

Newsclips/Daily Commentary

August 27th, 2018

Why is Everyone Shouting 'Crisis?!'

Summary

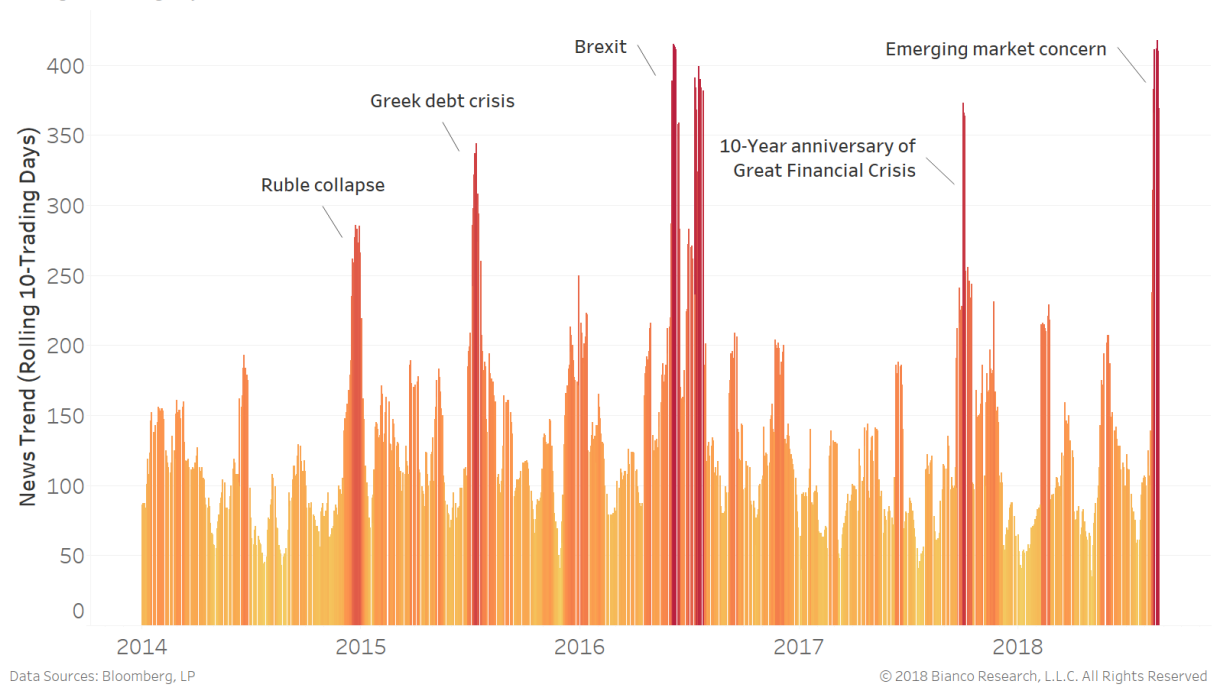
Financial media are awash with talks about potential crisis, but the risk of sizable equity drawdowns are low. The Eurozone is beginning to produce economic data beats, while the U.S. turns to misses. Past similar instances have kept a lid on the S&P 500 and U.S. 10-year note yields.

Comment

The buzzword of the past two weeks has been 'crisis,' even with little indication of contagion from Turkey's woes. The chart below shows rolling 10-trading day news trends for 'economic crisis' since 2014. The frequency of concern or alarm by financial media has hit a new high, beating out the Greek debt crisis and Brexit vote.

'Economic Crisis' News Trends Reach a New High

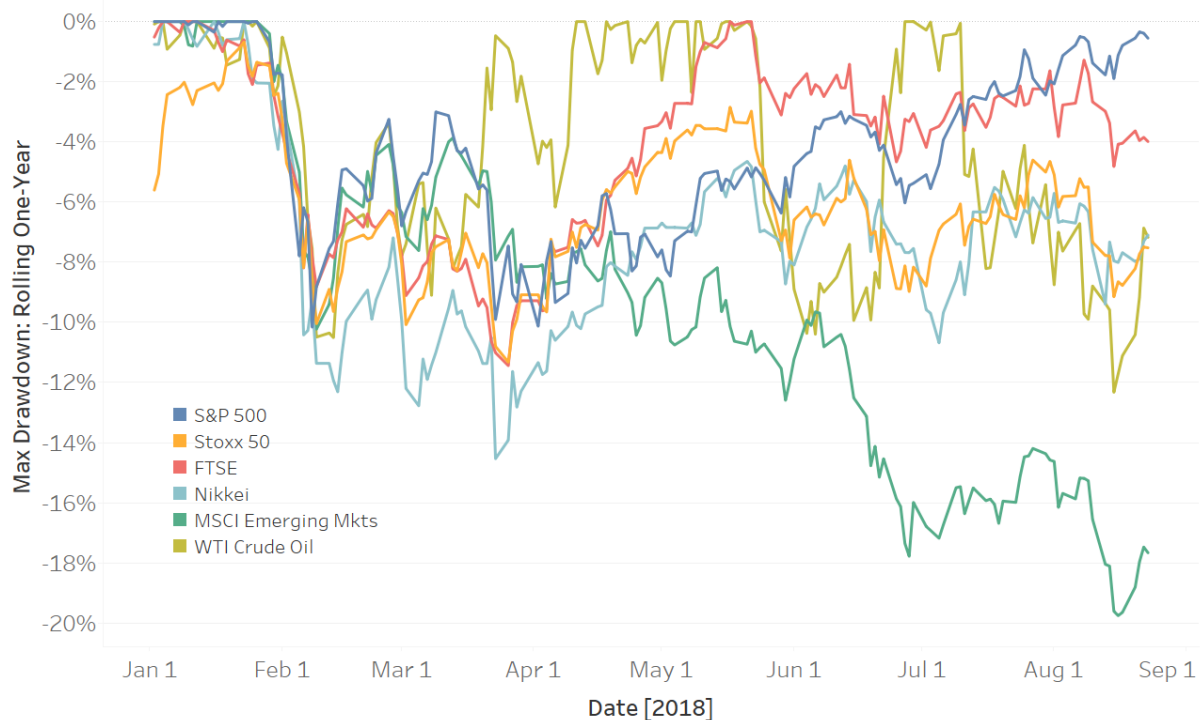
Rolling 10-trading day news trends



The euphoria of global synchronized growth coming into the year has faded, but markets have taken in stride currently isolated risks to the global landscape. The next chart shows drawdowns by major equity indices over rolling one-year periods.

Emerging markets have suffered most at -18%, followed by the Stoxx 50 at -7.5%. The S&P 500 is nearing a new all-time high.

Emerging Markets the Only Sore Spot



Data Sources: Bloomberg, LP

© 2018 Bianco Research, L.L.C. All Rights Reserved

Instead of predicting recessions, we model for probabilities each equity index drops more than 20% within the year ahead. Inputs include the following:

- Global Google search trends for spending, credit, stress, and much more
- Economic data changes
- Economic data surprises
- Monetary, trade, and public policy uncertainty
- Central bank shadow rates
- Central bank rate hike timing

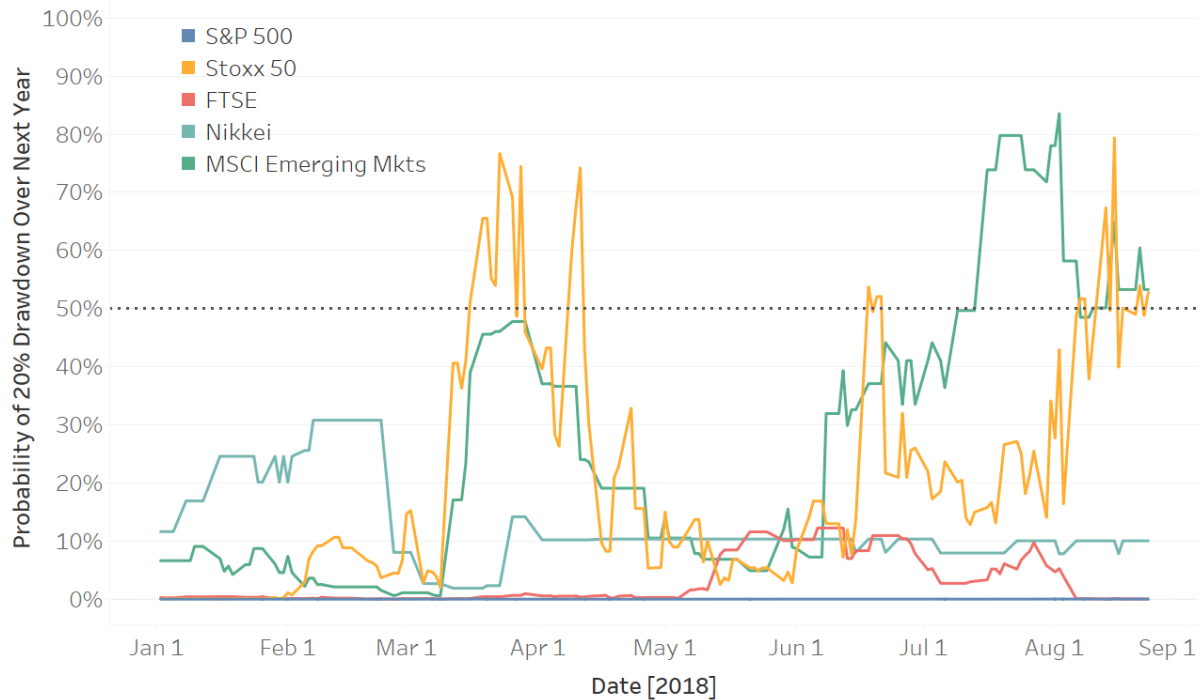
Probabilities are currently elevated for the MSCI Emerging Markets and Stoxx 50 indices at just over 50%. This should be of no surprise given their already sizable drawdowns. European banks are of course more sensitive to escalating risks out of Turkey.

On the flip side, the S&P 500, Nikkei, and FTSE's probability of entering a bear market are well below 10%.

We would need 80+% probabilities of 20% drawdowns before becoming very concerned. For now economies are [ready to converge](#), but this in no way implies a dramatic slowdown.

Probability of 20% Drawdown for Year Ahead Elevated for EM and Eurozone

Extreme gradient boosted trees blending alternative (e.g. Google search trends) and traditional data



Data Sources: Bloomberg, LP

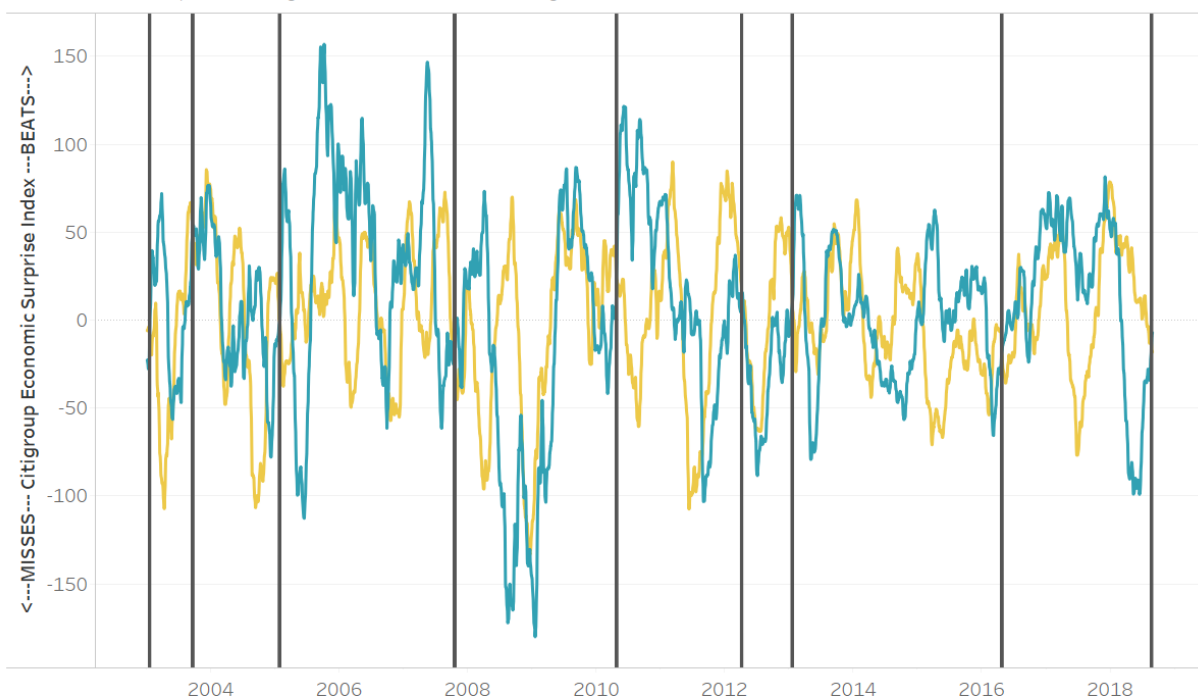
© 2018 Bianco Research, L.L.C. All Rights Reserved

Risk of a sizable drawdown across U.S. equities is very low, but a turn to economic data misses suggests muted returns. The chart below shows U.S. (yellow) and Eurozone (blue) Citigroup Economic Data Surprise Indices.

We mark with vertical gray lines similar instances of the Eurozone and U.S. indices converging and then crossing. In other words, the Eurozone recoups, while the U.S. sees a string of misses.

Eurozone Economic Surprises Rebound While U.S. Turns to Misses

Vertical lines indicate past similar signals of Eurozone and U.S. crossing



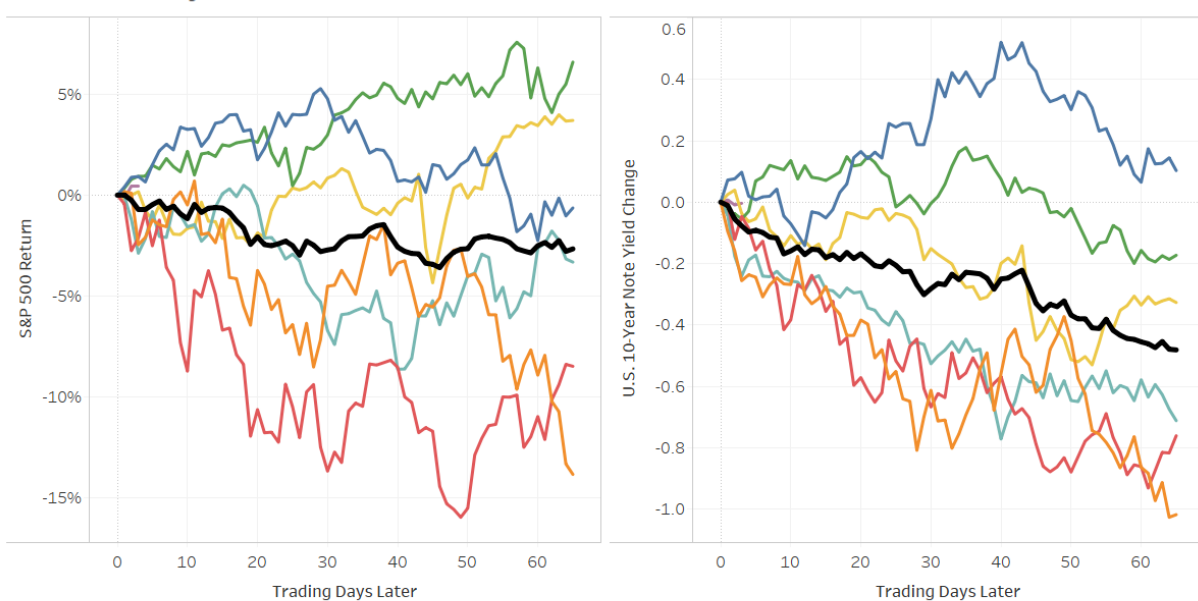
Data Sources: Bloomberg, LP and Citigroup

© 2018 Bianco Research, L.L.C. All Rights Reserved

The last set of charts shows S&P 500 returns and U.S. 10-year note yield changes after these past similar signals. Over the following month the S&P 500 and U.S. 10-year note yield have on average fallen 2.5% and 19 bps, respectively.

U.S. Econ Surprise Index Falling Below Eurozone a Headwind

Thick black line is average since 2005



Data Sources: Bloomberg, LP and Citigroup

© 2018 Bianco Research, L.L.C. All Rights Reserved

Bianco Research, LLC

www.biancoresearch.com

For more information about the contents/opinions
contained in these reports:

Research@biancoresearch.com

(847) 756-3599

President

[James A. Bianco](#)

Strategists/Analysts

[Greg Blaha](#)

[Ben Breitholtz](#)

[Peter Forbes](#)

[Ryan Malo](#)

Arbor Research & Trading, LLC

www.arborresearch.com

For subscription/service information:

Chicago Sales Office

InfoRequest@arborresearch.com

(800) 606-1872

[Max Konzelman](#)

[Gus Handler](#)

[Sam Handler](#)

London Sales Office

44-207-100-1051

[Neil Tritton](#)

[Ben Gibson](#)

European Sales

(847) 304-1560

[James Perry](#)

Copyright © 2018 Bianco Research, LLC

This message is intended only for the personal and confidential use of the designated recipient(s) named above. If you are not the intended recipient of this message you are hereby notified that any review, dissemination, distribution or copying of this message is strictly prohibited. This communication is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any financial product, an official confirmation of any transaction, or as an official statement of Bianco Research, LLC. Email transmission cannot be guaranteed to be secure or error-free. Therefore, we do not represent that this information is complete or accurate and it should not be relied upon as such. All information is subject to change without notice.

Inquiries: Max.Konzelman@arborresearch.com (800) 606-1872