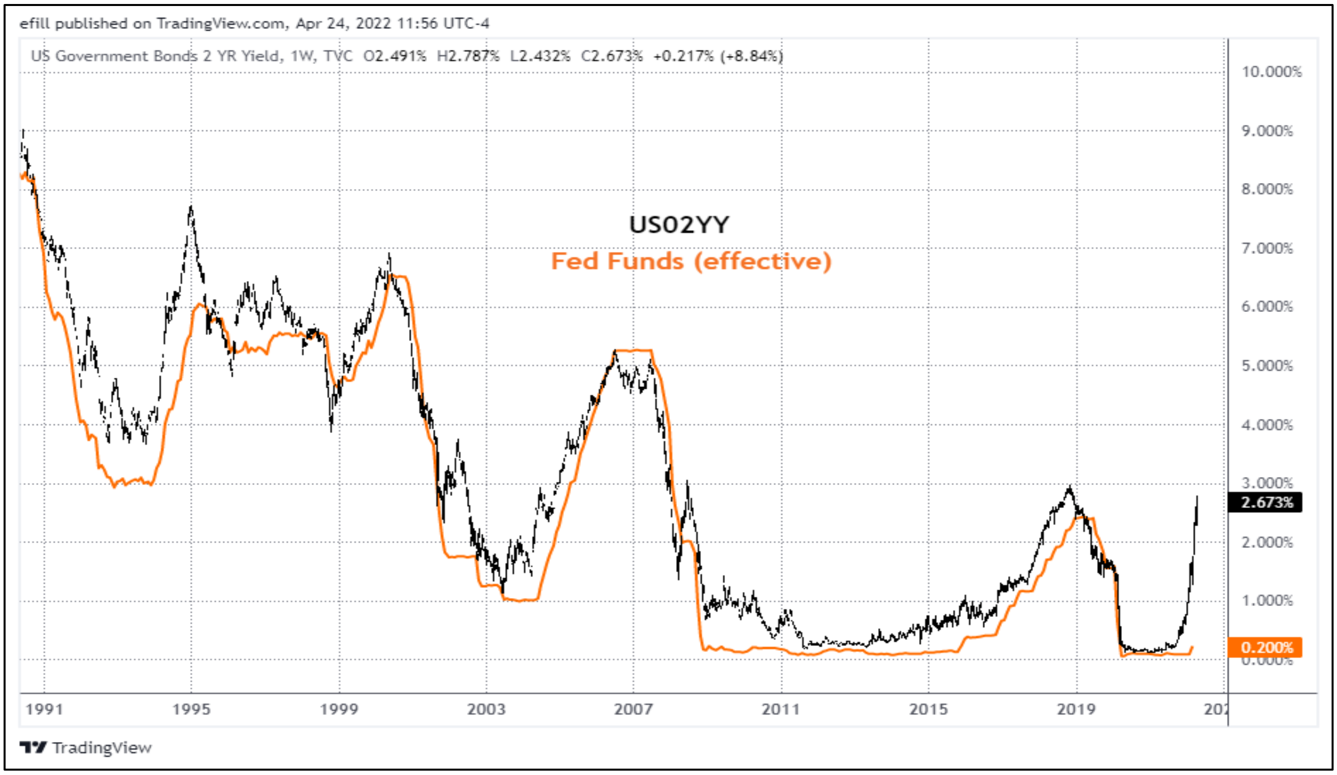
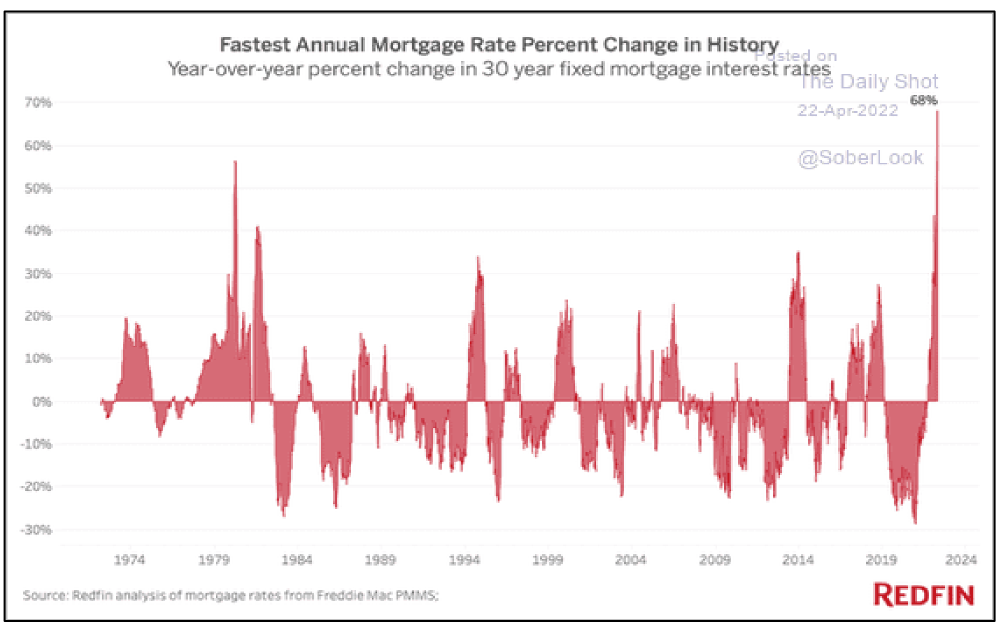
Stargazer Asset Management

What to focus on in Global Macro for the week of April 25th, 2022

With the Fed continuing to talk tough regarding how much and how fast the tightening will progress, markets have aggressively priced future hikes. Again, from a market perspective, the tightenings have already occurred. Just look at where Fed Funds still are vs. where 2-year yields have already gone. Thanks to very strong guidance, the market has already done the hard work.

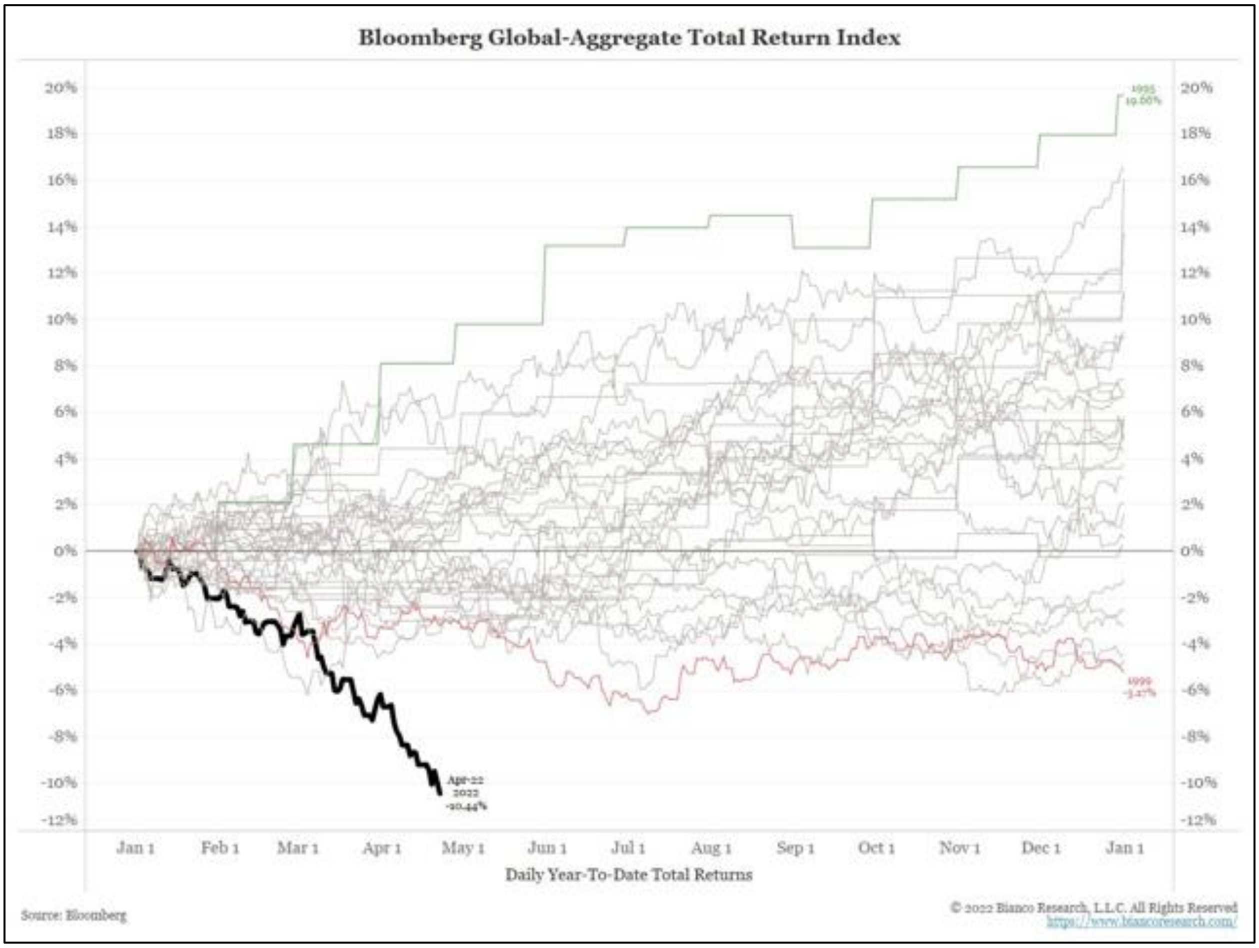




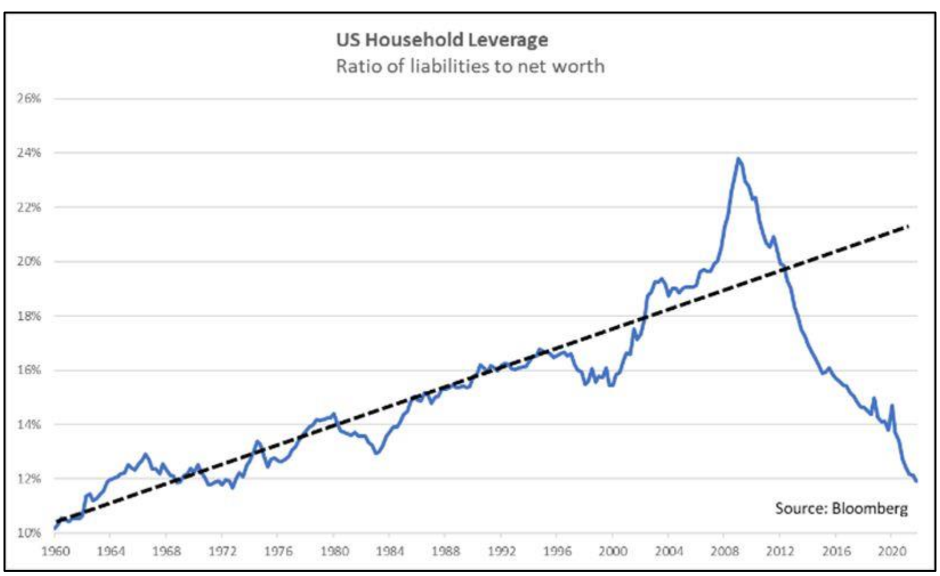
That is true both in the front end of the curve and in the back end. The result is that this time around, the economy will feel the hikes way before the Fed officially enact them.

This isn't just a US story however but is being seen in many DM and EM countries.

Here is a daily year-to-date chart of the Bloomberg Global – Aggregate Total Return Index for the last 25 years from Bianco Research.



The fact that US households and corporations are in relatively good shape has been comforting.



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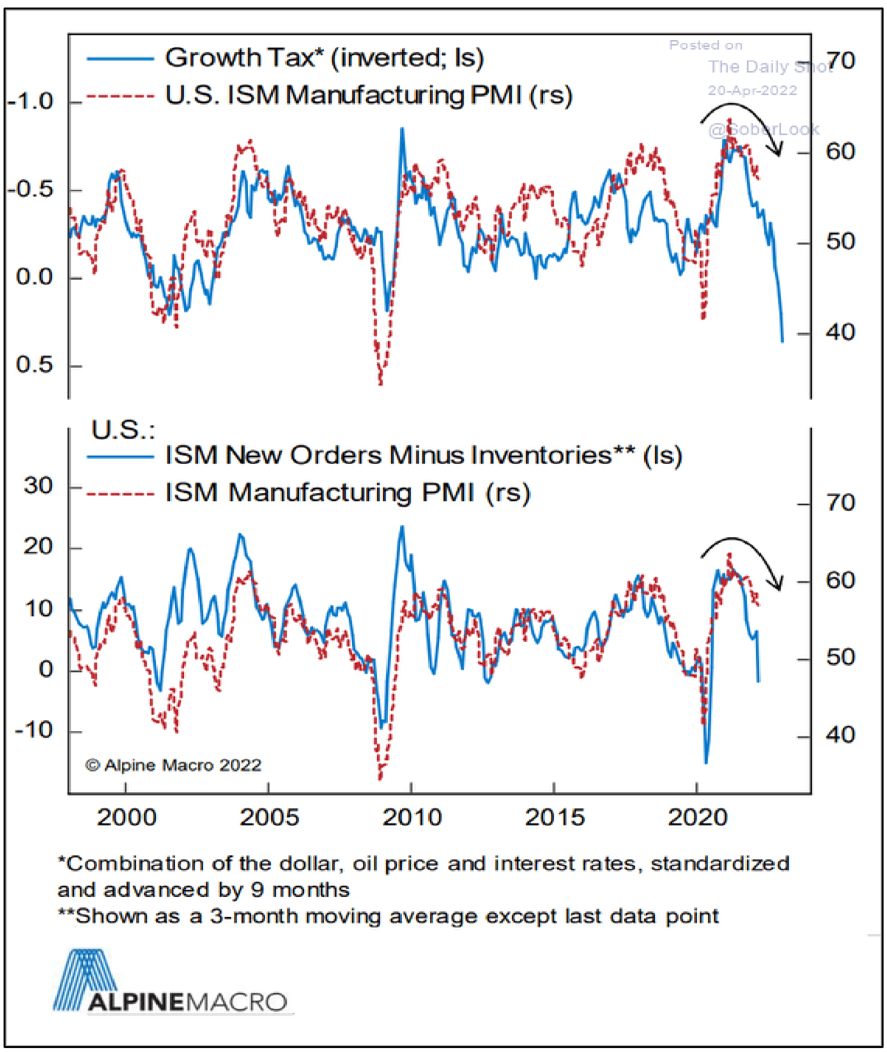
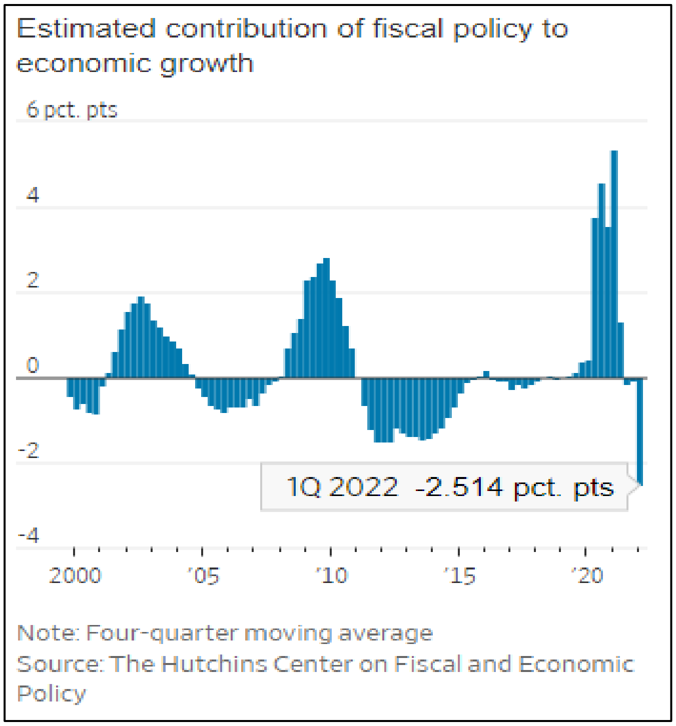
Having said that, financial conditions are starting to tighten. This is something the Fed has said it is looking for, which has led to a reformatting of what the old expression "don't fight the Fed" means in today's context. So far, the lifting has been largely done by the higher USD and higher front and back-end interest rates. The damage to the other two primary components, credit spreads, and equities, has so far been moderate. A slump in those two factors could quickly tighten financial conditions further.



A big question remains regarding the degree to which higher energy prices, and higher inflation in other goods that are driven by supply shocks, are acting as a tax on the consumer.

In the chart to the left, Alpine Macro adds oil, the dollar, and interest rates together and looks at how that index (inverted) leads the ISM Manufacturing PMI over the last 25+ years. It is an interesting exercise in this environment where USD and commodities have been moving in the same direction.

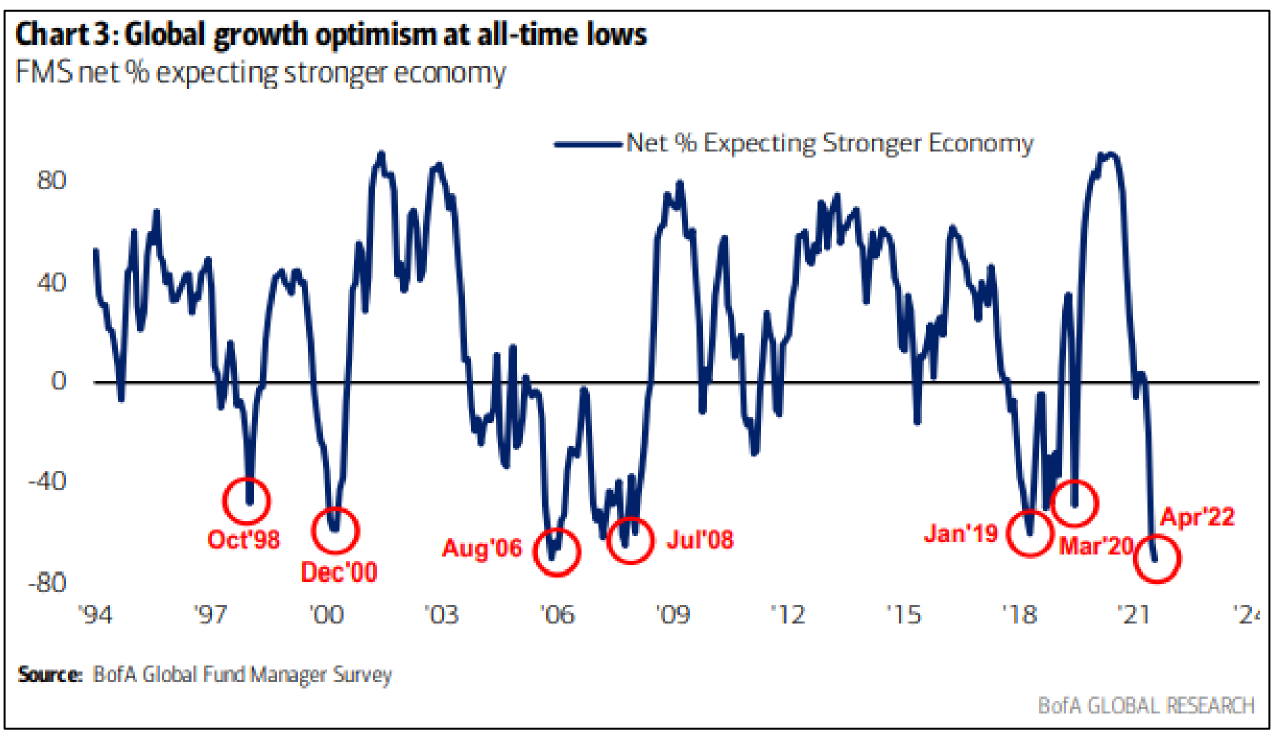


Now, add the disappearance of US fiscal support from the economy and plans to reduce the Fed's balance sheet, starting at the May meeting, and there are plenty of things to worry about.

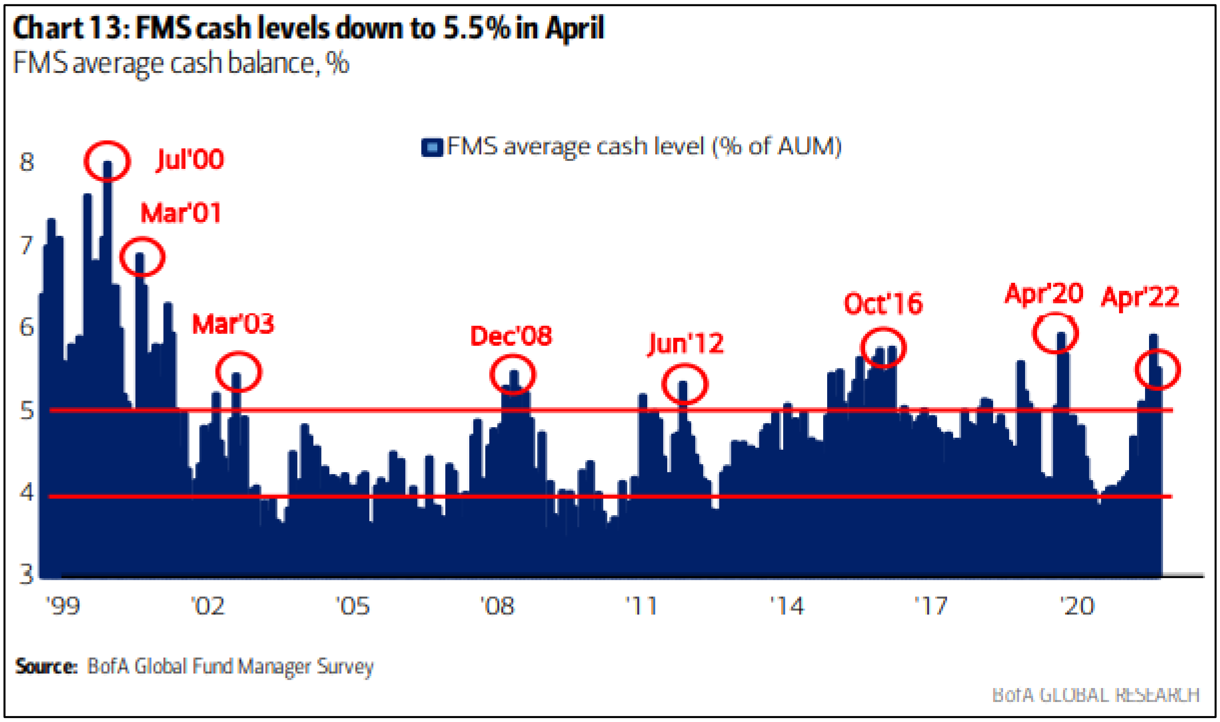
Of course, the current situation and its risks haven't escaped investors. Nearly every sentiment indicator out there is plumbing historical lows.

Yet, while equities are off the highs, and the indices hide a lot of the carnage that has gone on in various sectors and factors, overall, given the bearish outlook and sentiment, the major indices have held up extraordinarily well.

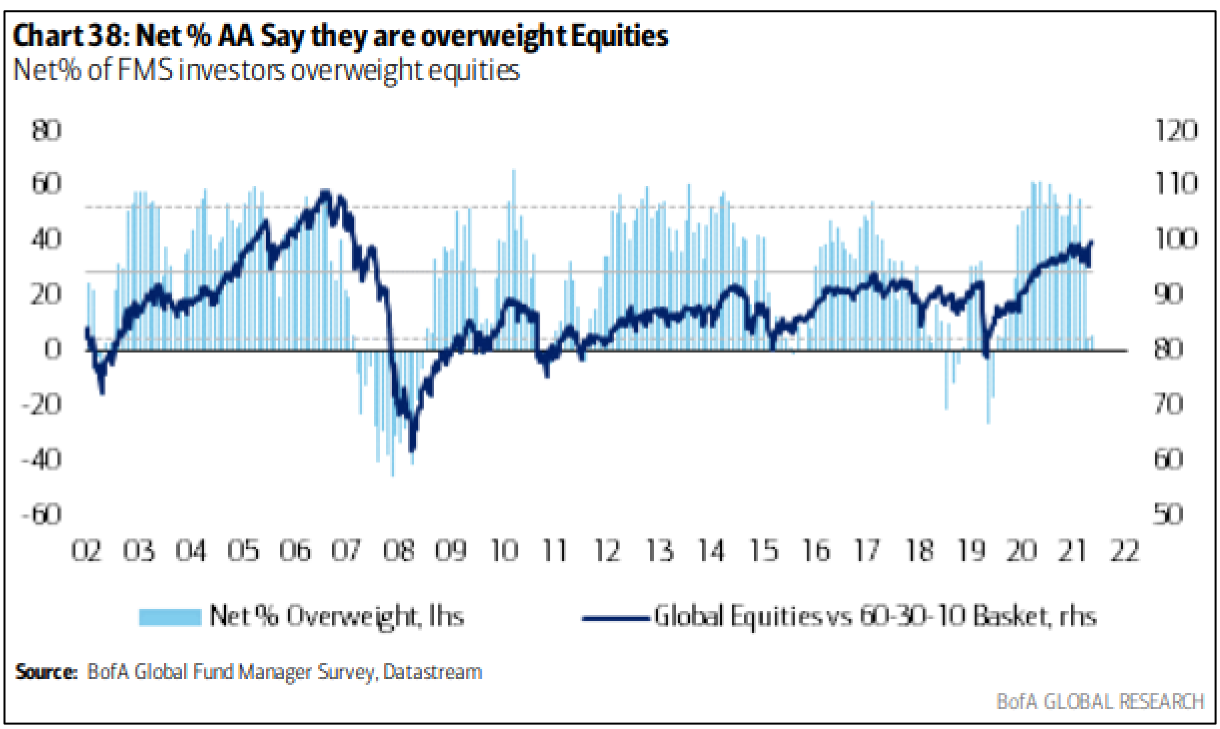
As BoA said in its weekly Flow Show on Friday… "The disconnect between global growth and equity allocation remains staggering. Investors got slightly more bullish on equities. Though still at depressed levels, equities are nowhere near "recessionary" close-your-eyes-and-buy levels."



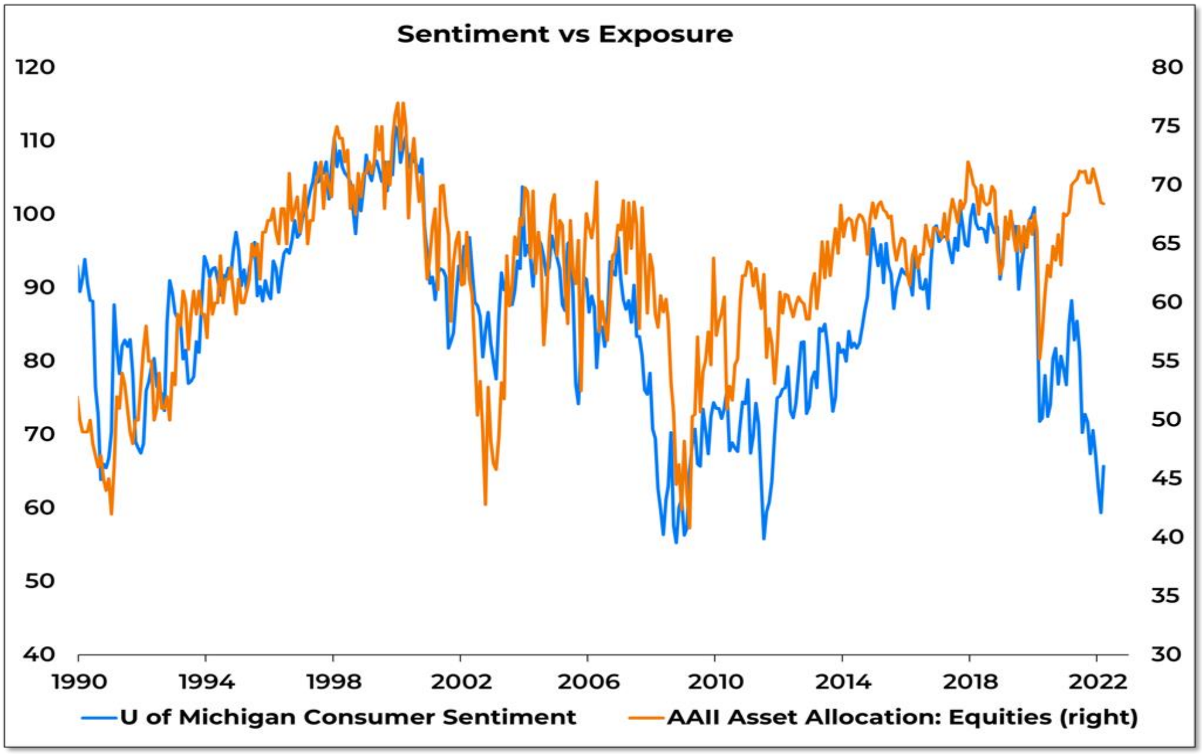
Yes, institutional investors have raised cash, and hedge fund allocations are near the lows of historical ranges.

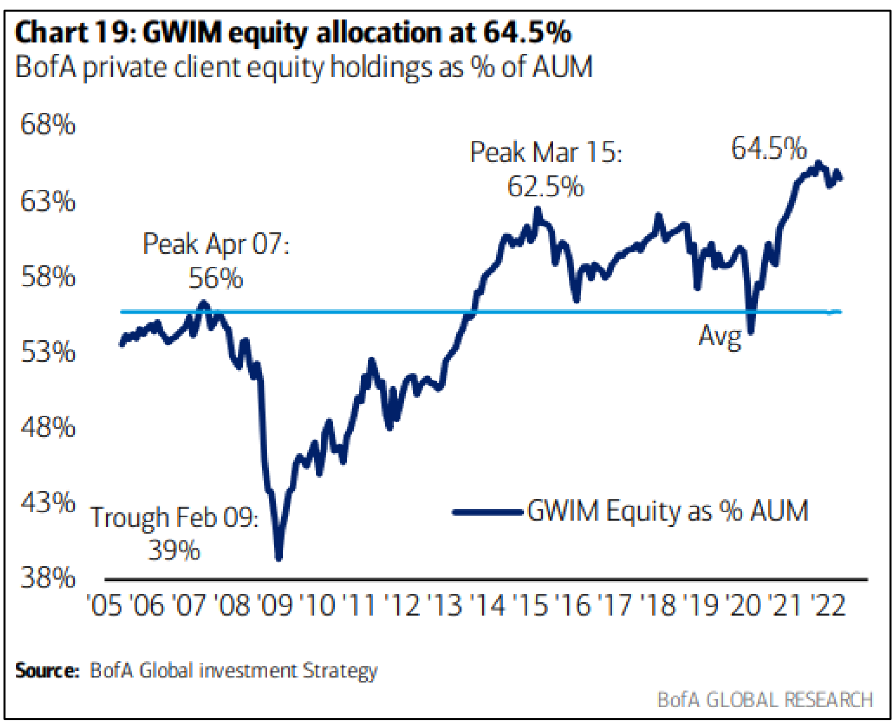


However, we have not yet seen outright underweight readings that are often required to put in lasting lows.



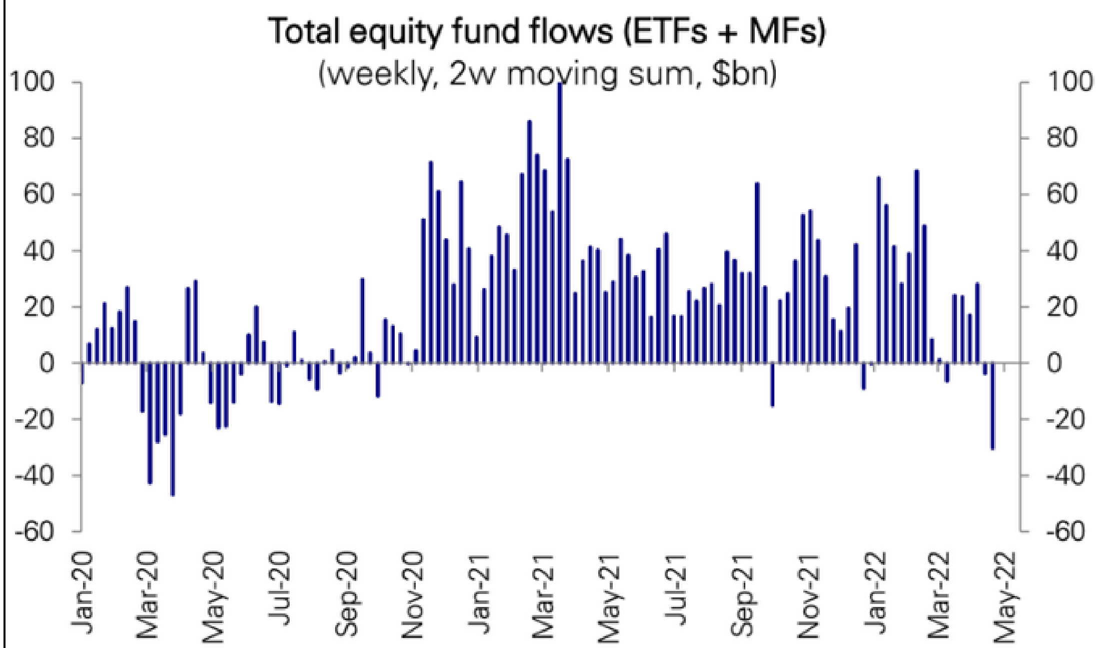
Retail investors have preferred sector rotation to outright selling, not seeing many other opportunities. Again, despite very poor overall sentiment that would usually take down equity allocations.





While last week ended on a very ugly note, so far, we have seen net inflows year-to-date.

Figure 4: Equity funds over the last two weeks saw the largest outflows since the pandemic selloff 2 years ago



Source : EPFR, Haver, Deutsche Bank Asset Allocation

Table 3: Net fund flows to DM outpacing EM

Global equity flows by region

	Wk % AUM	YTD
Total Equities	**-0.1%**	**175,734**
long-only funds	-0.1%	-49,685
ETFs	-0.1%	225,225
Total EM	**0.2%**	**54,836**
Brazil	-0.7%	-408
Russia	0.0%	221
India	-0.1%	-1,102
China	1.0%	31,151
Total DM	**-0.1%**	**120,898**
US	-0.2%	81,287
Europe	-0.2%	-25,923
Japan	0.0%	-2,930
International	0.0%	61,891

Total Equities = Total EM + Total DM

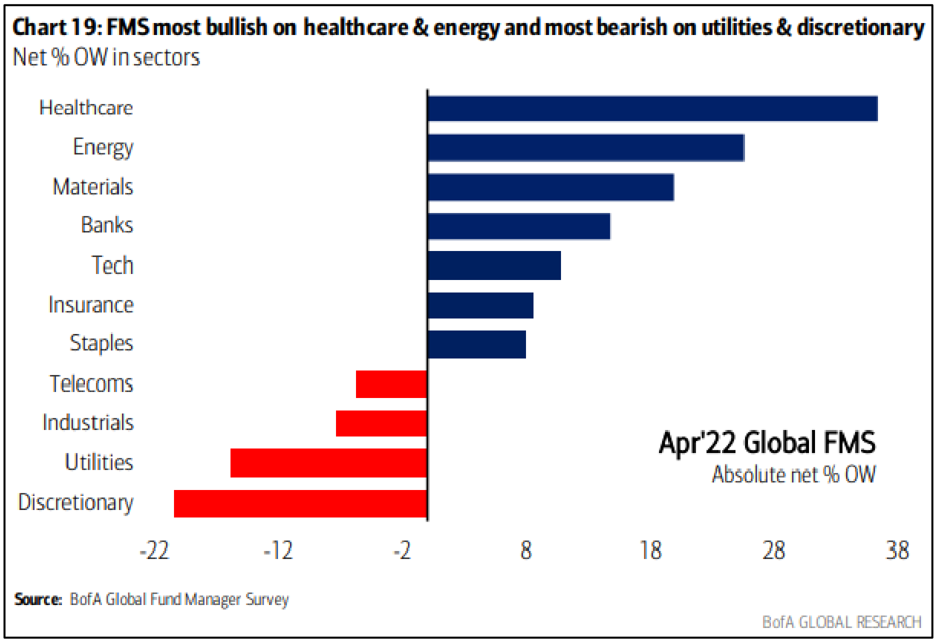
Source: EPFR Global

BofA GLOBAL RESEARCH

So, the question is, do we need some kind of capitulation that brings positioning into line with sentiment?

Thursday and Friday did substantial damage to equity index charts that looked like they were holding in…

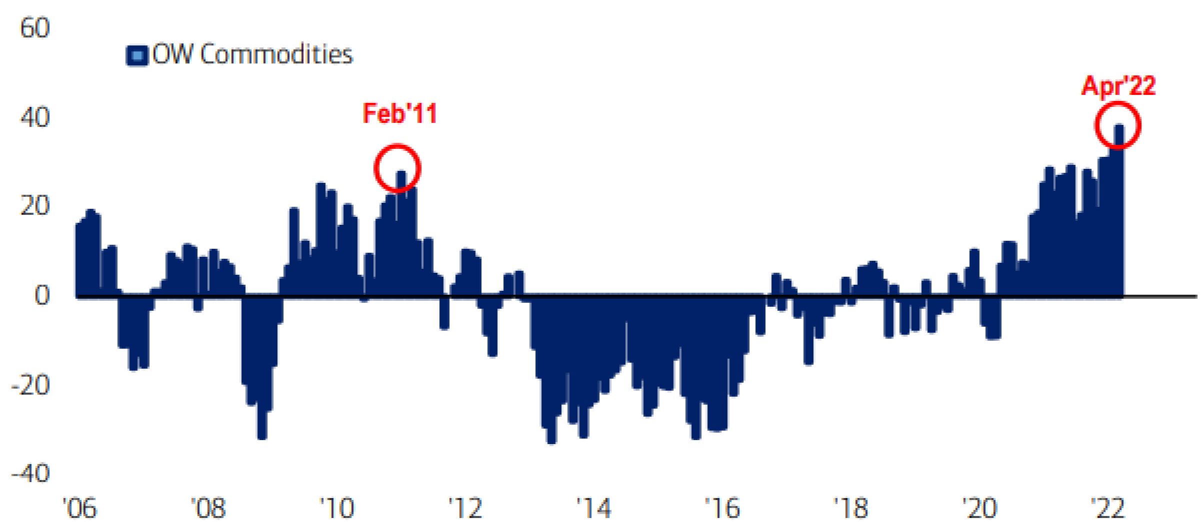
If we are to get some kind of capitulation selling, it could very well come from the sectors that are now the most crowded and seen as "safe" in this environment.



From a technical standpoint, I would be very cautious on XLV here.

Commodities, of course, remain another very crowded space.

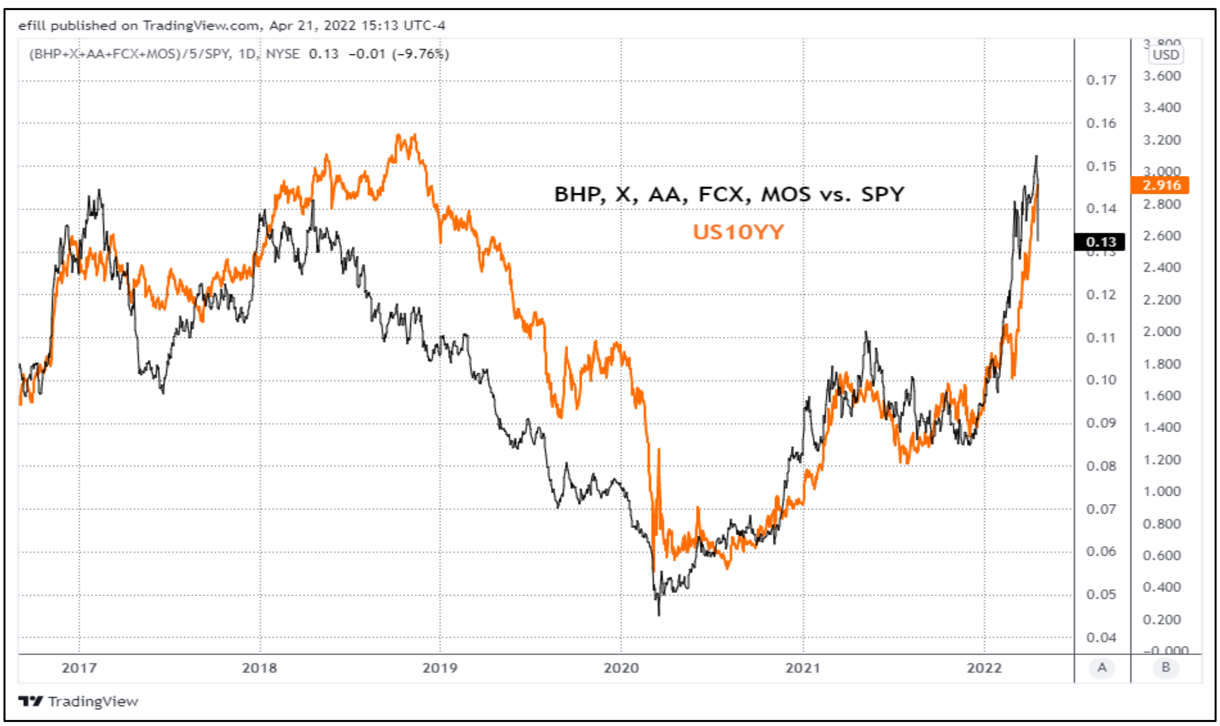
Chart 22: Most net % of FMS investors OW commodities ever
Net % OW Commodities



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Last week's melt-down in many of the commodity-related stocks was a worrying sign that a shift may be underway. If it lasts it could be an interesting "tell" for at least a pause in Treasury yields.



The commodities up / bonds down trade is certainly stretched.

For currency markets, the end of the week proved to be exciting as well. Talk of 75bp hikes coming and signs that demand destruction could be starting to bight in the UK, got the dollar going. From Bloomberg re UK data…

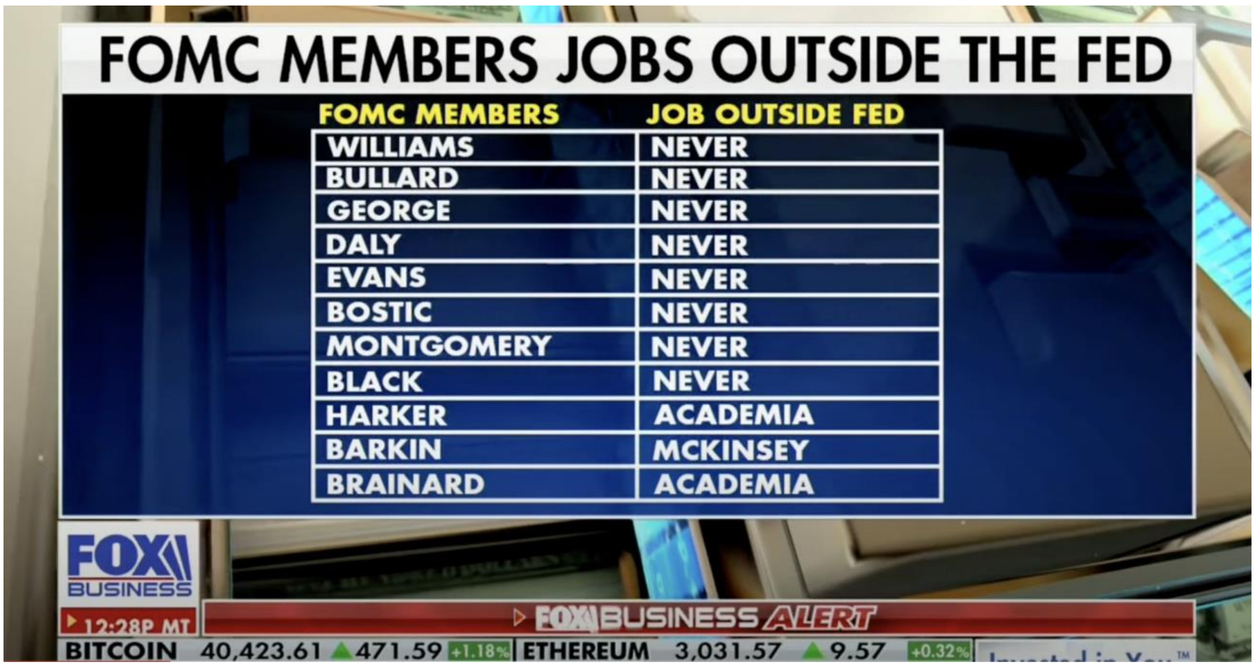
"U.K. REACT: Retail Sales Dive Highlights Collapse in Confidence/By Niraj Shah (Economist) The biggest squeeze on incomes in a generation is set to further constrain consumer spending in the coming months. Retail sales volumes, including autos fuel, plunged by 1.4% in March against our expectations and the consensus call for a 0.3% drop. That comes after the prior month was revised down to a fall of 0.5% from -0.3%. Record petrol prices appear to have led people to cut back on non-essential journeys. Food sales continued to fall, though that may reflect people still eating out more since the end of Covid restrictions. We expect consumer spending to come under further pressure in the coming months given the unrelenting squeeze on incomes. The cost-of-living crisis is likely to worsen in April, with a hike in energy bills as well as tax increases. We now expect inflation to hit 9% at that point. Households Face Record Hit to Living Standards The outlook for retail sales, which account for about a third of consumer spending, and the broader economy will also depend on the willingness of households to use their savings to cushion the blow. There are signs consumers are becoming increasingly cautious. U.K. consumer confidence plunged for a fifth month to levels that are synonymous with recession as concerns about the surging cost of living weighs on sentiment. The outlook for personal finances was worse than during the depths of the financial crisis."

However, while GBP was a big mover, commodity and EM currencies were hit hard as well as a dollar rally vs. EM that started with the break higher in the dollar vs. Yuan, accelerated.

Finally, as the greatest monetary experiment in history continues to unfold, it is worth remembering who the decision-makers are, and the perspective that they bring to the job.

Chairman Powell, having worked for 20+ years as an investment banker, is one of the few who brings private sector experience to the job.

While the below isn't entirely accurate, it doesn't miss the mark by much.



FOMC MEMBERS JOBS OUTSIDE THE FED

FOMC MEMBERS	JOB OUTSIDE FED
WILLIAMS	NEVER
BULLARD	NEVER
GEORGE	NEVER
DALY	NEVER
EVANS	NEVER
BOSTIC	NEVER
MONTGOMERY	NEVER
BLACK	NEVER
HARKER	ACADEMIA
BARKIN	MCKINSEY
BRAINARD	ACADEMIA

With Fed members now in the pre-meeting blackout period, markets will be more focused on what other central banks do/say this week.

Important Macro Data Releases and Events for the Week

Monday
4/25/2022

- IFO – Business Climate (Apr)
- IFO – Current Assessment (Apr)
- IFO – Expectations (Apr)
- Chicago Fed National Activity Index (Mar)
- BoC's Governor Macklem speech

		BoC's Rogers speech
		Jobs / Applicants Ratio (Mar)
		Unemployment Rate (Mar)
Tuesday 4/26/2022		Durable Goods Orders (Mar)
		Durable Goods Orders ex Defense (Mar)
		Durable Goods Orders ex Transportation (Mar)
		Nondefense Capital Goods Orders ex Aircraft (Mar)
		BoC's Lane speech
		Housing Price Index (MoM)(Feb)
		S&P/Case-Shiller Home Price Indices (YoY)(Feb)
		Consumer Confidence (Apr)
		New Home Sales (MoM)(Mar)
		Consumer Price Index (QoQ)(Q1)
		Consumer Price Index (YoY)(Q1)
		RBA Trimmed Mean CPI (QoQ)(Q1)
		BoJ Outlook Report(Q1)
Wednesday 4/27/2022		Gfk Consumer Confidence Survey (May)
		Pending Home Sales (MoM)(Mar)
		Industrial Production (MoM)(Mar) PREL
		Industrial Production (YoY)(Mar) PREL
		Large Retailer Sales (Mar)

- Retail Trade (YoY)(Mar)
- Retail Trade s.a (MoM)(Mar)
- BoJ Interest Rate Decision
- BoJ Monetary Policy Statement, Press Conference

Thursday
4/28/2022

- Economic Bulletin
- Business Climate (Apr)
- Consumer Confidence (Apr)
- Harmonized Index of Consumer Prices (YoY)(Apr) PREL
- Core Personal Consumption Expenditures (QoQ)(Q1) PREL
- Gross Domestic Product (Q1) PREL
- Initial Jobless Claims (Apr 22)
- Initial Jobless Claims 4-week average (Apr 22)
- Personal Consumption Expenditures Prices (QoQ)(Q1) PREL
- Caixin Manufacturing PMI(Apr)

Friday
4/29/2022

- Gross Domestic Product (YoY)(Q1) PREL
- SNB's Chairman Jordan speech
- HICP (YoY)(Apr) PREL
- Core Personal Consumption Expenditures - Price Index (MoM)(Mar)
- Core Personal Consumption Expenditures - Price Index (YoY)(Mar)

- Personal Income (MoM)(Mar)
- Personal Spending (Mar)
- Chicago Purchasing Managers' Index (Apr)
- Michigan Consumer Sentiment Index (Apr)
- NBS Manufacturing PMI(Apr)
- Non-Manufacturing PMI(Apr)

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