Stargazer
Asset Management

What to focus on in Global Macro for the week of April 12th, 2021

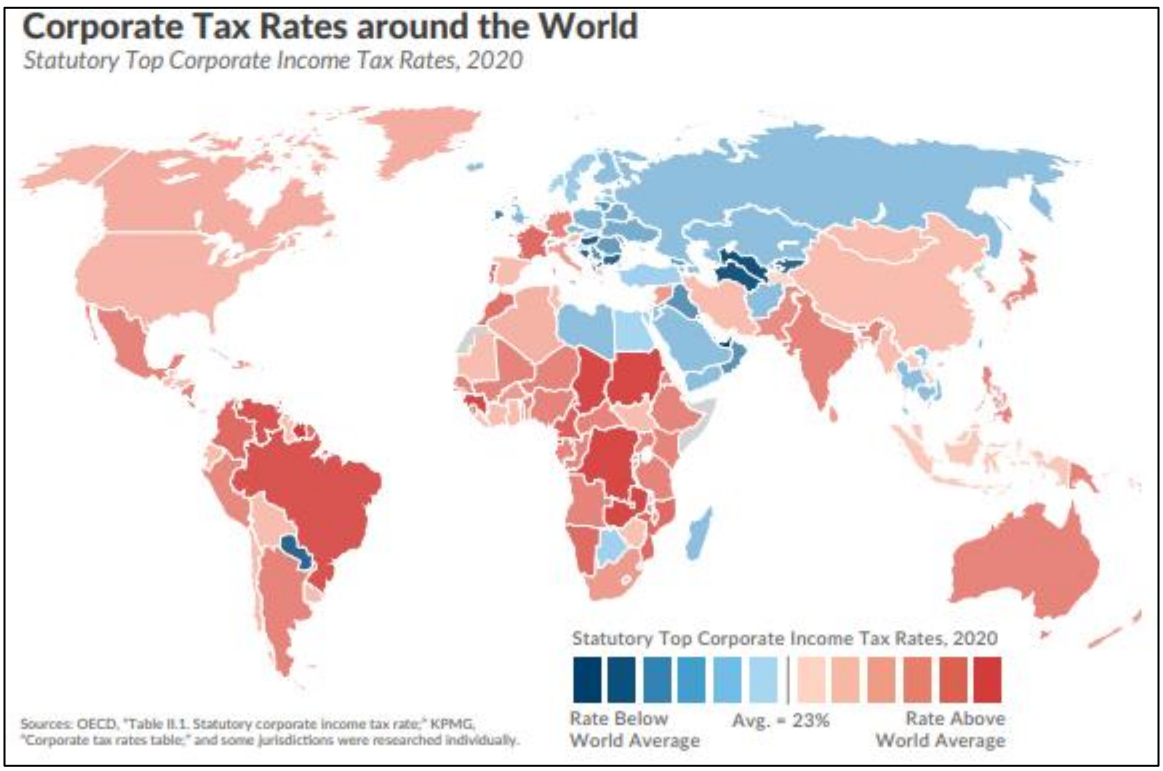
Macro Themes on the Radar:

The pressure is on to increase corporate tax rates…

The Biden administration has suggested increasing the US corporate tax rate from 21 to 28% in order to pay for the proposed infrastructure spending plan.

Last week, US Treasury Secretary Yellen used an IMF speech to call for a global minimum corporate tax, saying that "it is important to work with other countries to end the pressures of tax competition and corporate tax base erosion."

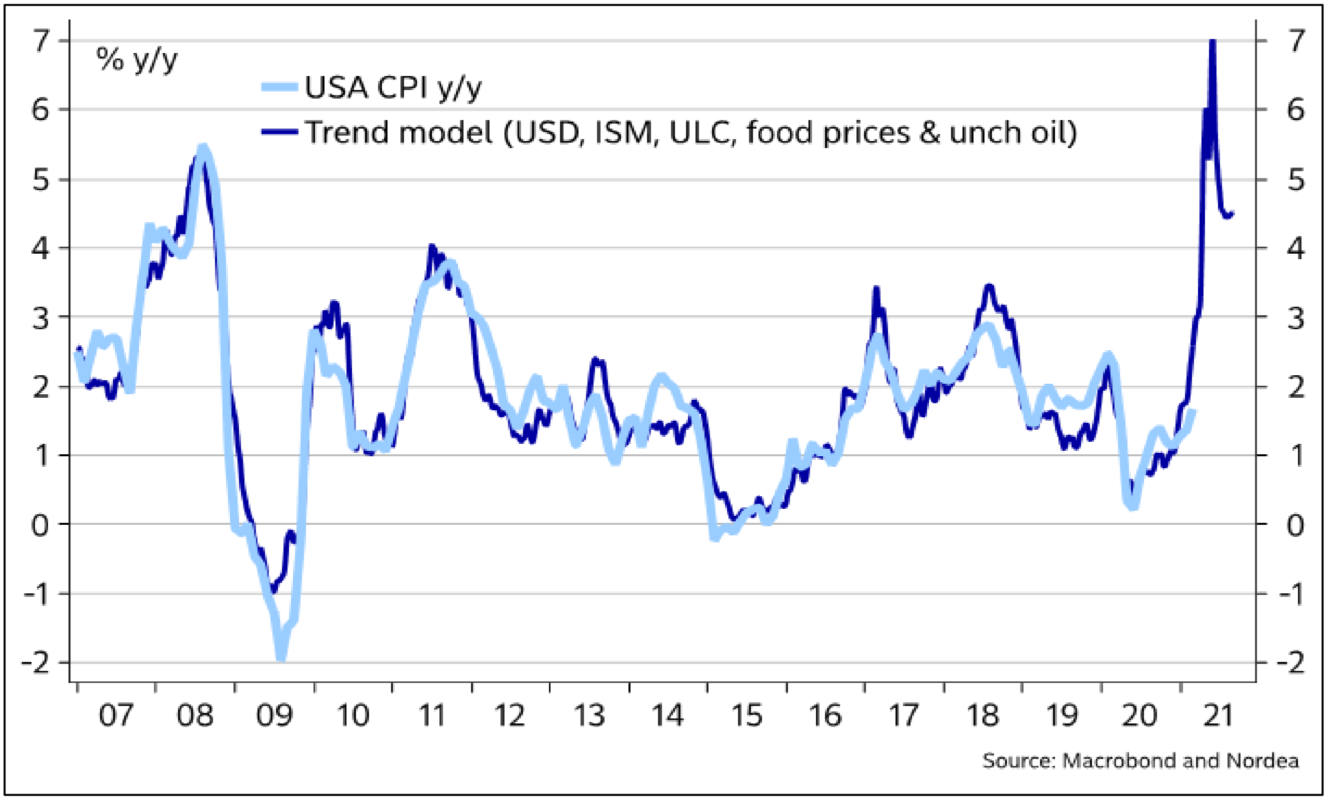
The majority of nations have corporate tax rates between 20-30%.

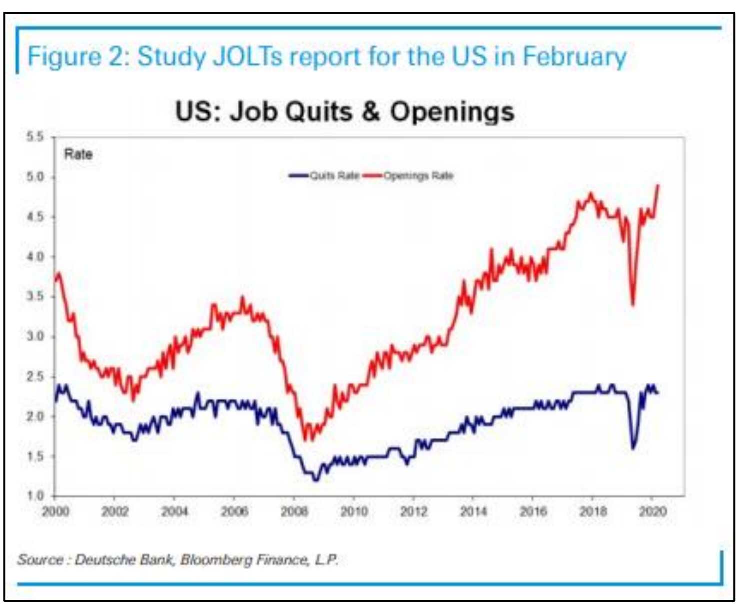


Democratic senator Joe Manchin has already said that he's in favor of a 25% corporate tax rate, rather than the 28% proposed by the administration. Given the 50-50 split in the Senate between Republicans and Democrats, the administration will need to cut a deal with Manchin or find some Republican support. Markets seem to be waiting for more clarity before worrying too much about a bad outcome here.

Inflation

Nearly every indicator points to higher inflation numbers in the near future. This model from Nordea looks particularly dramatic but needs to be discounted to some degree given the dramatic and unprecedented pandemic effects. The potential reopening effects and supply-chain constraints are well known of course, but the magnitude is uncertain.





There are so many moving parts here. Over the next two weeks, we will hit the point at which over 80mln Americans will be fully vaccinated. Base effects and reopening could provide for some eye-popping numbers over the next few months.

Job openings are now at the highest level in twenty years. We can expect the coming employment numbers to be very strong.

The Fed acknowledges that the jump in inflation and employment is coming, but they continue to make the case that the inflation pop is likely transitory and that there is still much to be done on the employment side. Granted. However, a collision between the market's forward-looking mindset and the Fed's new outcome-based framework could provide some real fireworks if data surprises.

Last week Fed Chair Powell provided some color on what "substantial further progress" means: "we want to see a string of months like (the March payrolls report) so that we can really show progress towards our goals". Since "substantial further progress" is the Fed's pre-condition for tapering, the question now becomes what does "string" mean? I would still bet that we see some form of tapering before the end of the year.

Reducing QE is one thing but hiking rates will require a lot more "progress on every front. That is the line that will define the credibility of the Fed's new framework. They will have to find a way to taper very slowly as at the moment they are still busy digging in their heels.

As Neel Kashkari (very dovish historically) said last week on how previous Fed policy "shortcut" the economic recovery: *"We were always wrong. And it was the worker who paid the price."*

Going forward, the numbers won't matter nearly as much as how the Fed reacts to them. The tension between the markets and the Fed is likely to only increase. The next few months could get wild.

Geopolitical tensions also rising…

While these are probably not going to be big market movers, they can certainly provide for some headline bombs, especially in commodity markets.

- Turkey vs. Italy
- Australia (Oceania) vs. China
- Russia vs. Ukraine
- China vs. Taiwan (China vs. US)
- Iran vs. Israel (another China/US proxy conflict?)

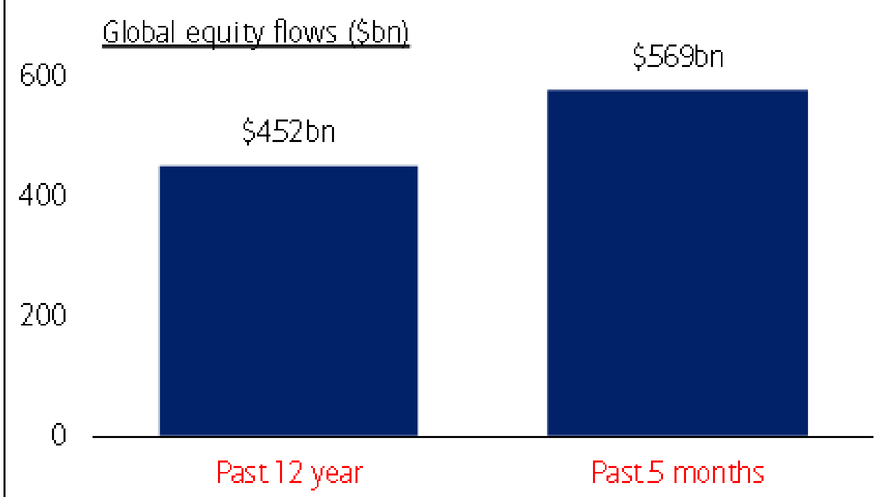
<u>What to Focus on Now:</u>

Equities

As noted in previous weeks, the flow into stocks in recent months has been relentless.

This is understandable, given the stance of the CB's and the prospects for earnings growth with re-openings.

Chart 3: Inflows to stocks past 5 months > inflows prior 12 years
Inflows to global equity funds, $bn

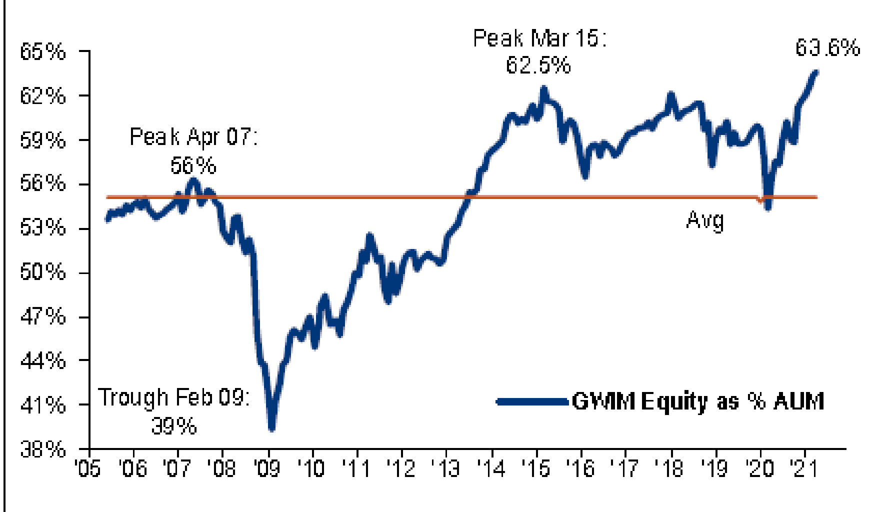


Source: BofA Global Investment Strategy, EPFR Global
BofA GLOBAL RESEARCH

By a number of measures, equity allocations are now near or at record levels, due to inflows and appreciation.

Here is BoA's version that looks at private client holdings.

Chart 13: GWIM equity allocation as % AUM
BofA private client equity holdings as % of AUM



Source: BofA Securities
BofA GLOBAL RESEARCH

Massive rotation is being followed by a wave of un-rotation since mid-March. Tech has been benefiting and small caps and value getting hit in recent weeks.

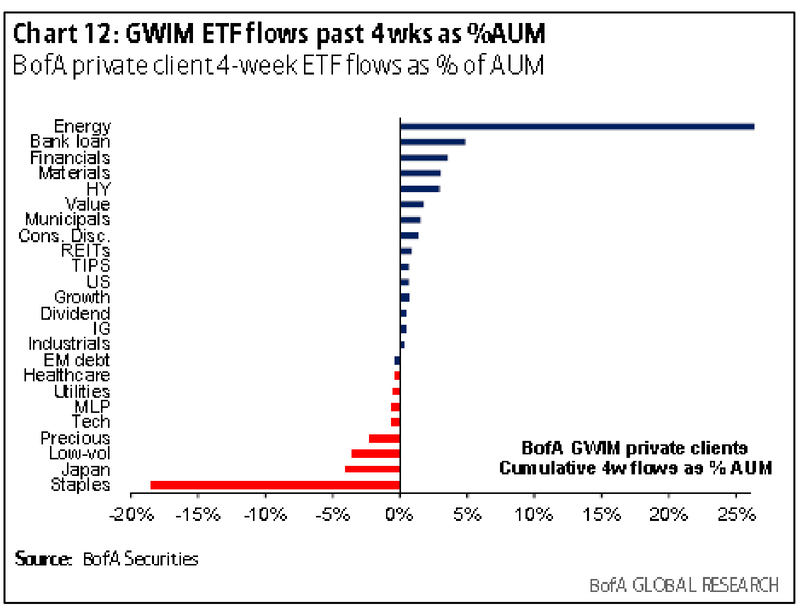
After heavy inflows EM is now underperforming as well.

That is one to watch, as divergences tend to set up for reconvergence, which can be bullish or bearish, often depending on the USD outcome.

Recent underperformance has been tied to China.

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

It is interesting that the recent pause in the reflation story seems to have been kicked off by a reversal in Chinese equities in mid-February.



Energy, in particular, has seen a pullback in its related equities, after very large inflows.

What a contrast to the huge outflows and underweights we saw back in March and April of last year, that capped off what had been a steady divestiture of non-ESG energy.

Given the relatively high correlation of energy stocks to 10-year yields, the draw is clear.

Exhibit 15: S&P 500 Sector Correlations to 10-Year Yields

As of March 31, 2021

Sectors	Correlation*
Financials	67%
Transportation	53%
Energy	43%
Industrials	40%
Materials	24%
Discretionary	-6%
Telecoms	-16%
Technology	-19%
Healthcare	-35%
Utilities	-42%
Staples	-47%
Real Estate	-56%

*5Yr rolling correlation; yields vs monthly outperformance to S&P 500.

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

XLE ran right up to resistance before the reflation trade pause.

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

Oil will decide direction soon, after recent consolidation …

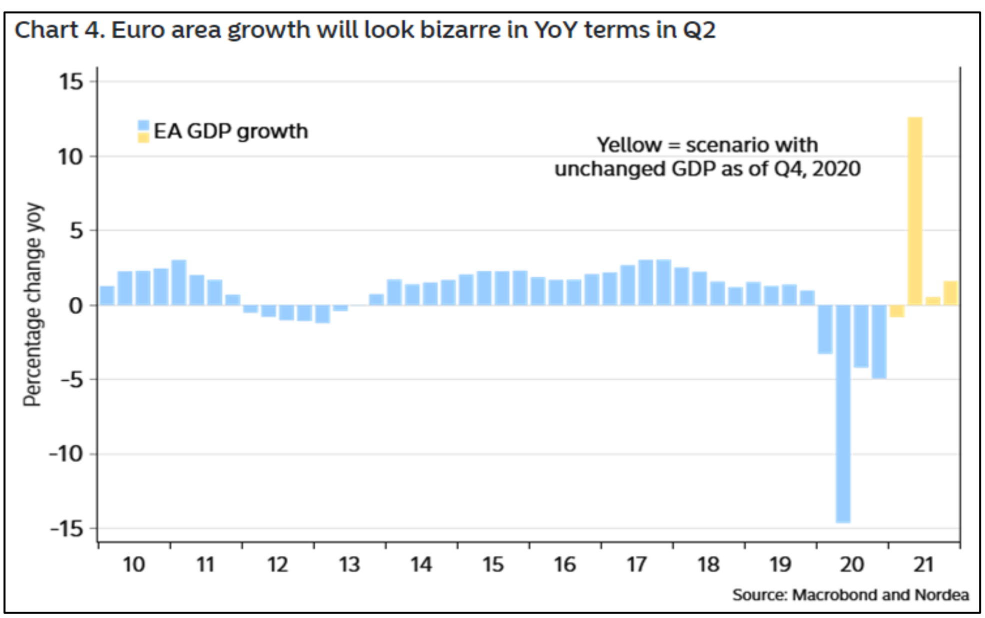
I remain interested in European equities. Obvious negatives are being overwhelmed by a price move that investors remain unprepared for.

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

Even the long suffering and unloved Brexit bunch is showing signs of life.

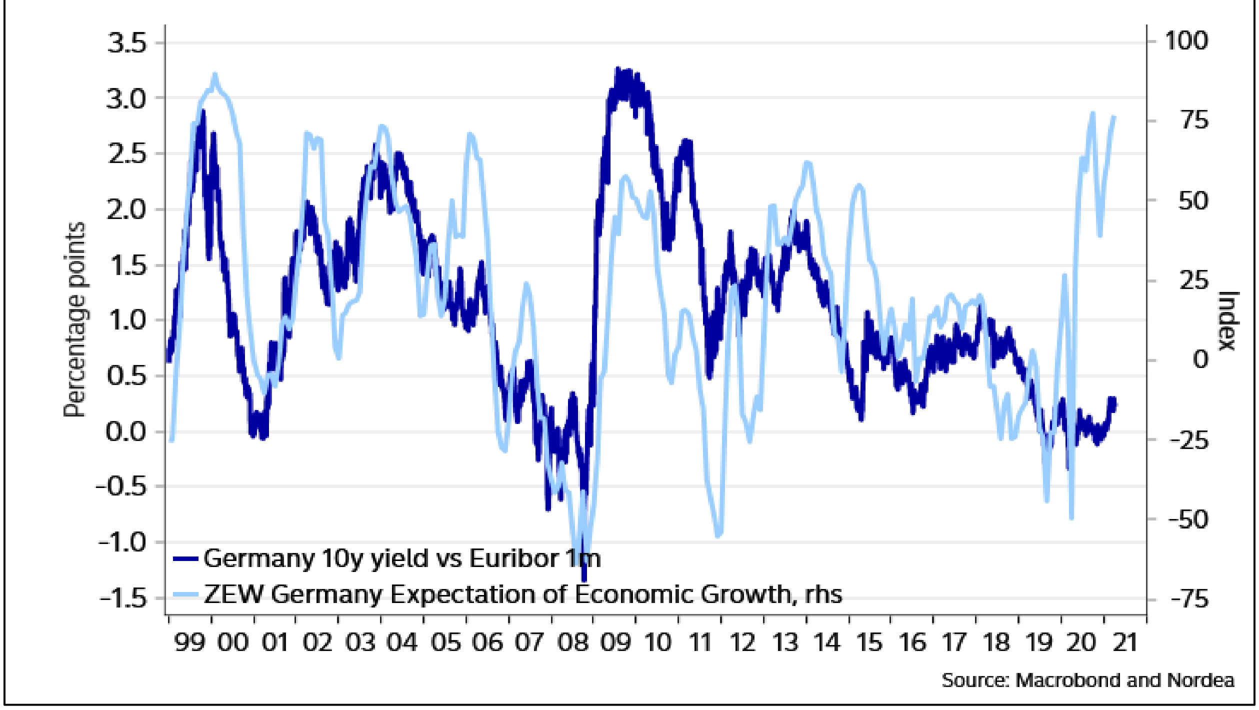
Bonds

In fixed income, European data and the ECB's reaction may also provide for some excitement in the coming months. While there has been broad support for the increase in QE to keep down yields, a marked improvement in the data could change/challenge that. Base effects could make for some crazy prints.



It may be hard for the ECB to just stand in the way via bond buying.

Chart 6: ZEW expectations scream for mega-steepening

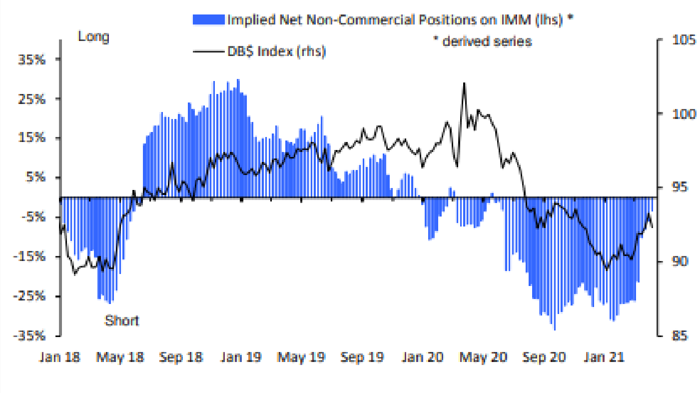


If they don't, Bund yields could jump. We have an interesting, even dramatic, technical set-up.

FX

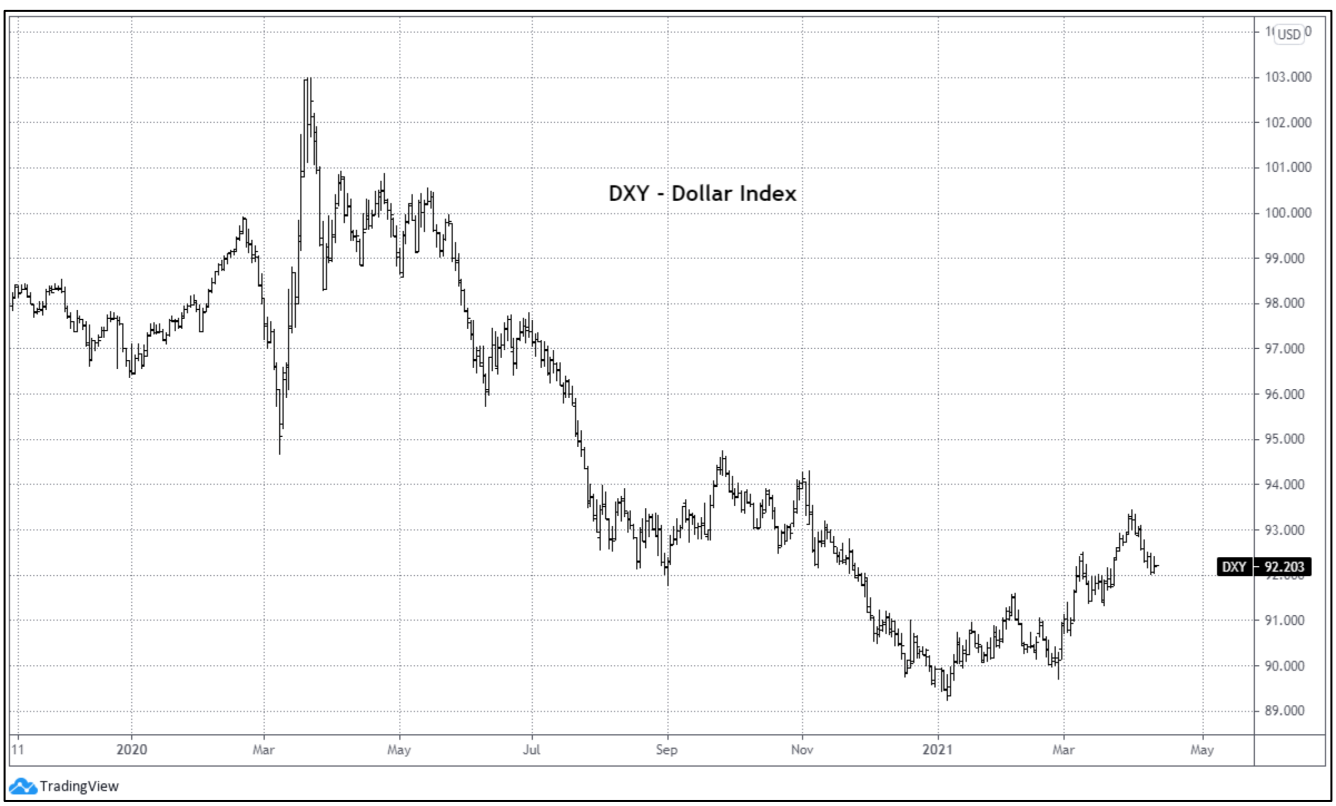
We have seen a big decrease in USD shorts as the dollar has rallied over the last few months.

Figure 2: Non-commercial short USD position falls to 3% of open interest



Source : Bloomberg Finance LP, Deutsche Bank

However, there has been big dispersion between the crosses. USD vs. negative yielders has jumped with rising US yields and rate lift-off expectations, while commodity linked currencies have remained strong. Last week was the first week in a while where the dollar was softer as it adjusted to the pause in yields and people got caught in crowded position unwinds.



Stargazer
Asset Management

Important Macro Data Releases and Events for the Week

Monday 4/12/2021	Retail Sales YoY (Feb) Forecast: -5.7%, Prior: -6.4%
	Fed's Rosengren SPEECH
	Trade Balance (Mar) Forecast: $52.55B, Prior: $103.25B
Tuesday 4/13/2021	ZEW Survey - Economic Sentiment (Apr) Forecast: 73.2, Prior: 74
	ZEW Survey - Economic Sentiment (Apr) Forecast: 79.5, Prior: 76.6
	ZEW Survey - Current Situation (Apr) Forecast: -52, Prior: -61
	10-year Bund Auction
	CPI ex-food and energy MoM (Mar) Forecast: 0.2%, Prior: 0.1%
	CPI ex-food and energy YoY (Mar) Forecast: 1.6%, Prior: 1.3%
Wednesday 4/14/2021	Industrial Production s.a. MoM (Feb) Forecast: 0.5%, Prior: 0.8%
	Fed's Beige Book REPORT
	Fed's Powell, Clarida, Williams and Bostic SPEECHES
	Employment Change s.a. (Mar) Forecast: 35k, Prior: 88.7k
	Unemployment Rate s.a. (Mar) Forecast: 5.7%, Prior: 5.8%
Thursday 4/15/2021	Harmonized Index of Consumer Prices YoY (Mar) Forecast: 2%, Prior: 2%
	Retail Sales ex-auto MoM (Mar) Forecast: 4.8%, Prior: -2.7%
	Retail Sales MoM (Mar) Forecast: 5.5%, Prior: -3%
	Retail Sales Control Group (Mar) Forecast: -0.9%, Prior: -3.5%

Philadelphia Fed Manufacturing Survey (Apr) Forecast: 43, Prior: 51.8

Initial Jobless Claims Forecast: 700, Prior: 744k

Initial Jobless Claims 4-week average Forecast: -, Prior: 723.75k

Continuing Jobless Claims -, Prior: 3.734 M

Eurogroup Meeting

GDP YoY (Q1) Forecast: 18.8%, Prior: 6.5%

GDP QoQ (Q1) Forecast: 1.5%, Prior: 2.6%

Retail Sales YoY (Mar) Forecast: 27.2%, Prior: 33.8%

Industrial Production YoY (Mar) Forecast: 15.6%, Prior: 35.1%

Friday
4/16/2021

EcoFin Meeting

CPI - Core MoM (Mar) Forecast: 1%, Prior: 1%

CPI - Core YoY (Mar) Forecast: 0.9%, Prior: 0.9%

Building Permits MoM (Mar) Forecast: 1.75m, Prior: 1.72m

Housing Starts MoM (Mar) Forecast: 1.613m, Prior: 1.421m

Michigan Consumer Sentiment Index (Apr) Forecast: 88.9, Prior: 84.9

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.