
FACTORS, INFLATION AND CHINA: A PODCAST WITH MAURA PAPE AND LIQIAN REN

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Last week's "Behind the Markets" podcast featured a discussion with Maura Pape, strategist and director of business development at DeepMacro. An innovative technology and research platform, DeepMacro provides interesting "[factor](#)" research for growth and inflation dynamics that inform asset allocation portfolios and models. Pape was an intern for WisdomTree over a decade ago during her time at the University of Pennsylvania before she went to work for Morgan Stanley, then Soros Fund Management on its economics team and now DeepMacro.

Liqian Ren, WisdomTree's new Director of Modern Alpha™, also joined me in the discussion on her second day in her new role. In case you missed the announcement of Ren joining WisdomTree last week: Ren, who has a Ph.D. from the University of Chicago, was most recently a portfolio manager in the Quantitative Equity Group for Vanguard's factor family of funds. Before running its active factor funds, Ren had a diverse set of experience, from economic modeling at the Chicago Fed to running multiasset and managed payout portfolios at Vanguard. For WisdomTree, she will be spending most of her time working on active factor-oriented investment strategies.

We often discuss factors in the context of equity or fixed income allocations—with a focus on factors including [value](#), [momentum](#), [quality](#) and others.

Macro Factors and Models

For DeepMacro, there are two important macro conditions for its asset class views: economic growth and [inflation](#)—both the levels and changes. It also uses risk models, which helps inform tactical decisions the company is making in global all-asset portfolios.

One of DeepMacro's specialties is a currency rotation program based on these macro models of growth and inflation that looks across all currency pairs—not just with the U.S. dollar.

DeepMacro also has a global tactical asset allocation model that will form a view of five growth and inflation regimes that dictate the portfolio allocations across risk assets. Pape described the current regime our economy is in as an expansion—which may seem counterintuitive based on the [volatility](#) seen in the markets in October, but that is what DeepMacro's growth factors show. The [G10](#) countries have seen growth rates come down, but, overall, they are all rising and still above trend. Inflation has been rising generally, but not enough to make central banks take a lot more action, while risk indicators are in the middle of historical ranges. The net conclusion is that we are not yet in a "late cycle" that would imply getting a lot more cautious, and DeepMacro would assign the most recent drop in the markets in October to stock valuations more than macroeconomics rolling over.

Unique China Insight: Less Bearish Than Consensus

One of the interesting parts of the conversation featured insights on China, a country where DeepMacro has interesting “alternative data” sources for gauging the health of the economy. One such alt-data source monitors satellite pollution data produced by NASA to get a much more real-time indicator of industrial production in China. This, among other DeepMacro indicators, point to a less [bearish](#) view of China than current consensus, one that could be a bright spot for those allocating to emerging markets.

It was great to reconnect with Pape, one of our star interns from Wharton over a decade ago, and we could not be more excited to have Ren as a new member of our team!

Listen to the full conversation with Ren and Pape.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Factor : Attributes that based on its fundamentals or share price behavior, are associated with higher return.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Momentum : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Inflation : Characterized by rising price levels.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

G10/Group of Ten : A group of industrialized nations that meet on an annual basis to plan, debate, and cooperate on international financial matters. Member countries include: Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and United States.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.