

HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY



Department of Economics

ECON 6110R

MACRO INVESTMENT STRATEGY

(Fall II, 2024-25)

INSTRUCTOR

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CLASS SCHEDULE

Lecture time is Monday 9:00 am – 12:20 pm, unless stated otherwise. Venue is LSK 1007.

ATTENDANCE POLICY

According to ECON department policy and HKUST business school standards, satisfactory attendance is required in all MSc courses. In this course attendance will be taken after the add-drop period. In line with the policy of maximum 15% absence from class, more than 1 lecture absence will result in an automatic grade reduction. Beyond this, attendance will be a factor in the class participation grade.

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, and 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 is 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.

COURSE INTENDED LEARNING OUTCOMES (CLIO's)

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. Course notes and additional readings will be posted on Canvas before class. These may also 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 12.5% for a total of 25% of the total assessment. These will help prepare you for the exam. **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 interim report and presentation will account for 15% of the total assessment and the final report will account for 25% of total assessment.. In order to reduce “free rider” activity in the group, a peer evaluation will be included in grading the group project. The presentations will be done on Zoom privately with each group and me.

FINAL EXAMINATION

The final exam (closed book) will be held during class on December 9, 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. The final is worth 25% of the final grade.

ASSESSMENT SCHEME

Task nature	Description	Weight
Final Exam	Examines all topics covered during the term (PILO 8, 10, 11, 12, 13)	25%
Group Project Presentation	Interim Report and Project Presentation -includes peer evaluation (PILO 8, 11, 12, 13)	15%
Group Project Report	Applied macro investment project report -includes peer evaluation (PILO 8, 10, 11, 12, 13)	25%
Individual Assignments	Two short assignments to be submitted for assessment (PILO 10, 11, 12)	25%
Class Participation	Constructive contribution to class discussion (PILO 10, 11, 12, 13)	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.

RUBRICS FOR FINAL GRADE

- **Excellent Performance (A range):** Demonstrates a deep understanding of the economic and finance tools covered in the course. Exhibits exceptional skills in utilizing the taught techniques to formulate macro views and to understand and project financial market implications based on such economic trends. Contributes well in the group project with excellent verbal and written presentation and performs very well in class participation and individual assignments and final exam.
- **Good Performance (B range):** Shows a solid grasp of economic and finance tools covered in the course. Shows good skills in formulating macro projections and links these well to the likely direction of asset markets. Performs well in the final exam, assignments and contributes well in group work and presentations.
- **Marginal Performance (B-, C+, C):** Has basic knowledge of the macro-finance skills in the course, together with practical application. Shows limited skills in utilizing them. Acceptable performance in assignments with limited class participation and has a solid performance in the exam.
- **Fail:** Demonstrates insufficient understanding of the macro-finance techniques covered in the course. Lacks skills in utilizing them in real world examples. Unsuccessful in the assignments and/or group work/final exam with little or no class participation

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 Mondays 9am -12:20pm, Room LSK 1007 unless stated otherwise.

Week	Date	Topics ¹	Reference ²
1	Oct 21	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 –ADAS, ISLM models, Mundell-Fleming, PPP-QTM. 	Course Notes, Ch.26, Ch. 10-11*, 13*
2	Oct 28	Macro Analysis to Markets I – 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 4	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 	Course Notes, Ch.18-19,
4	Nov 11	Guest Lecture – Mr Thomas Taw (Blackrock, Head of Investment Strategy EII APAC) – Macro and Asian Investment Strategy 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, Speaker Notes, Ch.7
5	Nov 18	Thematics in an Asian Investment Process <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, Ch.7
6	Nov 25	Guest Lecture – Mr Patrick Pan (Daiwa Securities (HK) China Equity Strategist) 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 • “Equity Income” Investment Decisions with Macro 	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.

7	Dec 2	Guest Lecture – Mr Aleksey Mironenko (Leo Wealth) – Role of ETF’s in macro investment strategy. Macro Investment Strategy in Practice Using the Macro-Financial Analytical Framework and Investment Process Developed in the course, providing several examples of Real World Decision Making as an Asia-Pacific Investment Strategist & Portfolio Manager	Course Notes, Speaker Notes
8	Dec 9	Final Exam	

ASSESSMENT TIMETABLE

Week	Date	Groups	Topics
1	Oct 21		<i>Assignment 1 Posted (Oct 24/3)</i>
2	Oct 28		
3	Nov 4		Assignment 1 Deadline, Assignment 2 Posted
4	Nov 11		
5	Nov 18		Assignment 2 Deadline
6	Nov 25		Interim Report Due. <i>Zoom meetings soon after for presentation and feedback for final report</i>
7	Dec 2		
8	Dec 9		Final Exam
	Dec 16		Group Project Due

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/vpao/integrity/>