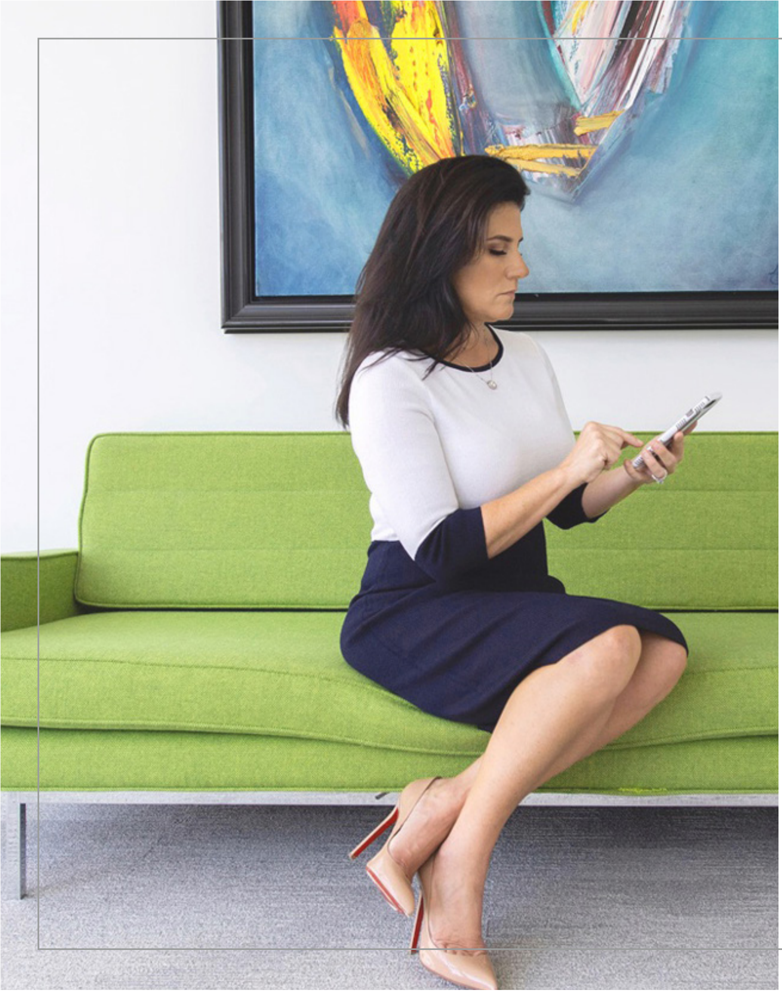

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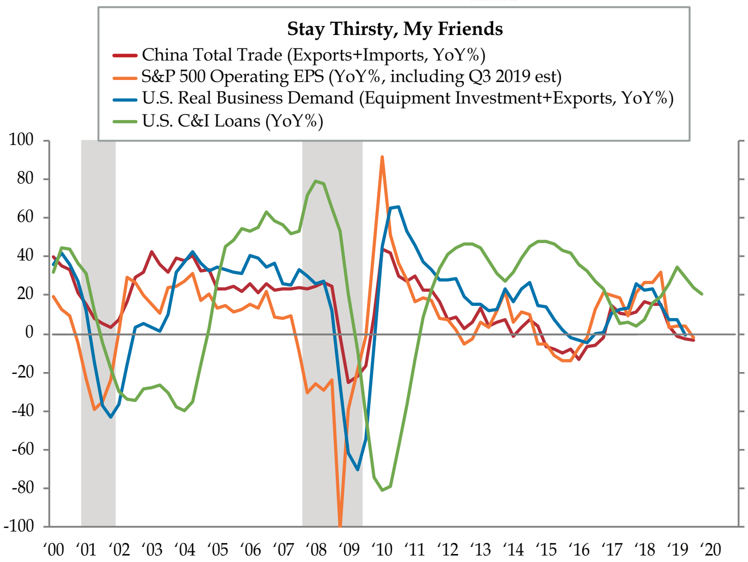
The Most Interesting Chart in the World

VIPs

- China's trade data proxy global growth via the aggregate of its imports and exports, which presage global trade; persistent weakness or strength from this series provides further insights into future trends in global industrial production
- For the last nine years, China's aggregate trade demand and S&P500 operating earnings per share have been highly correlated; Information Technology, Financials and Industrials are the most highly correlated among Index sectors
- C&I loans are a lagging indicator flagging the funding of inventory and capex; from September into October, C&I loans have declined at the fastest pace since the last extended slowdown and validate IT, Financials and Industrials being the most at risk



Source: BEA, China Customs, Federal Reserve, S&P. Recessions shaded.

Every trading day, we humbly submit what we hope lives up to today's *Feather* title. Truth be told, today's illustration really was inspired by the bearded, debonair Jonathan Goldsmith. A quick Google of his name and you too will recognize him as "The Most Interesting Man in the World," the ten-year pitch man for Dos Equis beer. His popularity in conventional advertising media was so great, he ascended to iconoclasm in meme culture with the accompanying phrasal template, "I don't always [X], but when I do, I [Y]." We know you've customized those blanks.

"China doesn't always disappoint, but when it does, it blows the bad news out of the water." Like clockwork, China's monthly trade data fill in the blanks on the pulse of global growth before most other countries report their hard data on exports and imports. Out late Sunday night, September's release was a letdown on both sides of the trade ledger. Exports came in down -3.2% over the last twelve months, marking the first back-to-back declines in three years. Not to be outdone, imports slid by -8.5% compared to a year ago, sinking every Bloomberg estimate's battleship (indulgence on the mixed metaphor front please) and putting into the history book red readings in nine of the last ten months, a sad string not seen since 2016.

But why characterize China's (presumably obfuscated and black-booked) trade data as the most interesting in the world? For starters, and enders, it stands alone as a proxy for global growth. The summation of Chinese imports and exports generates an early read on total global trade, that little thing that makes the world economy go 'round. Persistent weakness or strength from this aggregate series (red line above) equates to a judge and jury's findings on global industrial production in advance of the data we see over the calendar's horizon.

We concede that equity investors don't naturally keep a close eye on economic data, especially of the ilk that goes bump in the night. At the risk of beating a dead horse, when they do, they'd be best served by following China trade. Since the end of the Great Recession, China's aggregate trade and S&P 500 operating earnings per share have played huggy-bear. For nine years, the correlation between the red and yellow lines in today's most interesting chart was a more-than-material 83%.

In case you're curious, at 81%, the sector with the "best fit" over the last nine-plus years was Information Technology. The second and third best fits were Financials (67%) and Industrials (64%), respectively.

As we belly-up to the third-quarter earnings season, we'll be running a parallel countdown to the release of third-quarter U.S. GDP, due out October 30th (a.k.a. Fed Day for you calendar watchers). The two most relevant aspects of GDP that track China trade are business equipment investment and exports. While unconventional for an Econ 101 class, we added these two together (in the blue line above), which yield a proxy for business demand within the acutely cyclical global industrial complex.

Over time, it's not surprising to see this metric track, and sometimes lag, S&P earnings. Corporate profits drive future capital spending (capex) decisions. It's a given that large U.S. companies are also multinationals; the signal from their profits is about more than just domestic demand. That's the beauty of Chinese authorities being itchy to release trade data. The current quarter's window view offers that real business demand fell a modest -0.2% year-over-year in 2019's second quarter. From everything we're seeing, we know the third quarter will clock in at a weaker pace.

We wouldn't be worth our weight in downy Feathers if we didn't demand corroboration. A corresponding sign that capex may be slashed is apparent in the most recent commercial and industrial (C&I) loan data. No secret, these loans fund capex alongside other corporate actions including inventory investment and mergers and acquisitions. C&I loans also tend to lag reflecting business decisions of days gone by.

Did we mention "interesting"? **Over the turn of the quarter, from September into October, C&I loans registered the largest back-to-back declines since the last extended down cycle that overlapped the Great Recession.** Granted, this is an emerging theme as October data are preliminary.

But consider the intersection of downshifting China aggregate trade, S&P earnings and real business demand. Together, they feed the weaker business loan narrative. C&I loan weakness backs right into expectations for a deepening weakness in global growth, corporate profits and capex.

Zeroing in at the sector level, this backdrop speaks volumes to further frailty in tech, financials and industrials. We would (are) advising you position accordingly. But we recognize the tendency to channel our own best "Most Interesting Man in the World." "Stay thirsty, my friends" for more monetary stimulus to combat the ongoing slowdown.