IRF Independent Research Forum

The Cut - Edition 87

Introducing the very best of Independent Research from the IRF Providers

Upcoming calls:

Philip Rush - Heteronomics - UK Macro - **Sick from its medicine**
Andrew Hunt - Andrew Hunt Economics - Global Macro - **Can QE be infinite?**
Manu Bhaskaran - Centennial Asia Advisors - Asia Macro - **Asia after the crisis**
James Lucier - Capital Alpha Partners - US Policy - **The outlook from Washington**
Keith McCullough - Hedgeye - Global Macro - **Depression to recession, not recovery**
Thanos Papasavvas - ABP Invest - Global Macro - **'Its Geopolitics, Stupid!'**
Barry Knapp - Ironsides Macroeconomics - US Macro - **Schumpeter's Gale: It's never different this time**

For further details on these calls and all of our events please see our Events page

Macro Research

The hidden forces of debt deflation

Whilst this trend is already happening in plain sight, no one is seeing it yet...but soon all that will likely change. The next recession was always going to obliterate the LFPR. Many of these jobs are never, ever coming back. Fact. The markets are giving us a false perspective of the risks that are brewing. This liquidity crisis is morphing into a solvency crisis. Once bond yields fall, the insolvency trade will be upon us.

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Global Macro Investor

10 predictions for the rest of 2020...

David Murrin's forecasts include: A 6-month stock market decline of up to 80% (from Feb highs) as the current delusional gap between economic reality and the stock market closes. Sovereign debt crisis in Italy and/or Spain. The EU will fracture from its current structure and its response will devolve to national levels. Social unrest to occur in Russia. Brexit will happen. Chinese-Western polarisation to rapidly accelerate.

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Global Forecaster

Monetary tsunami vs COVID recession

As lockdown's failures become apparent three forces are at work: the lagged, supportive effects of previous money supply growth; the COVID contraction; and now the monetary and fiscal tsunami. All have different time lags. The first of these fades before year end and thereafter the monetary picture becomes deeply concerning.

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AAS Economics

China's LDC lending surge in context

Chinese lending (and FDI) to EM economies boomed in the aftermath of the 2009 crisis. There are similarities between China's EM lending boom and previous DM-led episodes. As with all previous surges, however, conditions turned and China retrenched in 2019. A lower-income EM debt crisis has erupted in 2020; China needs to be part of the solution.

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Suttle Economics

What would a Biden Presidency look like?

Joe Biden has clinched the Democratic nomination and his odds of winning the Presidency in November have been steadily rising. If Biden were to win, there is also a good chance that the Democrats capture control of both chambers of Congress. This report focuses on the expected policy changes and their significant implications for investors.

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Pennock Idea Hub

US Breakevens: Playing and hedging the USD

US breakevens offer an opportunity to not only play the bear run of the USD, but also as a decent hedge against USD strength if the US goes back into a tantrum. The report is broken into two parts. First, a brief foray into whether USD strength could resurface, and second, how US breakevens would perform under the conditions that deliver USD weakness and strength.

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Talking Heads Macro

LatAm: Sifting through the COVID rubble

Local currency-denominated bonds are the best LatAm recovery play, offering impressive returns over the next 12 months, due to their attractive spreads, subdued inflation and the highly supportive global backdrop. Within an EM bond portfolio, should be overweight BRL and MXN bonds, neutral weight COP bonds and below-benchmark weights for PEN and CLP bonds.

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MRB Partners

Company & Sector Research

Classical Insights portfolio up 2,673%: Focus turns to reflation...

Mike Churchill's latest thoughts on his global portfolio that has been so successful since inception (Dec 2002). Top themes: Fed to remain easy until unemployment is <5%; reflationary recovery; low rates...forever? Focus is now on ideas in raw commodities, interest-rate sensitives, Japan, emerging markets, airlines and Western Europe. Coverage stocks offering the biggest upside include: **Banco Frances**, **Indo Tambangraya**, **Salzgitter** and **Delta Air Lines**.

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Churchill Research

— Europe

Toll Roads: COVID a bump in the road

Traffic is rapidly recovering leading to a resumption of strong FCF and dividend growth (avg. yield of 7.3% in 2023E). Top picks: **Ferrovial** (TP €54) - derives 78% of SOTP from high quality, long duration 407-ETR and Managed Lanes. **Atlantia** (TP €33) - over-discounting the dispute with the Italian government.

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Insight Investment Research

BMW should spin off Rolls-Royce to take on Tesla

Jim Osman, a leader in Spinoffs and Special Situations, explains why giving Rolls-Royce Motors its own stock would not only help unlock the brand value legacy trademark (est. equity market value of €5.95bn), but would also provide BMW's management the focused direction to concentrate on its eponymous and MINI automotive products.

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The Edge

AP Moller-Maersk (MAERSKB DC)

Industrials

The company has several advantages - divesting oil units has cut debt to 2x EBITDA; Hamburg Sud - a great value acquisition that has already realised huge synergies; boosting port and land logistics helps it get premium pricing on ocean shipments; huge infrastructure with lower operating costs per unit - extremely difficult to duplicate as world trade levels recover. Very conservative accounting, selling for under 6x trailing EBITDA.

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Behind the Numbers

JD Sports Fashion (JD LN)

Consumer Discretionary

The key takeaway from SW Retail's latest footwear data shows traffic in the segment remains the best of the lot re. the bounce back. Appetite is strongest for premium product (**Adidas**, **Nike**, **Puma**). This bodes well for JD (recently upgraded to Buy) - moving in the right direction re. promotions (no red flags in the data re. COVID clearance expectations) and expects the UK to re-open at ~70%, recovering quickly thereafter.

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SW Retail Advisors

Marel (MAREL NA)

Industrials

StockViews were the only sell-side coverage pre-dual listing and with the stock just 5% form their IV, they have closed out this highly successful Buy call. The stock has outperformed the market by 65% since initiation and trades on 22x 2022 PE (pre-COVID) and 30x 2019 EPS. Please get in touch for recent coverage.

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StockViews

— North America

Russell 1000: An astounding 39% of stocks are overbought in downtrends...

Of these 386 stocks some are overbought with momentum and/or have seen relative improvement, but a handful remain in weak absolute and relative trends and look like great opportunities to sell/short: **Berkshire Hathaway**, **Duke Energy**, **AT&T**, **Coca-Cola**, **American Electric Power**, **Molson Coors**, **Comcast**, **Philip Morris**, **3M**...

RenMac's daily alert list for technical ideas is a great source to fish around for ideas and helps provide some perspective on what happened each day under the surface. Lists can be customised to client's portfolios.

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RenMac

IT Security: Despite spending at all-time highs, successful hacks are rapidly increasing

The endless avalanche of bad software has created a new frontier for hackers who are feasting on so-called AI/ML IT security products sold by a dizzying array of companies. Cloud-based solutions are not fool-proof without humans constantly monitoring what is happening with data traffic. Positive: **Alphabet,**

Amazon, **CrowdStrike**, **Fortinet** and **Microsoft**. Negative: **Check Point**, **Cisco**, **Palo Alto** and **Proofpoint**.

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Blueshift Research

Pent up demand builds as BI / Analytics projects suffer temporary delays

The latest survey of Global and Regional Systems integrators by tech trend specialists, Sales Pulse, indicates that new BI / Analytics projects are being delayed during the pandemic. However, end users state that these projects still maintain a very high priority and Sales Pulse expects that this sector will see a quick re-acceleration. Vendors who are poised to benefit include **Alteryx**, **Cloudera**, **Talend**, **MongoDB** and **Splunk**.

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Sales Pulse Research

Healthcare Services Group (HCSG)

Consumer Discretionary

Idea generated from Two Rivers' 'Declining Business' model. Both Laundry and Dietary segments have been shrinking for 6 quarters. Unfavourable industry trends; occupancy was declining pre-COVID; government reimbursement for senior care is under pressure; earnings quality issues and estimates still remain far too high.

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Two Rivers Analytics

JPMorgan (JPM)

Financials

Jamie Dimon is the third longest serving CEO of a major bank in the world. Twenty years at the helm of JPM and its predecessor Bank One, he has managed his bank through two recessions and is currently in the midst of navigating a third. This note (made freely available) explores his key management principles.

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Fordington Advisors

Nordstrom (JWN)

Consumer Discretionary

Store traffic and revenue are significantly exceeding expectations. Merchandise presentation was exceptionally strong. Their ability to navigate the current situation through strategic markdowns, utilising Rack stores and increasing the focus on the online business will ensure renewed momentum and longer-term success.

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Mosaic Research

Owens Corning (OC)

Materials

Northcoast's insulation survey is tracking much better than they were anticipating. Specifically, April was down mid-teens for the industry, while May was down only slightly on a YoY basis (implying QTD down HSD %). They are expecting further progress in June. Pricing has largely remained stable and we could even see price increases later this year. Raises EPS estimates for 2Q20 to $0.52 (from a loss of $0.15), FY20 now $3.25 and FY21 $4.10.

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Northcoast Research

Ulta Beauty (ULTA)

Consumer Discretionary

Analysis of customer data - the trend in loyalty programme members strongly suggests slowing total revenue growth and argues that ULTA has effectively tapped out its potential customer base. Further, comps are a function of customers per store and spend per avg customer - customers per store stopped growing in 2HFY19. The combination of lower profit, more leverage and less capital return is not positive for ROIC. Remain sellers.

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Quo Vadis Capital

Vicor Corp (VICR)

Technology

The growing need for greater processing power inside data centres gives VICR an industry leading edge. Growth has only been hampered by a capacity issue, which they are in the process of addressing with a new facility. The automobile industry transitioning to 48 volts also serves as an added upgrade cycle to the company's earnings growth story. TP $84.

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BWS Financial

ZoomInfo Technologies (ZI)

Communications

Tech's largest Public Offering of 2020 so far, has had a stellar start to life as a listed company, but what exactly does it do and what are the longer-term prospects? Having built an impressive reputation for working out which companies will be the successful IPOs and which will not, Renaissance Capital provides full coverage, weighing up ZI's track record re. strong growth / profitability vs high leverage and fierce competition.

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Renaissance Capital

— Japan

Storm Research has recently launched coverage on several new ideas...

Positive-rated stocks include: **JMDC** - Accumulates and sells medical data to insurance and pharmaceutical companies. **oRo** - Cloud-based ERP software solutions for small companies. **Midac** - Operates a one-stop-shop industrial waste disposal model. **Seraku** - An IT engineer dispatch operator similar to (but cheaper than) **TechnoPro**. Other coverage includes **Kanamic Network** and **Ricksoft**. Calls on all of these companies are available on request.

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Storm Research

— Emerging & Frontier Markets

Indian Telecoms: What is driving the big tech platforms into India?

Following **Jio**'s sale of 10% to **Facebook** and rumours of a deal between **Google** and **Vodafone Idea** (as New Street thought likely), there are now reports that **Amazon** is in talks to buy a stake in **Bharti** worth 'at least' $2bn. If both the latter deals go through, then this will have been a game-changing 6 weeks for Indian mobile...

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New Street Research

EM Banks: PH Score™ latest trend highlights...

Strong scores from Pakistan and Philippines where profitability is advancing (**Meezan**, **MCB**, **MBT**, **SECB**). Greek banks show stolid progression, especially **Eurobank**. Seeing subpar PH trends in Colombia (**Aval**, **Davivienda**) and Peru (**Credicorp**, **Intercorp**). In Taiwan, clear signs of fundamental system deterioration. Also highlights the continuing fundamental underperformance from fashionable EM names in LATAM, Asia, Russia and Middle East.

The PH Score™ is a fundamental momentumquantamental model that scores banks according to changes in value-quality. The Score encompasses Profitability, Operating Efficiency, Liquidity, Capital, Asset Quality, Coverage and a valuation gauge.

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Creative Portfolios

South Afrcia: SOE risk update

State-Owned Enterprise risk was rising meaningfully pre-COVID as balance sheet positions deteriorated and financial conditions tightened - the crisis has now accelerated this trend. National Treasury (NT) dropping the ball on **Land Bank** is concerning and raises the prospect of accidents happening. NT to seek the slimming down of SOEs (in terms of assets and guarantee exposure). Analysis includes **Eskom**, **SAA**, **SA Express**, **Transnet** and **Denel**.

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Intellidex

Motherson Sumi Systems (MSS IN)

Consumer Discretionary

While MSS faces the mother of all shocks owing to severe disruption of automotive markets triggered by COVID lockdowns, a scrutiny of the company's financials and its subsidiaries also provides for a shocking spectacle... (further information on Iii's 33-page report can be found here).

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India Independent Insight

Tencent (700 HK)

Communications

Adnaan is shorting the stock yet again (with previous successes in early 2018 and Apr 2019), arguing that you now have a higher percentage of lower margin businesses driving future growth, increasing content costs, and an upward bias to operating expenses to compete in cloud and FinTech. Consensus estimates for 25% revenue growth and stable margins for the next three years are far too aggressive given the macro and competitive backdrop.

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Adnaan Ahmad Research

ESG

Gaming the pandemic

The lockdown will crystallise the growing opposition against some of the techniques used by video game editors to provoke end users' addictive behaviours. Investors should expect to see regulatory and societal pressures increase against these companies - impacting growth prospects and margins on already expensive rated stocks. Gaming to be classed as a 'sin' sector?

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Sustainable Market Strategies

Commodities

Oil: Further evidence that the market rebalancing will occur much sooner than expected

Estimates global oil inventories increased by 38.3m barrels last month - significantly lower than consensus forecasts. Provides further evidence that global demand is nowhere near as weak as most market watchers have been anticipating (NB Cornerstone have been highlighting this since Jan 20). Although the energy trade is a bit overbought in the near term, investors should look for oil prices to climb as H2 progresses.

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Cornerstone Analytics

African Golds: Moving on up the curve

GMR reviews the higher risk/reward African gold plays. Their preferred African exposure is through **Perseus** (attractive growth and value) and **Endeavour** (value and cash flow), while **Resolute** has attractive metrics, but with mid-term uncertainty. African consolidation is gaining momentum - **Roxgold** an attractive bolt-on?

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Global Mining Research

Summaries of recent calls:

David Ranson - HCWE & Co. - Macro & market forecasts using leading indicator methodologies
The apparent 'disconnect' between capital markets and the 'real' US economy? - Transcript - Audio - Slides

David argued that the disconnect between capital markets and the real economy isn’t what many people believe. HCWE’s analysis is closely aligned to classical economics, a la Adam Smith et al. This stock-market downturn was not much different from the last five. Sharp declines are followed by sharp rebounds. On average in the first 12 months following a downturn you have super normal returns, followed by good returns over next 12 months and it’s only in the third 12 months that you get sub-normal returns. This downturn has seen a much more rapid recovery - the ‘half-life’ has moved from 8 months to just two and a half weeks. Whilst we are seeing a complete rebound in the US, Japan and Switzerland, the Emerging Markets have only seen a 50% rebound.
Capitalist economies driven by free markets have the best conditions for

resilience. The US economy was actually accelerating in Q1 at 3% growth which not many people realised. So, at least in terms of the US, David does not believe we are in a recession, he calls it an interruption, although history will claim a recession due to the superficial definition of a fall in GDP over two quarters in succession. He doesn't believe the IMF, OECD, World Bank and many other bodies prediction of a great depression situation is likely at all and David sides with Ben Bernanke who has described the recent crisis as akin to a snowstorm which once over will see GDP bounce back.

David believes the dark side of the situation is unemployment. The labour market was not in good shape as we headed in to 2020 despite the supposed three and a half percent unemployment rate. This rate is not well measured; David proposes a different way of measuring labour-market health by dividing the amount of employment by the population of working age. The labour-market side of the economy doesn't have resilience, as it's shown over and over again, so this is where the disconnect lies with the stock markets. Take the recession of 2008; at the beginning of this year it had taken 12 years to get only halfway back to pre-2008 labour-market health. The stock market is not pricing in unemployment levels, the un-resilient side of the economy. Its job is not to be a labour-market indicator; its job is to price earnings, which are a function of output. David is predicting that real GDP will outperform its average in the medium term whilst employment will underperform. That actually creates favourable conditions for stock market returns as growth in employment is not positive for earnings.

He doesn't believe that we have inflation round the corner; he uses the Consumer Price Index for the goods sector of the economy for his inflation forecasts as he finds other indicators slow-moving and inaccurate. In a crisis, credit spreads are no longer an accurate way of measuring the health of the economy. Corporate bond markets are very illiquid and are distorted by the Fed's buying of corporate bonds.

Dr Martin Murenbeeld - Murenbeeld & Co. - Gold price analysis & forecasts
Gold price outlook - Transcript - Audio - Slides

In Dr Martin Murenbeeld's analysis of the precious metal, bullish factors outweighed the bearish factors. Bullish factors include massive fiscal and monetary policy expansion in response to the coronavirus induced recession. Global debt levels are rising fast which will keep real interest rates low or even negative for an indefinite period. The dollar is overvalued, as seen from various trade and analytical studies - any move down in the dollar will be bullish for gold. Geopolitical and trade crises clearly support gold and are increasingly a fact of life - tensions between US and China are likely to increase significantly. Martin pointed out that whilst these factors do not necessarily fundamentally raise the price of gold for long periods, they have the effect of raising the average price over the course of a year. Central banks, primarily China and Russia, are continuing to buy more gold. This dynamic together with mine supply contracting, as seen from trends in R&D, will also boost the gold price. The bearish factors include the dollar continuing to rise, investors being drawn back to equity markets and declining consumer demand in China and India (who combined account for over 50% of global consumer demand). On the last point, it was noted that they are both trending lower, but this is being offset by investors gold ETF purchases. Martin opined that governments have two choices - one bullish for gold and the other bearish. The bullish option (and most likely) is to boost growth with expansive monetary and fiscal policies, resulting in inflation, devaluation and financial repression. The bearish option is to shift to more policy austerity with higher taxes and cuts to entitlements, resulting in creative destruction through depression, deflation and default. Finally, Martin set out three scenarios for the gold price outlook - the bear case (10% probability) results in gold averaging $1562 next year. His base case (65% probability), averages $1914. And if everything goes right for gold (25% probability), $2199. Editor's note, and from a purely parochial perspective, Martin reminded us of "Browns Bottom" - the selling of the UK's gold at its lowest ratio to financial assets. Something he advised against at the time.

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