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Toggle AI

Trading Stocks with a Macro Lens

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Toggle AI

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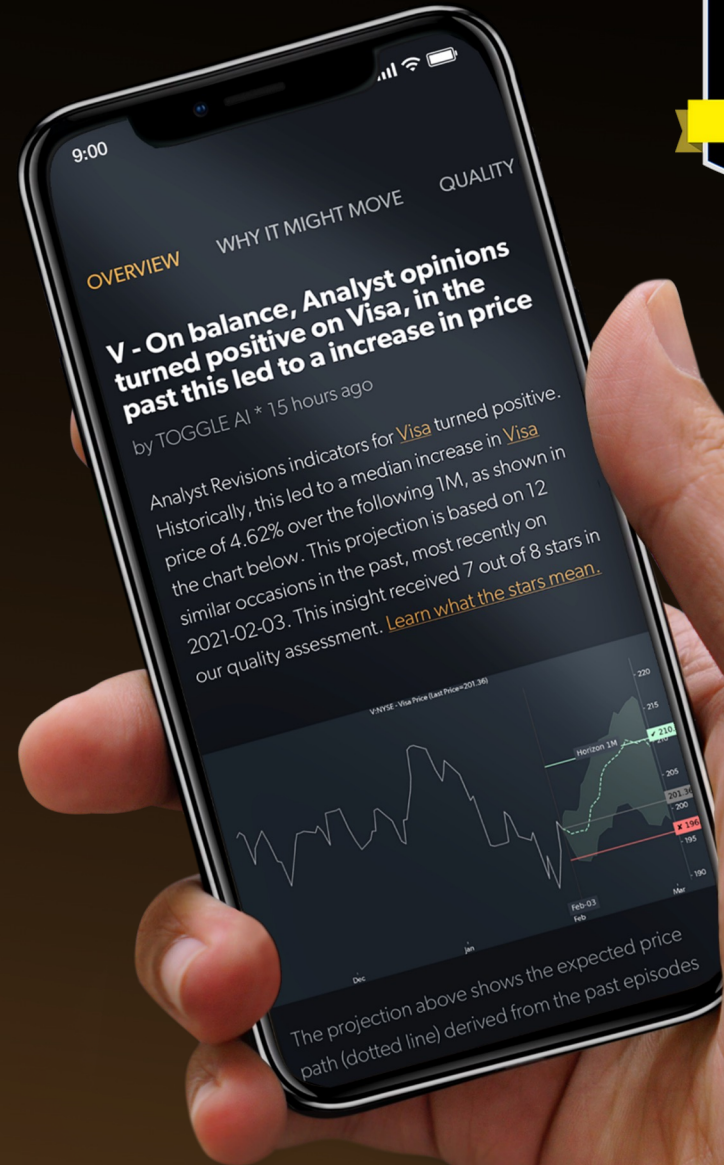
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TRADING STOCKS WITH A MACRO LENS IBKR Webinar

TOGGLE

TURN ON INSIGHTS. TURN OFF NOISE.

October 12, 2022





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Worrying about the beta: ripples vs. the tide

Conventional thinking assumes equity investors should only worry about company fundamentals or price charts. But macro events tend to drive the systemic risk (the beta) rather than the idiosyncratic risk (the alpha) for each asset. Here are a few reasons why paying attention to macro could help:

Macro events (fiscal stimulus, monetary policy) often impact the level of interest rates, which drives valuation models for companies

Geopolitical events can lead to risk aversion that temporarily drives investors into safe assets, offering potentially attractive entry points to risky assets

Company management actions can improve margins and profitability but macro events (transition from recession to expansion) can drive volume and topline

The Yield curve

The yield curve is a central element of asset pricing in the economy. Some rates – such as corporate bond rates or mortgage loan rates – are based on longer-term risk-free yields, while others – such as bank loan rates for firms – are mostly priced off shorter maturities.

The yield curve reflects market expectations of future Central Bank policy, which is primarily driven by macro variables like economic growth and inflation

The yield curve is used extensively in discounted cash flow models to determine fair valuation of equities and identify “cheap” and “expensive” stocks

Risk-on, risk-off

Risk-on risk-off is an investment paradigm under which asset prices are dictated by changes in investors' risk tolerance. Risk tolerance (or appetite) is often determined by highly publicized geopolitical (terrorism, wars, financial crisis).

During periods of low risk tolerance, investors abandon riskier investments and pile into safe assets like US Treasuries, driving interest rates lower

Depending on the nature of the risk (oil shock vs. financial shock) certain sectors are impacted much more significantly

The macro vs. micro

Evaluating company fundamentals (the micro) gives investors a good sense of a company's profit margin and potential within a particular macro context. But macro context can drive wholesale shifts in the demand curve (think Zoom, Netflix) and therefore volume.

Fundamental analysis worries about the slope of the demand curve (how much can company earn if it prices the product here, or here). Macro analysis worries about upward and downward shifts of the demand curve.

Cyclical changes can lead to substantially different environments for a particular sector (Netflix in the pandemic, Housing during monetary easing etc.)



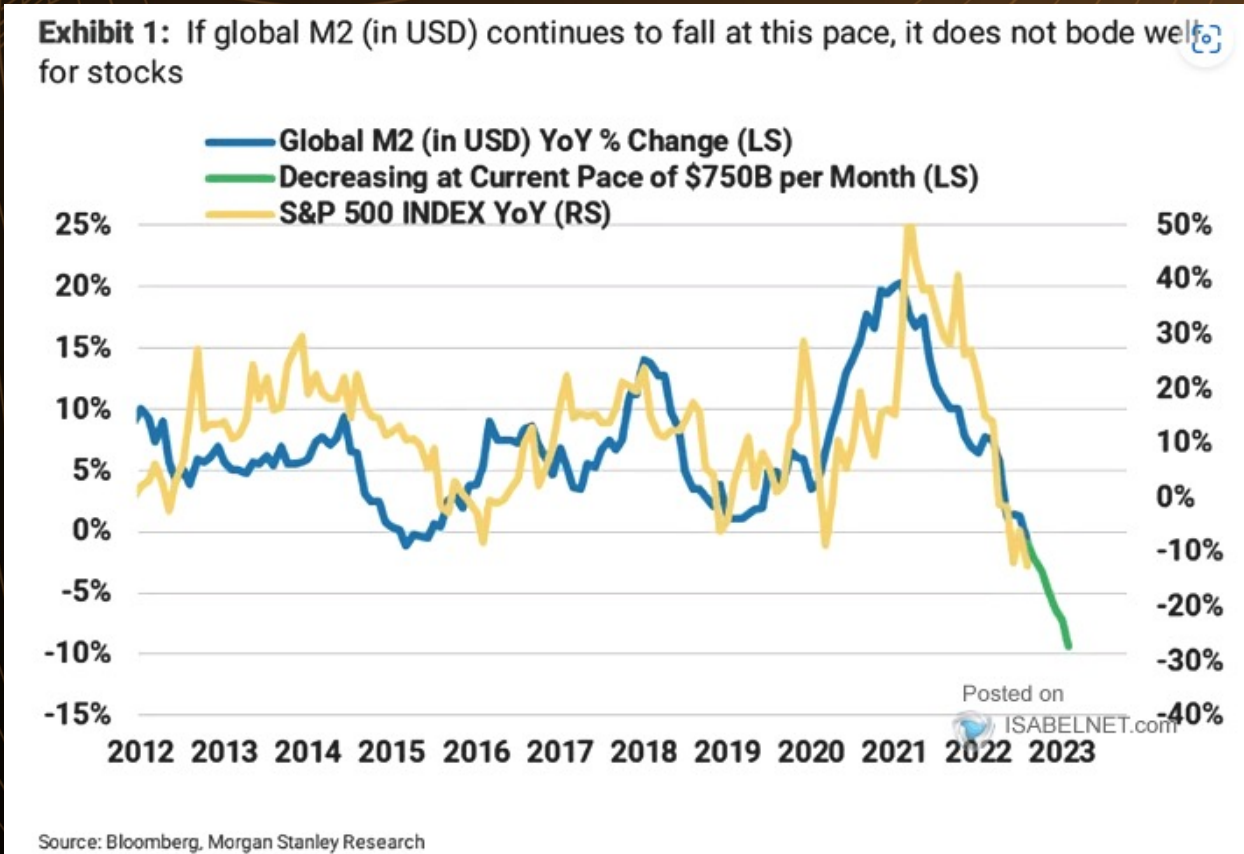
Why is a macro lens relevant now?

We are in an highly unusual environment:

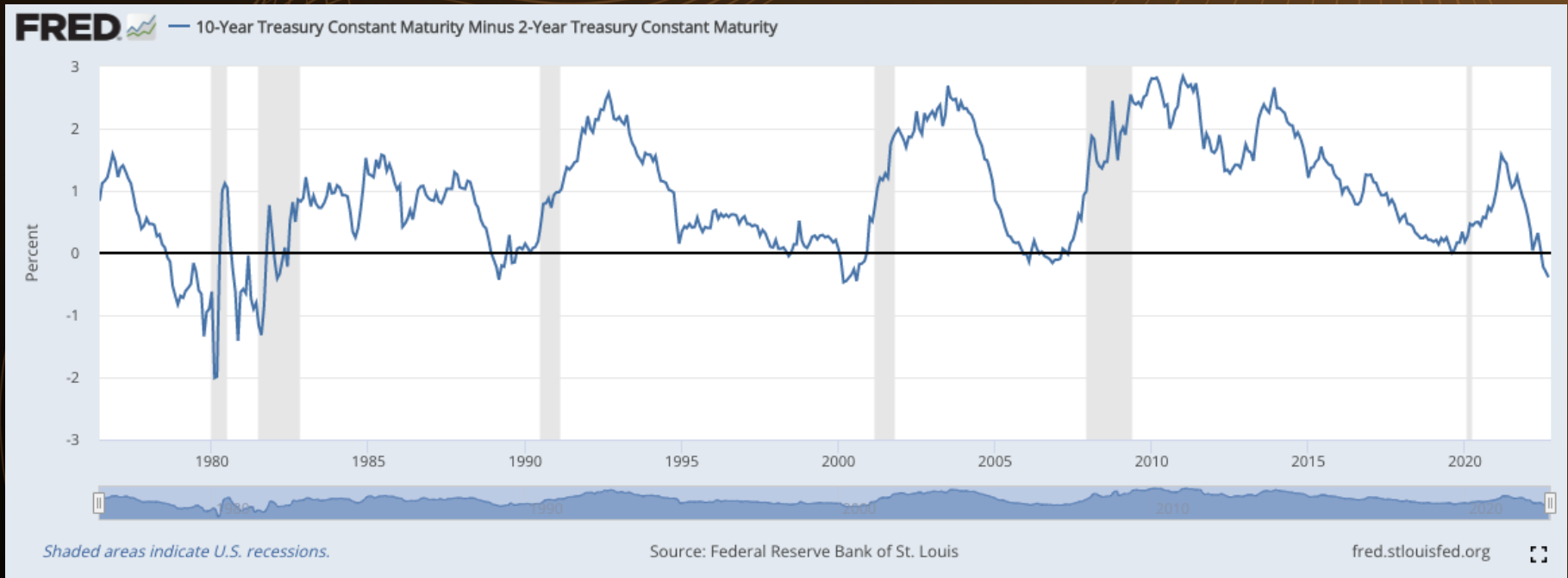
- High (and stubborn) inflation
- Central Bank hell-bent to fight it
- Taking back trillions in liquidity injected during COVID
- All of the above heighten the risk of a recession

“Don’t fight the Fed”

We have never seen such dramatic (and fast) changes in global liquidity conditions.



The best macro forecaster



Can individual investors do macro analysis?

Machines can help. Smart assistants are ubiquitous in our daily lives... Why don't they exist in investing?

- Machines are really good at monitoring and processing **large amounts of information**
- They can **uncover price patterns in assets** around events/data changes
- They can **test each relationship for robustness** ... in seconds
- They can **deliver curated insights** tailored to specific users



AI = Augmented Intelligence

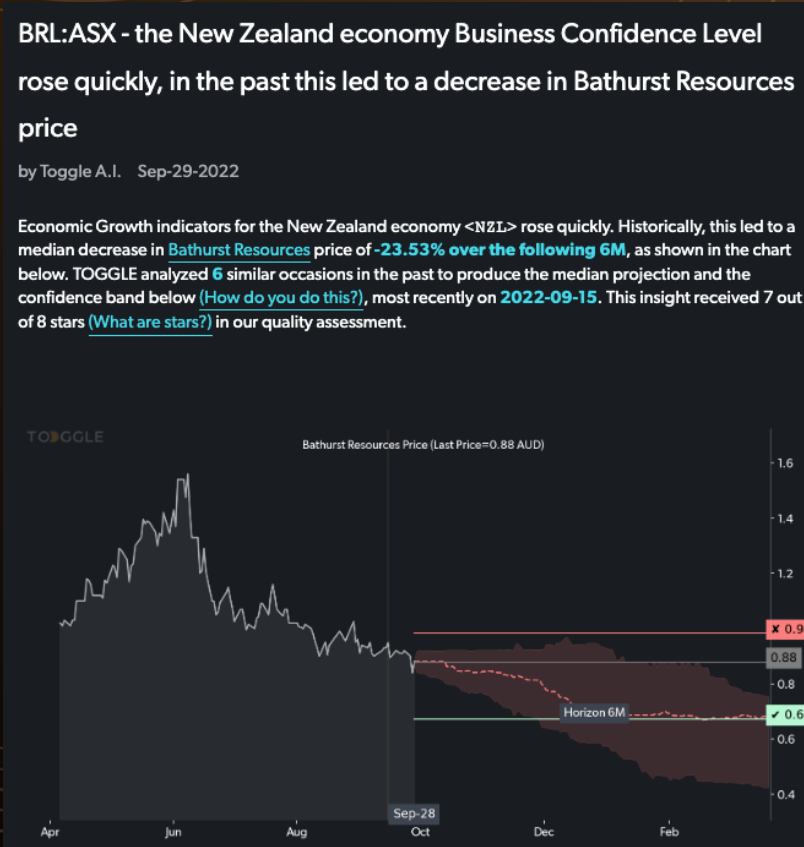
AI can crunch the numbers instantly and alert the manager to drivers that are key to their portfolio at the moment (macro vs. micro, momentum or fundamentals etc)

Human intelligence is very good at strategy (the “big picture”) but AI can be helpful with the tactics (the “details”).

This can provide a crucial macro lens through which investors can peer at assets.

Machines replicate investor's work on a much larger scale

Machines are replacing the analysis investors should be doing anyway – but they do it much faster



Source: Toggle

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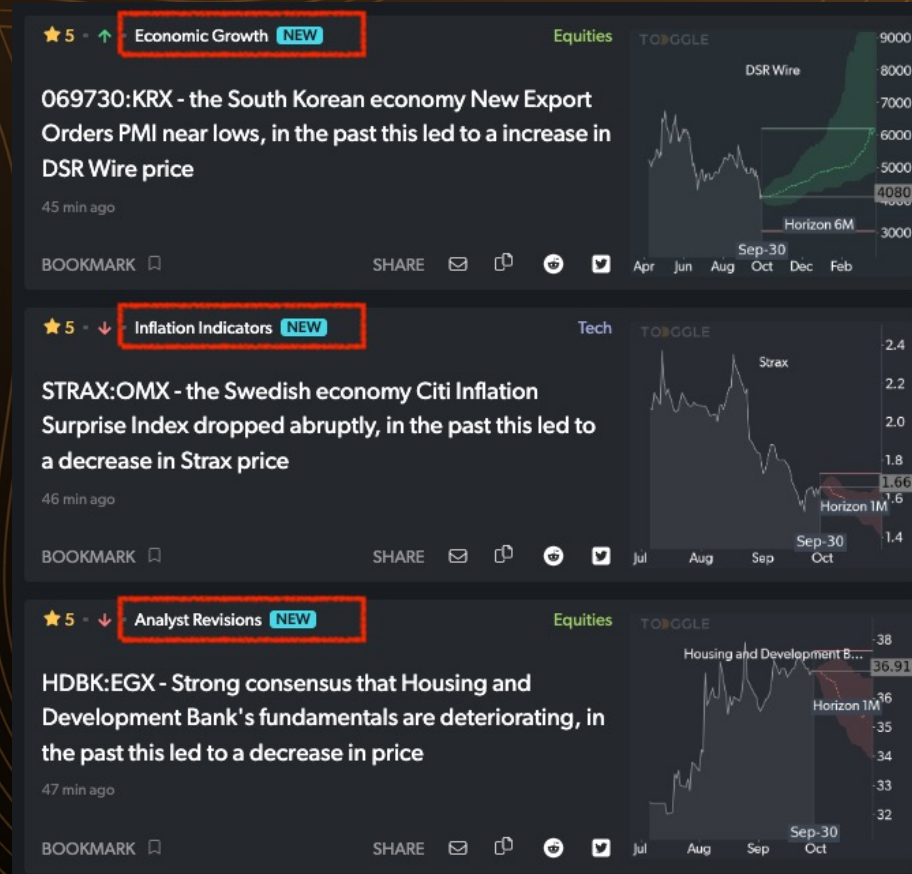
Where can machines be helpful to individual investors?

Where in the investment process can machines add a macro lens

- Idea generation (“What assets will suffer if economic growth picks up?”)
- Portfolio risk management (“What is my downside risk if the yield curve inverts?”)

Idea generation

Machines can instantly pinpoint incremental drivers and price pressures



Source: Toggle

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Idea generation

Translating macro-environment into actionable ideas

German inflation hits 70-year high as economists warn of deep recession risk

Credit Suisse Stock Seesaws on Concerns Over Financial Health

UK's Kwarteng scraps tax cut after market meltdown

Jay Powell warns of interest rates pain as US recession risks rise

Source: Toggle

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RISK MANAGEMENT

TOGGLE keeps a watchful eye on your portfolio to identify potential risks

My Securities		+ All (34) Portfolio (2) Watchlist (32)	
ALL ASSETS		What's currently moving the asset?	
	9984 SOFTBANK GROUP C	¥4,981.00	• Last Close
	AAL American Airlines	\$12.52	-0.23/-1.80% • Live Data News Insight +1
	AAPL Apple	\$146.63	-3.21/-2.14% • Live Data News Insight
	AMC AMC Entertainment	\$6.75	-0.92/-11.99% • Live Data Technicals +1
	AMD AMD	\$65.64	-2.72/-3.98% • Live Data
	AMZN Amazon	\$113.29	-4.73/-4.00% • Live Data News Insight +4
	BTCETH BTCETH	ETH14.52	+0.15/+1.06% • Last Close
	BTCUSD Bitcoin	\$18,977.94	-435.06/-2.24% • Live Data Fundamentals
	CCL Carnival	\$6.96	-2.88/-29.25% • Live Data News Insight +2
	COST Costco	\$480.85	-7.44/-1.52% • Live Data Technicals
	DAL Delta	\$28.23	-1.26/-4.29% • Live Data News Insight +2
	ETHUSD Ethereum	\$1,306.57	-30.63/-2.29% • Live Data Fundamentals

Source: Toggle

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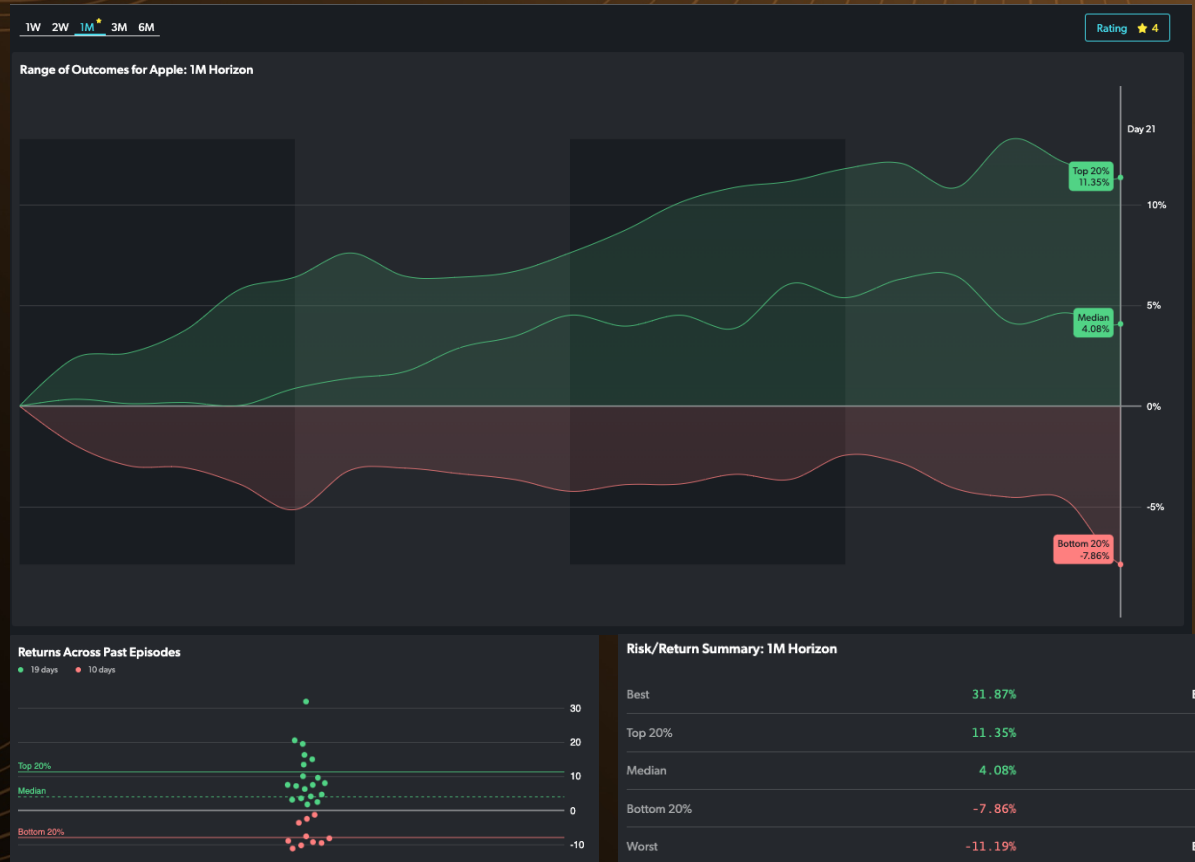
Hypothesis testing

Machines can help you test your instincts against the data: is the economic environment bad for stocks?

Conditions Build your own

- S&P 500 Drops 2% in a day
- S&P 500 Drops 4% in a day
- US Yield Curve Inverts
- US Yield Curve Steepens 25bps in 1M
- Oil drops 10% in a week
- Nikkei Drops 2% in a day
- EuroStoxx 50 drops 2% in a day
- Dollar strengthens 5% in 1M

Reset
Run Scenario Analysis



Source: Toggle

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Original ideas,
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