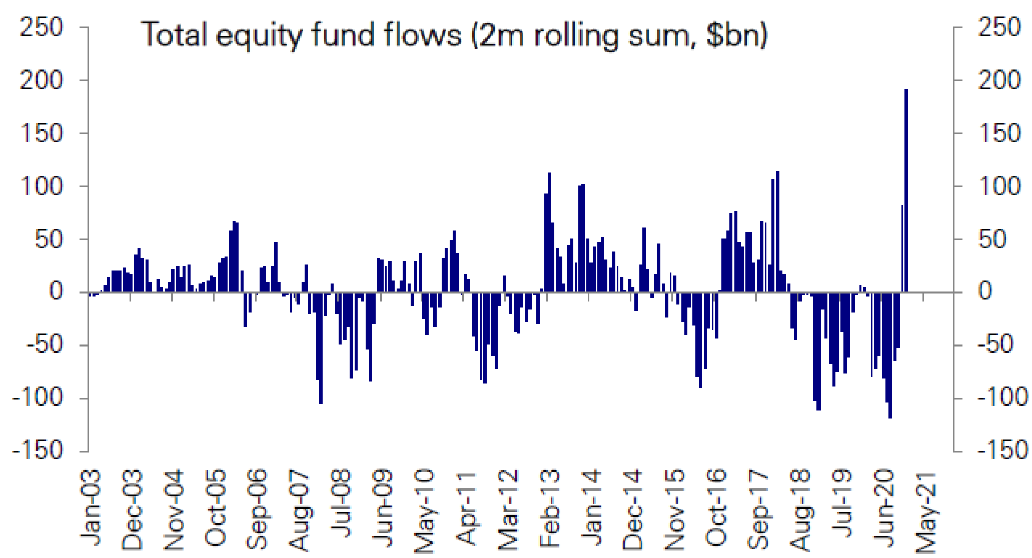
Stargazer Asset Management

What to focus on in Global Macro for the week of January 11th, 2021

Macro Themes on the Radar:

Equities have continued to rally as inflows break records.

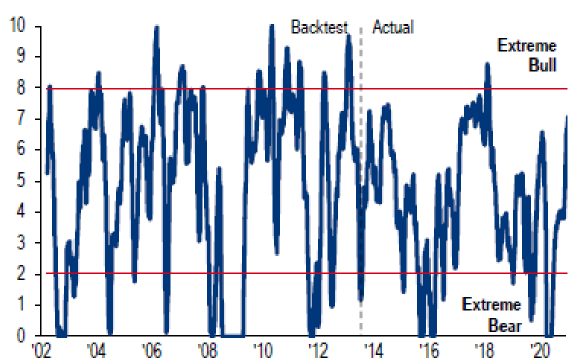
Figure 3: Record inflows into equity funds over the last 2 months in dollar terms



Source : EPFR, Haver, Deutsche Bank Asset Allocation

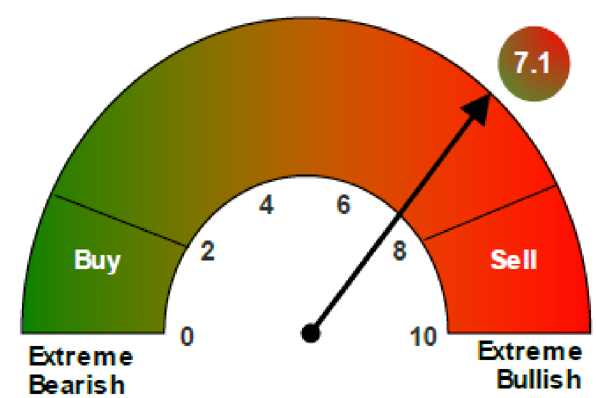
Sentiment indicators are nearing extreme levels, but there is potentially still room.

Chart 25: BofA Bull & Bear Indicator history



Source: BofA Global Investment Strategy, EPFR Global, FMS, CFTC, MSCI

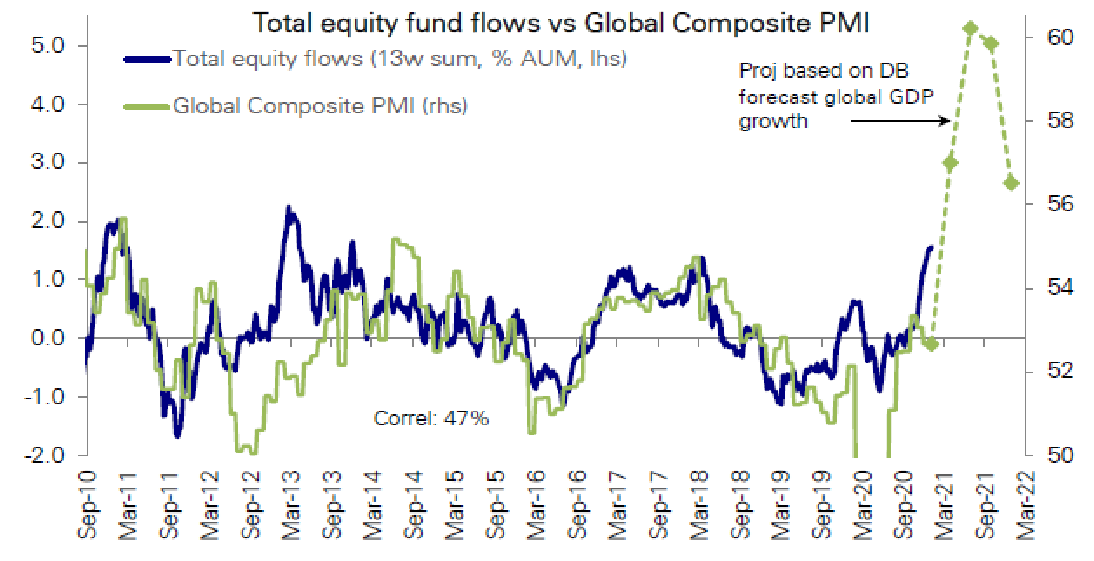
Chart 1: BofA Bull & Bear Indicator



Source: BofA Global Investment Strategy

Very positive global growth expectations for 2021 and the belief that CB's will keep rates lower for longer are combining to keep upward pressure on stocks. Global GDP +5.4% is expected.

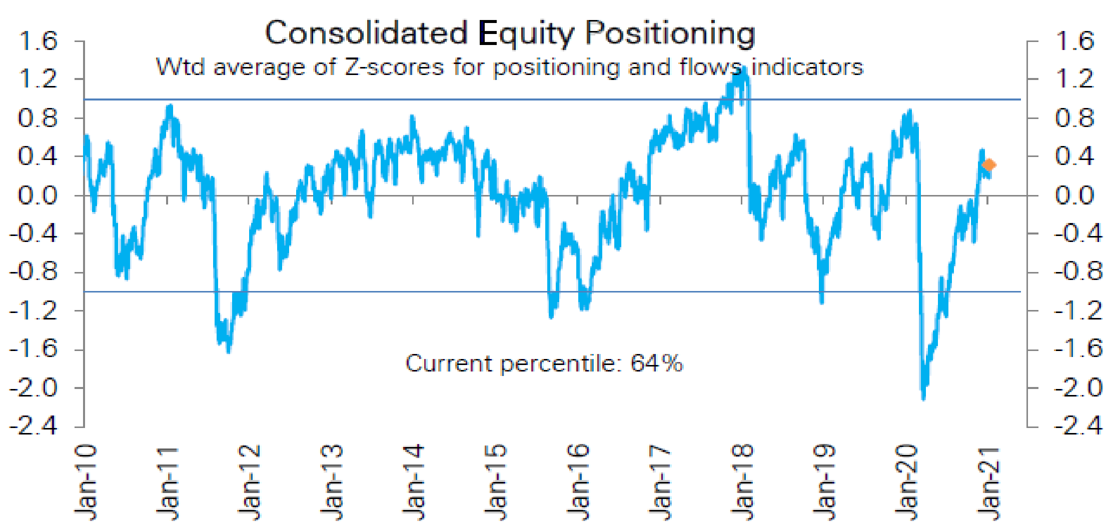
Figure 5: Global growth prospects suggest equity inflows have further to go



Source : Markit, EPFR, Haver, Deutsche Bank Asset Allocation

Aggregate positioning is getting high but is not yet at levels that have marked some of the previous equity market highs. The fact that volatility has remained relatively high is keeping some of the systematic players from completely loading up. This includes Risk Parity, CTA's and minimum vol. strategies.

Figure 9: Overall equity positioning fell last week but is bouncing higher again

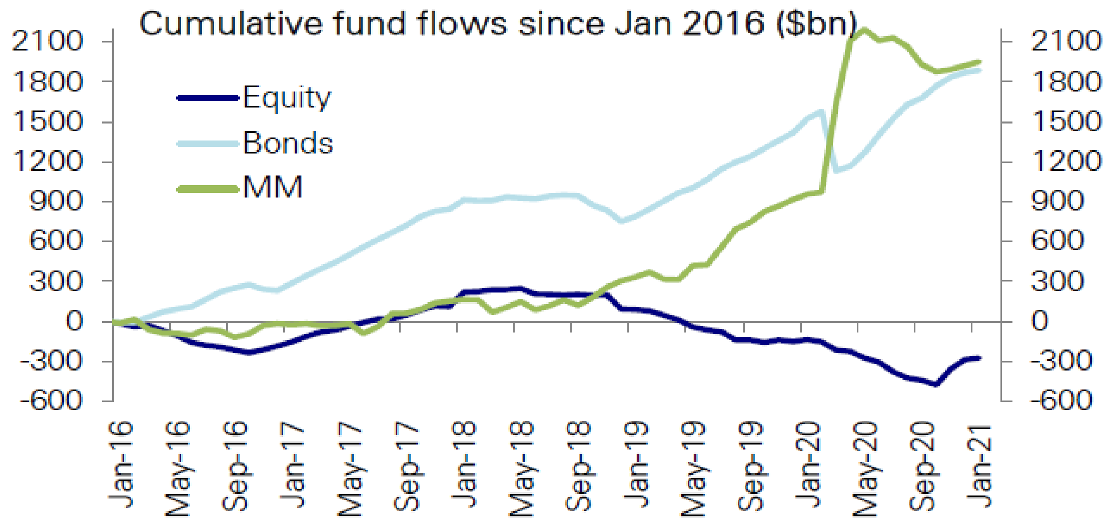


*Weights based on explanatory power in regression of equity performance on indicators

Source : EPFR, CFTC, Bloomberg Finance LP, Haver, Deutsche Bank Asset Allocation

Bulls point out that there has been steady outflow from equities since 2018 and that the bigger trend has only recently started to reverse.

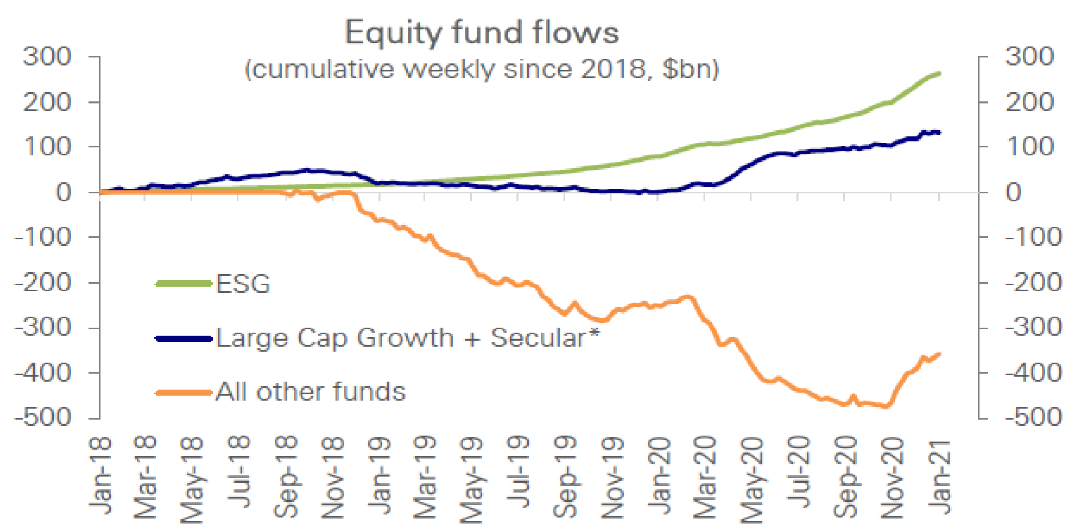
Figure 6: Recent equity inflows dwarfed by outflows since 2018 and also by inflows into bonds and MM funds



Source : EPFR, Haver, Deutsche Bank Asset Allocation

The breakdown of flows is interesting. ESG and Large Cap Growth have taken the lion's share, with the broader market (new interest in value on global growth hopes) only recently jumping.

Figure 8: Plenty of room for further inflows into cyclical equity funds

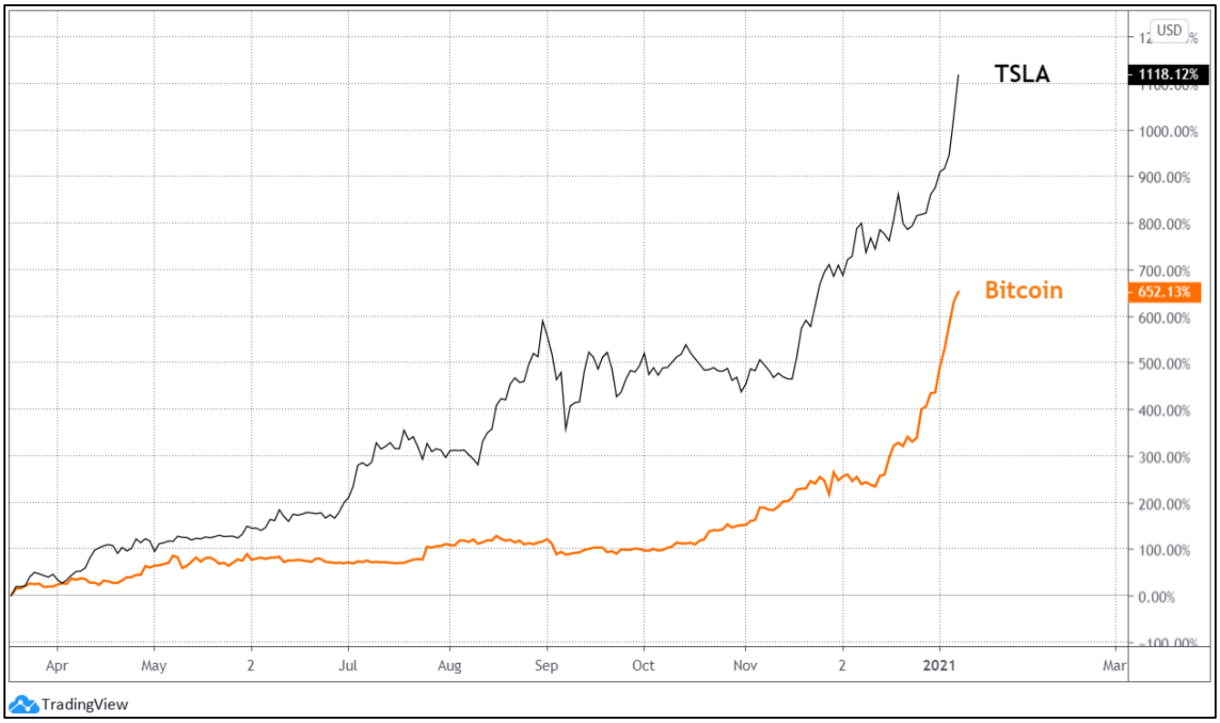


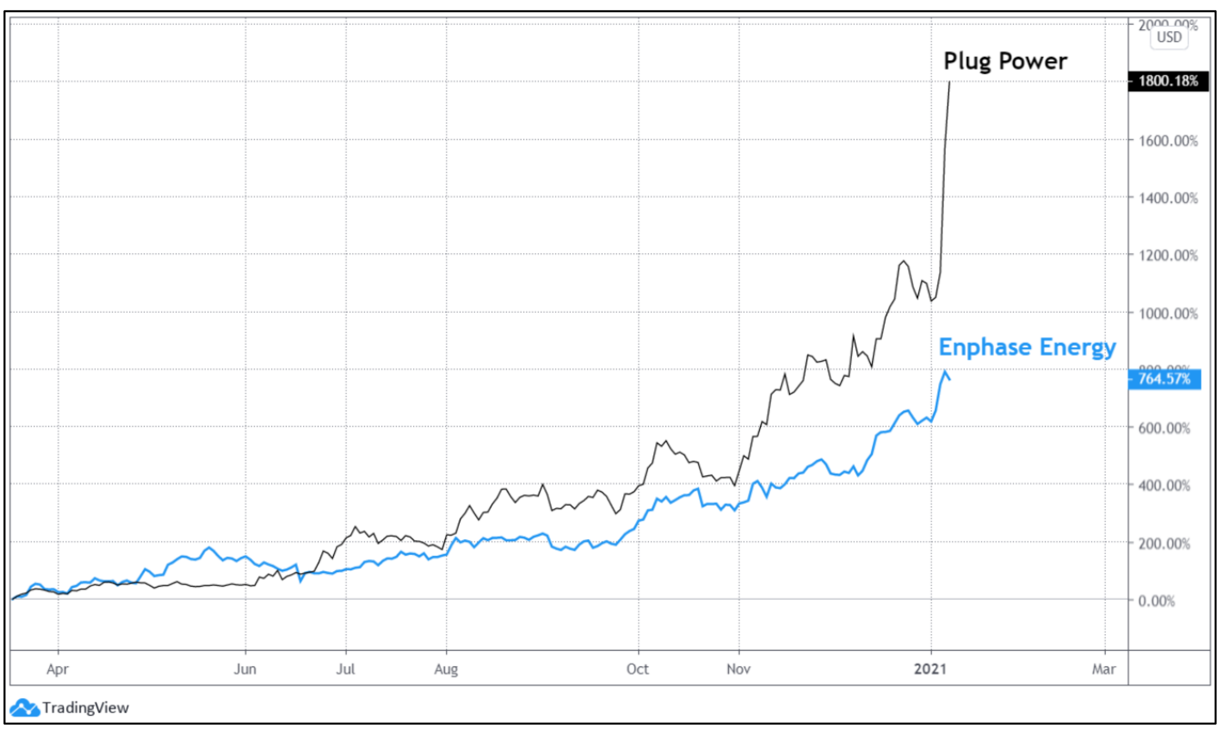
* Tech, HealthCare, Comm Services

Source : EPFR, Haver, Deutsche Bank Asset Allocation

While US stocks have been on a tear and don't look cheap overall, the real bubble-like price action has been in the assets that are priced on belief and with imagination, rather than actual earnings. EV, clean energy and crypto fall into this category.

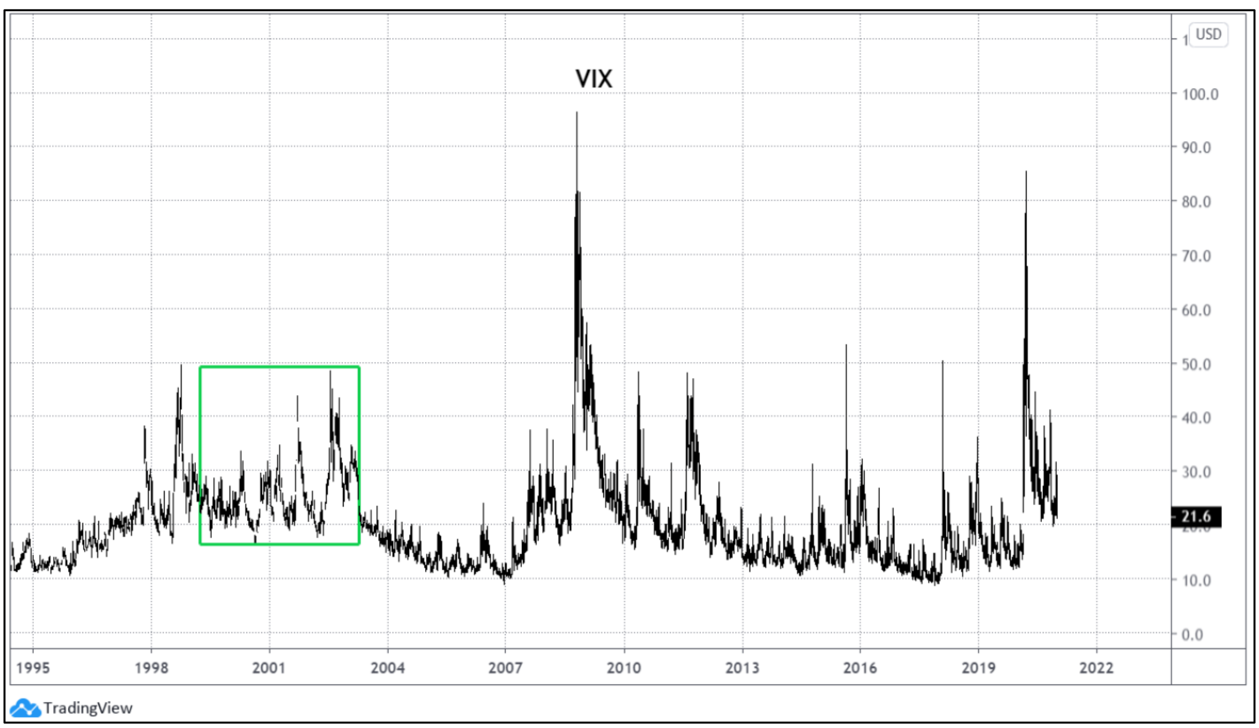
Have a look at some of these % returns since the March lows last year…





So far, short-term momentum is holding. Do we get a full melt-up here as FOMO becomes too much to bear for those still holding back? Or does the market become increasingly unstable as bond yields rise and the dollar faces the potential for at least a short-term rebound?

It isn't super cheap, but I think it is time to own some volatility. Potentially across a few markets.



What to Focus on Now:

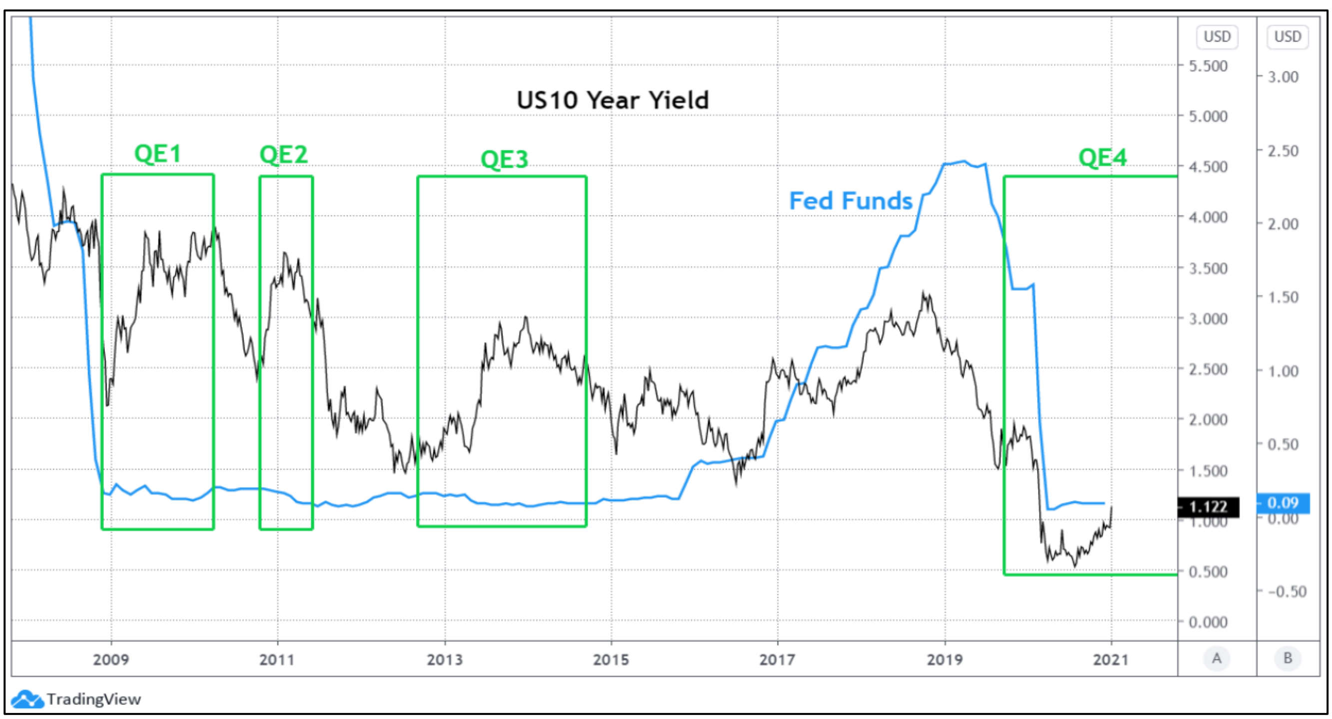
I noted last week that bonds were coiled for a move. Well we got a meaningful jump in yields.

Both 10's and 30's broke out of the range. This represents a potentially big inflection point for markets.

The market has been anticipating higher yields for a while, but now they are suddenly in motion. If the move continues or even accelerates, how the Fed reacts will be defining for markets. So far, they have promised that rates will stay low for a long time (years) and that they will purposefully let the economy run hot to not only increase employment opportunities, but also to let the long-term inflation expectations rise back to the 2% level. A sustained jump in bond yields (and maybe a dollar rally) would quickly tighten financial conditions. If we see that outcome, there will be an implied challenge to the Fed's ability to keep rates down for as long as they have indicated. I would expect a quick jump in volatility across markets. If on the other hand, they indicate they feel the rise in yields is getting in the way of monetary policy transmission they could implement implicit or even explicit yields curve control. That would be seen as very inflationary and I think the dollar would accelerate to the downside, triggering a major global asset allocation move. Remember, Powell explicitly said that US government and corporate debt were high, and stocks were expensive, but that low interest rates made it all sustainable. Add to that the fact that many global governments have effectively been monetizing a big part of the massive debt issuance we have seen as part of the recent fiscal spending. Will the Fed have the guts to do what it has said it will do, or will it get spooked by a jump in yields, faster economic recovery than expected and some potentially higher inflation prints?

Again, ways of getting structurally long some vol are looking interesting.

This chart shows previous QE periods. QE used to imply reflation and yields generally rose as a result. That has barely happened this time. NIRP and the resulting 17trl in negative yielding global bonds, a much bigger fiscal presence and the expressed requirement for higher sustainable inflation by CB's, provide a different backdrop than during the other rounds of QE.



Gold certainly got spooked by the jump in bond yields last week. Having failed in its attempt to break higher, we will need to take out last week's highs to get me more interested.

Gold also has some USD strength to contend with, as the sudden jump in yields made the crowded USD shorts nervous. The RSI set-up makes me cautious.

We saw a relatively small move, but it has the potential for further follow through next week.

In the absence of a large dollar pop that triggers de-risking across markets, crosses like EURAUD could be interesting. Higher USD vs. negative yielders but not vs. global growth stories?

Longer-term EM looks to be cracking the top of a decade plus range.

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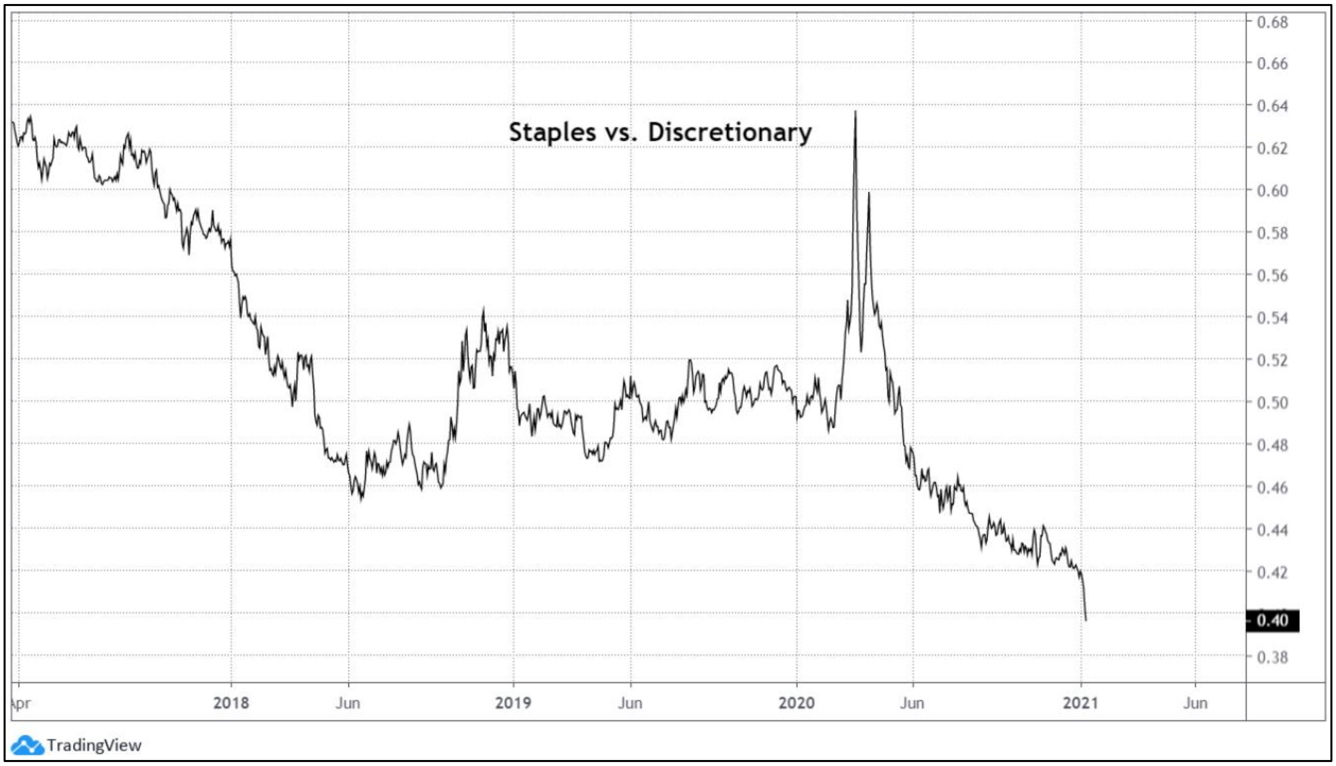
Outperformance of EM vs. US is picking up. Here again a sharp dollar rally or a spike in yields would not be expected to help EM.

While there have been some big rallies in "value" stocks, so far, that has only provided a pause in growth vs. value outperformance rather than a convincing reversal. Higher yields would help value.

So far, the market is not seeing any reason to favor defensive stocks.



Materials have started to outperform (reflation) and are threatening a long-term trend reversal.

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Chinese stocks have followed through on last week's breakout.

Global growth expectations have even lifted long suffering Italy to potential breakout levels.

The hunt for global value trades is taking even the worst performers up to important levels.

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This Powell discussion on Thursday at 12:30 p.m could be interesting to watch live. (click link)

Discussion - Chair Jerome H. Powell
[Watch Live]
A Conversation with Federal Reserve Chair Jerome Powell
At a livestream event hosted by Markus Brunnermerier, Director, Princeton University Bendheim Center for Finance

Important Macro Data Releases and Events for the Week

Monday
1/11/2021

- CPI and PPI YoY (Dec) both expected to be higher (Sunday night EST)
- BoE's Governor Bailey SPEECH

Tuesday
1/12/2021

- Fed's Brainard **SPEECH**
- Fed's Rosengren **SPEECH**

Wednesday
1/13/2021

- Foreign Direct Investment YTD YOY (Dec) Forecast: -, Prior: 6.3%
- Industrial Production s.a. YoY (Nov) Forecast: 0.3%, Prior: 2.1%
- CPI Ex Food and Energy MoM (Dec) Forecast: 0.1%, Prior: 0.2%
- CPI Ex Food and Energy YoY (Dec) Forecast: 1.6%, Prior: 1.6%
- Fed's Beige Book
- Fed's Clarida and Brainard **SPEECH**
- Trade Balance Forecast $70bln, Prior: $75.42bln

Thursday
1/14/2021

- Initial Jobless Claims Forecast: -, Prior: 787k
- Initial Jobless Claims 4-week ave. Forecast: -, Prior: 818.75k

Continuing Jobless Claims Forecast: -, Prior: 5.072m

Fed's Chair Powell SPEECH

Friday 1/15/2021

Retail Sales MoM (Dec) Forecast: -0.2%, Prior: -1.1%

Retail Sales Control Group (Dec) Forecast: 0.2%, Prior: -0.5%

Michigan Consumer Sentiment Index (Jan) Forecast: 79.2%, Prior: 80.7%