BEHIND THE MARKETS PODCAST: A CONVERSATION WITH SAMUEL RINES

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10/23/2023

On a recent episode of *Behind the Markets*, we had the opportunity to speak with Samuel Rines, Managing Director of CORBU, about the latest thoughts on PolyMacro and the implications for the markets and asset allocation today.

Back in July, we launched the WisdomTree x CORBU PolyMacro Models. After the first quarter of live performance, this is a good time to check in on the major themes reflected in the Model allocations and how the latest geopolitical developments impact CORBU’s thinking.

As we outlined in our launch post, the current PolyMacro Model has three investment themes at the core of its allocations:

- Regionalization
- De-escalation of China Risks—for now
- Fed Miss Takes (aka MonPolVol)

Now, for CORBU’s update on each, starting with the last.

Fed Miss Takes (MonPolVol)

CORBU’s view this year has been:

1. The Fed was likely to make a mistake at some point
2. The market is likely to have many “miss”-takes as to what the FOMC is going to do

Both miss-takes lead to opportunities in the bond market. CORBU does not see another rate hike in 2023, and 2024 is becoming more interesting, as the data is being driven by fairly volatile dynamics. There is something in the economic data for everyone’s priors.

You could look at CPI ex-shelter, energy, food and it's sitting at 2%. Or you could look at core CPI and see it is not decelerating as quickly as the Fed wants.

How long the Fed holds rates at current levels is the real debate as we head into 2024.

Portfolio implications: CORBU does not see value in the long end of the curve, based on the inverted yield curve and a view the long end could see more pressure.

Corbu’s Models remain short and focused on the 2–5 year segment of the duration curve for their fixed income positions.

Rates above 5.25% at the long end would get more attractive and potentially impact their allocations. Our podcast discussion covered some of the hot-button drivers of rates: quantitative tightening, productivity improvements impacting real rates, and the outlook for budget deficits and refinancing of government debt.

Oil and the Middle East Risk

The terrorist attacks on Israel, and the retaliation, interrupted the downward slide in oil and commodities. But if you had told Sam two years ago that we would have a land war in Europe involving Russia, as well as a significant conflict in the Middle East, he would have thought that oil would be ***significantly*** higher that $85–$87 for WTI.

But it is a much different energy market today than it was even two years ago. Europe was then significantly at risk of a complete shut off of natural gas from Russia, but it pivoted toward liquefied natural gas (LNG) and other forms of energy it could get very quickly from the U.S. The U.S. is the world's largest producer of LNG, and we've been shipping a tremendous amount of it to Europe.

The Qataris and the Germans signed a significant LNG deal. Qatar, the third-largest producer in the world, has threatened to shut off LNG deliveries due to the current conflict in Gaza. This could create further pressure on LNG prices if the conflict escalates.

Offsetting the disruption possibilities is a major explosion in U.S rig productivity and U.S. output that is surpassing previous highs. Our podcast discusses this huge increased productivity dynamic in greater detail, and is a very interesting listen.

Portfolio implications: CORBU remains overweight in its Energy exposures in its selection of which ETFs to allocate to, particularly for the U.S. market.

Regionalization and Preference for the Allies

CORBU’s Model allocations to emerging markets have favored an ex-China orientation. But through the end of 2023, CORBU expects a thawing of relations.

However, as we approach 2024, CORBU thinks the risks are going to significantly escalate around the Taiwan election and the possibility of pro-independence Taiwan candidates winning.

That is where the thawing reverses straight to ice and elevated risks.

CORBU believes there are better ways to take indirect China exposure than direct China risk.

Portfolio Implications: The recent conflict in the Middle East has furthered CORBU’s views on international allocations centered on the Western allies. If you want China beta for any temporary political or economic positivity, position for it elsewhere. Japan is one of these allies in Asia, as is Australia for its commodities—LNG in particular.

Attention Financial Advisors:

To learn more about CORBU x WisdomTree PolyMacro Model Portfolios, fill out the contact form below:

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

View the online version of this article here.

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DEFINITIONS

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Bond market : The bond market–often called the debt market, fixed-income market, or credit market–is the collective name given to all trades and issues of debt securities. Governments typically issue bonds in order to raise capital to pay down debts or fund infrastructural improvements.

Consumer Price Index (CPI) : A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Curve : Refers to the yield curve. Positioning on the yield curve is important to investors, especially during non-parallel shifts.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Quantitative Tightening : Quantitative easing is a process whereby a central bank targets lowering longer-term interest rates by purchasing bonds and other securities to stimulate the economy. Quantitative tightening is the reverse process whereby securities are either sold or the proceeds of maturing securities are not reinvested with the goal of tightening economic conditions to prevent the economy from overheating.

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.