

IBKRWEBINARS.COM



November 19, 2021

Drawing Capital

Macro Outlook & Market Trends for 2022

Sean van der Wal

Managing Partner
Drawing Capital

Jugal Lodaya

Managing Partner
Drawing Capital

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. Interactive Brokers LLC is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you.

Interactive Brokers LLC does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.



Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit interactivebrokers.com.

Security futures involve a high degree of risk and are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading security futures, please read the [Security Futures Risk Disclosure Statement](#). For a copy visit Interactivebrokers.com.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.
- Interactive Brokers LLC is a member of [NYSE FINRA SIPC](#)



drawingcapital

Macro Outlook & Market Trends for 2022

Presented by:

Sean van der Wal and Jugal Lodaya



Disclosure

This presentation may not be reproduced in whole or in part without the express consent of Drawing Capital Group, LLC (“Drawing Capital”). This presentation is not an offer to sell securities of any investment fund nor a solicitation of offers to buy, sell, or hold any securities. Past performance of these strategies is not necessarily indicative of future results. There is the possibility of loss and all investments involve risk, including the loss of principal. Drawing Capital may own securities discussed in this presentation.

The information in this presentation was prepared by Drawing Capital and is believed by Drawing Capital to be reliable and has been obtained from sources believed to be reliable. Drawing Capital makes no representation as to the accuracy or completeness of such information. Opinions, estimates, and projections in this presentation constitute the current judgment of Drawing Capital and are subject to change without notice.

Any projections, forecasts, and estimates contained in this presentation are speculative in nature and are based upon certain assumptions. In addition, opinions and investment topics described herein are subject to known and unknown risks, uncertainties, and other unpredictable factors, many of which are beyond Drawing Capital’s control. No representations or warranties are made as to the accuracy of such forward-looking statements. It can be expected that some or all of such forward-looking assumptions will not materialize or will vary significantly from actual results. Drawing Capital has no obligation to update, modify or amend this presentation or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Due to various factors, investments that seek to track indices may lead to different performance compared to the performance of the underlying benchmark index.

Drawing Capital is not affiliated with Interactive Brokers LLC. Drawing Capital receives trade execution, custody, clearing, and other services from Interactive Brokers LLC.



About

Drawing Capital is an innovation-focused investment platform headquartered in Silicon Valley.

Drawing Capital aims to capture the expansion of a technology-forward world by investing in leaders that we believe carry undervalued growth. Our expertise in finance and data science enables us to participate in investment opportunities in public markets not captured by passive investing.

Table of Contents



Inflation & Interest Rates



Money Supply & Velocity



Policy and Tax Changes



Economic Health & Measures



Sectors of Interest



Summary & Resources

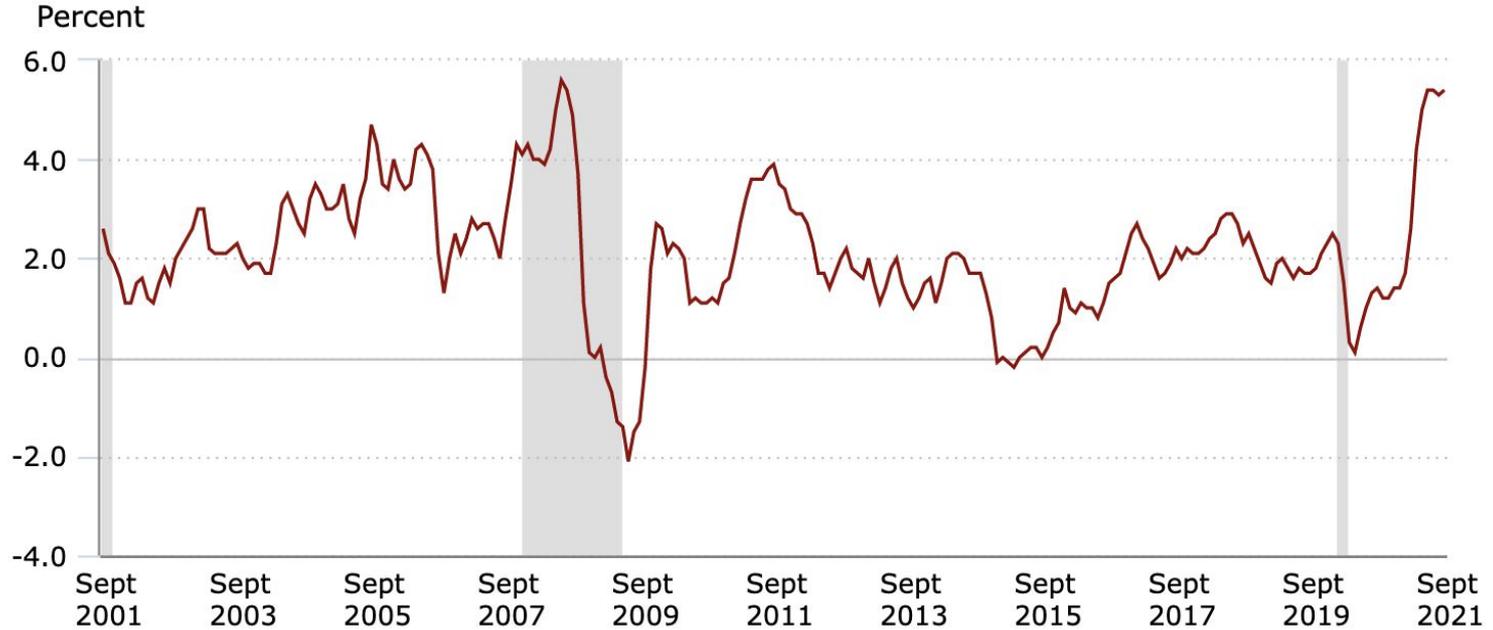


Inflation & Interest Rates

- Inflation in the United States has reached a 13-year high.
- Energy prices and supply-side shortages are major contributors to rising prices.
- Interest rates remain near all-time lows with about \$16.5T in negative yielding debt globally.

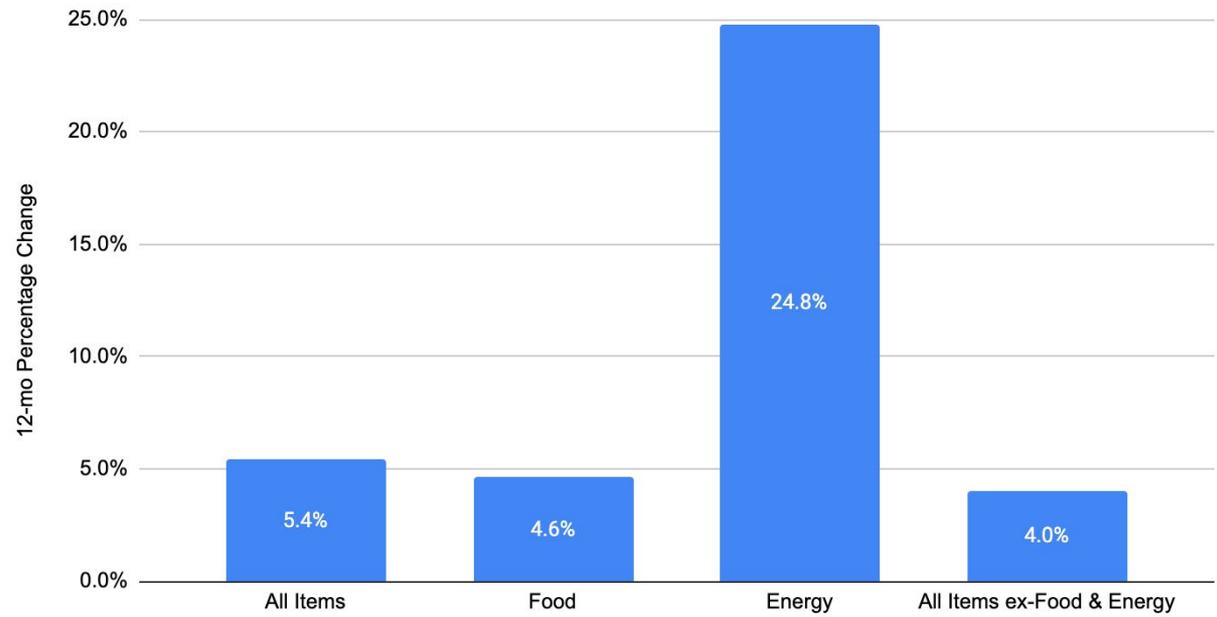


CPI Recently Reached Its 13-Year High





12-month Percentage Change, Select CPI Categories



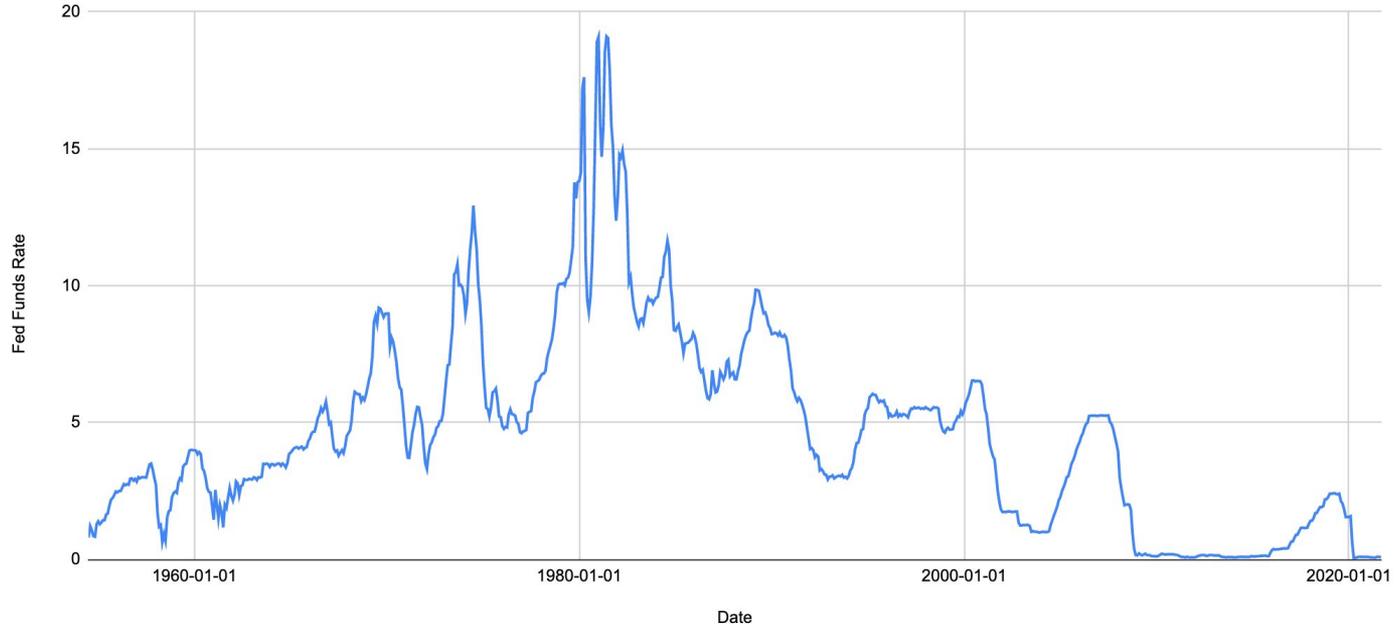


Median Household Income Has Upward Trend Over Last 10 Years



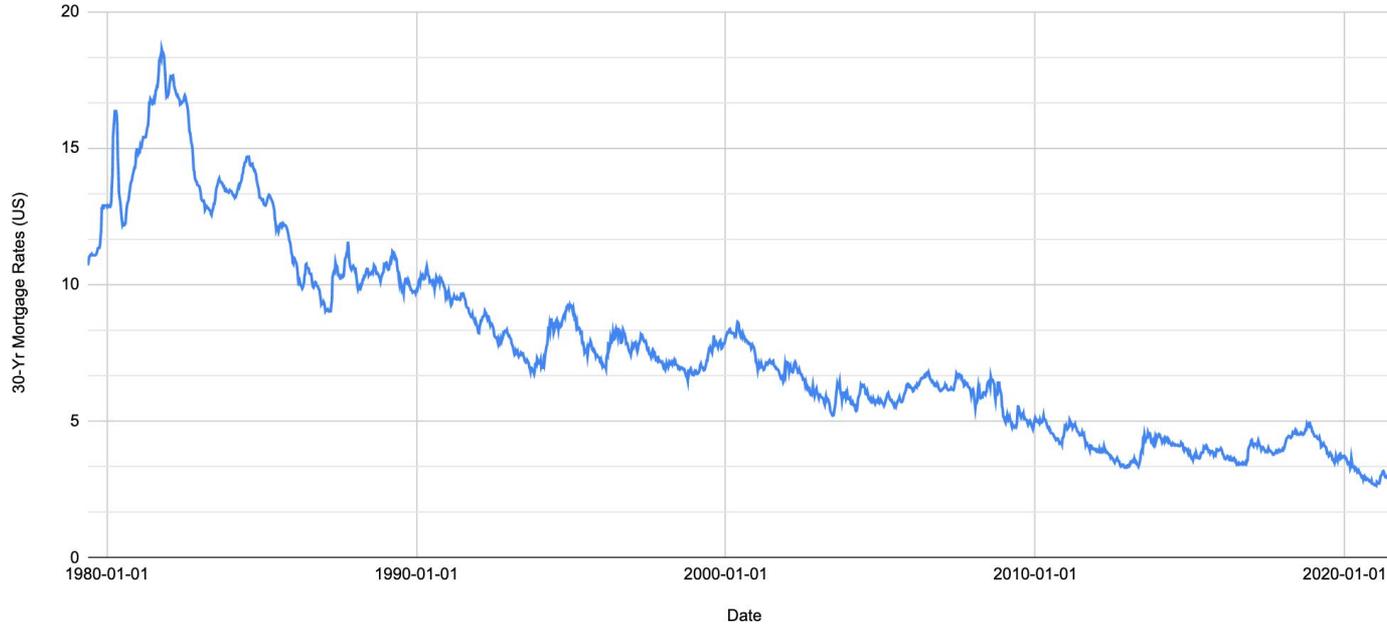


Fed Funds Rate Remains at All-Time Lows

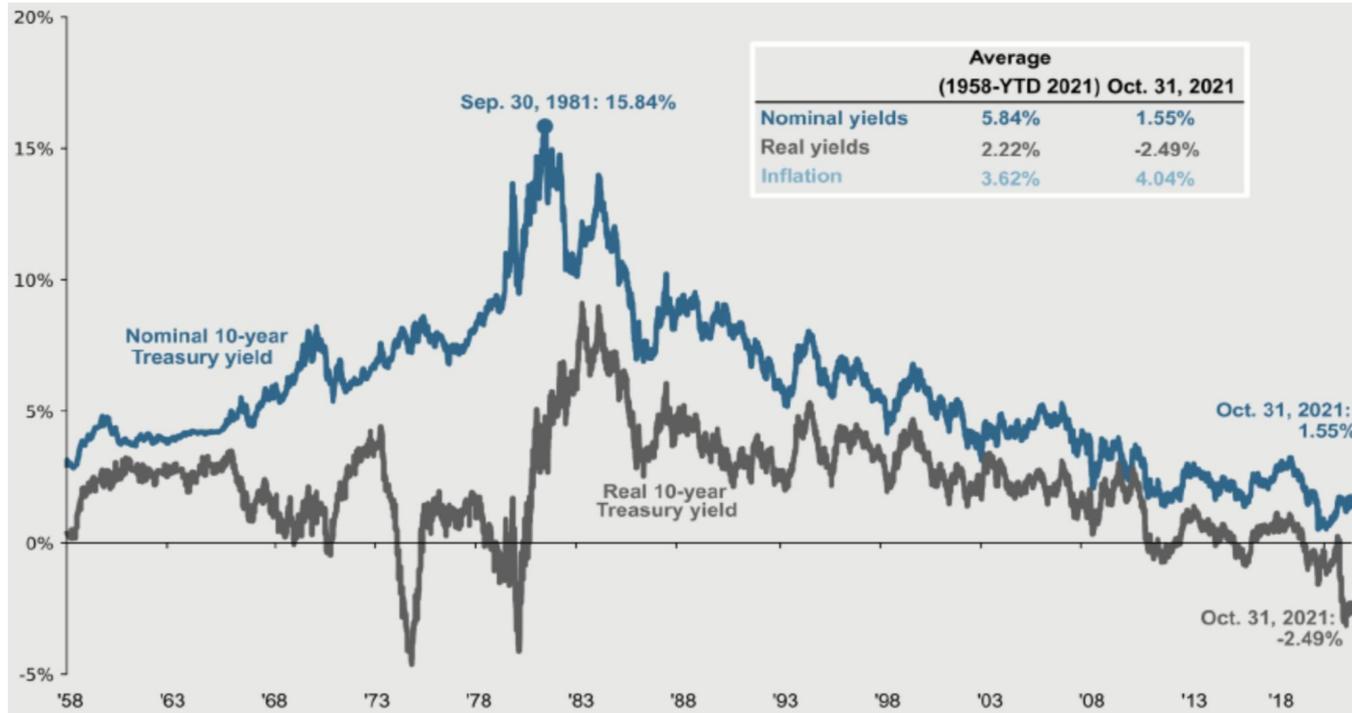




30-Yr Fixed Rate Mortgages Also Remain Near All-Time Lows



Real 10Y U.S. Treasury Yields Are Negative



Developed Country Bonds Have Low or Negative Yields

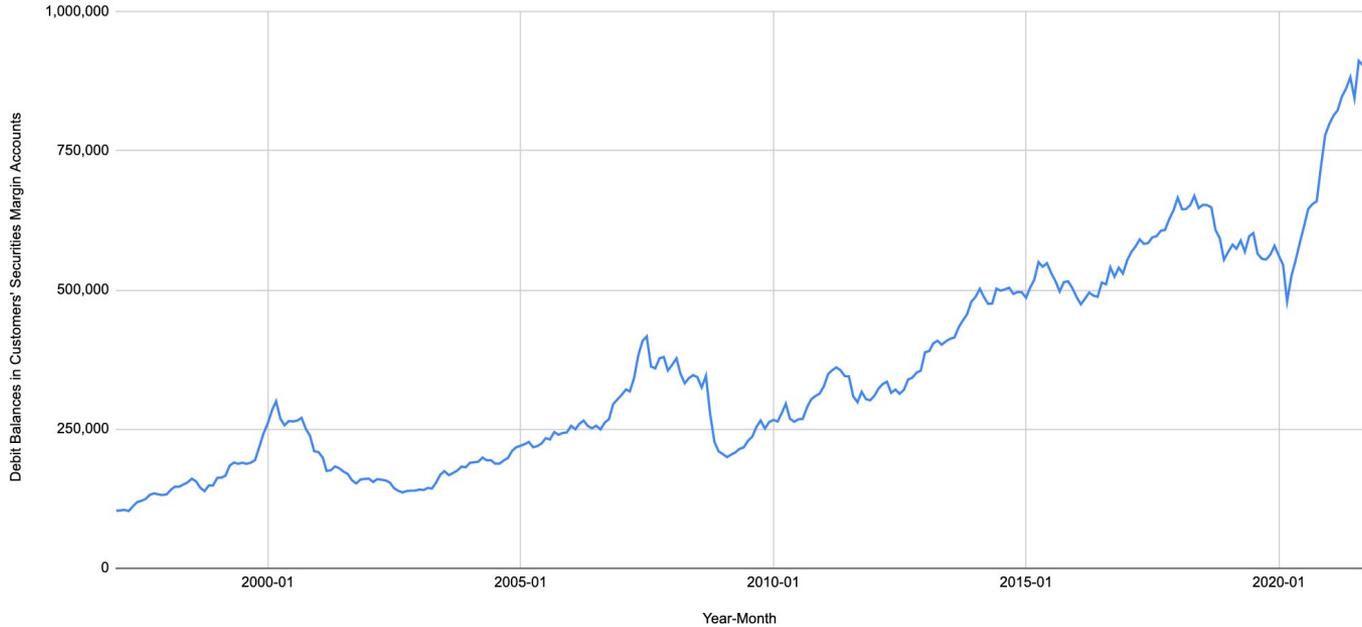
\$16.5 Trillion

Global outstanding debt with negative yield

	US	CA	GB	DE	FR	IT	JP
1Y	0.13%	0.73%	0.60%	-0.68%	-0.63%	-0.40%	-0.11%
2Y	0.50	1.09	-	-0.58	-0.58	-0.26	-0.10
3Y	0.76	1.16	0.75	-0.58	-0.49	0.01	-0.09
5Y	1.19	1.51	0.83	-0.39	-0.25	0.39	-0.06
7Y	1.46	1.57	0.83	-0.26	-0.07	0.70	-0.03
10Y	1.56	1.73	1.03	-0.11	0.27	1.13	0.10
30Y	1.93	2.00	1.11	0.14	0.87	1.88	0.67



Debit Balances in Customers' Securities Margin Accounts (\$ millions)





What Does The Current Environment Tell Us?

1

Record-low interest rates and global yields **push investors towards risk assets** (i.e. equities, venture capital, real estate, and cryptocurrencies).

2

A rise in inflation was originally expected to be transitory, but has now been declared a **longer-term trend**.

3

Historically-low borrowing rates incentivize debt financing and introduce **increased amounts of leverage** in financial markets.

Market-Implied Asset Allocation Models Based on US Treasury Yields

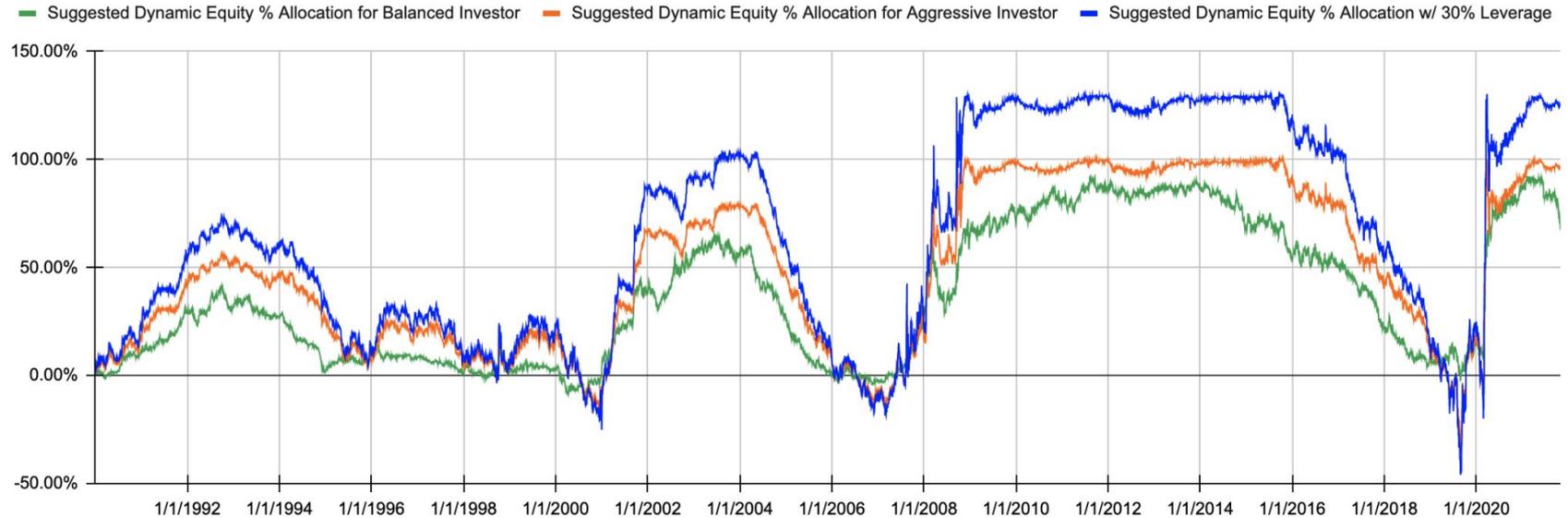


Chart by Drawing Capital and Data from US Treasury (Link: <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield>)



Money Supply & Velocity

- Definitions for Money Supply and Money Velocity.
- Money Velocity is a leading indicator of Consumer Price Inflation and financial asset inflation.
- Marginal Revenue Product of Debt

M1/ M2 Money Supply and Money Velocity

M1

Coin currency,
Physical paper,
Central bank reserves,
Demand deposits,
Travelers checks

M2

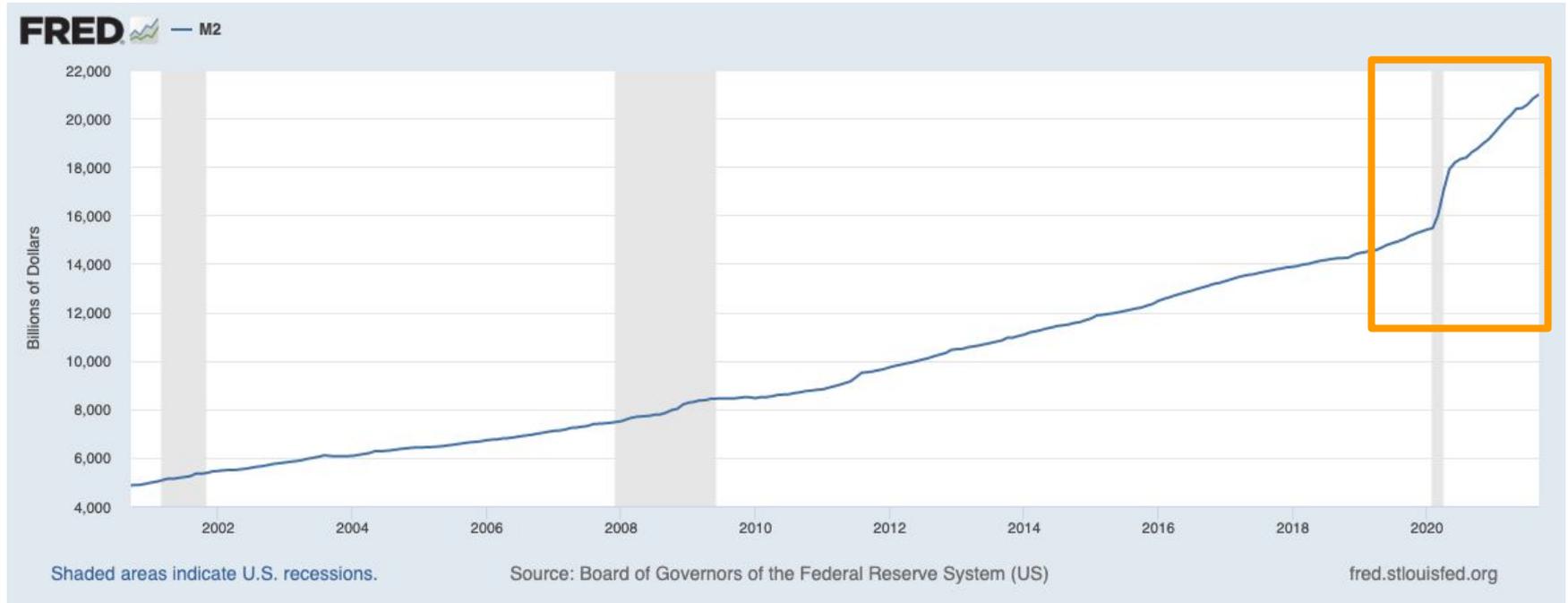
M1 Supply
+
Savings deposits,
Money market shares

Velocity

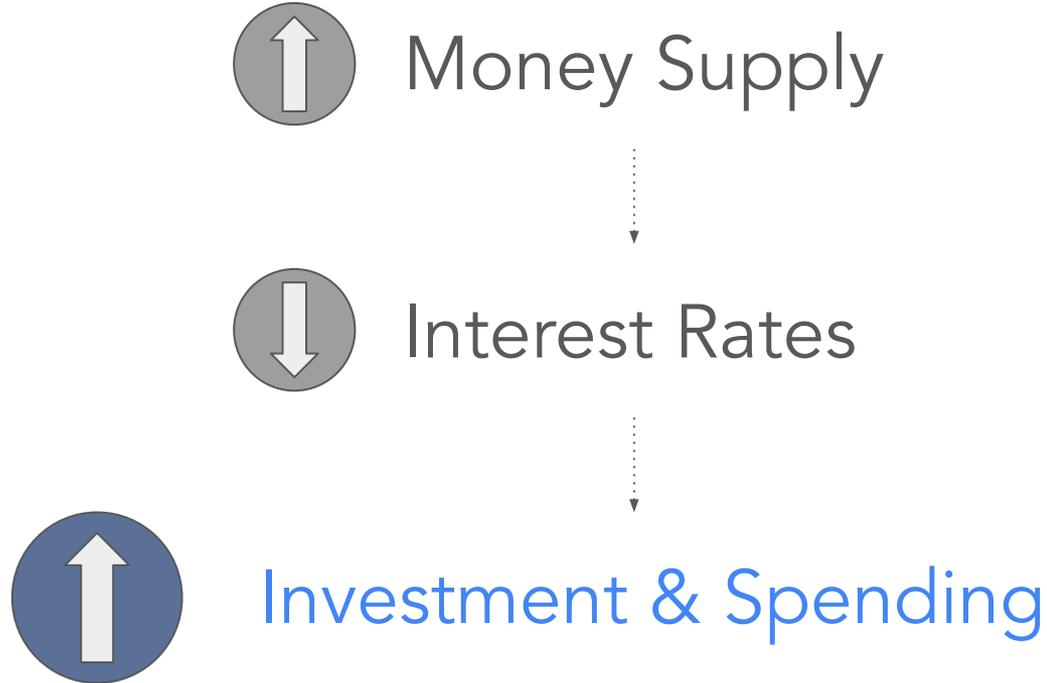
Rate at which money is
exchanged in an economy
(higher velocity = greater
collective spend).



M2 Money Supply Grew 35.6% in 19 Months

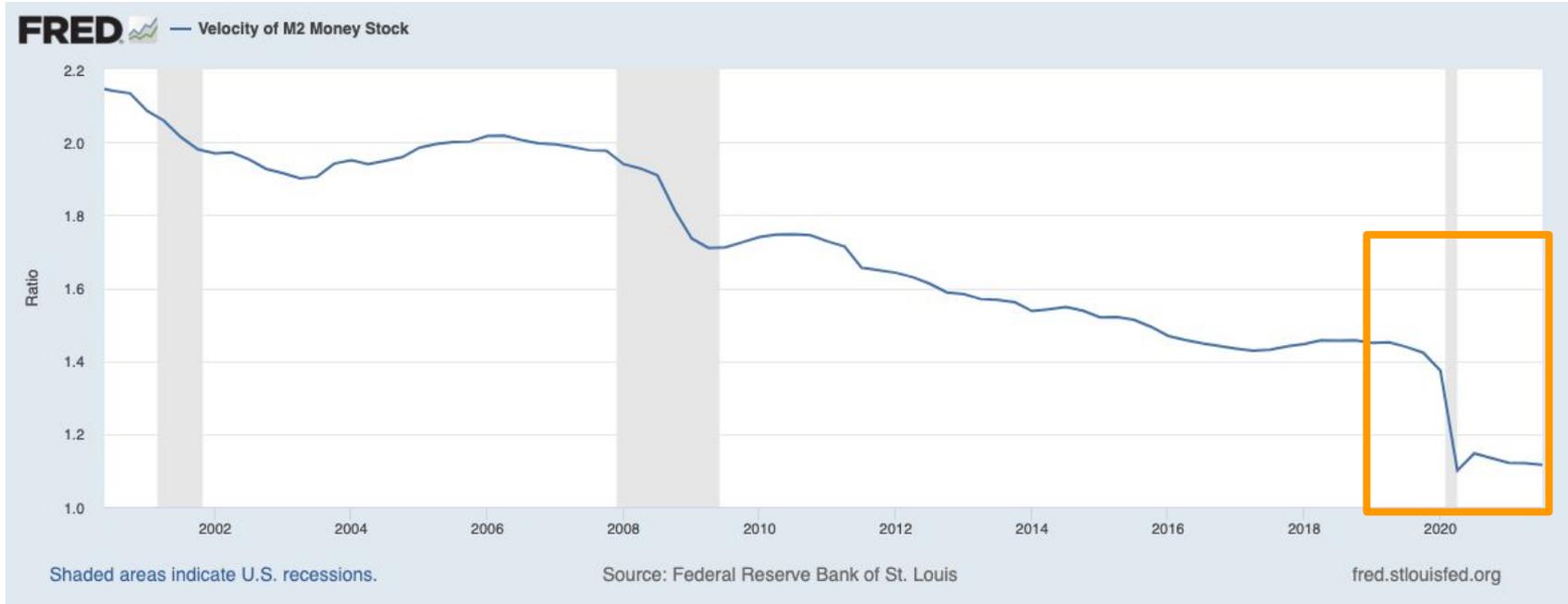


Effects of Increasing Money Supply





Velocity of M2 Money Decreased 18.8% from Q1 '20 - Q3 '21



Marginal Revenue Produced per Dollar of Debt is Decaying



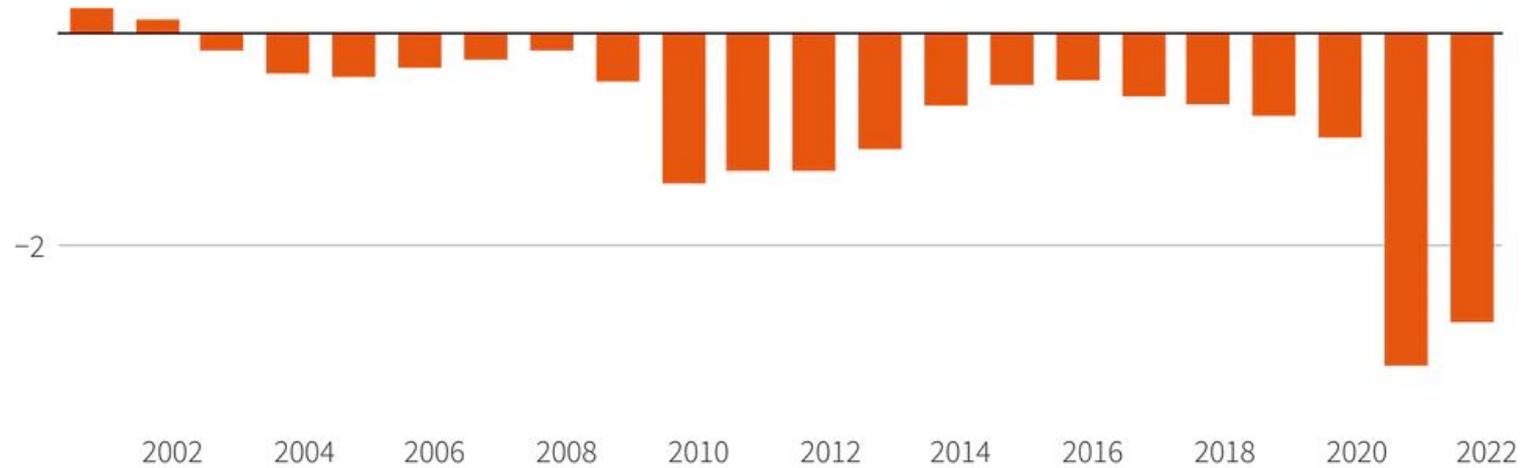


Policy and Tax Changes

- In 2021, the U.S. Government has spent \$6.82 trillion, creating the second largest budget gap ever.
- Several tax-related policies have been proposed in order to alleviate the federal budget gap.



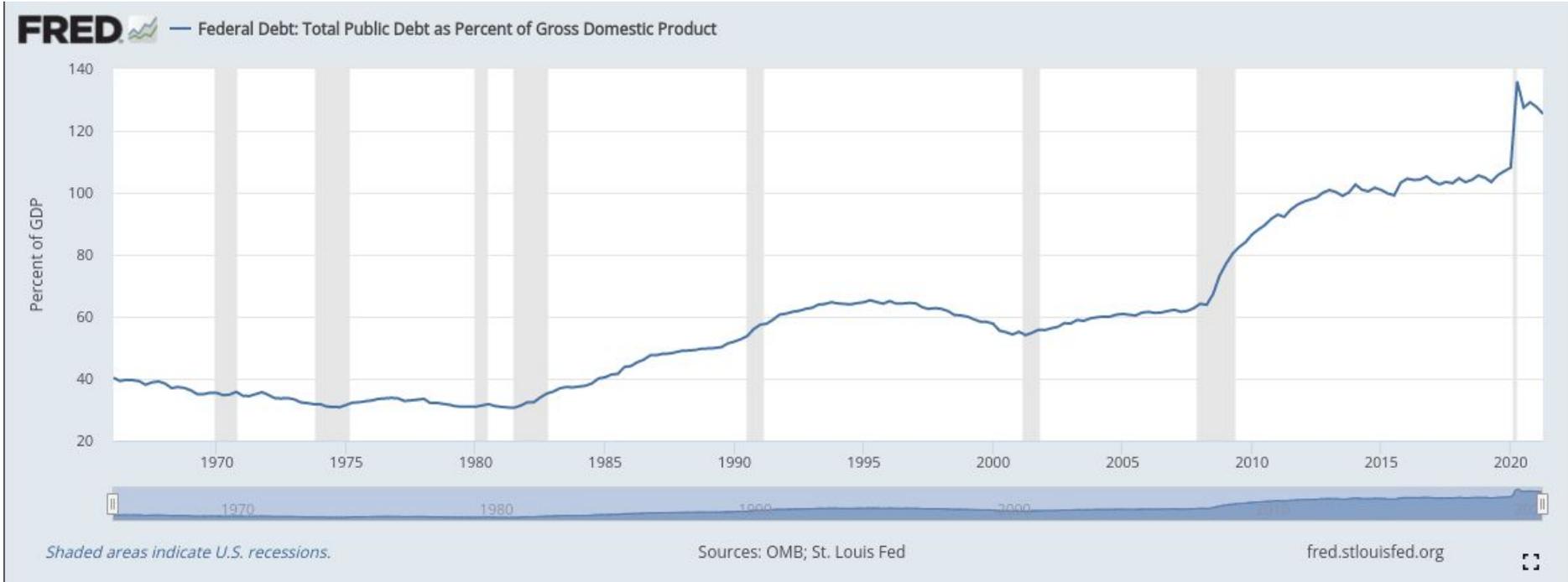
U.S. Budget Deficit: 2020 and 2021 are the Largest Gaps Ever



Note: Figures are trillions of U.S. dollars

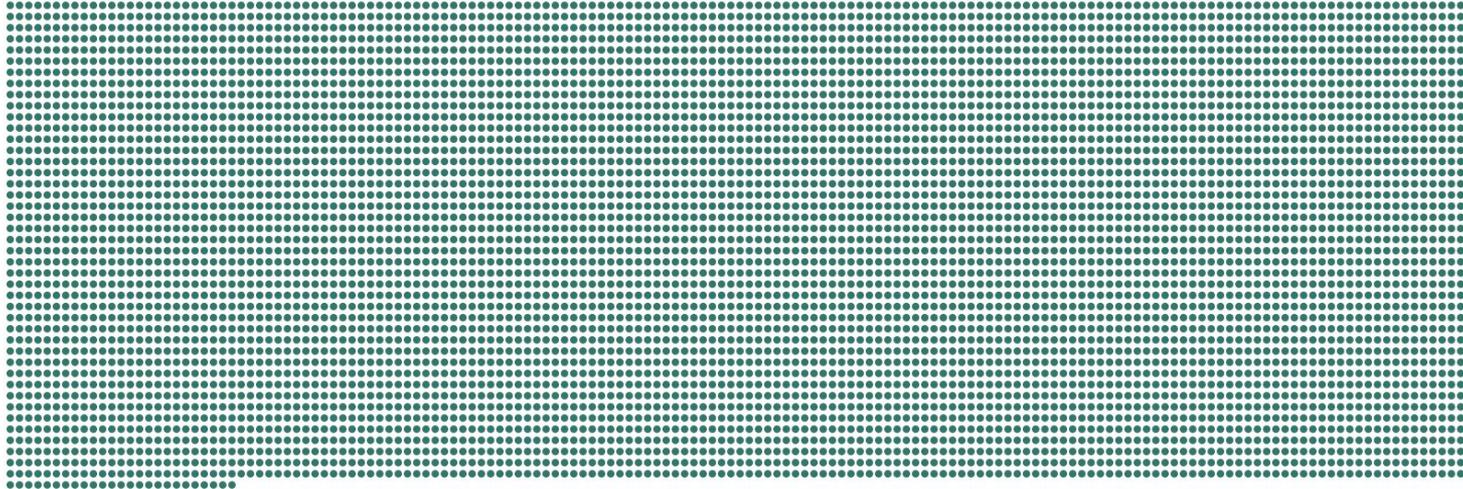


The Amount of US Public Government Debt Exceeds US GDP



In 2021, the U.S. Government Spent \$6.82 Trillion

● = \$1 billion



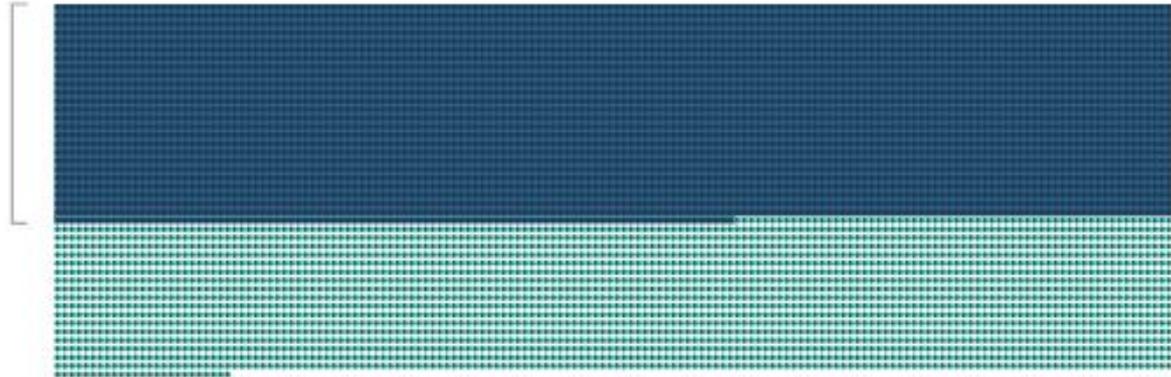
↪ 6,818 dots x \$1 billion = \$6.82 trillion



The U.S. Government Spent 168% of Its 2021 Revenue

● = \$1 billion

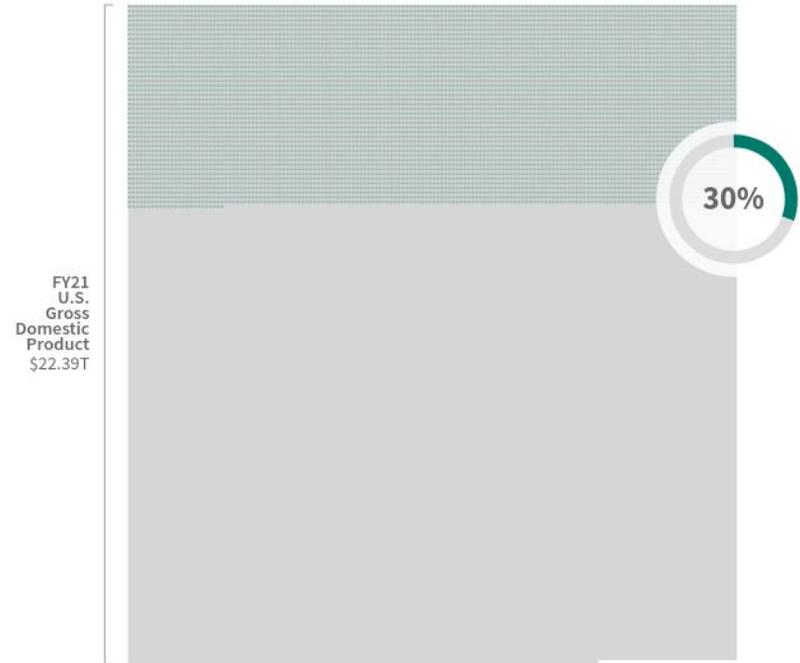
Federal
Revenue
\$4.05T



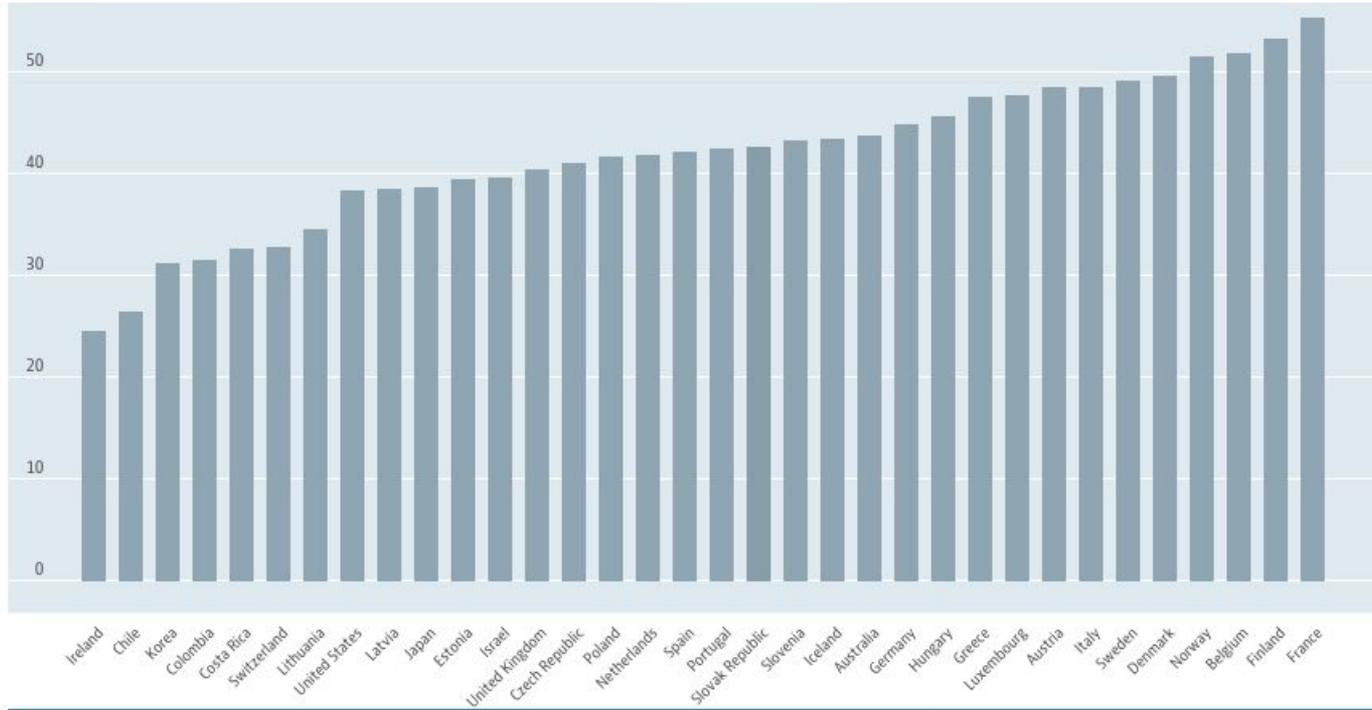
The U.S. Government Spent 30% of Its 2021 GDP

- Government spending equates to roughly \$3 out of every \$10 of the goods produced and services provided in the United States
- Each dollar of government spending could create more or less than \$1 of GDP depending on individual behaviors and fiscal multipliers.

• = \$1 billion

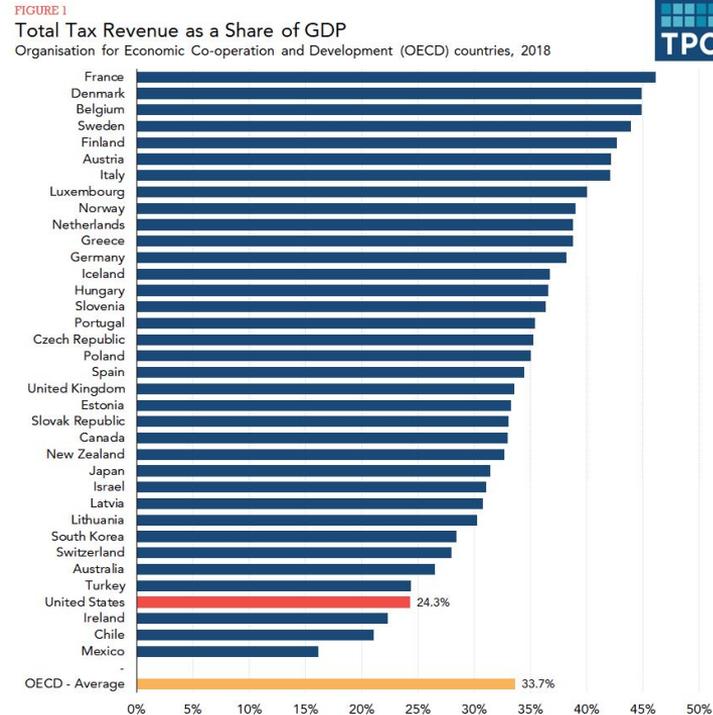


Other Countries' Expenditures as Percent of GDP (2020)



Total Tax Revenue as Percent of GDP (2019)

- US taxes are fairly low compared to other countries
- Observing other countries' tax revenue helps us project an upper bound for the future of US tax policies
- Lower tax rates enable individuals to shape the economy; higher tax rates give government more control





Several Tax-Related Changes Are Being Discussed To Fund Budget

Top income tax rate to
39.6%

Top capital gains rate
from 20% to 25%

3% surtax on MFJ
income >\$5M

Required distributions on
IRA balances >\$10M

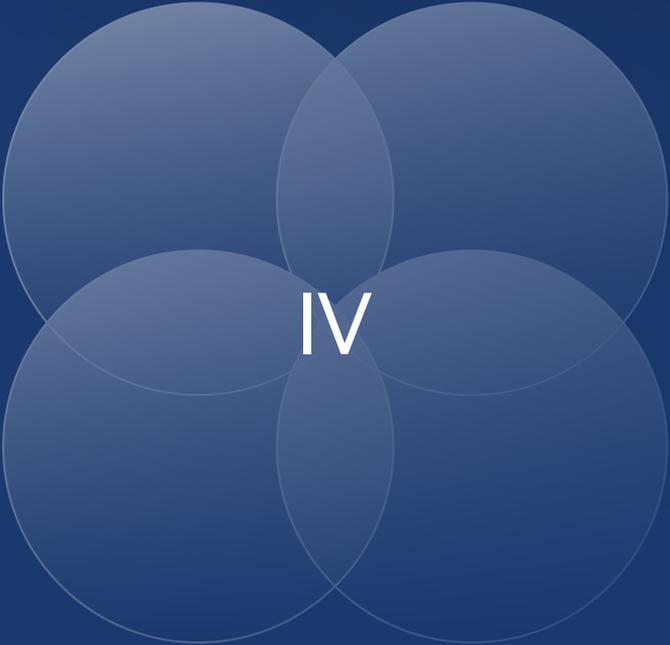
Elimination of
“back-door” Roth
conversions

Wash sale rules to include
commodities, digital
assets, currencies

Elimination of valuation
discounts for
non-business assets

Corporate tax increase
from 21% to 26.5%

Reduction of Federal
estate tax exclusion from
\$11.7M to \$6.02M

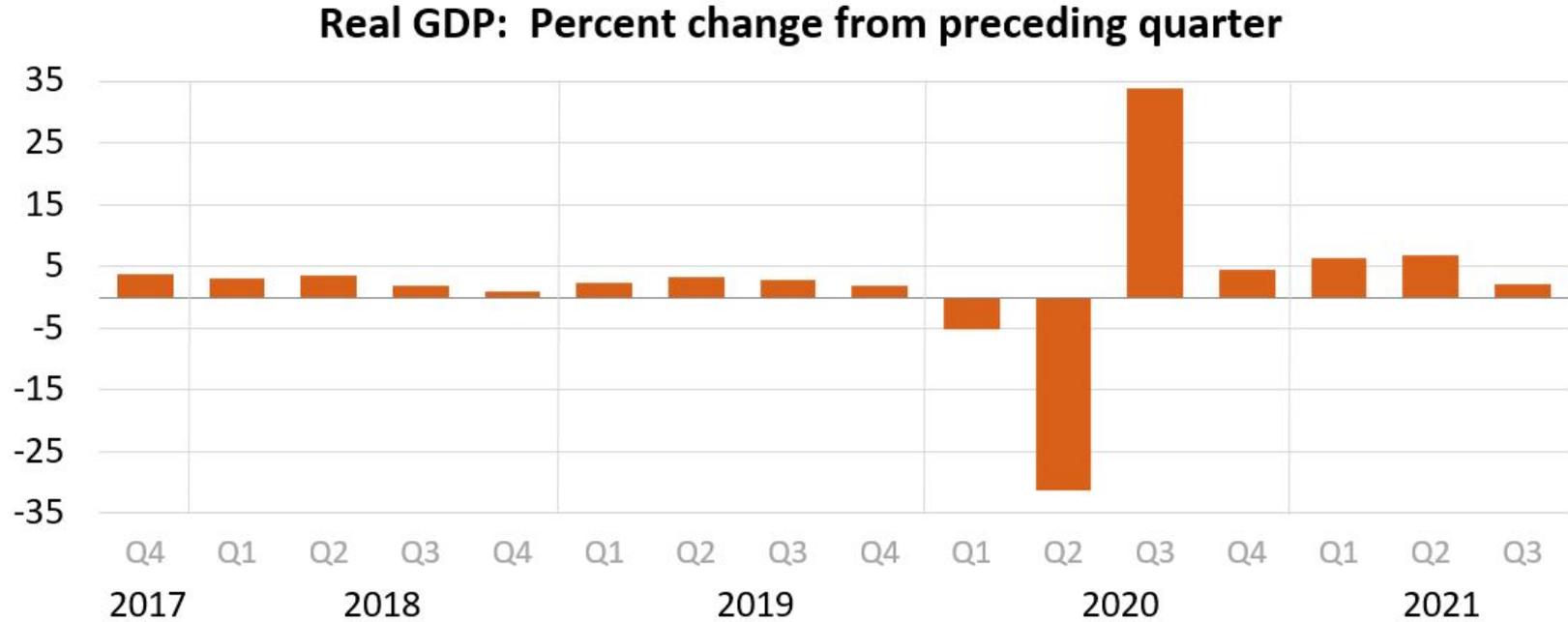


IV

Economic Health & Measures

- Lending rates, unemployment rates, and GDP all help gauge the economic health of a country.
- US GDP is one of many data points to measure the state of the economy.
- GDP growth by itself is not the best indicator of economic productivity.

Since 2017, US GDP Tends to Grow At Most 5% QoQ (Excluding Covid)



U.S. Bureau of Economic Analysis

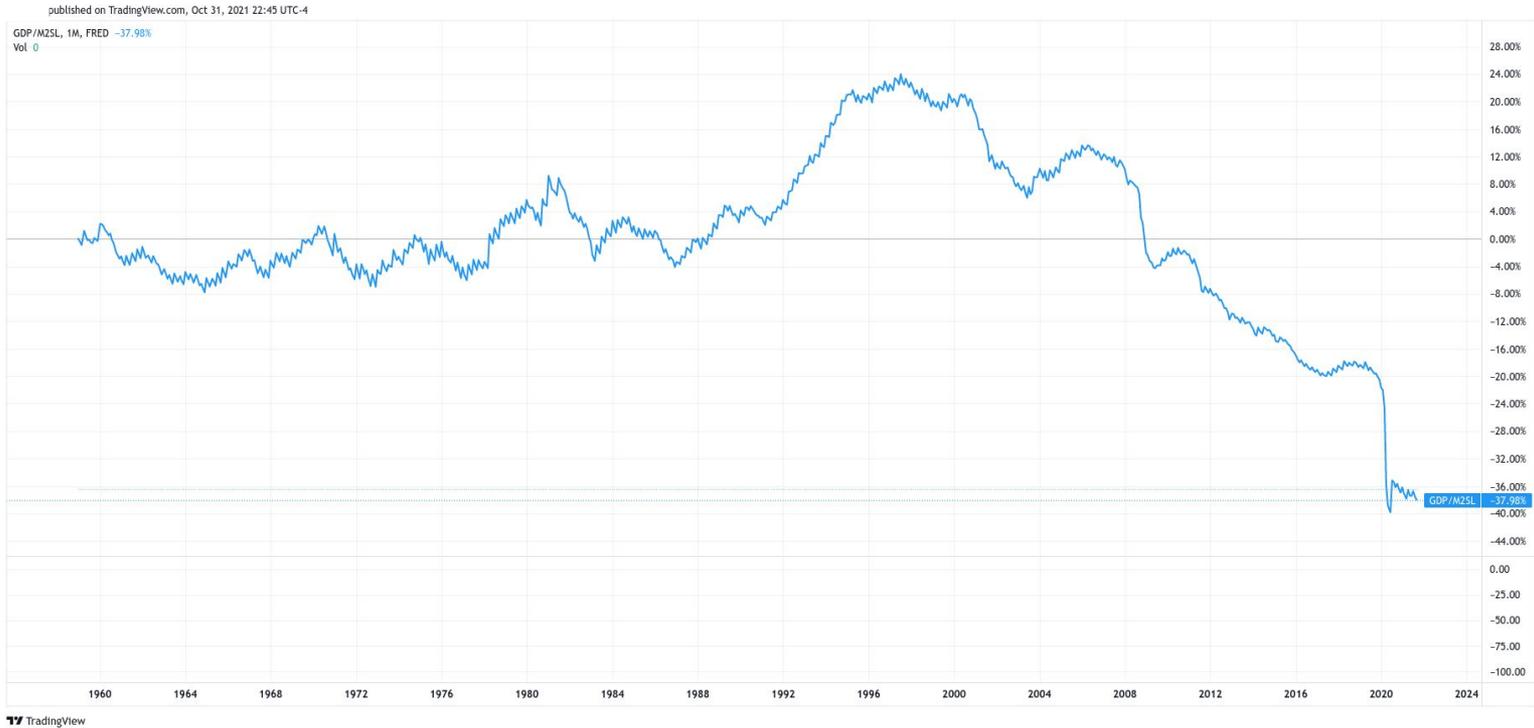
Seasonally adjusted at annual rates

The Top 5 Countries by GDP

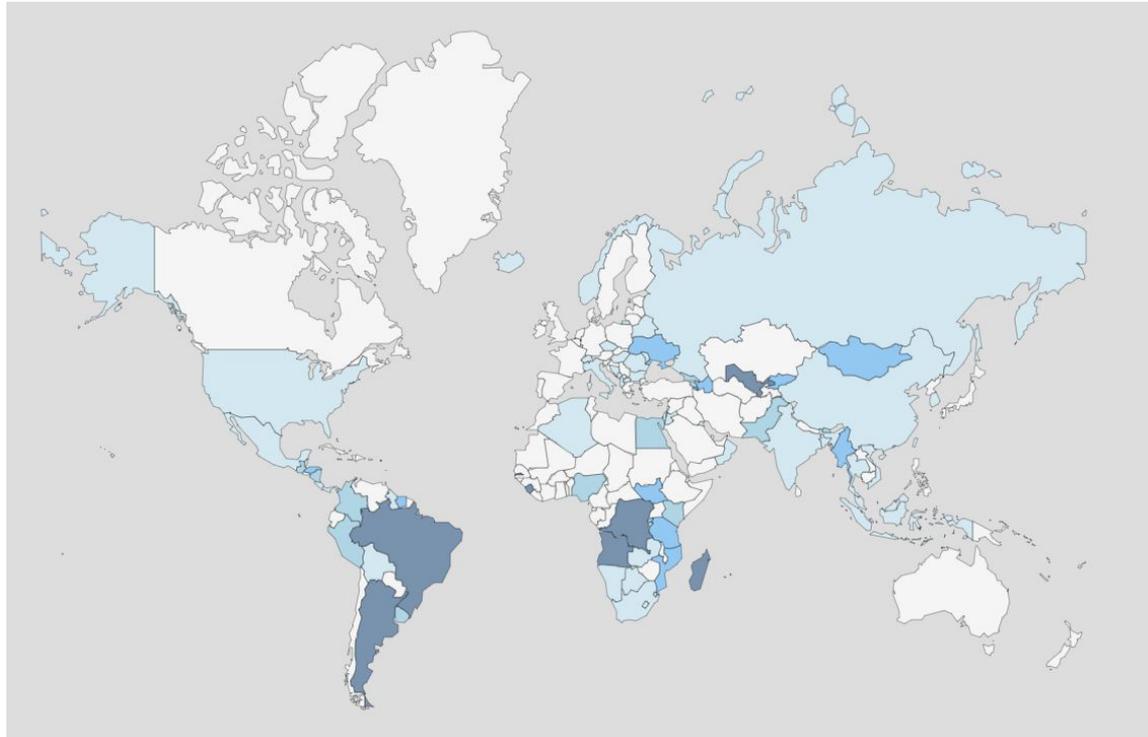
Country	Most Recent Year	Most Recent Value (Millions)	
United States	2020	20,936,600.00	
China	2020	14,722,730.70	
Japan	2020	4,975,415.24	
Germany	2020	3,846,413.93	
United Kingdom	2020	2,707,743.78	
France	2020	2,630,317.73	



Economic Activity per Dollar Has Fallen ~50% Since 1997



Lending Rates Around the World



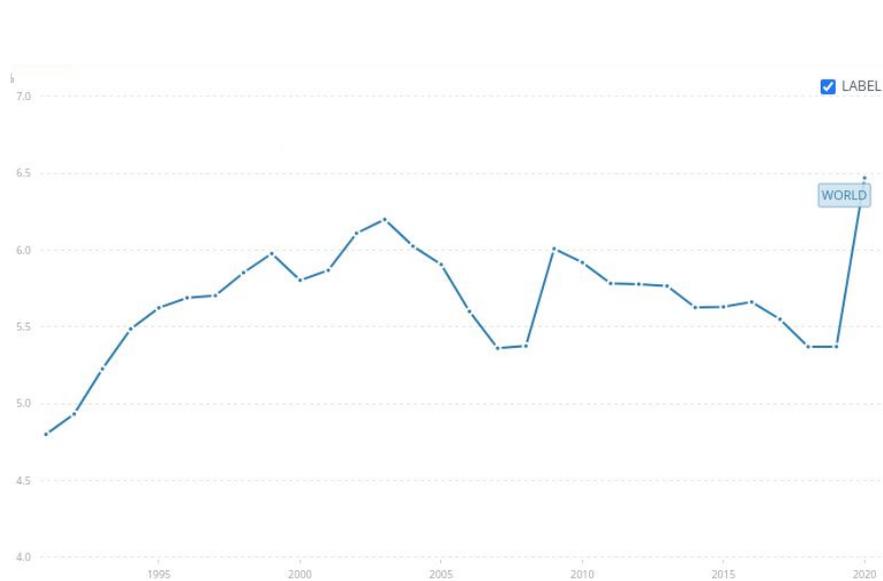
	< 5.76
	5.76 - 9.85
	9.85 - 14.29
	14.29 - 19.66
	> 19.66

Lowest and Highest Lending Rates

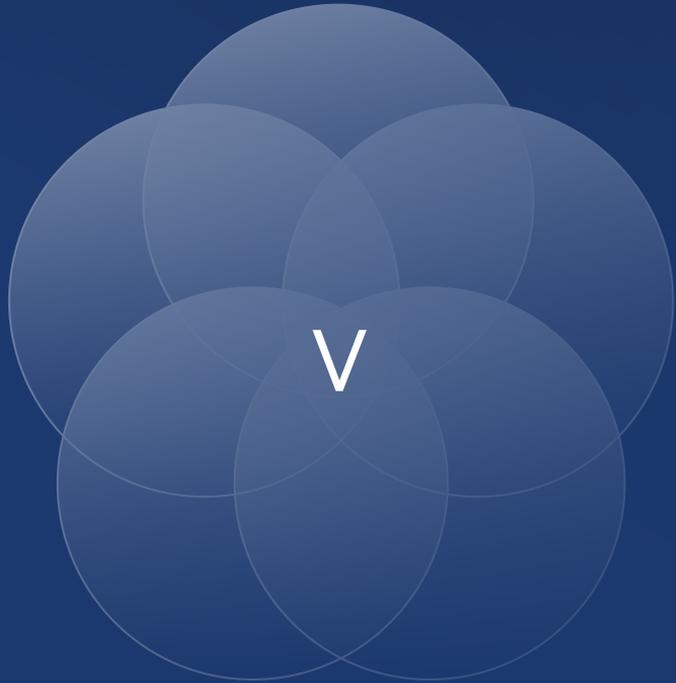
Country	Most Recent Year	Most Recent Value	
New Zealand	2018	0.0	
United Kingdom	2014	0.5	
Japan	2017	1.0	
Netherlands	2013	1.5	
San Marino	2020	1.7	
Hungary	2020	2.0	
Vanuatu	2020	2.1	
Italy	2020	2.3	
Switzerland	2020	2.6	
Norway	2020	2.7	

Country	Most Recent Year	Most Recent Value	
Madagascar	2020	48.9	
Somalia	1988	33.7	
Argentina	2020	29.4	
Brazil	2020	29.0	
Gambia, The	2020	28.0	
Congo, Dem. Rep.	2020	26.0	
Malawi	2019	25.7	
Tajikistan	2019	23.5	
Sierra Leone	2020	23.5	
Lao PDR	2010	22.6	

Global Unemployment Rates



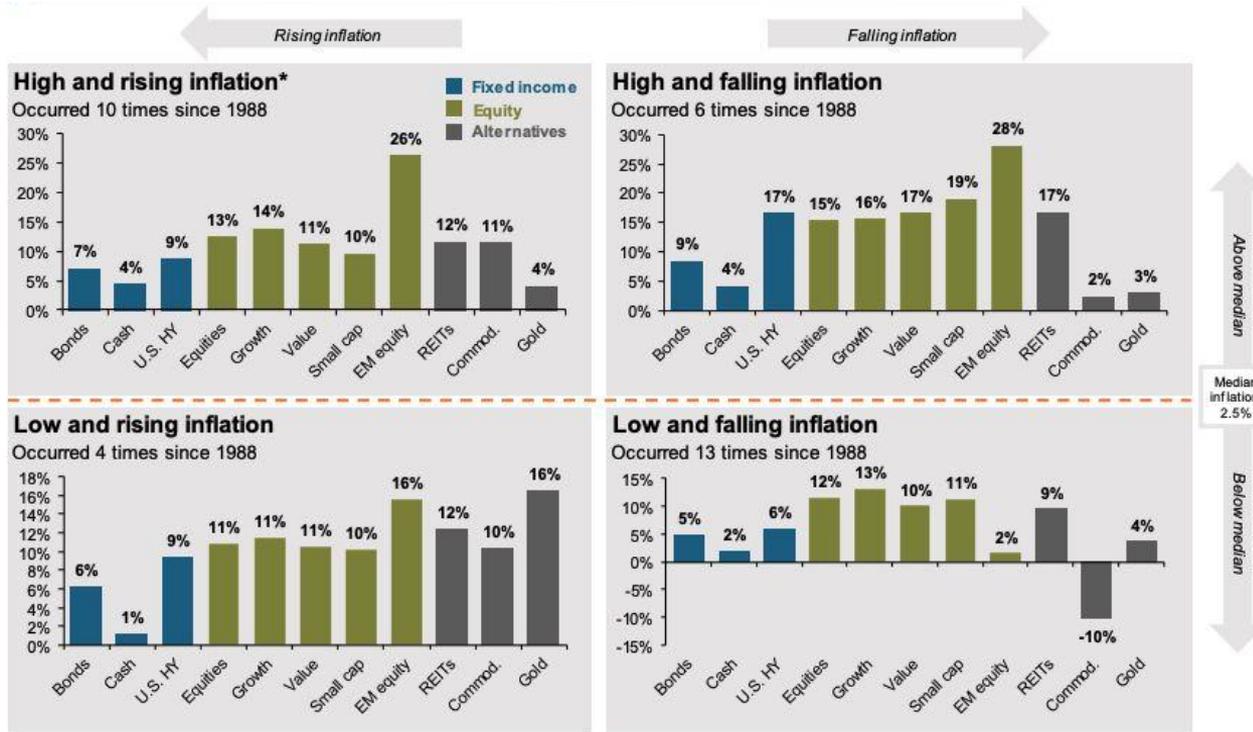
Country	Most Recent Year	Most Recent Value	
South Africa	2020	28.7	
West Bank and Gaza	2020	27.4	
Lesotho	2020	24.6	
Eswatini	2020	23.4	
Gabon	2020	20.5	
Namibia	2020	20.4	
St. Vincent and the Grenadines	2020	20.3	
Armenia	2020	20.2	
Libya	2020	19.4	
Jordan	2020	18.5	



Sectors of Interest

- Explore asset class performance in changing inflation scenarios.
- Highlight Treasury yields during periods from Quantitative Easing to Quantitative Tapering.
- Highlight impact declining discount rates DCF analysis.

Asset Class Returns in Different Inflation Environments



S&P 500 Index Returns in an Environment with Rising US Treasury Yields

Rising Rates Start Date	Rising Rates End Date	Duration (Months)	Change in 10-Year Treasury Yield	S&P 500 Gain/Loss
12/26/62	8/29/66	44.7	1.7%	18.3%
3/16/67	12/29/69	34.0	3.6%	1.3%
3/23/71	9/16/75	54.6	3.2%	-18.1%
12/30/76	9/30/81	57.8	9.0%	8.7%
5/4/83	5/30/84	13.1	3.9%	-7.9%
8/29/86	10/16/87	13.8	3.3%	11.8%
10/15/93	11/7/94	12.9	2.9%	-1.4%
1/19/96	7/8/96	5.7	1.5%	6.7%
10/5/98	1/21/00	15.8	2.6%	45.8%
6/13/03	6/28/06	37.0	2.1%	26.0%
12/30/08	4/5/10	15.4	1.9%	33.3%
7/24/12	12/31/13	17.5	1.6%	38.1%
7/8/16	10/5/18	27.3	1.9%	35.5%
3/9/20	2/25/21	11.8	1.0%	39.4%
	Average	25.8	2.9%	17.0%
	Median	16.6	2.4%	15.0%
	% Positive			78.6%

10-Year US Treasury Yield After the Taper Announcement





Present Value of Future Cash Flows Increases when Discount Rate Decreases

Year	0	1	2	3	4	5	6	7	8	9	10	10
Cash Flow	-\$5,000	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$10,000
Discount Rate	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Present Value	-\$5,000	\$91	\$83	\$75	\$68	\$62	\$56	\$51	\$47	\$42	\$39	\$3,855

Initial Investment	\$5,000
Business Cash Flows Received in 10 Years	\$1,000
Terminal Value of Business at Year 10	\$10,000
Total Gain on Investment (= Terminal Value of Business + Cash Flows Received During Business Ownership - Purchase Price of Business)	\$6,000
Net Present Value of All Cash Flows	-\$530

Year	0	1	2	3	4	5	6	7	8	9	10	10
Cash Flow	-\$5,000	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$10,000
Discount Rate	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Present Value	-\$5,000	\$95	\$91	\$86	\$82	\$78	\$75	\$71	\$68	\$64	\$61	\$6,139

Initial Investment	\$5,000
Business Cash Flows Received in 10 Years	\$1,000
Terminal Value of Business at Year 10	\$10,000
Total Gain on Investment (= Terminal Value of Business + Cash Flows Received During Business Ownership - Purchase Price of Business)	\$6,000
Net Present Value of All Cash Flows	\$1,911

Summary

- 1 Previously, interest rates and inflation rates were positively correlated. In a post-pandemic investment world, a paradigm shift perhaps will alter the investment landscape to a “high inflation yet low interest rate environment in America. Because the US Dollar is the global reserve currency, this affects the entire world.
- 2 Currently, the US is seeing large amounts of inflation in various commodities. Inflation can occur in multiple forms, such as consumer price inflation, commodity input price inflation, wage/labor inflation, supply shortages, time inflation, shrinkflation, and financial asset inflation.
- 3 The US government’s multi-trillion-dollar annual expenditures grow every year, which constantly outpaces their revenues from taxes and services. This deficit adds to the ~\$29 trillion in US debt.
- 4 Lending rates, GDP growth, and unemployment rates around the world help us understand the upper and lower bounds of a specific country’s future expectations. Comparatively, the US has a low unemployment rate, historically-low benchmark interest rates rates, and rising GDP.
- 5 In a “high inflation yet low interest rate environment” in America, earning positive investment returns with a hurdle rate transitioned from a “nice to have” feature to a “necessary to have” feature. Assets that earn returns below the inflation rate are earning negative inflation-adjusted returns. As a result, there is increased investor emphasis on alternative investments, growth investments, and digital assets.

Resources



CONTACT US

invest@drawingcapital.com



NEWSLETTER

drawingcapital.substack.com

drawingcapital.com
