

Equity Strategy

Global Asset Allocation: A Quiet Dollar Devaluation

3 June 2020

Key Takeaway

There were plenty of distractions last month but the almost silent slide in the greenback must go down as one of the most unremarked devaluations in history. While the MSCI All World index rose in May (+4.5%), the internal dynamics of the equity markets were much more interesting.

Without much fanfare, a second global monetary easing was unleashed in May as the dollar fell without anyone appearing to notice. The fact that the greenback fell of its own volition suggests that the unprecedented risk aversion seen in March is really beginning to unwind. If so, then the US\$1.2trn sitting in US money market funds since February will be itching to find a home or asset class that can hold its value (see [Global Asset Allocation: Too Much Money Chasing Too Few Assets](#)). Throughout 2019, US money markets only accumulated US\$555bn.

As fears of the COVID-19 pandemic recede, the Federal Reserve is continuing to add dollars to the global monetary system at an unprecedented rate (see RHS chart). Just as importantly, US implied inflation expectations, as measured by the 10-year breakeven inflation rate, are rising after lurching into deflation. Coincidentally, this is occurring as the futures markets price in the probability of negative US rates. One of the most important turning points for the direction of equity markets is the shift into inflation (see [US: Market Bottoms](#)).

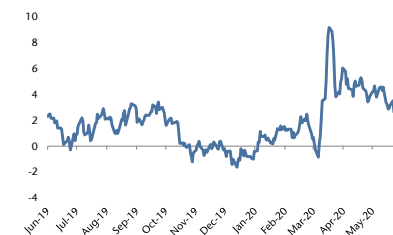
'Gossip is the art of saying nothing in a way that leaves practically nothing unsaid', Walter Winchell

While the dollar's decline moves the hour hand of the equity investment clock, the internal dynamics of the equity market drive the minute hand. Firstly, despite Jefferies' global risk indices moving into risk taking territory, equity investors remained unconvinced. Taking the US and Chinese bourses as examples, both saw quality (net cash) and credit solvency (Altman Z-Score) lead style returns in May. Hence, investors are still focused on balance sheets and preservation of capital – presumably why they are flocking to investment grade and high yield bond funds. Secondly, equity market's breadth is improving. The narrow leadership that we complained about in [Global Asset Allocation: A Cure for Bad Breadth](#) is being slowly repaired (see page 4). Lastly, earnings revisions have started to become 'less bad' (see exhibit 6). This should be good news for value and growth managers alike as it ought to slowly rotate money away from the quality/high credit solvency stocks.

Much to our chagrin, equities performed much better in May than we had expected. We shift our bias to a modestly bullish stance. For investors who might have missed the rally or not bought enough equities the discounts on international closed end funds appear highly appealing (see pages 5 to 7). The dollar decline is undoubtedly bullish for our China commodity basket (see [China: Trading Places and Frequent Factors - Exiting the Slowdown](#)) but also for our Australian commodity basket (see [Australia: Dividends, Employment, Services & Solvency \(III\)](#))

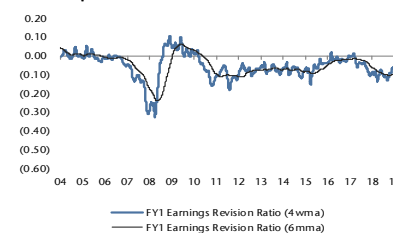
(Continued Overleaf)

Bloomberg Broad Dollar Spot Index (% YoY)



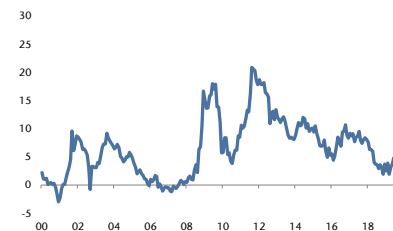
Source: Bloomberg, Jefferies

Global Equities FY1 EPS Revision



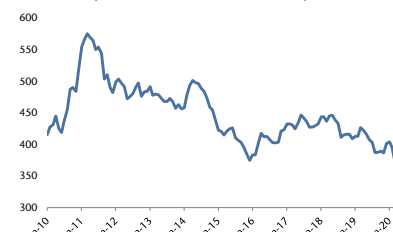
Source: Bloomberg, Jefferies

Federal Reserve Money Supply M1 YoY % Change



Source: Bloomberg, Jefferies

Commodity Research Bureau BLS/US Spot All Commodities



Source: Bloomberg, Jefferies

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Please see analyst certifications, important disclosure information, and information regarding the status of non-US analysts on pages 11 to 15 of this report.

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Global Equity Timing Indicators

Exhibit 1: Valuation Indicator Based on P/E & P/B 2Y Z-Score

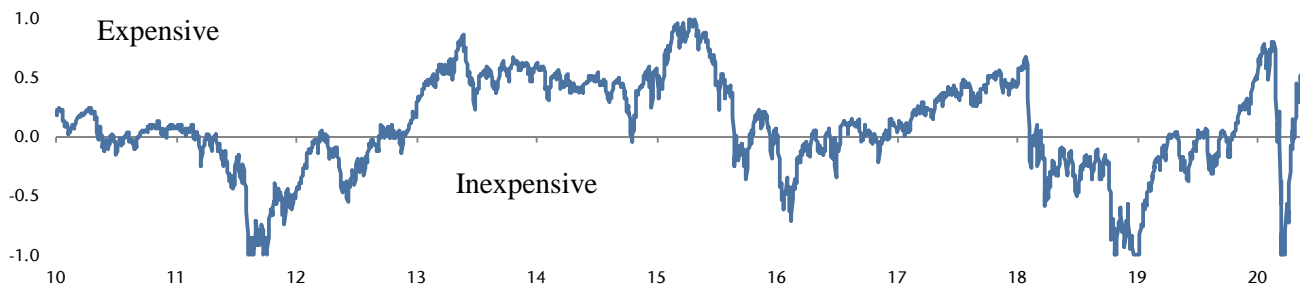


Exhibit 2: Valuation Indicator – Price to Sales Ratio

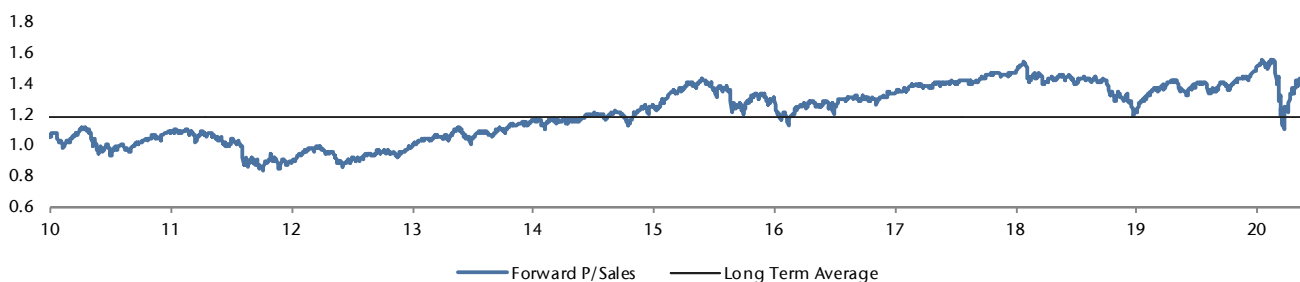


Exhibit 3: Risk Index - Avg of Forward ERP, DY Spread & FCFY Spread with Govt 10Y Yield

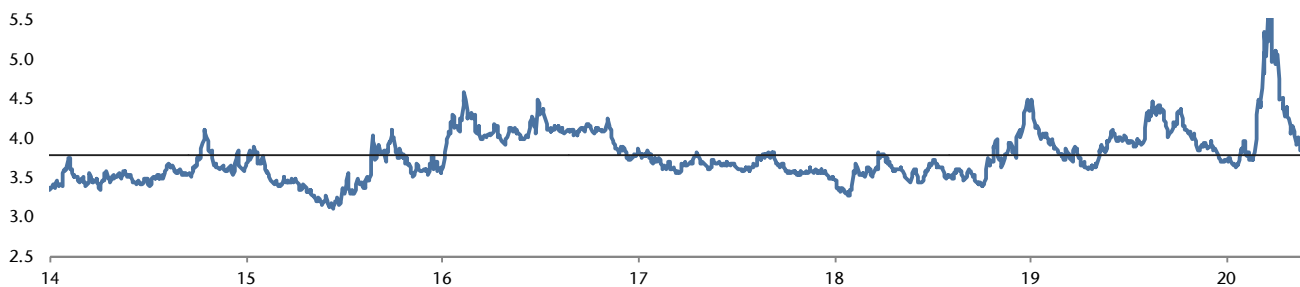


Exhibit 4: Momentum Indicator - 52W & 26W ROC

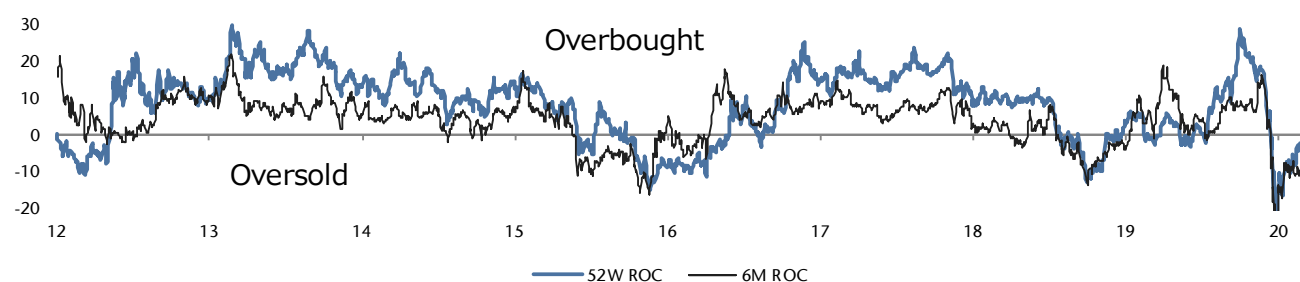
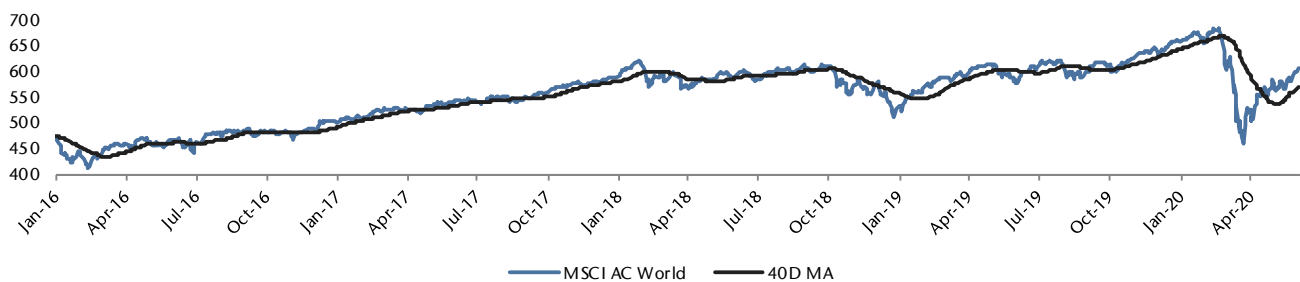


Exhibit 5: Momentum Indicator - 40-Day Moving Average

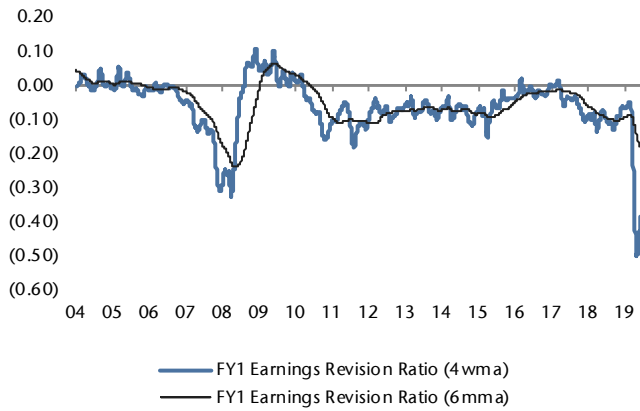


Source: FactSet, Jefferies

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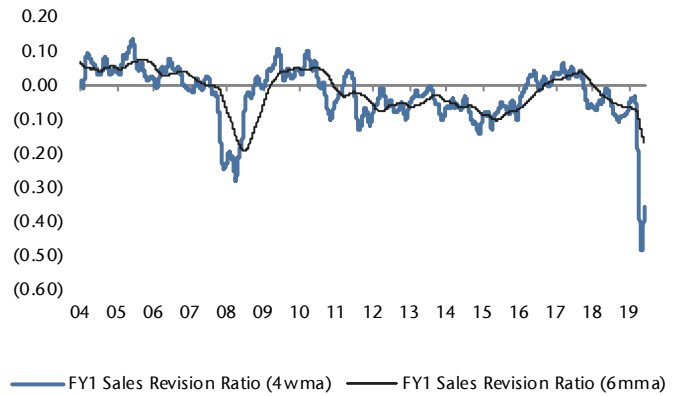
Global Equity Valuations

Exhibit 6: FY1 Earnings Revision



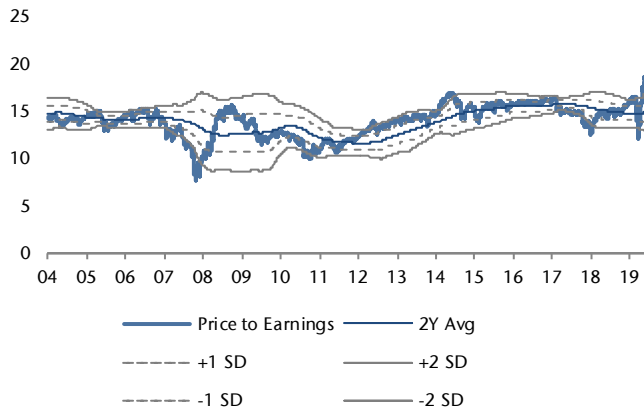
Source: FactSet, Jefferies

Exhibit 7: FY1 Sales Revision



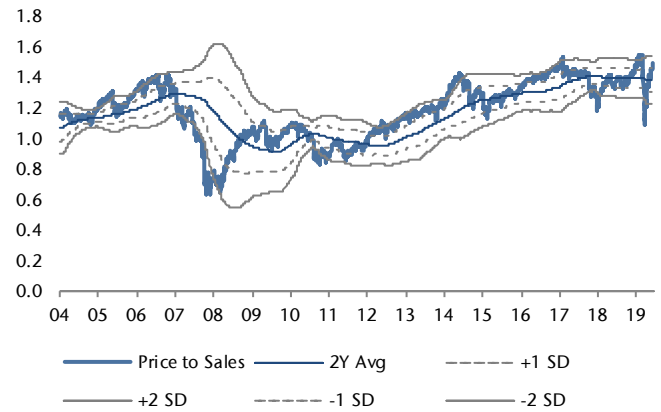
Source: FactSet, Jefferies

Exhibit 8: Price to Earnings (x, 12-month forward)



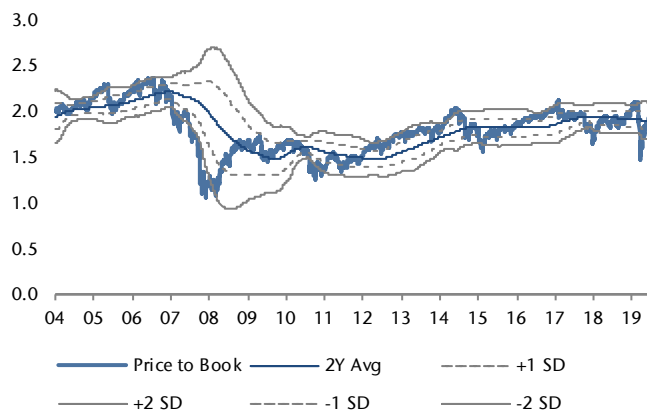
Source: FactSet, Jefferies

Exhibit 9: Price to Sales (x, 12-month forward)



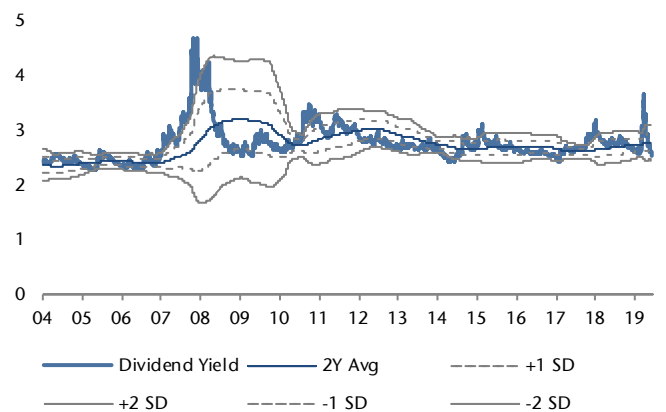
Source: FactSet, Jefferies

Exhibit 10: Price to Book (x, 12-month forward)



Source: FactSet, Jefferies

Exhibit 11: Dividend Yield (% , 12-month forward)

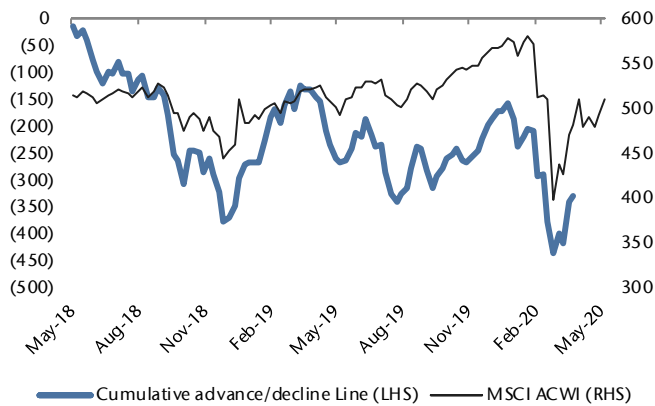


Source: FactSet, Jefferies

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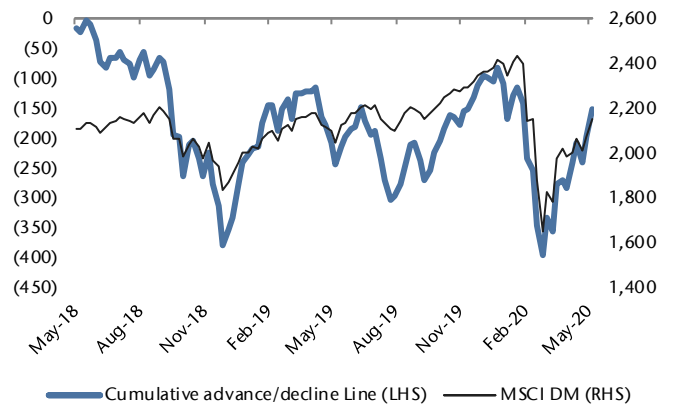
Global Equity Market Breadth

Exhibit 12: Global Equities Cumulative Advance Decline Line



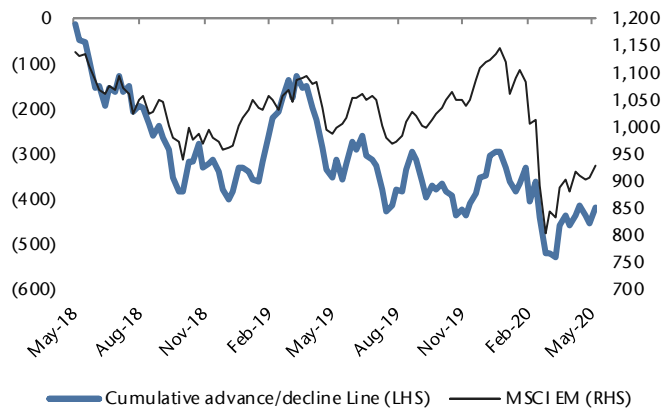
Source: FactSet, Jefferies

Exhibit 13: DM Equities Cumulative Advance Decline Line



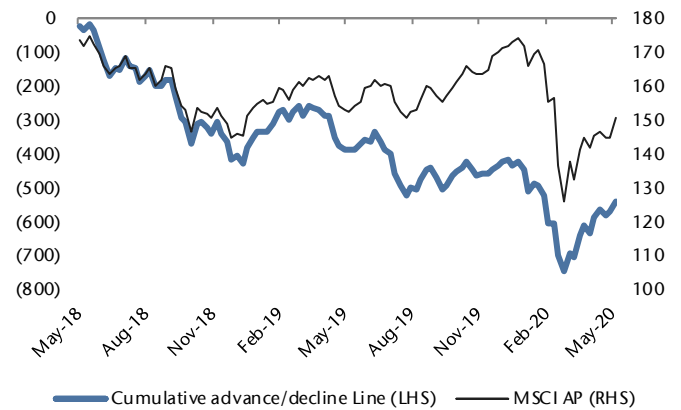
Source: FactSet, Jefferies

Exhibit 14: EM Equities Cumulative Advance Decline Line



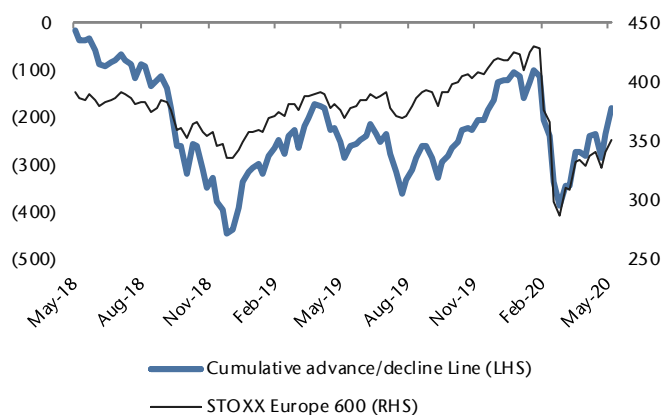
Source: FactSet, Jefferies

Exhibit 15: Asia Pacific Cumulative Advance Decline Line



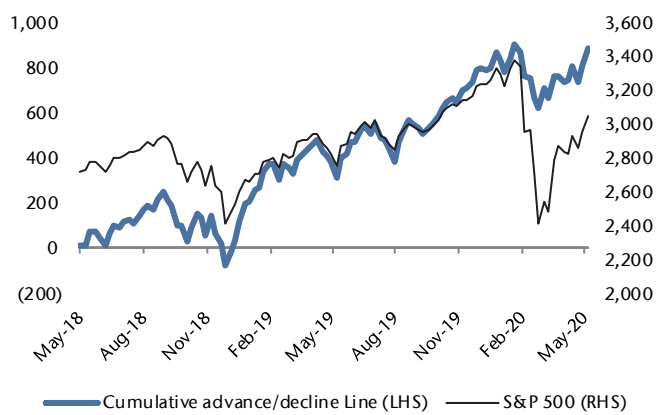
Source: FactSet, Jefferies

Exhibit 16: Western Europe Cumulative Advance Decline Line



Source: FactSet, Jefferies

Exhibit 17: S&P 500 Cumulative Advance Decline Line

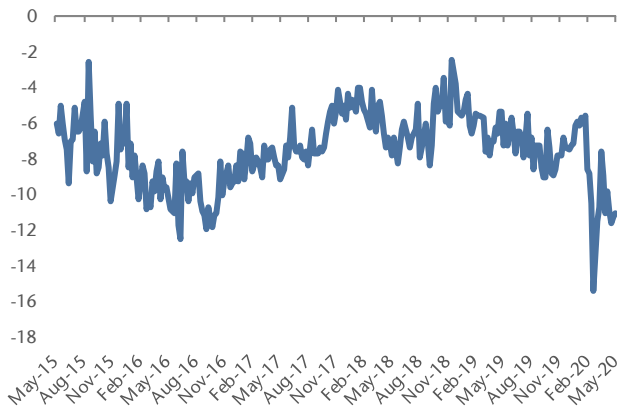


Source: FactSet, Jefferies

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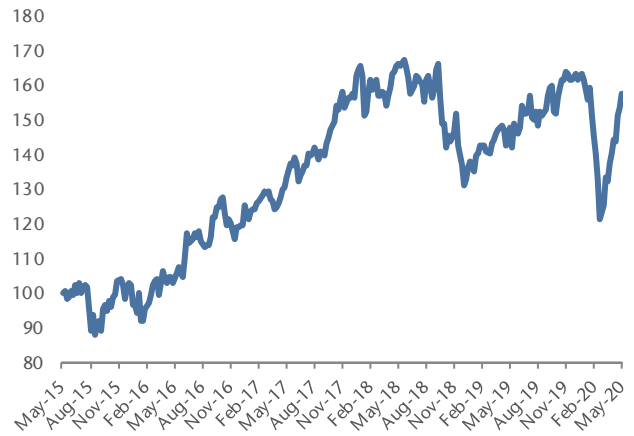
Closed End Equity Funds % Discount to NAV

Exhibit 18: Japan Closed End Funds % Prem/(Disc) to their NAV



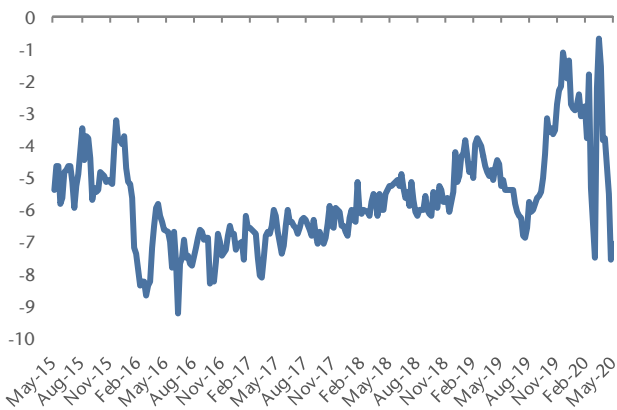
Source: Bloomberg, Jefferies
Note: We equally-weighted the top 10 largest closed end funds with weekly data available.

Exhibit 19: Japan Closed End Funds NAV



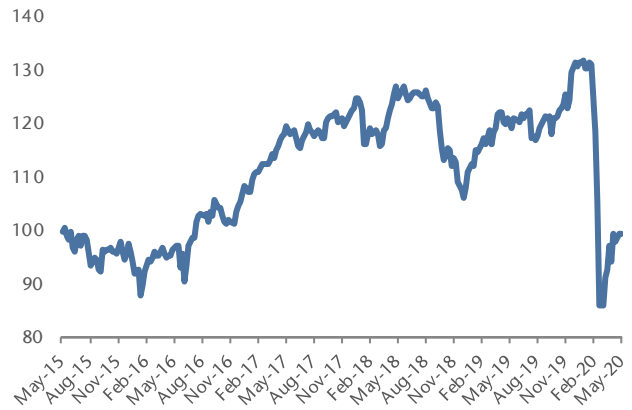
Source: Bloomberg, Jefferies
Note: We equally-weighted the top 10 largest closed end funds with weekly data available.

Exhibit 20: UK Closed End Funds % Prem/(Disc) to their NAV



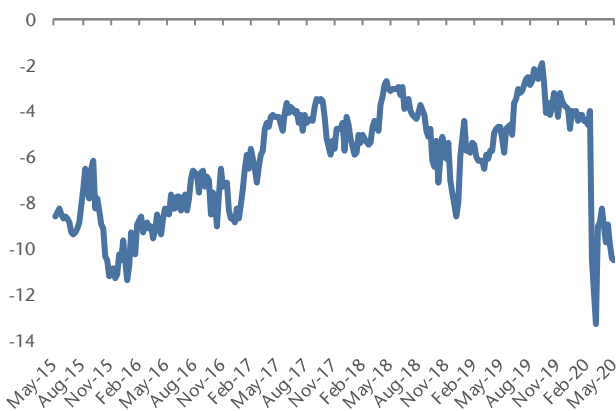
Source: Bloomberg, Jefferies
Note: We equally-weighted the top 10 largest closed end funds with weekly data available.

Exhibit 21: UK Closed End Funds NAV



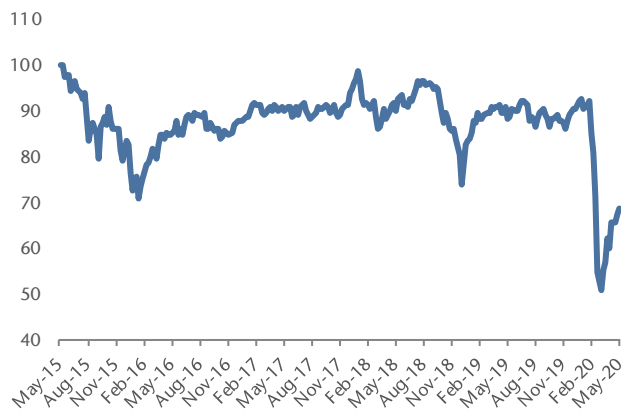
Source: Bloomberg, Jefferies
Note: We equally-weighted the top 10 largest closed end funds with weekly data available.

Exhibit 22: US Closed End Funds % Prem/(Disc) to their NAV



Source: Bloomberg, Jefferies
Note: We equally-weighted the top 10 largest closed end funds with weekly data available.

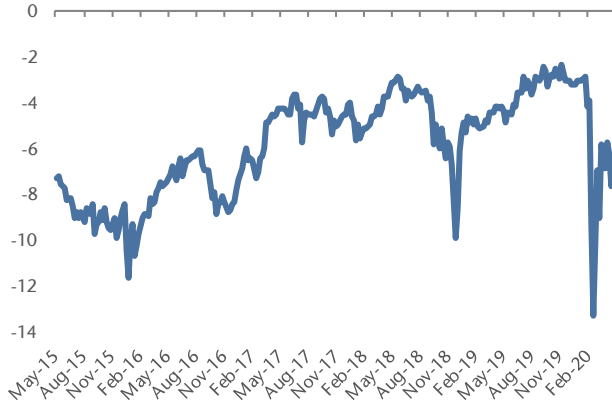
Exhibit 23: US Closed End Funds NAV



Source: Bloomberg, Jefferies
Note: We equally-weighted the top 10 largest closed end funds with weekly data available.

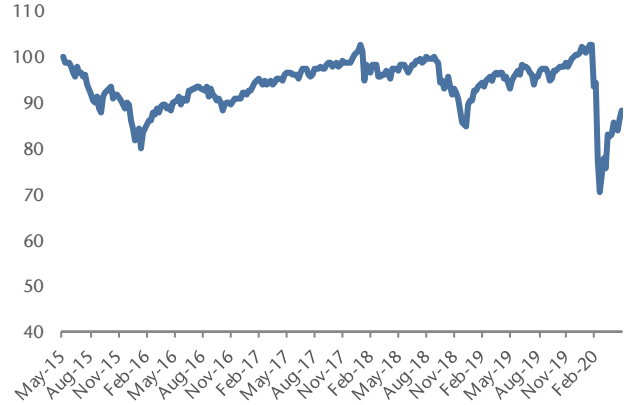
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Exhibit 24: Global Closed End Funds % Prem/(Disc) to their NAV (based on First Trust Equity Closed End Funds Index Members)



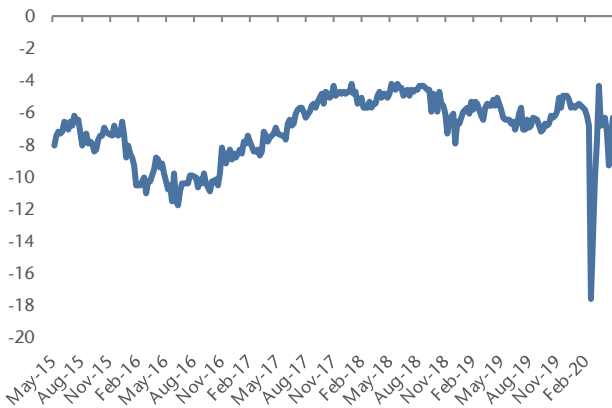
Source: Bloomberg, Jefferies
Note: We equally-weighted the top 50 largest closed end funds (covering 70% of weight) within the index.

Exhibit 25: Global Closed End Funds NAV (based on First Trust Equity Closed End Fund Index Members)



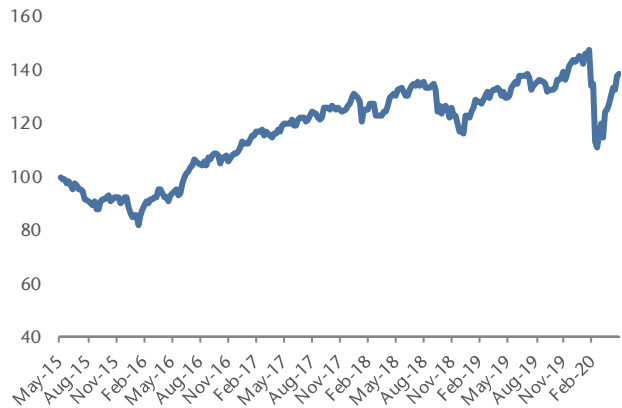
Source: Bloomberg, Jefferies
Note: We equally-weighted the top 50 largest closed end funds (covering 70% of weight) within the index.

Exhibit 26: Global Closed End Funds % Prem/(Disc) to their NAV



Source: Bloomberg, Jefferies
Note: We equally-weighted global-focused closed end funds with total assets over US\$500mn.

Exhibit 27: Global Closed End Funds NAV

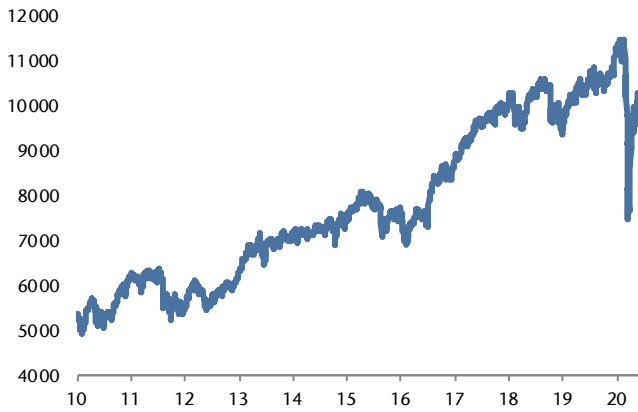


Source: Bloomberg, Jefferies
Note: We equally-weighted global-focused closed end funds with total assets over US\$500mn.

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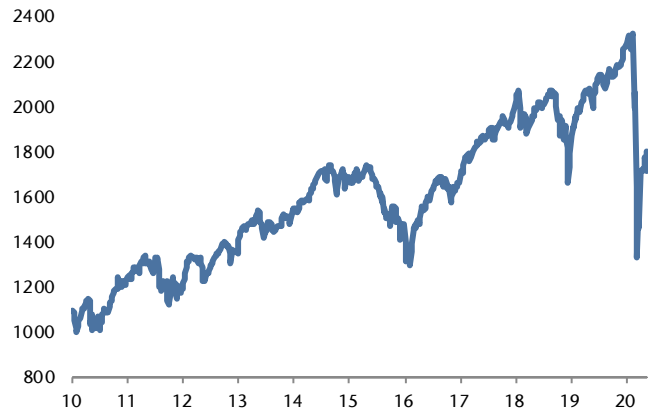
Closed End Equity Fund Indices

Exhibit 28: The FTSE All-Share Equity Investment Instruments Index



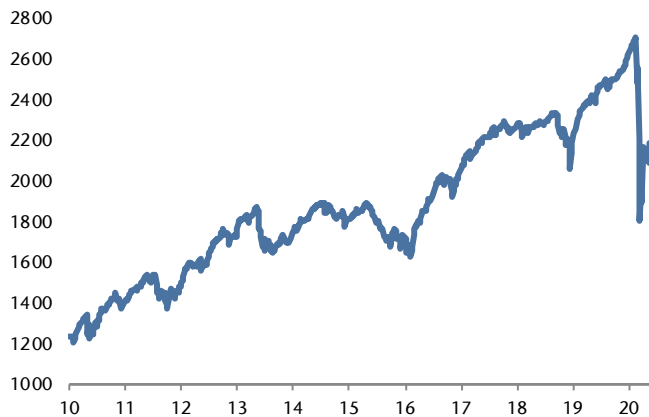
Source: Bloomberg, Jefferies

Exhibit 29: First Trust Equity Closed-End Fund Total Return Index



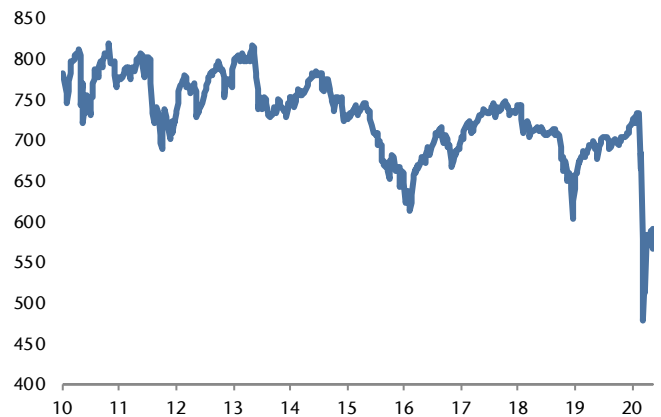
Source: Bloomberg, Jefferies

Exhibit 30: First Trust Taxable Fixed Income Closed-End Fund Total Return Index



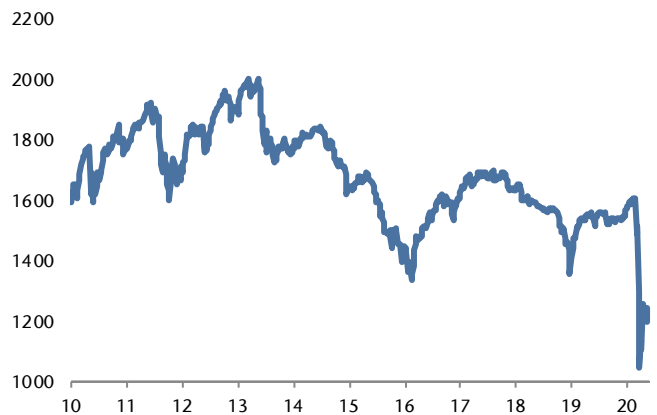
Source: Bloomberg, Jefferies

Exhibit 31: S-Network Composite Closed-End Fund Index



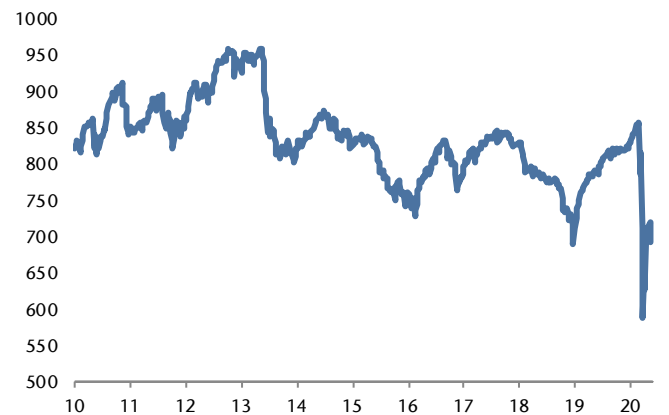
Source: Bloomberg, Jefferies

Exhibit 32: S-Network High Yield Closed-End Fund Index



Source: S-Network, Jefferies

Exhibit 33: S-Network Investment Grade Closed-End Fund Index

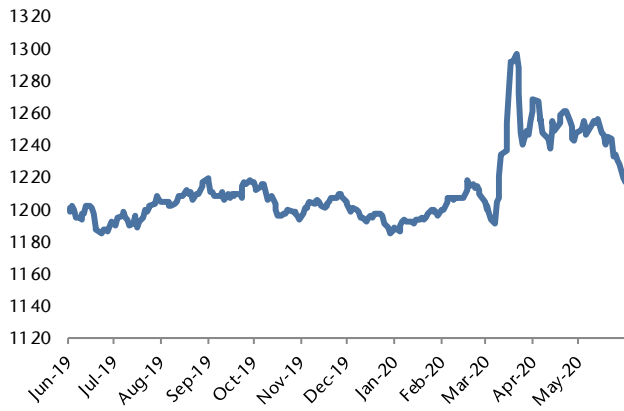


Source: S-Network, Jefferies

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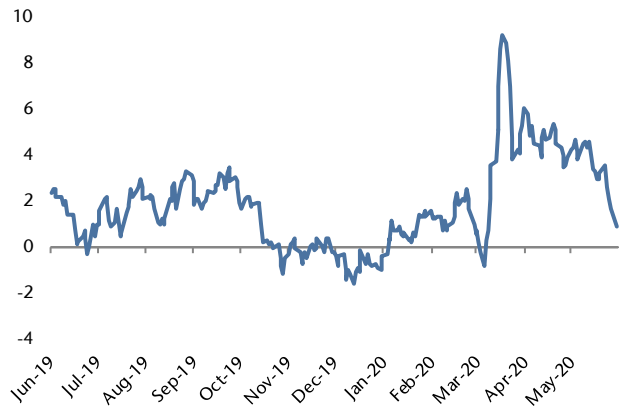
Macro Indicators

Exhibit 34: Bloomberg Broad Dollar Spot Index



Source: Bloomberg, Jefferies

Exhibit 35: Bloomberg Broad Dollar Spot Index (% YoY)



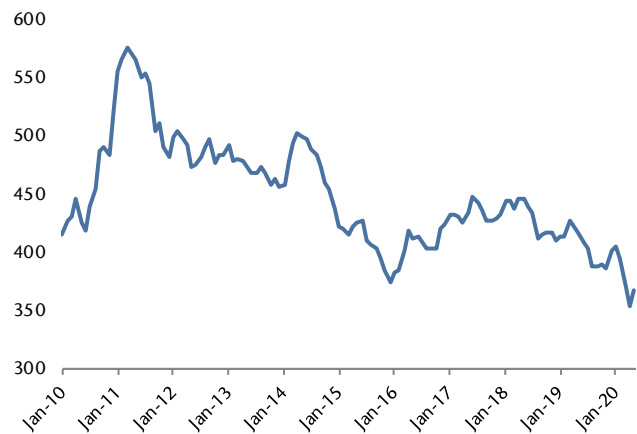
Source: Bloomberg, Jefferies

Exhibit 36: Federal Reserve Money Supply M1 YoY % Change



Source: Bloomberg, Jefferies

Exhibit 37: Commodity Research Bureau BLS/US Spot All Commodities



Source: Bloomberg, Jefferies

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Jefferies Global Asset Allocation

Country	Asset Allocation	Country	Asset Allocation
Developed Markets			
Austria	Bullish	Japan	Bullish
Australia	Modestly Bullish	Netherlands	Modestly Bullish
Canada	Bearish	New Zealand	Modestly Bearish
Denmark	Bullish	Norway	Bearish
France	Modestly Bullish	Singapore	Modestly Bullish
Germany	Bullish	Spain	Bullish
Hong Kong*	Modestly Bullish	Sweden	Modestly Bearish
Ireland	Modestly Bullish	Switzerland	Modestly Bearish
Israel	Bullish	United Kingdom	Modestly Bullish
Italy	Bullish	United States	Modestly Bullish
Emerging Markets			
Argentina	Bullish	Mexico	Modestly Bullish
Brazil	Modestly Bullish	Philippines	Modestly Bullish
Chile	Modestly Bullish	Pakistan	Modestly Bullish
China A Share	Bullish	Poland	Modestly Bullish
Colombia	Modestly Bullish	Russia	Modestly Bearish
Greece	Bullish	Saudi Arabia	Bearish
India	Modestly Bullish	South Africa	Modestly Bearish
Indonesia	Modestly Bullish	Taiwan	Bullish
Korea	Modestly Bearish	Thailand	Modestly Bullish
Malaysia	Modestly Bearish	Turkey	Bearish
Frontier Markets			
Sri Lanka	Modestly Bullish	Vietnam	Bullish
**Myanmar	N/A		

Source: Jefferies

Note: * stands for MSCI HK; ** we have taken out Myanmar from our global asset allocation since July 24, 2014

US Sector Views

	Bullish	Industrials	Bullish
Consumer Discretionary			
Consumer Staples	Modestly Bearish	Information Technology	Modestly Bullish
Energy	Bearish	Materials	Bullish
Financials	Modestly Bullish	Communication Services	Modestly Bullish
Health Care	Modestly Bearish	Utilities	Modestly Bullish
Real Estate	Modestly Bullish		

Regional Equity Markets Valuation Summary

Country	PE (x)		PB (x)		PEG (x)	EPSG (%)	ROE (%)	DY (%)	Earnings Revision			
	12M	5Y Zscr	12M	5Y Zscr	12M	12M	12M	12M	3M change in %		12M change in %	
									2020	2021	2020	2021
Argentina	13.1	1.10	0.86	(1.50)	(3.5)	(4.8)	9.0	2.50	(50.4)	(33.7)	(72.1)	(48.4)
Australia	19.6	4.21	1.74	(0.79)	3.7	(7.7)	9.1	3.34	(22.8)	(17.0)	(36.0)	(29.0)
Austria	13.2	0.84	0.79	(1.88)	0.7	(13.4)	6.2	4.18	(45.3)	(23.6)	(51.5)	(28.5)
Brazil	18.2	3.57	1.95	0.36	2.6	(17.2)	11.2	3.13	(54.1)	(32.5)	(63.9)	(45.4)
Canada	21.5	4.18	1.43	(1.70)	4.3	(11.4)	7.7	3.69	(49.6)	(21.3)	(55.2)	(24.0)
Chile	14.5	(0.15)	0.93	(2.46)	3.7	(1.8)	6.6	3.67	(36.6)	(19.9)	(53.8)	(34.8)
China (CSI 300)	11.5	(0.17)	1.33	(0.65)	1.2	6.0	11.5	2.77	(10.8)	(7.8)	(12.7)	(10.6)
China (Shanghai A)	11.2	(0.49)	1.20	(0.98)	1.7	4.1	10.8	2.89	(11.5)	(8.9)	(15.5)	(13.3)
Colombia	11.9	(0.19)	1.09	(1.33)	(1.3)	(22.1)	9.2	4.49	(45.6)	(32.5)	(49.1)	(37.2)
Denmark	29.3	5.07	3.43	1.90	2.3	1.4	12.0	1.76	(26.5)	(10.4)	(36.3)	(19.3)
France	19.6	4.53	1.46	(0.73)	2.0	(10.5)	7.7	2.93	(40.4)	(23.3)	(45.4)	(28.1)
Germany	18.9	5.06	1.40	(1.32)	2.3	(1.8)	7.6	2.81	(36.5)	(15.3)	(44.8)	(23.2)
Greece	12.6	0.72	0.66	0.59	1.1	8.8	5.4	4.22	(33.5)	(20.9)	(34.0)	(20.1)
Hong Kong	10.8	0.03	1.05	(0.97)	0.9	2.6	9.8	3.43	(16.0)	(9.7)	(22.9)	(18.0)
India	19.2	0.93	2.17	(1.30)	0.9	8.9	11.3	1.84	(29.1)	(24.4)	(38.1)	(31.8)
Indonesia	15.2	(0.74)	1.80	(2.89)	3.2	(1.9)	12.1	3.33	(23.4)	(16.8)	(36.8)	(29.3)
Ireland	42.5	10.00	1.39	(1.10)	7.0	(38.3)	4.2	1.19	(79.1)	(41.8)	(80.3)	(44.8)
Israel	16.6	2.39	1.67	(0.29)	1.1	4.4	10.6	1.03	(18.9)	(12.6)	(26.3)	(22.3)
Italy	17.4	2.25	1.01	(1.15)	1.6	(19.6)	6.0	4.10	(51.5)	(32.1)	(54.6)	(35.5)
Japan	16.9	2.82	1.15	(0.49)	2.0	(1.7)	6.9	2.50	(22.9)	(14.2)	(29.4)	(19.0)
Korea	13.1	2.72	0.89	(0.93)	0.7	30.0	7.0	2.18	(23.6)	(12.6)	(34.9)	(17.9)
Malaysia	18.7	3.72	1.33	(1.72)	(32.9)	(5.1)	7.1	3.13	(27.8)	(18.9)	(32.2)	(23.9)
Mexico	15.2	(0.19)	1.50	(1.89)	1.2	(3.9)	9.6	3.26	(36.8)	(20.2)	(46.5)	(33.0)
Netherlands	21.4	4.66	1.90	0.31	1.4	(1.8)	9.0	2.15	(27.5)	(16.0)	(40.3)	(26.3)
New Zealand	29.7	3.28	2.07	1.10	3.0	(0.9)	7.0	2.79	(22.5)	(17.6)	(32.1)	(23.8)
Norway	28.3	7.33	1.39	(0.52)	2.6	(15.2)	6.0	3.98	(70.0)	(34.4)	(75.5)	(43.6)
Pakistan	6.4	(1.08)	0.97	(1.52)	0.2	(2.0)	14.4	7.44	(28.4)	(23.9)	(36.6)	(29.0)
Philippines	14.2	(0.73)	1.28	(2.60)	4.0	(9.9)	9.1	2.34	(35.7)	(24.6)	(36.6)	(20.2)
Poland	12.9	1.26	0.81	(2.37)	0.9	(7.9)	6.6	2.55	(36.9)	(21.5)	(48.3)	(33.6)
Russia	8.9	4.21	0.78	0.51	(0.9)	(22.3)	8.9	6.18	(46.7)	(30.7)	(52.0)	(35.3)
Saudi Arabia	28.5	5.43	4.43	3.90	(30.7)	(16.9)	16.0	4.27	(48.3)	(31.5)	(60.9)	(48.8)
Singapore	12.9	(0.35)	0.77	(2.65)	10.1	(9.3)	6.0	4.58	(23.6)	(18.7)	(31.5)	(27.5)
South Africa	10.6	(1.85)	1.49	(2.19)	17.7	6.9	14.0	3.82	(29.0)	(16.8)	(31.0)	(11.0)
Spain	16.7	2.35	1.13	(2.07)	2.1	(15.7)	6.9	3.90	(42.7)	(28.0)	(47.6)	(34.4)
Sweden	20.3	4.69	1.97	(0.65)	3.2	(11.1)	10.0	2.72	(27.8)	(11.0)	(30.5)	(13.9)
Switzerland	19.2	2.22	2.51	0.84	2.8	2.4	13.2	3.12	(16.1)	(9.3)	(15.5)	(8.4)
Taiwan	16.2	2.03	1.77	0.57	1.3	8.6	10.9	3.94	(12.8)	(8.8)	(9.9)	(3.9)
Thailand	19.0	4.65	1.52	(2.02)	2.8	(9.6)	8.1	3.04	(31.8)	(22.6)	(44.5)	(38.7)
Turkey	7.1	(0.46)	0.78	(1.55)	0.4	17.6	11.2	4.26	(26.9)	(14.4)	(23.4)	(5.0)
United Kingdom	16.5	1.84	1.46	(1.98)	1.8	(15.7)	9.1	3.69	(41.3)	(25.8)	(47.1)	(32.1)
United States	21.9	4.49	3.31	1.39	2.2	(4.1)	15.3	1.96	(27.3)	(16.1)	(31.5)	(20.4)
Global	19.2	4.43	1.95	0.61	1.9	(3.5)	10.3	2.51	(30.4)	(18.5)	(37.3)	(25.4)
DM	19.8	4.82	1.95	0.47	2.0	(4.0)	10.1	2.42	(30.6)	(17.8)	(36.9)	(23.9)
EM	15.8	1.18	1.74	(0.56)	1.4	1.1	11.0	2.61	(26.6)	(19.3)	(35.1)	(27.6)
Asia Pacific	15.6	1.78	1.42	(0.35)	1.3	3.5	9.2	2.53	(20.4)	(14.7)	(29.5)	(23.3)
Developed Europe	18.8	4.14	1.55	(1.26)	2.1	(9.2)	8.5	3.13	(37.2)	(20.9)	(43.0)	(26.5)
Eurozone	19.0	4.44	1.38	(1.22)	2.0	(9.0)	7.5	3.03	(39.4)	(21.8)	(45.9)	(28.2)
Eastern Europe	9.4	3.67	0.80	(0.32)	(1.2)	(20.4)	8.6	5.58	(45.1)	(29.4)	(50.8)	(34.5)
Latin America	16.1	2.38	1.52	(1.57)	2.1	(11.6)	9.7	3.33	(46.5)	(27.6)	(57.8)	(40.0)
Middle East & Africa	9.4	(1.51)	1.17	(2.35)	1.9	10.4	12.4	3.55	(26.4)	(14.4)	(24.3)	(11.5)

Source: FactSet, Jefferies

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(Article 3(1)e and Article 7 of MAR)

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Distribution of Ratings						
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