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# Top-Down & Bottom-Up: Completely Disconnected!

ANALYTIC INSIGHTS - AUGUST 2013



## Top-Down & Bottom-Up: Completely Disconnected!

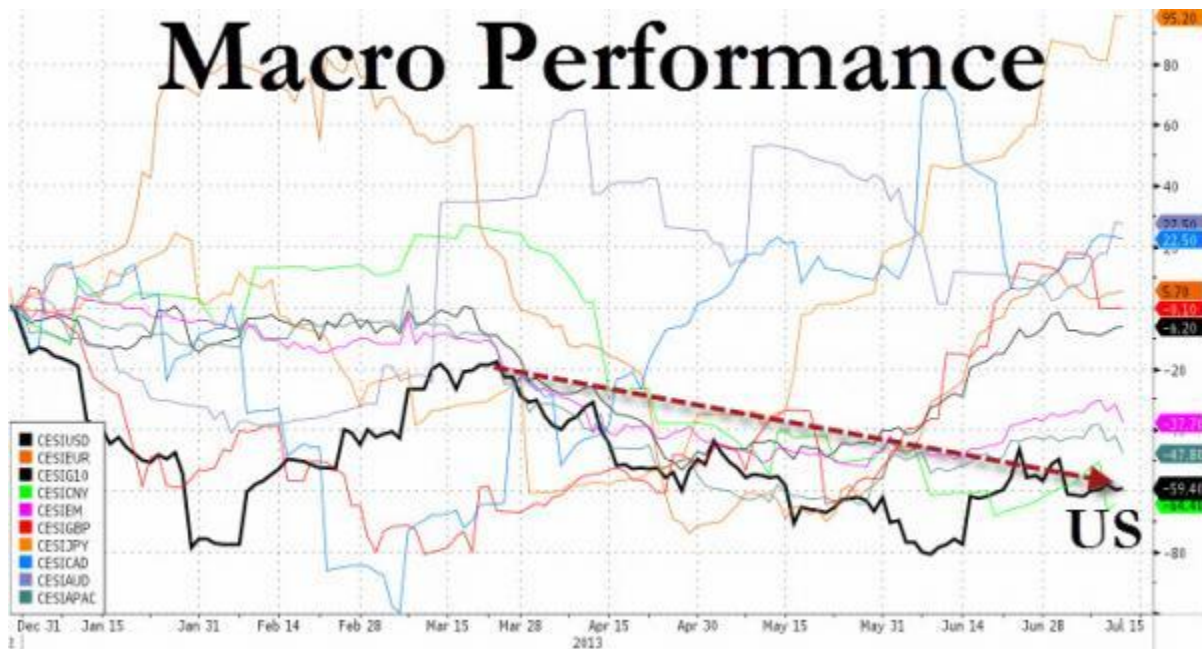
Here are two research pieces we came across recently that require little comment. One is a Top-Down assessment, the second is a Bottom-Up assessment. They are both accurate.

Together they suggest the markets have nasty surprises ahead if the disconnects are to be resolved!

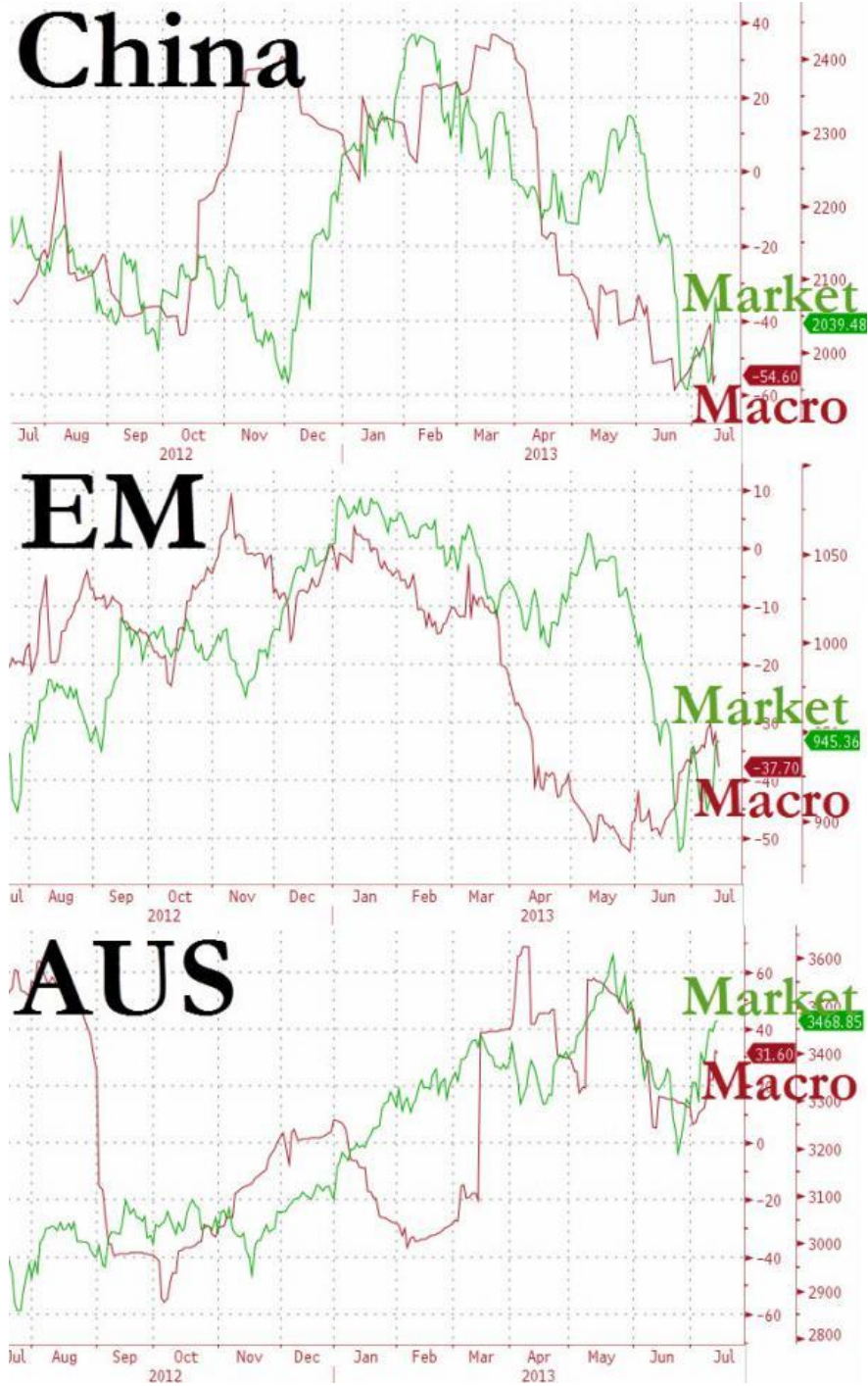
### TOP-DOWN ASSESSEMENT

[The bottom-line from the top-down](#) is that the US is in fact the 2nd worst performing macro-economy of the year of the majors (2nd only to China) compared to expectations.

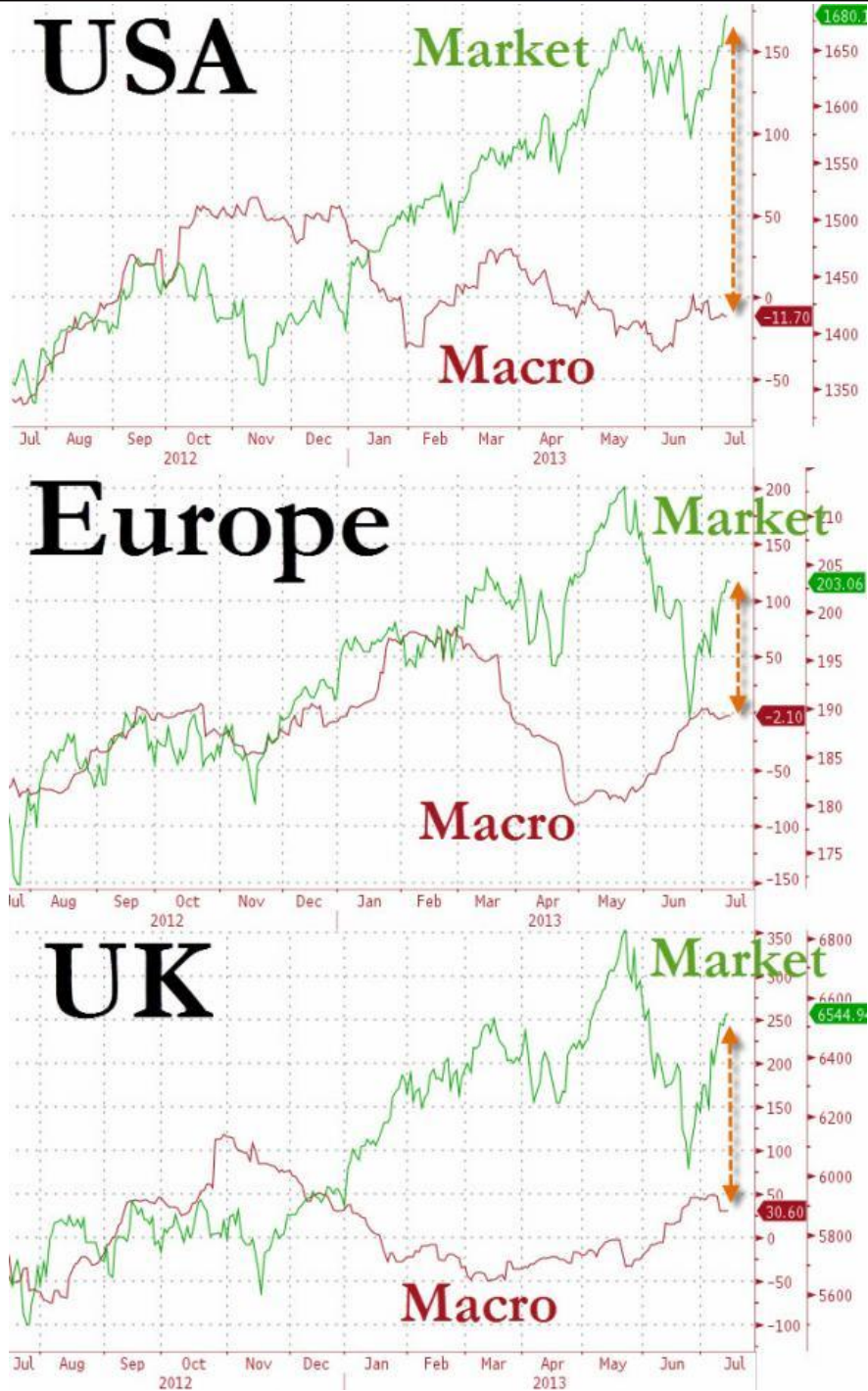
What the following charts indicate though, is an interesting divergence between macro-reality and market-perception that is evident among the nations of the world that print money to save themselves... and those that are not (yet)...



But let's dig a little deeper... here are three regions that are **NOT printing money**... seems like macro and market are tending to stay together reflecting some reality...



and those nations that **ARE** printing money...



Notice any difference?

Still a believer that it will all be ok?

## Top Down Strategist Estimates 2013

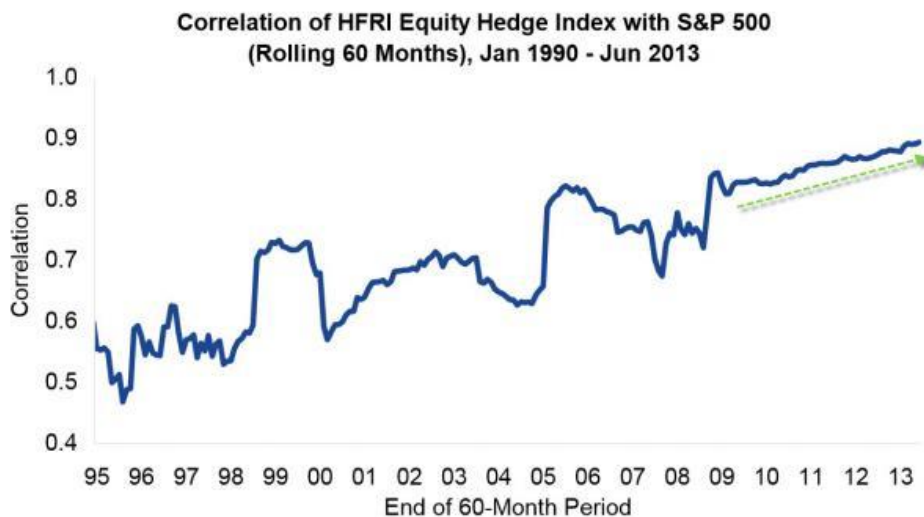


### BOTTOM-UP ASSESSMENT

As [Zero Hedge spells out](#) from a Bottom-Up assessment.

Amid the drastic slashes in guidance that we have seen in the last few weeks (for example [here](#) and [here](#)), the following six charts may shed some further light ([in addition to this eye-opening chart](#)) on what is going on under the covers of the multiple-expanding, fundamentals-don't-matter, unreality that is the US equity market...

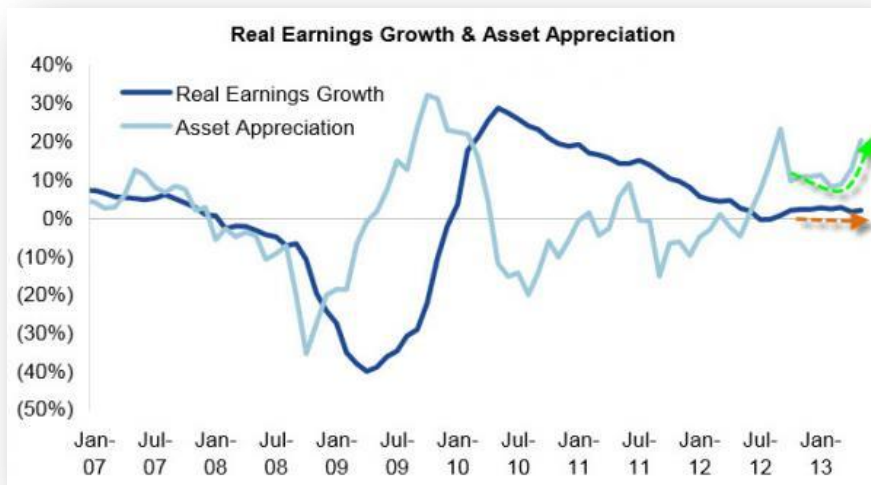
First things first, **it's all beta, no alpha all the time...**



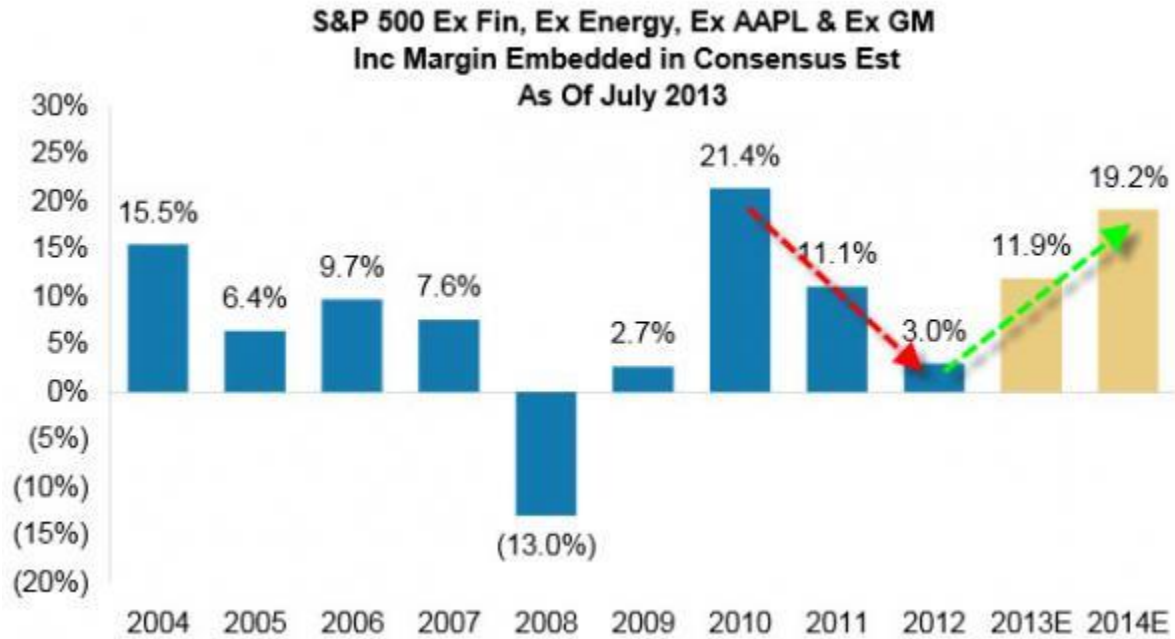
and **valuation differences have compressed to near-record lows** (i.e. everything is floated by the same multiple-expanding hope-driven liquidity fuel)...



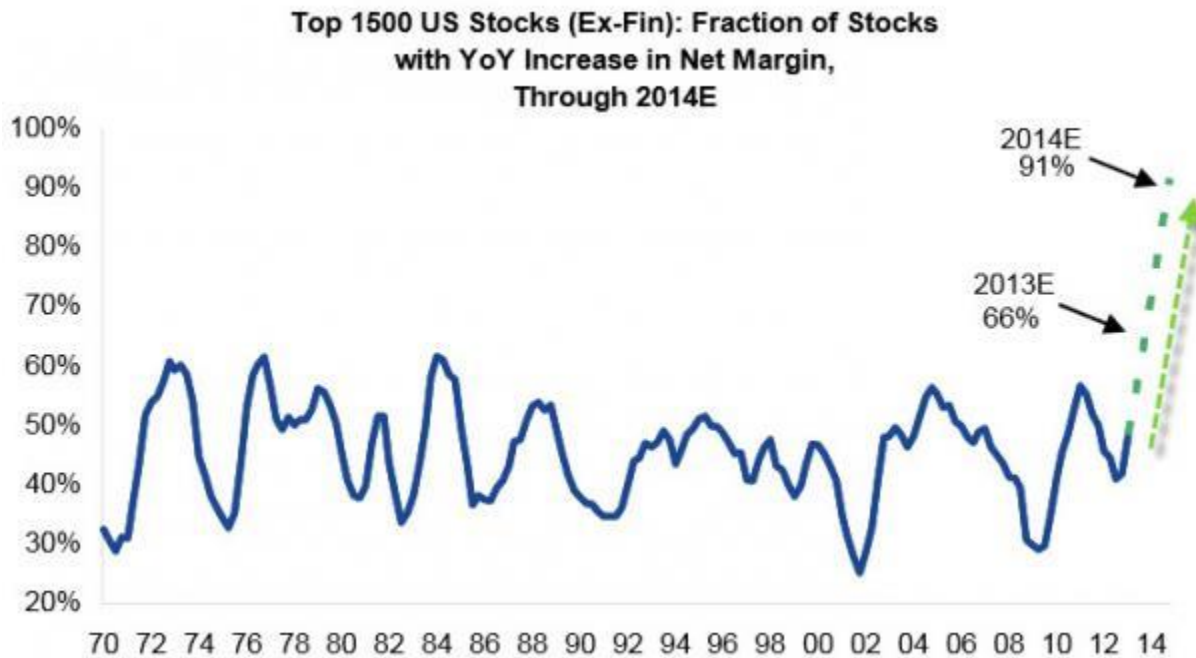
and **asset appreciation** has entirely disconnected from real earnings growth...



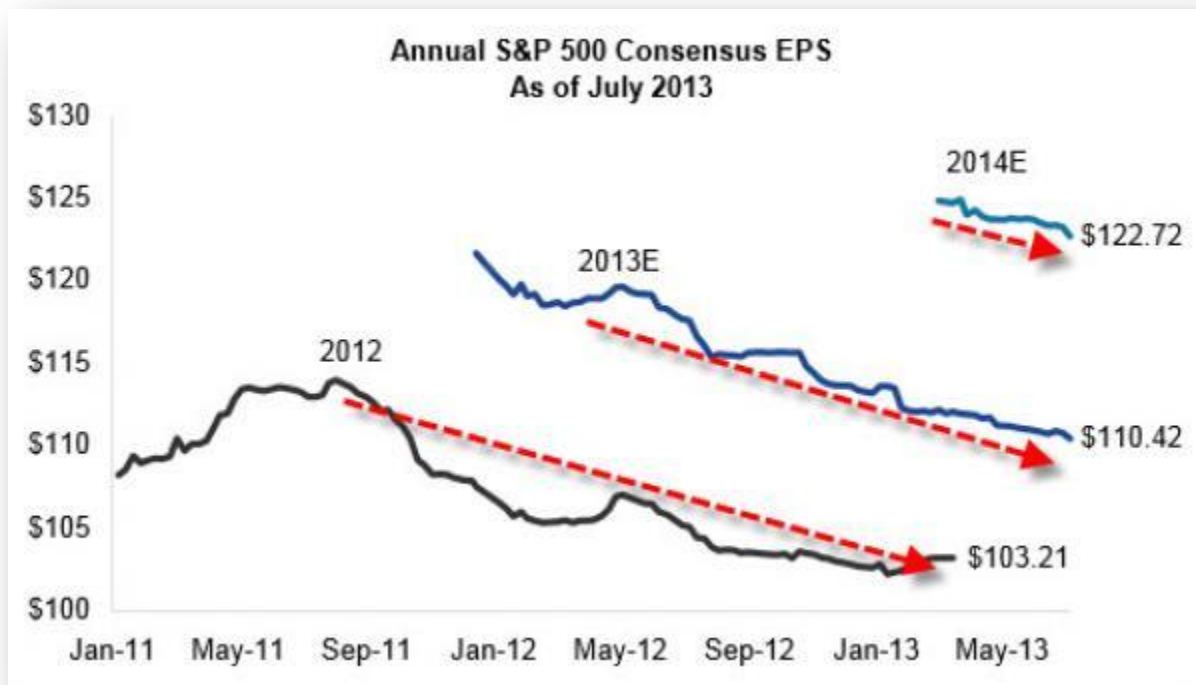
and it's all driven by a **screaming surge in margin improvement expectations...** (be careful what you wish for equity asset managers who are calling for bond markets to collapse - if rates rise, this margin is gone...)



and the margin improvement is across everything!! **91% of the S&P 1500 companies are expected to increase margins in the next year!!!**



as **Earnings have been moving in one direction for two years...**



Charts: Morgan Stanley

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