince more members of the MPC to consider additional QE at their meeting next week,"

Sweden PMI Mar Survey 52.1 vs. 50.6 exp vs. 50.9 Feb

Netherlands Mar PMI Mfg 48.0 vs. 49.0 Feb

Poland Mar Manufacturing PMI: 48.0 vs 48.7 exp

Hungary Mar PMI Survey: 55.7 vs. 54.0 prior

Czech Republic Mar Manufacturing PMI: 49.1 vs 49.9 prior

Swiss Mar PMI Manufacturing: 48.3 vs. 50.4 exp vs. 50.8 Feb (1st contraction in three months)

Denmark Mar PMI Survey: 52.5 v 60.3 prior

South Africa Mar Kagiso PMI Mar: 49.3 vs. 52.8 exp vs. 53.6 Feb

PMI Services

China Mar Non-Manufacturing PMI: 55.6 vs. 54.5 Feb

- New orders +0.2 to 52 only.
- Construction sector strong, govt infrastructure spending led +4.5 points to 62.5.

China Mar HSBC Services PMI: 54.3 vs. 52.1 Feb (6-mo high)

India HSBC Markit Services PMI Mar: 51.4 vs. 54.2 Feb vs. 57.5 Jan (slowest since October 2011)

Russia Services PMI Mar: 54.6 vs 55.0 est (31st straight month of expansion but slowest pace since Sept)

Unemployment

EMU-17 Feb preliminary: 12.0%
EMU-17 Previous: Jan 12.0% revised up from11.9%, Dec 11.8%, Nov 11.8%, Oct 11.7%
EMU-27 Feb preliminary 10.9 vs. 10.8 Jan, 10.7 Dec, 10.7 Nov, 10.7 Oct

- EMU unemployment in February rose at its slowest pace since April 2011
- EMU March PMI surveys showed private sector staff cuts continuing for the 15th consecutive month in industry and the services.
- Germany's unemployment rate was stable at 5.4%
- France, the jobless rate rose 0.1 percentage point to 10.8%
- Italian jobless rate slipped by 0.1 percentage point to 11.6%
- Spain, unemployment rose to 26.3% from 26.2%
- Jobless rate rose in Cyprus (14.0%), Slovenia (9.7%), Netherlands (6.2%)
- Jobless rate stable in Portugal (17.5%), Ireland (14.2%), Slovakia (14.6%), Estonia (9.9% in January) Finland (8.1%), Austria (4.8%)
- Jobless declines in Belgium (8.1%) and Malta (6.6%)
- Latest data for Greece showed unemployment easing to 26.4% in Dec

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Source: Bloomberg LP

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