Stargazer
Asset Management

What to focus on in Global Macro for the week of April 5th, 2021

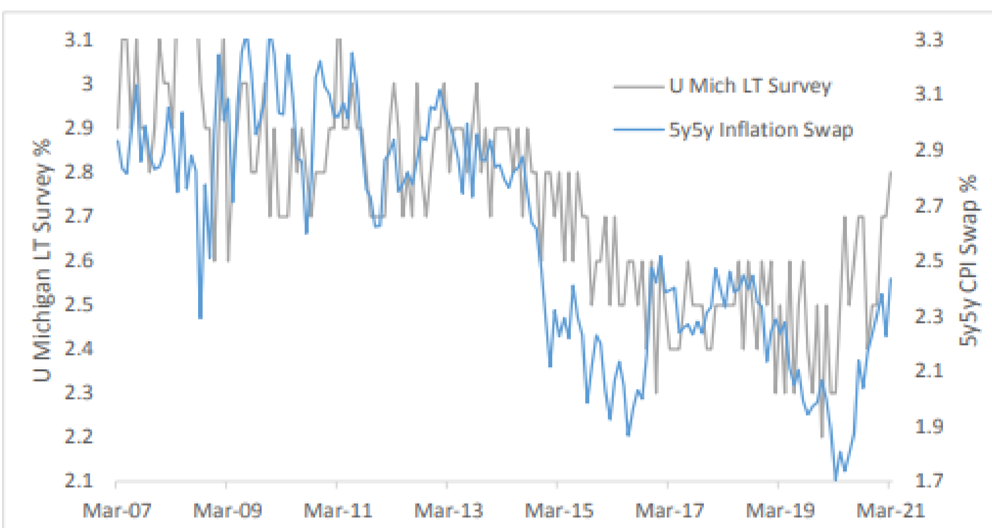
Macro Themes on the Radar:

Inflation…

With the monetary and fiscal policy hose wide-open, inflation expectations have certainly been rising.

In an interesting note from Deutsche Bank, they point in particular, to a post-2014 regime of low inflation that has solidly been in place. They argue that in order to durably shake it, and restore higher term premiums and nominal yields, we will not only need continued fiscal stimulus but that the stimulus should improve productive capacity, rather than just support consumption, while increasing debt levels. This risks the private sector simply tightening the belt as expected increases in taxation loom. How that plays out, may also determine if rising yields turn into a hindrance to economic growth, rather than reflecting it.

Figure 1: Clear regime break in inflation expectations in 2014

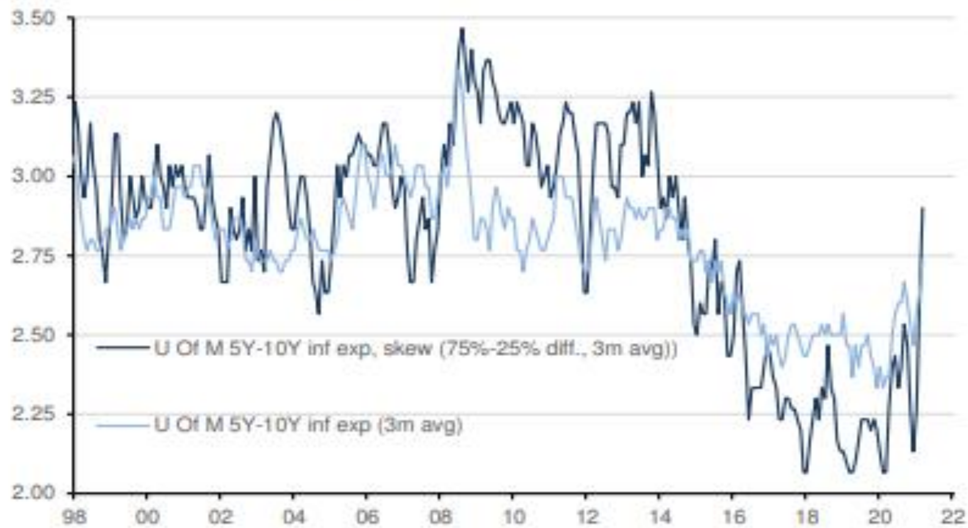


Source : University of Michigan, Haver Analytics, Bloomberg Finance LP

Eventually, they point out, the inflation outlook will determine the appetite for further fiscal largess, so far, the next course is being prepared.

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

Figure 3:Inflation expectations are moving towards the pre-2014 inflation regime



Source :Deutsche Bank, University of Michigan, Haver Analytics

It strikes me that their regime shift went hand in hand with the big 2014 dollar rally…

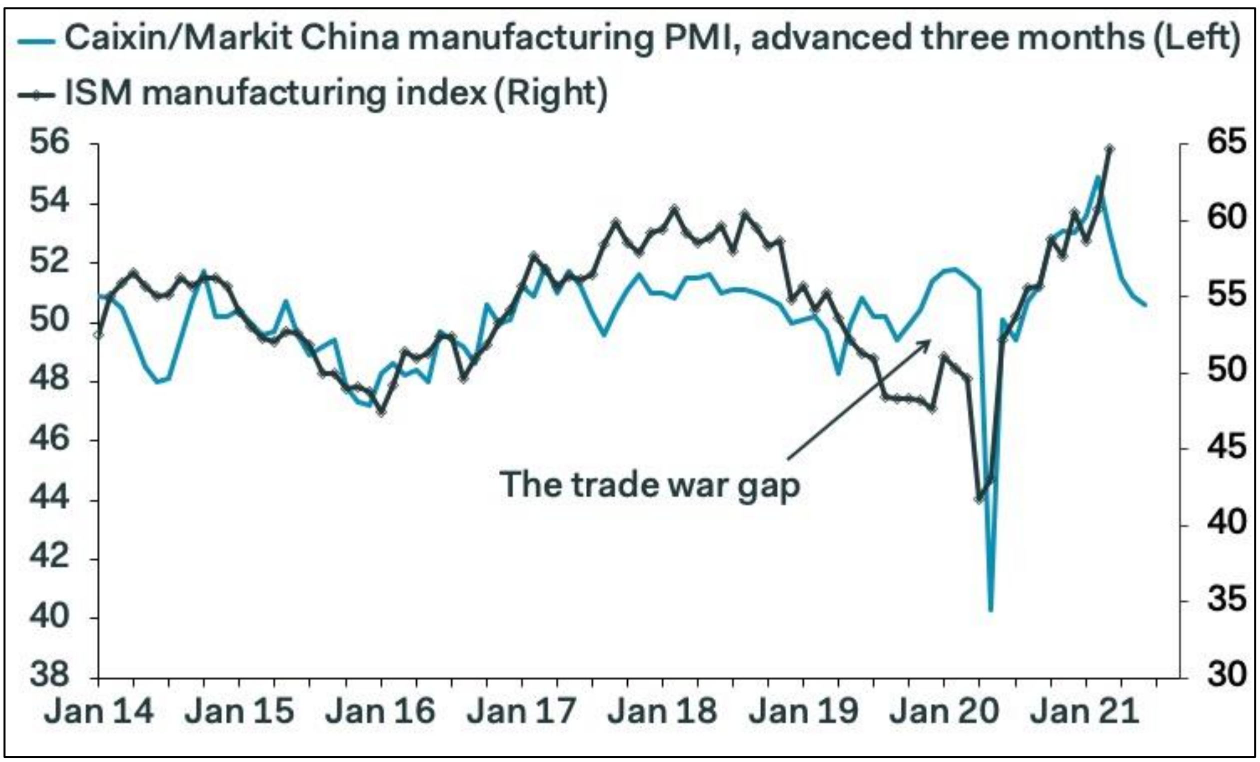
and that the dollar has remained relatively strong. It is clear that a rising dollar has been correlated with deflationary forces, but cause or effect? Don't forget it was June 2014 when the ECB instituted their negative interest rate policy. The dollar was a big beneficiary. Hmmm…. something to ponder.

Data

Manufacturing is booming…

The ISM jumped to 64.7 from 60.8, the highest reading since December 1983. We are kind of getting into "as good as it gets" territory, but it may still take a few months to peak given reopenings and stimulus.

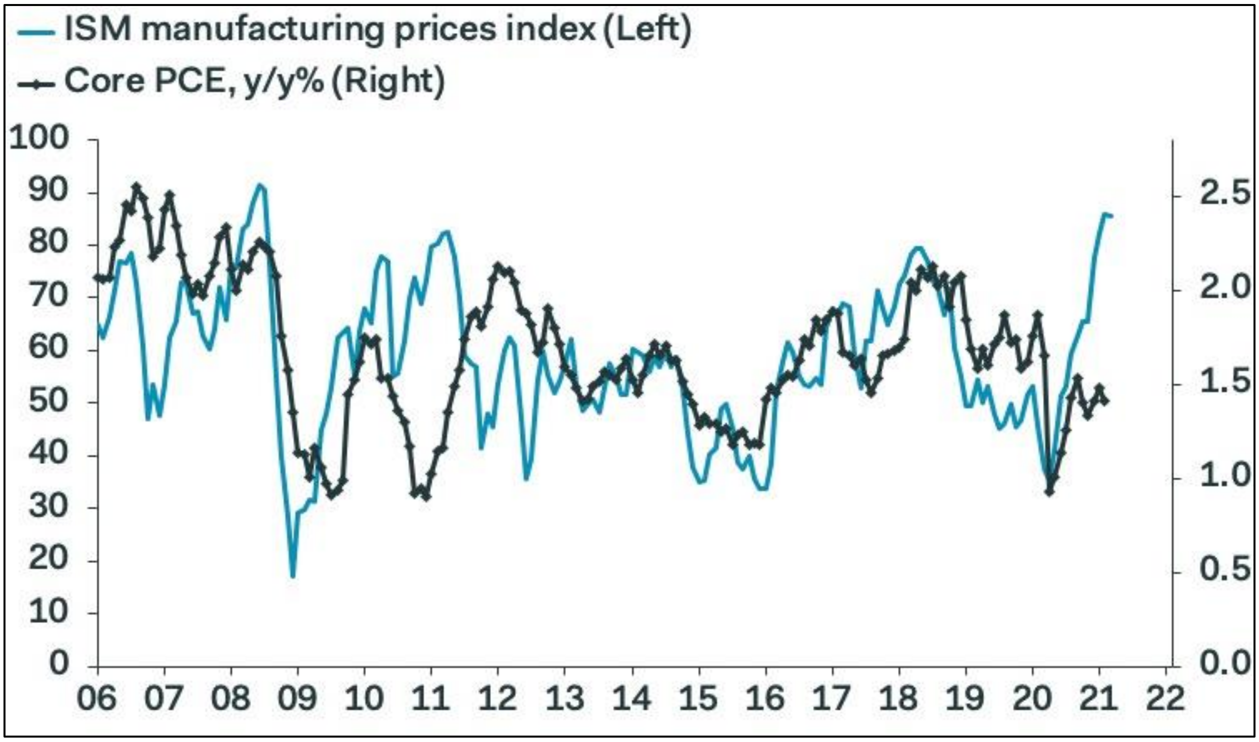
China has been weakening and often leads.



Source for this and the next three charts: Pantheon Macro

Eventually, the manufacturing boom will calm down, inflation components however are just getting going.

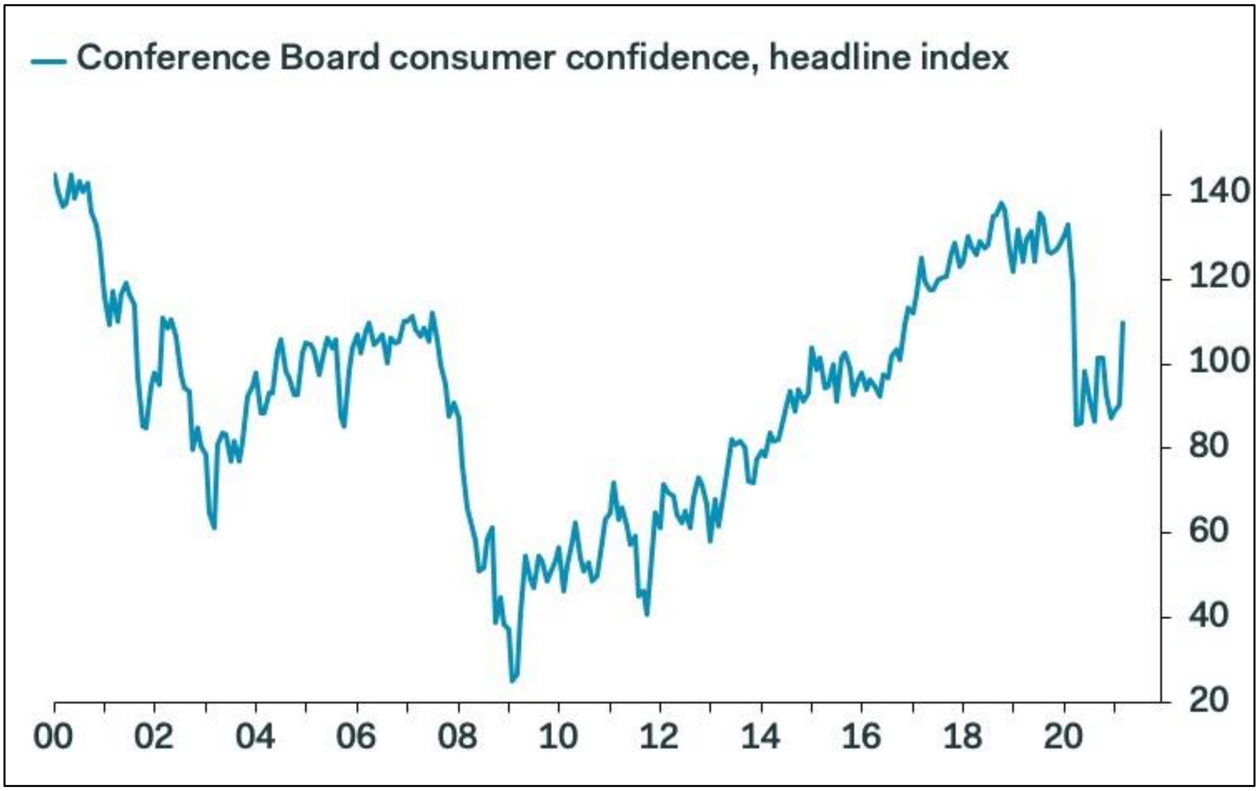
As base effects and supply constraints make themselves visible Core PCE is likely to jump towards 2.5%. Those levels will make the markets increasingly captivated by the twists and turns of the Fed's narrative.



Payrolls

Payrolls beat handily on Friday at +916k vs. the +660k expected. We are still down 11m from what would be expected without the pandemic. The market will likely be somewhat shocked by 1m+ prints in the coming months. Wage growth should pick up as well.

The Conference Board's consumer confidence index soared to 109.7 from 90.4, far above the consensus, 96.0. As employment rebounds, this should continue higher.



More stimulus…

Infrastructure

On Thursday Biden proposed the "American Jobs Plan" with a price tag of $2.25trl over 8 years.

- $620bln for transportation
- $650bln for measures including clean water and broadband
- $580bln for American manufacturing, including $180bln for the largest non-defense R&D program ever
- $400bln for the care of the elderly and disabled
- With the balance going towards green energy initiatives
- Paid for by an increase in the corporate tax rate from 21% to 28%, paying for the plan in 15 years

On Friday, it was floated that the White House is exploring whether it has the legal authority to cancel up to $50K of student debt per borrower via executive order. Some analysts are saying this could be nearly $1trl in additional spending. Big stuff!

Volatility

Multiple factors are conspiring to ensure that the volatility in markets will remain high.

As discussed before, the handoff from central banks to fiscal policymakers is supportive of inflation, as is the new focus from central banks on "outcome vs. outlook". They are committed to reflation, and won't stop until they get it, and for a while. That is a volatility pump after years of repressing volatility. I expect both inflation and GDP volatility to be much more pronounced in the coming years. Markets will react.

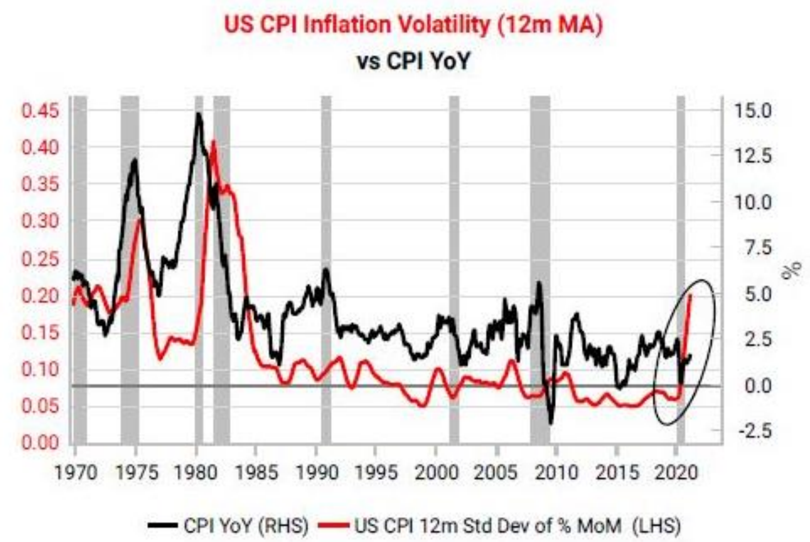


Chart Source: Bloomberg, Macrobond and Variant Perception

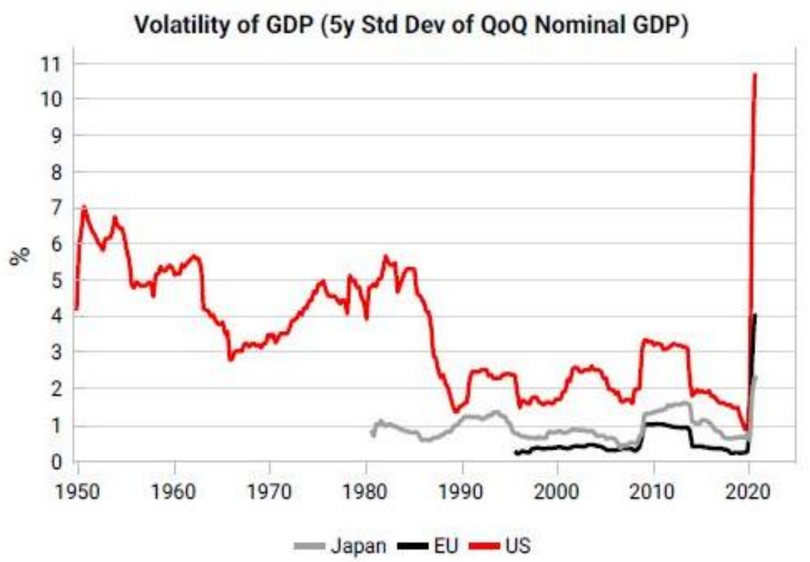
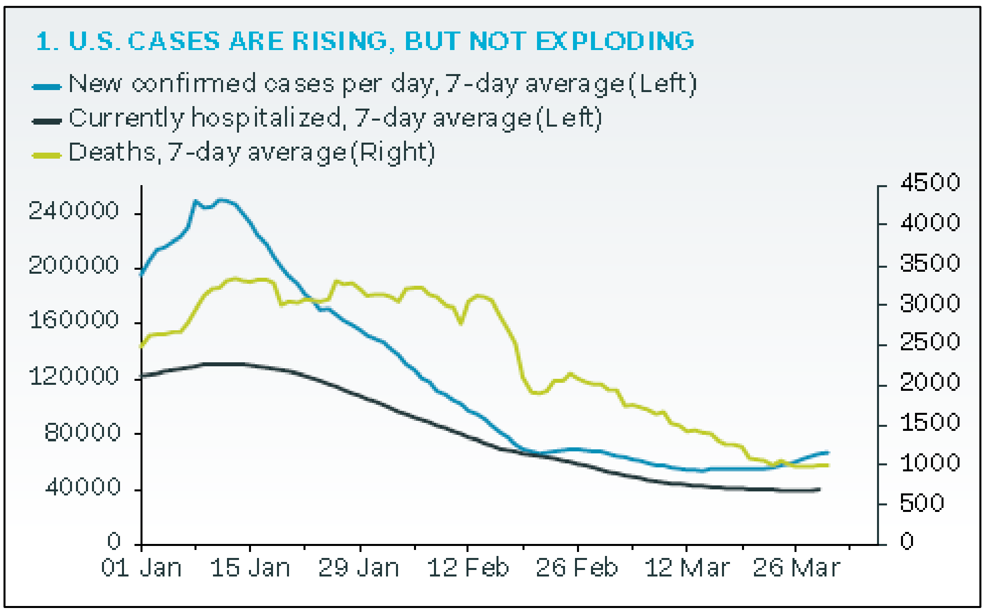


Chart Source: Bloomberg, Macrobond and Variant Perception

COVID

Europe continues to struggle with the virus and the botched vaccine rollout. Last week French President Macron announced a four-week lockdown of schools and businesses. So far, the Europeans have only been able to vaccinate ¼ the percentage of the population that the US has.

US cases are rising as well, but only Michigan looks in danger of renewed lockdown measures. The combination of existing immunity and a rapidly progressing vaccine rollout should help the US avoid a large spike. In any case, hospitalizations should be better contained given that 70% of the most vulnerable have been vaccinated now.



Source: Pantheon Macro

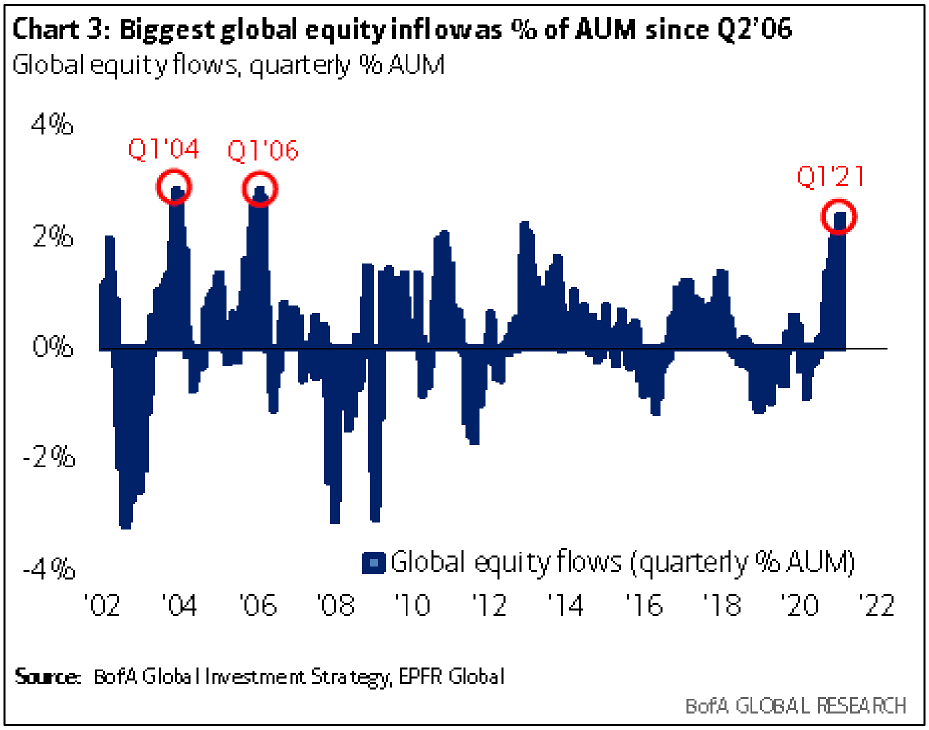
<u>What to Focus on Now:</u>

Equities

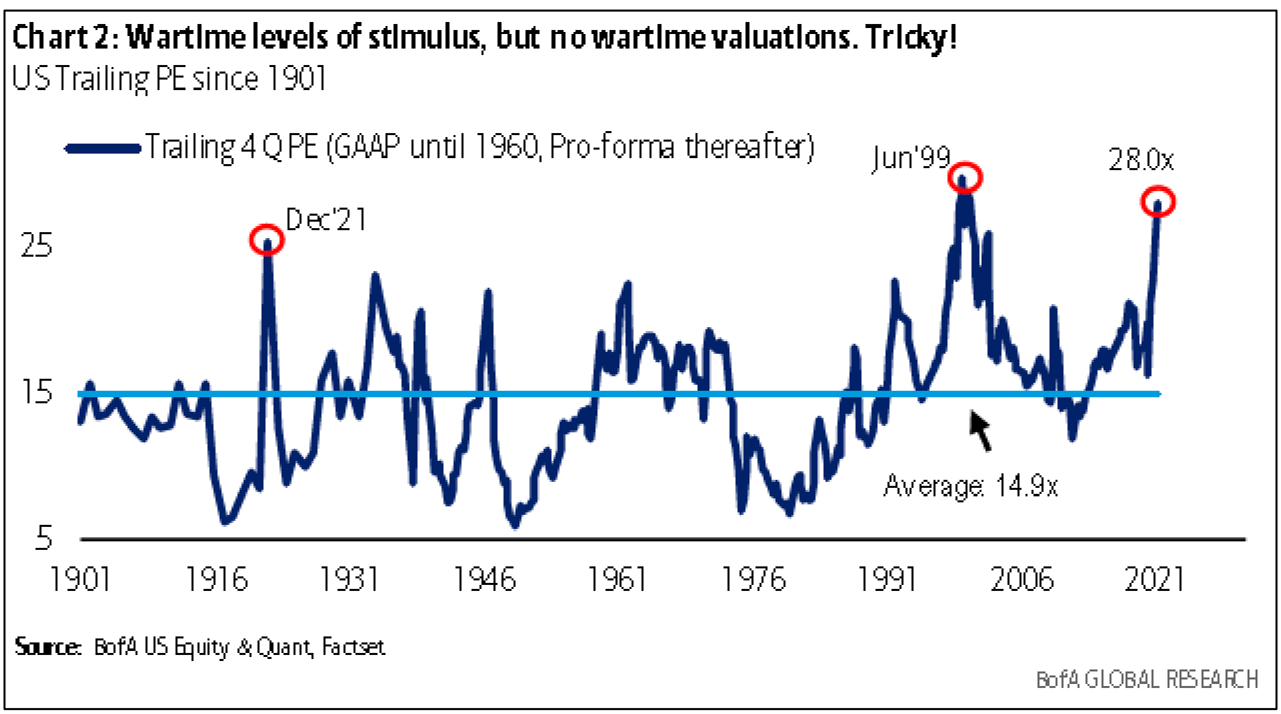
With US reopening's looming, and continued monetary and fiscal stimulus, equities have continued to have a strong tailwind.

Some of the highfliers have certainly been taken down a notch and taken one big leveraged player with them (and a couple of banks). The rotation and then to some degree un-rotation have been furious but overall, the indices have held up.

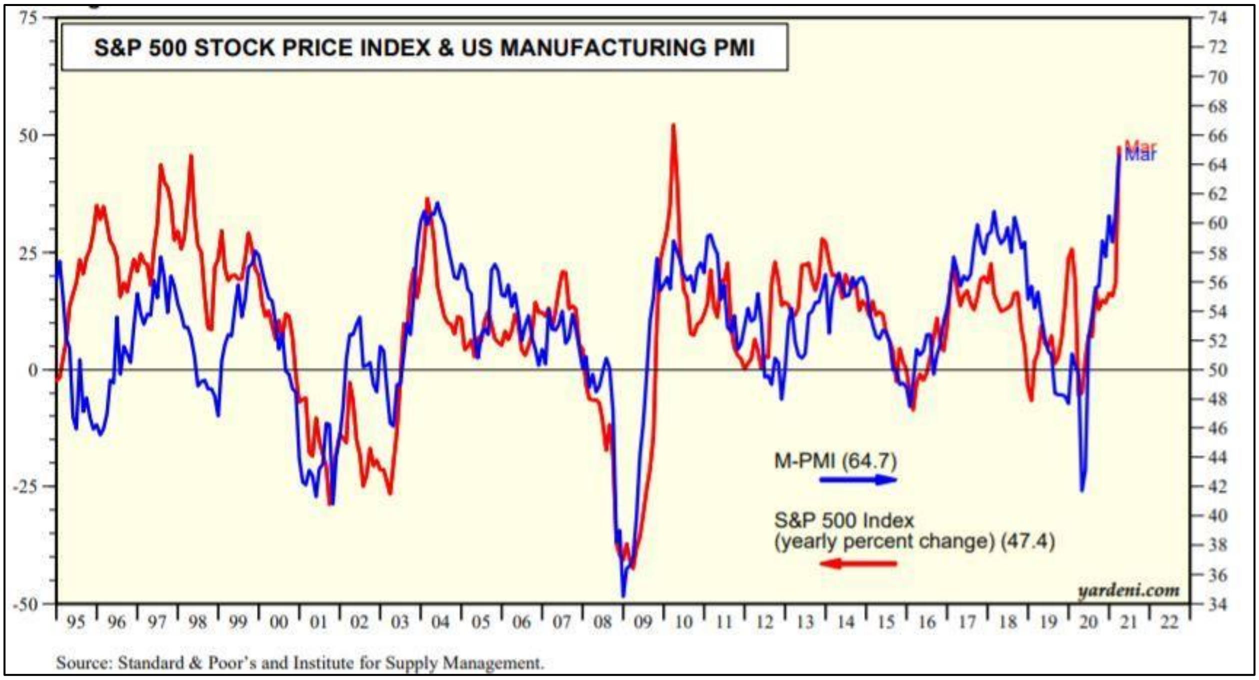
Last quarter saw continued strong inflows into stocks.



They are not cheap, but of course that can be solved with higher earnings or lower prices. At the moment the market is betting on the former.

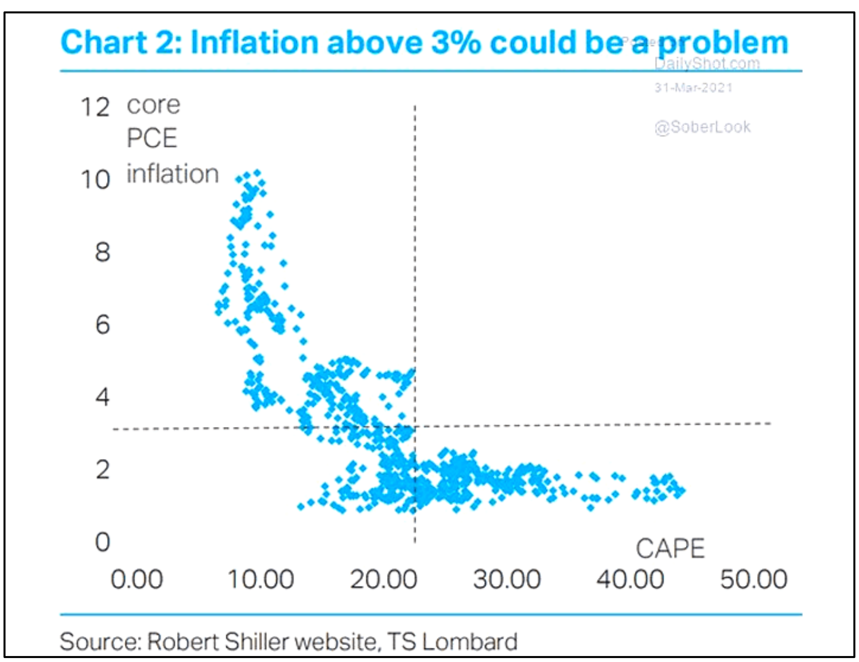


The jump in manufacturing surveys shows a nice fit with YoY equity performance.



There are lots of worries about inflation and its effects on yields. There are a lot of moving parts here and much will depend on how rapid the yield rise is, and how the Fed reacts. A jump in inflation is very much expected now and the 2-3% area is where things will get interesting for the markets. We are not yet there.

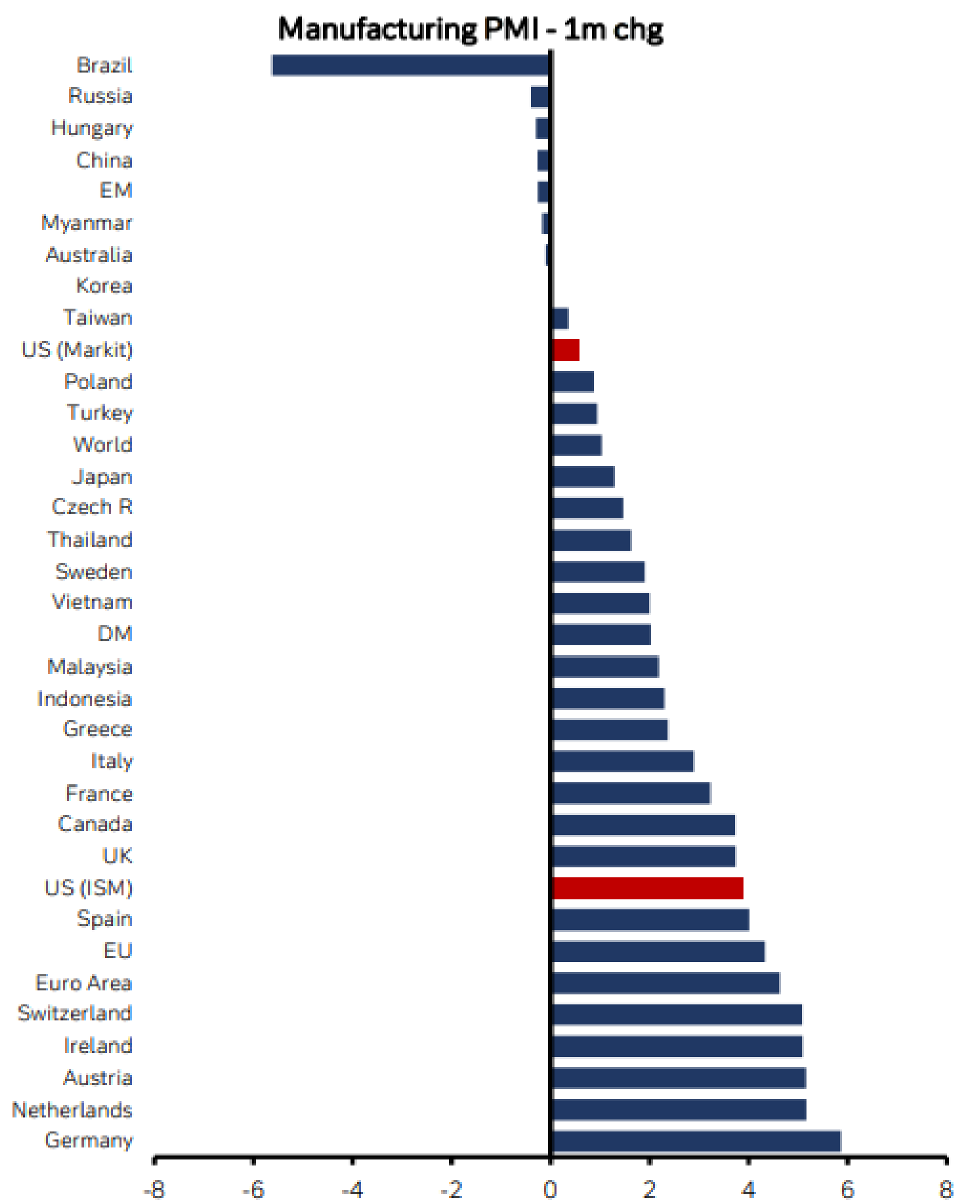
Historically, less than 3% inflation doesn't seem to weigh down PE's.



Europe

While Europe continues to struggle with its service sector given its COVID issues, the manufacturing sector has been surprising to the upside.

Figure 17:Manufacturing PMI (1m chg) - Big positive changes were in EUR area



Source :Deutsche Bank, IHS Markit, Datastream.

Chief Business Economist at IHS Markit, Chris Williamson, commenting on the final Manufacturing PMI data from Europe, said:

"Eurozone manufacturing is booming, with production and order books growing at rates unprecedented in nearly 24 years of PMI survey history during March. Although centered on Germany, which saw a particularly strong record expansion during the month, the improving trend is broad based across the region as factories benefit from rising domestic demand and resurgent export growth. Driving the upturn has been a marked improvement in business confidence in recent months, with expectations of growth in the year ahead running at record highs in February and March. This has not only boosted spending but has also led to rising investment and restocking, as firms prepare for even stronger demand following the vaccine roll-out."

European equities managed a good close on the week, taking out the top of a range in place since April 2015.

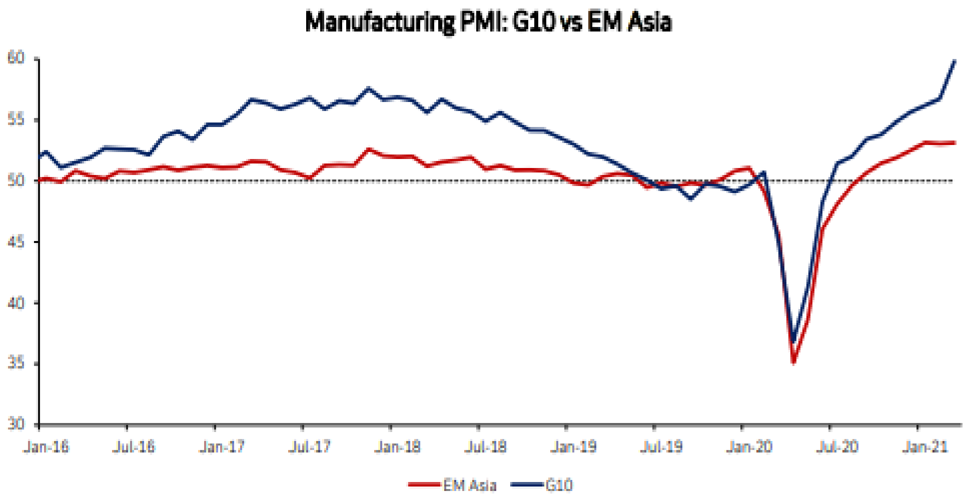
Given a lack of positioning or interest in European equities, this is potentially a big break that will force in buyers. Sometimes, price begets price, and the fundamentals fill in behind.

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

EM/China

EM PMI's have struggled to keep up with G10 recently.

Figure 2: G10 very strong vs EM Asia manufacturing PMI



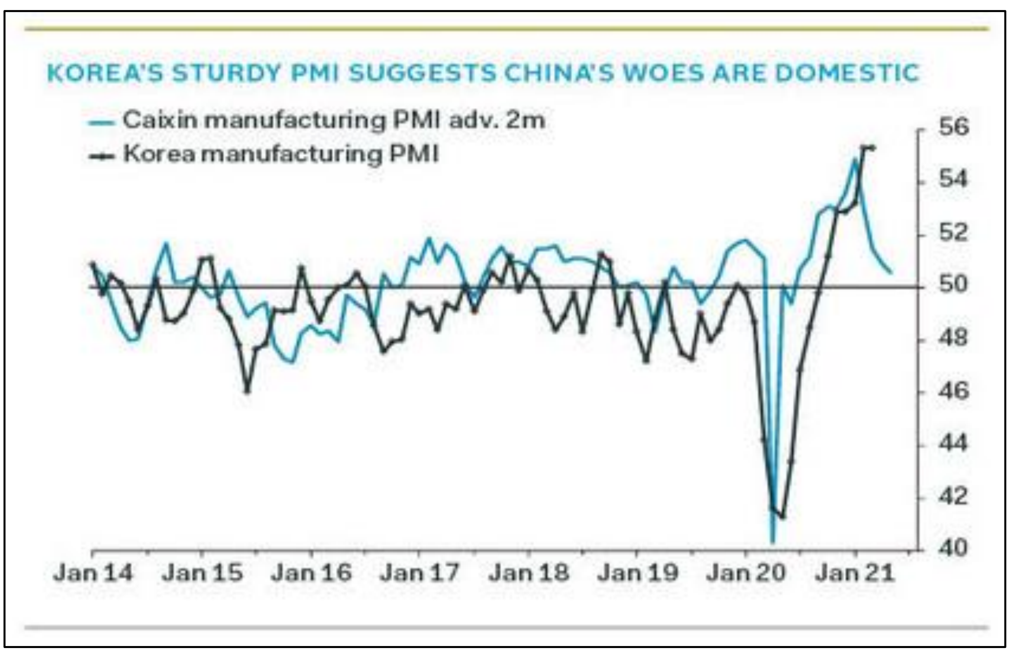
Source : Deutsche Bank, IHS Markit, Datastream.

And partially because of a stronger USD in recent months, EM equities are not keeping up with the new highs in the US and Europe.

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

Chinese equities have been struggling (not helped by the Archegos Capital fiasco).

However, although while it might just be that they are already seeing the first signs of burn-out in the recovery trade, it is likely that domestic issues are also contributing.



After a big run, CNY has recently been weakening as the dollar broadly rallies. In 2018, that foretold a global growth slowdown during substantial US equity and currency outperformance.

Just one to keep an eye on as the set-up today is very different, and there was more of a deflation threat than now.

Bonds

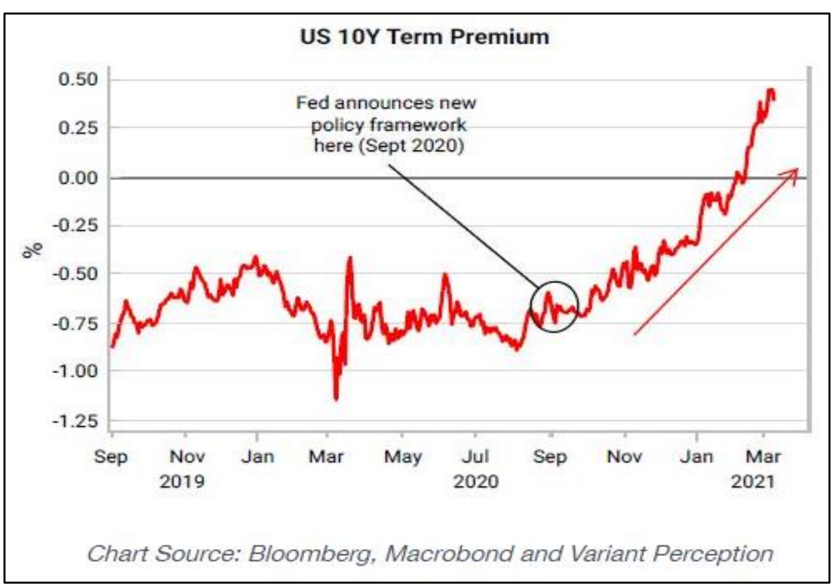
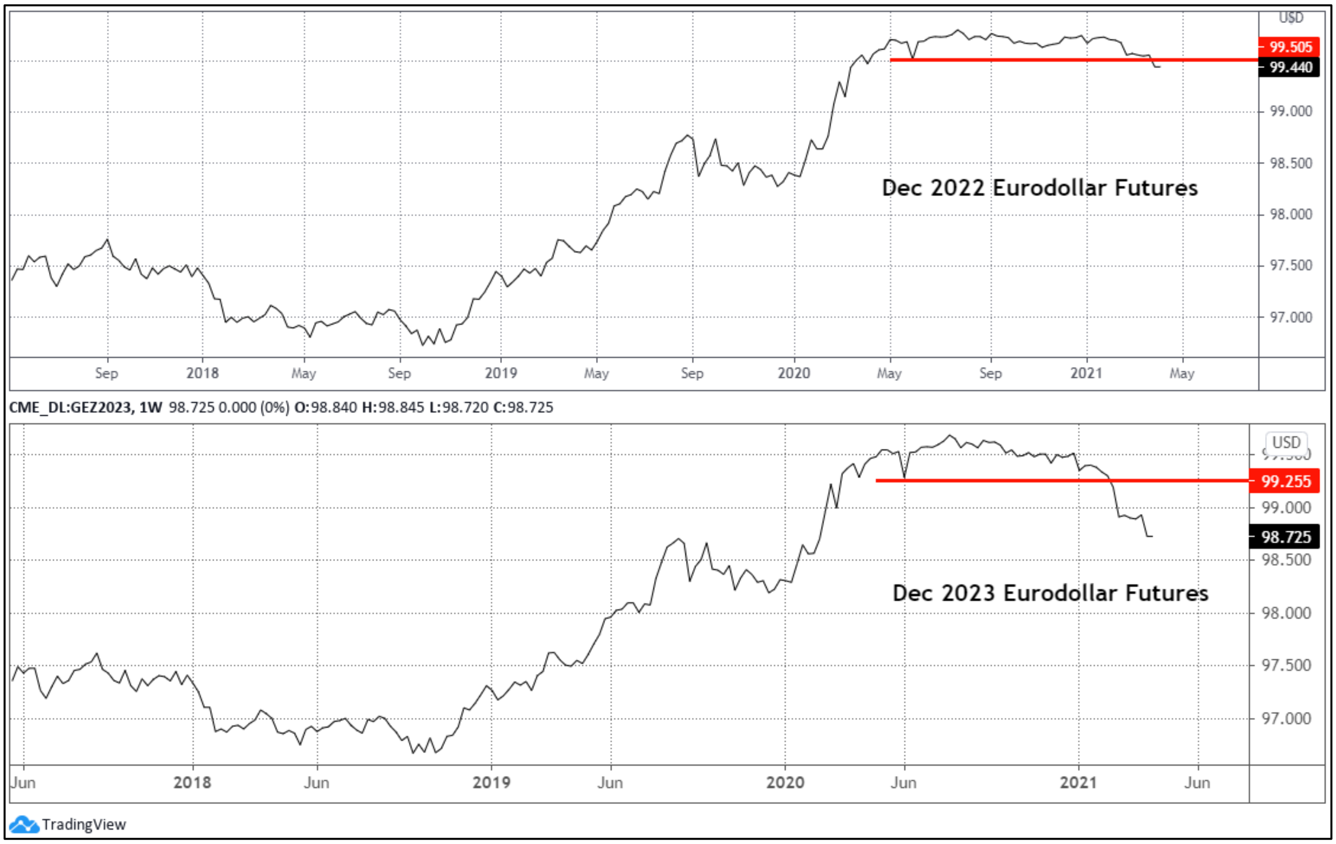


Chart Source: Bloomberg, Macrobond and Variant Perception

"Let it run hot" has been doing its thing, as long yields have rallied on good data.

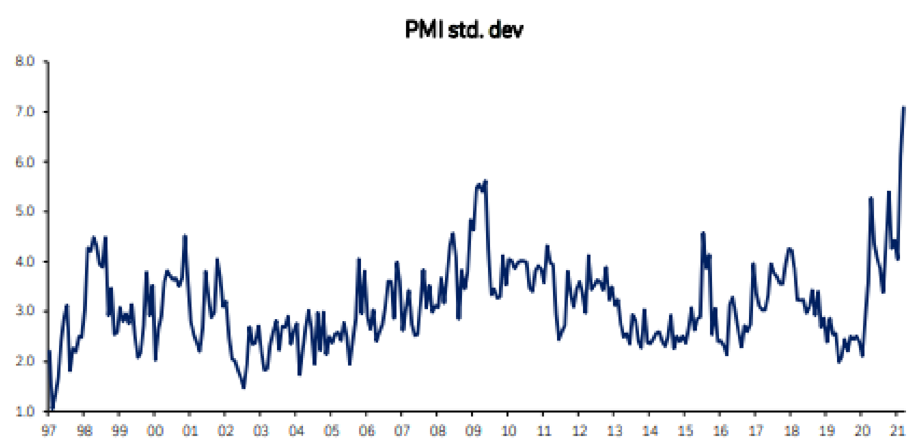
The Fed has repeatedly been dovish (almost every utterance) and stuck to its view that it must follow through on the new framework in order to establish credibility for its new reaction function.

Although the markets, still stuck in the old ways of "outlook", are starting to wonder if the Fed will really be able to hold back lift-off, as long as they are currently implying. In fact, there was a whiff of bearish curve flattening this past week.



FX

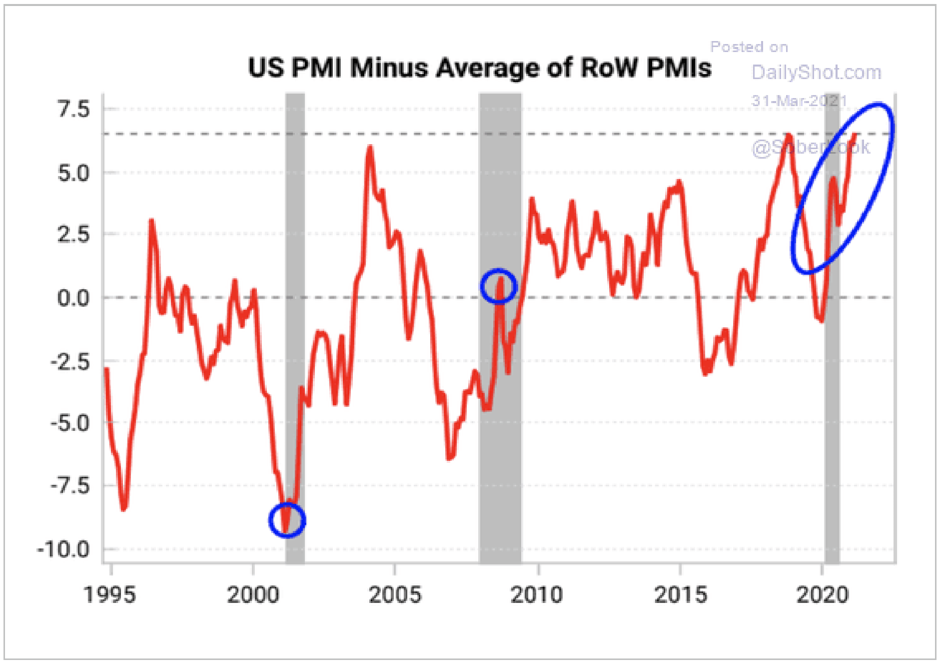
Figure 23:PMIs deviation - Variation across countries is sharply on the rise, with a schism between DM and EM emerging.



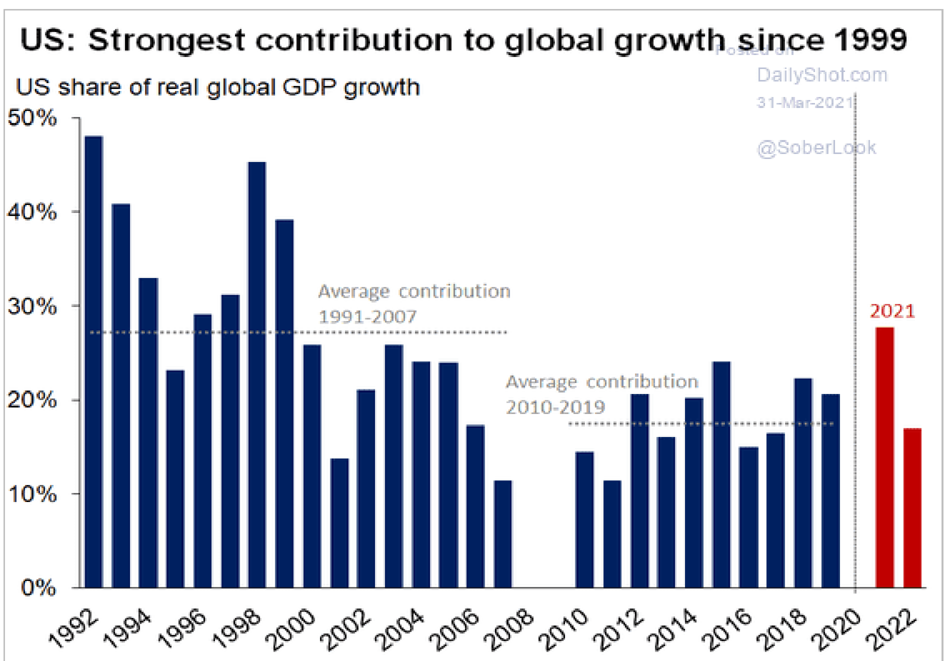
Source :Deutsche Bank, IHS Markit, Datastream.

There is potential for FX volatility here. Growth rates will vary widely as we reopen and the manufacturing rebound is replaced with a service sector rebound. Yields will reflect this, and central banks will interfere to varying degrees as they try to manipulate prices and expectations.

The current dollar rally has surprised people as the large stimulus, expected to be a dollar negative, is at least partially responsible for the US outperformance.



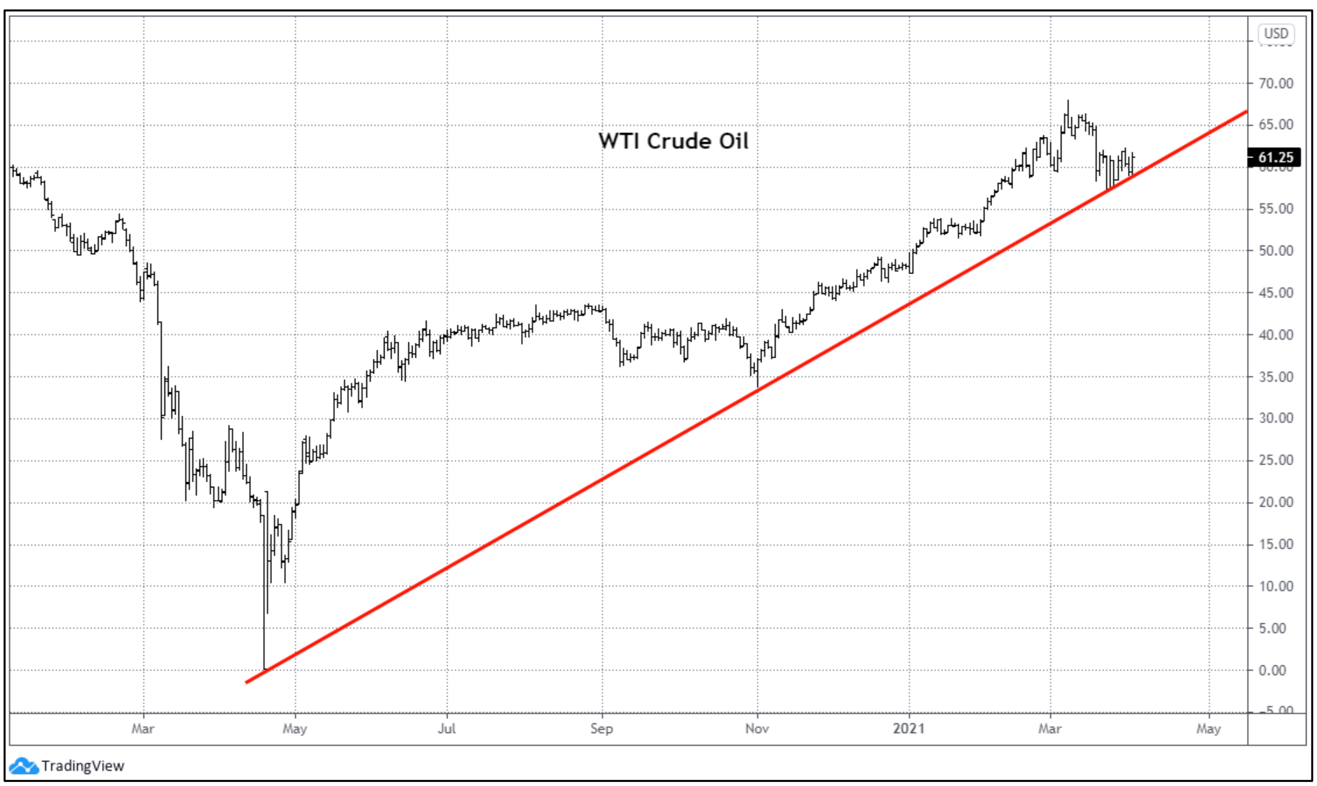
Source: Variant Perception



Source : Oxford Economics/Haver Analytics

Stargazer
Asset Management

Commodities – The dollar rally has contributed to the loss of momentum in commodities.

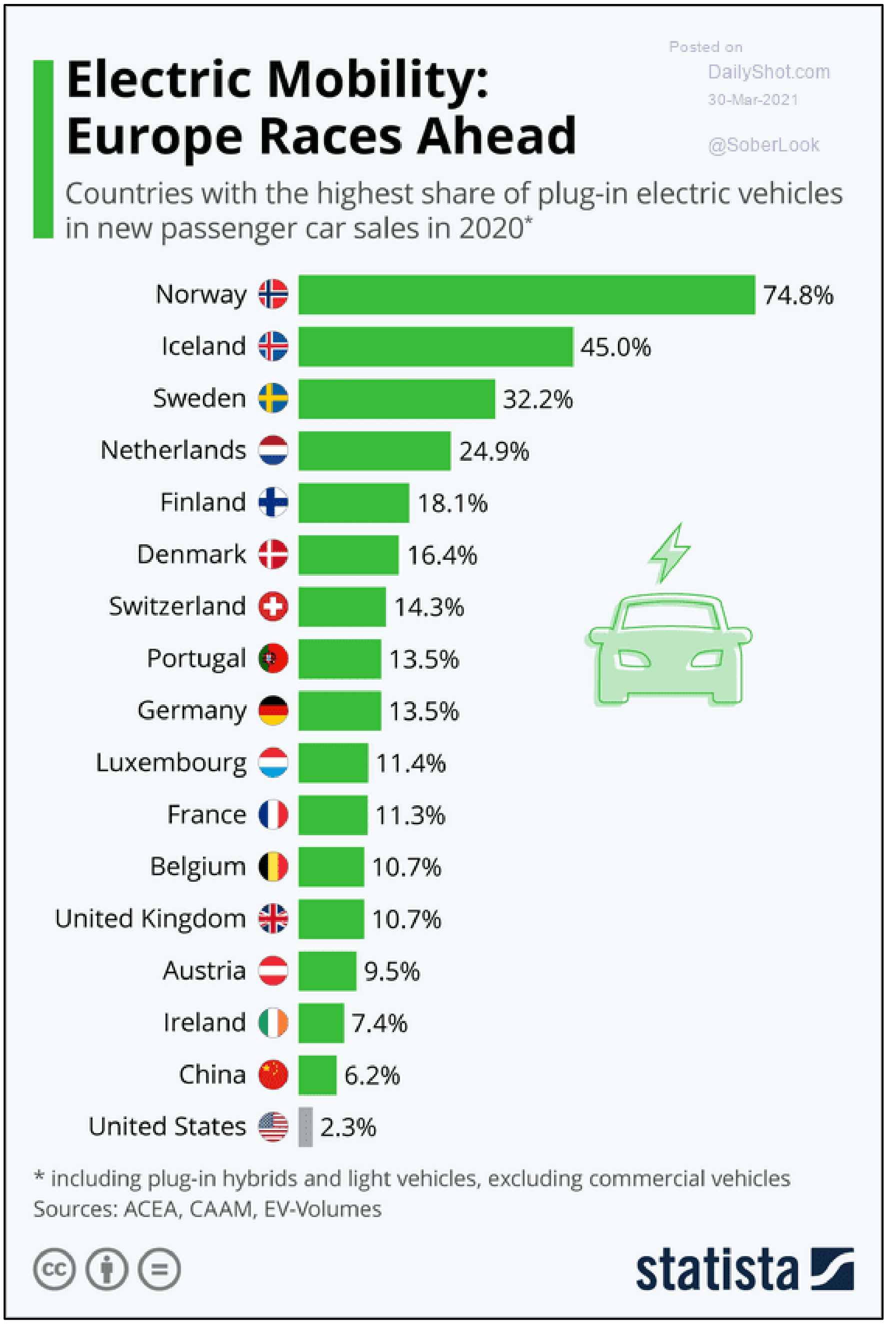


Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

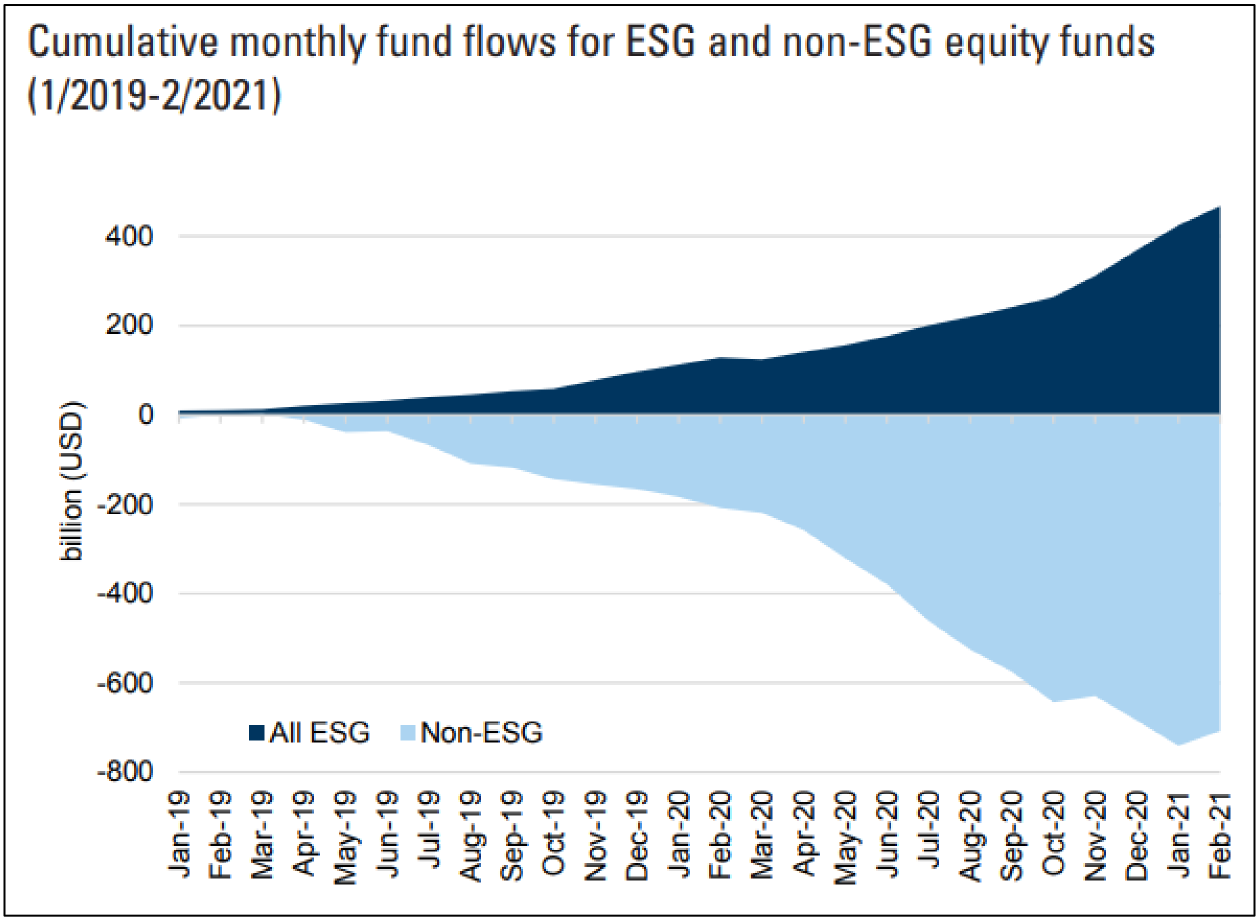
Gold, having been hammered by both a higher USD and the move up in nominal, and as a result real yields held big support last week. I would think we need at least a rest in yields and the dollar for a bigger turn around. It would be interesting if the negative correlation starts to crack… worth watching for. Of all the Gold pairs XAUJPY looks the most interesting here.

Other charts that caught my attention last week…

Northern Europe sure is embracing EV's.



2020 sure was the year that ESG investing arrived.



Next week's IMF/World Bank meeting may provide some interesting headlines, as Fed Chair Powell and Treasury Secretary Yellen are joined by special presidential envoy for climate, John Kerry, on a panel discussing the global economy.

Also, keep an eye out for final service PMI's from around the globe, and ECB and Fed meeting minutes.

Important Macro Data Releases and Events for the Week

Monday
4/5/2021

- Markit Service PMI (Mar) Forecast: -, Prior: 60
- Markit PMI Composite (Mar) Forecast: -, Prior: 59.1
- ISM Service New Orders (Mar) Forecast: -, Prior: 51.9
- ISM Service PMI (Mar) Forecast: 57.4, Prior: 55.3

	ISM Service Employment Index -, Prior: 52.7
	ISM Service Prices Paid (Mar) Forecast: -, Prior: 71.8
	Factory Orders MoM (Feb) Forecast: -0.3%, Prior: 2.6%
	Caixin Service PMI (Mar) Forecast: -, Prior: 51.5
	RBA Interest Rate Decision
Tuesday 4/6/2021	Unemployment Rate (Feb) Forecast: -, Prior: 8.1%
Wednesday 4/7/2021	Markit Service and Composite PMI's across Europe
	Goods and Services Trade Balance (Feb) Forecast: $-70.3B, Prior: $-68.2B
	FOMC Minutes
Thursday 4/8/2021	Factory Orders s.a. MoM (Feb) Forecast: 0.7%, Prior: 1.4%
	ECB Monetary Policy Meeting Accounts
	Initial Jobless Claims Forecast: -, Prior: 719k
	Initial Jobless Claims 4-week average Forecast: -, Prior: 729k
	Continuing Jobless Claims -, Prior: 3.794 M
	IMF Meeting
	CPI MoM (Mar) Forecast: 0.6%, Prior: 0.6%
	CPI YoY (Mar) Forecast: -0.4%, Prior: -0.2%
	PPI YoY (Mar) Forecast: 1.5%, Prior: 1.7%
Friday 4/9/2021	Trade Balance s.a. (Feb) Forecast: EUR 16.4B, Prior: EUR 22.2B

- Industrial Production s.a. MoM (Feb) Forecast: -, Prior: -2.5%
- PPI ex-food and energy YoY (Mar) Forecast: 2.6%, Prior: 2.5%
- Unemployment Rate (Mar) Forecast: 9.2%, Prior: 8.2%
- Net Change in Employment (Mar) Forecast: 75k, Prior: 259.2k
- IMF Meeting