

August 2023



CLOCKTOWER  
STRATEGY

# The Whole Earth Report

August 2023

MARKO PAPIC, CHIEF STRATEGIST  
[MARKO@CLOCKTOWERGROUP.COM](mailto:MARKO@CLOCKTOWERGROUP.COM)

310. 458.2003  
[clocktowergroup.com](http://clocktowergroup.com)

Santa  
Monica  
CA 90401

225 Santa  
Monica  
Blvd. FL10



# High Level Summary

- **Tactical:** The US economy is far more robust than anyone thought. But our call that there would be no recession in 2023 was not that controversial. Our call that there is no landing – soft, hard, etc. – is.
- **US Presidential Election:** All right, so if there is no recession, then inflation is likely to remain sticky and the Fed hawkish, right? Wrong. The US election is getting in the way of hawkishness!
- **China:** Beijing's policy response following the July Politburo meeting has thus far been disappointing, leading to an about-face in investor sentiment over the past few weeks. We have not seen a decisive policy pivot yet and therefore have little confidence in the narrative that the bearish tide has turned.
- **Taiwan Presidential Election:** The 2024 Taiwanese presidential election is a critical geopolitical event that will define whether the island will continue to be a willing chessboard for the proverbial match between China and the US. Compared with another DPP win, what is more unnerving for Beijing may be the secular decline of the mainland-friendly KMT.



Tactical:

*What if There Is No Landing???*

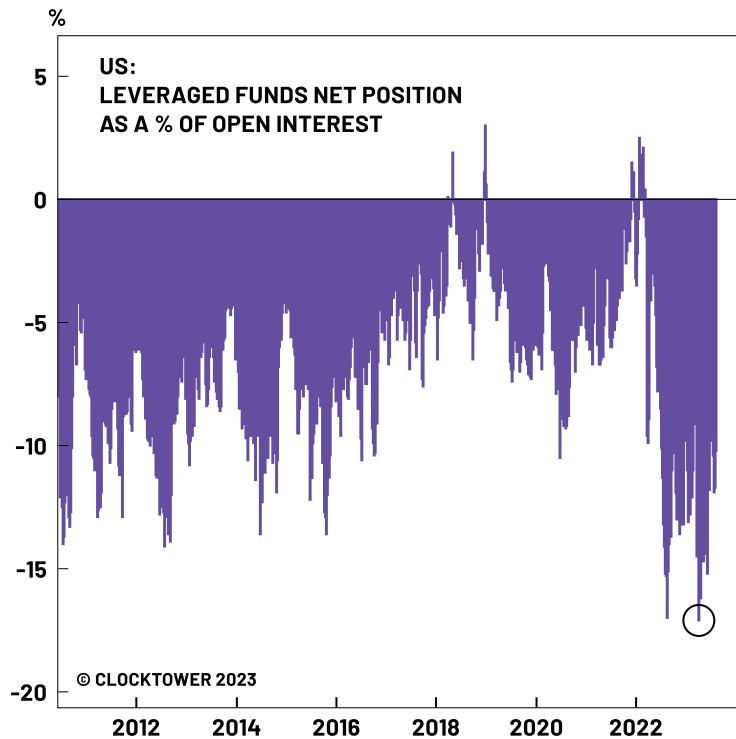
*Hard... Soft... None!*



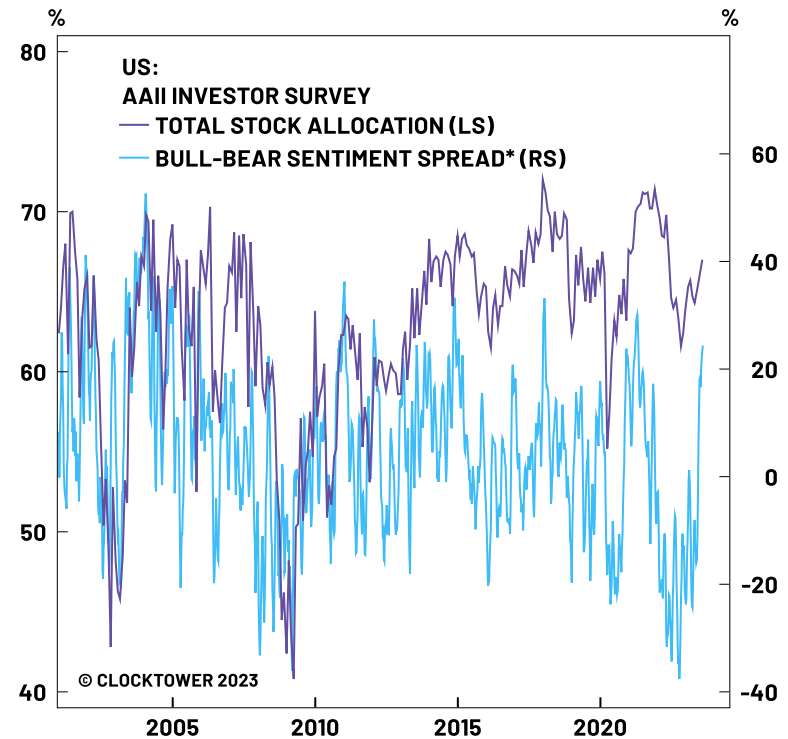
# Tactical | Bears Got Taken to the Woodshed

Macro investors have been too bearish for much of 2023, missing the most important macro story of the decade: **the US fiscal stimulus lives on in the checking deposits of American consumers.**

Both the Macro Mavens...



... And Pros... Were Wrong

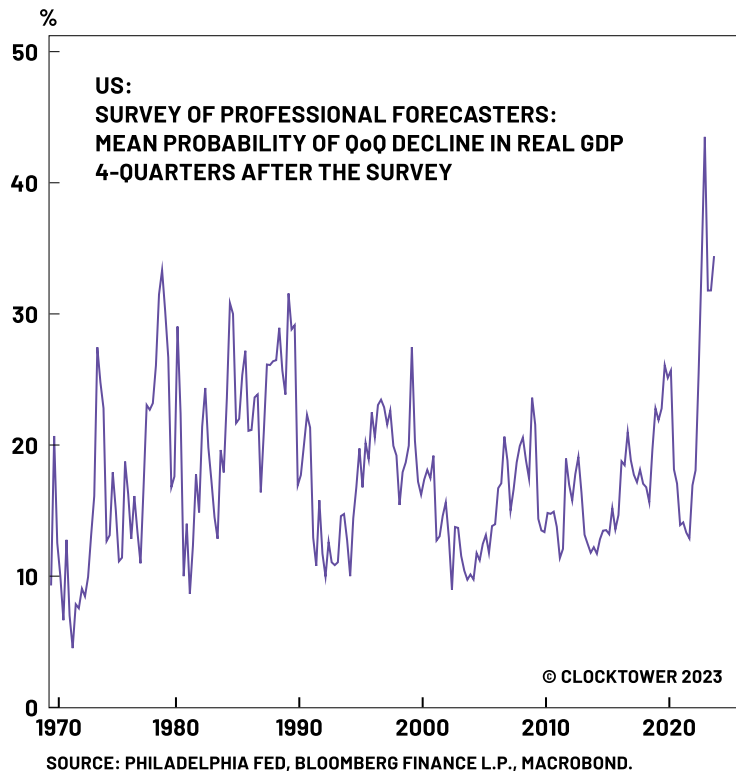




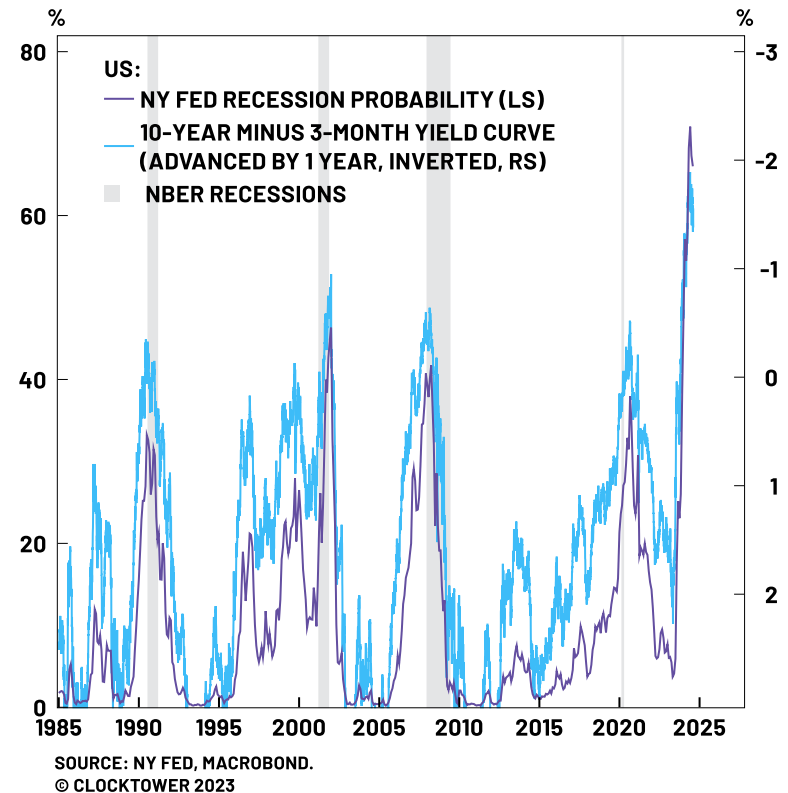
# Tactical | Economists Got it Wrong Too!

In January 2023, professional economic forecasters were never more certain that a recession was imminent. We would normally make fun of that fact, **but the yield curve *was* saying the same thing.**

Professional Forecasters and the Yield Curve...



...Agreed on Recession Probability

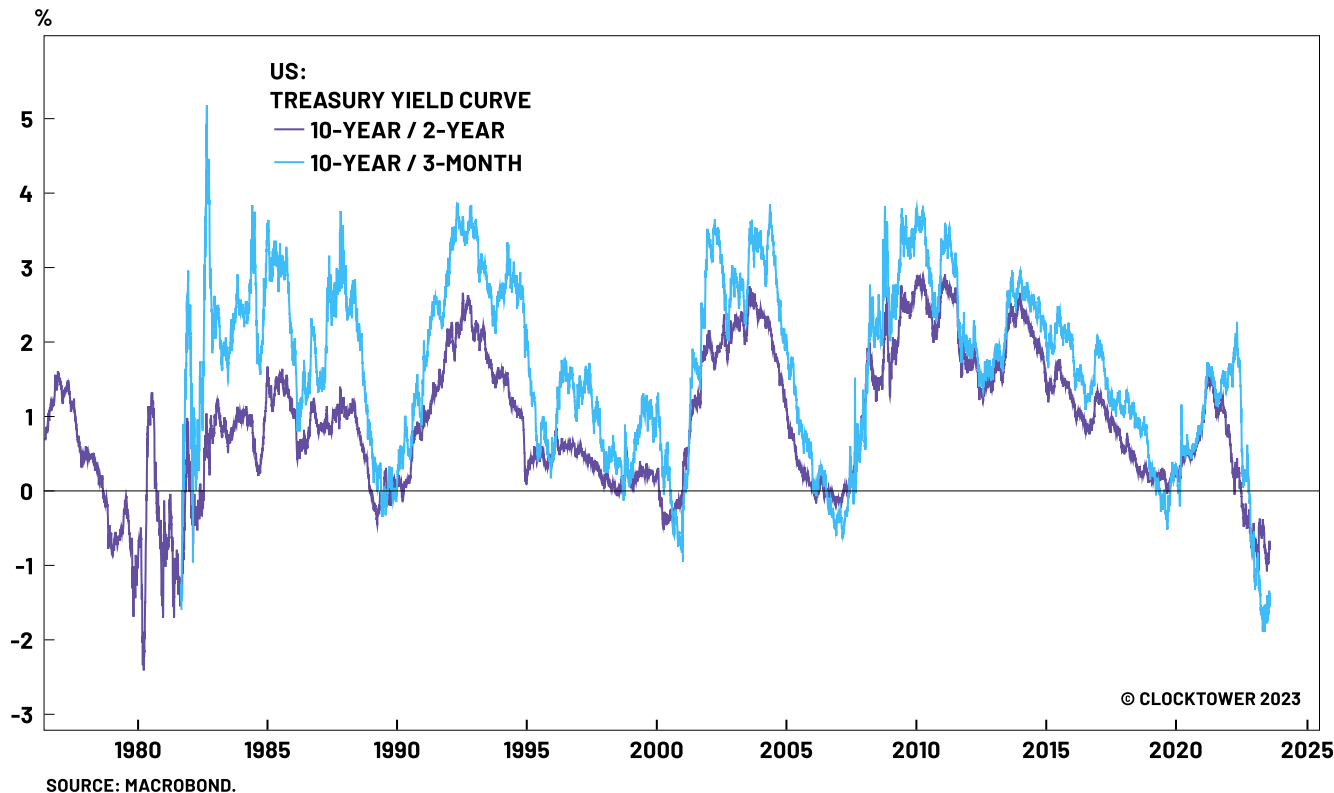




# Tactical | Is This the First Time the Yield Curve Was Wrong?

Instead of capitulating on the recession call, most economists and market participants are simply pushing it off into the future. **As such, the yield curve can still steepen violently.**

The Yield Curve May Be in for a Surprise!

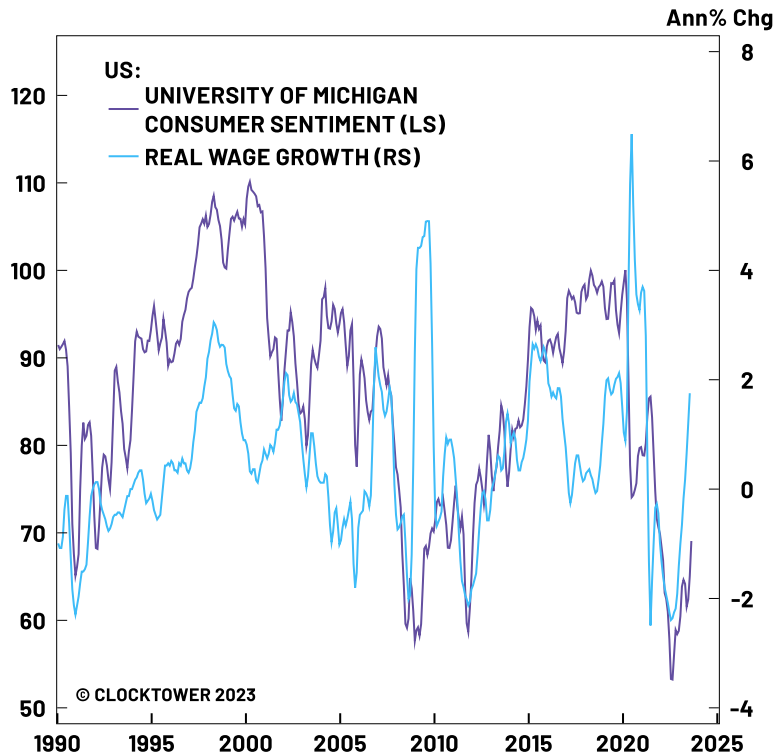




# Tactical | A Recession and Real Wage Surge Are Not...

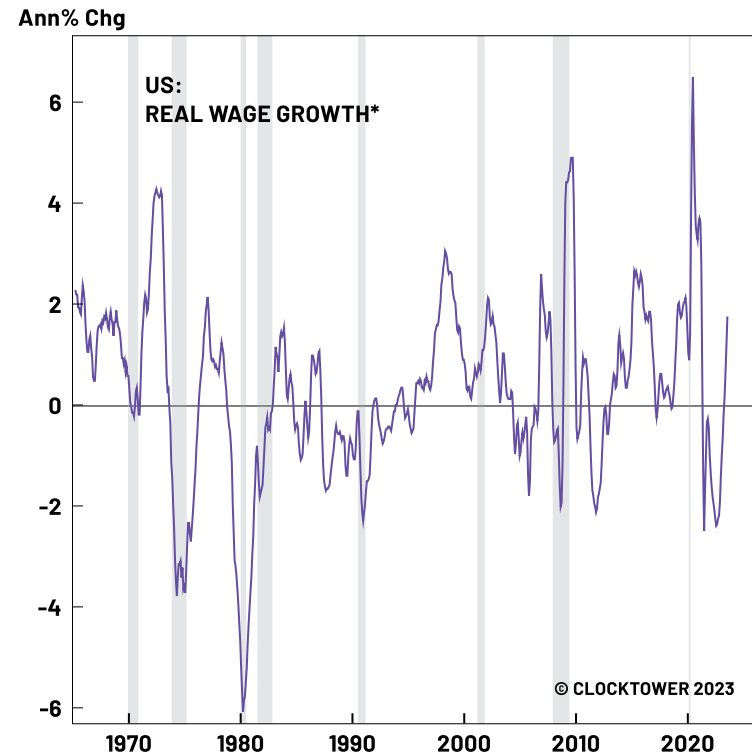
... Complementary. It would be highly unusual for a recession to occur with real wages robustly positive. In fact, it would be the first time since 2001 (which itself was a very shallow recession).

Real Wages Are Surging...



NOTE: BOTH SERIES SHOWN AS A 3-MONTH MOVING AVERAGE.  
SOURCE: MACROBOND.

... Which Makes a Recession Unlikely



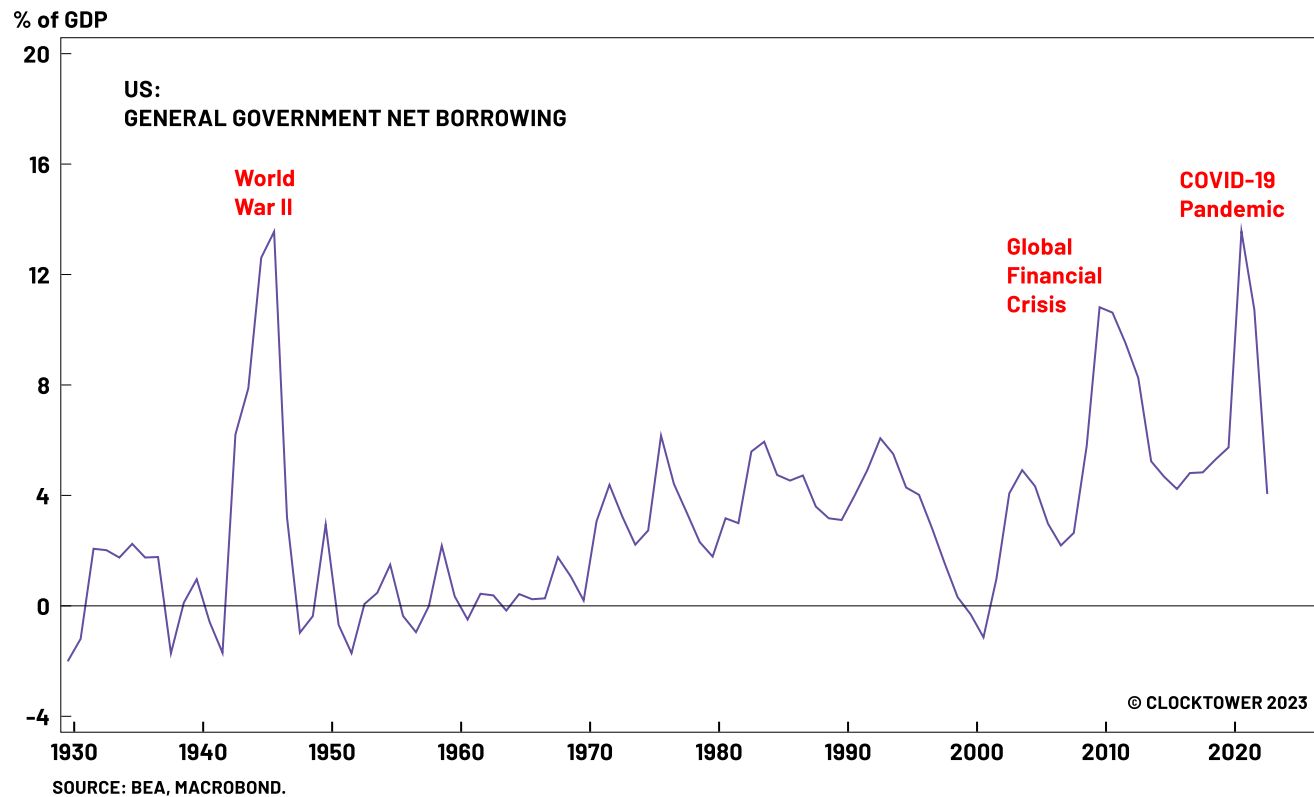
\* SHOWN AS A 3-MONTH MOVING AVERAGE.  
NOTE: SHADING DENOTES NBER RECESSIONS.  
SOURCE: MACROBOND.



# Tactical | What Is Going on?

This is simple. As we have been telling clients since 2020, *it is all about fiscal policy.*

The Pace of Fiscal Policy Has Been Gargantuan



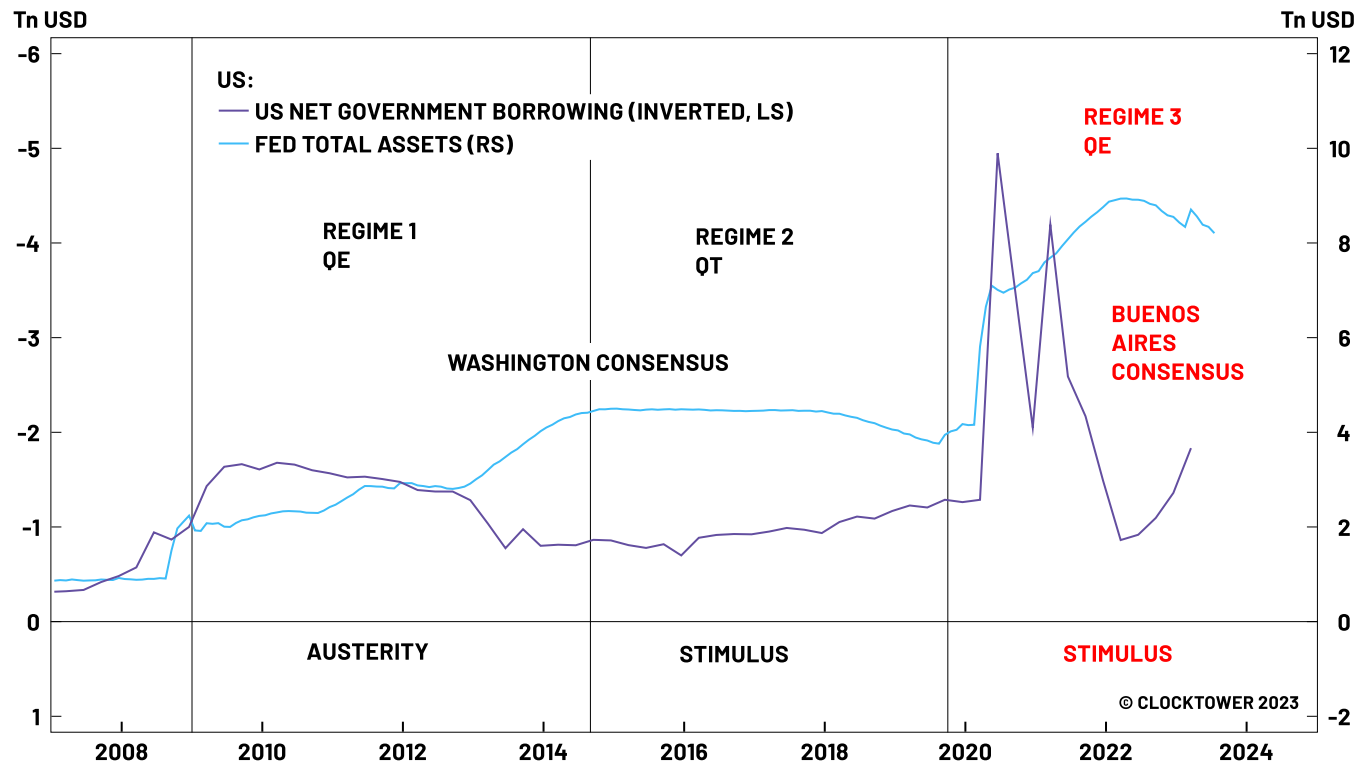




# Tactical | The Buenos Aires Consensus Is Still with Us

We cannot explain the post-2020 environment without referencing the paradigm shift in American domestic fiscal and monetary policy. Washington Consensus has been abandoned.

Washington Consensus Is Dead! Long Live the Buenos Aires Consensus



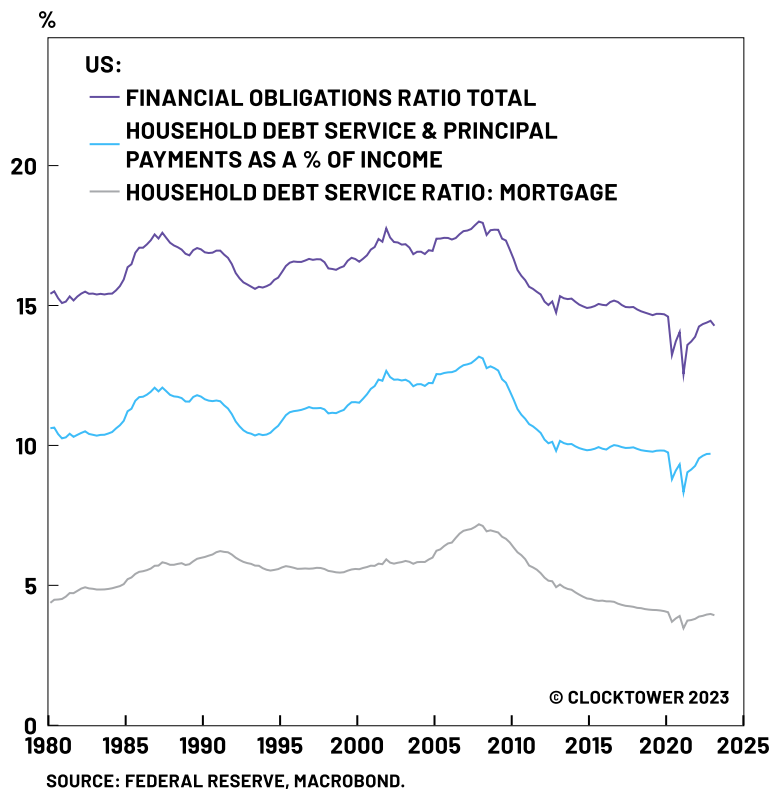
SOURCE: MACROBOND.



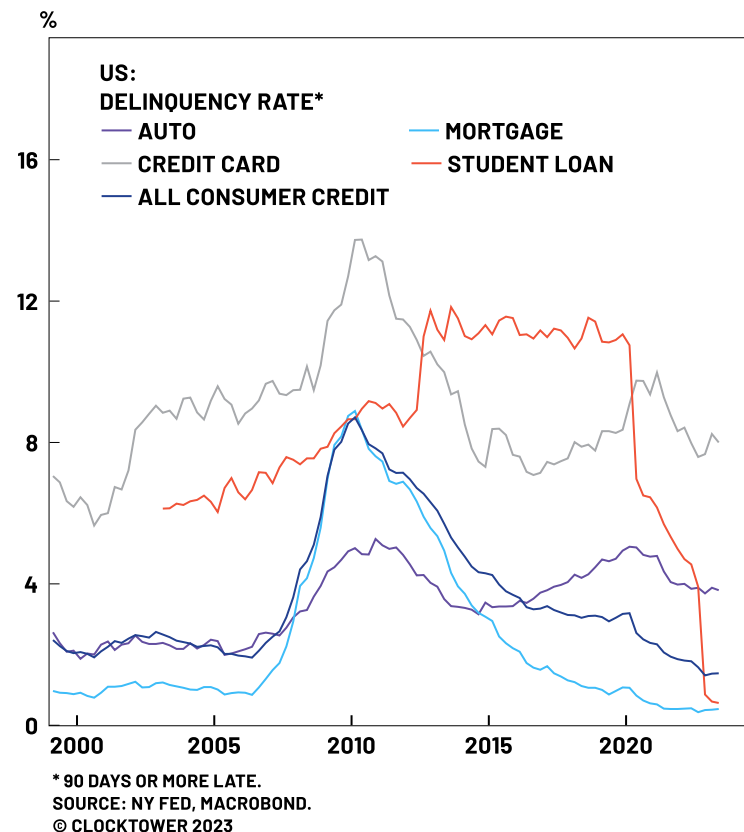
# Tactical | Fiscal Stimulus “Landed” on Delevered Consumers

Fiscal stimulus is one part of the story. The other is the preceding decade of deleveraging that created today's macro context. Secular stagnation laid the groundwork for today's roaring twenties.

American Households Are De-Levered...



...With Lowest Levels of Leverage Ever

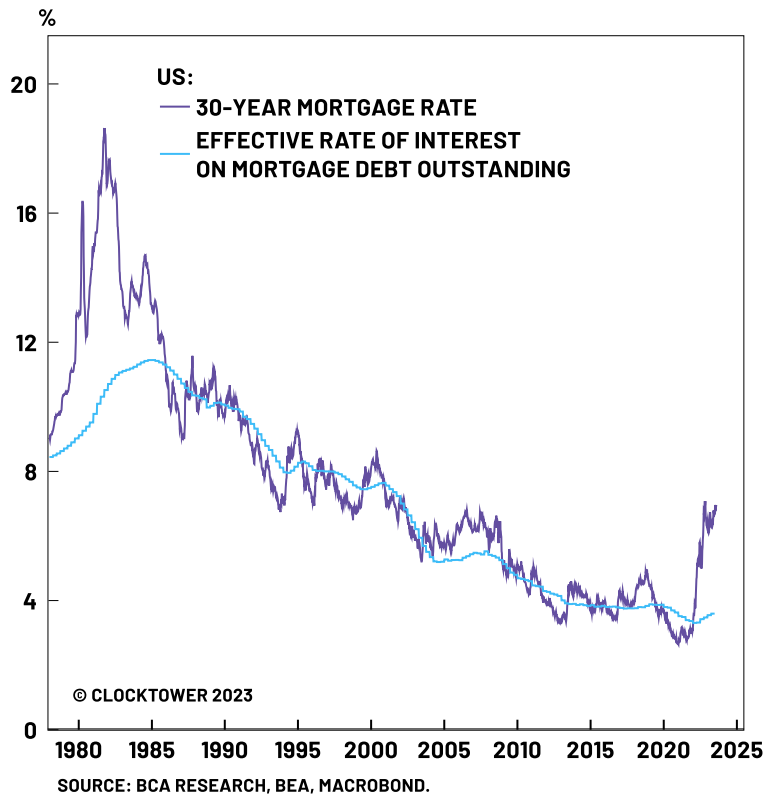




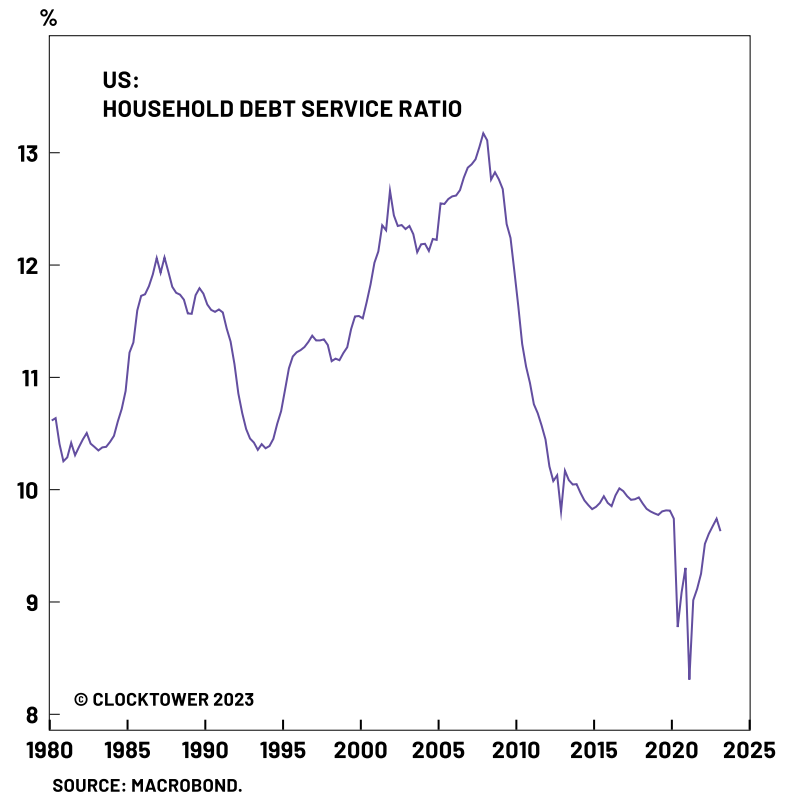
# Tactical | American Households Don't Care About the Fed!

Due to the change of household behavior post-GFC – fixed mortgages, souring view of HELOC borrowing – most US households are simply impervious to the increase in rates.

Mortgage Rates Are Down, Not Up!



And Thus, Americans Are Not Impacted by FFR

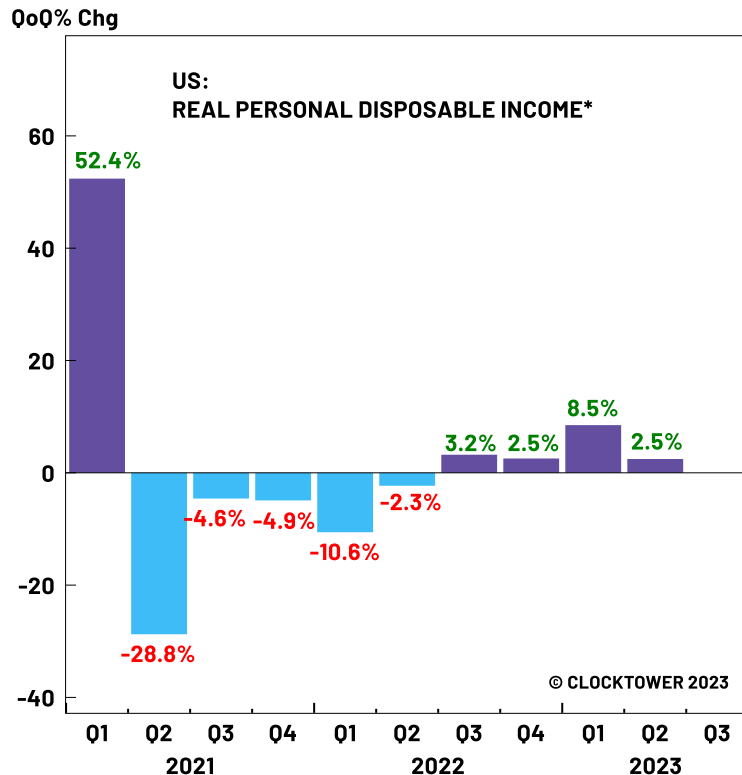




# Tactical | Consumption: Households Are Flush With Wealth

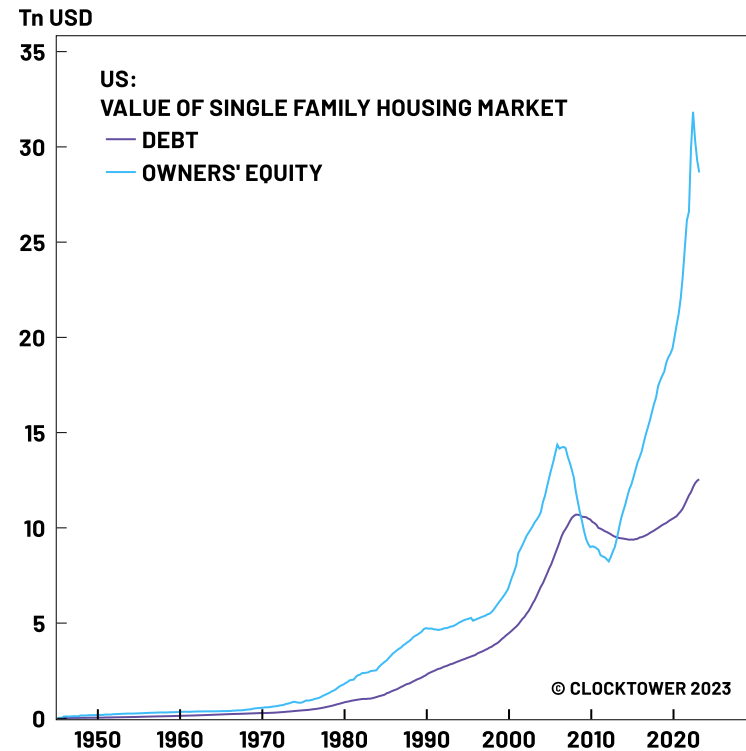
Consumers have bridged multiple quarters of negative real wage growth with access to credit, ample savings, and the massive wealth effect from real estate.

Real Wage Growth Has Been Negative, True...



\* QoQ ANNUALIZED GROWTH.  
SOURCE: MACROBOND.

...But it Has Been Offset With Real Estate Wealth



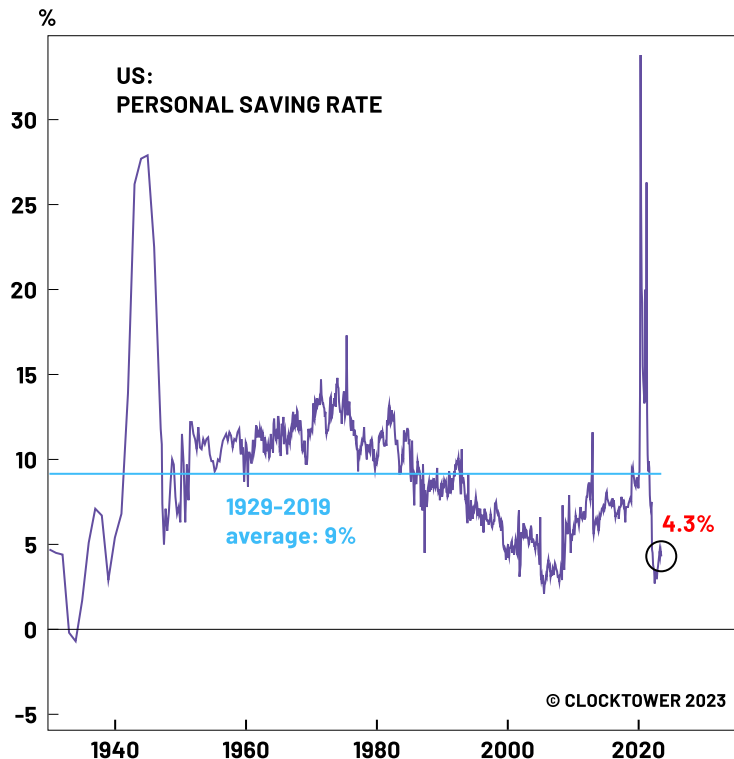
SOURCE: FEDERAL RESERVE, MACROBOND.



# Tactical | No, Savings Rate Will Not Go Higher

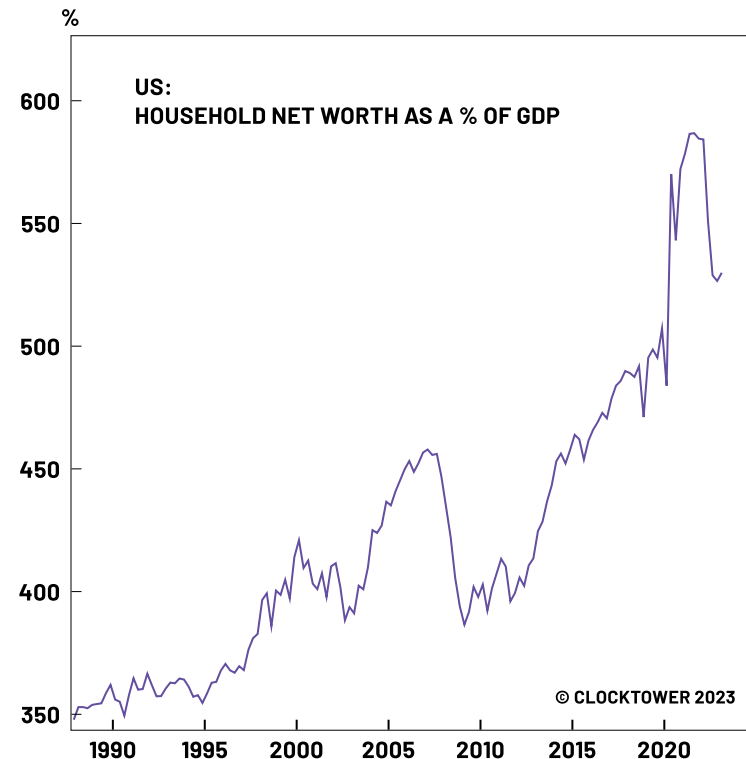
There is no reason for US households to return to 8-12% savings rate. For what reason? An epic pandemic saw their household net worth *increase*. What do you think the lesson of that recession is?

Don't Expect Saving Rate to Rise...



SOURCE: BofA GLOBAL INVESTMENT RESEARCH, MACROBOND.

... When Consumers Learn to YOLO!!!!



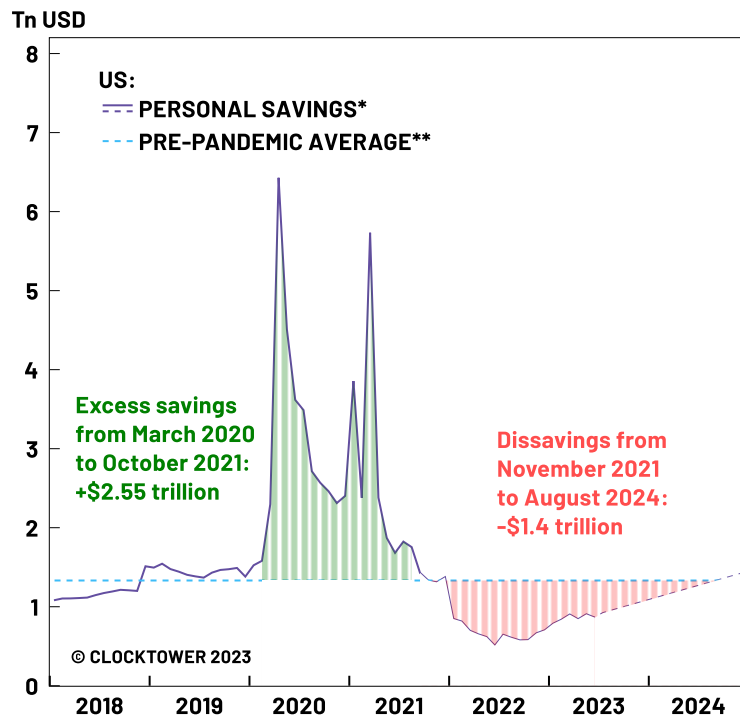
SOURCE: FEDERAL RESERVE, MACROBOND.



# Tactical | Fiscal Stimulus *Lives on... in Household Deposits*

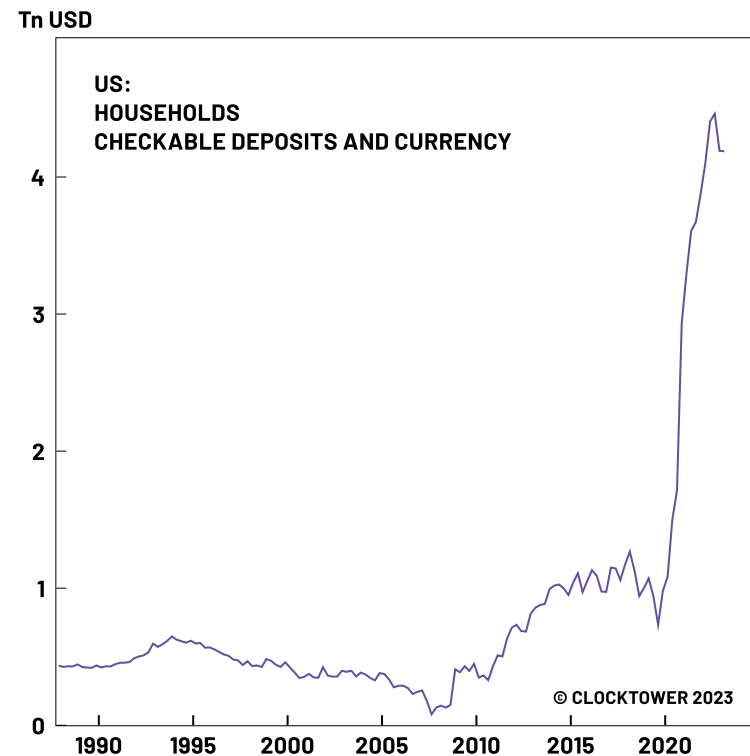
The problem with discussing fiscal policy *going forward* is that it ignores *the past*. The gargantuan – and unnecessary – fiscal stimuluses of 2020 and 2021 live on... in household checking accounts!

Dissaving Is Set to End Soon...



\* FORECAST BASED ON A LINEAR EXTRAPOLATION SINCE JUNE 2022.  
\*\* JANUARY 2018 - FEBRUARY 2020.  
SOURCE: MACROBOND.

...Leaving Vast Majority of Americans with Cash



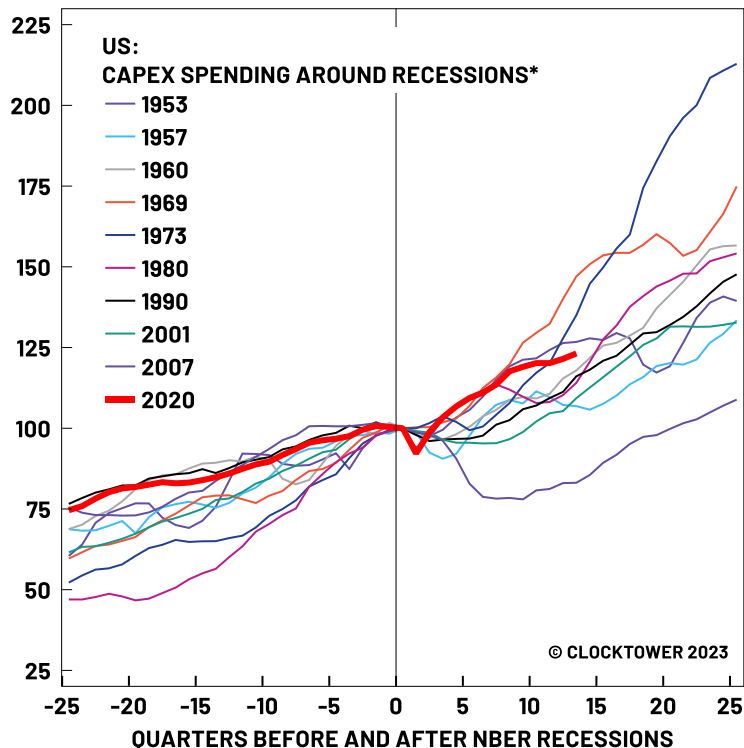
SOURCE: FEDERAL RESERVE, MACROBOND.



# Tactical | Corporate Investments Held Out

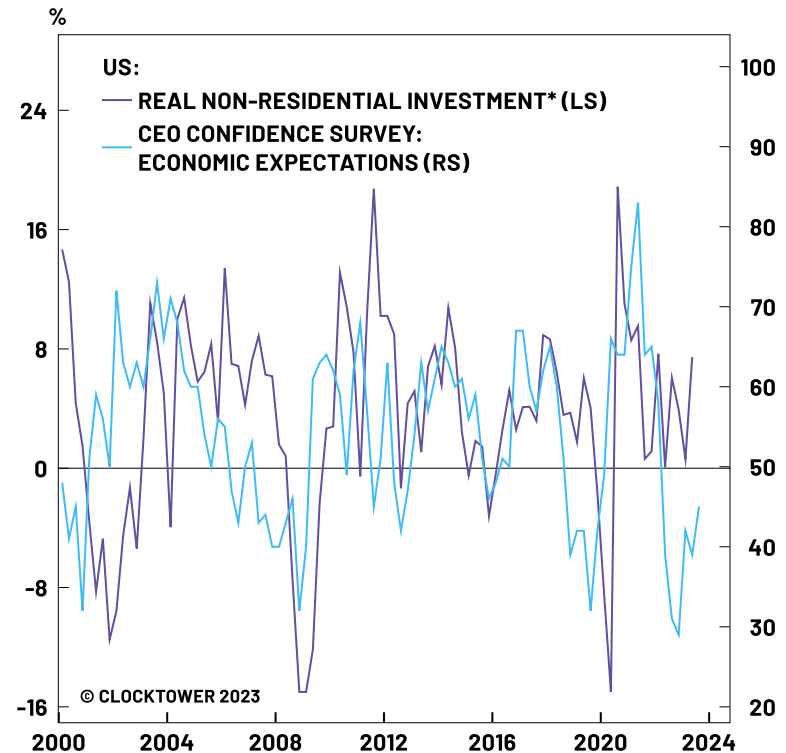
This is a capex-led cycle, motivated by the need to diversify supply chains, lack of investment over the past cycle, and the green transition. **As such, capex is holding up despite the sour C-suite mood.**

This Remains a CAPEX-led Cycle



\* REBASED THE START OF RECESSION = 100.  
SOURCE: MACROBOND.

CEOs Are Depressed, But Keep Investing



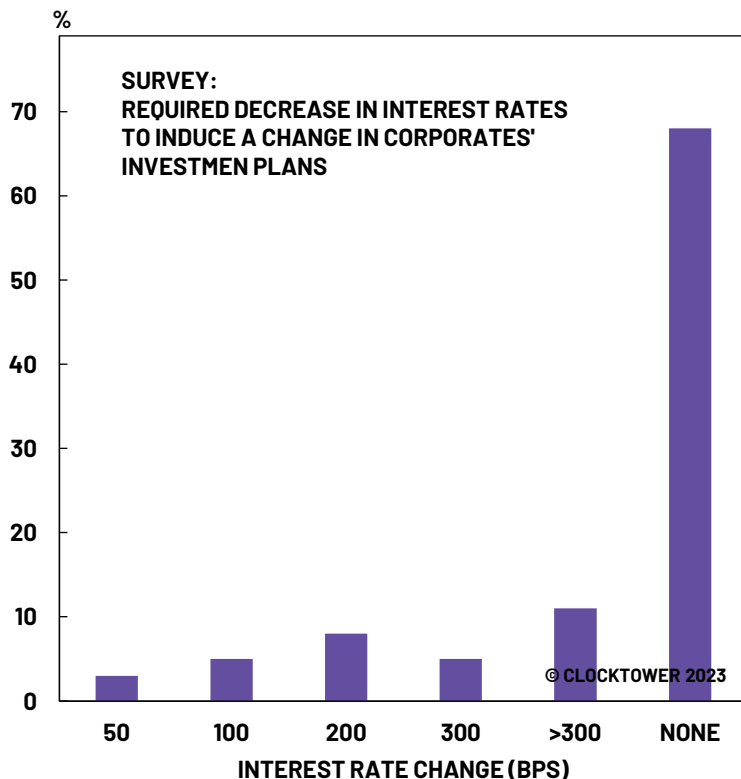
\* Q/Q ANNUALIZED, TRUNCATED AT -15.  
SOURCE: MACROBOND.



# Tactical | Corporate Hurdle Rates Are Much Higher

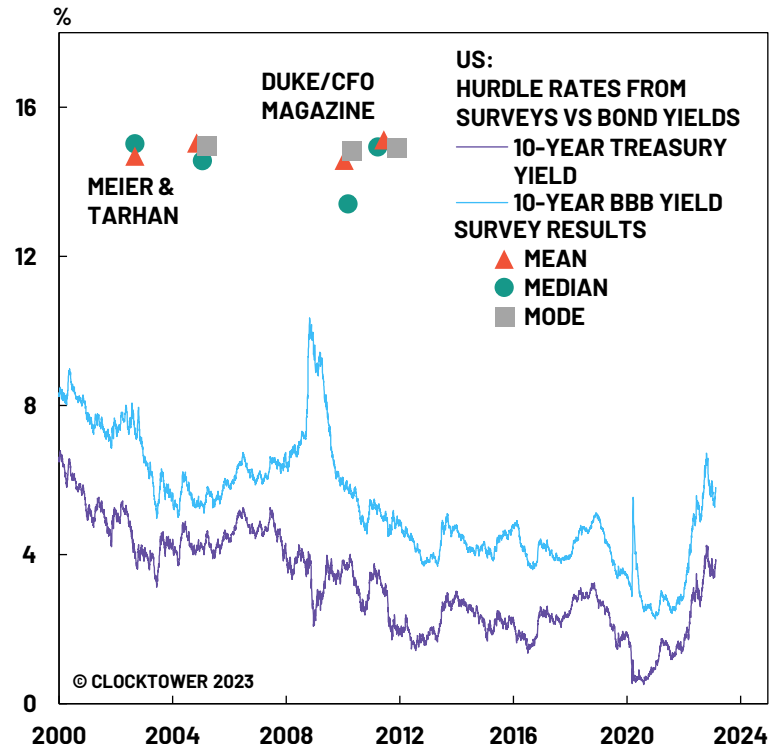
Corporate hurdle rates are often much higher than investors think. With consumers flush with cash and spending on goods and services, CEOs can stay depressed, but they cannot stop investing.

## Corporates Do Not Obsess about Interest Rates...



SOURCE: DUKE CFO MAGAZINE GLOBAL BUSINESS OUTLOOK.

## ...Particularly When a Capex-Led Cycle Is Afoot



SOURCE: DUKE CFO MAGAZINE GLOBAL BUSINESS OUTLOOK; MEIER AND TARHAN (2007), "CORPORATE INVESTMENT DECISION PRACTICES AND HURDLE RATE PREMIUM PUZZLE."

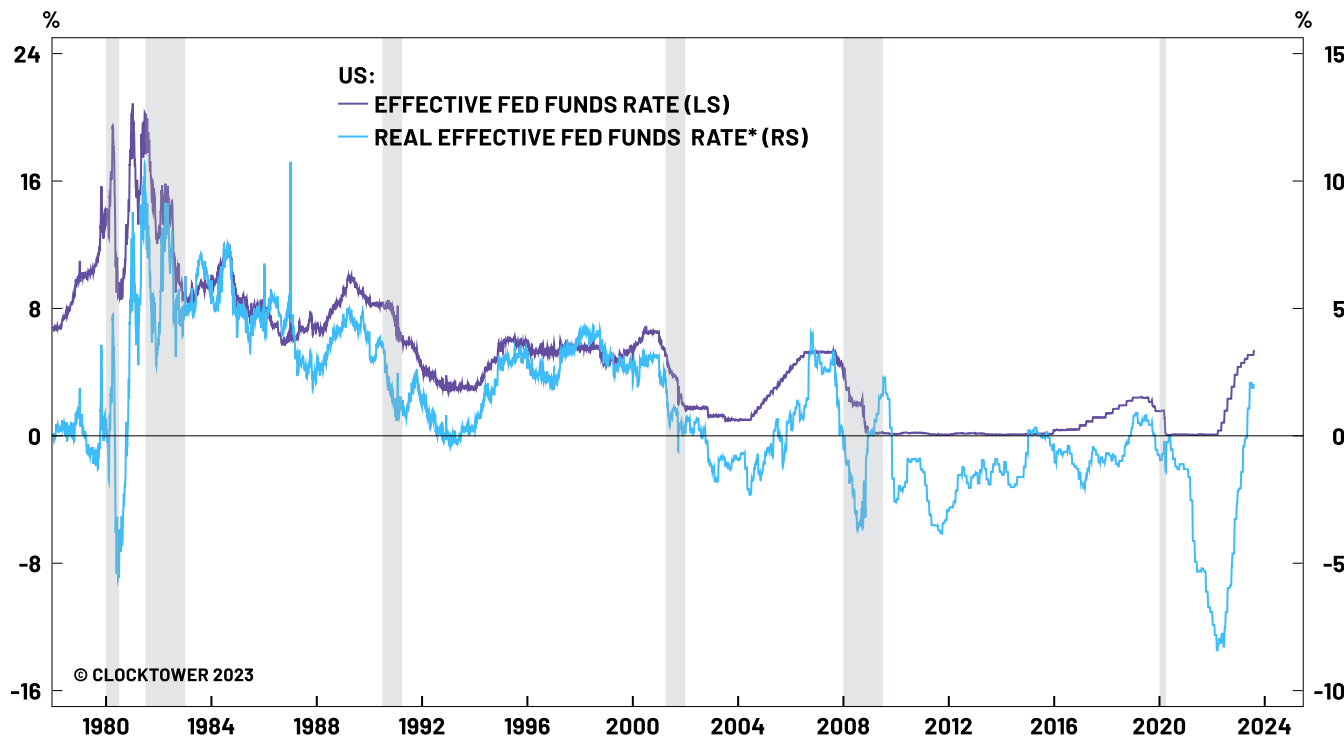




# Tactical | Real Rates Have Surged... but Still Lower than FFR

The real fed funds rate just turned positive. The economy does not simply *collapse* the moment real rates turn positive. Often, it takes years for rates to work their way into the economy.

Recessions Do Not Occur the Instant that Real Rates Turn Positive, it Often Takes Years



\* FED FUNDS EFFECTIVE RATE MINUS CPI YOY.

NOTE: BOTH SERIES SHOWN AS A 1-WEEK MOVING AVERAGE; SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

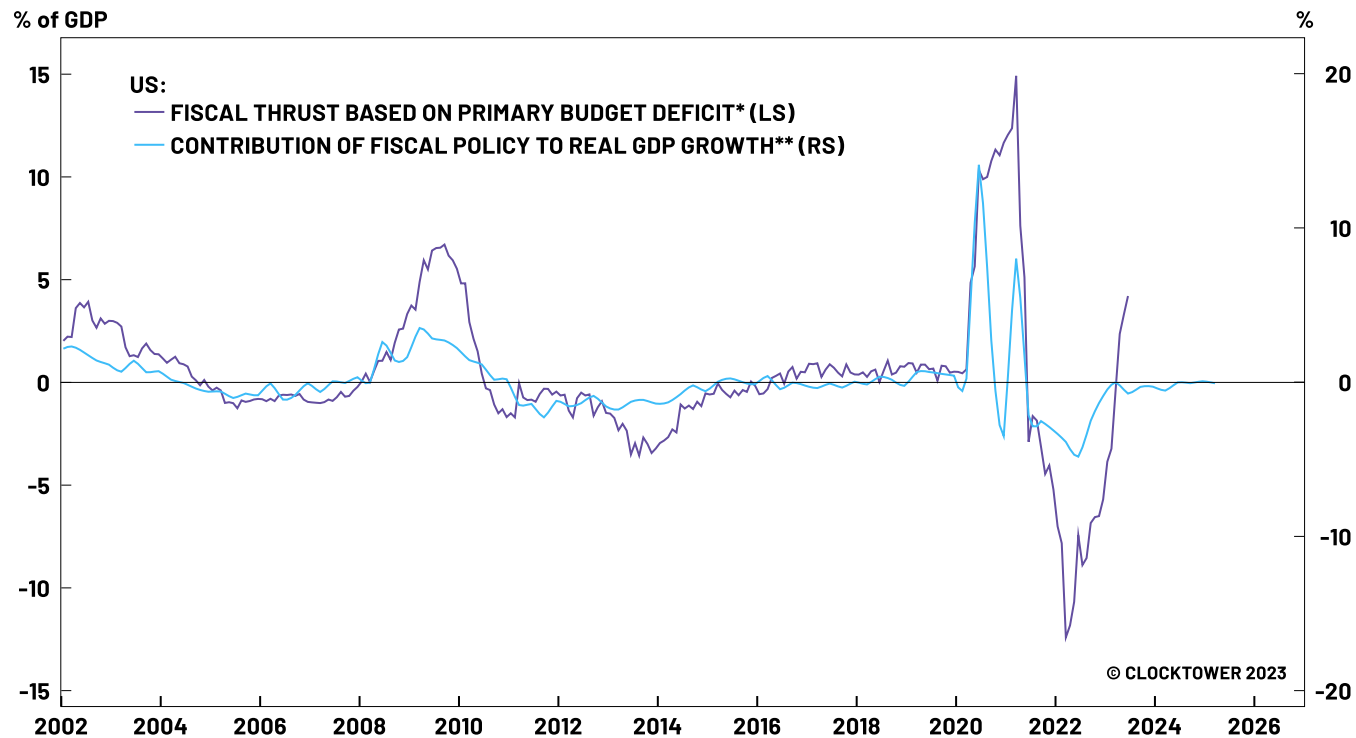
SOURCE: NORBURY PARTNERS, MACROBOND.



# Tactical | What Fiscal Cliff?

The technical recession in 2021 was likely induced by fiscal contraction.  
There is no such contraction ahead for 2024.

## Fiscal Policy Will Remain Muted in 2024



\* ANNUAL CHANGE IN PRIMARY BUDGET DEFICIT AS % OF GDP.

\*\* HUTCHINS CENTER FISCAL IMPACT MEASURE.

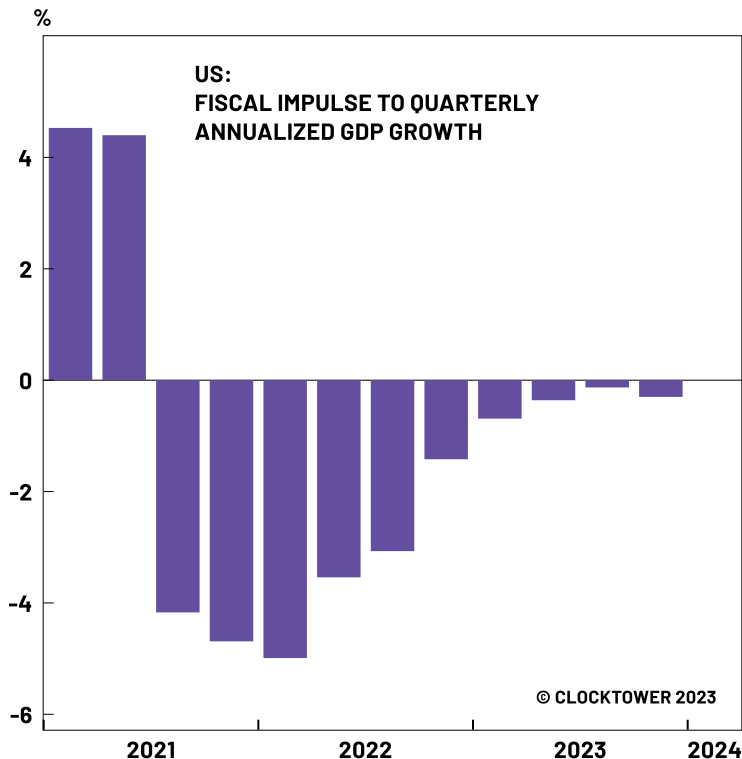
SOURCE: BROOKINGS INSTITUTION, MACROBOND.



# Tactical | Fiscal Austerity Will Likely Be More Bark than Bite

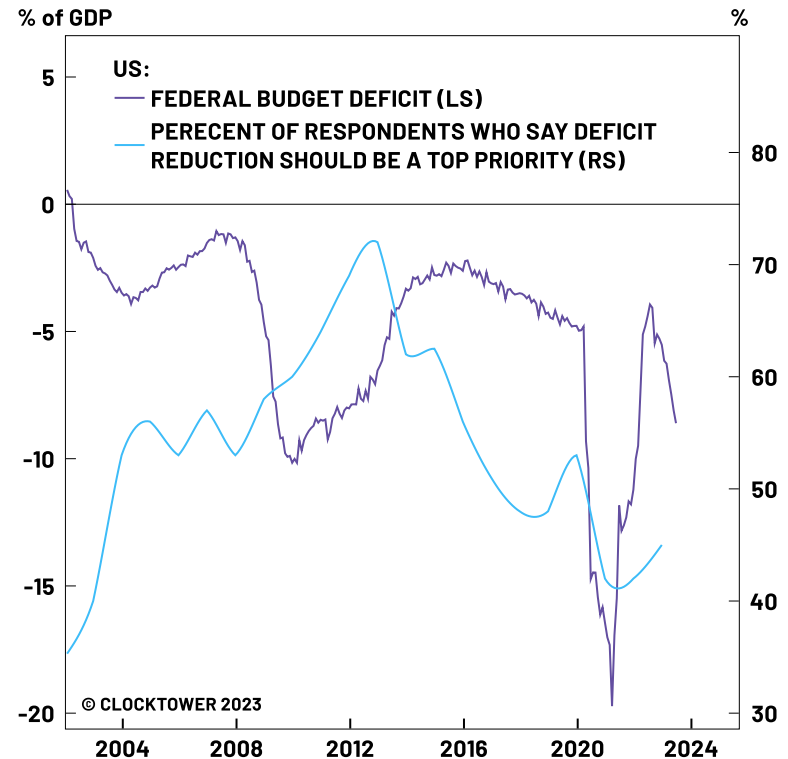
The technical recession in 2022 was induced by the deeply negative fiscal thrust. That is unlikely to repeat in 2023 given that the median voter also does not want austerity.

Deeply Negative Fiscal Thrust in 2022...



SOURCE: GOLDMAN SACHS GLOBAL INVESTMENT RESEARCH, MACROBOND.

...Is Unlikely to Repeat Itself in 2023 and 2024



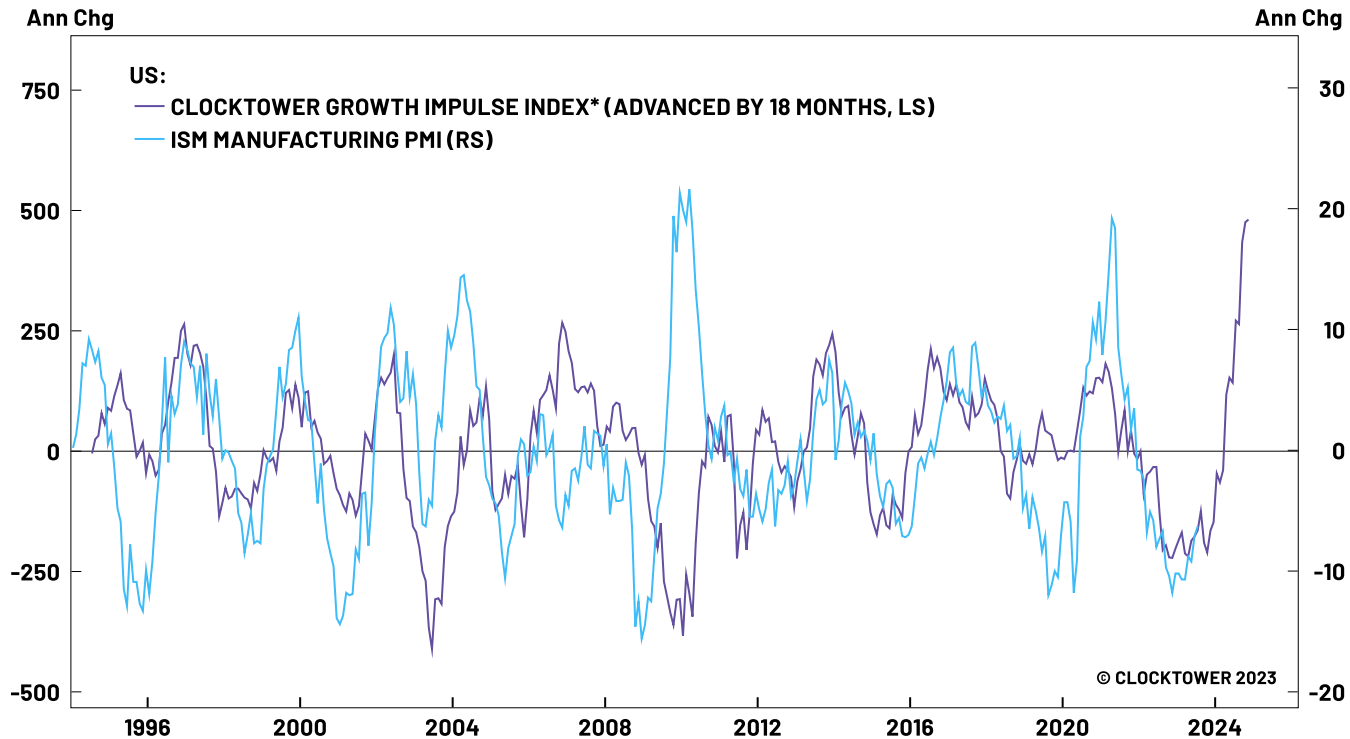
SOURCE: PEW RESEARCH, MACROBOND.



# Tactical | Putting it All Together? YOLO!

The chart below... is... insane.

Recession in 2024? Mmmmkay.



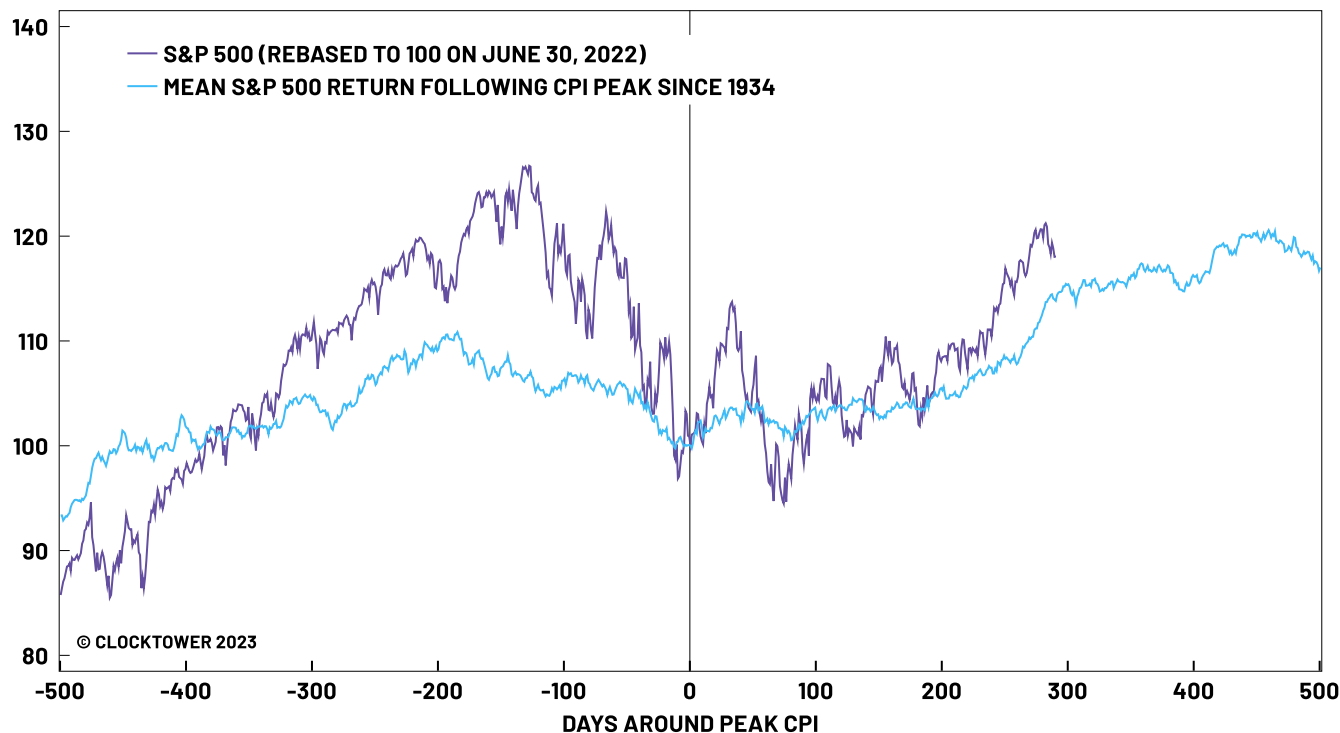
\* BASED ON COMMODITY PRICES, US YIELD CURVE, AND REAL INTEREST RATES.  
SOURCE: CLOCKTOWER CALCULATIONS, MACROBOND.



# Tactical | The Only Thing that Has Mattered Is CPI

The only factor that has really mattered has been inflation. Not geopolitics. Not financial conditions. Nothing. Just the falling CPI. We don't think this changes soon.

The Market Has Climbed the Proverbial Wall



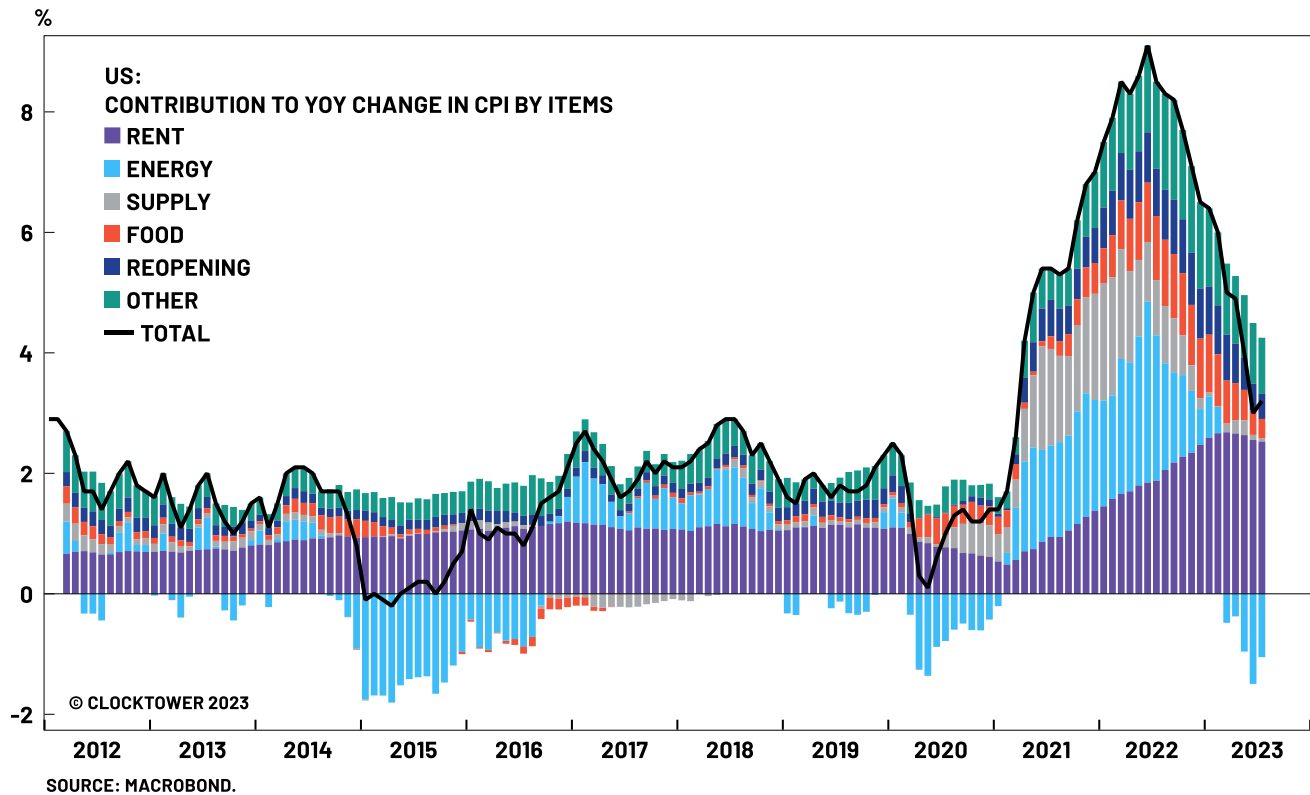
SOURCE: BIENVILLE CAPITAL, MACROBOND.



# Tactical | Rent Is the Last Brick in the Wall

Our high conviction view is that rental inflation will fall over the next 12 months. It is the only component of inflation that has not seen a significant correction yet.

CPI Will Collapse to ~2.5% in Twelve Months *Without a Recession*

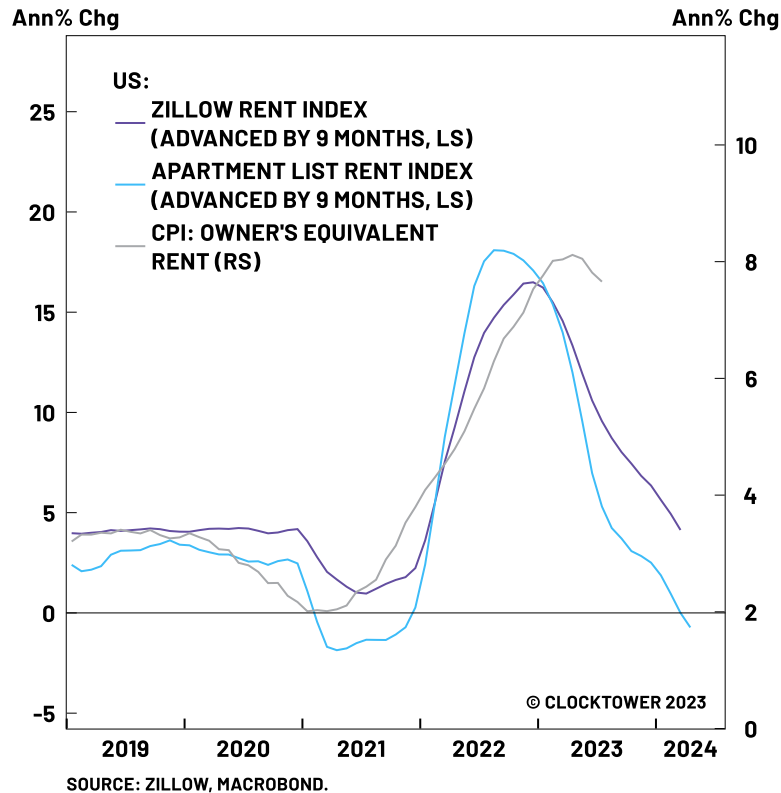




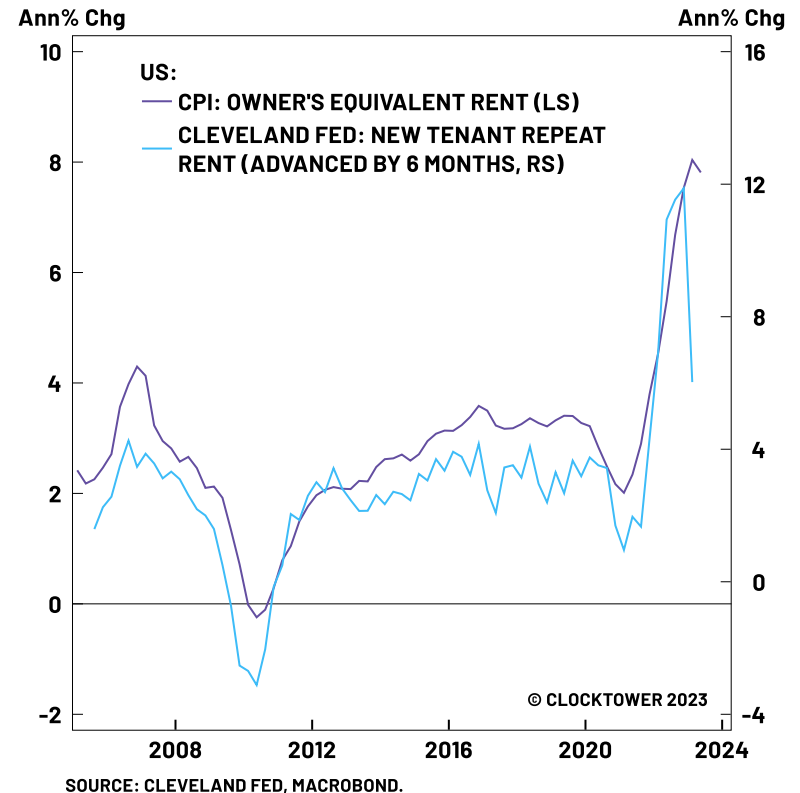
# Tactical | Rental Prices Are Coming Down

All leading indicators are now pointing to an upcoming sharp fall in rent inflation. The latest data from various providers all show that rent growth is rapidly approaching negative territory.

## High Frequency Data Portends...



## ... A Collapse in OER Component of CPI





US Presidential Election:  
*If There Is No Recession in 2024,  
the Fed Will Hike... Right? Right?*





# Tactical | A Recession Will Doom the Incumbent

**That is the law.** At the same time, our view is that a recession in early half of 2024 is possible, but not likely. Especially since the Fed will likely be lenient ahead of the election.

Election Year	Recession in 18 months leading up to election?	Who won presidency?	Winning party
2020	YES	Opposition	D
2016	NO	Opposition	R
2012	NO	Incumbent	D
2008	YES	Opposition	D
2004	NO	Incumbent	R
2000	NO	Opposition	R
1996	NO	Incumbent	D
1992	NO	Opposition	D
1988	NO	Incumbent	R
1984	NO	Incumbent	R
1980	YES	Opposition	R
1976	NO	Opposition	D
1972	NO	Incumbent	R
1968	NO	Opposition	R
1964	NO	Incumbent	D
1960	YES	Opposition	D
1956	NO	Incumbent	R
1952	NO	Opposition	R
1948	NO	Incumbent	D
1944	NO	Incumbent	D
1940	NO	Incumbent	D

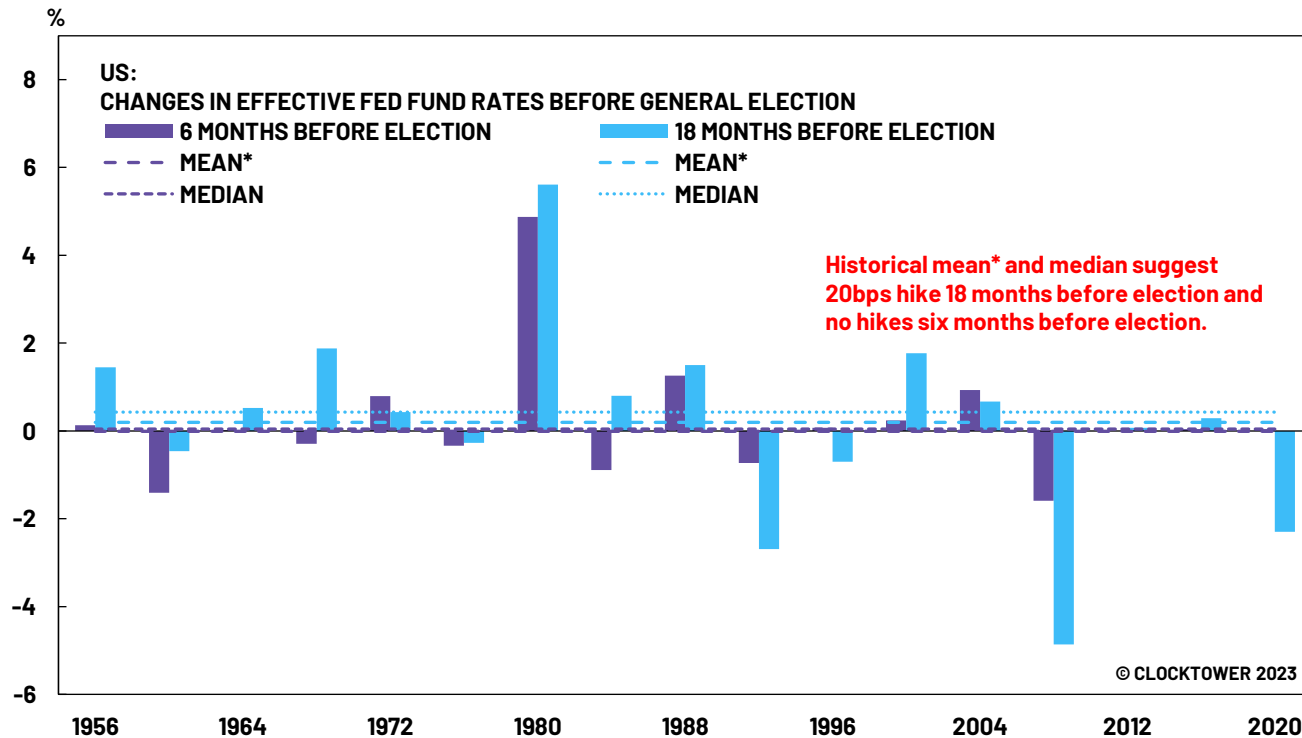
NOTE: RECESSIONS ARE SHADED IN RED.  
SOURCE: CLOCKTOWER GROUP.



# Tactical | Investors Expect the Fed to Wage *Jihad*?

If inflation settles between 2-3.5%, the Fed will proclaim victory. On the CPI, we are merely 63 bps from that level. **Don't expect the Fed to wage Jihad against inflation. Not with an election approaching!**

## The Fed Does Not Raise Rates 12 Months Ahead of a General Election



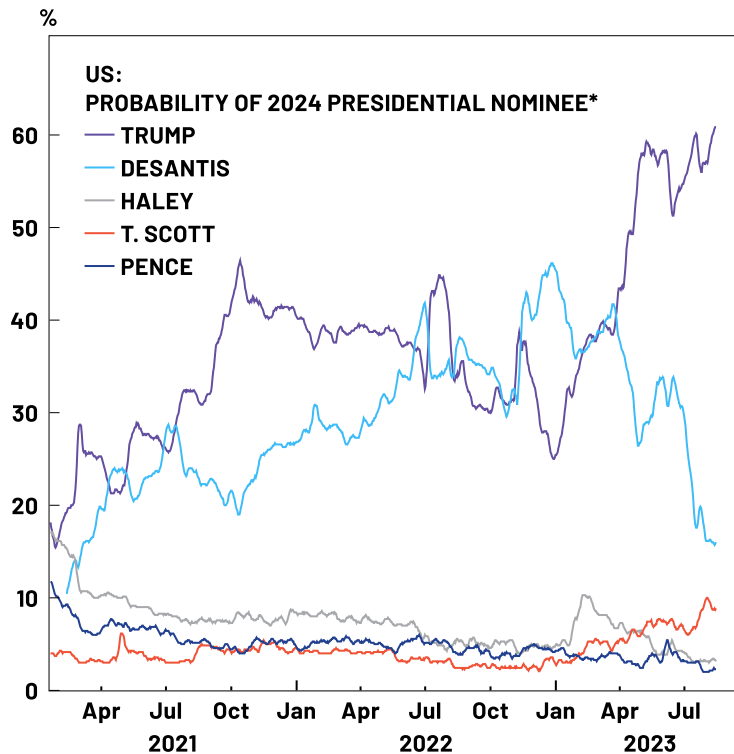
\* EXCLUDES ABNOMAL PERIODS: 1980 (VOLCKER), 2008 (GLOBAL FINANCIAL CRISIS).  
SOURCE: FEDERAL RESERVE.



# Tactical | Trump Is a Juggernaut

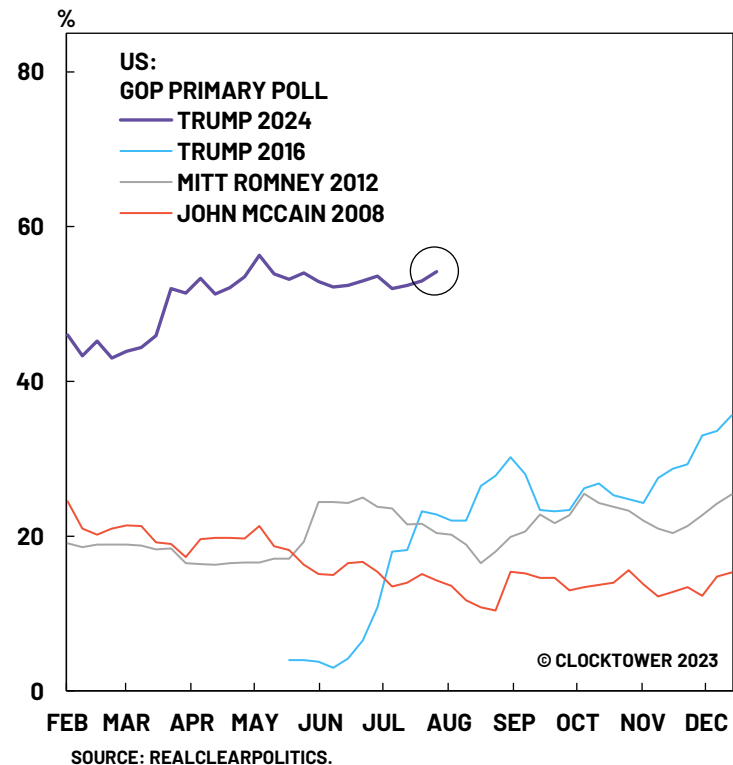
Our point would be cogent in *any* election year. But *this* election is different. It pits a genuine populist, Donald Trump, as a more formidable challenger than in 2016. He will breeze to the nomination.

Trump Has Left All His GOP Rivals in the Dust...



\* SHOWN AS A 1-WEEK MOVING AVERAGE.  
SOURCE: PREDICTIT, MACROBOND.  
© CLOCKTOWER 2023

...At a Historical Level

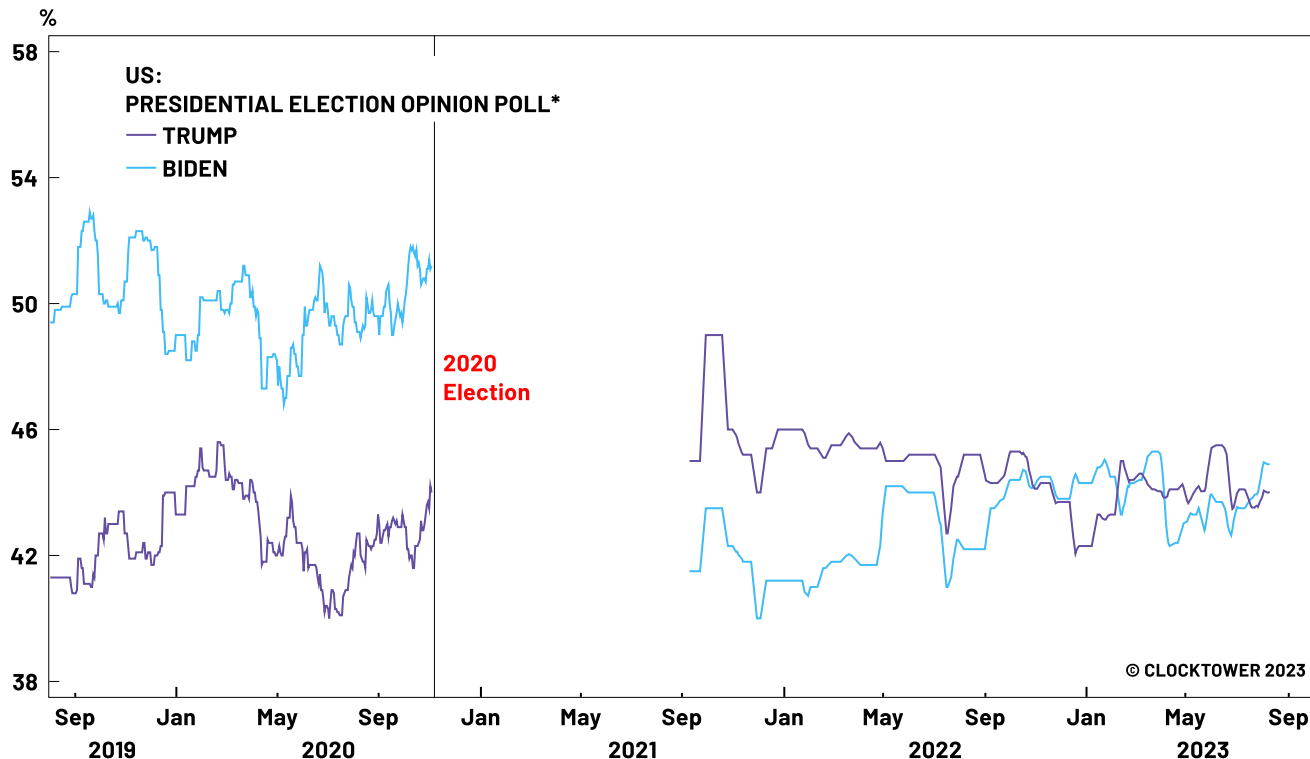




# Tactical | Trump Is Polling Very Well Against Biden

At the moment, Trump is polling better against Joe Biden than he did ahead of the 2020 election. This is largely due to Biden's unpopularity. **An act of God, or a recession, will guarantee a Trump win.**

Trump Looks More Competitive than in 2020!



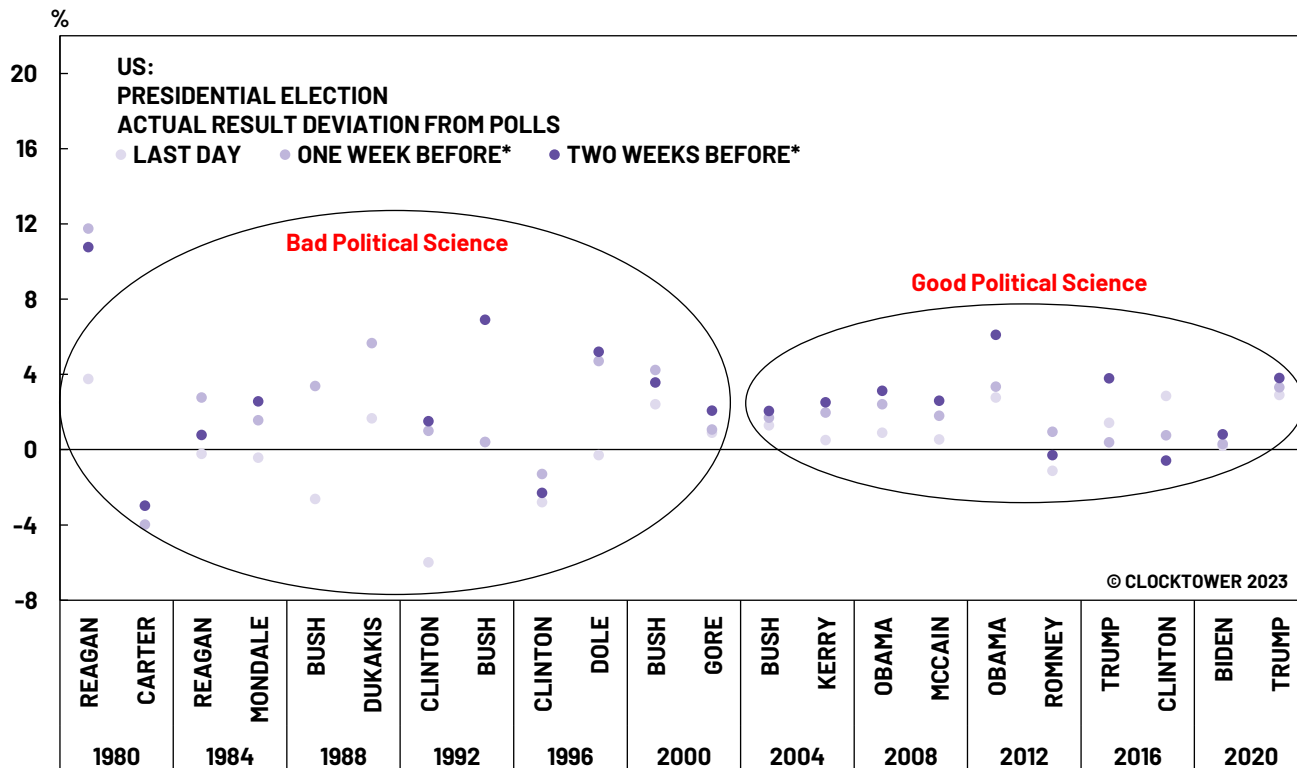
SOURCE: REALCLEARPOLITICS, MACROBOND.



# Tactical | Don't Ignore the Polling

POLLS ARE NOT WRONG (that is a fallacy), but they do underestimate Trump.

Polls Do Well, But They Do Underestimate Trump!



\* 3-DAY MOVING AVERAGE, WHERE DATA PERMITS.

NOTE: 1980-1988 ONLY SHOW LAST THREE AVAILABLE POLLS.

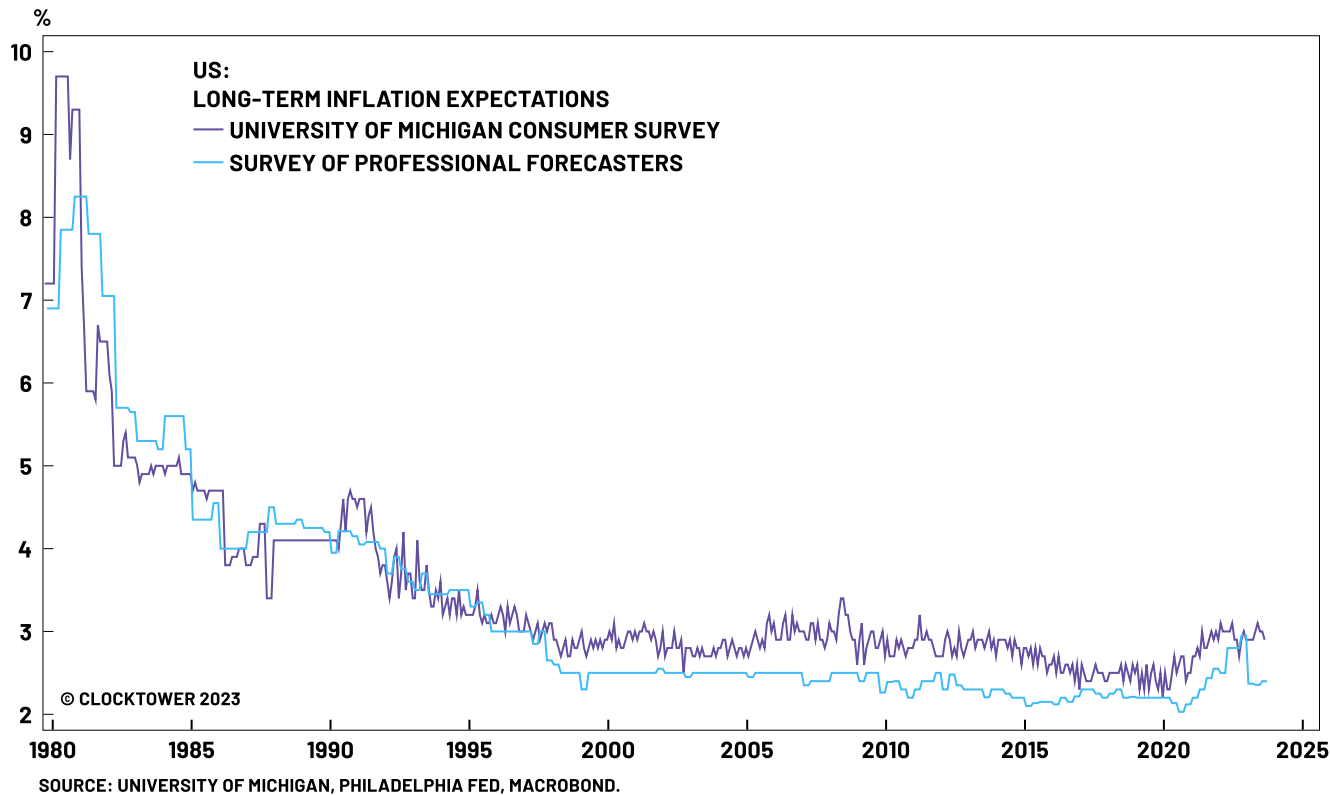
SOURCE: REALCLEARPOLITICS (2004-2016) AND GALLUP (1980-2000), CLOCKTOWER CALCULATIONS.



# Tactical | Fed Will Ignore 3% CPI Given the Election

We expect inflation to settle somewhere between 3%-4% by next year. Why would the Fed go hard against that level given positive real wage growth and that long-term expectations remain anchored?

The Task Before Jay Powell Is *Much* Different than Before Paul Volcker

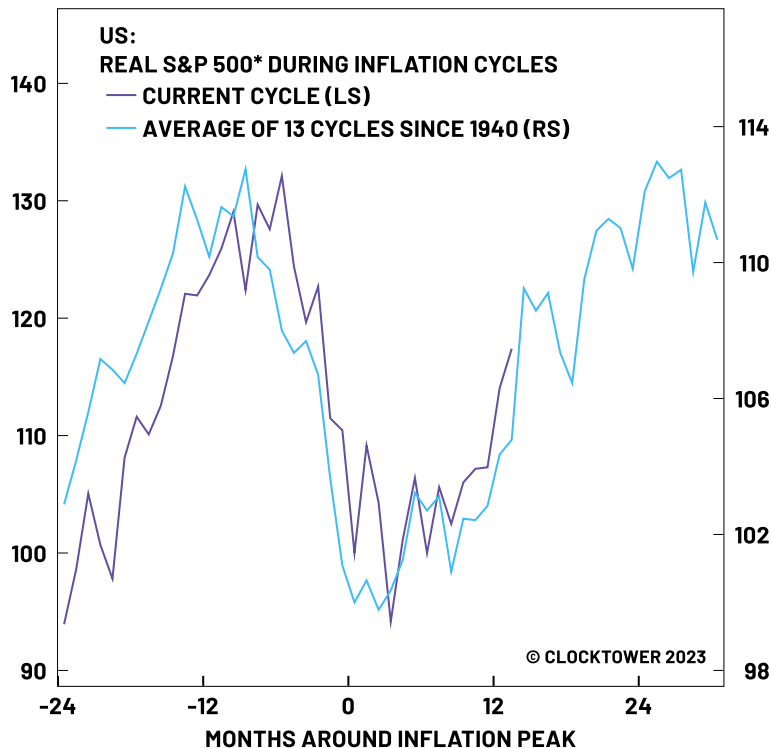




# Tactical | What Happens if the Fed Ignores Inflation?

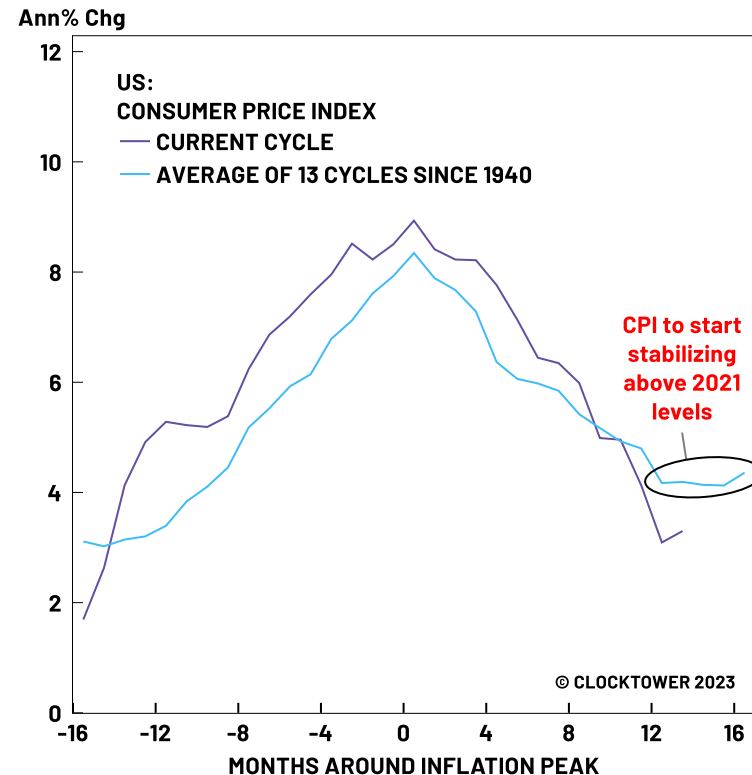
**Nothing to equities.** They will love the dovish Fed that appears content letting the labor market do all right and inflation anchor at ~3%.

Equities With More Room to Run...



\* ALL SERIES REBASED TO 100 AT INFLATION PEAK.  
SOURCE: STIFEL, MACROBOND.

...Even as Inflation Becomes Sticky



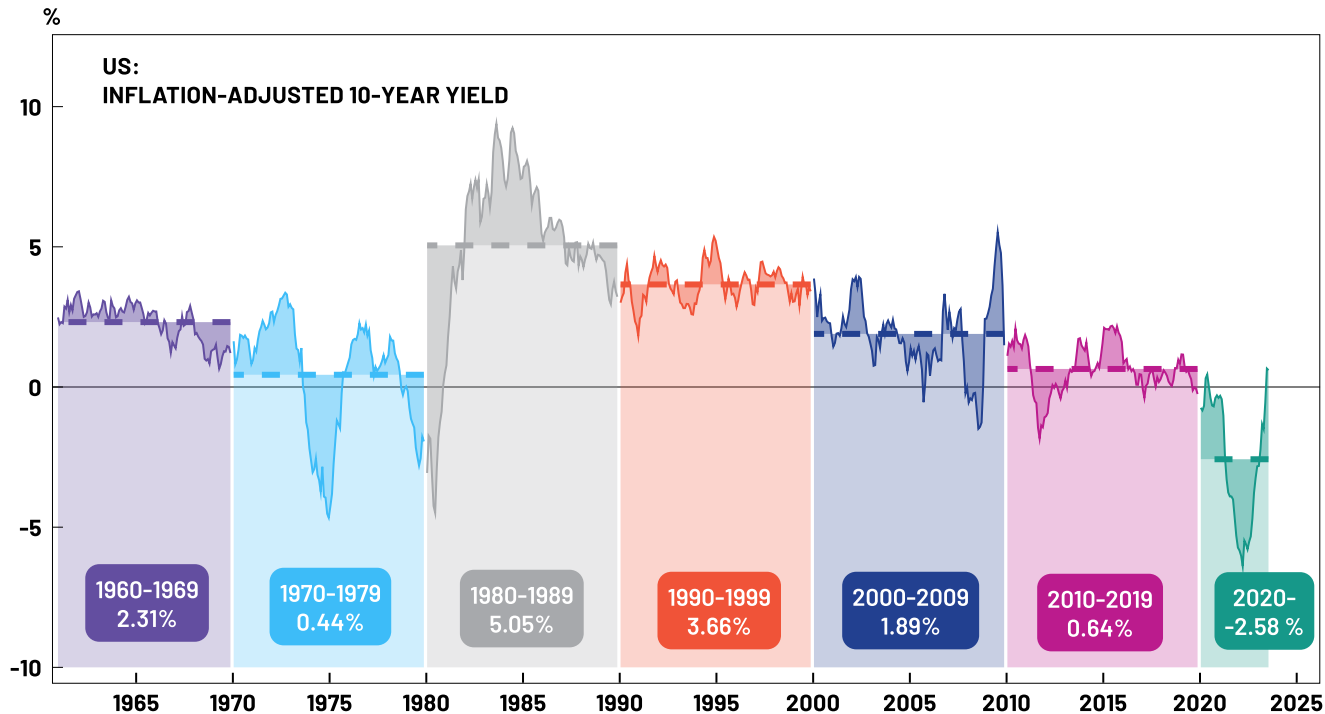
SOURCE: STIFEL, MACROBOND.



# Tactical | Bonds, However, Are in for a Selloff

If our view that the Fed pauses while inflation remains above 2% plays out, bonds should get killed. In our view, investors should play bond rallies, but not get too excited by them in this cycle.

## Bonds Have Been a Bad Investment



NOTE: SHADED AREA SHOWS SPREAD BETWEEN DAILY VALUE AND DECADE AVERAGE.  
SOURCE: MACROBOND.  
© CLOCKTOWER 2023

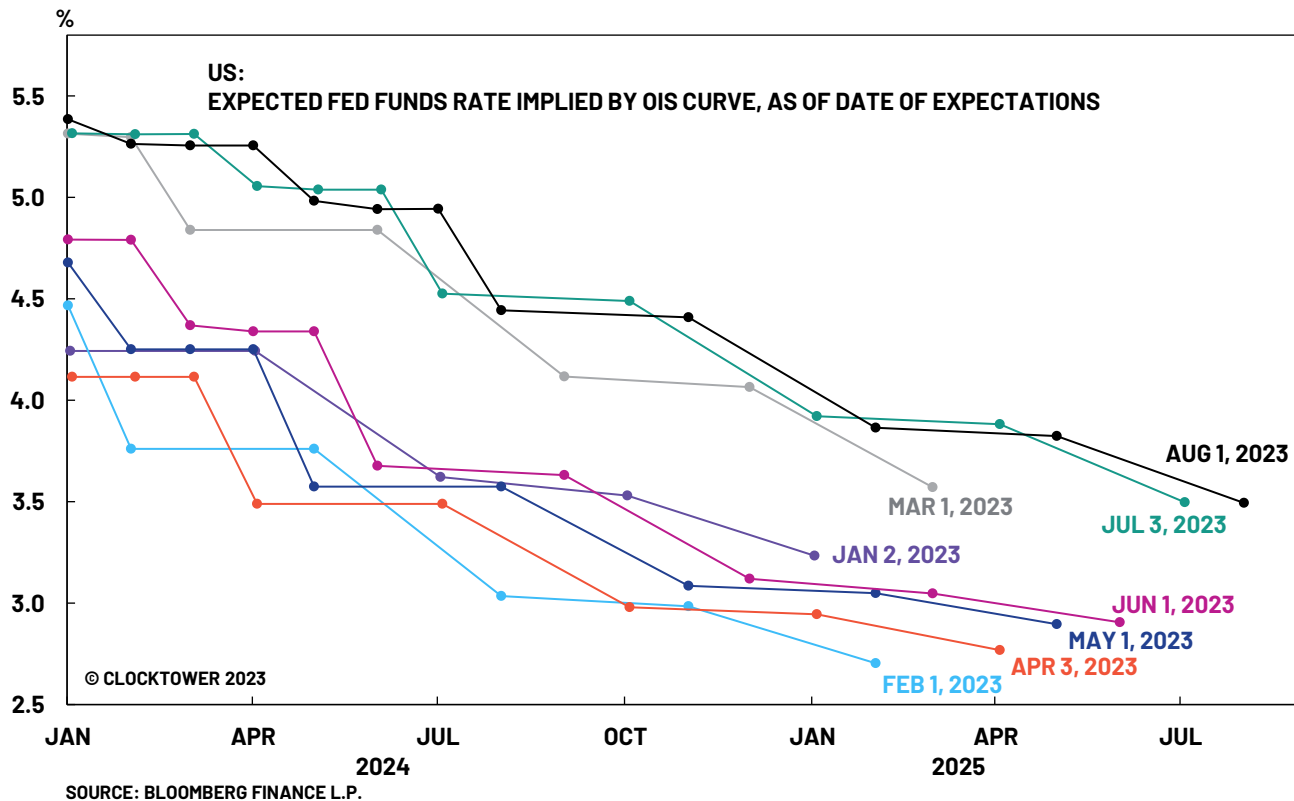




# Tactical | The Fed Won't Cut Rates if Our View Plays Out...

...but that is not necessarily bearish. What matters is where the neutral rate is and whether the Fed policy is below or above that level. The Fed does not need to cut, it probably should hike. But it won't.

## Why Would the Fed Cut Rates in 2024?

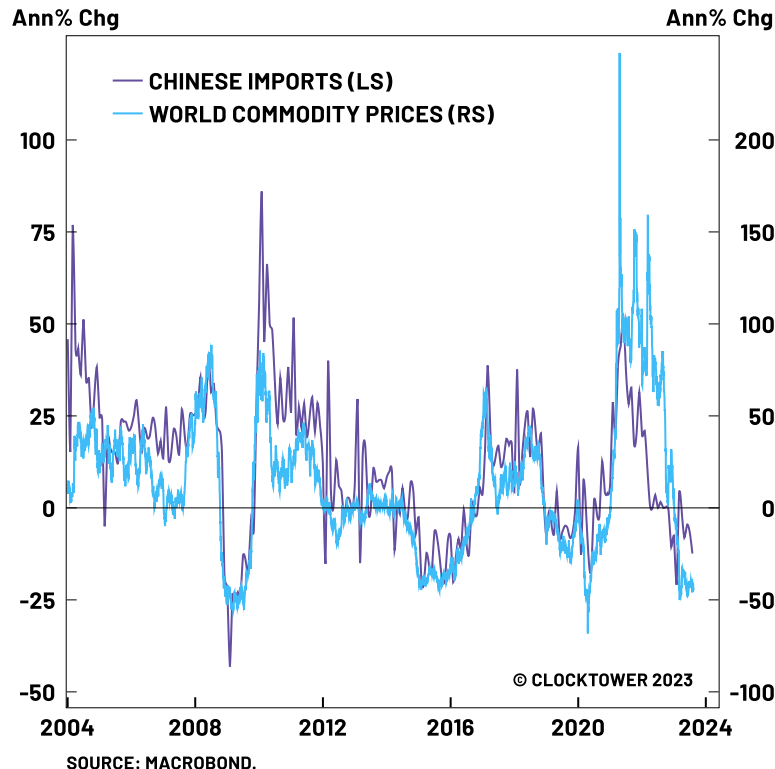




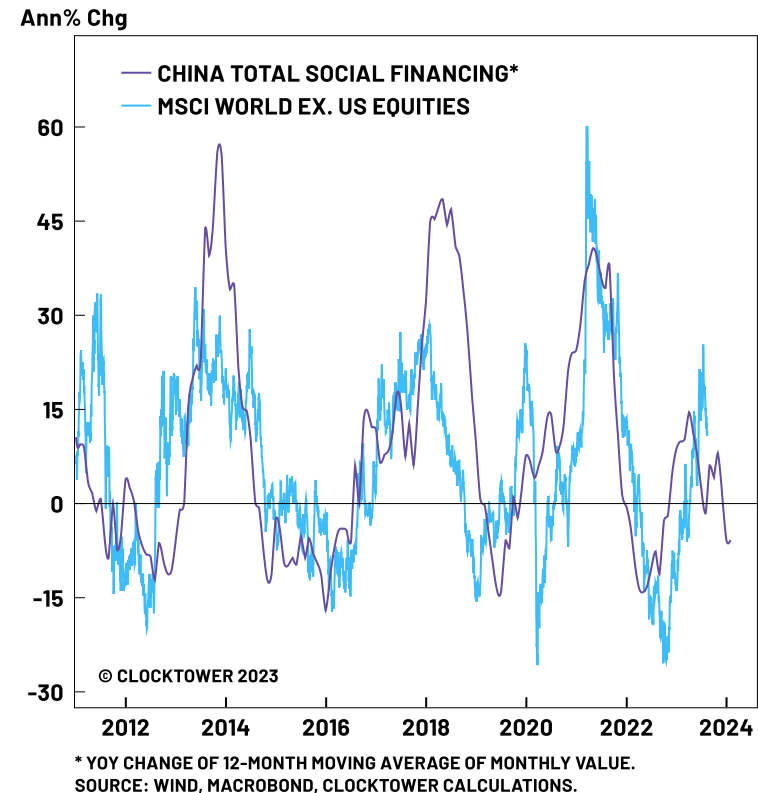
# Tactical | China Is the Key Now for Global Asset Allocation

With the Fed now on pause, the marginal importance of China has significantly increased. For commodities and non-US assets to regain momentum, Beijing must put a floor on domestic demand.

Commodities Depend on China Demand...



...So Do Non-US Equities

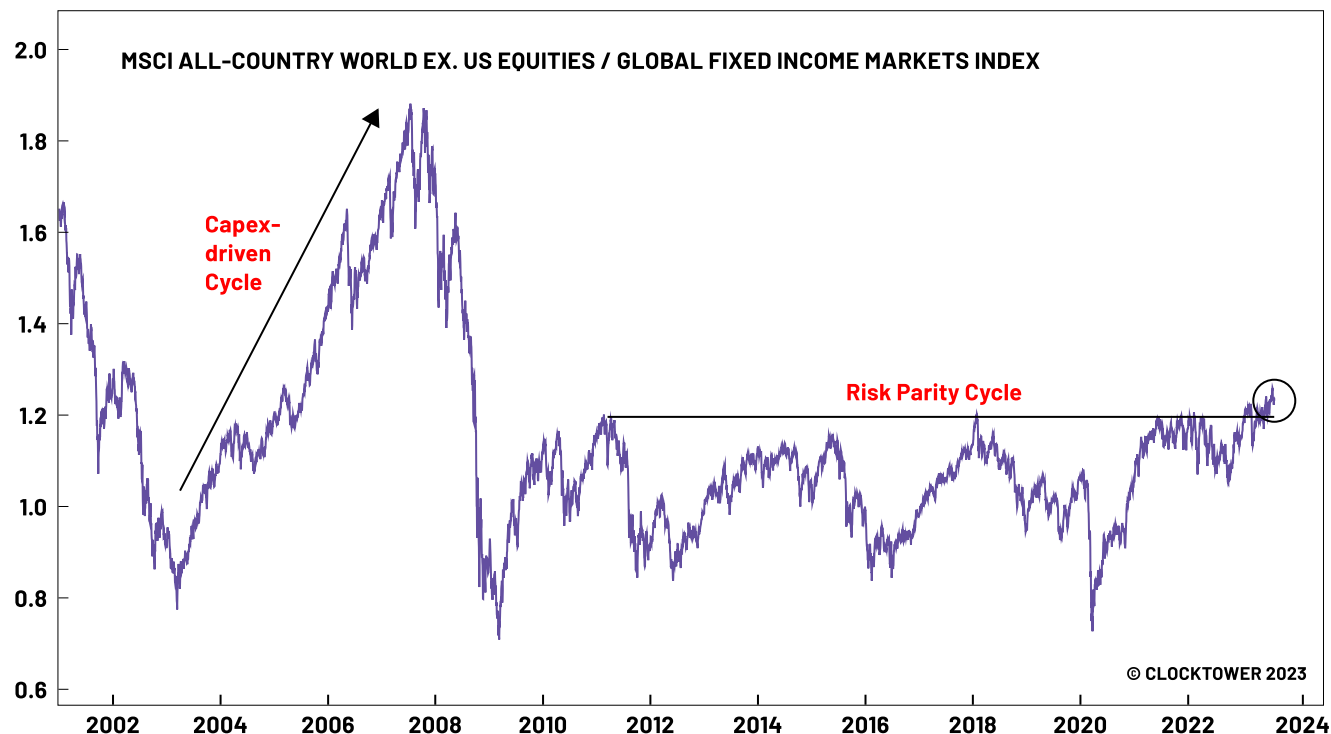




# Tactical | The Risk Parity Cycle Is Over

If the Fed decides to stay behind the curve, dollar and bonds should go down and stocks will outperform. **The real winners will be the assets that led the way from 2003-2008, a capex-led cycle.**

The Risk Parity Cycle Should Give Way to a Capex-Driven Cycle



SOURCE: BofA GLOBAL INVESTMENT RESEARCH, BLOOMBERG FINANCE L.P., MACROBOND.



## Tactical | The Greenback Is Critical to Our View

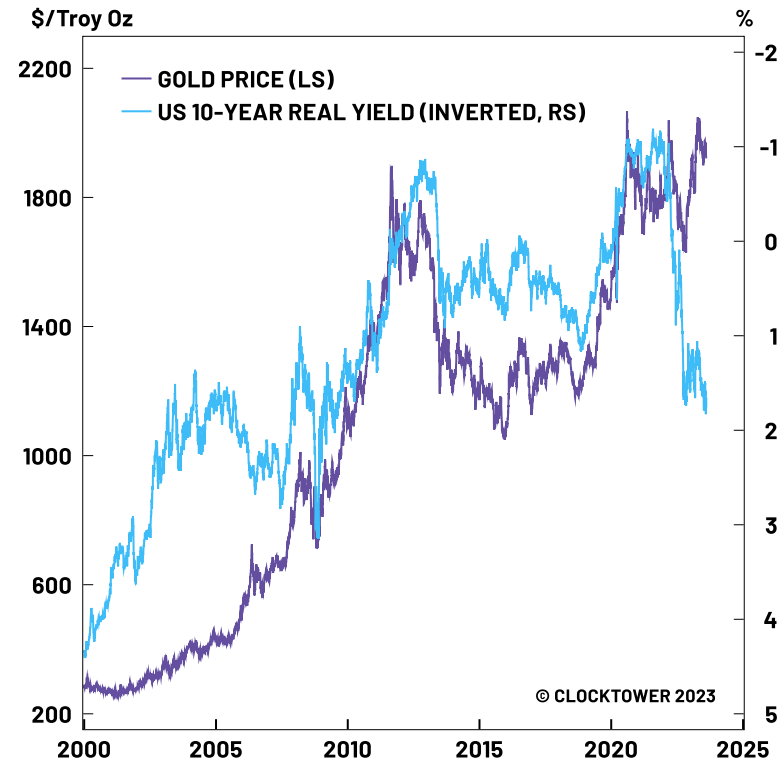
The USD is critical to watch. **Any further rise in US long-term real yields will be negative for our commodity and EM views.** The biggest risk to our view is the ongoing AI mania and USD inflows.

Dollar Is Hovering at Pandemic High...



SOURCE: BofA GLOBAL INVESTMENT STRATEGY, MACROBOND.

...As Long-Term Real Rates Hesitate



SOURCE: MACROBOND.

A large, light purple graphic on the left side of the slide. It consists of a large circle containing several concentric, slightly offset lines that form a series of nested, elongated shapes, resembling a stylized 'C' or a series of nested parentheses. The lines are light purple and have a slight gradient.

# China: The Tide Has Not Turned



# China | A Sudden Burst of Optimism

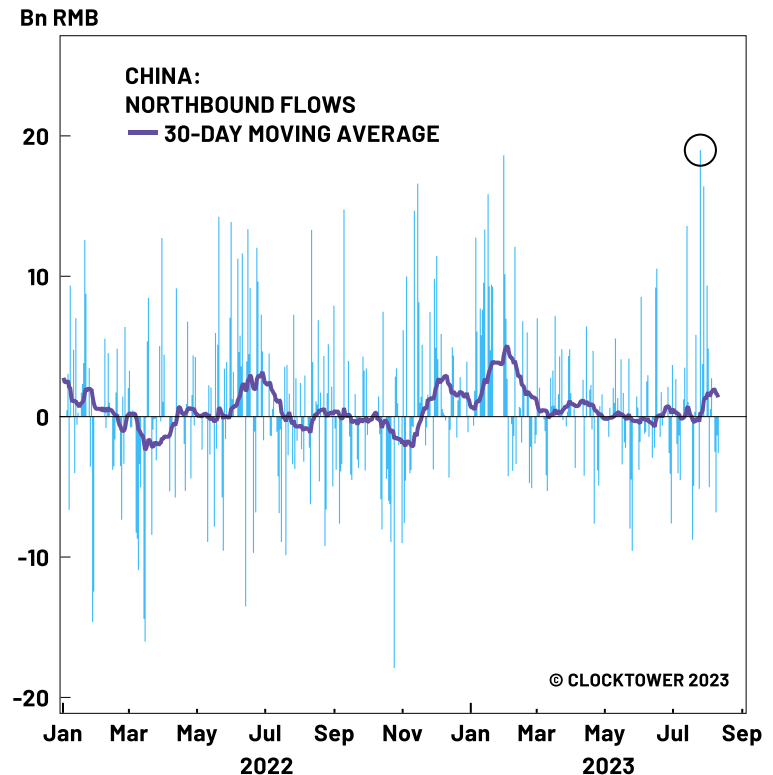
Thanks to the July Politburo meeting that offered several positive surprises, a sudden burst of optimism has overwhelmed Chinese markets.

Broker Index Has Gone Vertical



\* REBASED TO JANUARY 2022 = 100.  
SOURCE: WIND, MACROBOND.

Foreigners Have Rushed Back to Chinese Equities



SOURCE: WIND, MACROBOND.



# China | But Beijing's Policy Response Has Been Disappointing

Beijing has failed to launch an aggressive easing in the property market. The newly unveiled consumption stimulus plan has little substance while the shantytown program remains limited in size.

China Property Easing Measures		
	2014-2016	Today
Tier-one and top Tier-two cities	Down payment ratio was cut to 30% for households' first home and to 40% for the second home	Down payment ratio has remained at 30-40% for first home and 70-80% for the second home
	Qualify homebuyers with a property who have fully repaid their mortgages as first-time homebuyers	Tier-one cities may consider qualifying homebuyers with a mortgage record who don't own a property as first-time homebuyers
	The floor of mortgage loan rates was set at 70% of benchmark lending rate	
	Cut the owning period from five years to two years for individuals selling a property to be exempted from business taxes	
	Cut property transaction tax to 1% for homes smaller than 90 square meters and to 1.5% for those larger than 90 square meters	
Lower-tier cities	Down payment ratio was cut to 20% for households' first home and to 30% for the second home	Most lower tier cities have already cut down payment ratio to 20% for households' first home ahead of the Politburo meeting
	Qualify homebuyers with a property who have fully repaid their mortgages as first-time homebuyers	Lower tier cities are widely expected to qualify homebuyers with a mortgage record who don't own a property as first-time homebuyers
	The floor of mortgage loan rates was set at 70% of benchmark lending rate	
	Purchase restrictions were comprehensively removed	Lower tier cities have already removed most of the local purchase restrictions
	The PBoC launched PSL facility to accelerate shantytown renovation programs, which unleashed tremendous demand for properties	
	Cut the owning period from five years to two years for individuals selling a property to be exempted from business taxes	
	Cut property transaction tax to 1% for homes smaller than 90 square meters and to 1.5% for those larger than 90 square meters	

SOURCE: CLOCKTOWER GROUP.

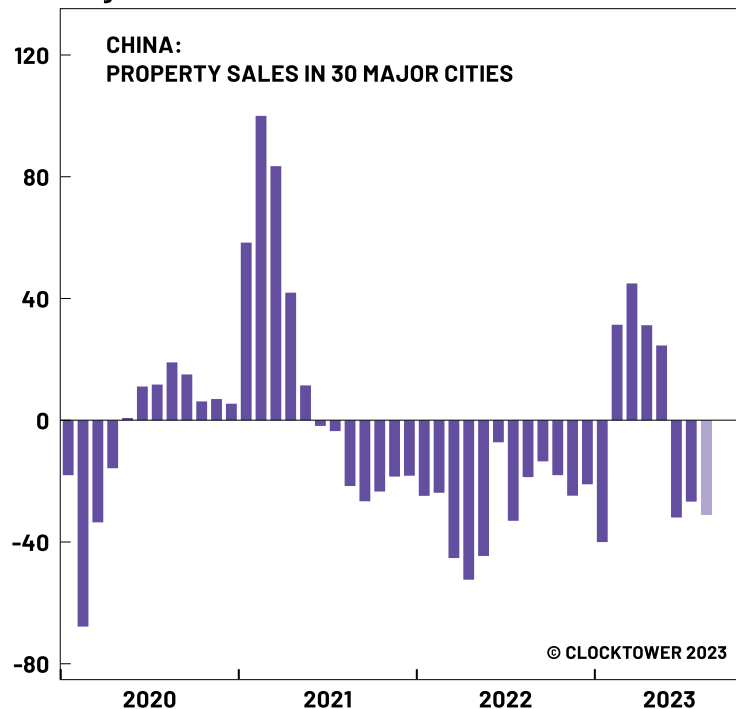


# China | Property Malaise Continues to Intensify...

Both property and land sales have remained in a state of collapse, with rising default fear over Country Garden further dealing a blow to homebuyer and developer confidence.

## Both Property and Land Sales...

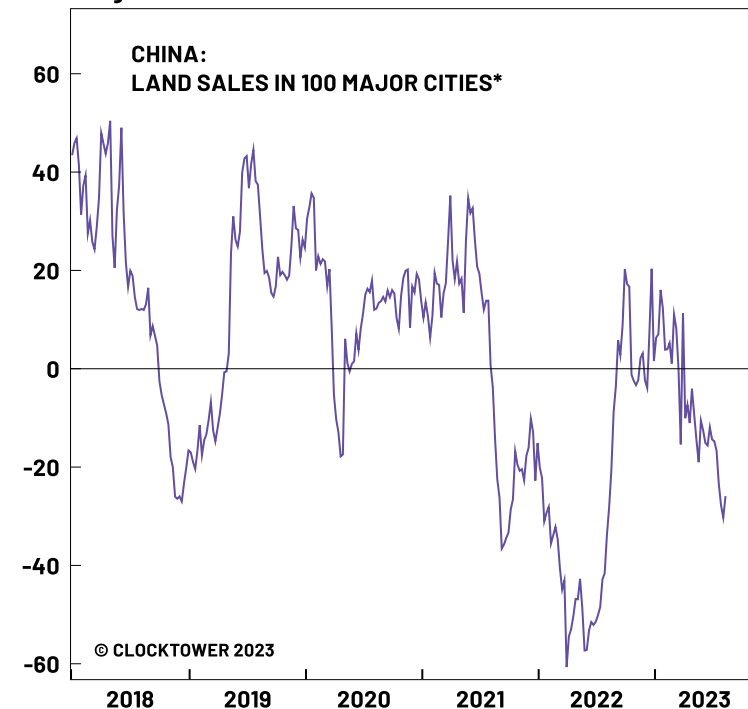
Ann% Chg



NOTE: AUGUST PRINT IS CALCULATED BASED ON DATA AS OF AUGUST 10.  
SOURCE: WIND, MACROBOND.

## ...Are Still in a State of Collapse

Ann% Chg



\* SHOWN AS A 3-MONTH MOVING AVERAGE.  
SOURCE: WIND, MACROBOND.

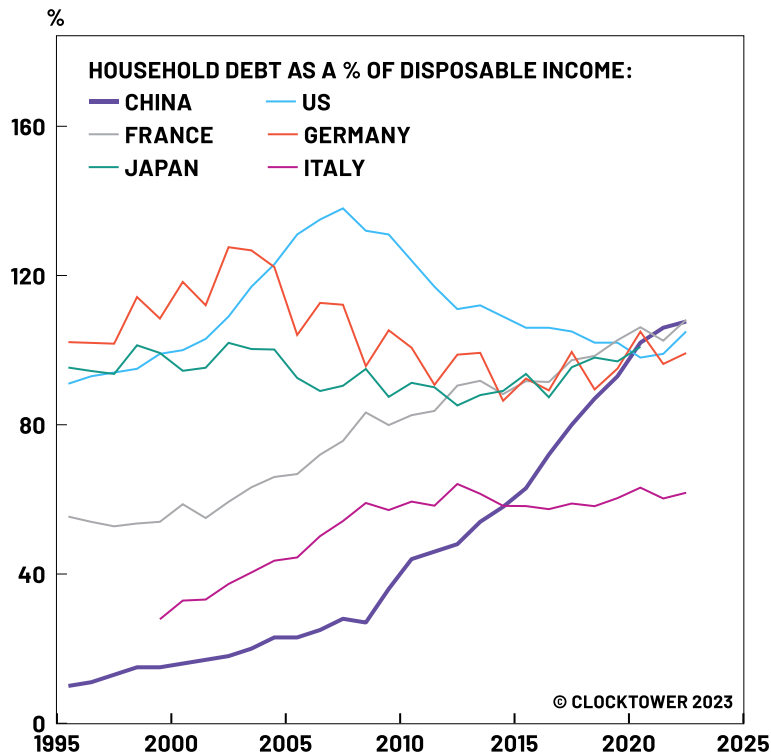




# China | ...Amidst Long-Term Headwinds

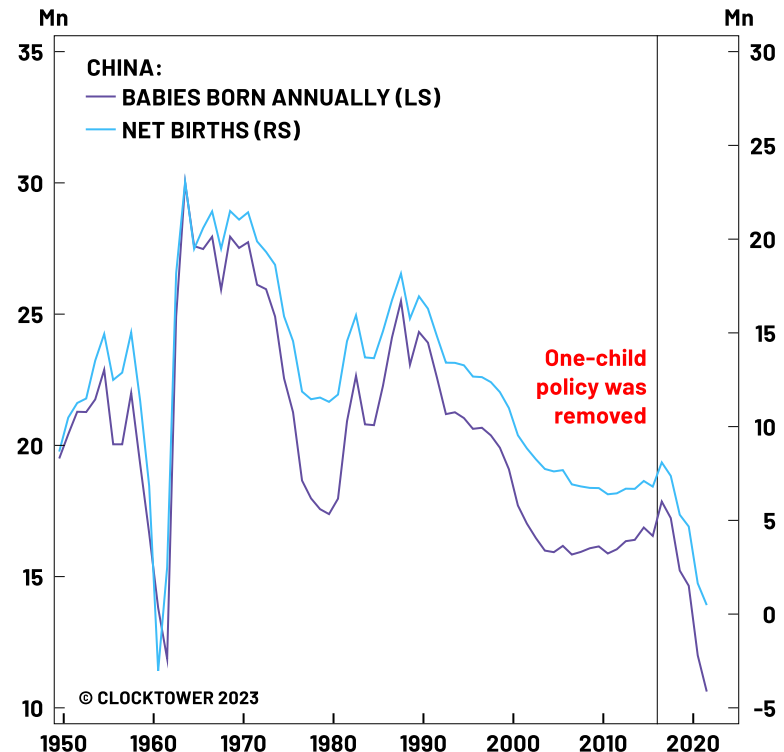
Elevated household debt levels and ongoing demographic decline are long-term headwinds against China's property market. And yet, Beijing's policy response has been far weaker, not stronger.

Chinese Households Are Over-Burdened



\* BASED ON URBAN DISPOSABLE INCOME FOR THE ENTIRE POPULATION. DATA MAY UNDERESTIMATE HOUSEHOLD LEVERAGE IN CHINA.  
SOURCE: WIND, CLOCKTOWER CALCULATIONS, MACROBOND.

Demographics Weigh on Property Market



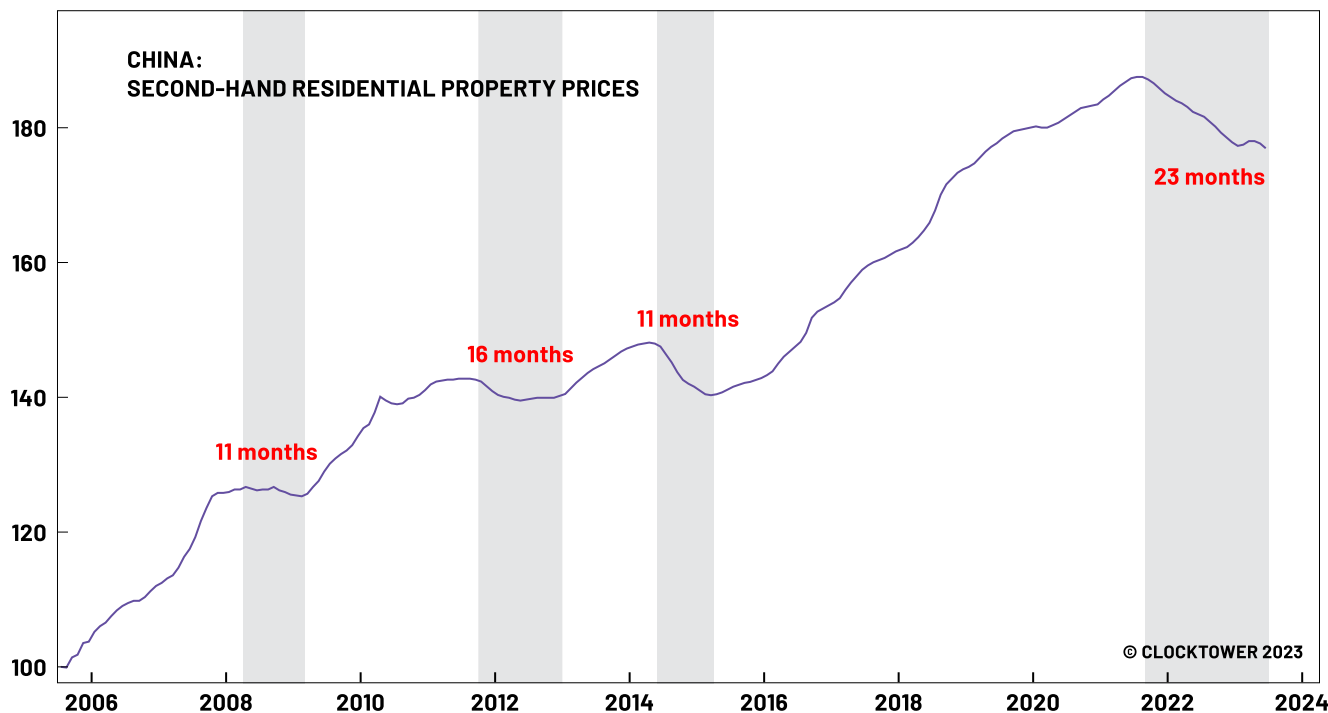
SOURCE: MACROBOND.



# China | The Longest Period of Property Deflation

The ongoing property price deflation has been a wake-up call to households that housing prices will not go up forever. Such a realization is another structural factor weighing on homebuyers' confidence.

The Longest Period of Property Deflation on Record



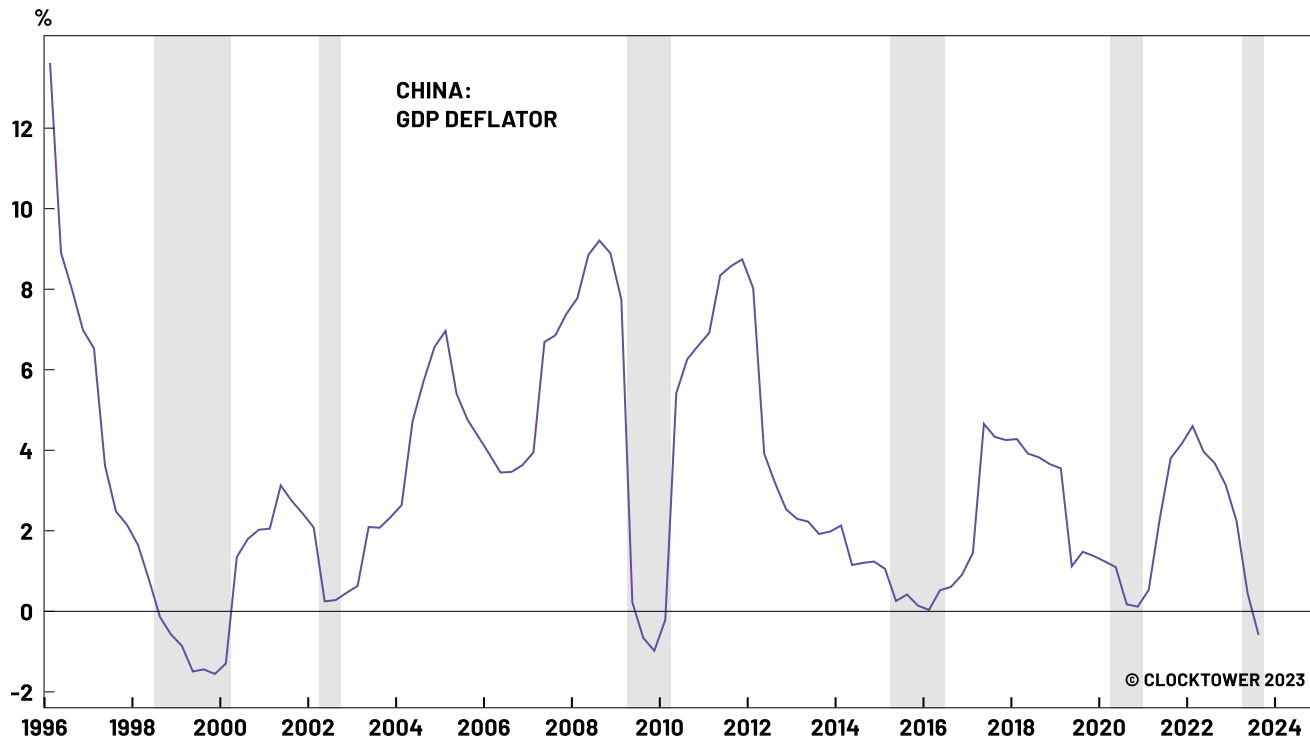
NOTE: DATA REBASED TO JULY 2005 = 100. SHADED AREAS DENOTE PERIODS OF HOUSING PRICE DEPRECIATION.  
SOURCE: WIND, MACROBOND.



# China | It Is Not Easy to Get out of the Deflationary Spiral

There have been five deflationary episodes in the Chinese economy since the early 1990s, **with each one of them eventually reversed by a major policy pivot that unleashed tremendous demand.**

Each Historical Period of Deflation Was Reversed by a Decisive Policy Pivot



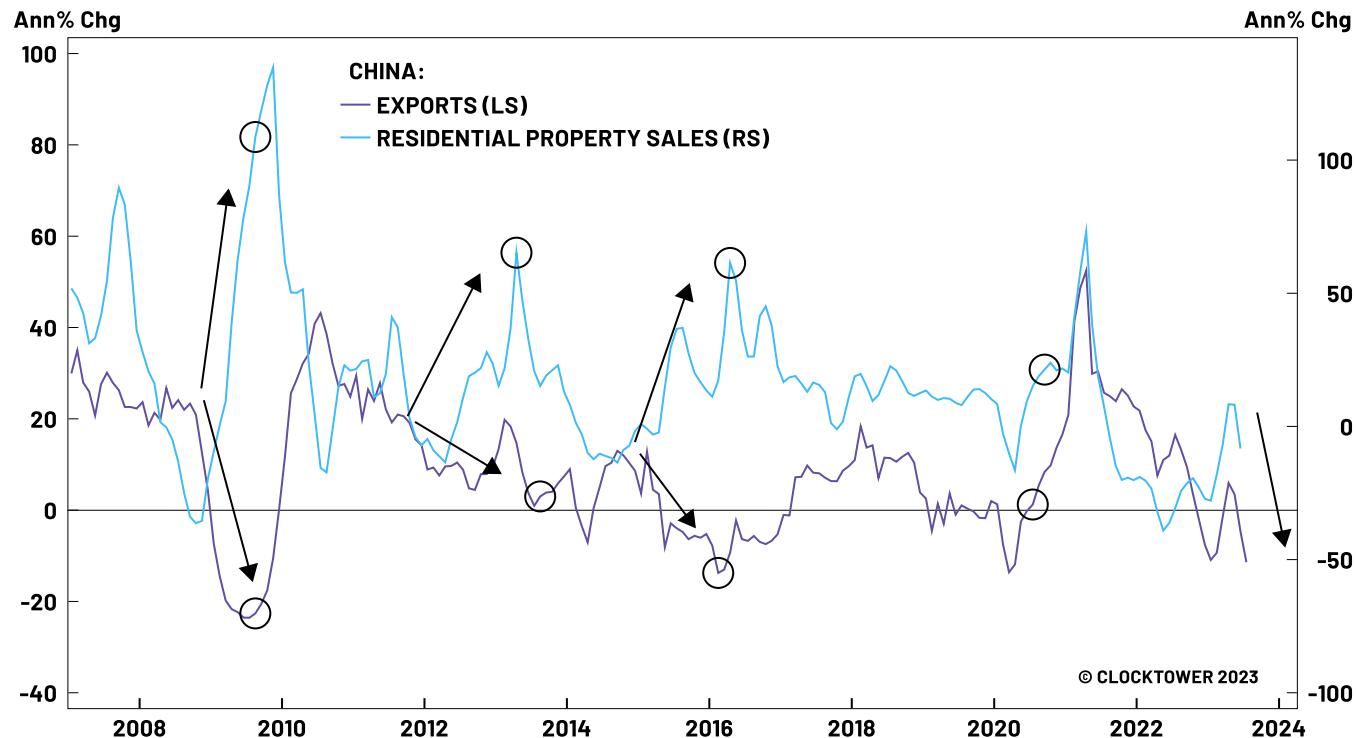
NOTE: SHADED AREAS DENOTE PERIODS OF DEFLATION.  
SOURCE: WIND, MACROBOND.



# China | What Do We Have Now?

With both domestic and external demand falling off a cliff, we have not yet seen a similar, decisive policy pivot in Beijing to play a meaningful role in reversing the ongoing deflation.

Beijing Has Remained Patient in the Face of A Burgeoning Deflationary Spiral



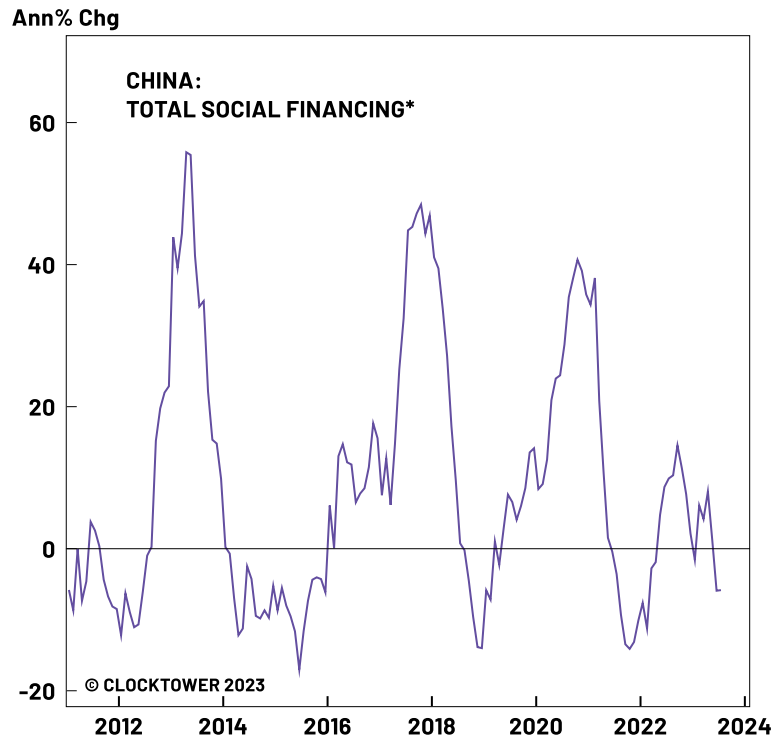
NOTE: BOTH SERIES SHOWN AS 3-MONTH MOVING AVERAGE.  
SOURCE: WIND, MACROBOND.



# China | Stabilizing Credit Growth Is the No. 1 Priority

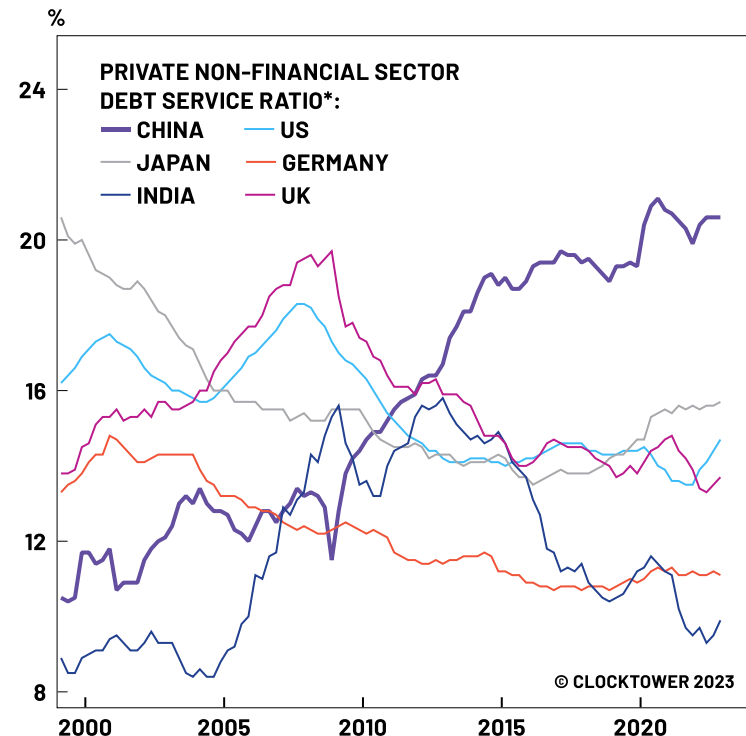
Beijing must figure out a way to stabilize credit growth. Otherwise, it will become increasingly challenging for households and corporates to repay their debt.

## Credit Growth Has to Be Stabilized...



\* YoY CHANGE OF THE 12-MONTH MOVING AVERAGE OF MONTHLY VALUE.  
SOURCE: WIND, MACROBOND.

## ...to Enable Continued Debt Servicing



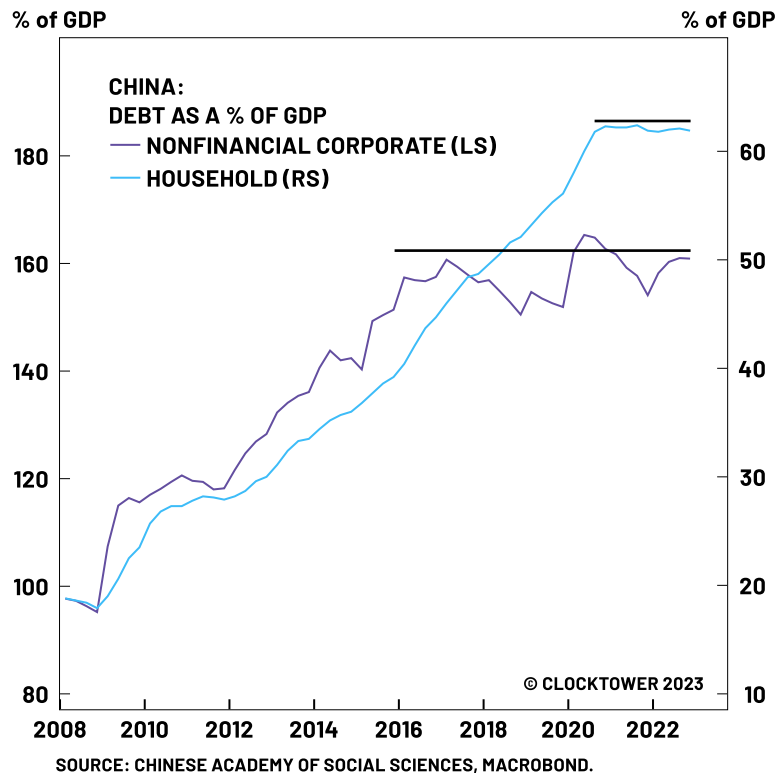
\* SHARE OF TOTAL INCOME.  
SOURCE: BIS, MACROBOND.



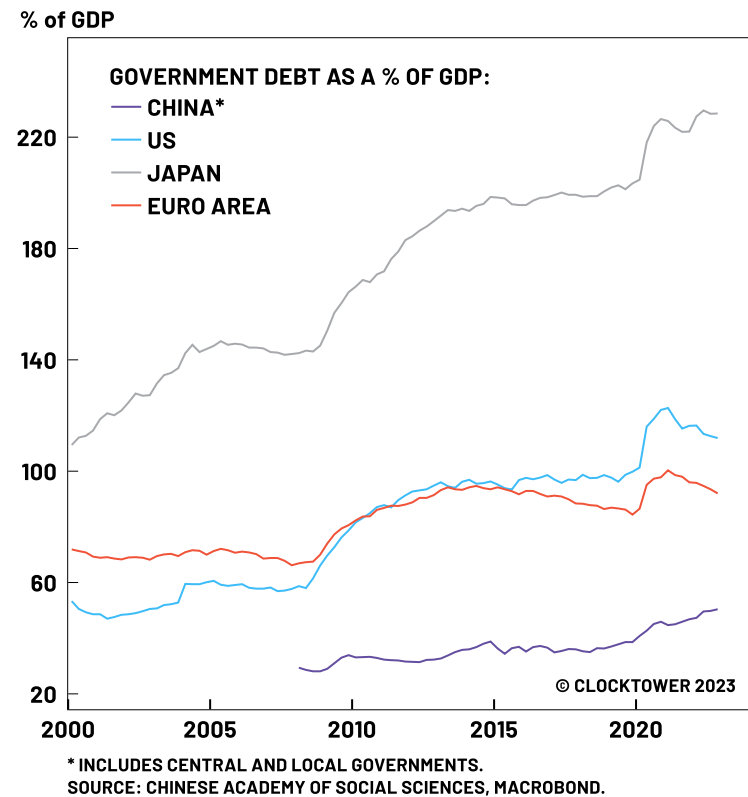
# China | Beijing Likely Has No Other Option

The Chinese private sector – households and corporates – has retreated from the debt supercycle. Beijing likely has no other option but to continue leveraging up the government's balance sheets.

The Private Debt Supercycle Has Ended



The Government Must Do the Heavy Lifting

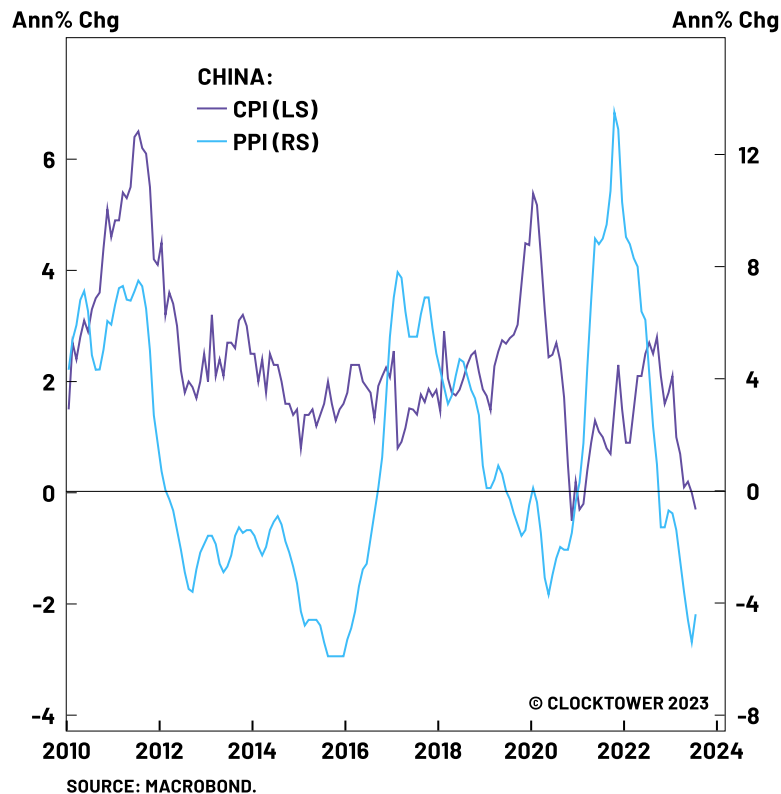




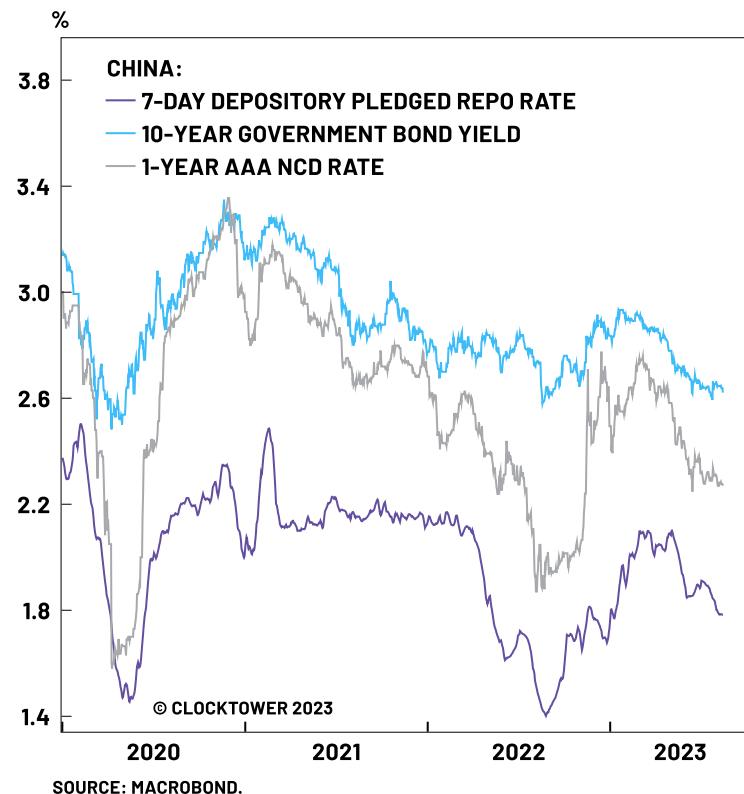
# China | Monetary Easing Is Still the Only Game in Town

With Beijing continuing to refrain from a major fiscal expansion, monetary easing will remain the only game in town. "Lower for longer" remains the base case.

The Deflationary Environment...



...Necessitates Lower Yields for Longer

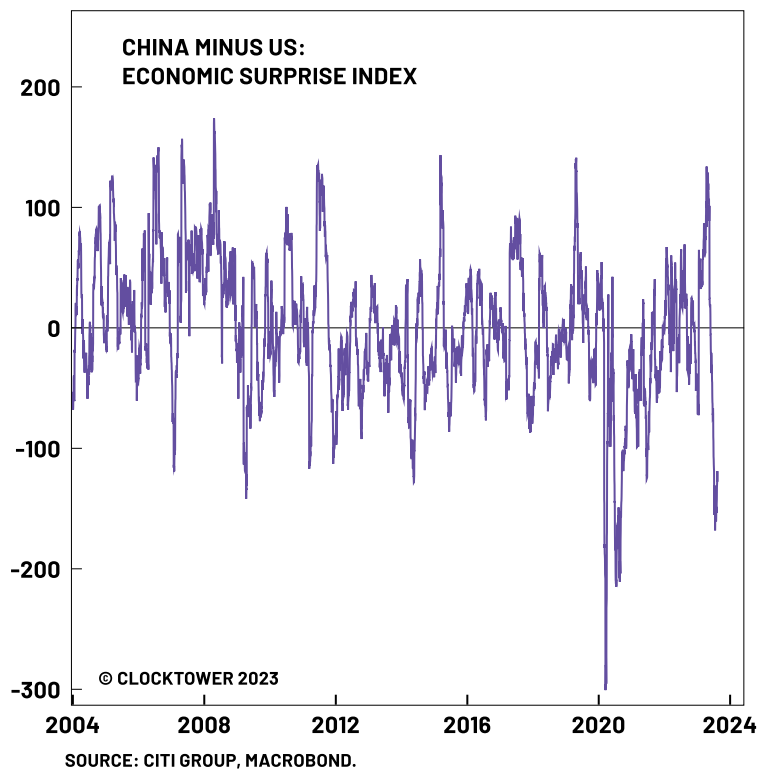




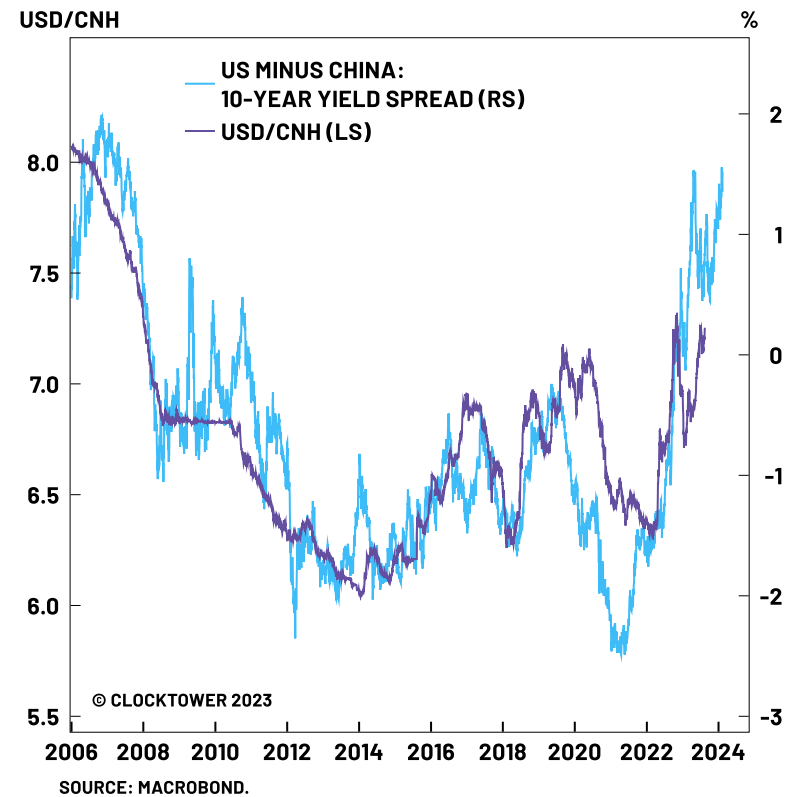
# China | No End in Sight to CNH Weakness

With Beijing failing to arrest the ongoing macro malaise, both the growth and yield differentials between China and the US indicate no end in sight to CNH weakness.

Both Growth and Yield Differentials...



...Indicate No End in Sight to CNH Weakness



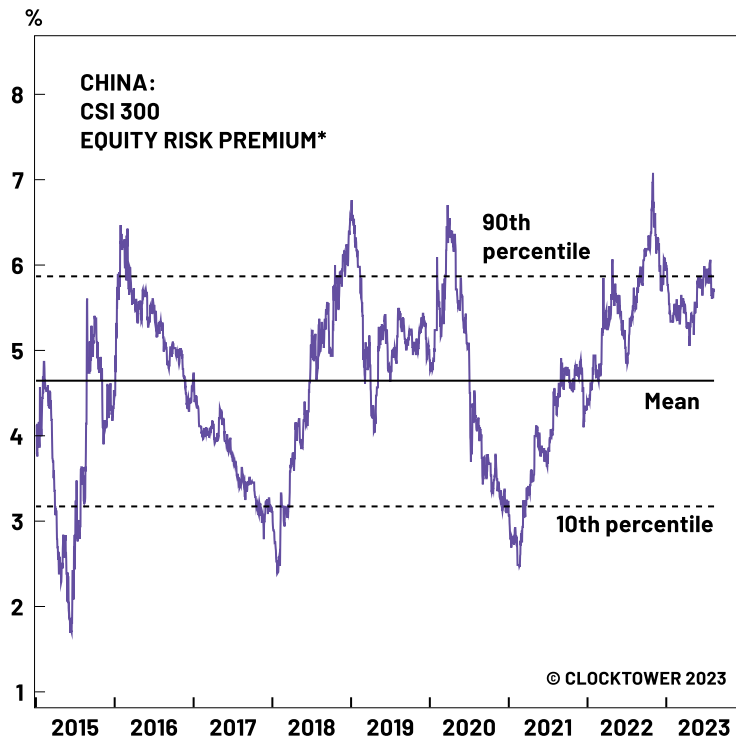




# China | No Foundation for A Sustainable Equity Rally

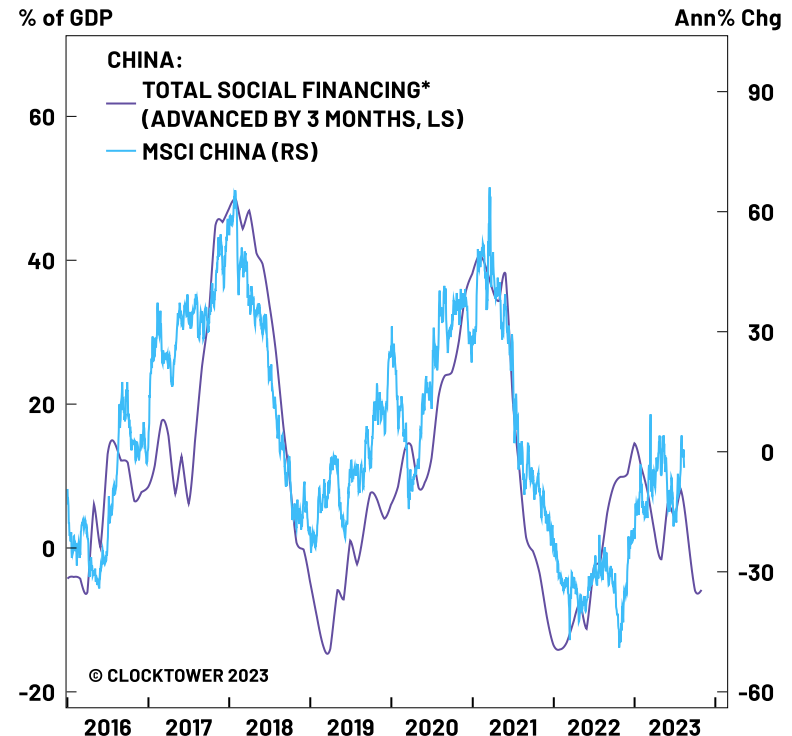
Despite the depressed valuations of Chinese equities, we do not see the prospect of a sustainable equity market rally as Beijing's insufficient policy response will not effectively revive credit growth.

## Despite Depressed Valuations...



\* INVERSION OF CSI 300 TTM PE RATIO MINUS 10-YEAR GOVERNMENT BOND YIELD.  
SOURCE: WIND, MACROBOND.

## ...Economic Reality Does Not Support a Sustainable Rally



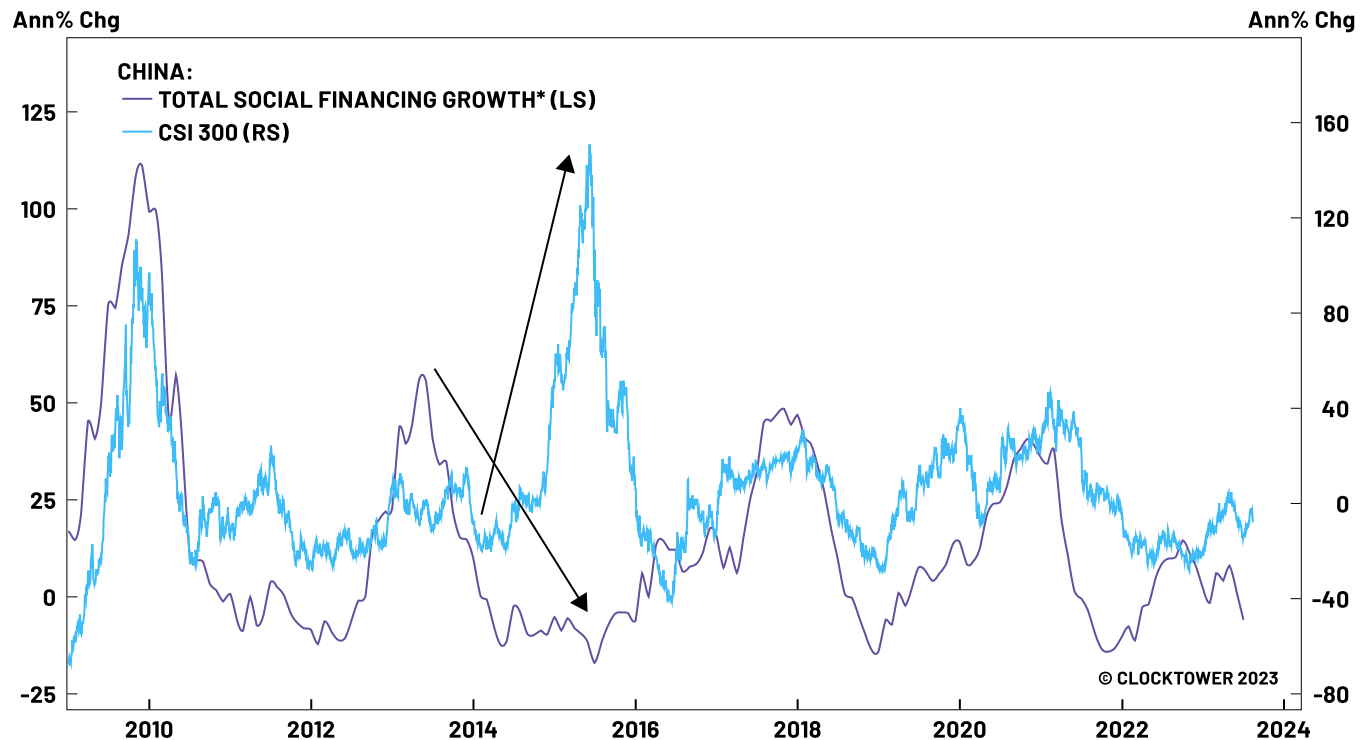
\* YoY CHANGE OF THE 12-MONTH MOVING AVERAGE OF MONTHLY VALUE.  
SOURCE: WIND, MACROBOND, CLOCKTOWER CALCULATIONS.



# China | Be Aware of A Possible Engineered Bull Market

Despite the disappointing policy response on the macro level, Beijing's pledge to "activate capital markets (活跃资本市场)" should be closely monitored by investors.

Beijing Could Engineer a Bull Market Despite Macro Malaise, but Such a Surge Is Unsustainable



\* YoY CHANGE OF THE 12-MONTH MOVING AVERAGE OF MONTHLY INCREMENTAL VALUE.  
SOURCE: WIND, MACROBOND.

A large, faint, light purple watermark of the Republic of China (Taiwan) flag is visible on the left side of the slide. It features the flag's characteristic blue field with white sun rays and red wavy lines, all contained within a circular border.

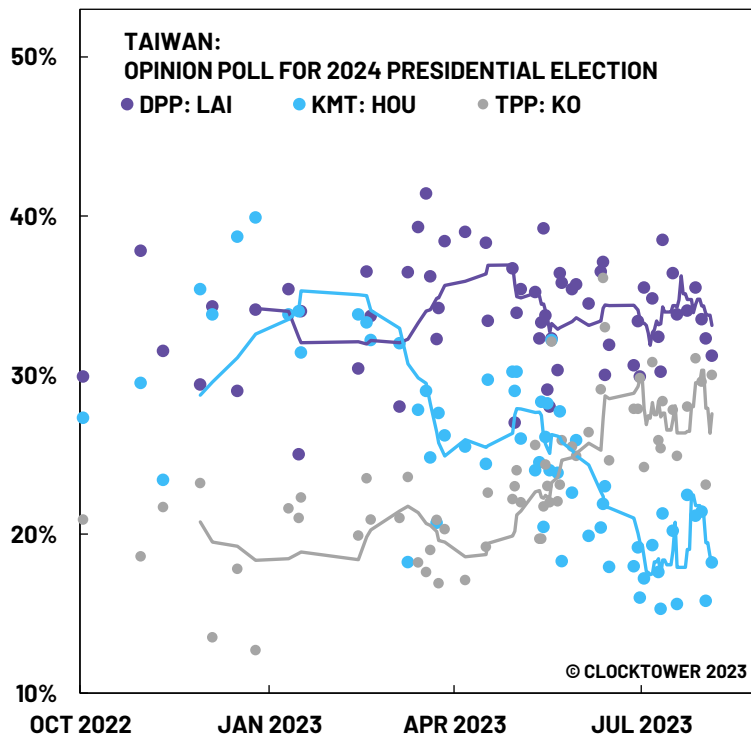
# Taiwan: The Most Geopolitically Relevant Election of 2024



# Taiwan | Three-Way Race Shifts the Balance in Favor of DPP

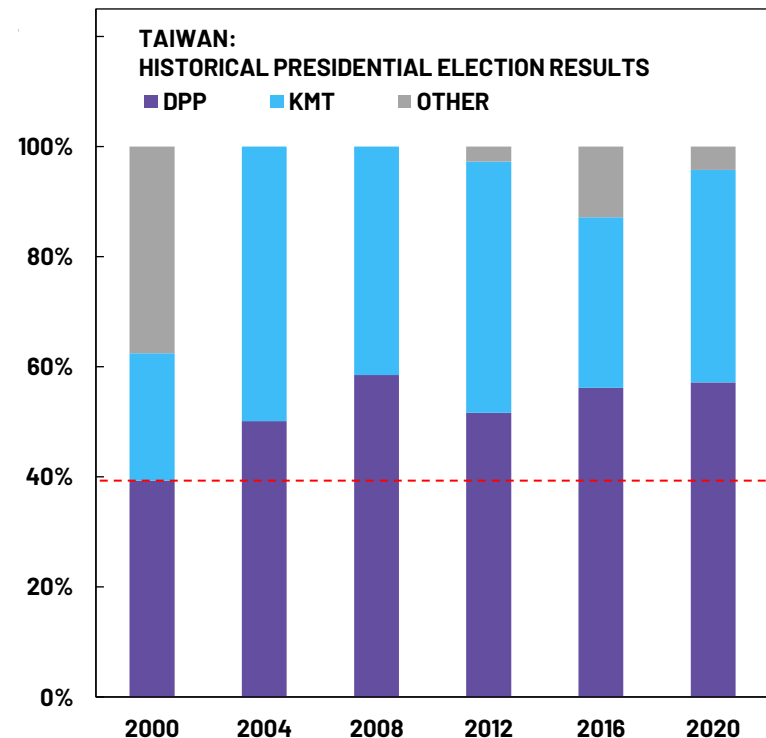
The spectacular rise of Ko Wen-je has transformed the upcoming Taiwanese presidential election into a three-way race, **shifting the balance in favor of the nationalist DPP.**

The Vote Split between KMT and TPP...



NOTE: DATA SHOWN AS A 7-DAY MOVING AVERAGE.  
SOURCE: VARIOUS POLLING AGENCIES INCLUDING TVBS, ETTODAY, GALLUP, ETC., VIA WIKIPEDIA.COM.

...Will Likely Hand the DPP an Easy Win



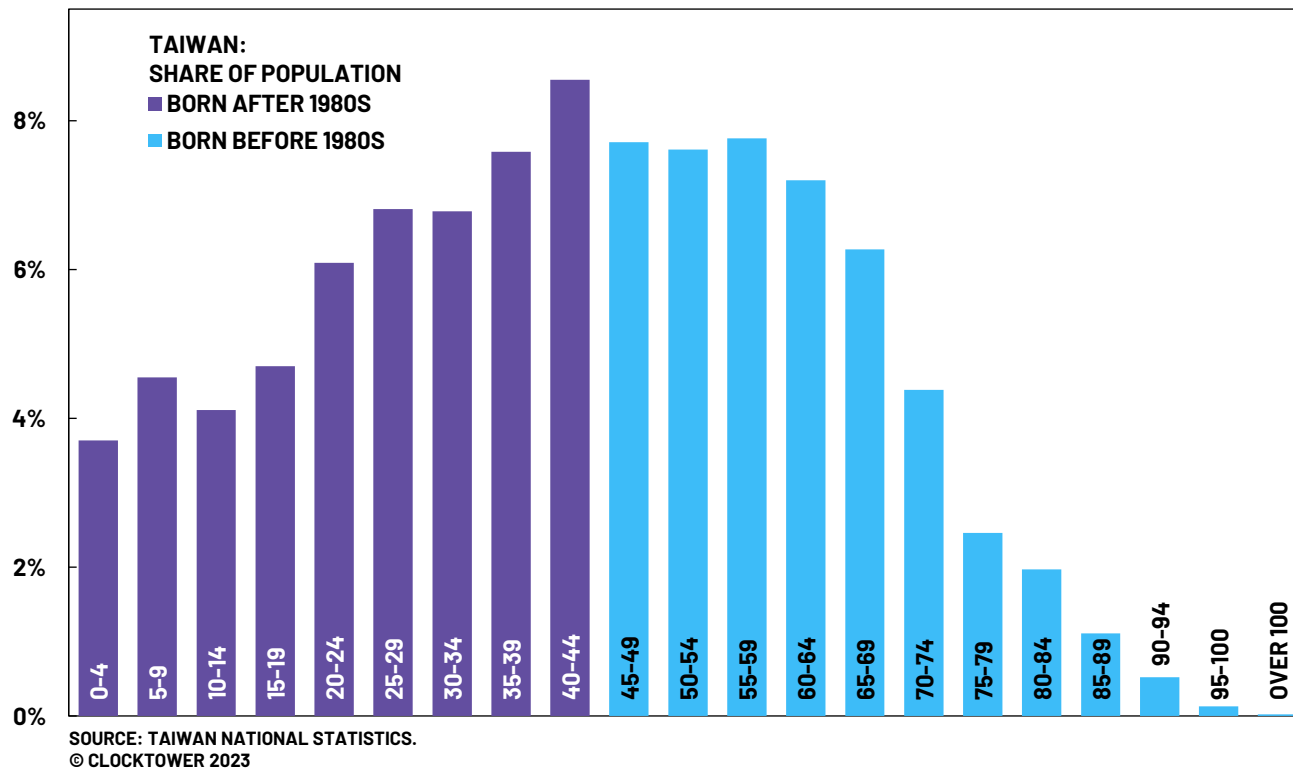
SOURCE: TAIWANESE GOVERNMENT OFFICIAL DATA.  
© CLOCKTOWER 2023



# KMT's Secular Decline | Generational Replacement

The majority of Taiwanese population are born following the island's democratic transformation in the 1980s. Such generational replacement has been a structural tailwind for the DPP at the cost of KMT.

More than Half of Taiwan's Population Were Born following the Democratic Transformation

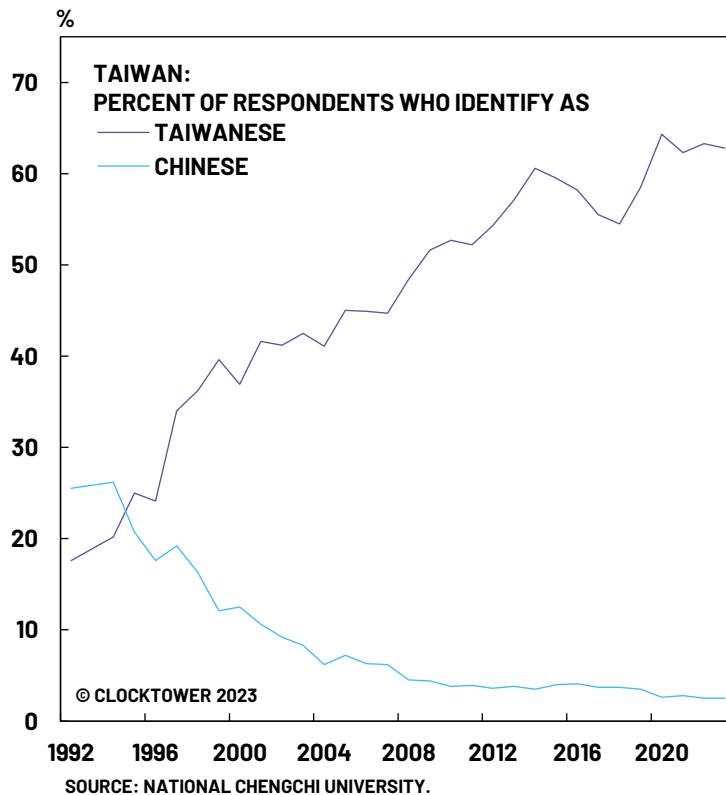




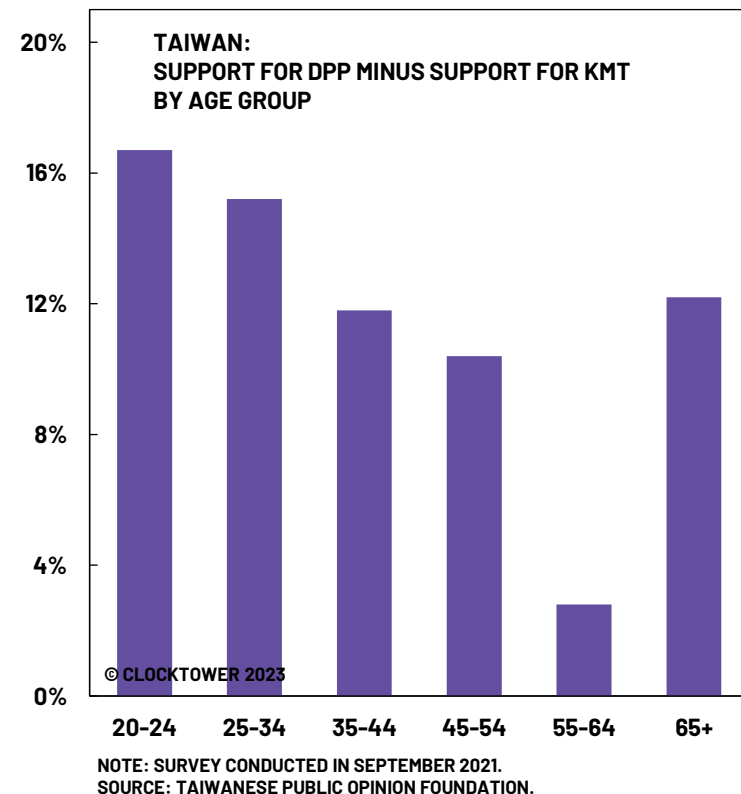
# KMT's Secular Decline | Generational Replacement Cont'd

61% of the population now consider themselves “Taiwanese,” while the attachment to Chinese identity has fallen to less than 3%. The DPP now leads the KMT by a wide margin within the younger generation.

Taiwan's De-Chinafication



The KMT's Decline Is Generational

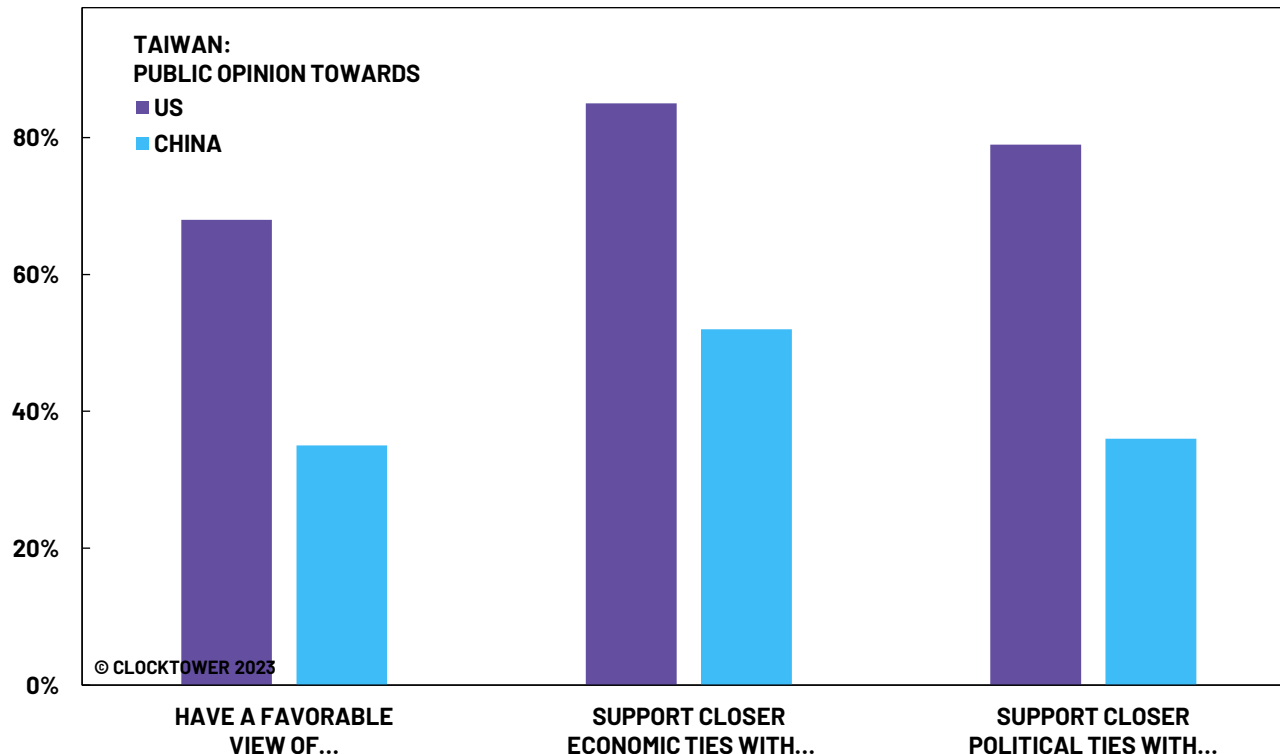




## KMT's Secular Decline | Sino-US Tensions Hurt the KMT

As the Sino-US geopolitical tensions intensify, the Taiwanese public will further gravitate towards the US narrative of “a choice between democracy and autocracy” while becoming increasingly anti-Beijing.

The Taiwanese Public Has an Overwhelmingly Favorable View Towards the US



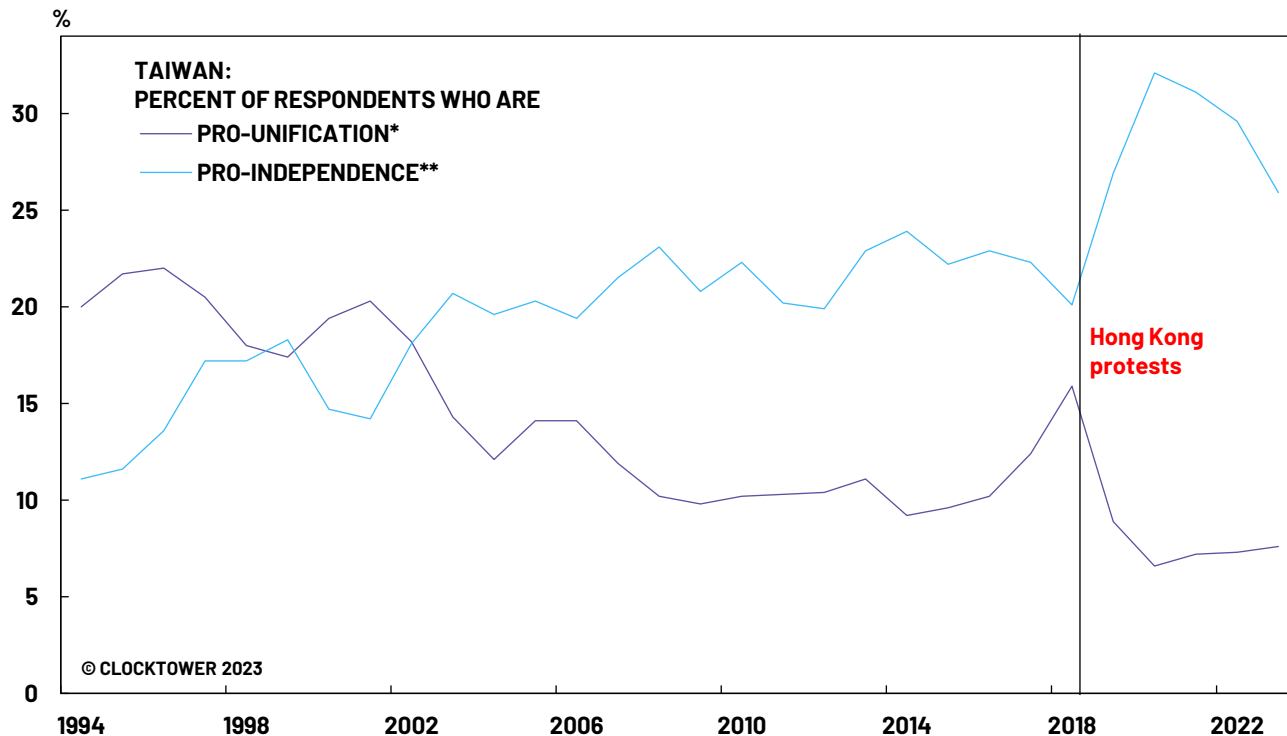
SOURCE: PEW RESEARCH CENTER, SURVEY CONDUCTED IN OCTOBER 2019.



# KMT's Secular Decline | Beijing's Behavior Hurt the KMT

Beijing's political tightening both domestically and in neighboring Hong Kong has proved to be a strategic mistake as far as Taiwan is concerned.

Beijing's Political Tightening in HK Created a Backlash in Taiwan



\* INCLUDES BOTH "UNIFICATION AS SOON AS POSSIBLE" AND "MAINTAIN STATUS QUO, MOVE TOWARDS UNIFICATION."

\*\* INCLUDES BOTH "INDEPENDENCE AS SOON AS POSSIBLE" AND "MAINTAIN STATUS QUO, MOVE TOWARDS INDEPENDENCE."

SOURCE: ELECTION STUDY CENTER, NATIONAL CHENGCHI UNIVERSITY.

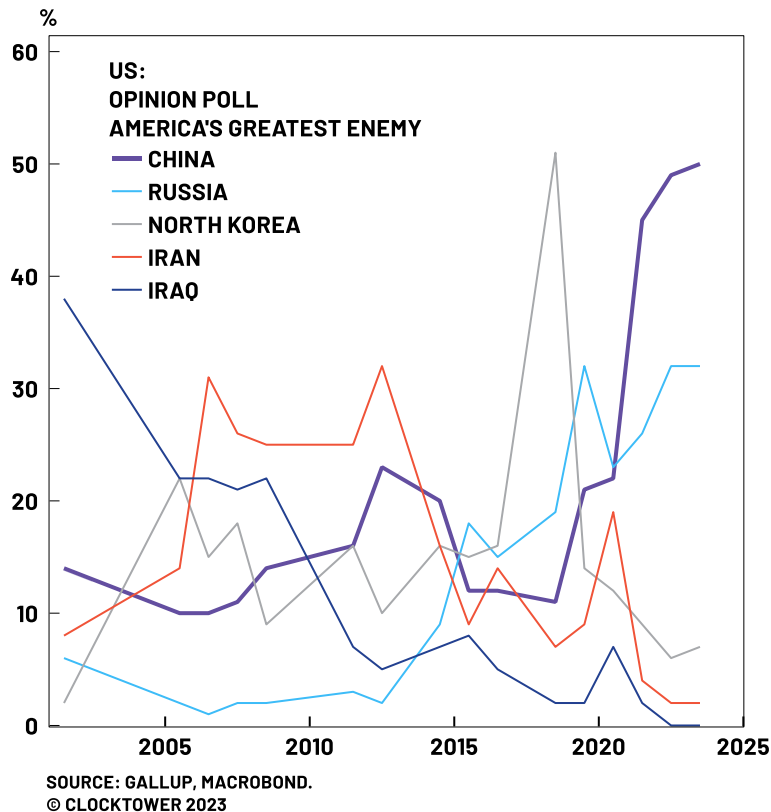




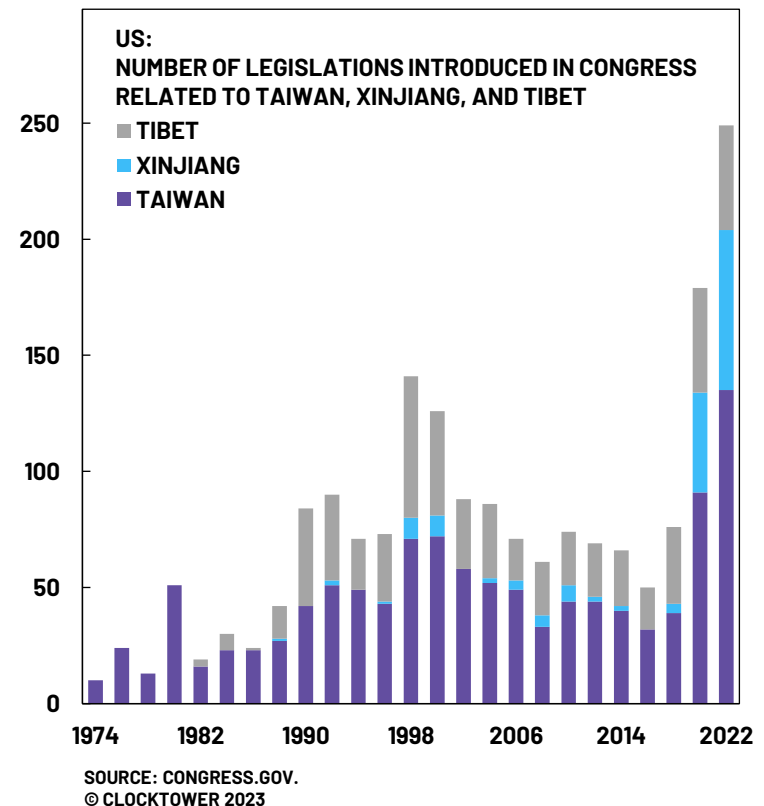
# Risk #1 | Beijing Is Forced Into a Corner

The real risk in the Taiwan Strait lies in the US Machiavellian foreign policy that aims to actively draw China to overreact to provocations.

American Paranoia about China...



...Means Elevated Uncertainty over Taiwan





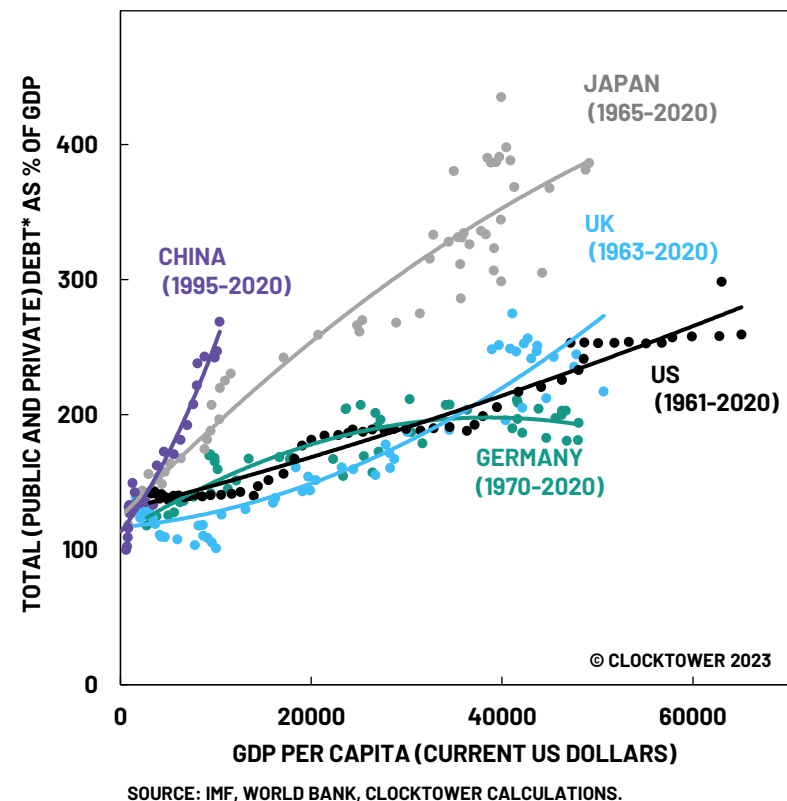
## Risk #2 | China Is on the Brink of Self-Impllosion

The risk-reward of invading Taiwan on a relative basis may increase and become acceptable to Beijing if a domestic crisis occurs first and already poses a serious threat to political stability.

### An Uncontrolled Fall in Property Prices...



### ...May Trigger A Systemic Debt Crisis in China





## Questions/Comments?

For questions on this content, or for permission to use any of this content externally, please reach out to Marko Papic and team at [marko@clocktowergroup.com](mailto:marko@clocktowergroup.com) and [research@clocktowergroup.com](mailto:research@clocktowergroup.com).



# Legal Disclaimer

This Report is proprietary and confidential and may not be copied, quoted, referenced, or distributed in any format without the express written approval of Clocktower Group ("Clocktower"). Any violation of the foregoing may result in cancellation of your subscription without a refund, monetary penalties, and/or legal action.

The views expressed reflect the personal views of the members of Clocktower's Strategy Team and do not necessarily reflect the views of Clocktower. Views expressed are as of the date hereof and Clocktower does not undertake to advise you of any changes in the views expressed herein. Opinions or statements regarding financial market trends are based on current market conditions and are subject to change without notice. References to a target portfolio and allocations of such a portfolio refer to a hypothetical allocation of assets and not an actual portfolio. The views expressed herein and discussion of any target portfolio or allocations may not be reflected in the strategies and products that Clocktower offers or invests. It should not be assumed that Clocktower has made or will make investment recommendations in the future that are consistent with the views expressed herein, or use any or all of the techniques or methods of analysis described herein in managing client or proprietary accounts.

Clocktower does make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Report and nothing contained herein shall be relied upon as a promise or representation whether as to the past or future performance. The information contained herein should not be relied solely upon by any party in connection with any investment in any fund or investment vehicle managed by Clocktower. Certain factual information contained herein has been obtained from third-party sources. It has not been independently verified by Clocktower and although Clocktower believes it to be reliable, Clocktower makes no representation as to its accuracy or completeness.

This Report is intended solely for informational purposes. It is not investment advice and should not be considered to be a recommendation to buy or sell any types of securities or investments or as an indication that any security listed in this Report is suitable for a particular person. Any such offering would be made only to accredited investors and only by a term sheet, confidential private placement memorandum or similar offering document ("Offering Documents"). Before making an investment decision with respect to any private fund, potential investors need to carefully read the Offering Documents, and also consult with their tax, legal and financial advisors.

The investments described herein involve a high degree of risk, including the loss of principal investment. There can be no assurance that investment objectives will be achieved or that investors will receive a return of their capital. In addition, investment results may vary substantially on a monthly, quarterly or annual basis. Clocktower and its affiliates also may have potential conflicts of interest, including that some of Clocktower's officers, directors and/or employees may be investors in the securities directly or indirectly. No assurance can be given that any risk management framework described herein will achieve its objective.

This Report contains statements and information that is not purely historical in nature. These include, among other things, assumptions, expectations, intentions and beliefs about future events. All of these statements and information are intended as "forward-looking statements". These forward-looking statements are identified by their use of the terms and phrases, such as "believe," "may," "should," "intend," "expect," "anticipate," "project," "estimate," "predict," "scheduled," and similar expressions and phrases. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from those described.

Clocktower Group is an SEC-registered investment adviser and information regarding the services provided and fees charged, along with other important disclosures is contained in our Form ADV, which can be obtained upon request at 1-310-458-2003 or found at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)