Stargazer
Asset Management

What to focus on in Global Macro for the week of November 22nd, 2021

Macro Themes on the Radar:

Suddenly, it feels like we are in a bull market for Cognitive Dissonance - the state of having inconsistent thoughts, beliefs, or attitudes, especially as relating to behavioral decisions and attitude change.

Last week, delivered a long list of Fed speakers, with a number of them touching on the potential for speeding up the newly initiated tapering of asset purchases. Friday rounded out the week with the Fed's Vice-Chair Richard Clarida's comments.

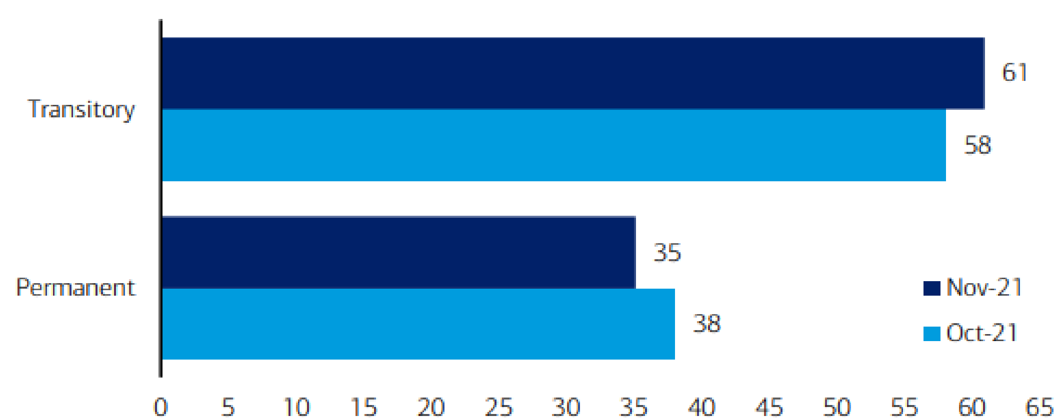
These were the most salient points:

- It may well be appropriate to discuss a speeding up of the taper process at the December meeting
- Economy is in a very strong position
- Looks like Q4 will be very strong
- There is continued upside risk to inflation

An expedited taper, of course, calls into question whether that would also bring forward tightening, as most believe the Fed wouldn't hike before asset purchases have been ended. Interestingly, the St. Louis Fed's Jim Bullard floated the idea of hiking rates even before the taper is complete (he is obviously a hawk). So, they would be hiking while they are still easing via the remaining QE? Cognitive Dissonance.

According to BoA's most recent Fund Managers Survey, most are still in the "transitory" camp, and that number is rising.

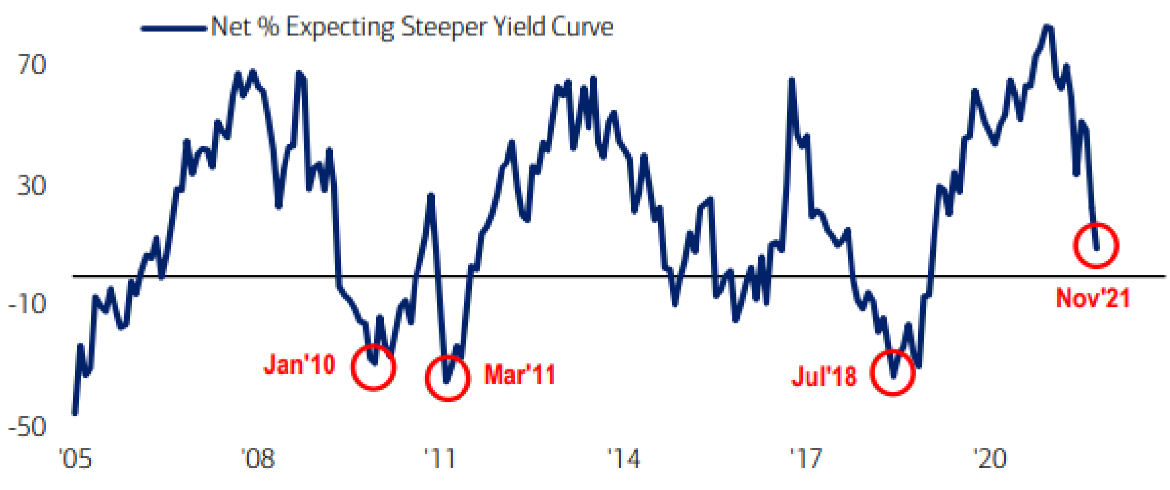
Chart 5: 35% of investors think inflation is permanent
Do you think inflation is transitory or permanent?



Source: BofA Global Fund Manager Survey

As the curve has flattened, first at the hands of the long end, then the front-end, and now both, the number of participants expecting a steeper curve has fallen from 74% to 9%.

Chart 9: Yield curve flattening expectations have increased
Net % expecting steeper yield curve

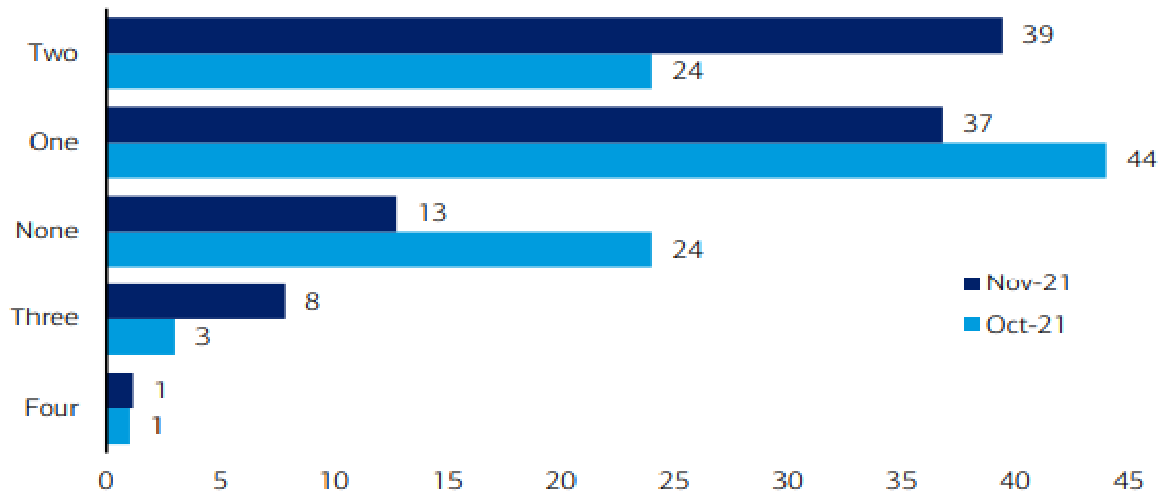


Source: BofA Global Fund Manager Survey

Survey participants also reported that Fed hike expectations are being brought forward, with the average investor now expecting 1.5 hikes next year.

In actuality, 2+ hikes are already priced for EOY 2022.

Chart 8: Investors expect 1½ rate hikes in 2022
How many times do you think the Fed will raise hikes in 2022

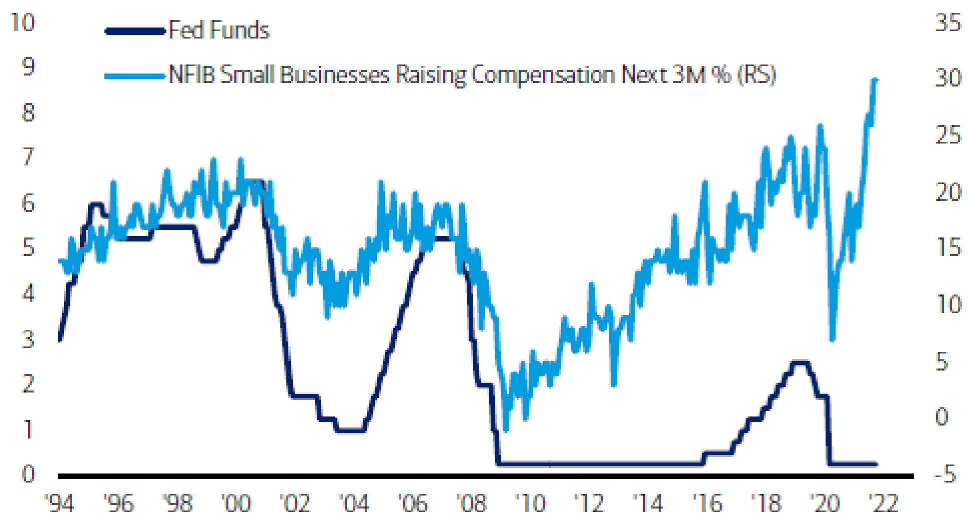


Source: BofA Global Fund Manager Survey

The payrolls data in a couple of weeks will be very interesting, as it may give us further evidence that the logjam in employment is resolving, or that wage pressures will continue building.

Chart 3: Rates Shock

NFIB Small Businesses Raising Compensation Next 3M vs Fed Funds



Source: BofA Global Investment Strategy, Bloomberg

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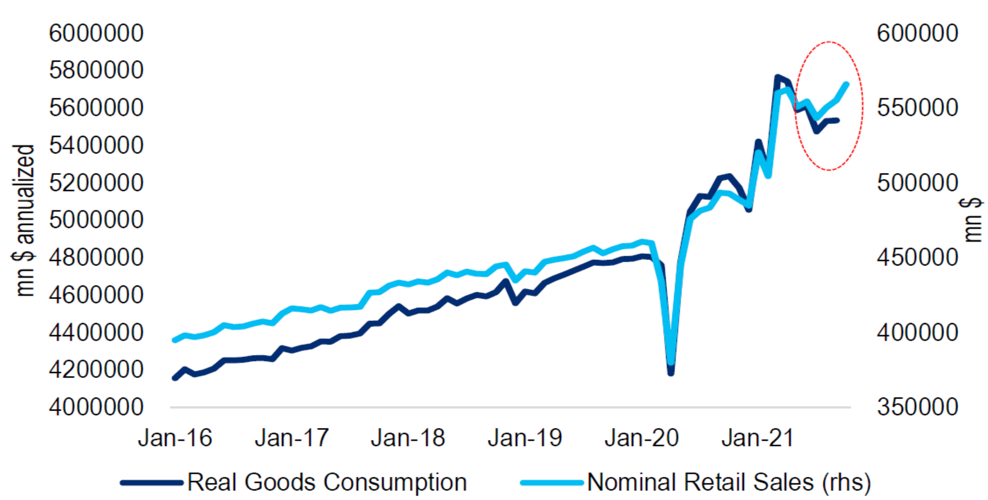
Last week's retail sales were again very strong, but it is worth noting that they don't adjust for the recent jump in prices. Also, the fear of shortages has pulled forward holiday shopping.

Nominal retail spending has been stronger than real goods consumption recently

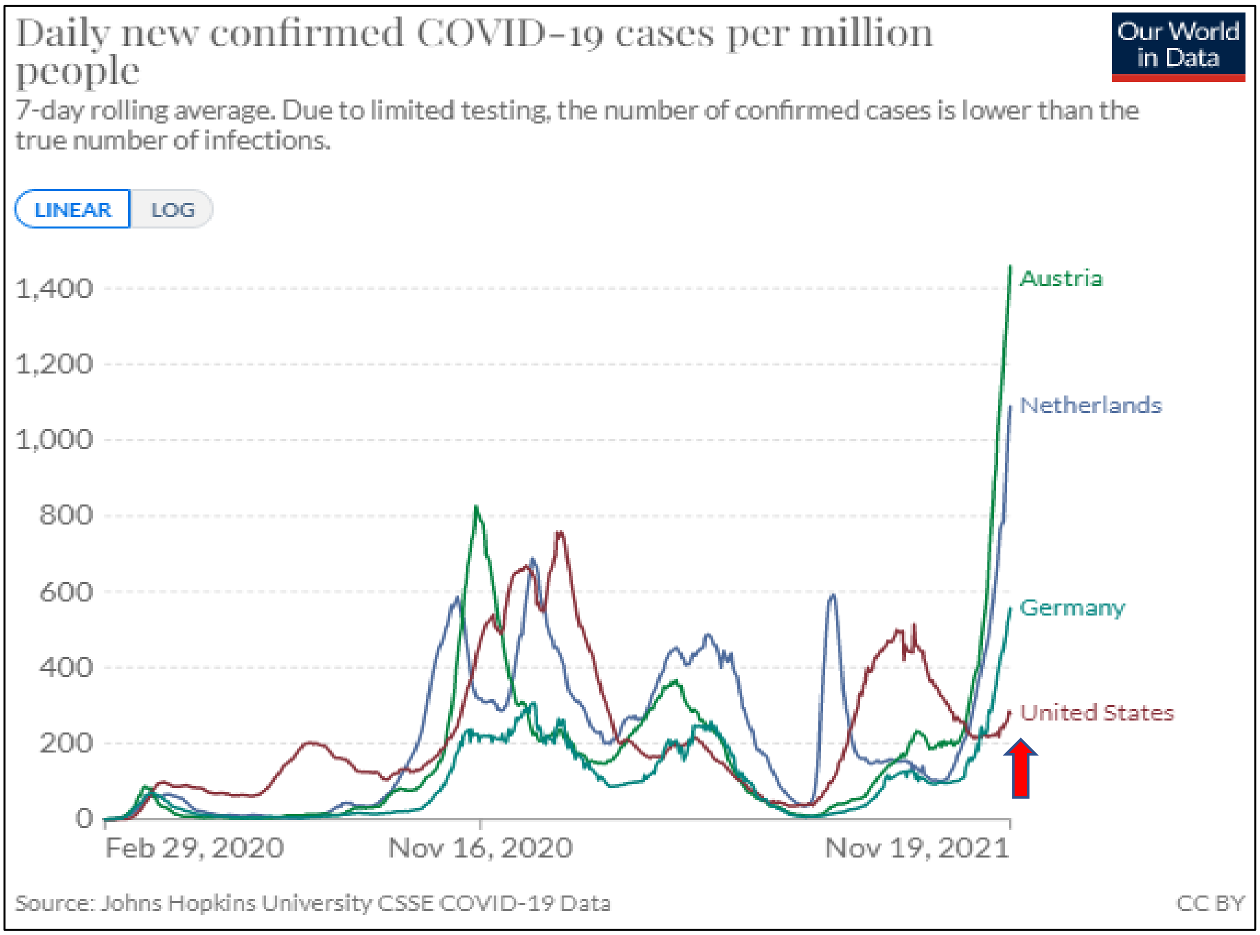


Source: Citi Research, BEA, Census Bureau

COVID - Unfortunately, just as the developed world economies were looking increasingly open, Europe is experiencing another surge in the virus. As mentioned last week, Austria, Netherlands, and Germany have been particularly hard hit. The new lockdowns and announcement of compulsory vaccinations are not going over well.

AMSTERDAM, Nov 19 (Reuters) – "Crowds of rioters in the port city of Rotterdam torched cars and threw rocks at police who responded with shots and water cannon, as protests against COVID-19 measures turned violent on Friday night."

Given that these countries have similar vaccination rates as the U.S., let's hope we don't repeat the previous pandemic pattern; what happens in Europe happens here a few weeks later.



Notice, the US cases are potentially starting to curl up again. With expanding treatment options and lower fatality rates, it is very doubtful that the US would have the stomach for meaningful lockdowns or restrictions. However, in the near-term, it is yet another source of uncertainty for the markets.

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What to Focus on Now:

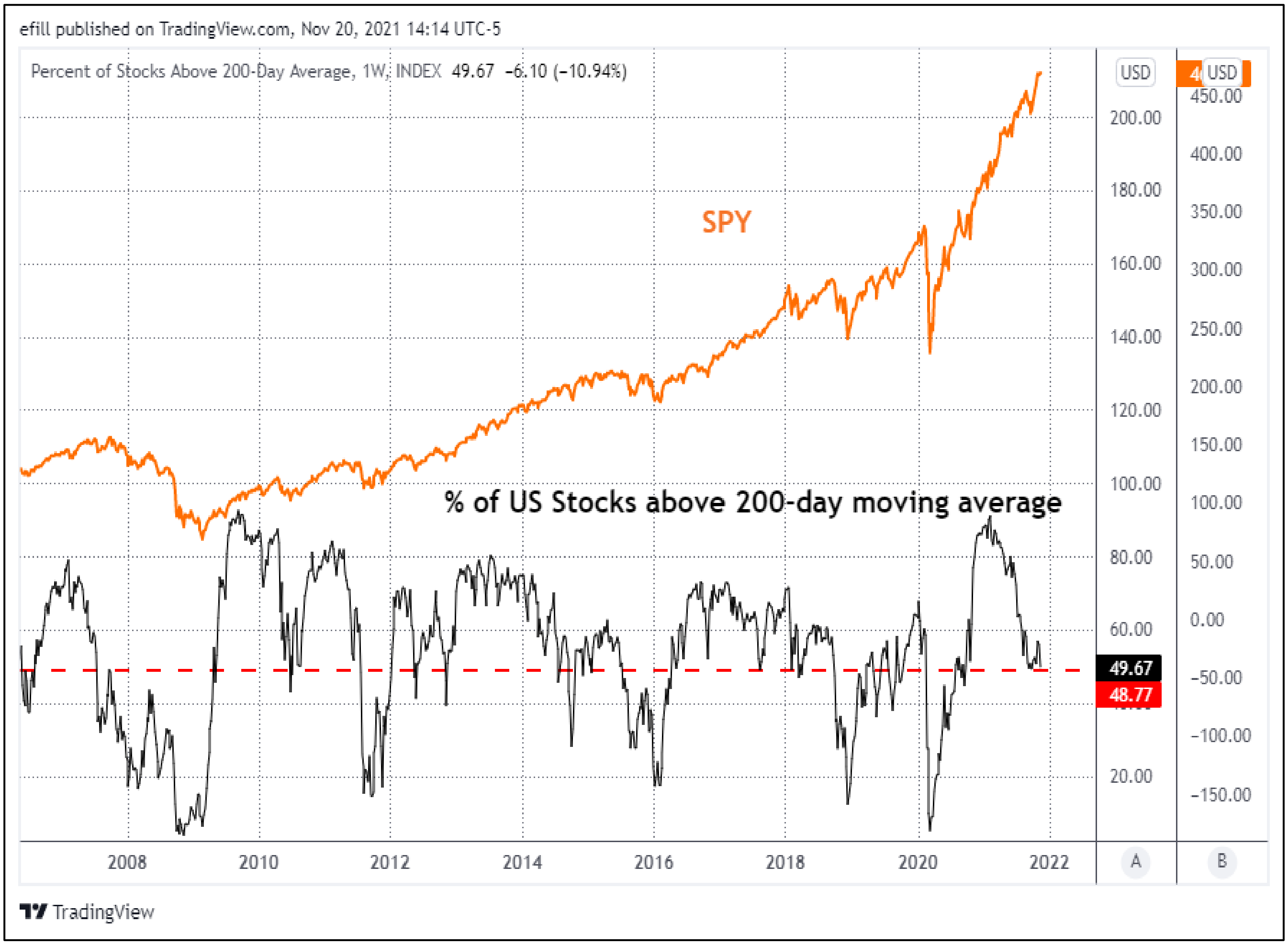
We are now at big price levels across a number of global markets. Further acceleration of recent trends could make for some rocky price action, as volatility picks up.

The dollar has been rallying. This is amazing, given the huge amounts of fiscal spending and QE we have seen. Of course, FX is always a relative game, but when you look at the jump in US M2 at +35% and compare it to the Eurozone M2 jump of 15%, it becomes clear that that is not the driver. Instead, the markets are looking at the potential for the Fed to tighten sooner and more meaningfully. Basically, that while AIT is a great plan on paper, the Fed will have to react, and do so sooner than the ECB. That, combined with an end to QE, will suck liquidity out of global markets down the road.

We have broken some big levels in the USD across a number of currency pairs. Watch for destabilizing effects if these moves extend.

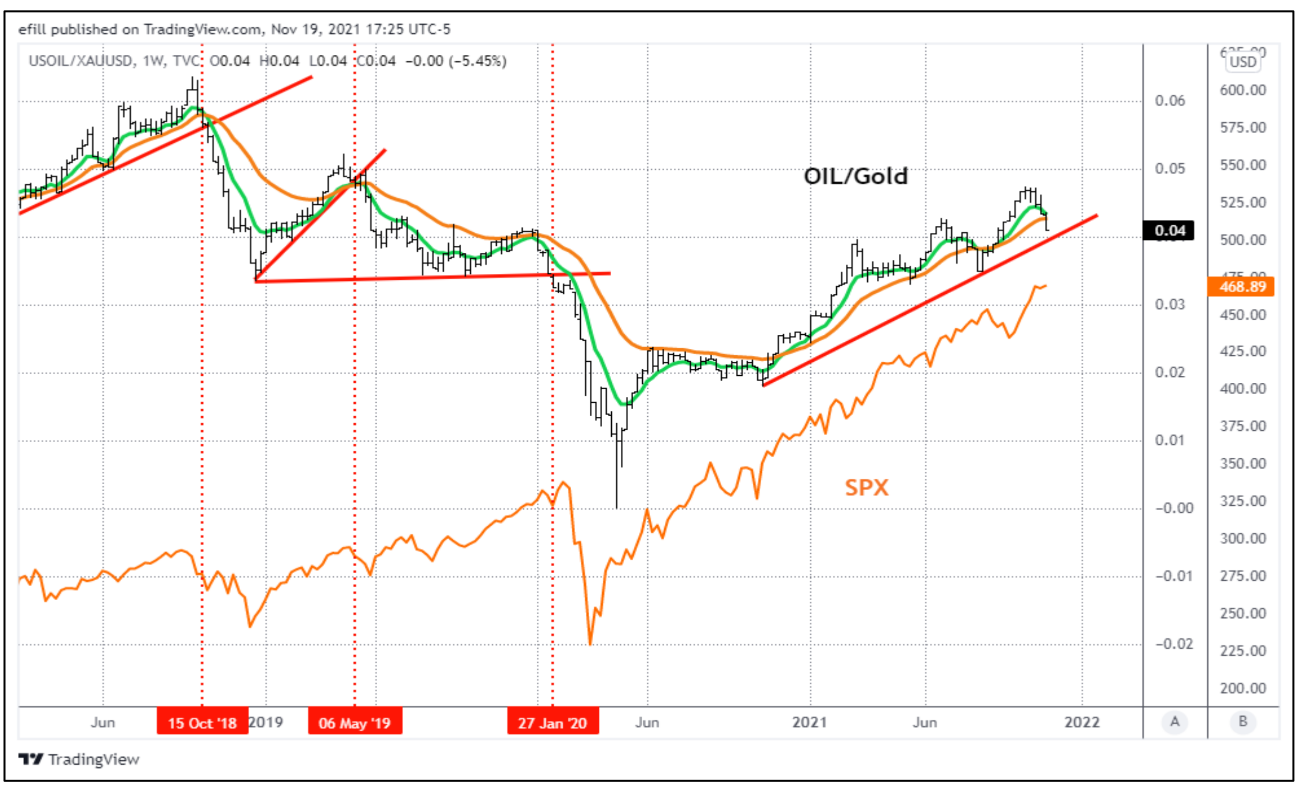
At the same time, the NASDAQ has continued to be very resilient. However, it is getting increasingly narrow now, with the number of stocks making new lows in the index just over 400 at the end of the week. Apparently, that is the highest reading we've seen since the March 2020 collapse, except this time it is at all-time highs in the index. Cognitive Dissonance.

In relation to the whole US market, the percentage of stocks above their 200-day moving average has fallen to an area that in the past saw increased volatility, if broken.



With large cap US tech again emerging as the clear winner recently, Growth vs. Value has been screaming, leaving a lot of disappointed value buyers.

Another relatively sudden shift has been the selloff in oil over the last few days. Oil vs. Gold is another one to watch for downside acceleration, as it can coincide with increased equity vol…



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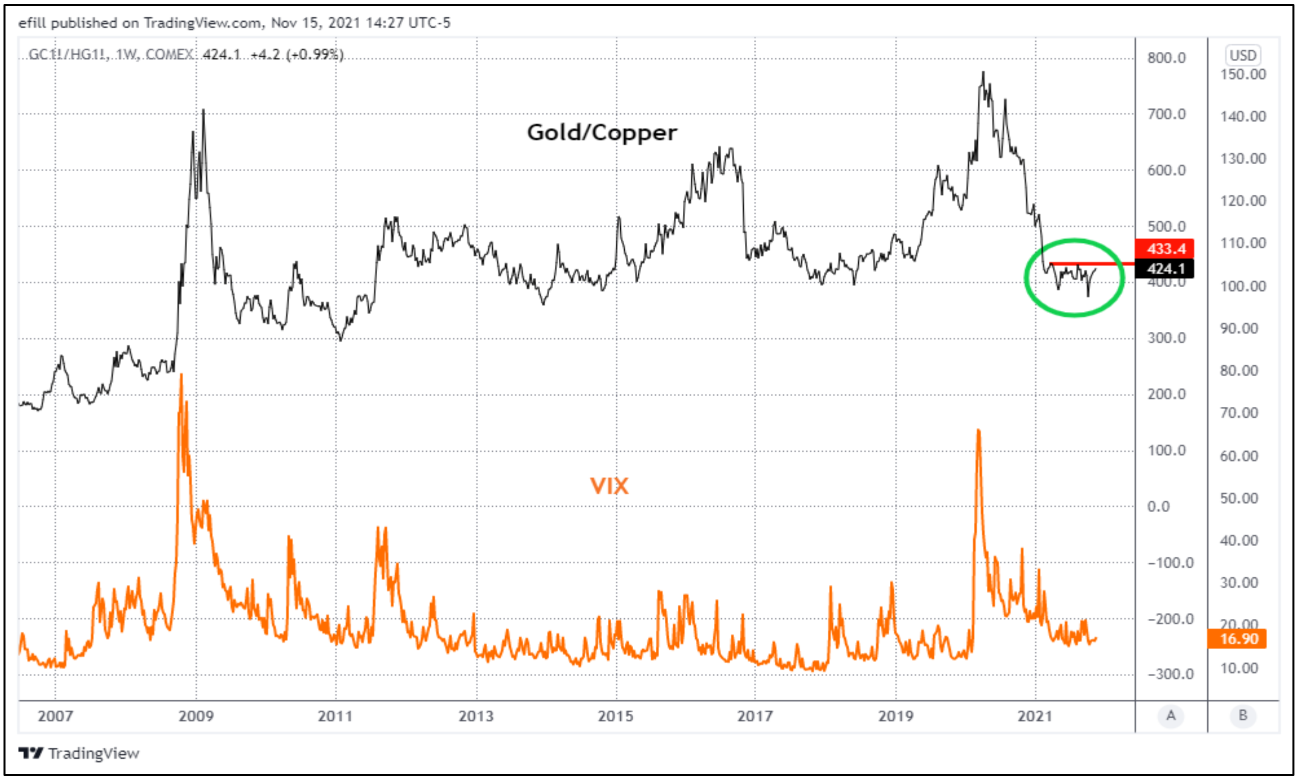
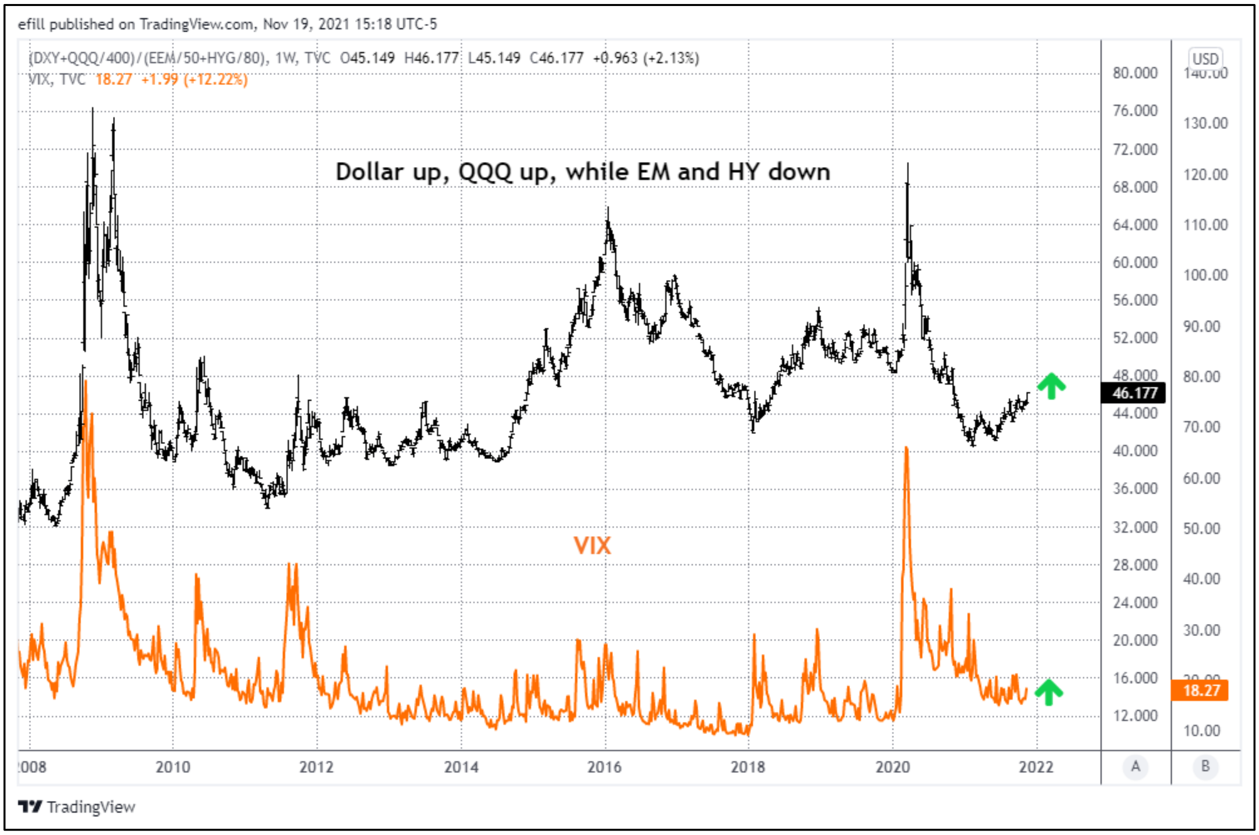
As could an accelerative break higher in Gold vs. Copper.

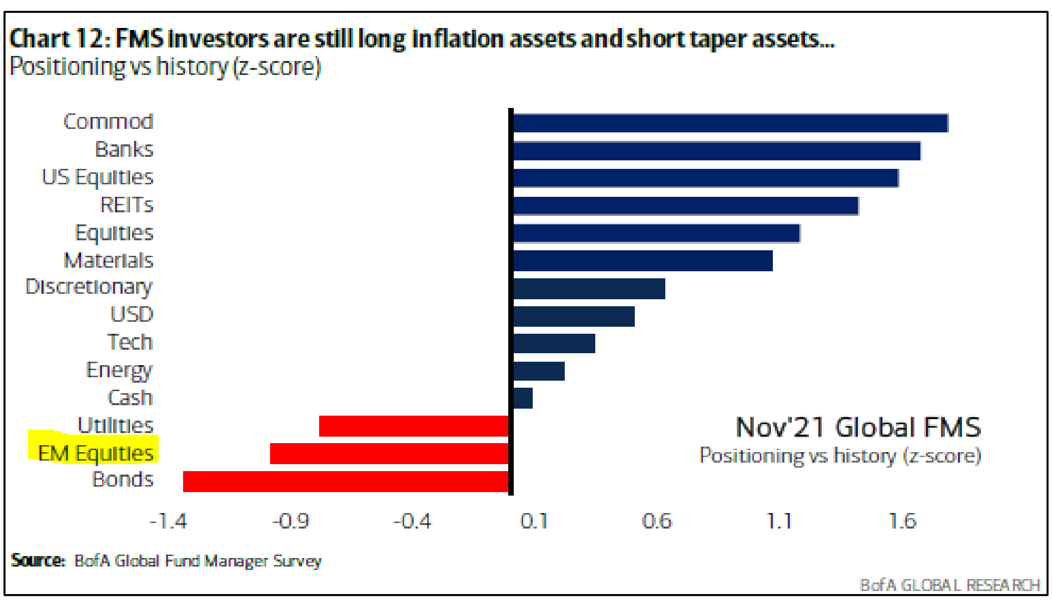


High Yields (via HYG ETF) is also at a big level here… worth keeping an eye on for acceleration.

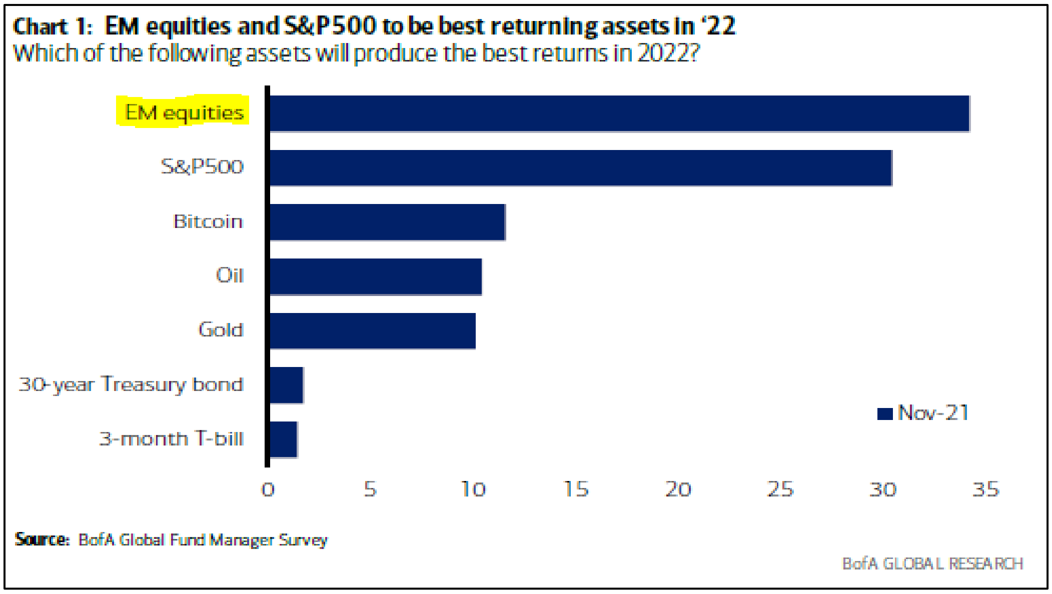
Putting a few of these together, it wouldn't take much for equity vol to look cheap here!



EM - Over the last twelve months, EM has been a dog. China crackdowns, deleveraging, and COVID policies, combined with a generally higher USD despite multiple interest rate hikes across EM, have conspired against it. Not surprisingly, positioning has come to reflect the poor performance.



However, investors really want to buy it. They are bullish but short. Cognitive Dissonance. This will not be resolved peacefully. Either EM gets a full washout over the next few months, at which point everyone gives up on it. Or we are in for a big rally next year as all the positions are flipped from short to long. The dollar will show us the way. A weaker USD will be required.



Will they come back together?

Treasury Curve – Lots of Hedge Funds have been crushed by the flattener.

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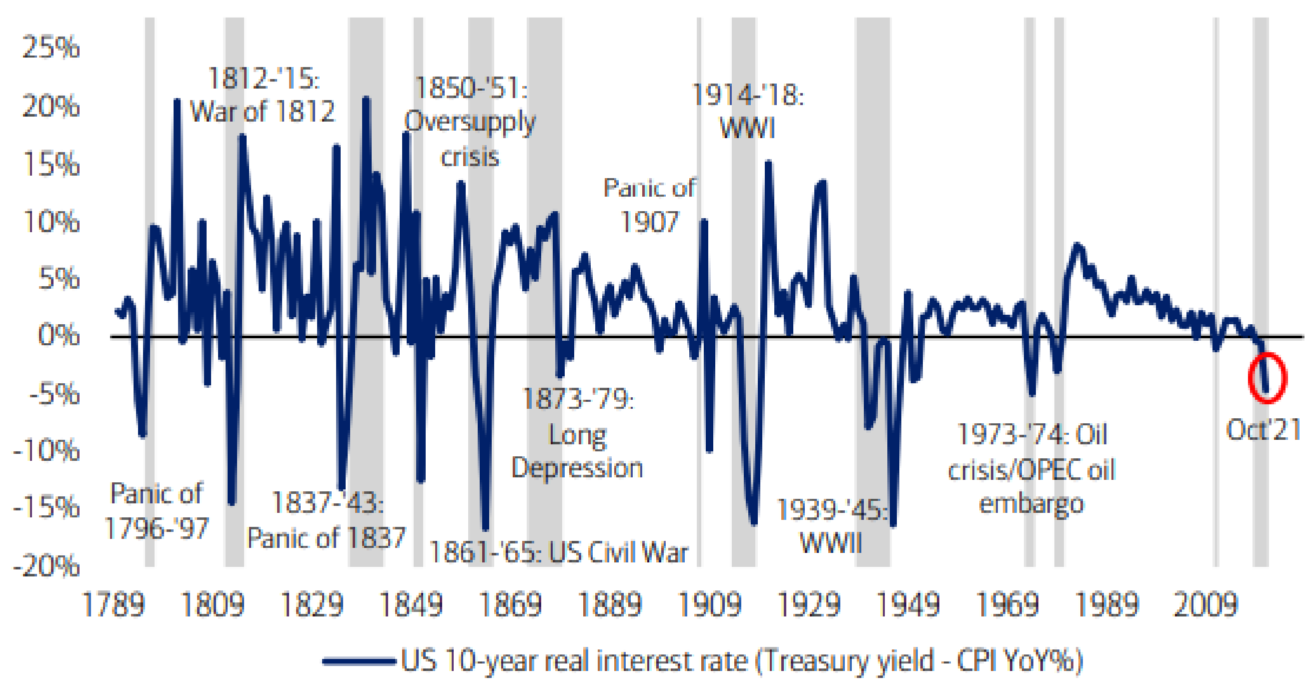
A final long-term chart to contemplate… outside of the Oil Crisis, these levels of negative real yields have been largely reserved for Wars and big financial panics.

Chart 2: The 200-year history of US real interest rates

US 10-year real interest rate



Source: BofA Global Investment Strategy, Global Financial Data

Important Macro Data Releases and Events for the Week

Monday
11/22/2021

- PBoC Interest Rate Decision (Sunday night ET)
- Chicago Fed National Activity Index (Oct)
- Consumer Confidence (Nov)

Tuesday
11/23/2021

- Markit Flash PMIs across Europe (Nov)
- Markit Flash PMIs (Nov)

Wednesday 11/24/2021		IFO – Business Climate, Current Assessment, and Expectations (Nov)
		Durable Goods Orders (Oct)
		Initial Jobless Claims
		Initial Jobless Claims 4-week average
		Continuing Jobless Claims
		GDP Q3 (Preliminary)
		Personal Income and Spending
		PCE and Core-PCE (Oct)
		FOMC Minutes
Thursday 11/25/2021		**Thanksgiving Day**
		GDP (Q3)
		ECB Monetary Policy minutes
		Retail Sales (Oct)
Friday 11/26/2021		Nothing of note

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