Stargazer
Asset Management

What to focus on in Global Macro for the week of August 3rd, 2020

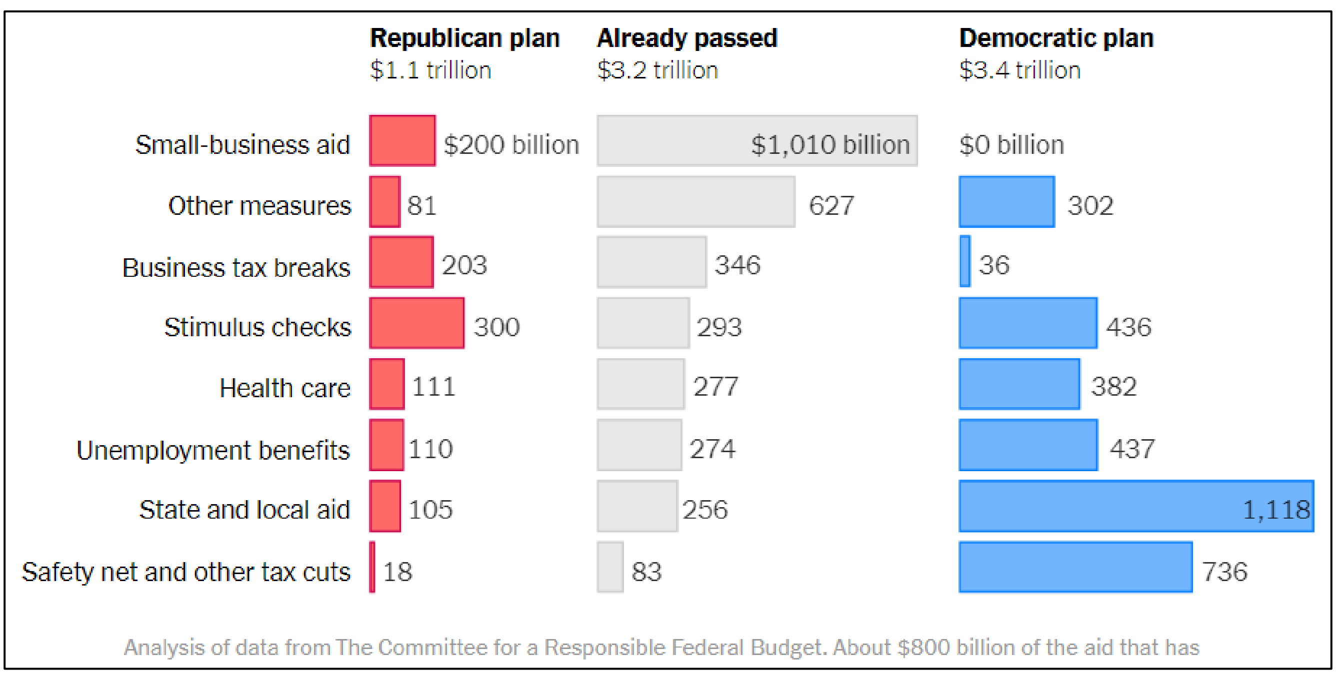
Macro Themes on the Radar:

Fed

We didn't get much out of the Fed's meeting last week. Powell indicated that the recent virus spikes were taking a toll on high frequency data and flattening, or even reversing, some of the recovery. He highlighted that the path forward for the economy would be very dependent on how the virus plays out in the coming weeks and months. While he indicated that the Fed can do more in terms of expanding the balance sheet if needed, and by providing forward guidance, no changes were announced. Negative interest rates still seem to be off the table. He emphasized the importance of the fiscal spending that has already been done and that more may be needed going forward. For now, he held off on announcing any form of inflation targeting or yield curve control.

Economy and Fiscal Spending

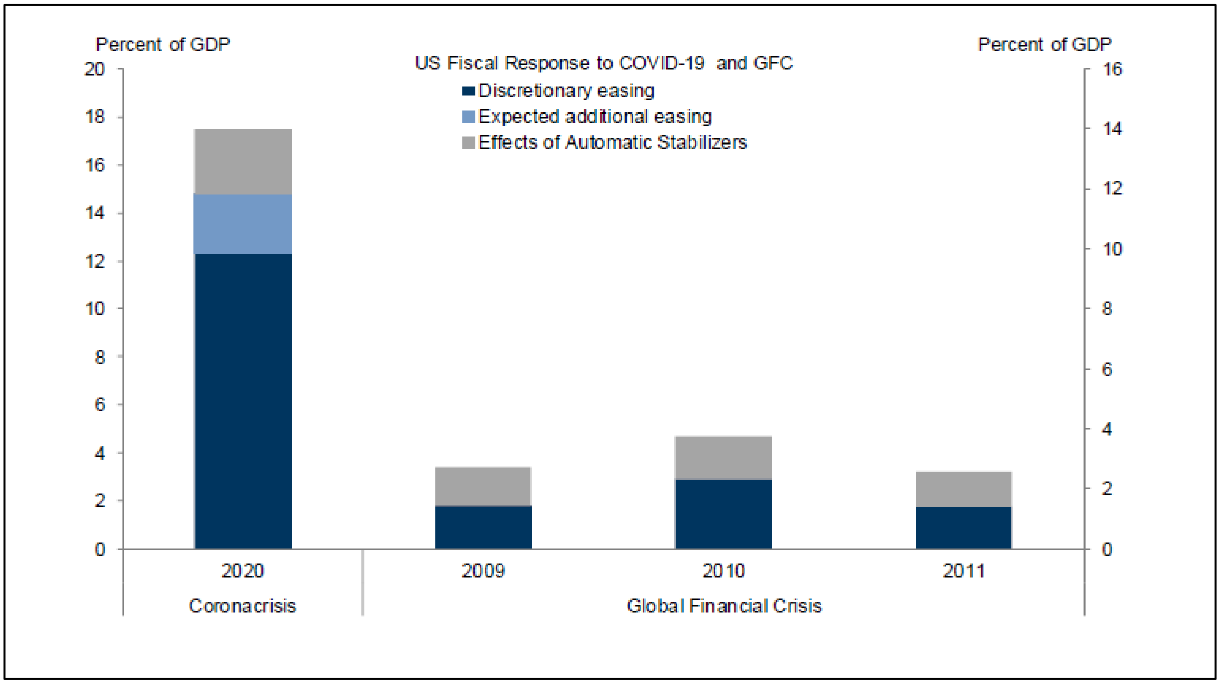
The separation between the House and Senate stimulus plans remains wide, as negotiations continue. The fate of the $600 unemployment insurance boost and the next stimulus check are clearly important line items, but not the only bones of contention.



Source: NY Times

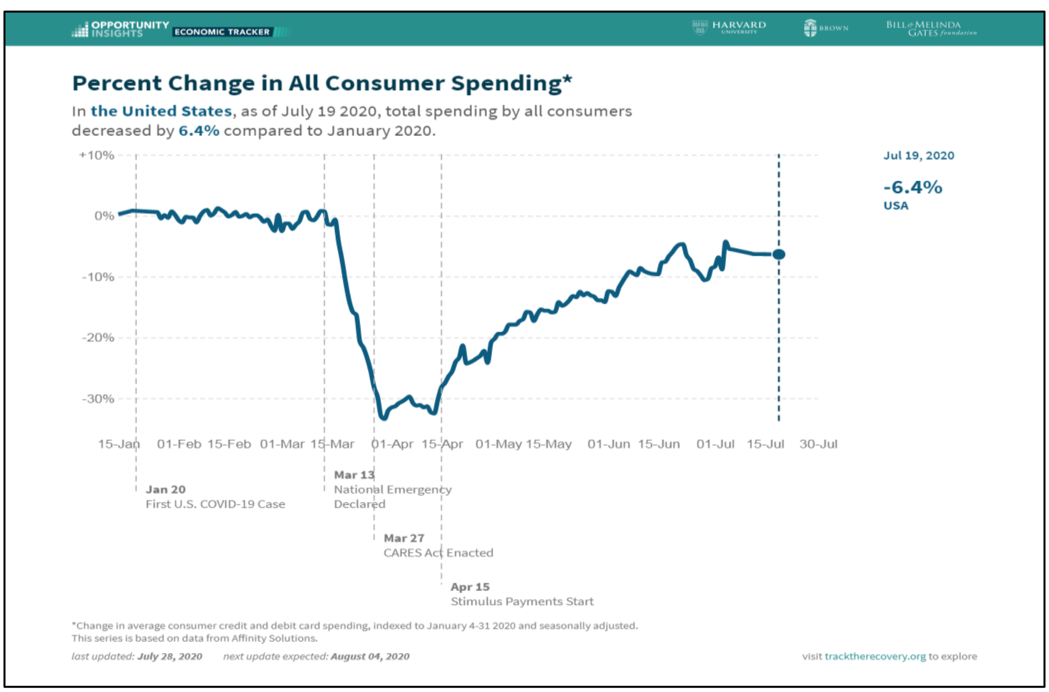
Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

As Powell noted during the Fed's press conference, a lot has already been done by fiscal authorities. Importantly, they have done it quickly. Here is a comparison vs. the post GFC response.



Between increased spending and lower revenues, the budget deficit has of course exploded.

However, so far consumer spending has recovered and remained relatively well supported, thanks to the fiscal efforts. The future size and duration of the $600 a week unemployment boost will be impactful for consumer spending going forward.



http://tracktherecovery.org/ is an interesting source of data for tracking the recovery vs. a number of economic sectors.

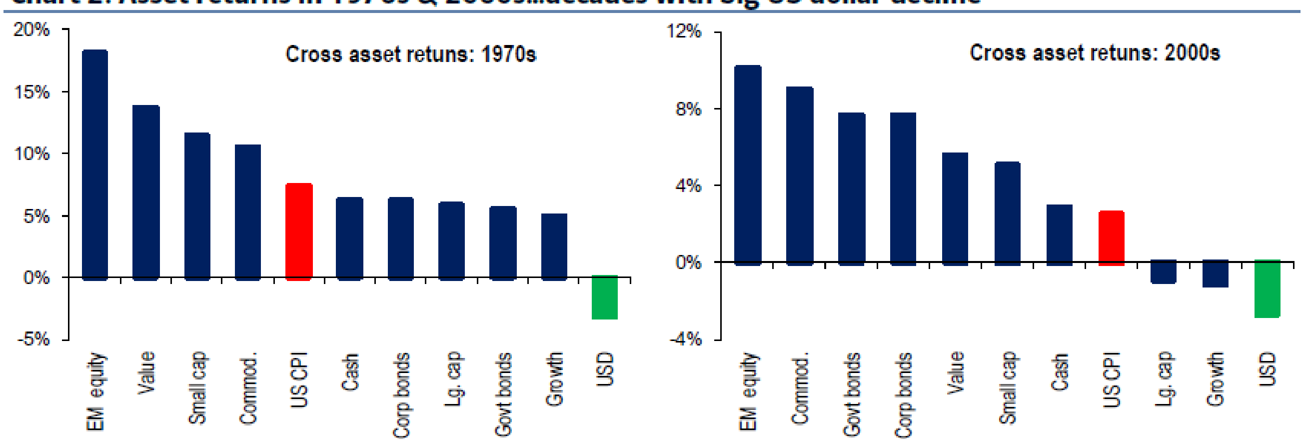
What to Focus on Now:

The USD has been under almost constant pressure over the last few weeks. There are lots of moving parts to the narrative and the list of drivers depend on who is telling the story. Here is a short list of the current favorites:

- Fed liquidity provisions are designed to push down USD and provide more than ample USD supply to the world, avoiding USD shortage
- Fed balance sheet is going to catch up with other major CB's
- Doesn't matter if it is Trump or Biden, massive fiscal push to continue (MMT)
- Inflation is coming as CB's hold down rates and print currency
- USD could lose global reserve currency status
- Relative success in controlling the virus means USD should fall
- As capital moves to cheaper "value" markets it should kick off virtuous weaker USD cycle

This chart for BoA/ML outlines the play book. "...two great dollar bear markets were in 1970s & 2000s, outperforming assets those decades were EM equities, commodities, small cap, and value stocks."

Chart 2: Asset returns in 1970s & 2000s...decades with big US dollar decline

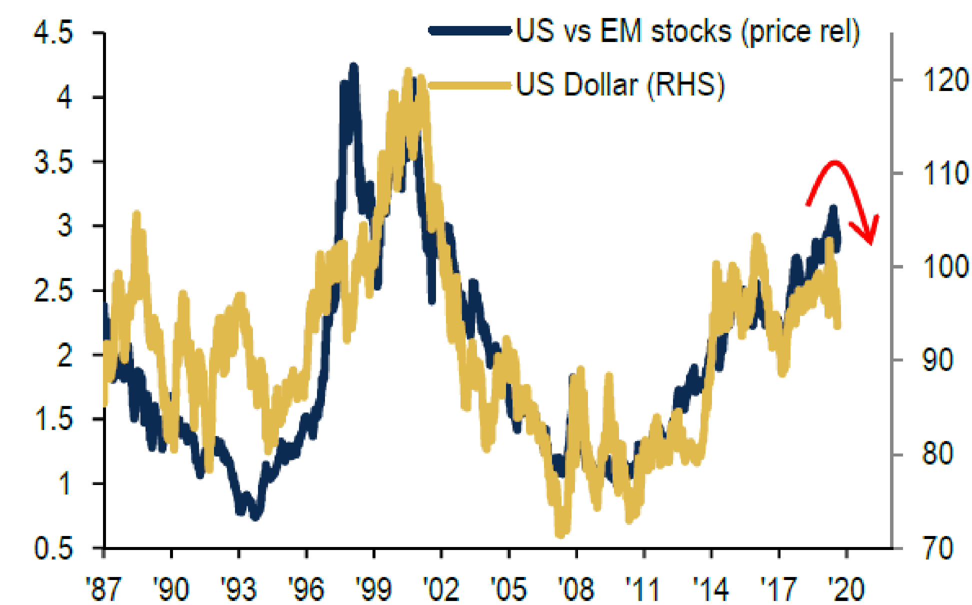


Source: BofA Global Investment Strategy, Bloomberg, Ibbotson, Fama-French growth/value series, Case-Shiller, Bureau of Economic Analysis, Homer & Sylla, A History of Interest Rates; Prior to 1990 Energy = Oil, Gas & Consumable Fuels

EM and world ex-US should start to outperform on a relative basis as the USD falls.

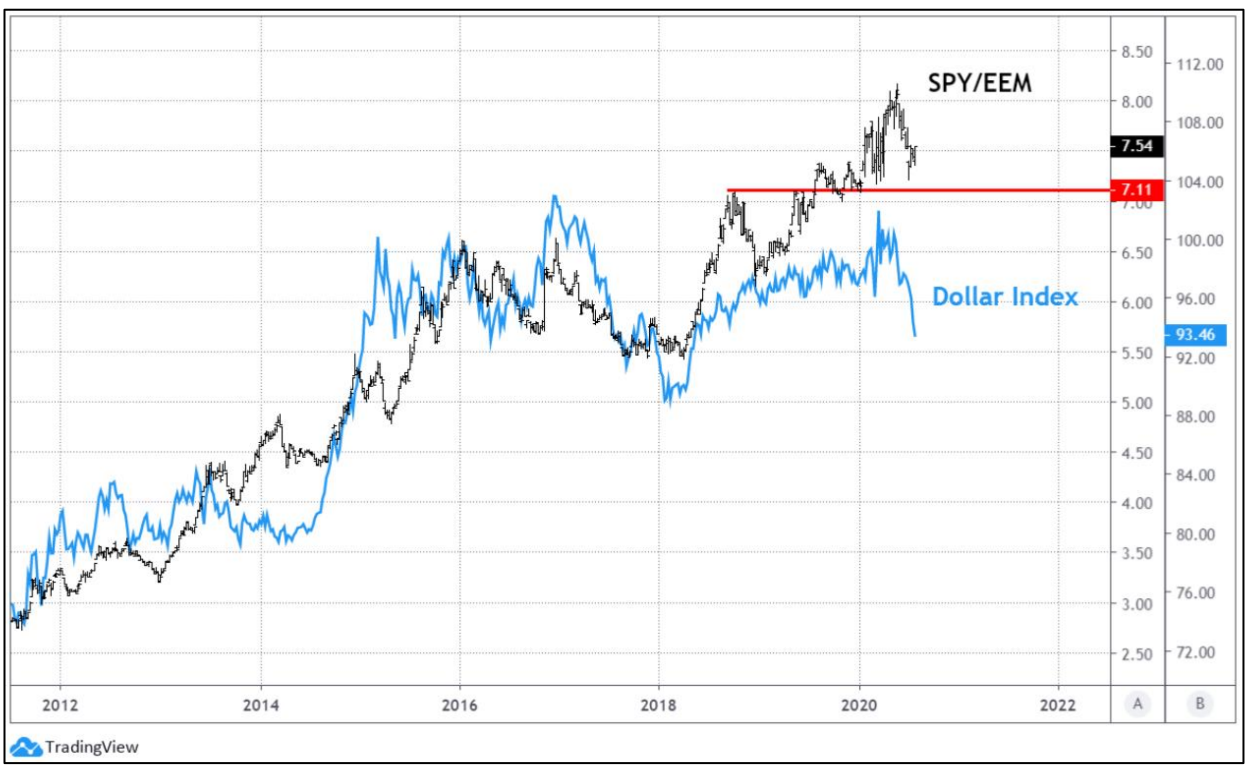
Stargazer
Asset Management

Chart 12:...EM stocks to outperform US stocks



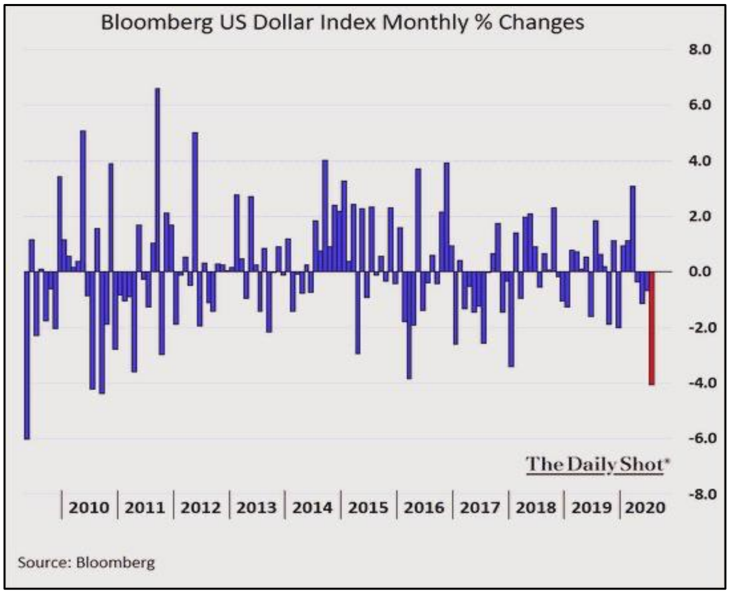
Source: BofA Global Investment Strategy, Bloomberg

That has started to happen to some degree, but to be honest, at this point it has been a bit underwhelming. Here is a zoomed in chart… No clear break yet in favor of EM as big tech exposure continues to support S&P 500 performance.



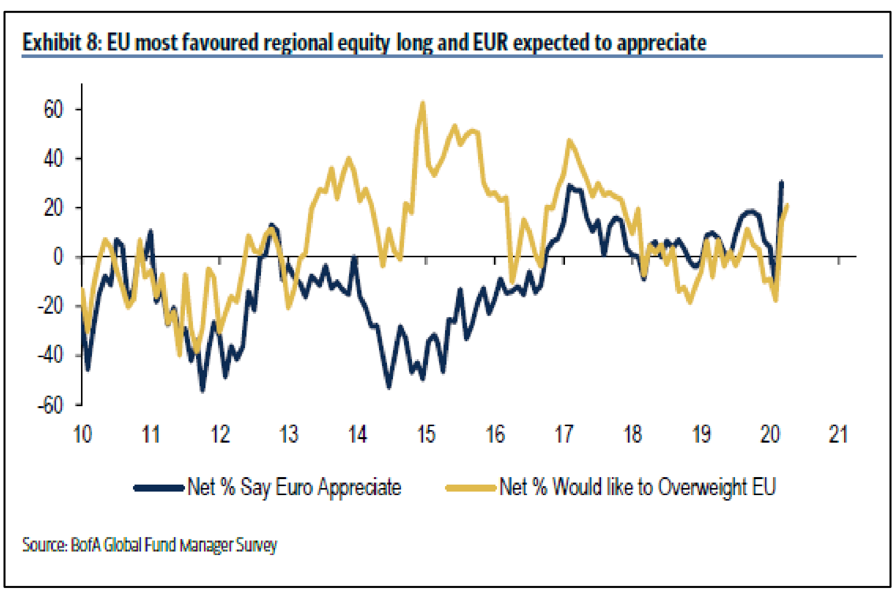
Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

… despite what has been a big recent USD move.



Ok, so the most Dollar Index measures have a large weighting vs. the EUR. As per a recent fund manager survey, investors were looking for a EUR currency rally AND regional equity outperformance.

Afterall, with negative interest rates in place and very low or negative bond yields, why buy the currency unless it is to own the equities?



However, similar to the effects of the falling USD on EM relative equity performance, European equities have also disappointed. Initially they outperformed as the EUR rallied. However, it seems that the approval of the EU Recovery Fund, rather than acting as a catalyst for a further eurozone equity outperformance, has so far resulted in a case of “buy the rumor, sell the fact.”

As noted last week, I was on alert for a failure in the uptrends of the European indices.

They started to crack by the end of the week…

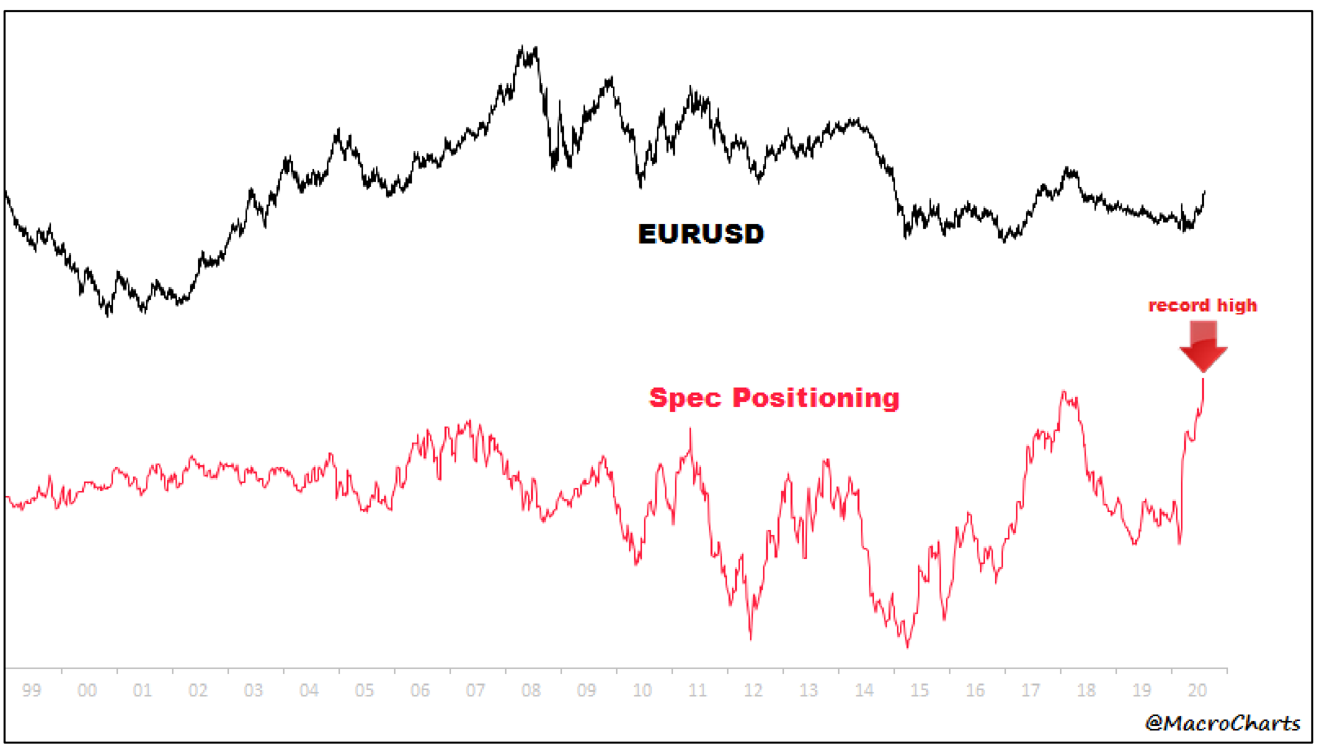
Euro Stoxx

Germany

France

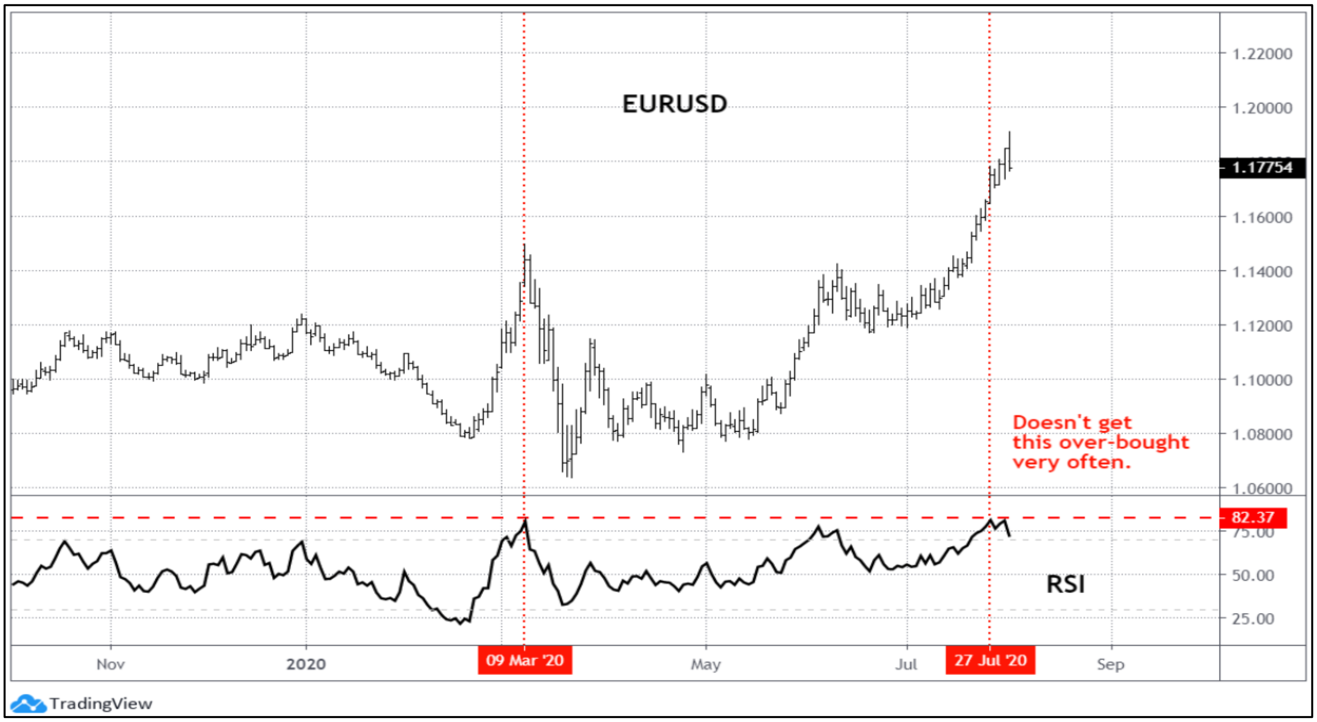
Spain

At the same time the EUR is now looking extended after what has been a nice run higher. Not only have USD shorts surged, but they are starting to look particularly extended vs. the EUR.



Stargazer
Asset Management

The EUR has become extremely over-bought on the recent run higher. These levels on the daily RSI's often mean a pause or retracement is needed before we can meaningfully push on.



Here is a weekly chart that shows when the daily RSI has reached the current level… even in a big bull move, probability that it takes a breather now is elevated.

Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

Of course, it is 2020 and the COVID crisis has broken many old taboos and relationships, so anything is possible. It strikes me that part of the problem with the transmission of the dollar weakness into global equity market strength, is the uniqueness of the current situation. In past recessions big tech was hit hard, but this time it has exploded. Not only has big tech been attractive in relative growth terms but its growth has actually accelerated as lockdowns and social distancing have been driving consumer spending to those sectors. This is occurring while the rest of the economy, both domestically and internationally continues to operate at 80-90% of pre-COVID levels.

Usually, a falling USD occurs as the global economy recovers. Liquidity is plentiful and flows into value plays as the falling dollar ignites and feeds a virtuous cycle. Commodity prices rise, EM attracts capital as volatility and risk adjusted returns in EM improve.

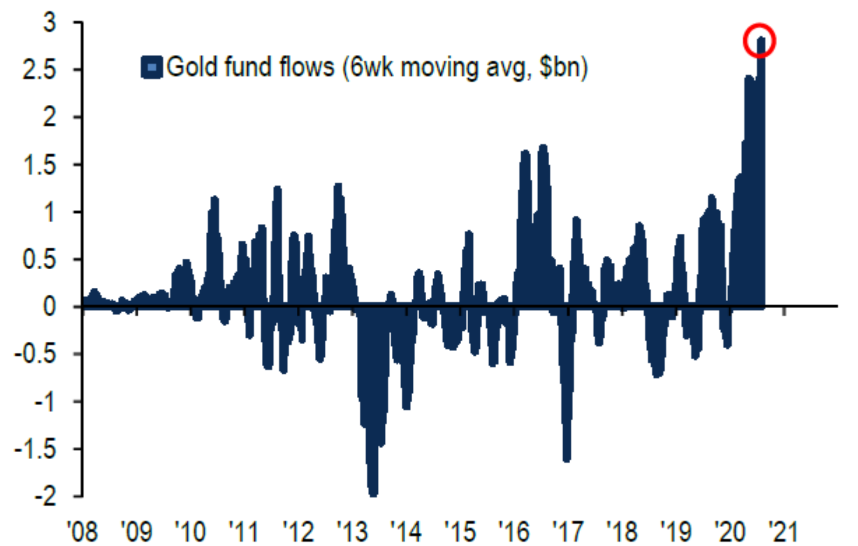
<u>This time the dollar fall has been less bullish for global assets, at least so far. To some extent this reflects a very unusual USD weakening that is being driven by a fear of currency debasement and purchasing power lose. Watching the relative performance of other markets is important here, as it will tell us if this mood continues or if it morphs into a more bullish scenario for global markets.</u>

Gold and Silver

Boa/ML reports that their data indicates that so far in 2020 we have seen flows of "$1.1tn into cash, $164bn into IG & HY, $53bn into gold, $28bn into government bonds, $39bn out of equities."

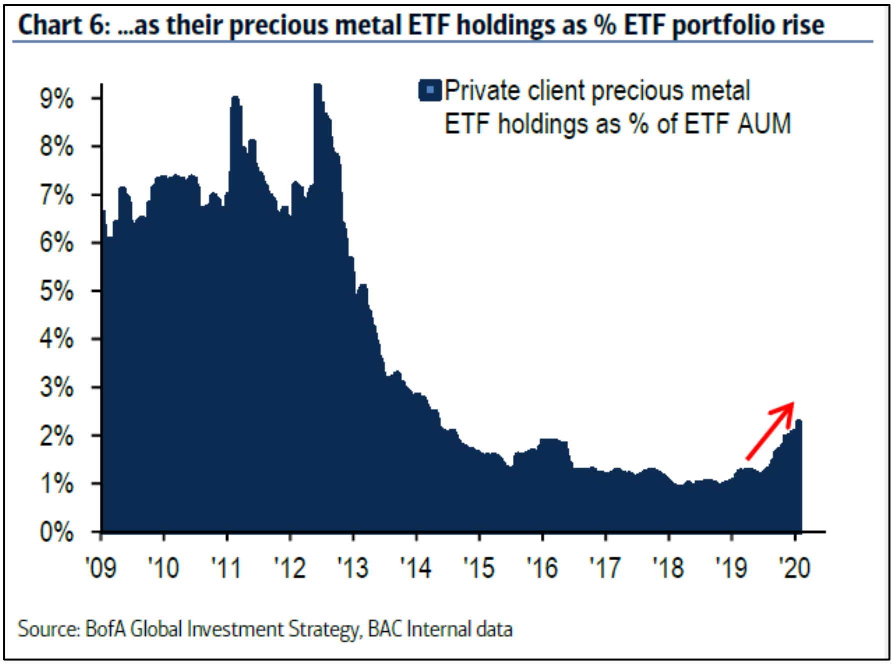
Investors have been steadily buying Gold, but recently it has accelerated.

Chart 3: Record 6-week inflow to gold



Source: BofA Global Investment Strategy, EPFR Global

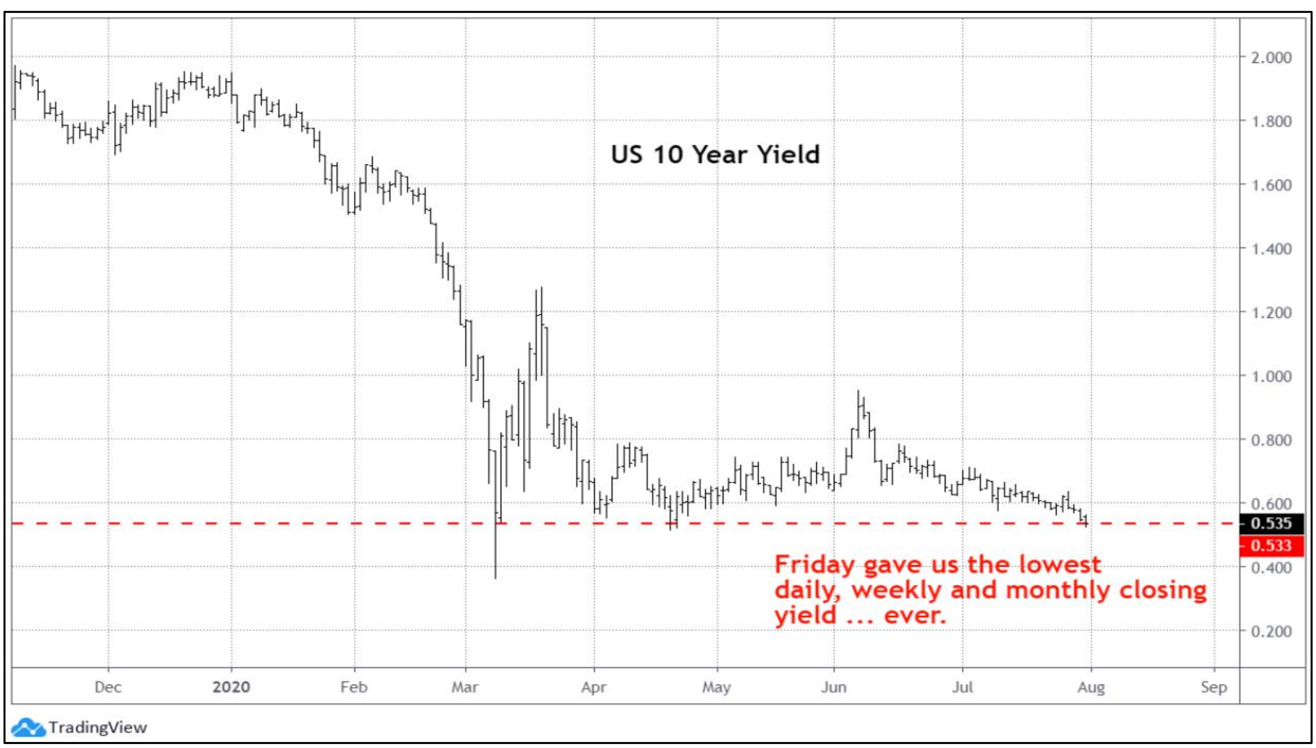
Although holdings hardly make it seem like a mania has arrived yet…



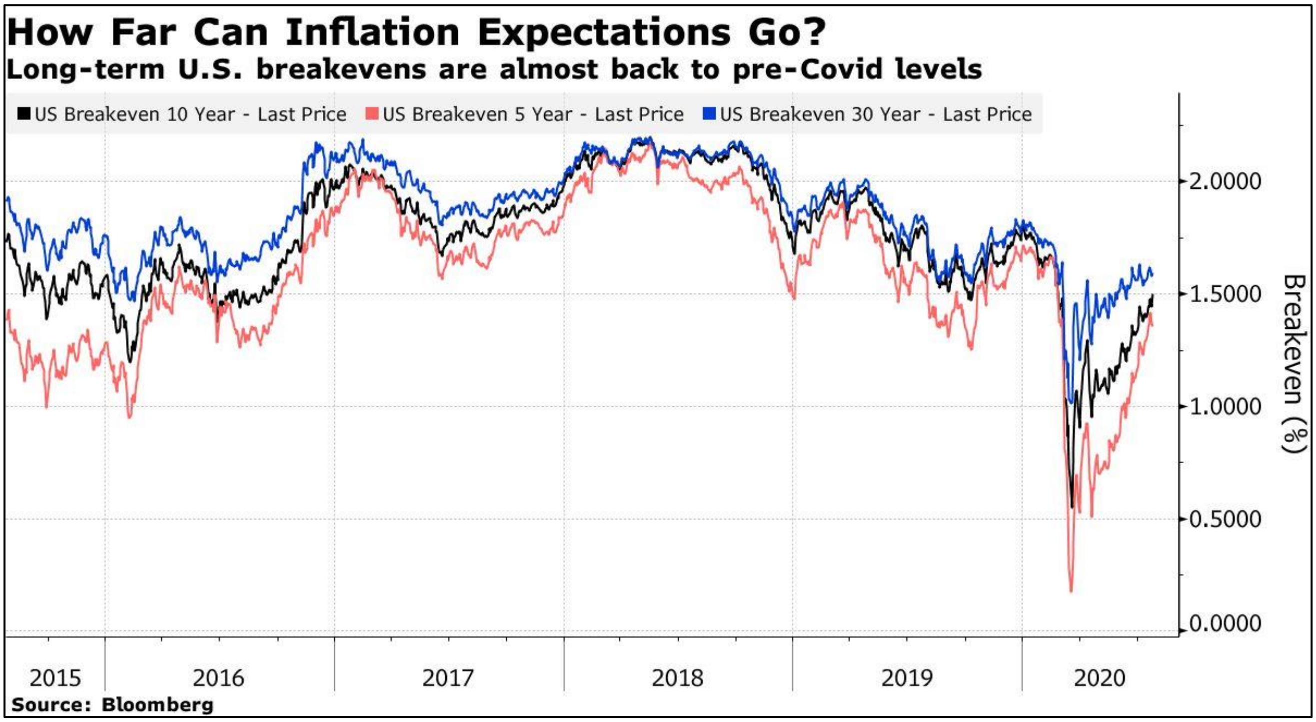
In nominal terms Gold has been hitting new highs… but not even close yet in real terms.

Real yields have been the driver…

As low and falling bond yields… (the closing yield on Friday broke some records)



… combine with rising inflation expectations. (Falling USD and CB policy raises inflation expectations and pushing up Gold)



Having said that, the last two weeks have been a sprint, and as with the EURUSD, we are now very over-bought. Often that requires a rest or retracement before we can push on. (daily chart)

Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

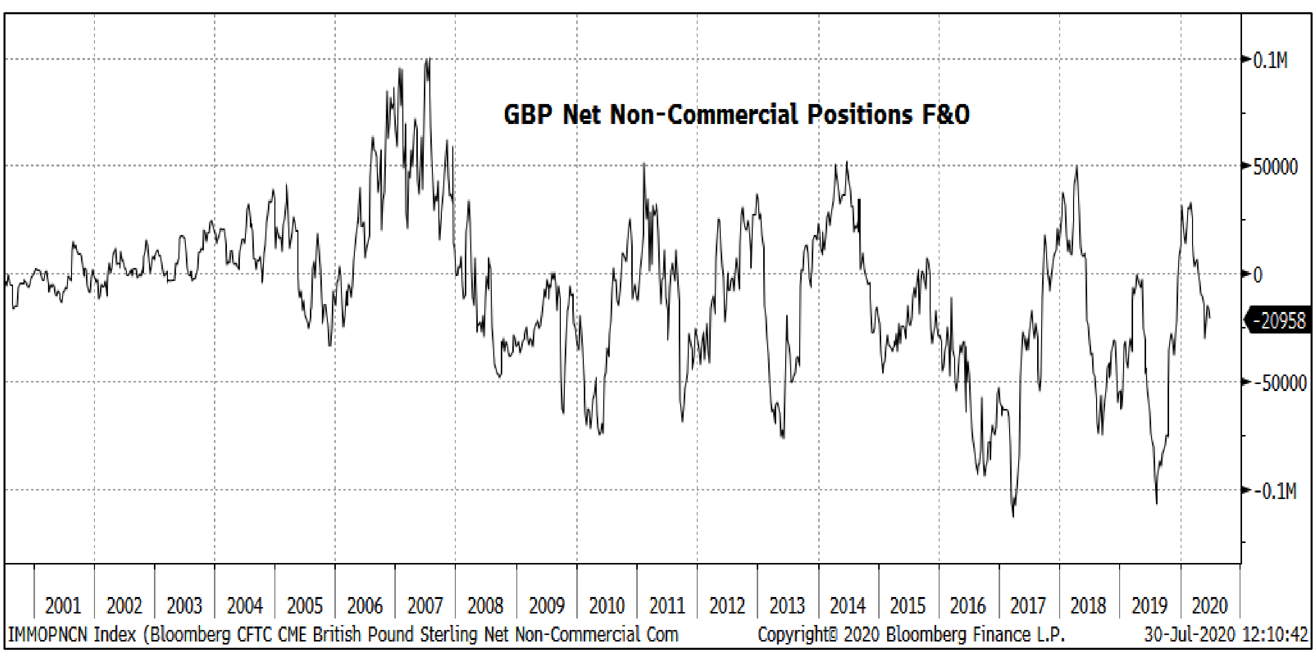
Bigger picture, the gold rally has started to outperform some of the US indices with low big tech exposure.

Silver has outperformed Gold dramatically over the last few weeks as the normally higher vol. metal played catch-up. Last time we had a big technical break like this it was just the start…

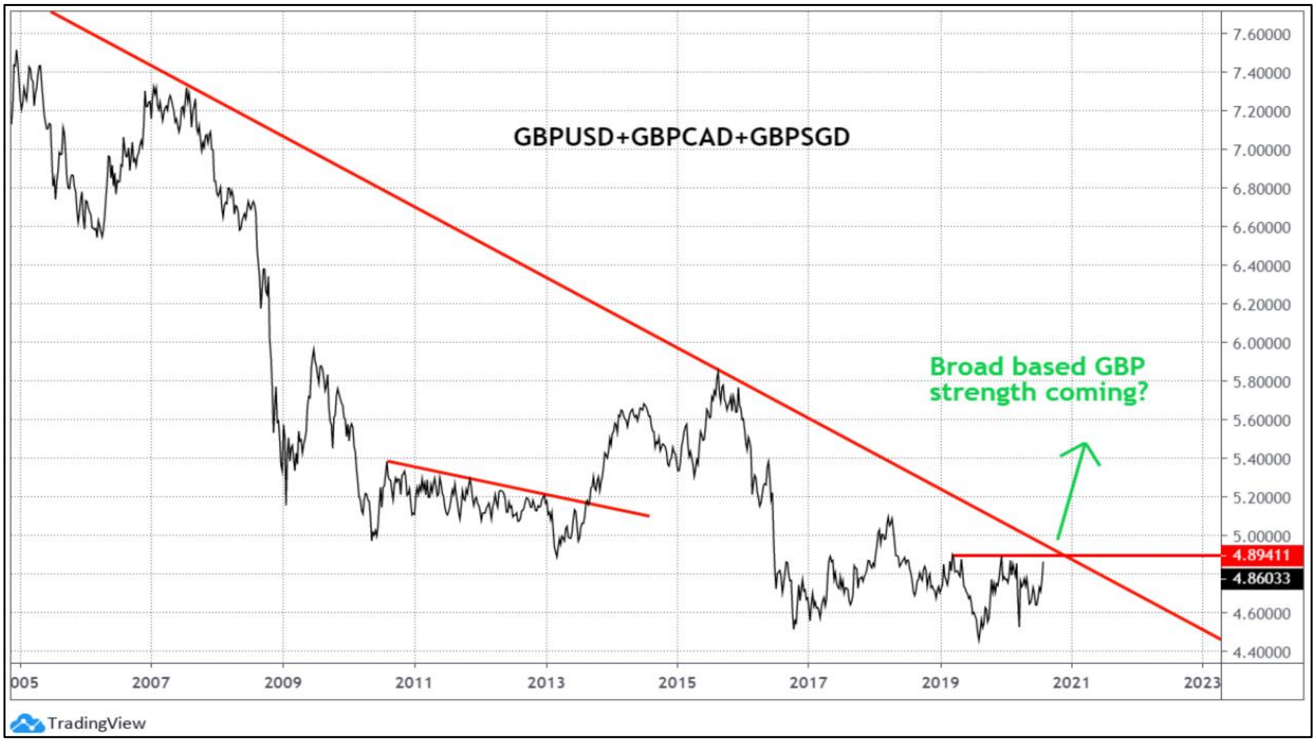
While we are certainly very extended in the short-term, the next six-months have the potential for meaningful follow-through.

GBP

With continued hard Brexit fears and relatively low positioning as a result, Sterling is worth keeping an eye on. After all, at least it doesn't have negative rates like EUR, CHF and JPY.



Not only does GBP look interesting vs. the USD, but it is starting to outperform more broadly.

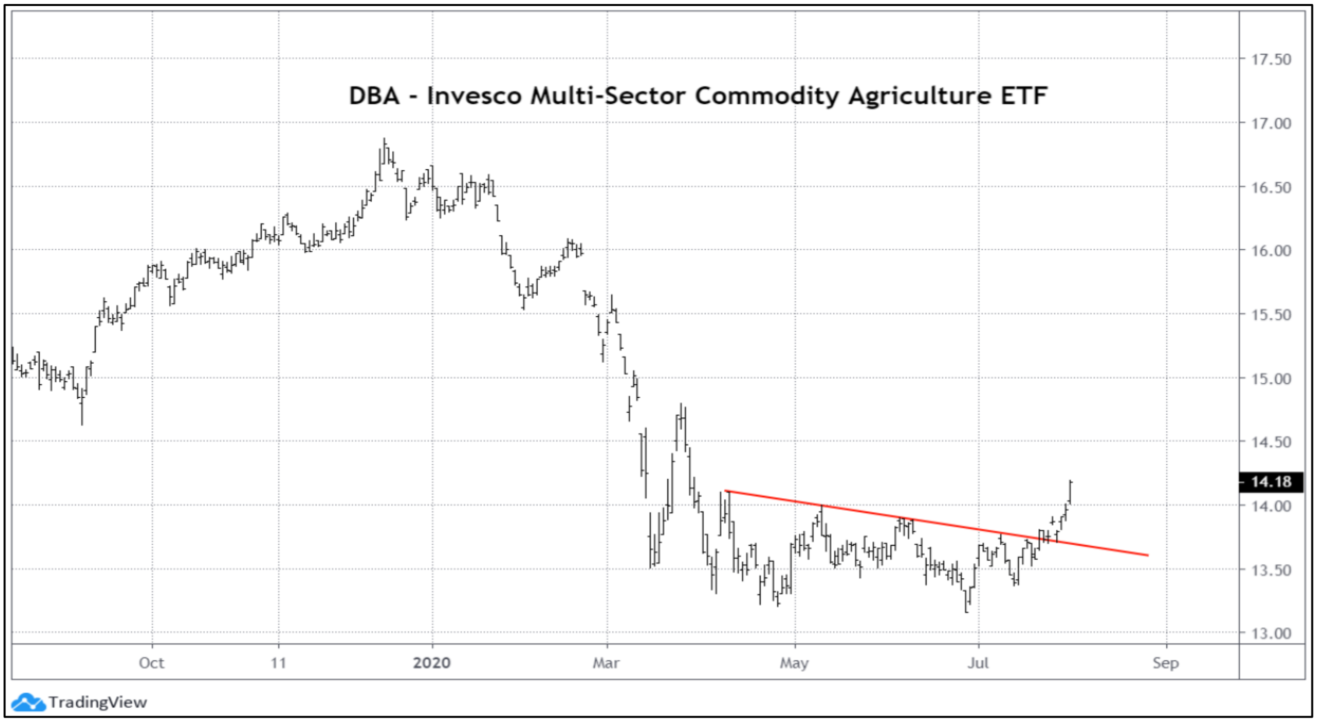


And even vs. the EUR

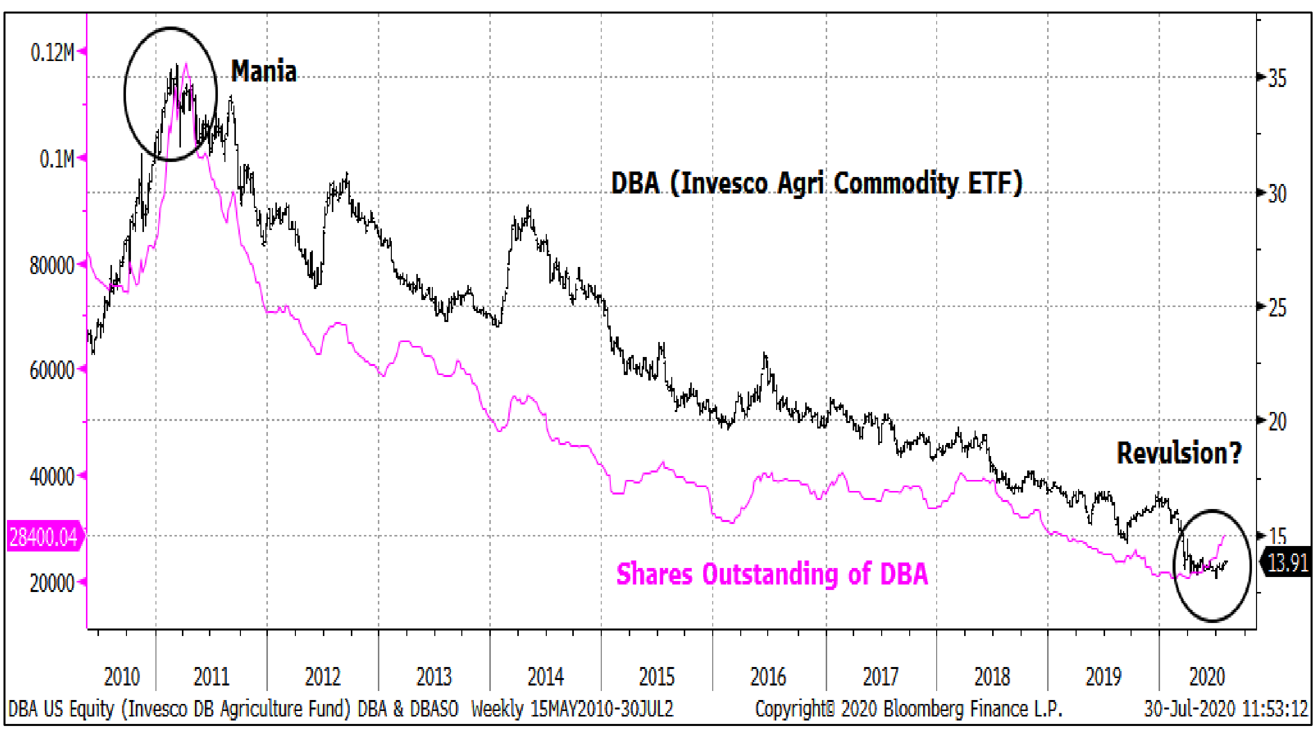
Stargazer Asset Management

Aggs

Over the last two weeks, agricultural commodities have started to show some signs of life.



It has been a long time since they provided investors with any joy, but maybe that is reason enough to have a look.



Stargazer
Asset Management

Important Macro Data Releases and Events for the Week

Monday 8/3/2020

- Caixin Manufacturing PMI (Jul) Forecast: 51.3, Prior: 51.2
- Markit Manufacturing PMI (Jul) Forecast: 50, Prior: 50
- Markit Manufacturing PMI (Jul) Forecast: 53.6, Prior: 53.6
- Markit Manufacturing PMI (Jul) Forecast: 51.3, Prior: 51.3
- ISM Manufacturing Employment Index (Jul) Forecast: 34.4, Prior: 42.1
- ISM Manufacturing PMI (Jul) Forecast: 54. Prior: 52.6
- ISM Manufacturing Prices Paid (Jul) Forecast: 60, Prior: 51.3
- ISM Manufacturing New Orders Index (Jul) Forecast: 46.8, Prior: 56.4

Tuesday 8/4/2020

- RBA Interest Rate Decision and Statement
- Factory Orders MoM (Jun) Forecast: 5%, Prior: 8%
- Markit Manufacturing PMI (Jul) Forecast: 44.1, Prior: 47.8

Wednesday 8/5/2020

- Caixin Services PMI (Jul) Forcast: 56.8, Prior: 58.4
- Markit PMI Composite (Jul) Forecast: 55.5, Prior: 55.5
- Markit PMI Composite (Jul) Forecast: 55.5, Prior: 55.5
- Retail Sales YoY (Jun) Forecast: 0.2%, MoM (Jun) Forecast: 5%
- ADP Employment Change (Jul) Forecast: 1.250m, Prior: 2.369m
- Markit Service PMI (Jul) Forecast: 49.6, Prior: 49.6
- Markit PMI Composite (Jul) Forecast: 50, Prior: 50
- ISM Non-Manufacturing PMI (Jul) Forecast: 54.8, Prior: 57.1

Stargazer
Asset Management

Thursday
8/6/2020

- BoE Interest Rate Decision and Statement / Current 0.1%
- Factory Orders s.a. MoM (Jun) Forecast: 9.5%, Prior: 10.4%
- Initial Jobless Claims Forecast: 1.4m, Prior: 1.434m
- Initial Jobless Claims 4-week ave. Forecast: -, Prior: 1.36685m
- Continuing Jobless Claims Forecast: -, Prior: 17.018m

Friday
8/7/2020

- RBA Monetary Policy Statement
- Leading Economic Index (Jun) Forecast: 78.8, Prior: 78.4
- Industrial Production s.a. MoM (Jun) Forecast: 8.8%, Prior: 7.8&
- Nonfarm Payrolls (Jul) Forcast: 1.360m, Prior: 4.8m
- Average Hourly Earnings (Jul) Forecast: 4.4%, Prior: 5%
- Average Hourly Earnings (Jul) Forecast: -0.5%, Prior: -1.2%
- Labor Force Participation Rate (Jul) Forecast: 61.1%, Prior: 61.5%
- Unemployment Rate (Jul) Forecast: 10.7%, Prior: 11.1%
- Unemployment Rate (Jul) Forecast: 12.8%, Prior: 12.3%

Disclaimer

This document and its contents are confidential to the person(s) to whom it is delivered and should not be copied or distributed, in whole or in part, or its contents disclosed by such person(s) to any other person. Any party receiving and/or reviewing this material, in consideration therefore, agrees not to circumvent the business proposals explicitly or implicitly contained herein in any manner, directly or indirectly. Further, any recipient hereof agrees to maintain all information received in the strictest confidence and shall not disclose to any third parties any information material to the opportunity contained herein and, upon review hereof, agrees that any unauthorized disclosure by any party will result in irreparable damage for which monetary damages would be difficult or impossible to accurately determine. Recipients recognize, and hereby agree, that the proprietary information disclosed herein represents confidential and valuable proprietary information and, therefore, will not, without express prior written consent, disclose such information to any person, company, entity or other third party, unless so doing would contravene governing law or regulations. This document is an outline of matters for discussion only.

This document does not constitute and should not be interpreted as advice, including legal, tax or accounting advice. This presentation includes statements that represent opinions, estimates and forecasts, which may not be realized. We believe the information provided herein is reliable, as of the date hereof, but do not warrant accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.