

HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY



Department of Economics

ECON 6110R

MACRO INVESTMENT STRATEGY (Fall II, 2023-24)

INSTRUCTOR

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CLASS SCHEDULE

Lecture time is Tuesday 9:00 am – 12:20 pm, unless stated otherwise. Venue is Room 6602, Lift 31-32. Teaching mode is “face to face”.

COURSE DESCRIPTION

This course deals with the relationship between macroeconomic variables and asset markets, emphasizing investment implications. It develops a formal macroeconomic framework for analysing the impact of policy decisions and economic shocks on major asset classes - equity, fixed income, foreign exchange, among others. While the framework is global and multi-asset, the focus is on Asia-Pacific equity markets. The use of data, whether it be via the use of factor analysis or the use and interpretation of economic and market related indicators, is emphasized throughout. The important role of central banks and monetary policy in the relationship between policy and asset prices, is a common theme. Real world examples – either current or from first-hand experience – are commonly used alongside theory.

LEARNING OUTCOMES

After completing this course, students should be able to understand, explain and identify:

- (1) The basic relationships between asset classes such as bonds, equity, and currency markets with key macro variables and the crucial role that central banks and monetary policy plays. **(PILO 11)**
- (2) The application of basic and intermediate level models to economic policy and shock analysis used in a real world investment process. **(PILO 11, 12)**
- (3) The key variables that shift demand and supply for bond, equity and currency markets. **(PILO 10)**

- (4) The analytical processes involved in a macro-focused Asian equity investment strategy. **(PILO 10,12, 13)**
- (5) The use of data in an investment process such as: factor analysis, valuation analysis, and the interpretation of key macro-financial indicators. **(PILO 8)**

PREREQUISITES

No formal prerequisite. Students should have a basic knowledge of undergraduate macroeconomics and finance.. Some knowledge of introductory statistics would be helpful.

RECOMMENDED LEARNING RESOURCES

There is no required textbook. Reference Books: Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, 12th edition, Global edition, 2019; Mankiw, N.G., *Macroeconomics*, 10th Edition, 2019 (or earlier editions); and N. Gregory Mankiw, *Principles of Economics*, 8th edition, 2018, Cengage. Course notes and additional readings will be posted on Canvas before class. These may include past investment strategy reports published by your instructor.

HOMEWORK

Students will be required to submit 2 individual assignments for grading. Each assignment is worth 10% for a total of 20% of the total assessment. These will help prepare you for the exam. A group project worth 30% of the total assessment will also be included. **No late homework will be accepted!**

GROUP PROJECT

We imagine that each group is now working as part of the strategy team at an investment bank or asset manager. Each group will be assigned an economy with specific tasks and a macroeconomic scenario. You will be required to analyze the scenario and develop an investment opinion in the form of a strategy report. The group project will account for 30% of the total assessment. In order to reduce “free rider” activity in the group, a peer evaluation will be included in grade.

ASSESSMENT SCHEME

Task nature	Description	Weight
Final Exam	Examines all topics covered during the term	40%
Group Project	Applied macro investment project	30%
Individual Assignments	Two short assignments to be submitted for assessment	20%
Class Participation	Constructive contribution to class discussion	10%

CHAT GPT POLICY

Restricted use of ChatGPT is permitted. It is NOT permitted in exams or quizzes, which are closed book. In assignments or projects, students must reference the use and state clearly how they have used (prompts) ChatGPT in a statement in their written work, clearly stating which app they have used. Simply copy and pasting a ChatGPT result will be considered plagiarism, which is not permitted, but thoughtfully using ChatGPT content, appropriately referenced, is permitted.

FINAL EXAMINATION

The final exam (closed book) will be held during class on December 12, starting around 9:00am. There will NOT be make-up exams.. Only serious medical or personal emergencies may be accepted as legitimate excuses for a missed exam. If you fail to attend an exam for medical reasons, you must present a doctor's note. If you miss an exam without a valid reason, then you will receive a zero.

COURSE SYLLABUS

Please note this is a tentative schedule. Topic order may be changed and some topics may be removed or modified, based on time constraints, student progression, and continuous improvement.

Classes will be held Tuesdays 9am -12:20pm, Room 6602, Lift 31-32 unless stated otherwise.

Week	Date	Topics ¹	Reference ²
1	Oct 24	Intro to Macro Investing and Review of Key Concepts <ul style="list-style-type: none">• Introduction to Macro Investing (motivation, methodology, and outline of the course)• Review of Key Macroeconomic Concepts – Monetary Policy Transmission, ADAS, and ISLM models.	Course Notes, Ch.26, Ch.33**, Ch. 10-11*
2	Oct 31	Macro Analysis to Markets 1 – Bond Markets <ul style="list-style-type: none">• The Macro Factors that shift Bond Demand & Supply Curves – Sovereign and Corporate• Focus on Credit – Policy Mistakes, Liquidity, Default Risk (eg Energy Market) and QE• Role of Duration in Macro Investing	Ch.4-6, Course Notes
3	Nov 7	Macro Analysis – Open Economy ISLM (Mundell-Fleming) <ul style="list-style-type: none">• Develop the Closed Economy ISLM model to the Mundell-Fleming (ISLM open economy) model• Analyze International Economic Events like the Asia Financial Crisis and the Mexico Crisis.• Choosing the framework for Macro Investment Strategy	Course Notes, Ch.13*
4	Nov 14	Macro Analysis to Markets II– Foreign Exchange Markets <ul style="list-style-type: none">• Long-term models of exchange rate determination• The Macro Factors that Shift FX Demand & Supply• Analyzing the Venezuelan Macro Crisis, GFC and Brexit	Course Notes, Ch.18-19, Ch. 31**
5	Nov 21	Macro Analysis to Markets III – Equity Markets <ul style="list-style-type: none">• Inside an Asian Equity Strategy – Asset Allocation• Global Macro variables (Trade cycle, USD for example) impact certain markets in Asia more than others. Why?• Emerging Market vs Developed Market Choices.• Market and Sector Weighting – Valuation and Earnings.	Course Notes, Ch.7
6	Nov 28	Macro Analysis to Markets IV – Macro Investing with Data <ul style="list-style-type: none">• Key Indicators and the Investment/Risk Management Process – Economic Policy Uncertainty Index (Big Data Study), VIX, Credit Stress Indicators• Macro-Finance data analysis• Stock picking with factor analysis and macro overlays	Course Notes,

¹ Additional references may be provided for certain topics on Canvas or in class

² Chapter references are to Mishkin, "The Economics of Money, Banking, and Financial Markets" (12th Edition), 2019, unless with asterisk* for Mankiw, N.G., Macroeconomics, 10th Edition, 2019 or earlier editions, or two asterisk ** for N. Gregory Mankiw, Principles of Economics, 8th edition, 2018, Cengage.

		<ul style="list-style-type: none"> “Equity Income” Investment Decisions with Macro 	
7	Dec 5	<p>Guest Lecture – Mr Aleksey Mironenko (Leo Wealth, Ex-Blackrock Head of Institutional ETF Distribution) – Role of ETF’s in macro investment strategy.</p> <p>Thematics in an Asian Investment Process</p> <ul style="list-style-type: none"> Short lecture on the Role of Themes in Macro Strategy Deglobalization, High-Tech Import Substitution in China, Geopolitical Scenarios on the Korean Peninsula Use of Thematics in Stocks Selection Process 	Course Notes, Speaker Notes
8	Dec 12	Final Exam	

ASSESSMENT TIMETABLE

Week	Date	Groups	Topics
1	Oct 24		<i>Assignment 1 Posted</i>
2	Oct 31		
3	Nov 7		Assignment 1 Deadline, Assignment 2 Posted
4	Nov 14		
5	Nov 21		Assignment 2 Deadline
6	Nov 28		Outline of Group Project Due (Nov 28), Group Meetings on Zoom (Nov 29-Dec 4) – Feedback for Final Report
7	Dec 5		
8	Dec 12		Final Exam
	Dec 18		Group Project Due

SUPPLEMENTARY READINGS

[Guest Contribution: “Is China’s growth rate negative?” | Econbrowser, John G. Fernald, Jack Mueller and Mark M. Spiegel \(Federal Reserve Bank of San Francisco\), 2022](#)

[Emerging Economies Must Prepare for Fed Policy Tightening – IMF Blog](#)

[The IMF should suspend interest rate surcharges on debt-burdened countries | PIIE](#)

[A Global Database of Inflation \(worldbank.org\)](#)

[Stagflation: A Primer — Money, Banking and Financial Markets \(moneyandbanking.com\)](#)

[World’s Most Bubbly Housing Markets Flash 2008 Style Warnings \(bloombergquint.com\)](#)

ACADEMIC INTEGRITY POLICY

Honesty and Integrity is central value in HKUST. Please be aware of the importance to maintain a high standard of honesty in assignments, group projects and examinations in this course. Please familiarize yourself to the university rules and the HKUST academic honor code by visiting following website: <http://www.ust.hk/vpaa/integrity/>