Stargazer
Asset Management

What to focus on in Global Macro for the week of May 2nd, 2022

Fed

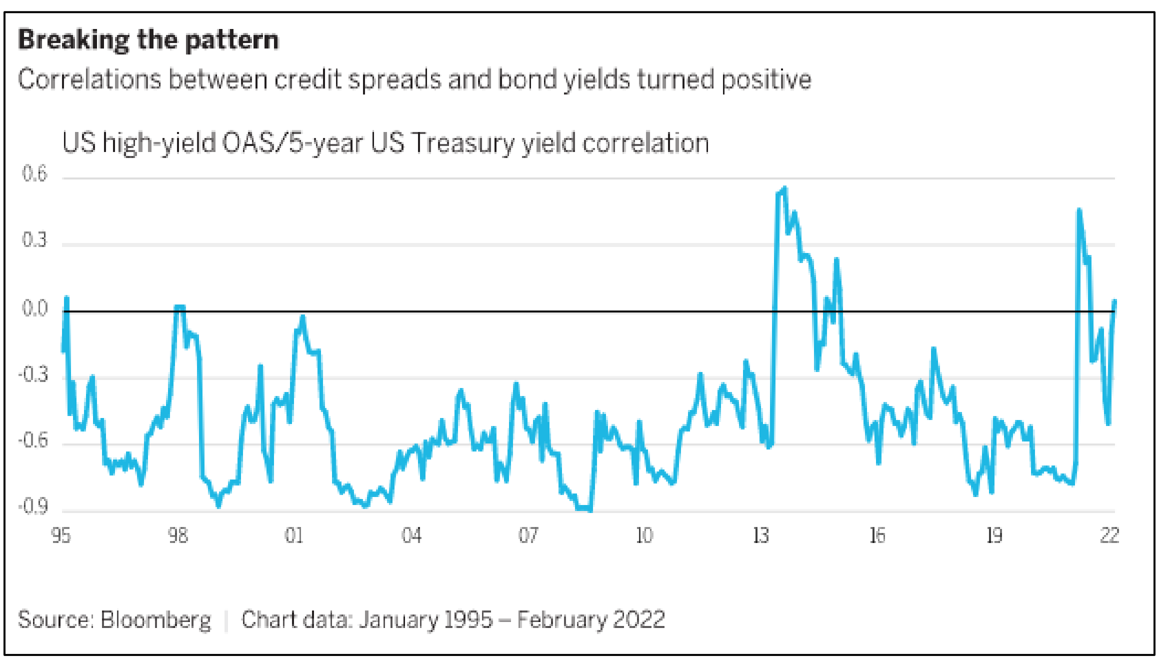
Markets face another big week ahead with the Fed likely to tighten 50bps and announce QT. The press conference is going to be especially interesting. I doubt the Fed will give either equity or bond investors any quarter. Given the need to tighten financial conditions, markets don't have a friend at the Fed these days. With interest rates having already jumped and the dollar at the highs, only equity weakness and credit spread widening remain to really get financial conditions to tighten.

I would argue conditions are already tighter than people think. The trifecta of unusual dollar strength for this point in a tightening cycle, combined with the aggressive move in interest rates, and the boom in commodity prices, is almost certainly already having an effect.

However, given the unusual circumstances, we won't know how this is playing out in the economy for a while. Yes, the economy shrank at a 1.4% annualized rate in Q1, below the +1% that was expected, but that number was heavily distorted by trade and inventory inputs. All else being equal Q2 will be much better.

With few places to hide for investors not accustomed to a hostile Fed, asset prices have the biggest potential for creating an accelerated slowdown now.

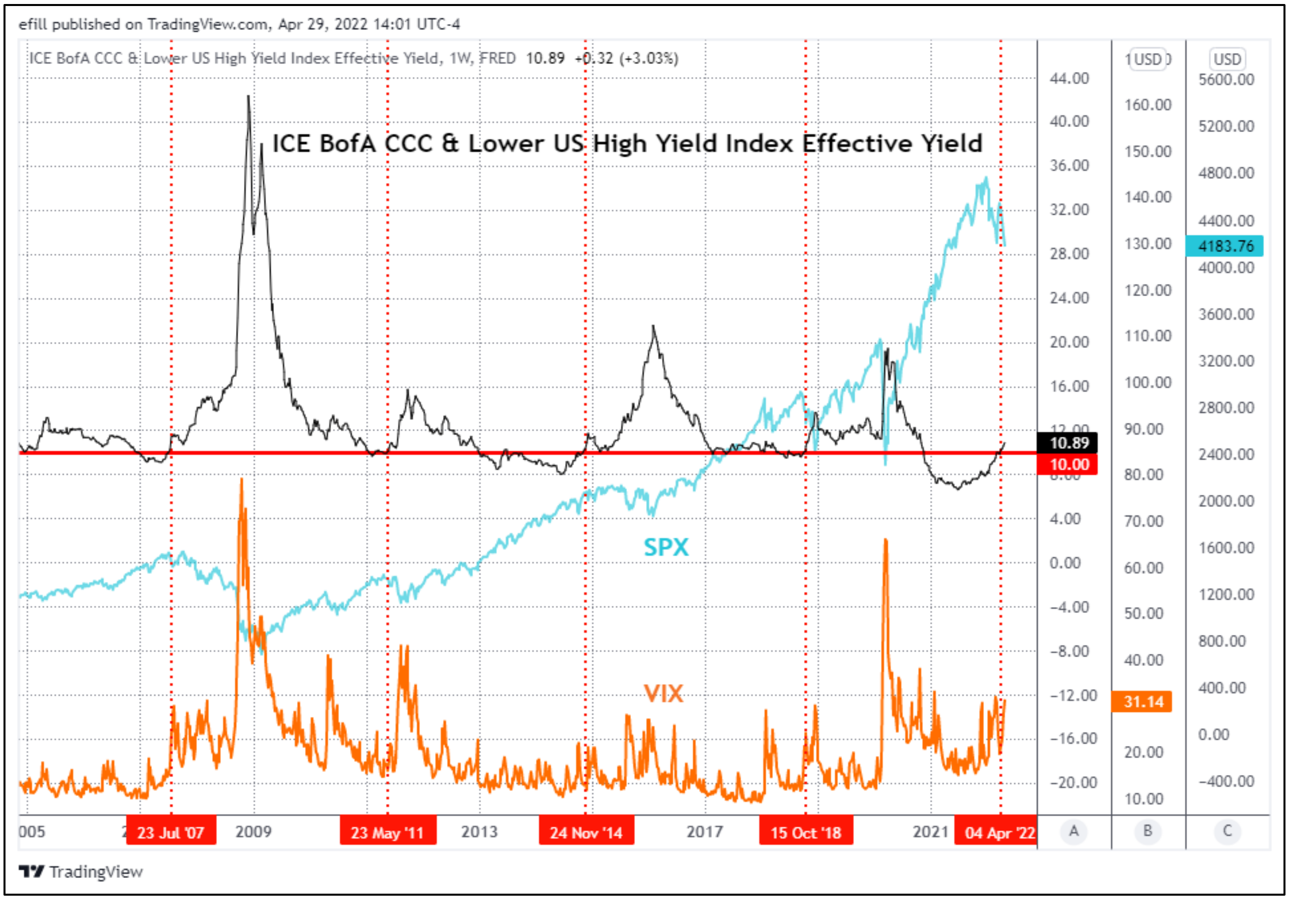
While equities were certainly ugly last week, credit is starting to get its hair mussed too.



Source: Wellington Management

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

Further widening from here will reinforce equity volatility, which will, in turn, widen spreads.



So far, neither the front nor the back end of the curve has been impressed by the equity market selloff.

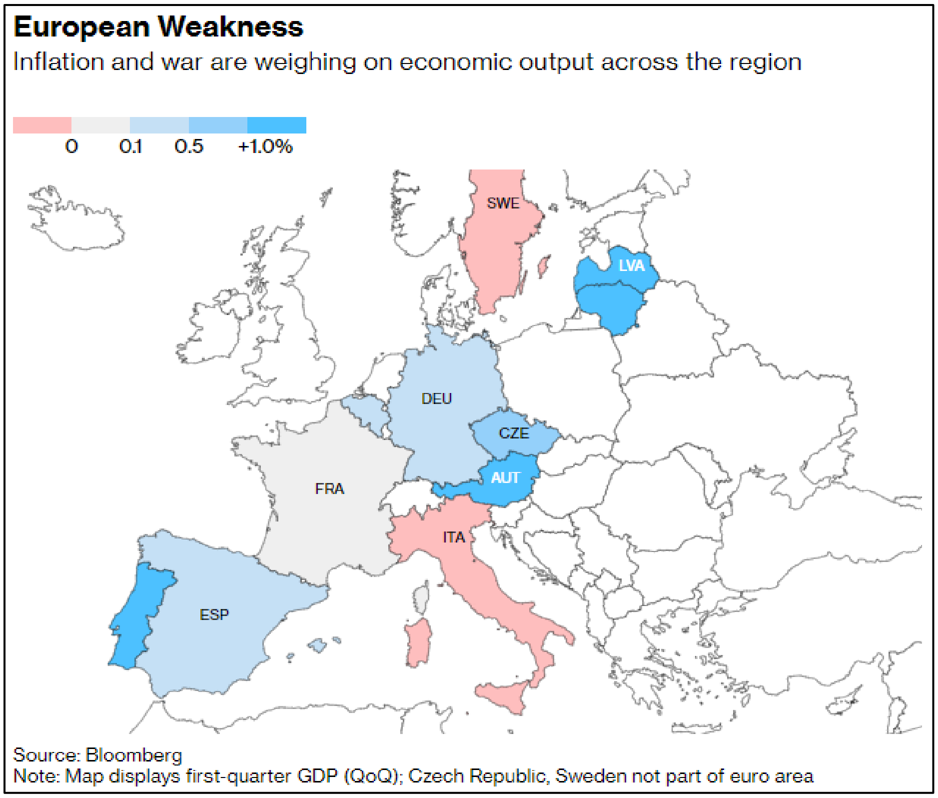
ECB

Lagarde's speech next week could be interesting as people start to think about the next ECB meeting. Europe is increasingly in a very difficult position.

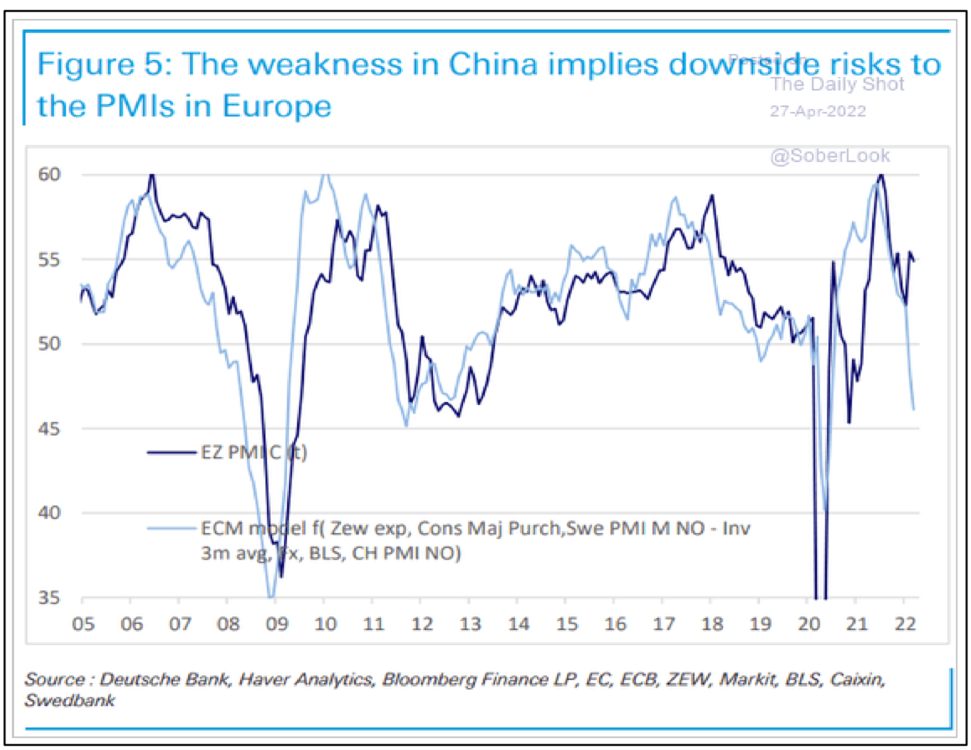
With inflation way above expectations and growth starting to disappoint, the ECB faces an impossible task.

As Bloomberg economics recently wrote: "The eurozone grew a slower-than-expected 0.2% in the first quarter, reflecting a contraction in Italy, stagnation in France, and weak expansion in Spain. Germany narrowly avoided a recession."

We will see if the current showdown over gas payment terms with Russian adds to the list of issues. With Poland and Bulgaria now cut off because they refuse to pay in RUB, who is next?



Add the issue of contagion from the Chinese economic slowdown and you have the potential for a rather dark Macro environment in Europe.



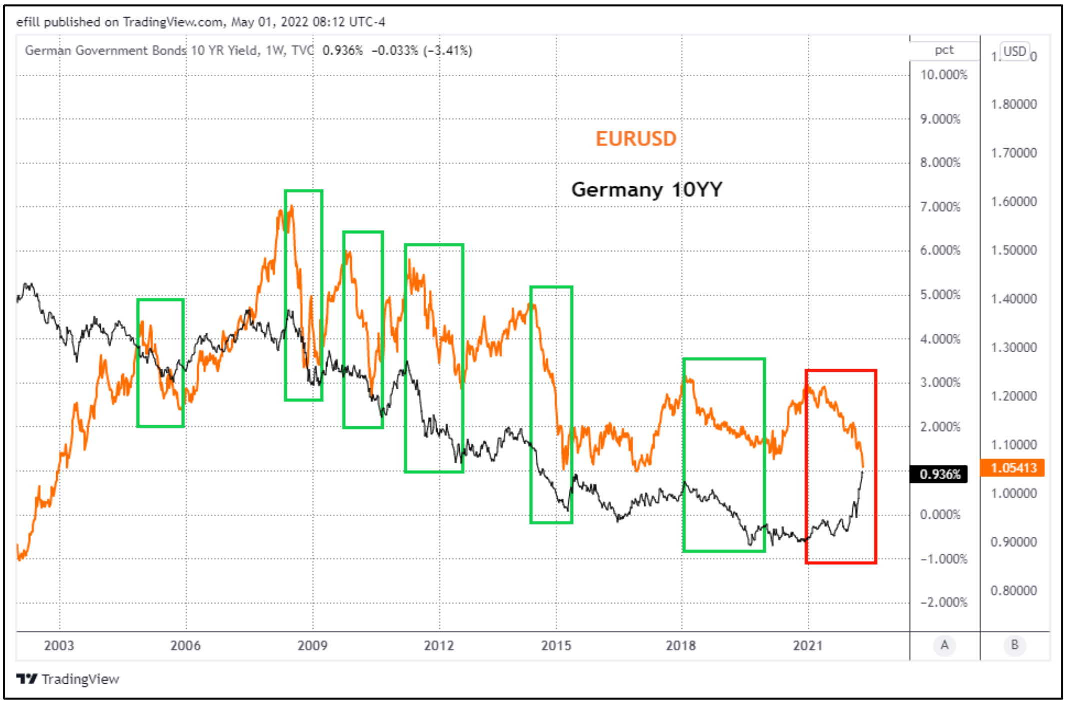
Out over the weekend:

•China April NBS manufacturing PMI drops to 47.4 from 49.5 – worse than 48 expected

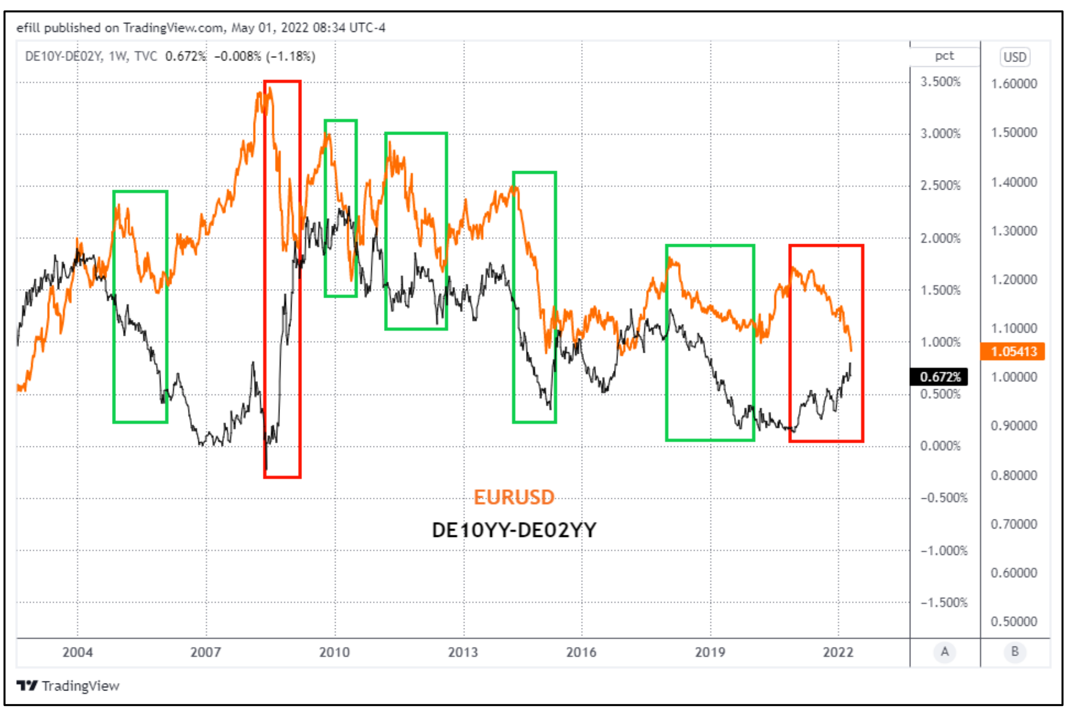
•China April NBS services PMI drops to 41.9 from 48.4 – worse than 48 expected

•China April Caixin manufacturing PMI slips to 46 from 48.1 – weaker than 47 expected

Here is another one for the "it really is different this time" bucket. Since the inception of the EUR, a falling EUR has correlated with falling German 10-year yields. Not this time.



The reason being the steepening curve. That too is unusual. Last time it happened was during the GFC when the ECB was quickly cutting rates, having just raised them because of high inflation (oil). This time the ECB is faced with stagflation, and few good choices.



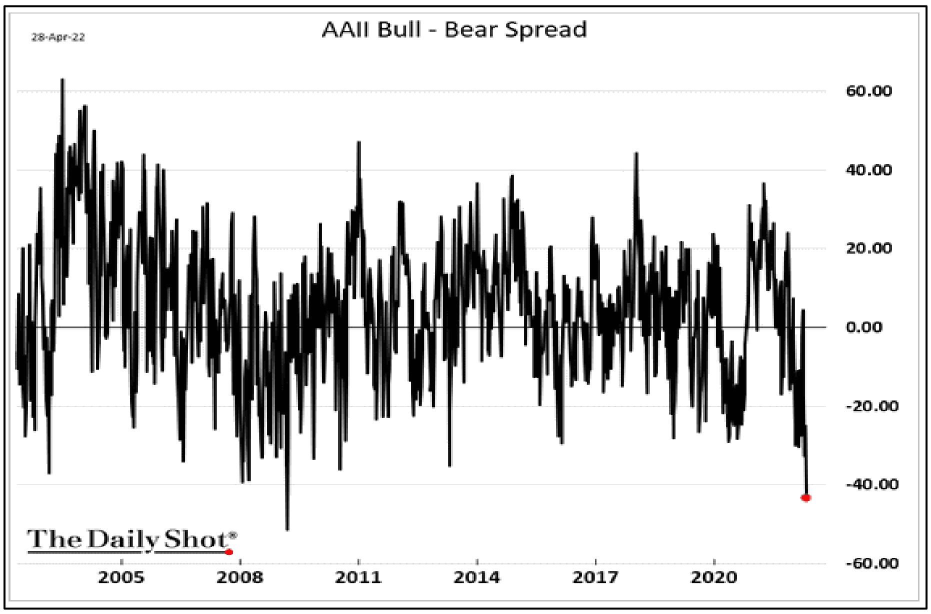
Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

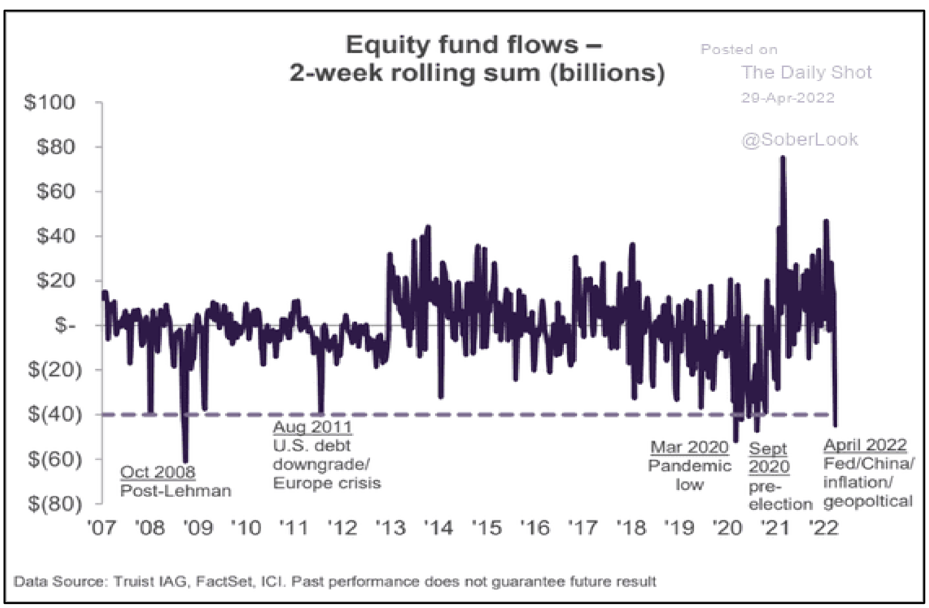
Markets

"Inflation in America, stagflation in Europe, deflation/devaluation in China/Japan, bear market on Wall Street." – BofA's Flow Show

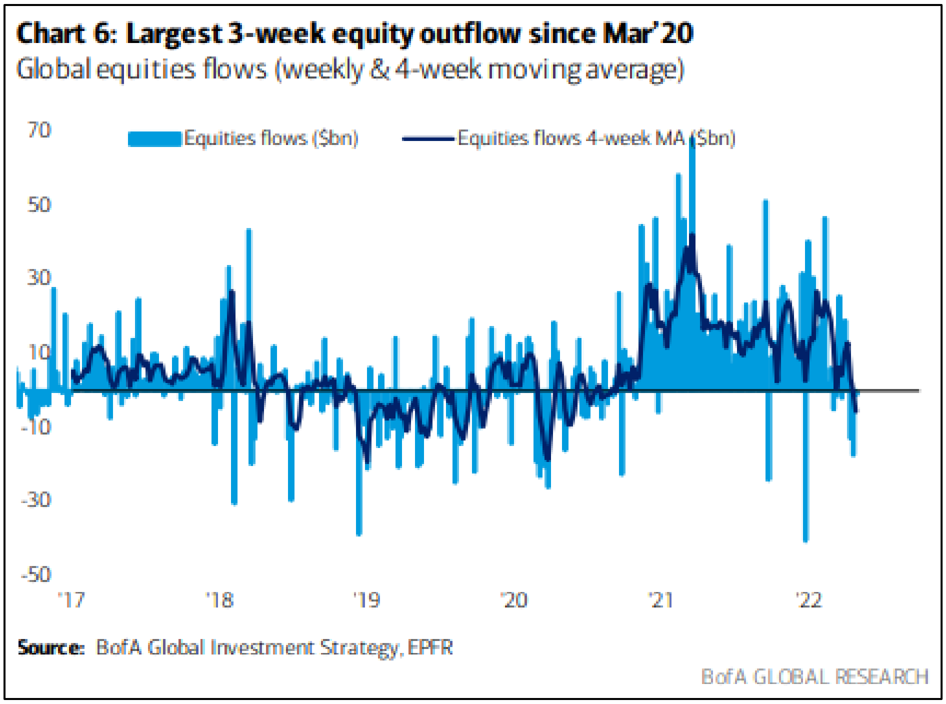
Last month was supposed to be good from a seasonality standpoint but instead, we got the worst April since 1970. Again, most of the playbooks are of little or no use in the current environment.

Sentiment in stocks has been terrible for weeks/months now, but last week we finally saw some panic. Stock outflows have been picking up and are starting to match up better with the sentiment readings.

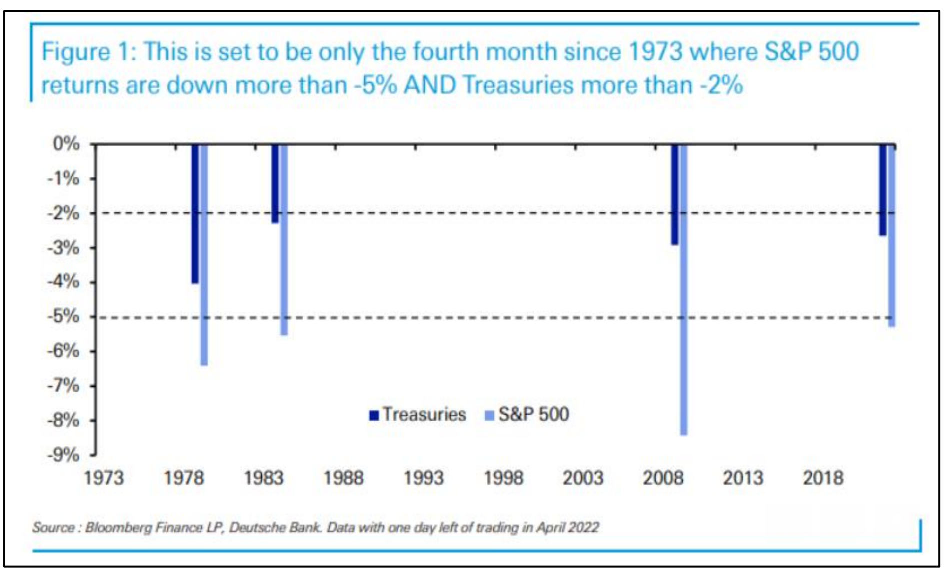




Here is another visualization of the outflows…



With stocks and bonds going down there have not been many places to hide. As DB points out, April was only the fourth time in nearly 50 years that the SPX was down more than 5% AND Treasuries were down more than 2%.



Even with Friday's equity dump, 30-year bonds were down more than half a point.

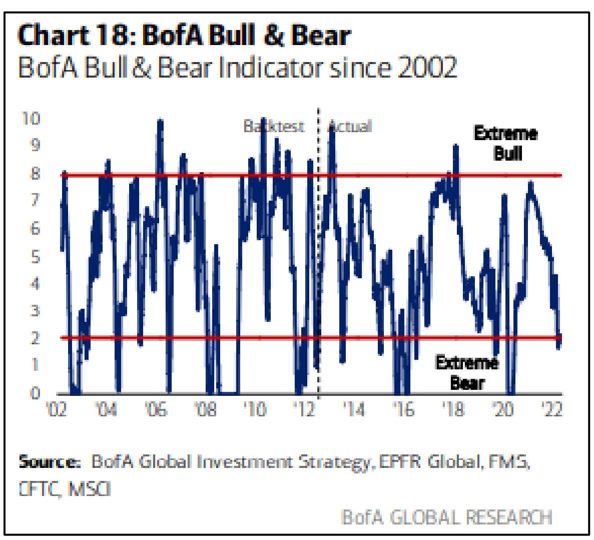
With something like 90% of advisor portfolios a few percent either side of a 60/40 portfolio, the environment must be starting to scare retail.

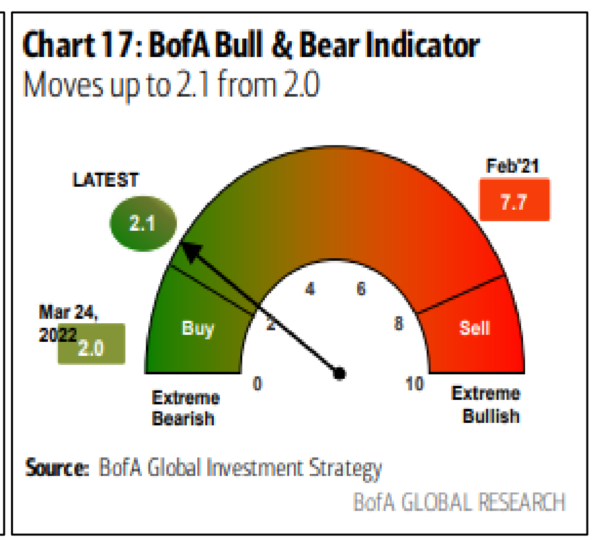
Here is a simple version…

Stargazer
Asset Management

Risk Parity isn't holding up well either.

So, do we have capitulation? We are getting into the zone… but I don't think we are there yet.





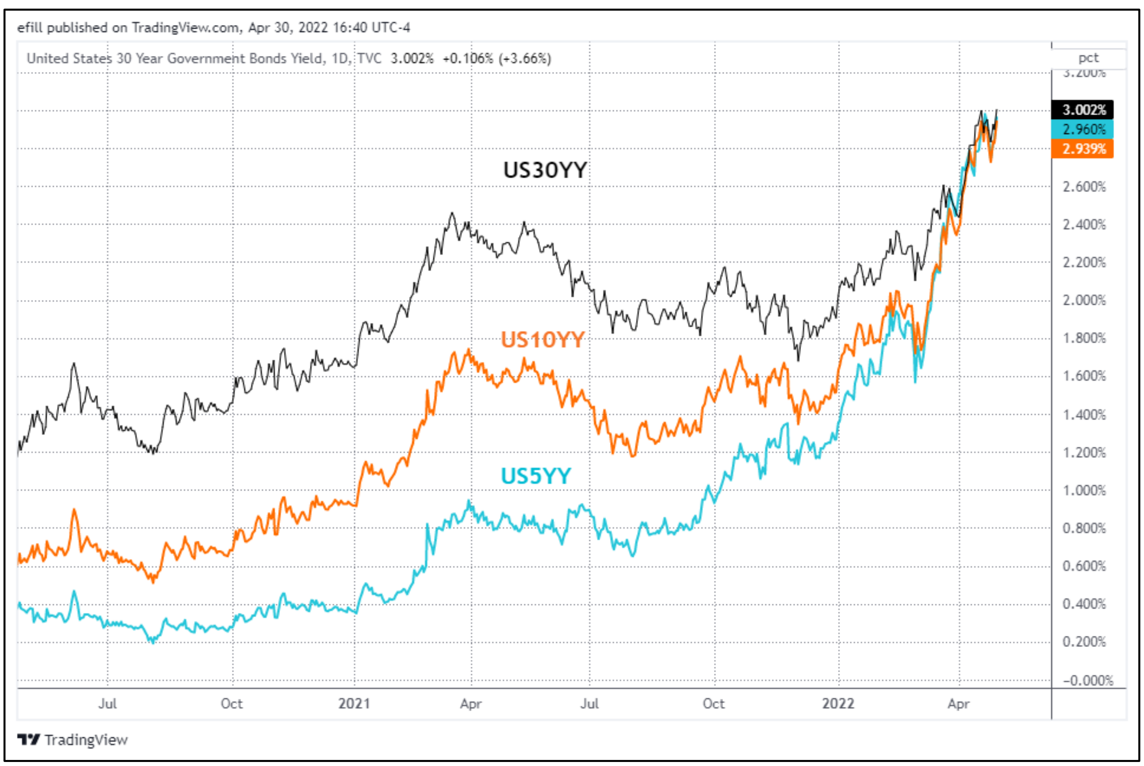
Often the last bit is the steepest part of the drop. We went out on Friday right at critical levels. However, neither daily nor weekly charts are yet excessively oversold.

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

Stargazer
Asset Management

Another leg down in stocks, and there is a good chance the market takes back at least two hikes.

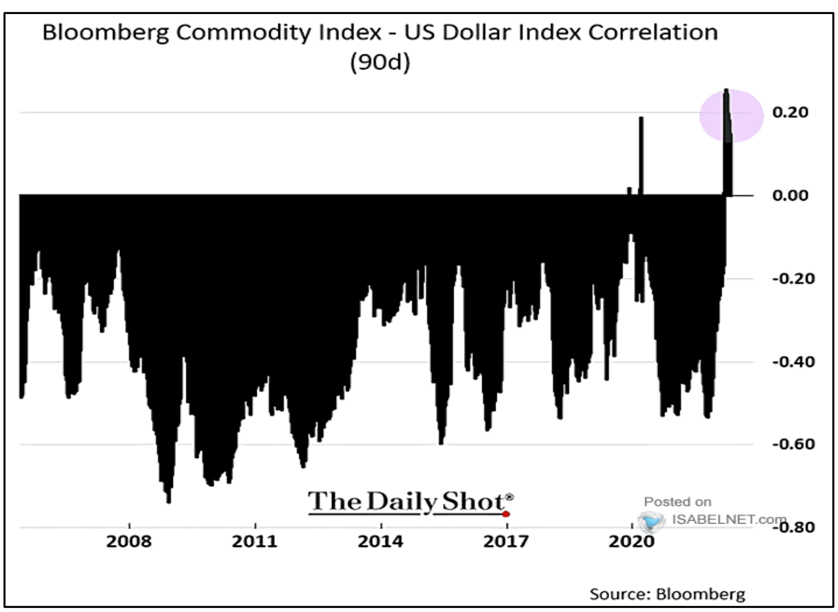
In the meanwhile, 5's, 10's and 30's are converging near 3%.



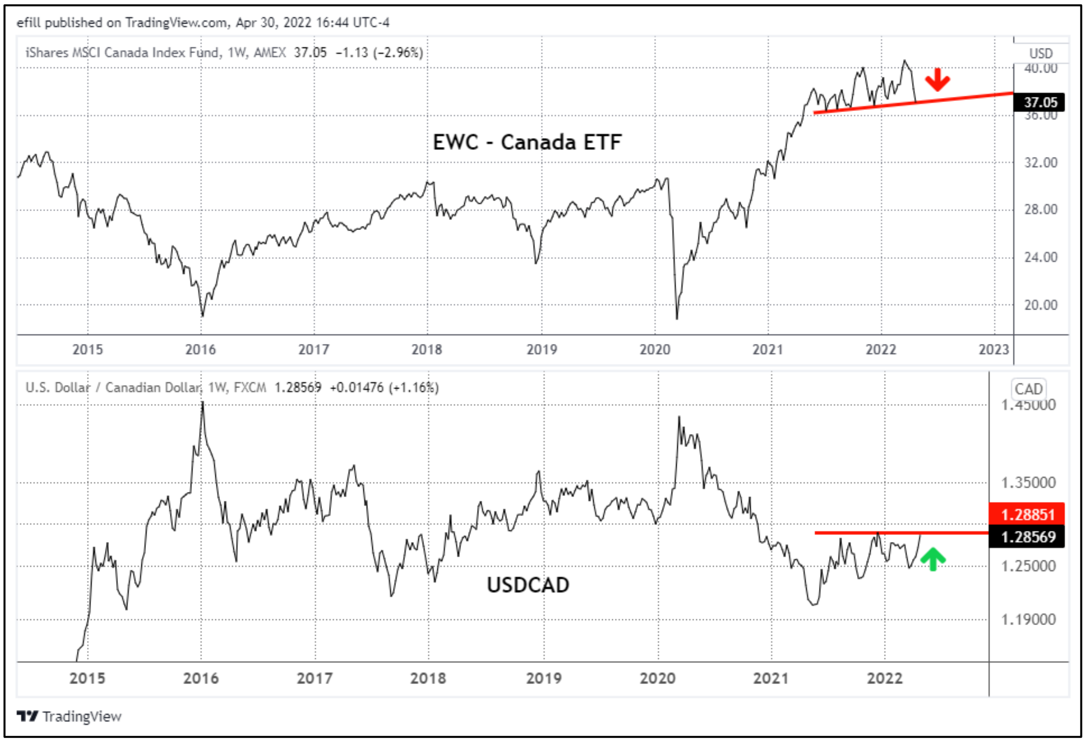
Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

The "playbook" says that during the first 50-70% of the tightening cycle the dollar tends to weaken… only when global liquidity starts to tighten at the end of the cycle does the dollar tend to rally. This time we have skipped right to the last bit.

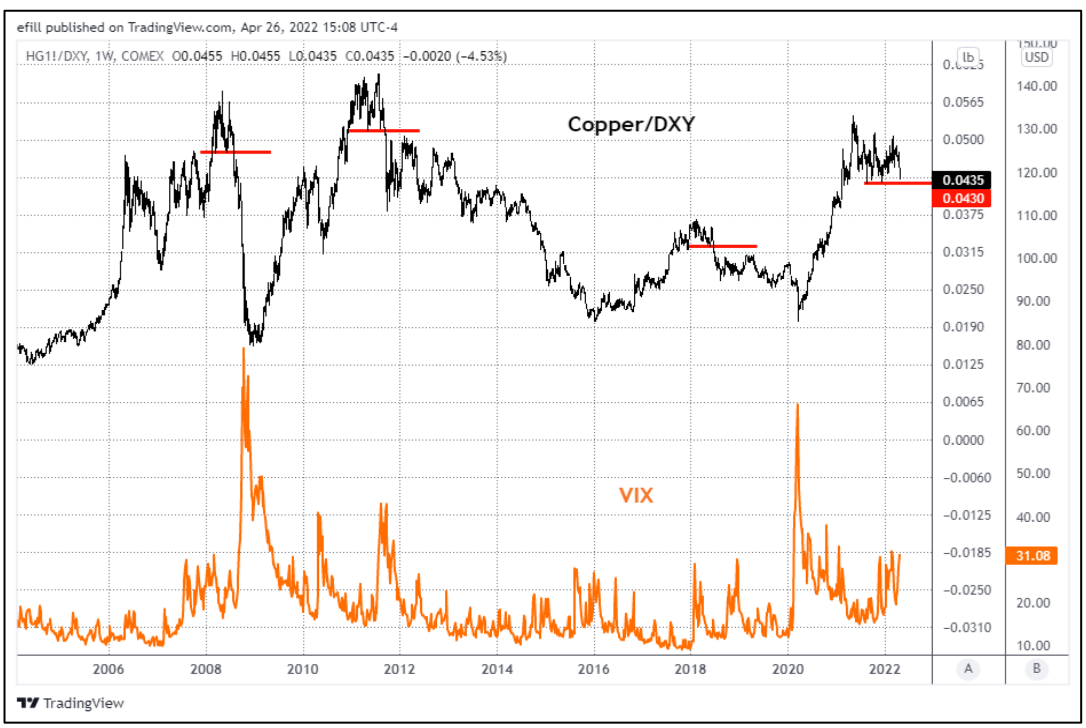
The rising USD accompanied by a commodity boom is also very unusual. We all know why it is happening, but I don't think that makes it more stable given that combined they really put the screws to the global economy.



One interesting way to play that instability is via Canadian assets. They have held in very well having a tight link to high energy prices. However, during a capitulation phase investors first tend to sell what they are worried about, then what they still really like.



Another one to watch is Copper. It has also held in well given the good fundamentals…



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

Finally, just for fun… in case you are a fan of head and shoulders patterns.

Fed, BoE, ECB's Lagarde, and Employment data. It is going to be another interesting week…

Important Macro Data Releases and Events for the Week

Monday
5/2/2022

- Manufacturing PMIs across the Globe (Apr)
- ISM Manufacturing PMI (Apr)

Tuesday
5/3/2022

- RBA Interest Rate Decision and Statement
- **ECB President Lagarde speech**

Wednesday
5/4/2022

- Service and Composite PMIs across the Globe (Apr)
- ADP Employment Change (Apr)

		ISM Services PMI (Apr)
		Fed interest rate decision, policy statement, and press conference
		Caixin Services PMI (Apr)
Thursday 5/5/2022		**OPEC Meeting**
		BoE Interest rate decision and policy statement
		ECB's Lane speech
		Initial Jobless Claims
		Initial Jobless Claims 4-week average
		Continuing Jobless Claims
Friday 5/6/2022		**Nonfarm Payrolls, Unemployment Rate, AHE, Participation (Apr)**

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.