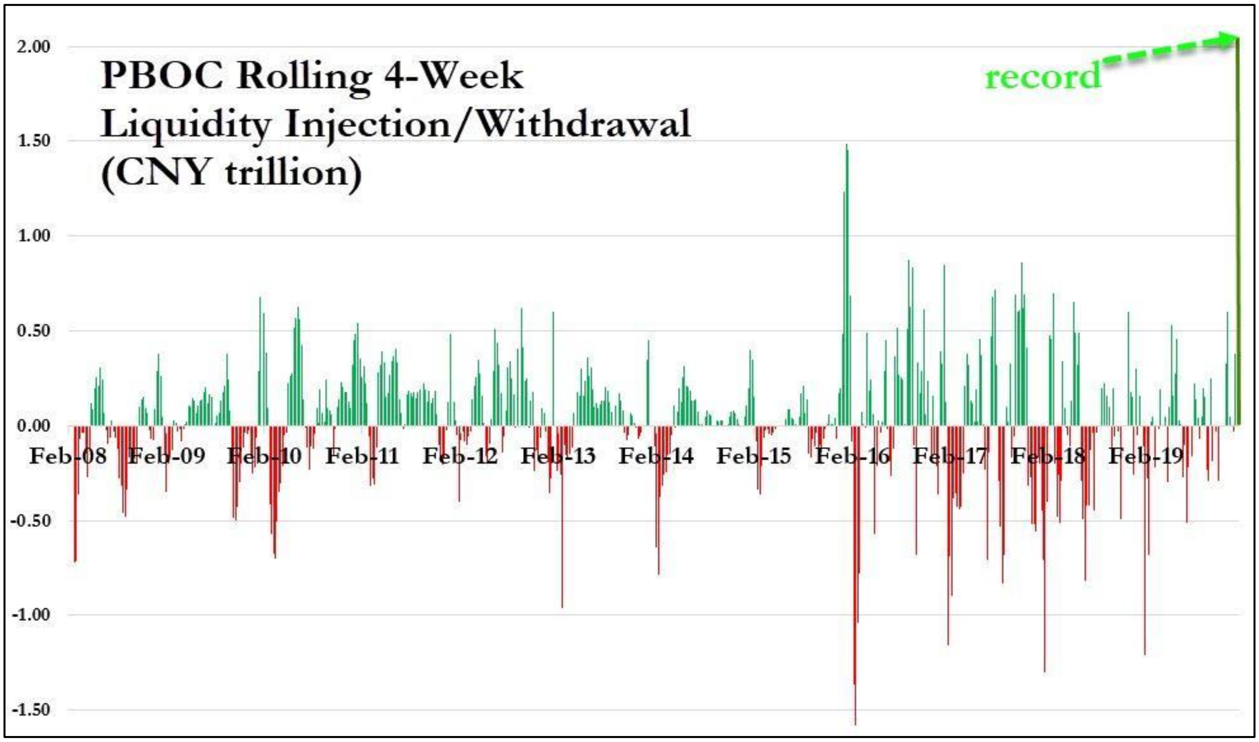
Stargazer Asset Management

What to focus on in Global Macro for the week of February 10th, 2020

Macro Themes on the Radar:

Liquidity is still pouring into the world's financial system. China's reaction to the threat from nCoV has been substantial. Not only have they cut rates and supplied ample short-term liquidity, but fiscal spending is in the pipeline as well.

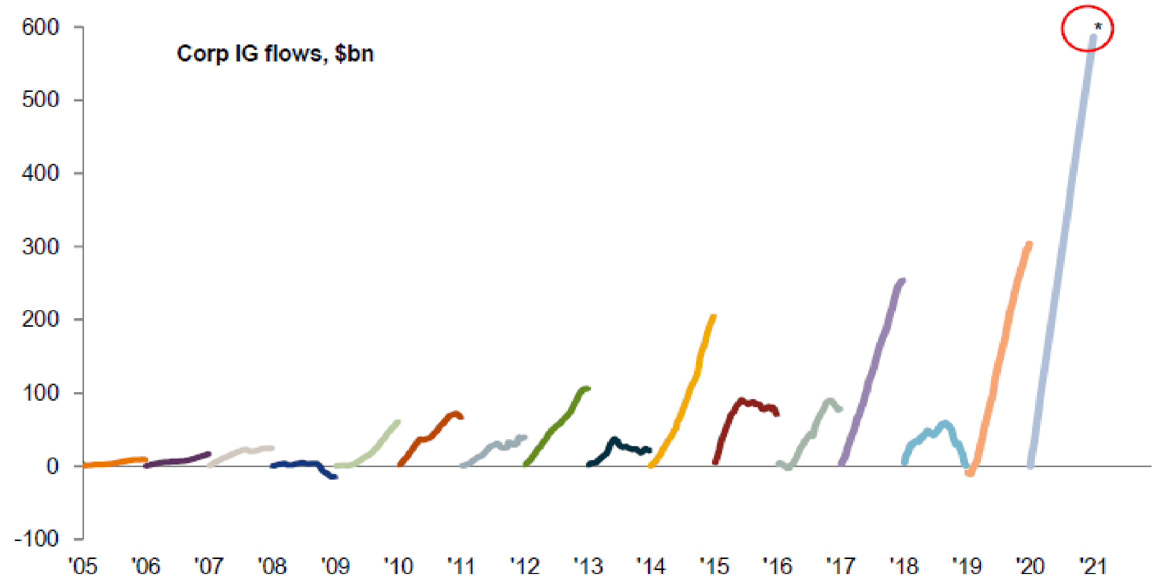


The mad rush to keep adding liquidity continues. As BoA/ML recently pointed out, we have now had 798 rate cuts since Lehman, and are likely to hit 800 shortly as Russia and Mexico cut.

It seems that we move from panic to panic, yet asset prices keep rising as the fear of a renewed bout of deflation competes with the ever-present fear of missing out on price appreciation (FOMO). The market is expressing these two competing fears by buying bonds (for protection) and Technology stocks (for growth). The inflows so far this year have been very impressive.

Investment Grade bond funds are benefiting...

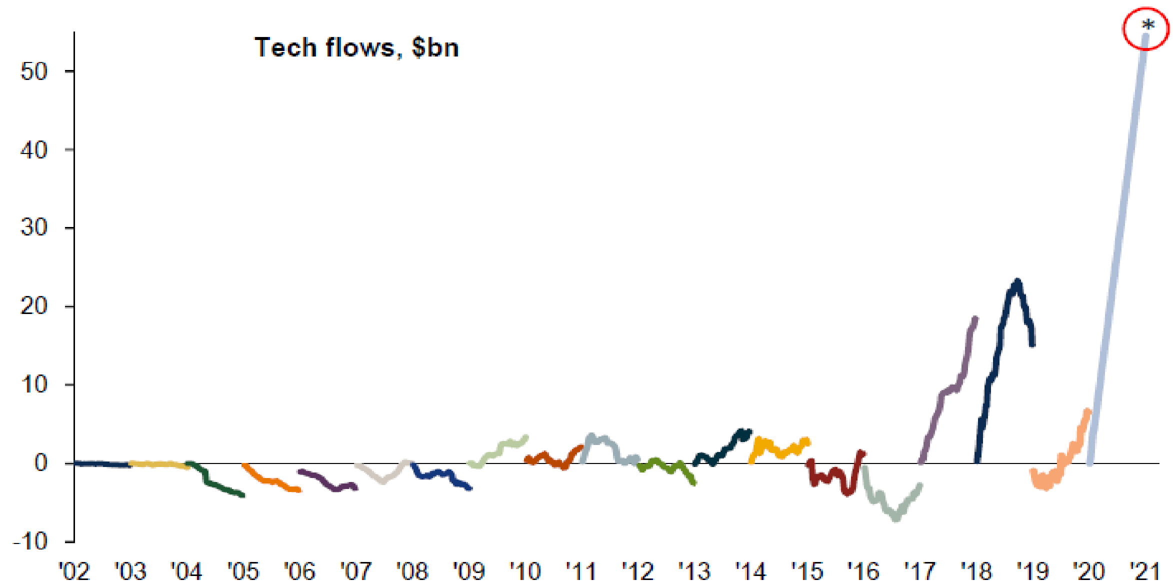
Chart 6: Record annualized inflows into IG bond funds



Source: BofA Global Investment Strategy, EPF Global., note *2020 shows annualized flows

As is Tech...

Chart 8: Record annualized inflows into tech funds



Source: BofA Global Investment Strategy, EPF Global, note *2020 shows annualized flows

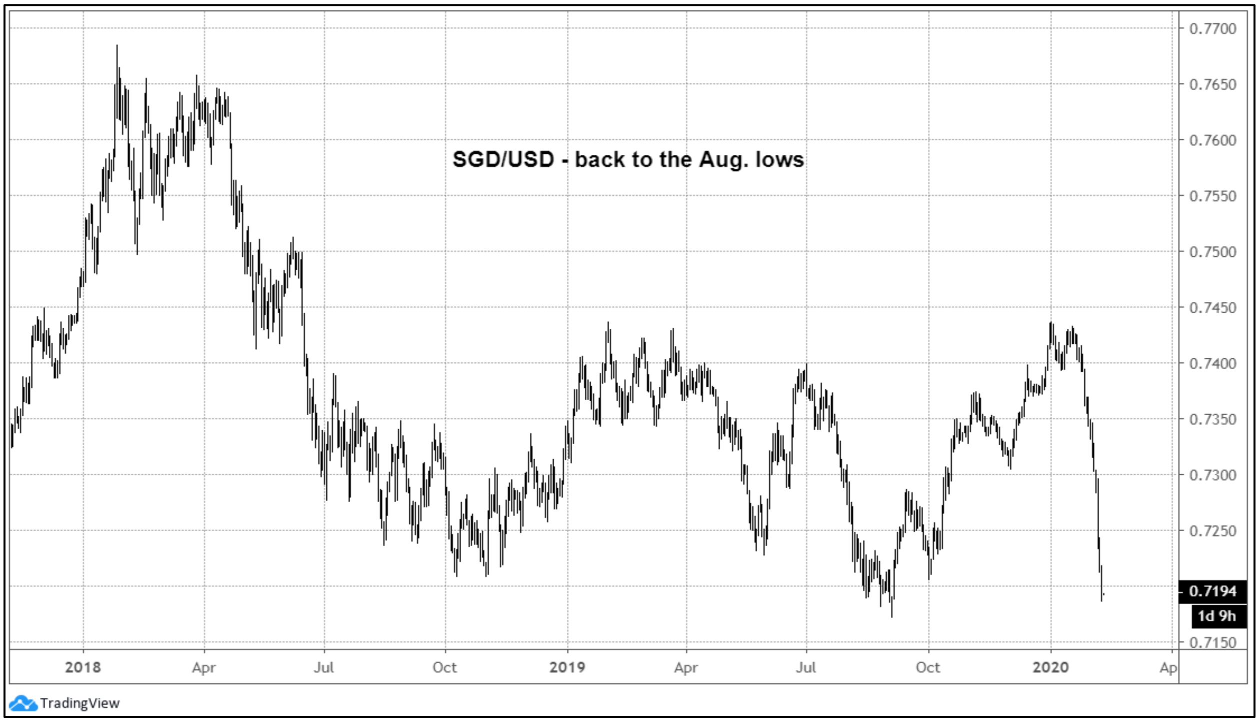
In a low growth environment, people will pay for growth but not value… this has been the overall trend, with the occasional acceleration as the latest worry hits.

The continued strength of the dollar has been reflective of this growth vs. value choice on a global scale. Not only has the US been a big outperformer in Equities, but US Fixed Income yields have been far superior to what is available overseas. Without the resurgence in global growth that markets have been hoping for, the world ex-US has remained a value-trap, at least on a relative basis.

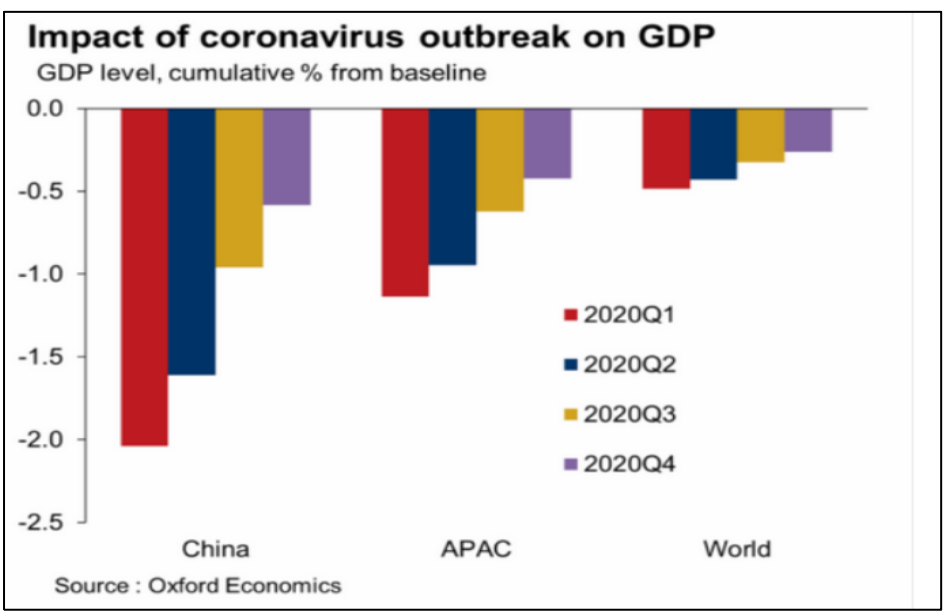
As discussed last week, the recent rush into Commodity and EM markets has been punished by the nCoV outbreak, with investors losing money via both the underlying asset and currency exposures.

Unlike US equities, neither commodities nor the currencies most exposed to them, have rallied back as virus fears have subsided in recent days.

EM currencies, especially those with the highest exposure to China have not recovered either. For example, Singapore has been hit hard wiping out 4 months of gains in only few weeks.

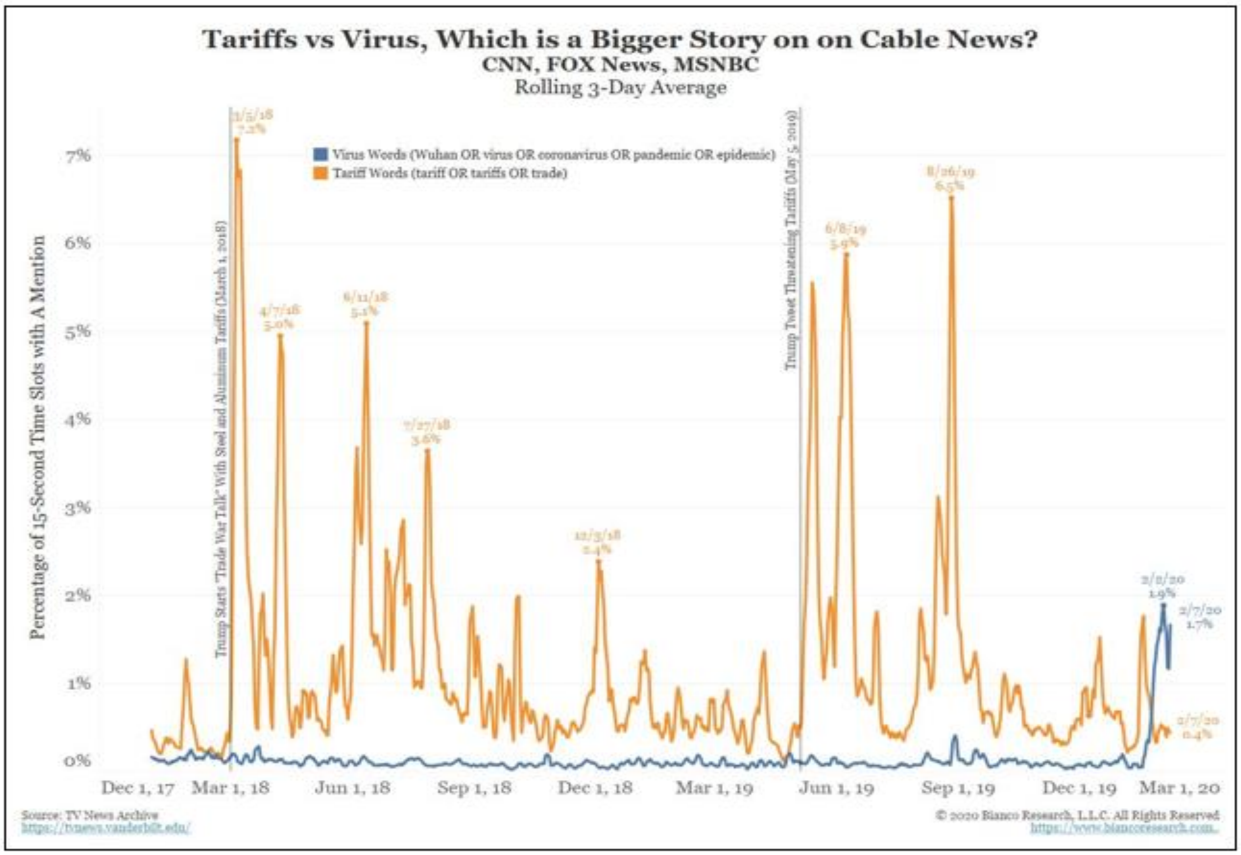


The coming week will be critical for determining how much global slowing can be expected from the outbreak. Estimates were rolling in last week, but it's a quickly changing situation on the ground and talk over the weekend that FOXCONN has told some employees not to return from holiday until March illustrates the potential for further downside.



Here is an interesting site that is updated often and provides the ability to drill down to various details regarding the outbreak. With a lot of questions around the Chinese data's accuracy, the facts and figures from outside China are perhaps the most interesting. https://www.worldometers.info/coronavirus/

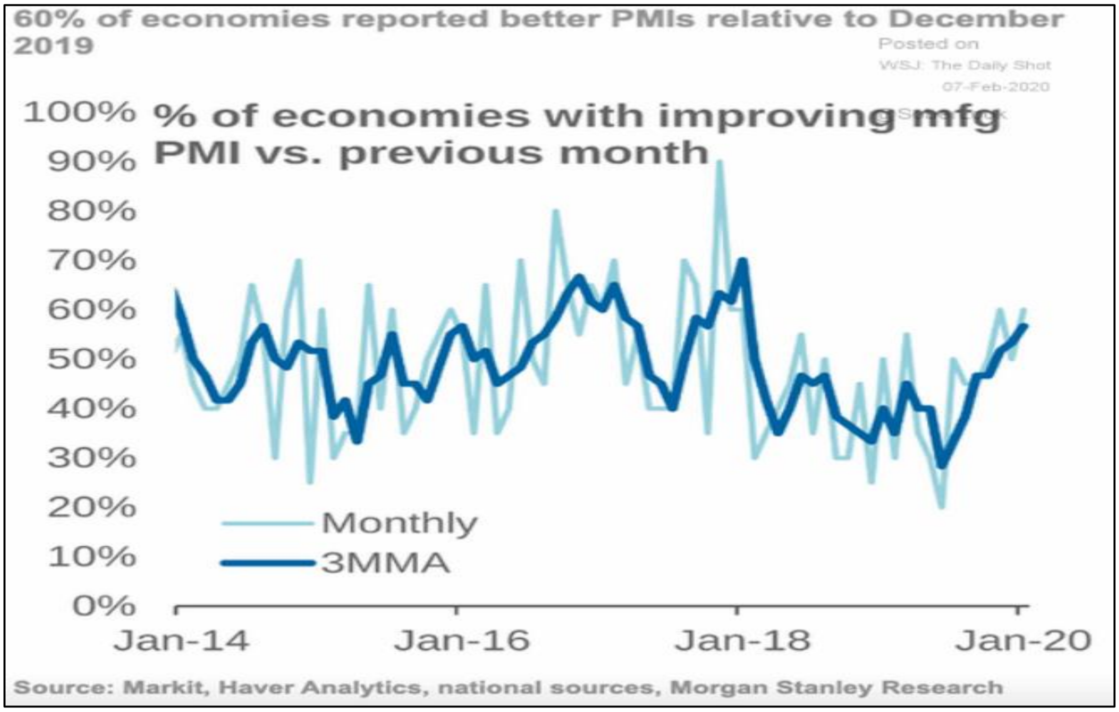
Markets were certainly rattled in the last week of January but have since rebounded. So far, the news coverage of the virus has been much less than the trade dispute. Next week could well be the positive turning point that the equity markets have been trying to sniff out. On the other hand, a second wave or worsening of the situation, could quickly bring volatility back to equities as a bout of panic overwhelms the wave of Central Bank liquidity.



What to Focus on Now:

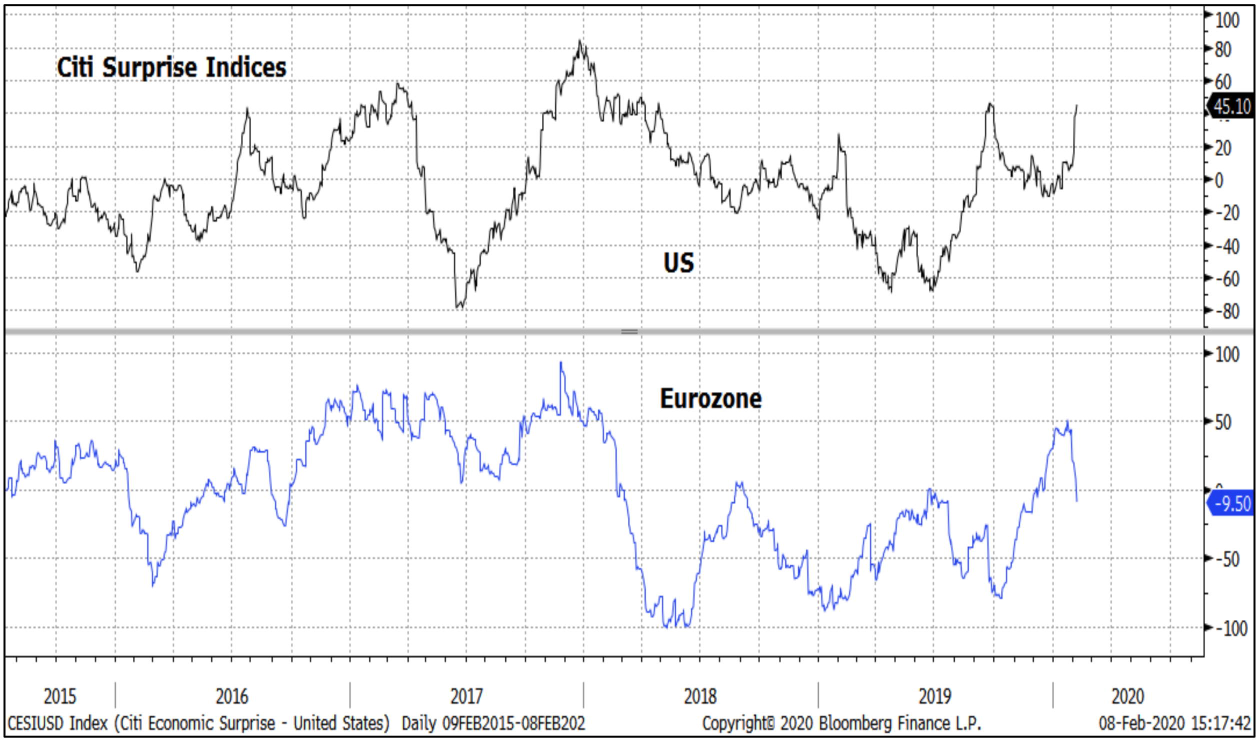
Starting points are important and the good news is that going into the nCoV outbreak global growth expectations seemed to be responding to the renewed Central Bank stimulus.

Survey data had been perking up and PMI's starting to recover.

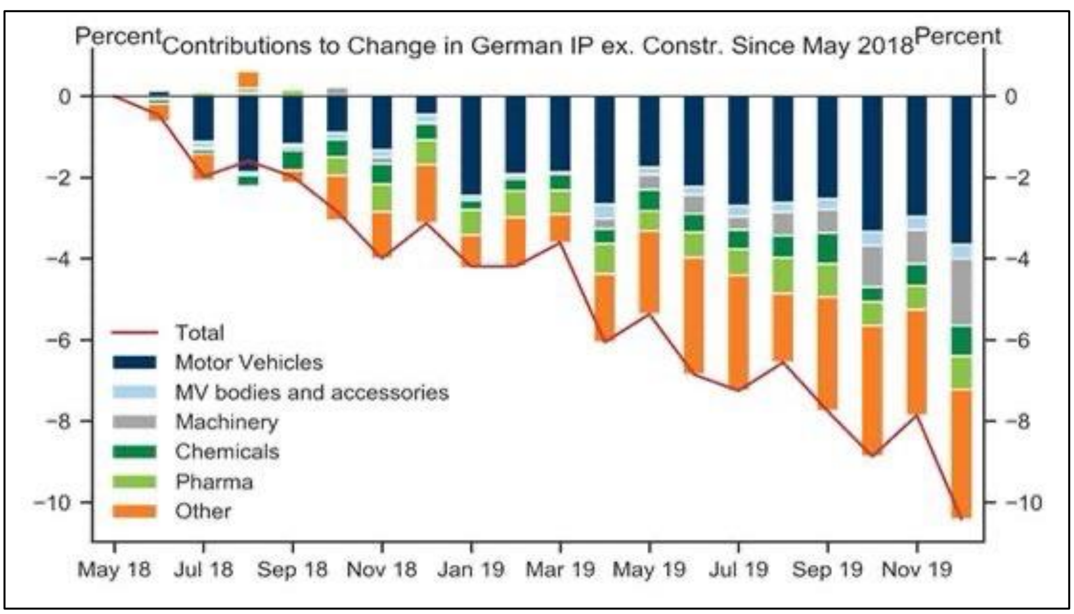


Even US Manufacturing PMI has moved back into growth territory.

While US numbers have been surprising to the upside, Europe has been softening again.



France, Spain and Italy have seen weak data recently. However, especially surprising were last week's poor German Industrial Production and Manufacturing Orders. IP had been expected to be weak due to auto's, but the numbers came in below expectations.

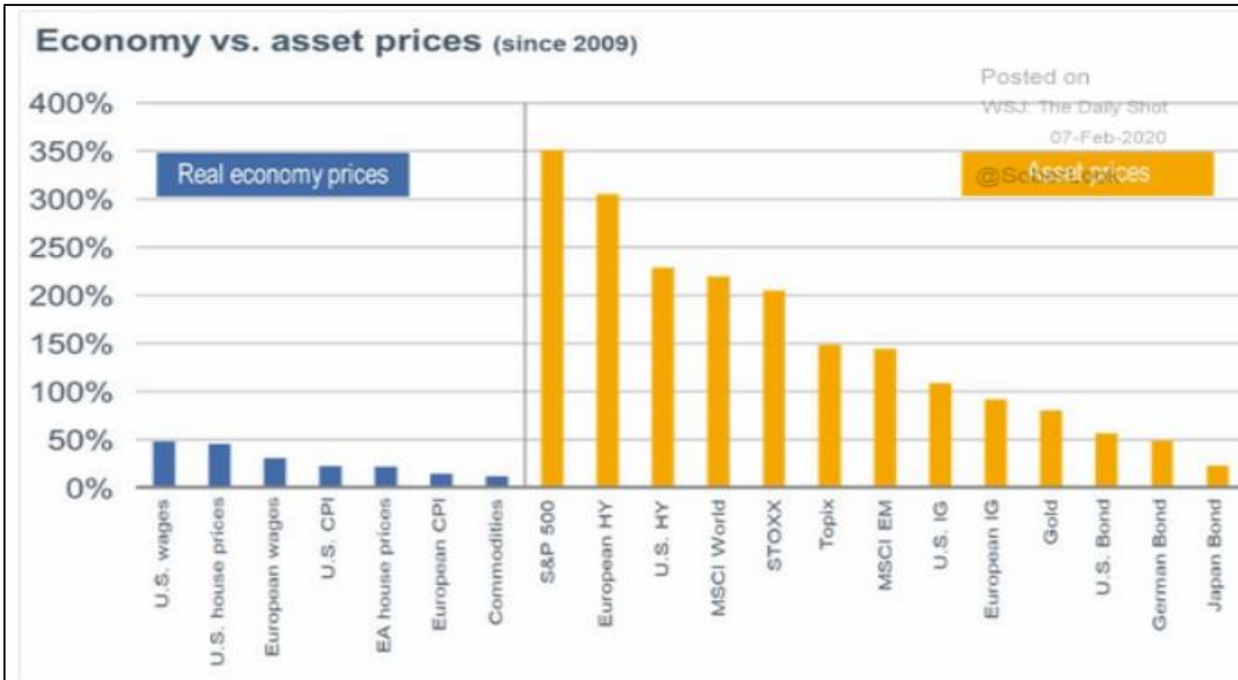


The expected China growth hit is unlikely to help these numbers in the coming months.

The big leads and lags between survey and hard data, and the persistent "worries" about Trump, yield curve inversion, international trade and now nCoV, make it very hard to see thru the economic fog. For every bullish chart you can find a bearish one, and vice versa.

Central Banks have managed to break a lot of the old relationships and linkages that gave prices informational value. In some cases what used to be signal, is looking like noise.

There seems to be a growing disconnect between the real economy and financial markets.



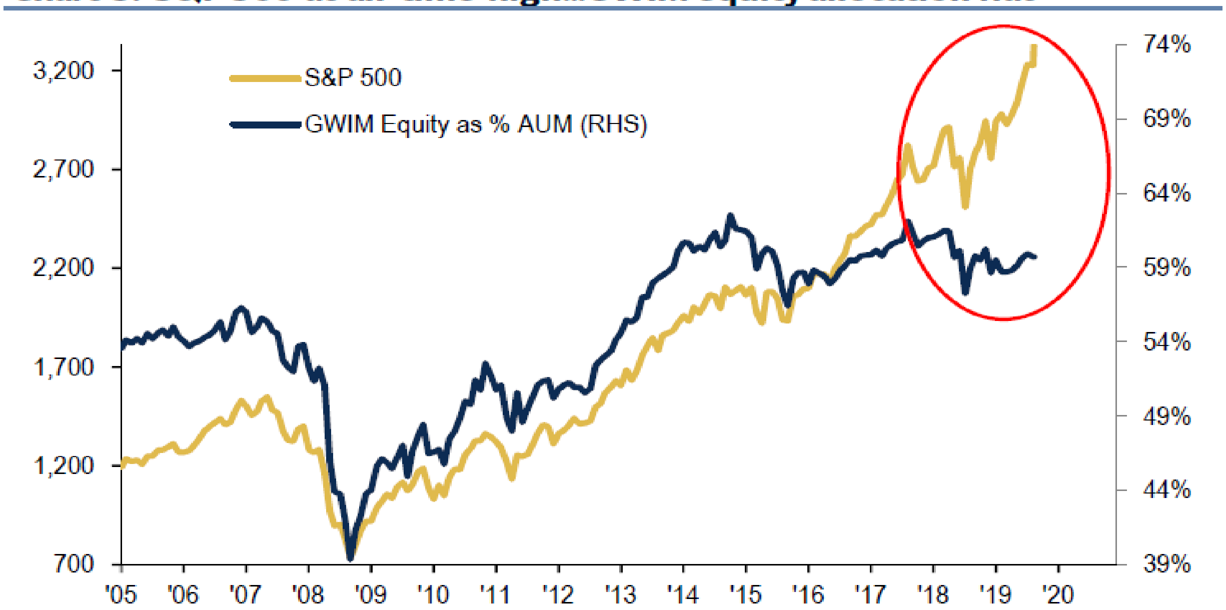
Source: Charles Schwab, @LizAnnSonders

While asset prices have clearly been the winner in this environment, the risk adjusted returns are even more impressive as volatility has fallen. Central Banks have been committed to keeping the global recovery going and have been quick to add accommodation at the first sign of trouble. However, risk assets aren't the only think that has seen falling volatility.

The long downtrend in the volatility of US GDP has recently accelerated, hitting new 70-year lows. The liquidity finds expression in many related ways.

I'm starting to wonder if it is this sense of a growing disconnect between the real and the financial economy that is contributing to the caution of individual investors.

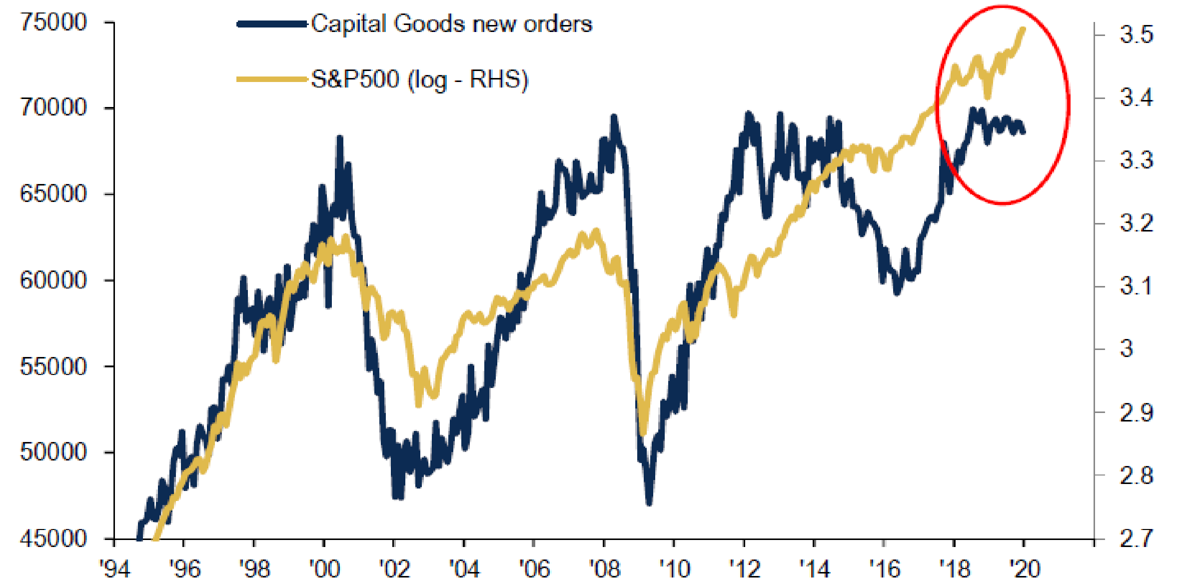
Chart 5: S&P 500 at all-time high...GWIM equity allocation flat



Source: BofA Global Investment Strategy, Bloomberg, BAC data

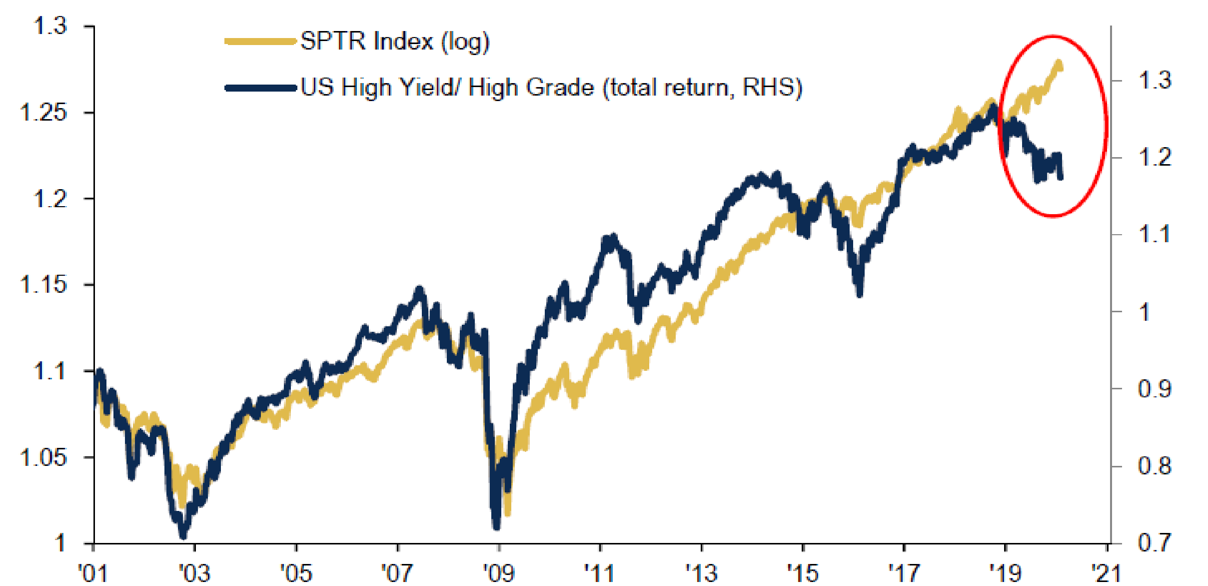
Over the last year this disconnect seems to be becoming more pronounced.

Chart 2: S&P 500 at all-time high...capital goods orders flat



Source: BofA Global Investment Strategy, Bloomberg

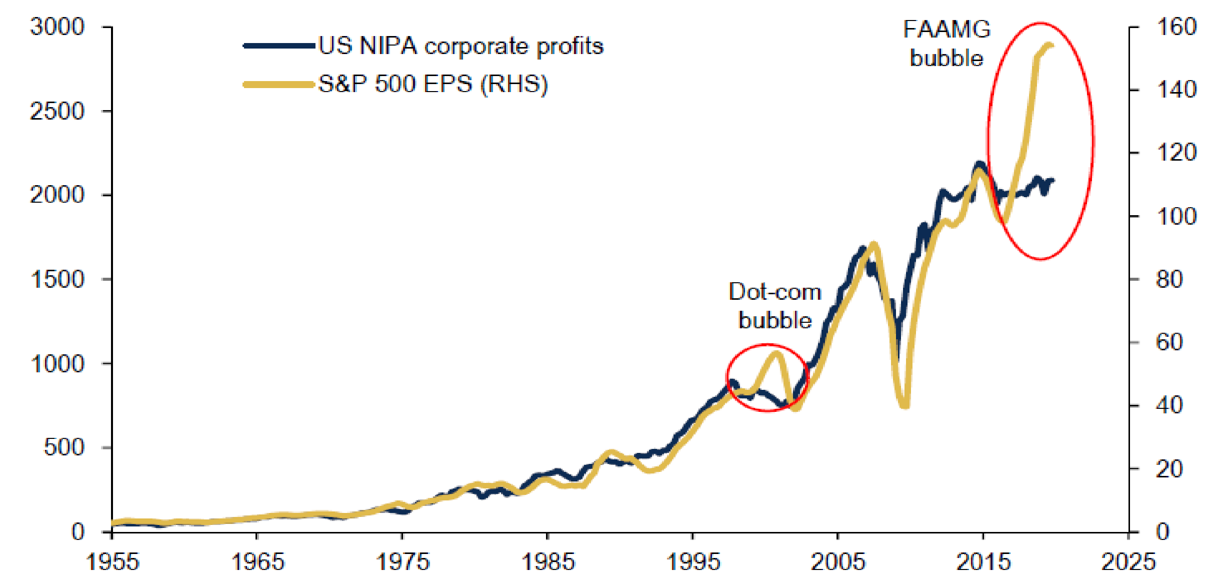
Chart 4: S&P 500 at all-time high...HY bonds underperform IG bonds



Source: BofA Global Investment Strategy, Bloomberg

For the moment liquidity and the barbell search for safety and growth continue to drive the market.

Chart 3: S&P 500 EPS all-time high...NIPA profits flat

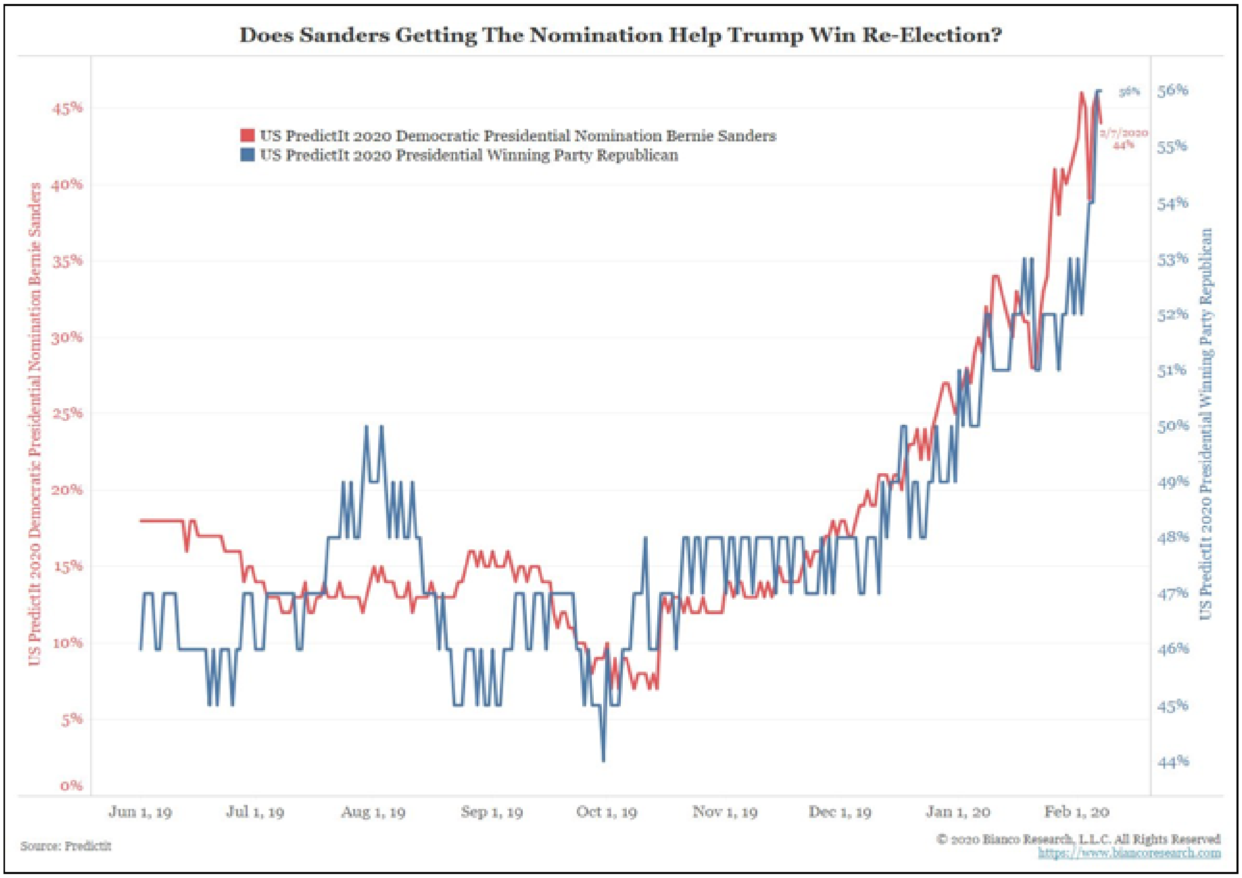


Source: BofA Global Research, Global Financial Data; US corporate profits from NIPA (before tax with IVA & CCAdj), S&P 500 EPS (as-reported until 1980, thereafter diluted operating)

Big questions for next week:

- Does the nCoV issue convincingly turn the corner for the better? If not, is it largely a China issue with supply chain knock-on effects for the rest of the world, or does it become a global issue?
- Does the rush out of World ex-US continue or have positions been flushed? If it continues, USD and NDX may continue to rally together for the moment.
- Eventually however, if the USD rally continues, it will sow the seeds for a global risk reversal.
- What happens if nCoV is resolved and China comes back quicker than expected? The CB's will have just added another dose of accommodation. Will the bond market be at risk?

Finally, I thought this was an interesting chart. It should be a warning to the DNC.



Actionable Trades and Developments:

Equity Indexes: Covered shorts as stocks rallied back.

Fixed Income: Still own June 98.50 Eurodollar calls for tail risk.

Commodities: Still like Gold big picture but sidelined for now. Platinum had a major long-term breakout.

Currencies: Long delta hedged AUDUSD puts for gamma play.

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Important Macro Data Releases and Events for the Week

Monday
2/10/2020

- Consumer Price Index YoY (Jan) Forecast: 4.9%, Prior: 4.5%
- Fed's Bowman **SPEECH**
- Fed's Harker **SPEECH**
- Housing Starts s.a. YoY (Jan) Forecast: 210k, Prior: 197.3k

Tuesday
2/11/2020

- Home Loans (Dec) Forecast 0.7%, Prior: 1.8%
- Manufacturing Production MoM (Dec) Forecast: -0.1%, Prior: -1.7%
- Industrial Production MoM (Dec) Forecast: 0.3%, Prior: -1.2%
- GDP (Q4) PREL YoY Forecast: 0.8%, Prior: 1.1% MoMo Forecast: 0.2%, Prior: -0.3%
- European Commission release Economic Growth Forecasts
- **Fed's Chair Powell Testifies SPEECH**
- Carney Speaks to UK Parliament
- BoE's Haskel **SPEECH**
- Fed's Quarles **SPEECH**
- Fed's Kashkari **SPEECH**

Wednesday
2/12/2020

- Industrial Production s.a. MoM (Dec) Forecast: -0.4%, Prior: 0.2%
- Bund Auction
- **Fed's Chair Powell Testifies SPEECH**
- Fed's Harker **SPEECH**

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Thursday 2/13/2020	BoC's Governor Poloz SPEECH
	RBA's Governor Lowe SPEECH
	Harmonized Index of Consumer Prices YoY (Jan) Forecast: 1.6%, Prior: 1.6%
	CPI Ex-Food & Energy MoM (Jan) Forecast: 0.2%, Prior: 0.1%
	CPI Ex-Food & Energy YoY (Jan) Forecast: 2.2%, Prior: 2.3%
	Continuing Jobless Claims (Oct 25) Forecast: - , Prior: 1.752M
	Initial Jobless Claims 4-week ave. (Nov 1) Forecast: - , Prior: 211.75k
	Initial Jobless Claims (Nov 1) Forecast: 210k, Prior: 202k
Friday 2/14/2020	NBS Press Conference
	Industrial Production YoY (Jan) Forecast: - , Prior: 6.9%
	Retail Sales YoY (Jan) Forecast: - , Prior: 8%
	GDP w.d.a. YoY (Q4) Forecast: 0.4%, Prior: 0.5%
	GDP YoY (Q4) Forecast: 0.7%, Prior: 1%
	GDP QoQ (Q4) Forecast: 0.1%, Prior: 0.1%
	GDP s.a. QoQ (Q4) Forecast: 0.1%, Prior: 0.1%
	GDP s.a. YoY (Q4) Forecast: 1%, Prior: 1%
	Retail Sales Ex-Auto MoM (Jan) Forecast: 0.4%, Prior: 0.7%
	Retail Sales Control Group (Jan) Forecast: 0.4%, Prior: 0.5%
	Retail Sales MoM (Jan) Forecast: 0.3%, Prior: 0.3%
	Industrial Production MoM (Jan) Forecast: -0.1 , Prior: -0.3%

Contact: efill@stargazerfunds.com / +1.203.219.3649

Michigan Consumer Sentiment Index (Feb) Forecast: 99.7, Prior: 99.8