

Hillswick

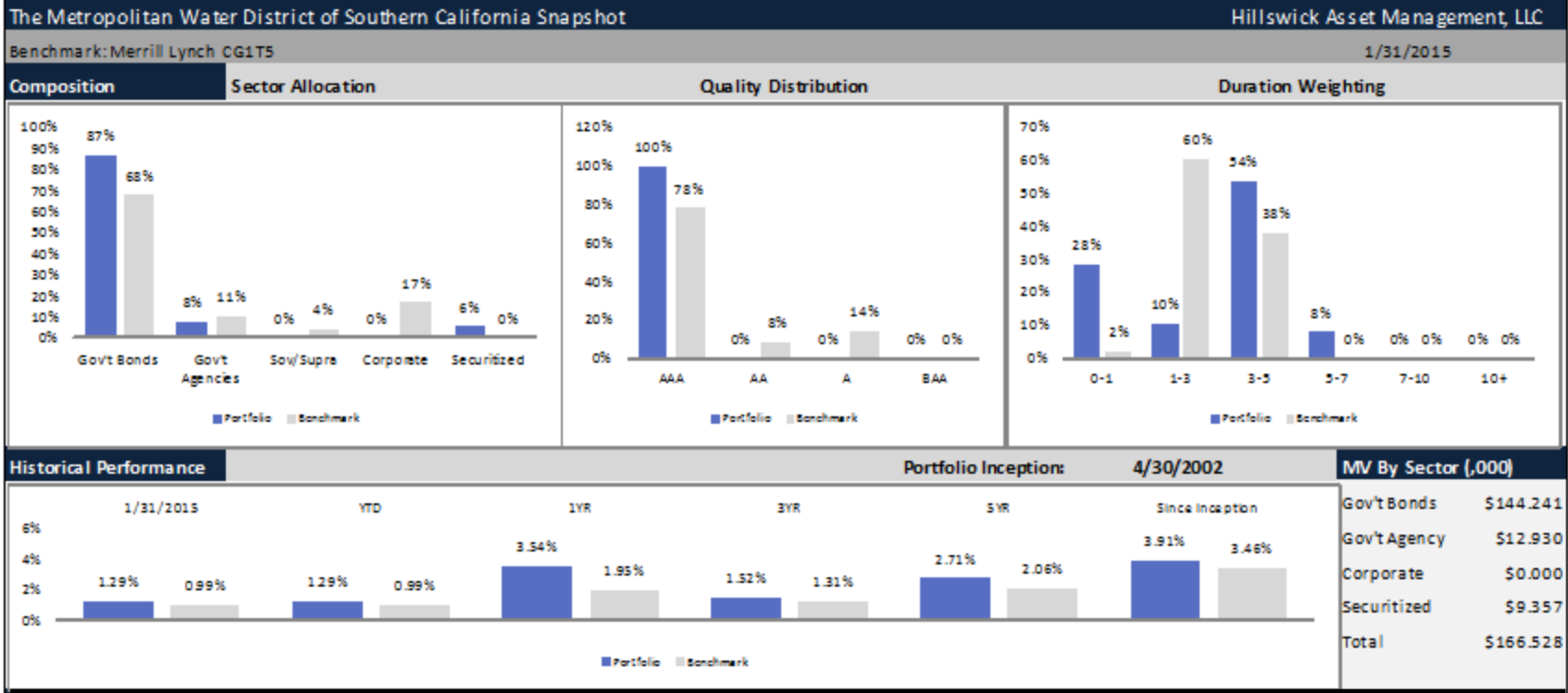
Asset Management, LLC

Macro Driven, Performance Oriented

The Metropolitan Water District of
Southern California

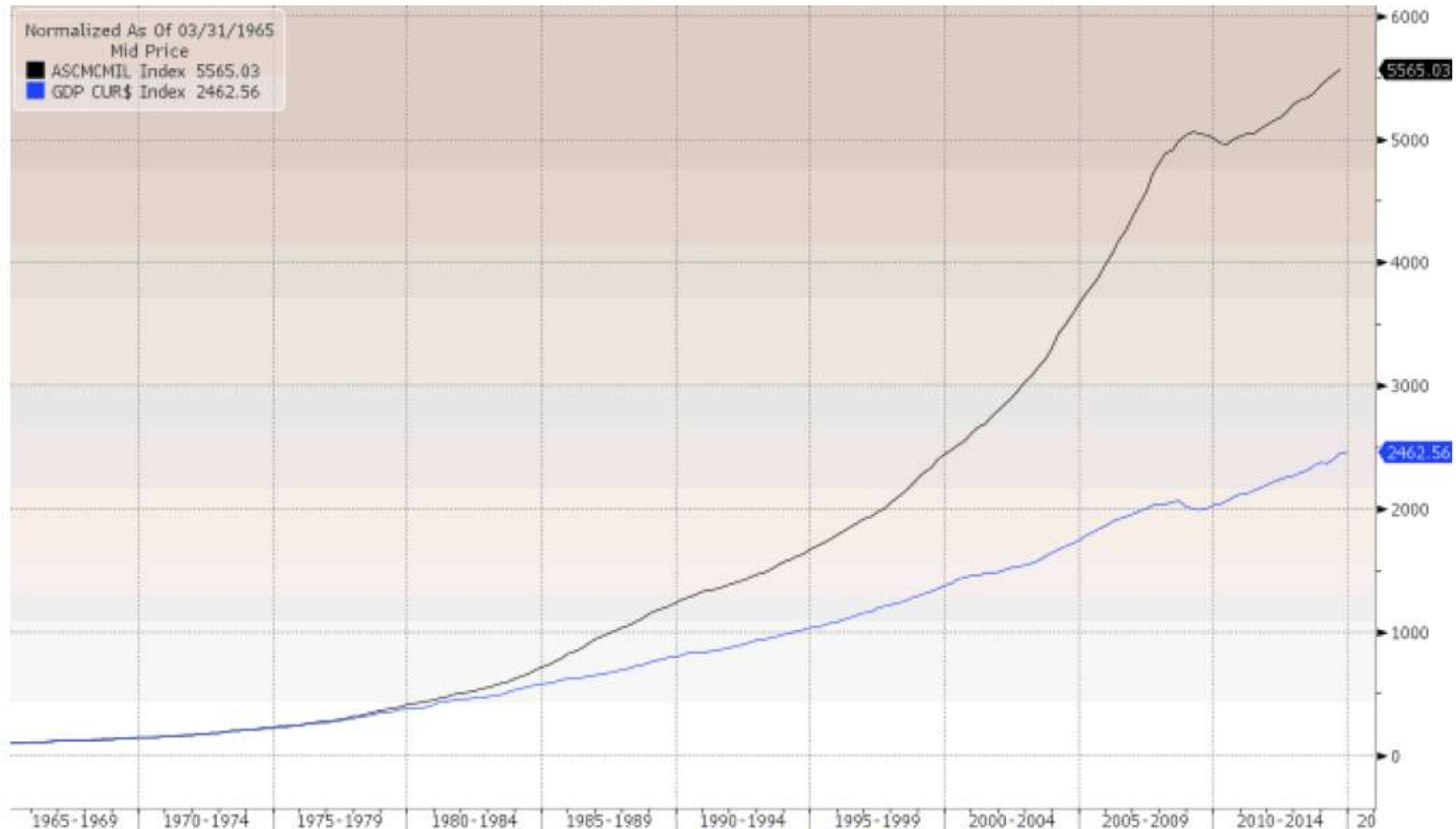
February 9, 2015

Portfolio Snapshot (01/31/2015)





Until the mid 1980's, credit grew at a rate similar to incomes (=GDP). Since 1987 (Greenspan), the Fed has continuously sought to stimulate growth in each looming downturn by monetary stimulus designed to induce more borrowing and spending....

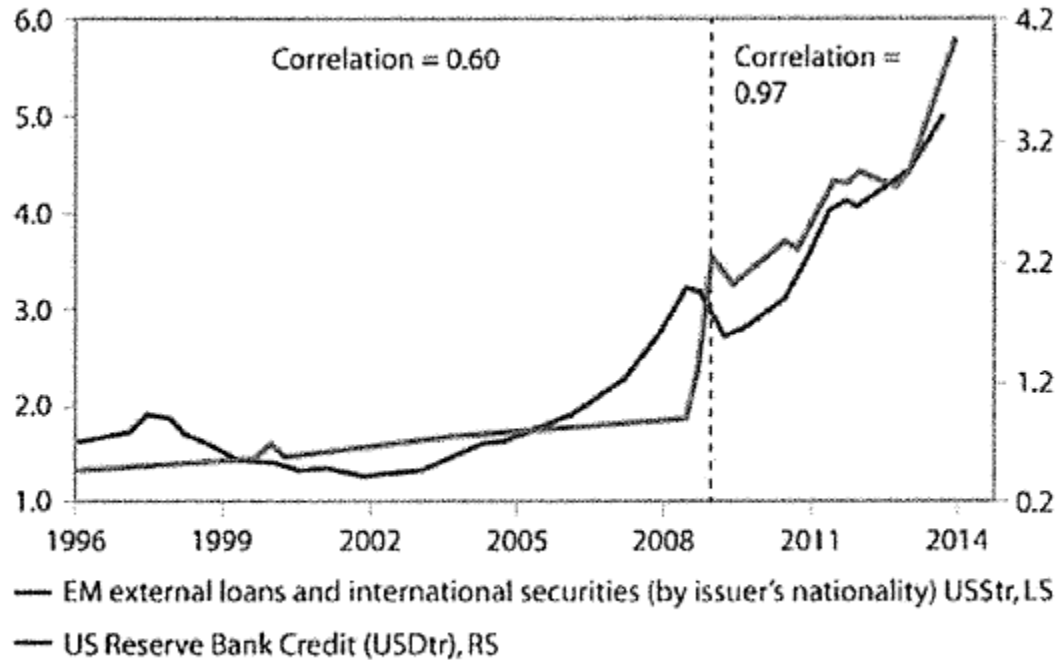


All Sectors, Total Credit Market Instruments vs. Nominal GDP normalized growth

Courtesy of Ramsey King



In the aftermath of the GFC, the Fed's stimulatory efforts went into overdrive as illustrated by the repeated QE programs. One effect thereof was to boost USD-borrowing by foreigners...



Source: BofA Merrill Lynch Global Research, BIS

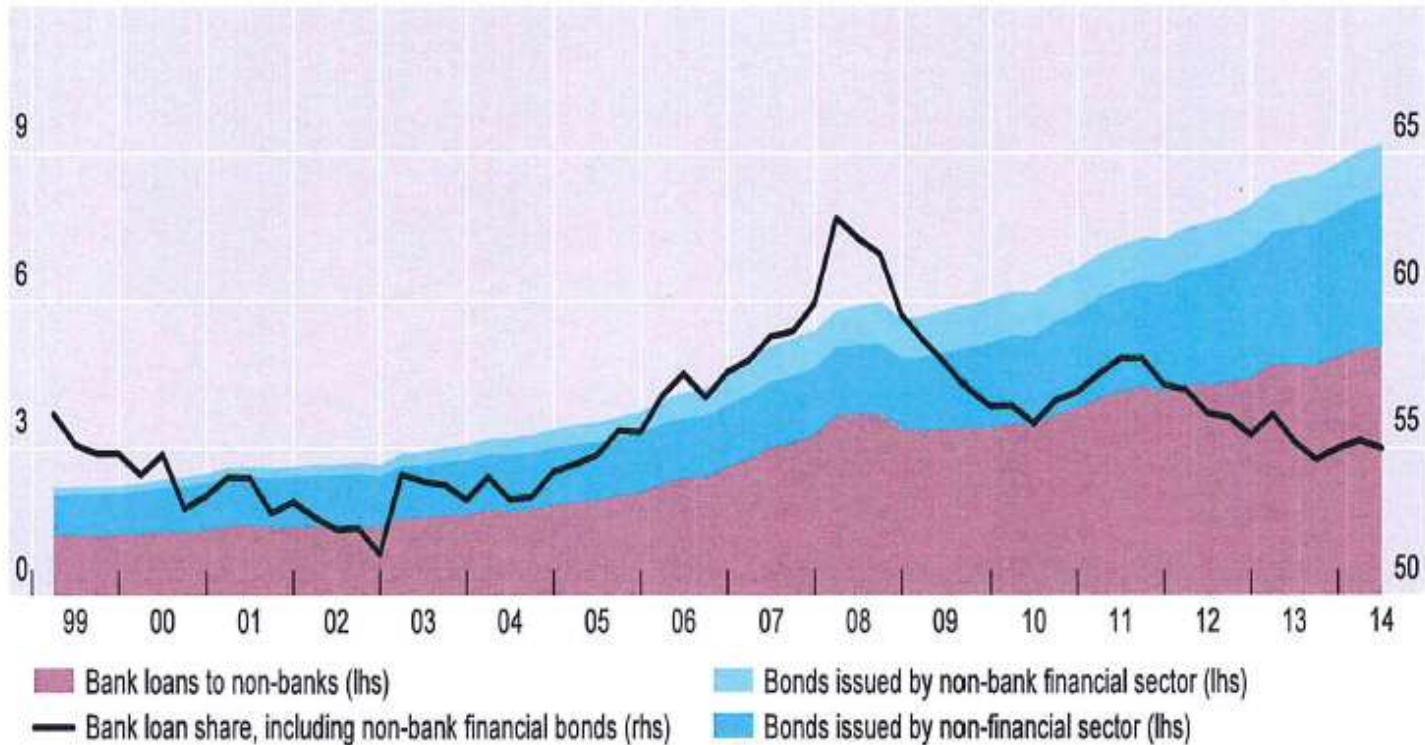
WWW.DAILYRECKONING.COM



In just five years, starting in 2009, foreigners' USD debt surged by 50%, from \$6 Trillion to \$9 Trillion...

US dollar credit to non-banks outside the United States

Outstanding stocks (USD trillion)

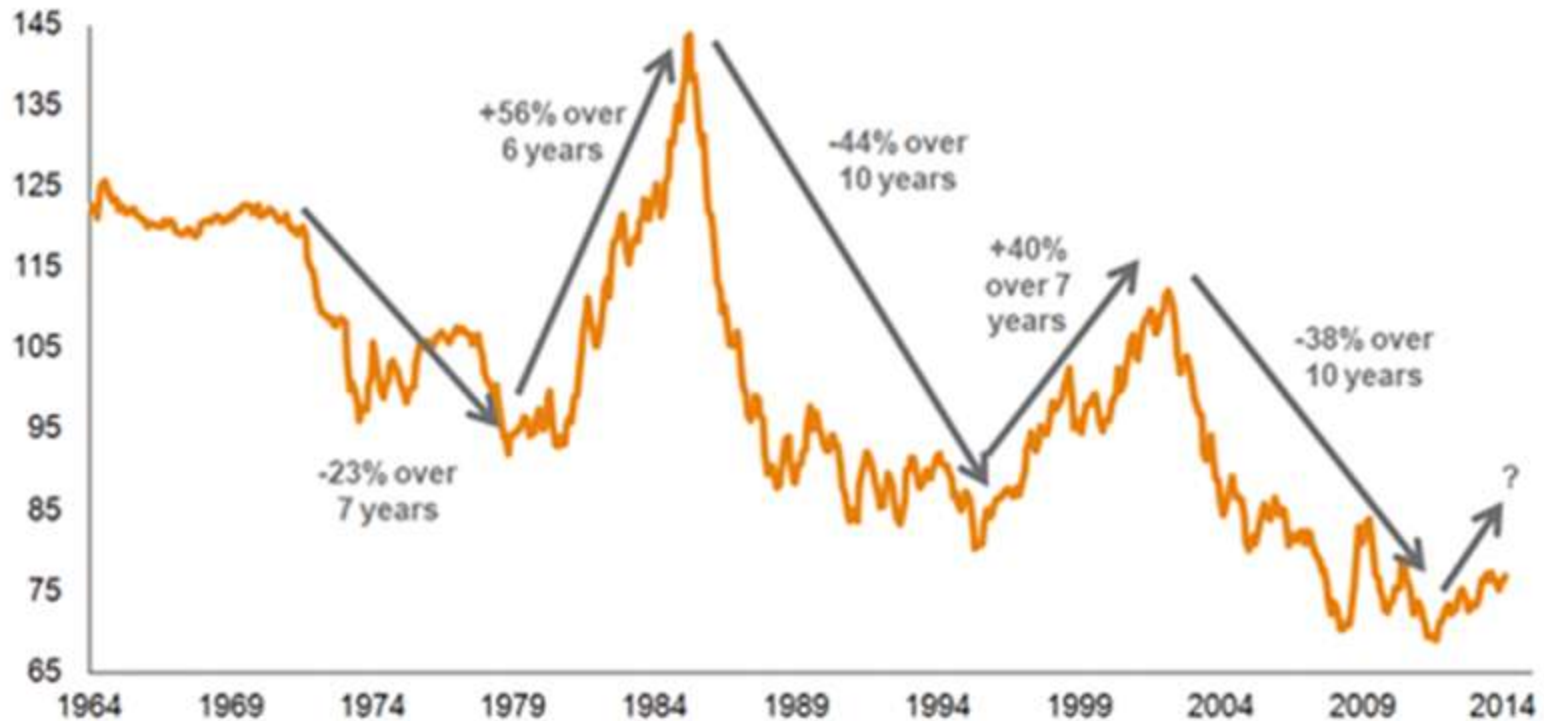


Courtesy of Bank for International Settlements



The USD now has appreciated by 13% against a trade-weighted basket of currencies. It is not unreasonable to expect another +30% appreciation in the coming years. This is bound to cause debt-servicing strains for foreign debtors, similar to the 1997/1998 Asian crisis...

Trade-weighted US dollar index (%)



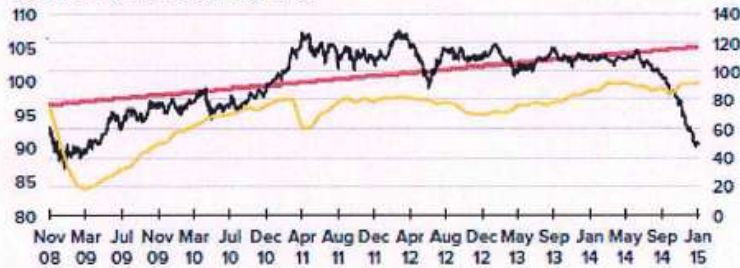
Source: Federal Reserve, J.P. Morgan Asset Management as at 8 January 2014



The broad based declines in commodity prices since mid-2014 strongly suggest that it is weakness in global demand (rather than expanding supply) that is affecting prices...

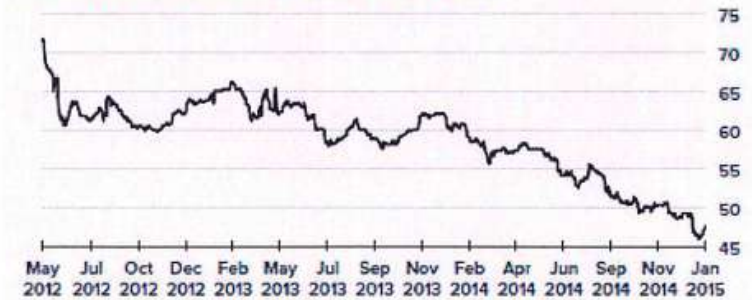
Crude Oil Price And G-7 Industrial Production

Oil Price Is Black Line, Daily Data To January 23, 2015, U.S. Dollars Per Bbl (Right Axis)
 Production Index Is Yellow Line To Nov 14, Index 2005= 100 (Left Axis)
 Red Line Is 10-Year Trend In Oil Prices



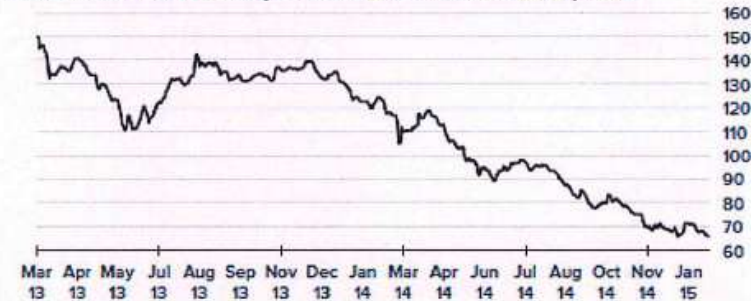
Coal Price

Daily Data To January 23, 2015, U.S. Dollars/Ton (Right Axis)



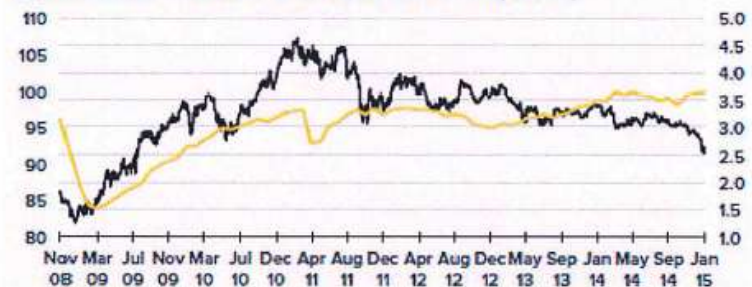
Iron Ore Price

Iron Ore Price Is Black Line, Daily Data To Jan 23, 2015, U.S. Dollars/Dry Tonne



Copper Price And G-7 Industrial Production

Copper Price Is Black Line, Daily Data To January 23, 2015, U.S. Dollars/Lb. (Right Axis)
 Production Index Is Yellow Line To Nov 14, Index 2005= 100 (Left Axis)

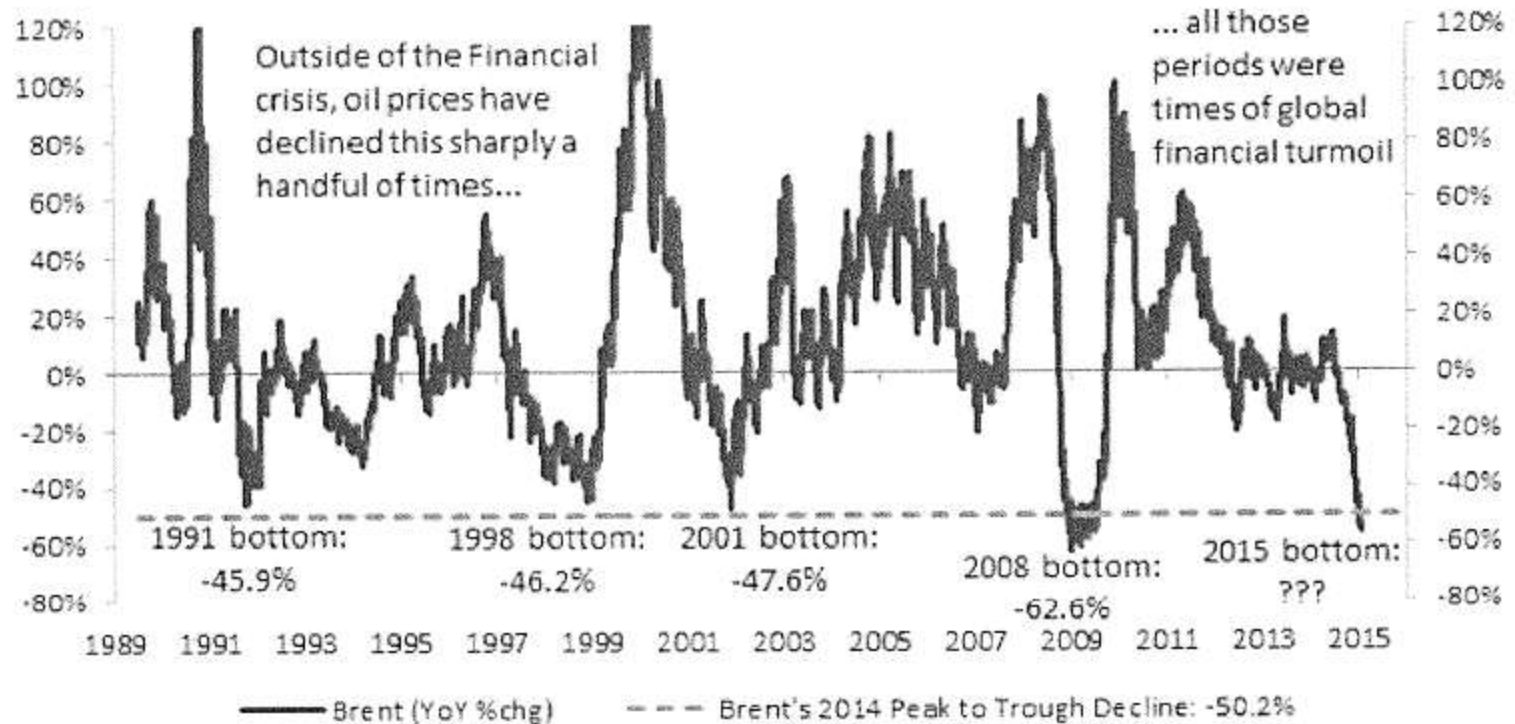


www.hifraecon.com/WebinarJan2015



Freight rates have just hit 10-year lows...





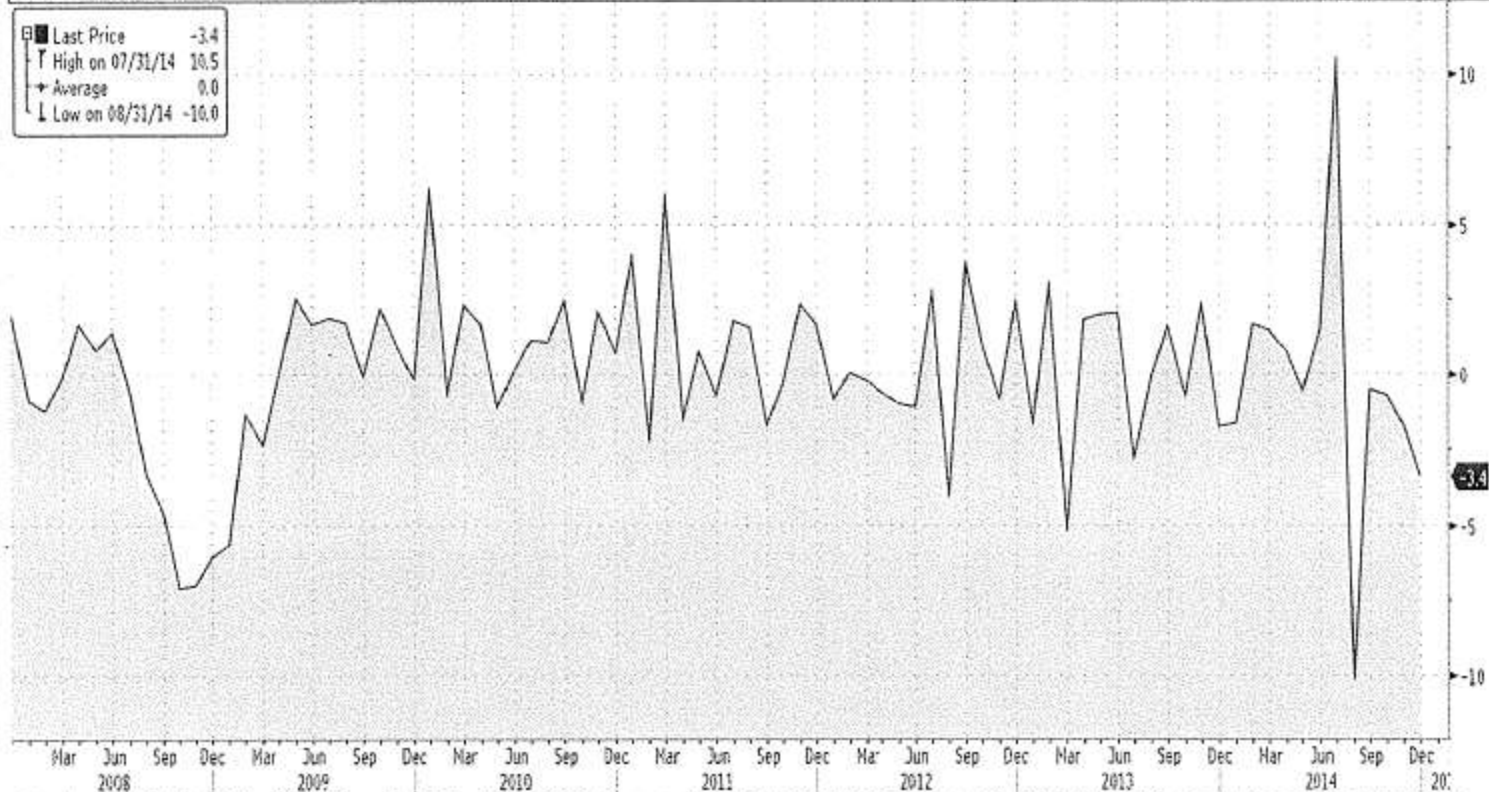
Courtesy of Evercore/ISI

Manufacturing new orders have declined in recent months...



TMNOCHNG -3.4% For Dec Next Release 05 Mar 10:00 Survey --
 US Manufacturers New Orders Total MoM SA U.S. Census Bureau

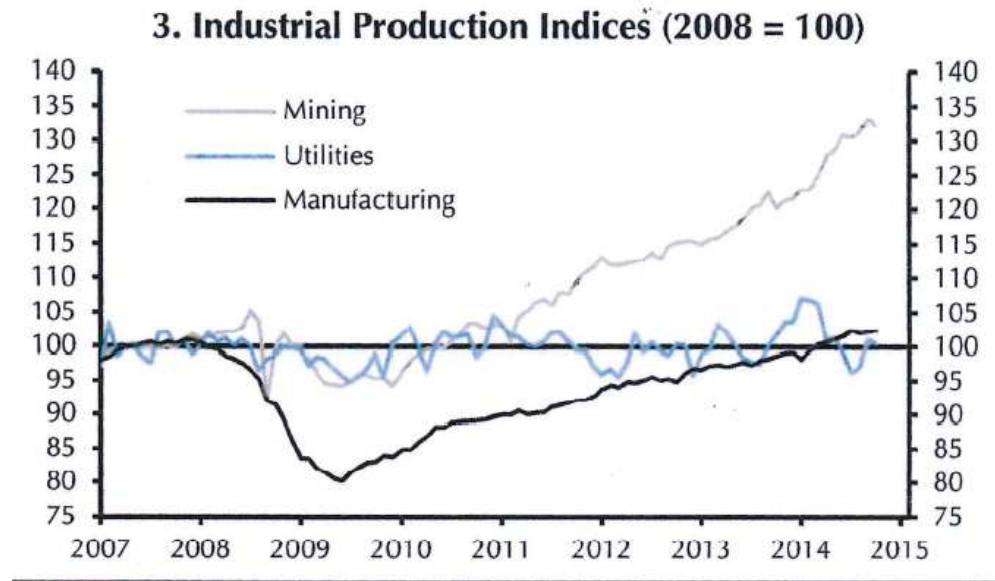
TMNOCHNG Index 95) Save As... 96) Actions 97) Edit 98) Table Historical Line Chart
12/31/2007 - 12/31/2014 Last Price 11) Compare Mov. Avgs No Lower Chart
1D 3D 1M 6M YTD 1Y 5Y Max Monthly Security/Study Event



Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
 SN 196984 EST GMT-5:00 G922-3213-0 04-Feb-2015 16:37:57



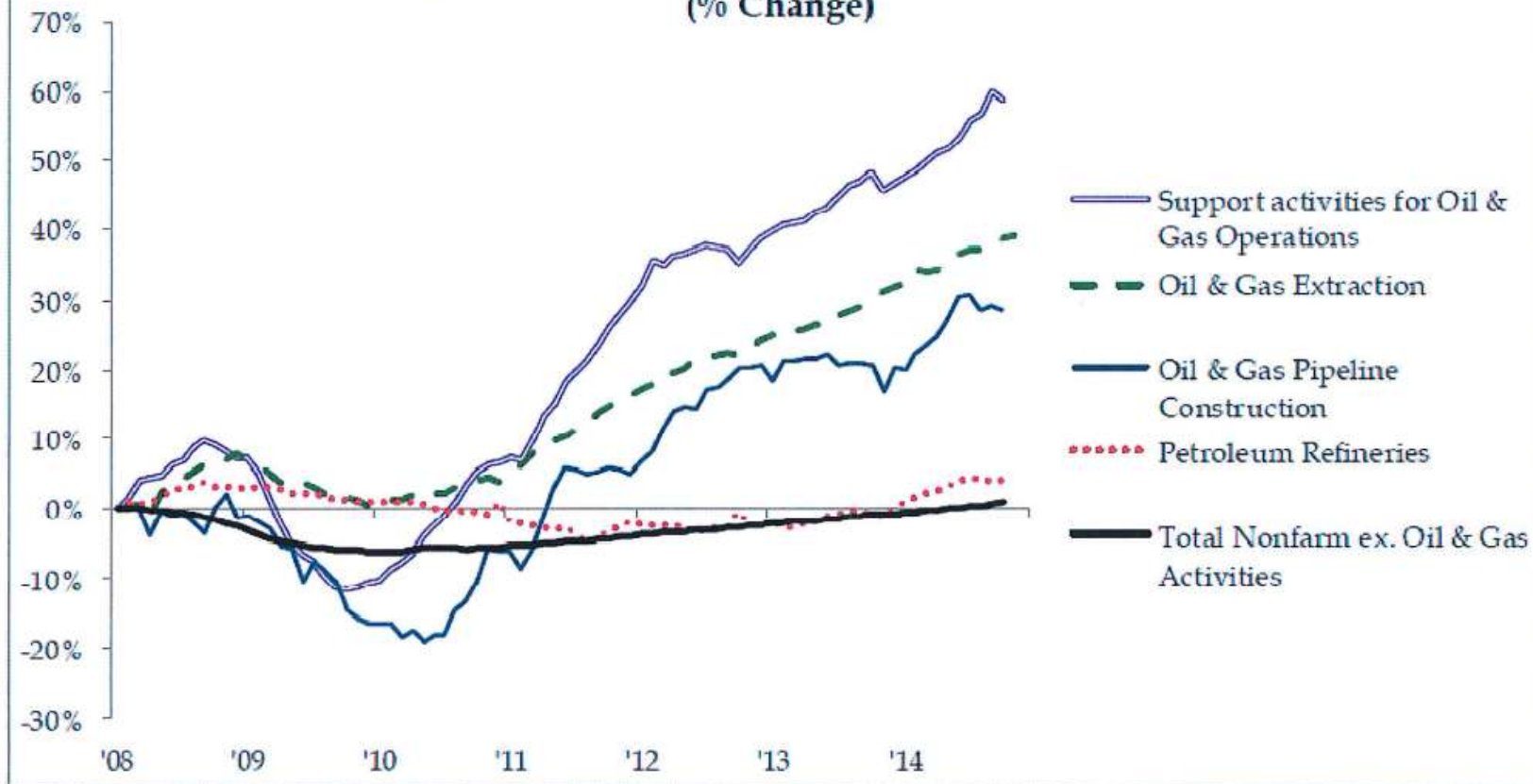
A major part of the growth in recent years has been driven by shale gas/oil exploration and production...



Courtesy of Capital Economics



U.S. Payroll Growth Since Jan-'08 Employment Peak (% Change)

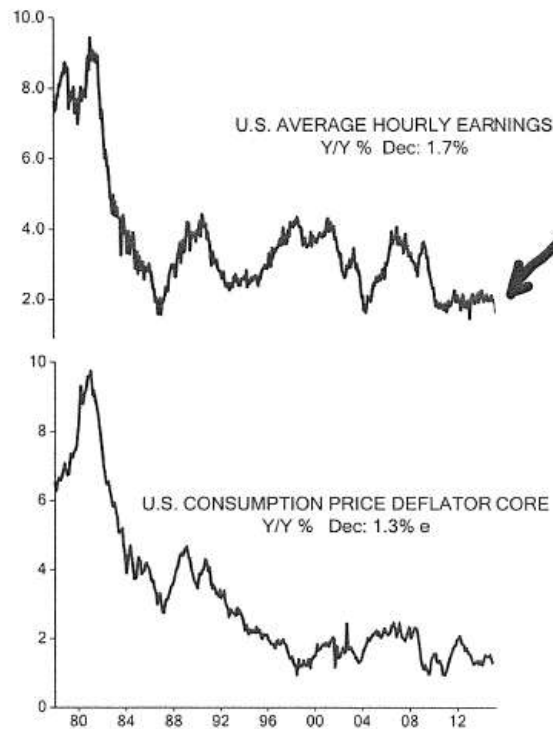


Courtesy of Strategas



U.S. Inflation Still MIA

The CPI is likely to slow to just +0.3% y/y in Jan. Average hourly earnings slowed to just +1.7% in Dec, and the core PCE deflator probably slowed to +1.3%.



Courtesy of Evercore/ISI



Disappointing GDP Report

Not only was real GDP a little light at +2.6% q/q a.r., the GDP deflator was zero, leaving nominal GDP at just +2.5%. And the pieces of the GDP price deflator fit with the -0.1%, eg, the consumption price deflator was -0.5%, govt -0.6%, and capex just +0.2%.

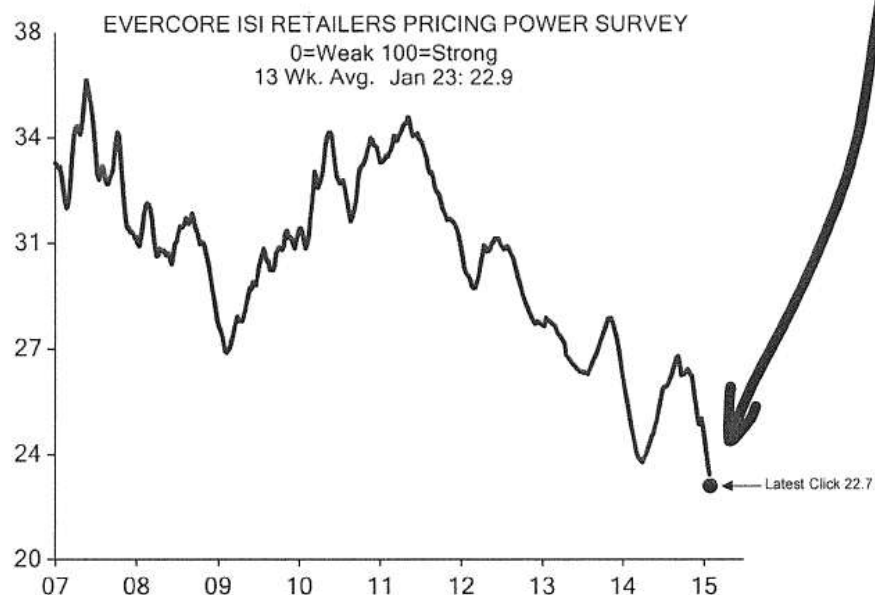


Courtesy of Evercore/ISI



Evercore ISI Retailers Survey Shows Plunging Pricing Power

This survey of retailers' pricing power was up +0.5 last week but to just 22.7, down from roughly 35.0 in 2011. These readings are on a 0 to 100 scale. This weak pricing power increases the odds the core PCE deflator slows.

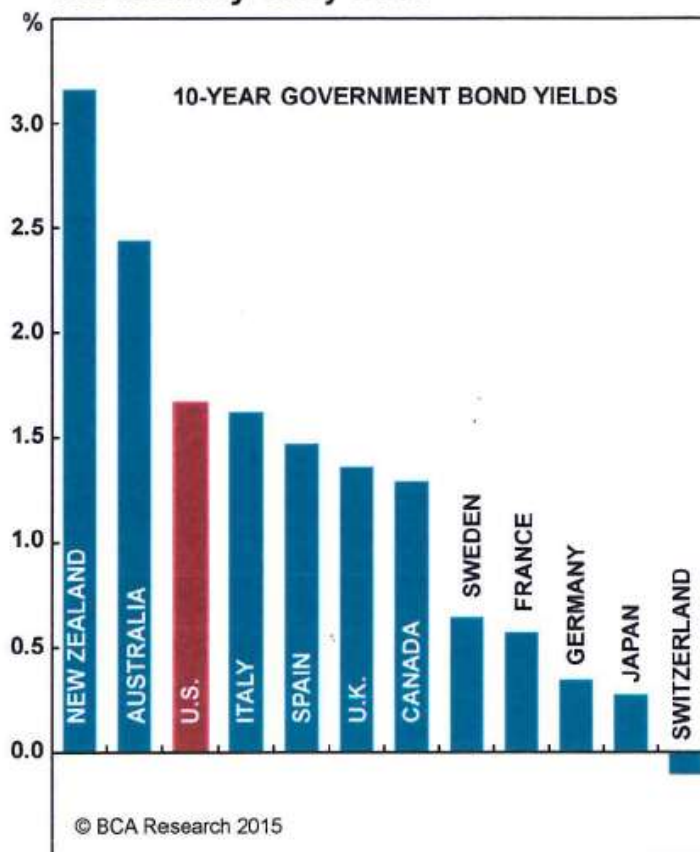


Courtesy of Evercore/ISI

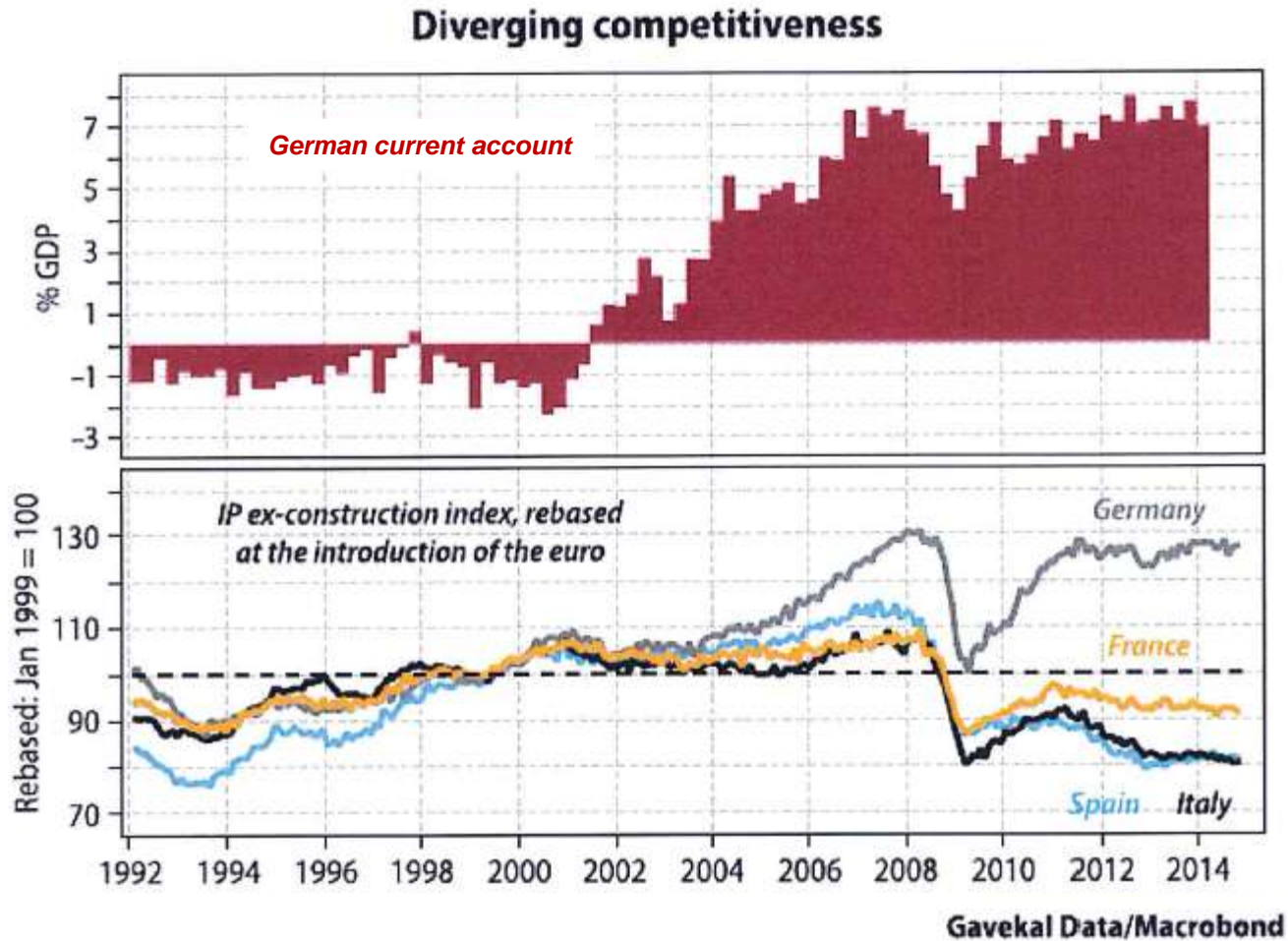


With US bond yields more than 100 basis points higher than core European and Japanese bond yields, while the USD exchange rate is in a strong uptrend, overseas investors are likely to offer important buying support for Treasuries...

The Treasury Carry Trade

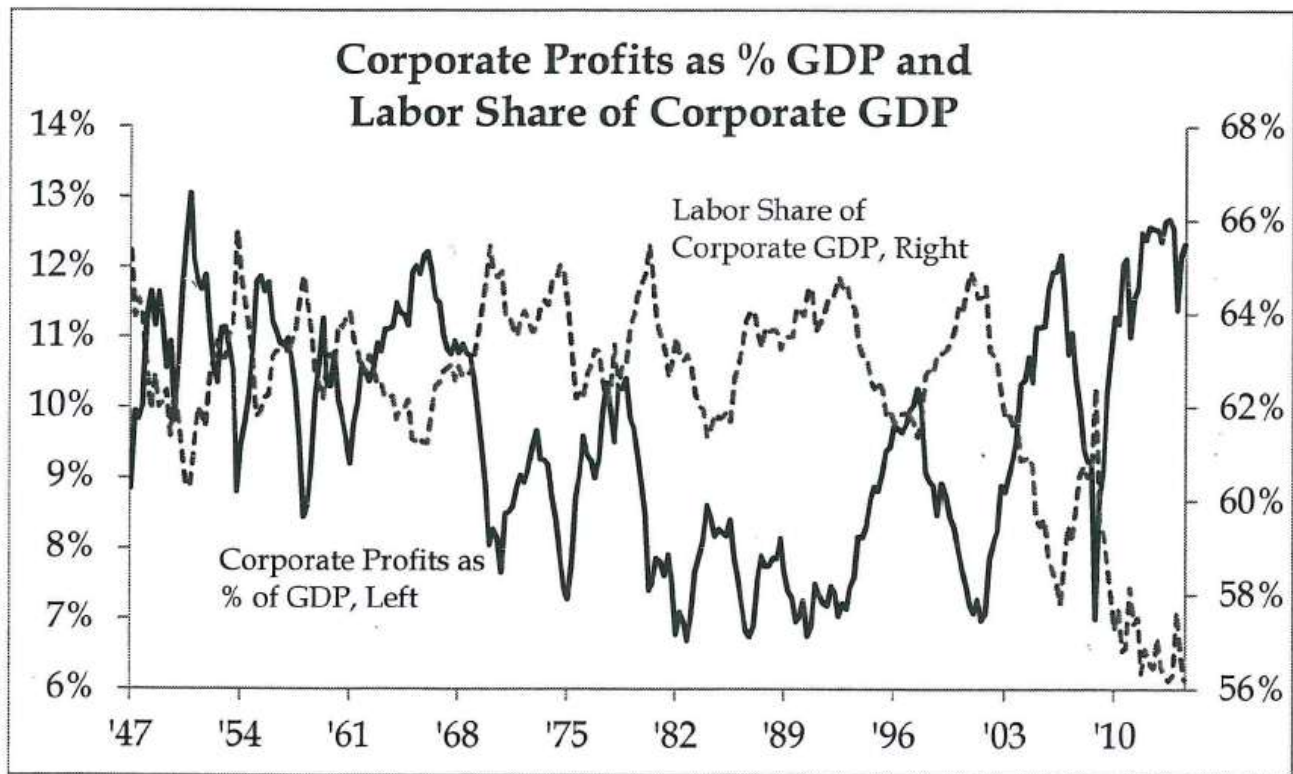


The European Monetary Union is unworkable...



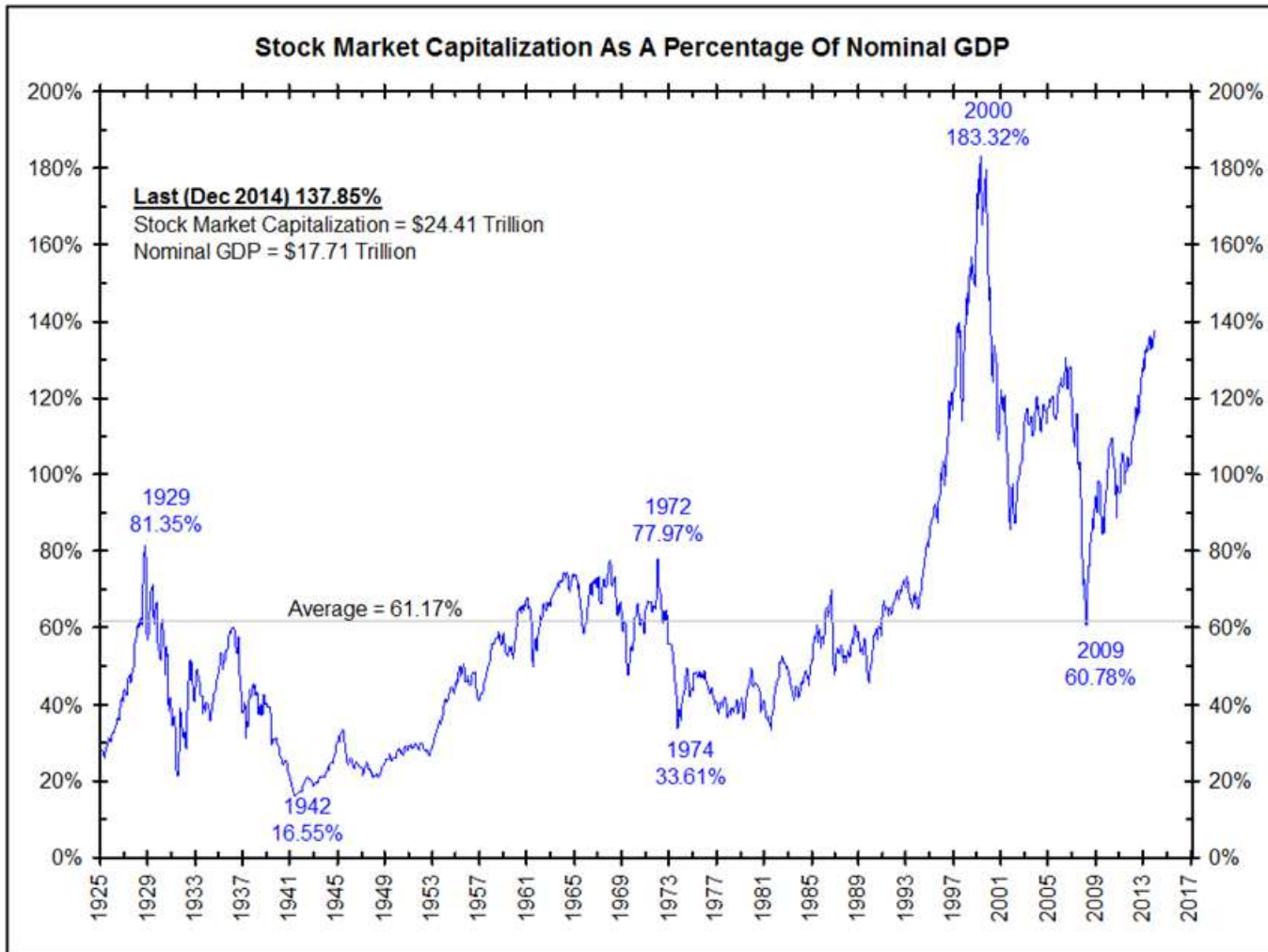


While the profit share of GDP has been peaking in recent years as the labor share has plunged, the mix between them is cyclical and subject to a regression towards the mean. This is bad news for the stock market and for Thomas Piketty!



Strategas Research Partners – Investment Strategy

Supposedly Warren Buffet's favorite valuation gauge...

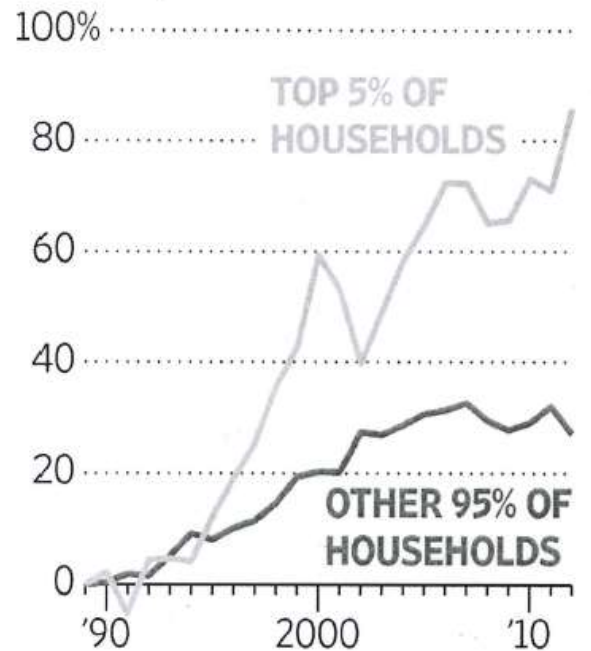


Courtesy of Bianco



For Richer, for Poorer

Change in average U.S. household consumer spending, adjusted for inflation, since 1989



Source: Barry Cynamon, Federal Reserve Bank of St. Louis; Steven Fazzari, Washington University in St. Louis
The Wall Street Journal