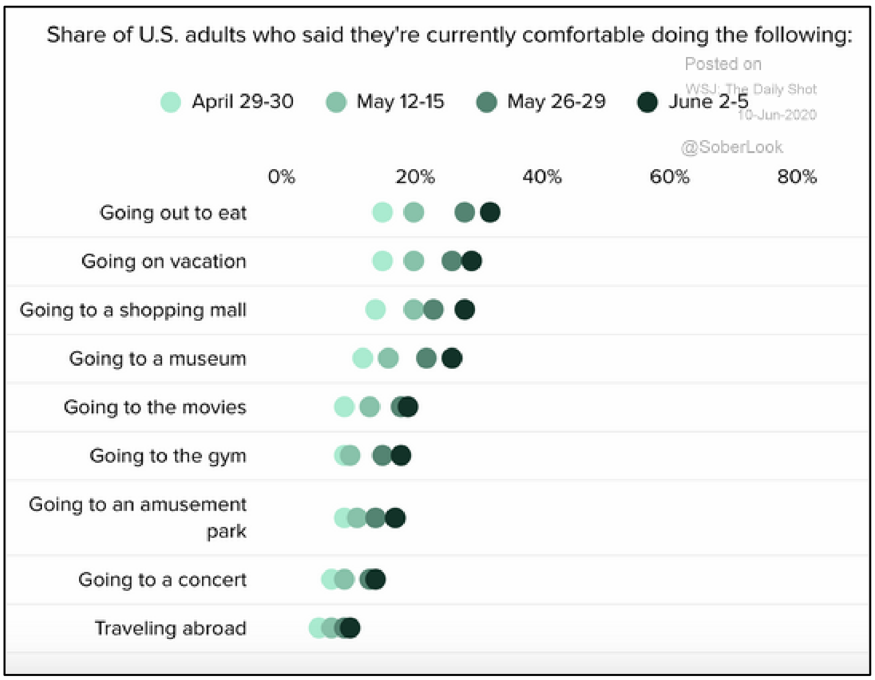
Stargazer
Asset Management

What to focus on in Global Macro for the week of June 15th, 2020

Macro Themes on the Radar:

There are continued signs of economic improvement in developed economies as re-openings progress. Even the most hard-hit areas of consumption are starting to return as attitudes slowly improve.

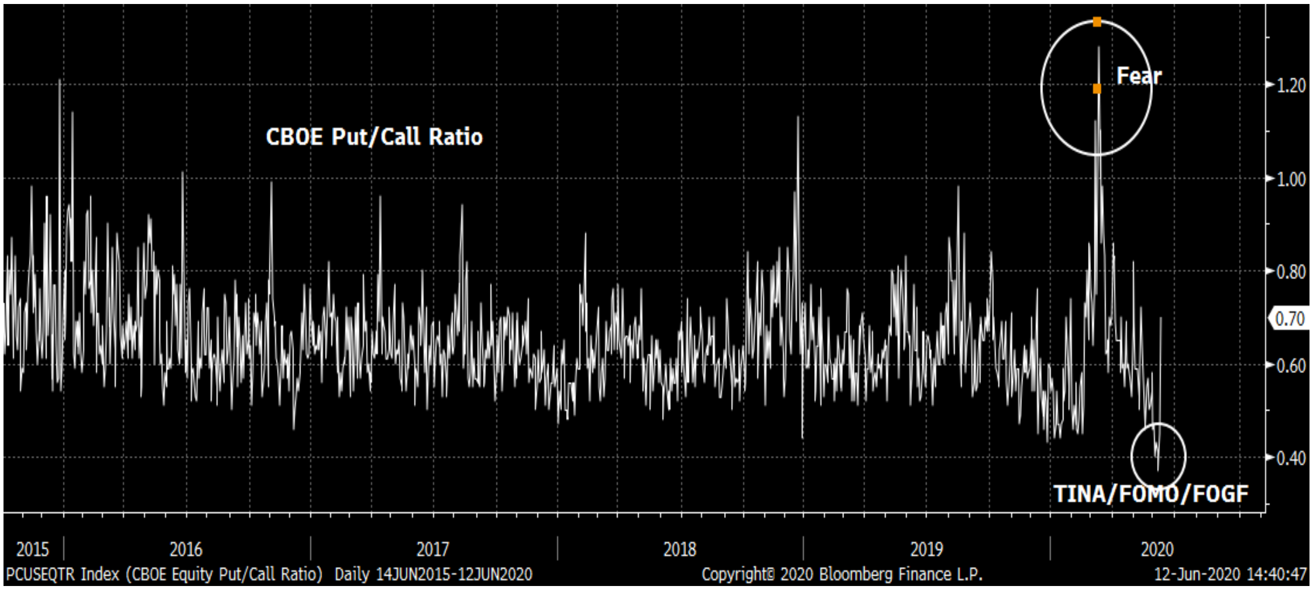


However, with a rise in hospitalizations in some states like TX, AR, AZ, SC and NC markets are on alert for a potential second wave.

Add to that the continued protests in the US, the rising uncertainty around the approaching elections, economic / earnings uncertainty and monetary and fiscal uncertainty. Combine them and you have a volatile mix of inputs. Analysts are all over the place in terms of what comes next for markets, with an amazingly high level of conviction amongst both bears and bulls. No wonder markets are bouncing around.

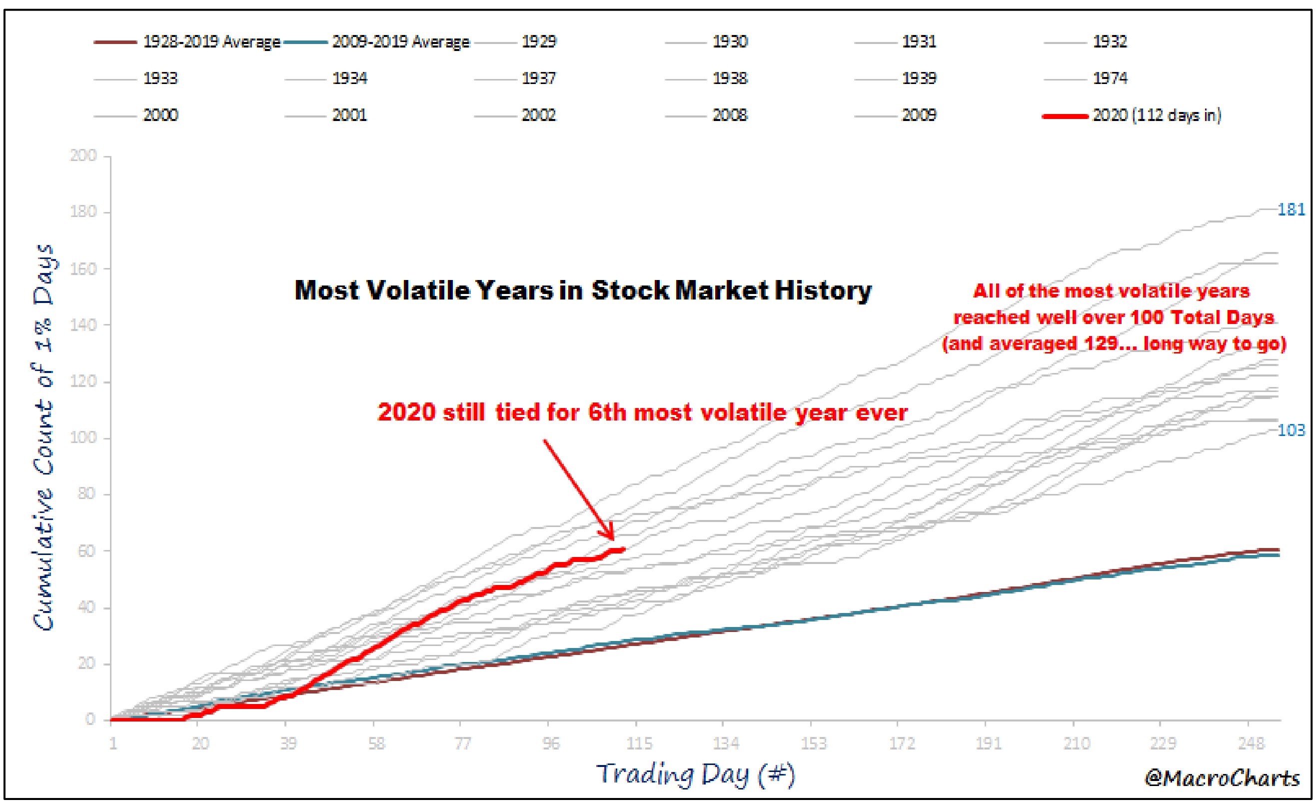
In the span of only 8 weeks we have gone from FEAR to FOMO .... and given the end of the week's price action, a few steps back towards fear.

Stargazer
Asset Management

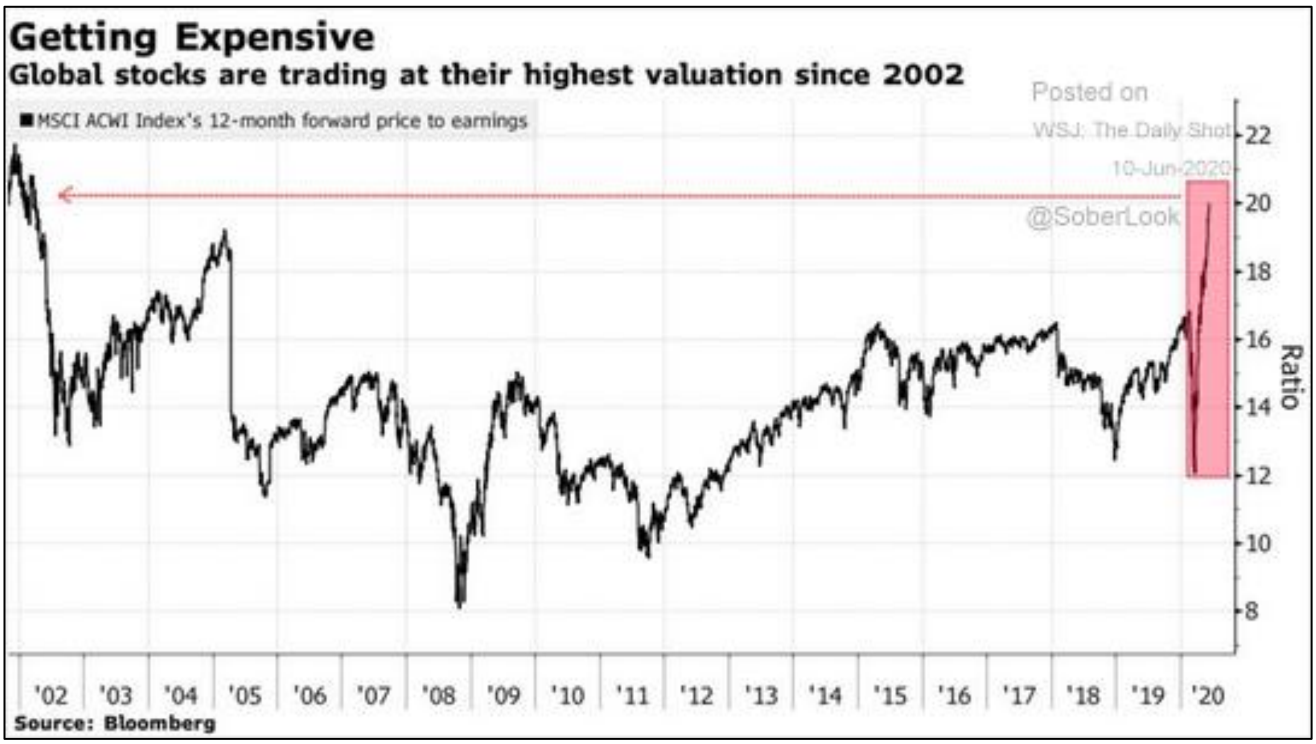


In fact, this year is shaping up to be one of the more volatile years we have seen. An environment with lots of firsts and few signposts will do that.

Plenty of time for more volatility to follow…



Equities, energized by liquidity and stimulus, are trying to look across the economic valley. However, the current situation and uncertain prospects for the recovery are weighing on earnings expectations and making stocks look expensive globally. Part of this, could be the discounting of a renewed and potentially long interval of very low global rates. However, at some point the disconnect between the prices and earnings expectations will probably need to be closed. Very high and very low P/E's tend to be accompanied by higher volatility.



This continues to be a market that can deliver sudden and meaningful repricing. As such, finding ways to be selectively long volatility and tail outcomes, should continue to reward.

Inflation vs. Deflation

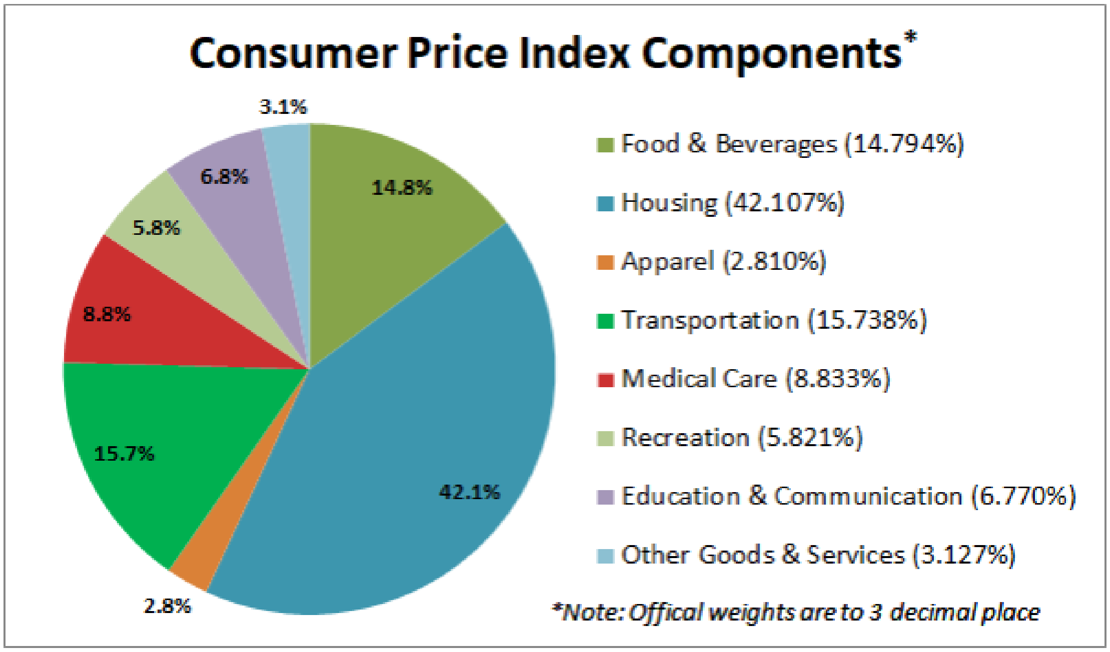
The market continues to expect that in the near-term, inflation pressures should be to the downside given the current economic reality. What happens after that is increasingly being debated. In particular, the risk of deglobalization, rapid M2 growth and newfound tolerance for deficit spending or even MMT, has tongues wagging.

How inflation is measured is important. While the Fed prefers the PCE, the markets also watch things like CPI (in its various forms).

As this discussion potentially heats up in the coming months and quarters, I thought the following two charts were worth having in the back of your mind.

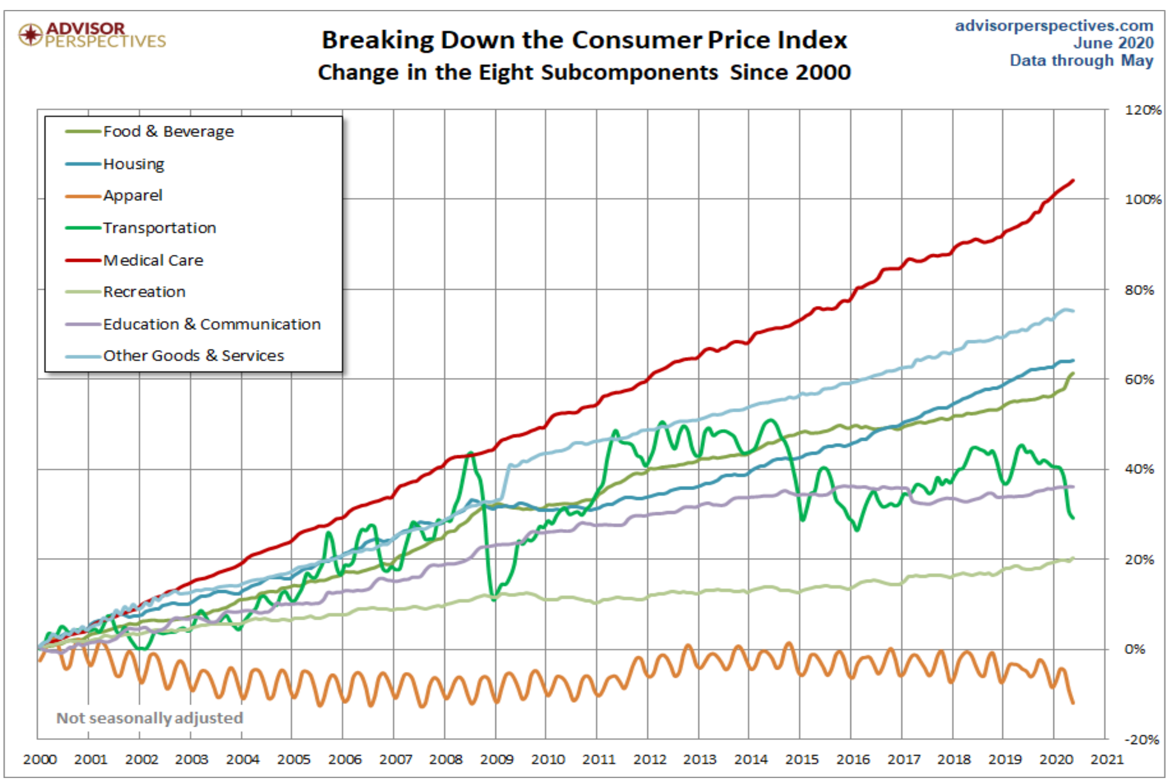
Stargazer
Asset Management

The components and their weights…



Source: BLS; The most recent annual reweighting was in December 2019.

What the drivers have been for the last 20 years…



What to Focus on:

On Thursday, what looked like a relentless and unstoppable equity market rally suddenly reversed.

There were hints that something was up.

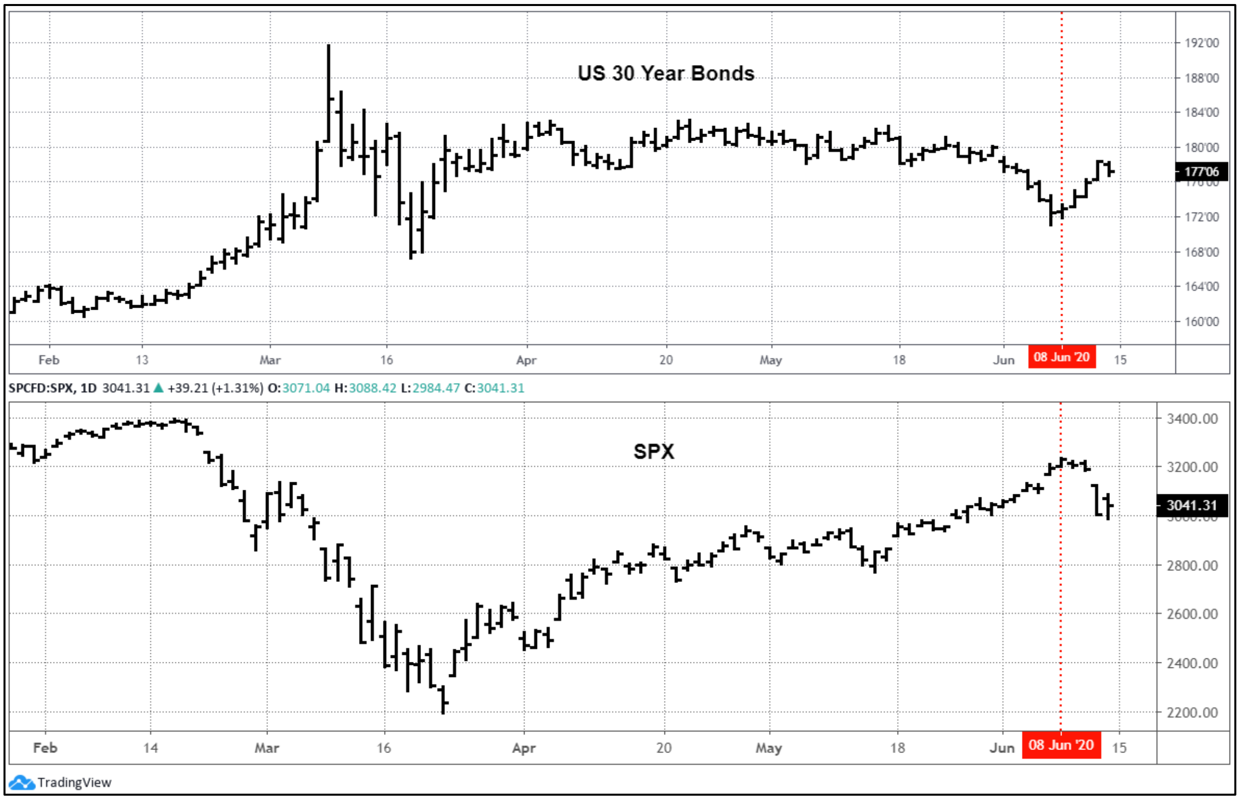
Starting last Monday, well before the equity rout, all the “safe havens” suddenly began to rally. JPY, CHF, Gold and Bonds reversed from the previous “who needs safe havens?” price action.

I’m not sure what the flow was behind this price action or the trigger, but it appears to have been a decent “tell” for the equity move that followed. Maybe anticipation of the Fed meeting and Powell press conference?

It might be worth continuing to watch the price action in these assets for signs that the all clear has been sounded or, that a bigger correction is underway.


USDCHF
0.99000
0.98000
0.97000
0.96000
0.95171
0.94000
0.93000
0.92000
Feb
17
Mar
16
Apr
13
May
18
Jun
08 Jun '20
15
SPCFD:SPX, 1D 3041.31 ▲ +39.21 (+1.31%) O:3071.04 H:3088.42 L:2984.47 C:3041.31
SPX
3400.00
3200.00
3041.31
2800.00
2600.00
2400.00
2200.00
Feb
14
Mar
16
Apr
20
May
18
Jun
08 Jun '20
15
TradingView


Gold
1800.000
1760.000
1730.905
1680.000
1640.000
1600.000
1560.000
1520.000
1480.000
1440.000
Feb
17
Mar
16
Apr
20
May
18
Jun
08 Jun '20
15
SPCFD:SPX, 1D 3041.31 ▲ +39.21 (+1.31%) O:3071.04 H:3088.42 L:2984.47 C:3041.31
SPX
3400.00
3200.00
3041.31
2800.00
2600.00
2400.00
2200.00
Feb
14
Mar
16
Apr
20
May
18
Jun
08 Jun '20
15
TradingView



Credit

Last week's flows were interesting… according to BoA/ML they saw the 5th largest government bond outflow ever, a large flow into banks (largest since Nov. '16) and increasing flow into Europe (largest since Feb. '18).

However, the continued flow into Corporate and Municipal bonds really caught my attention. The money continues to pour in…

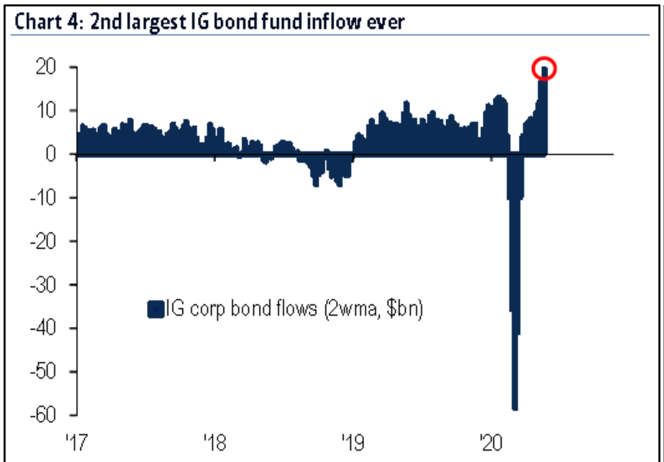


Chart 4: 2nd largest IG bond fund inflow ever

Source: BofA Global Investment Strategy, EPFR Global

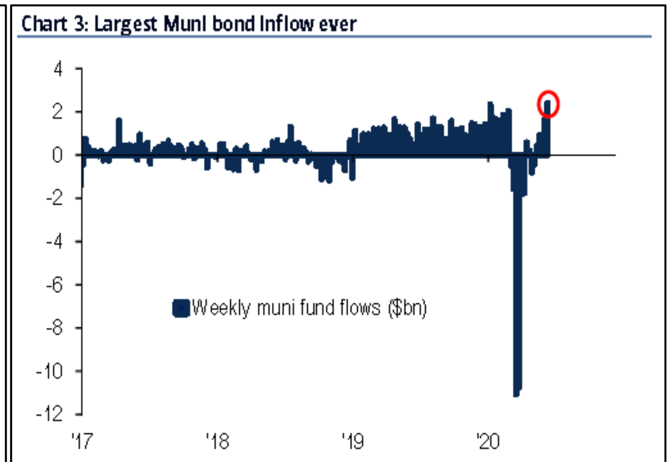
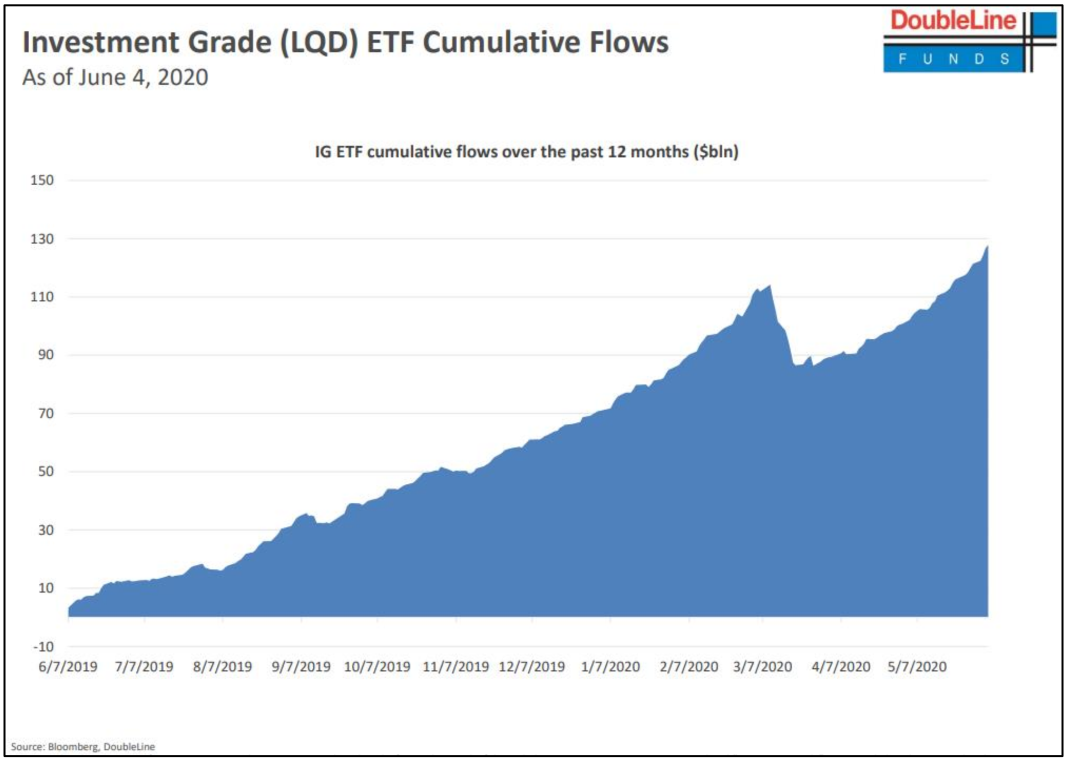
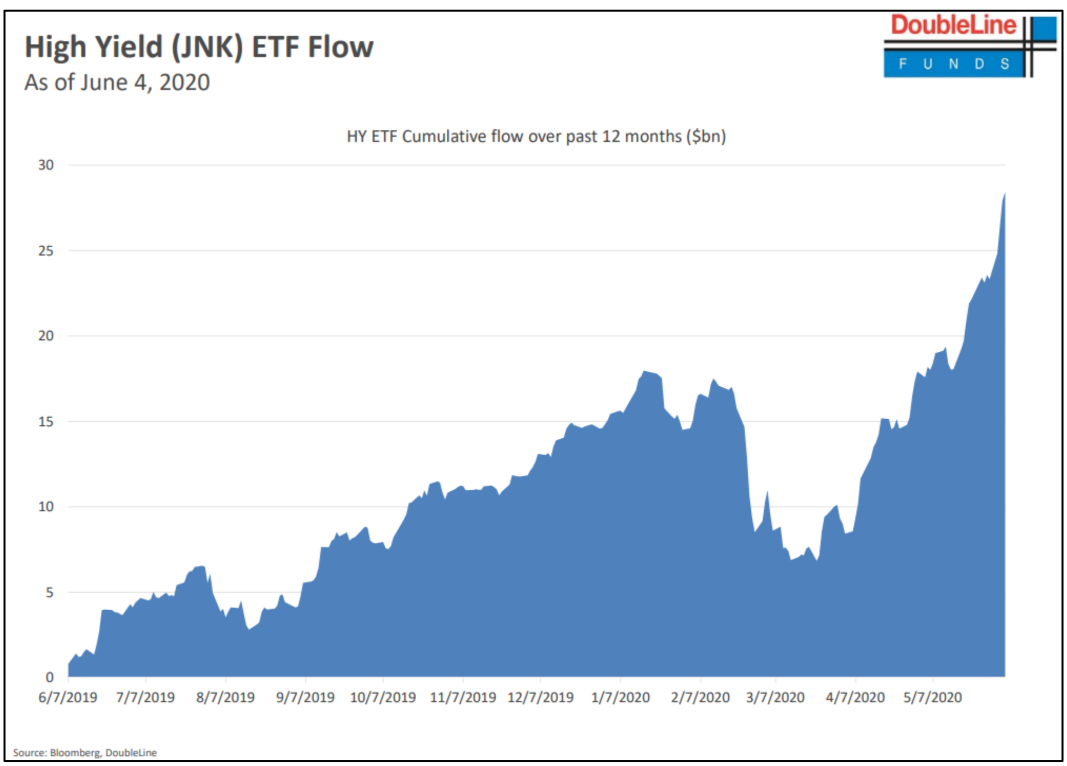


Chart 3: Largest Muni bond Inflow ever

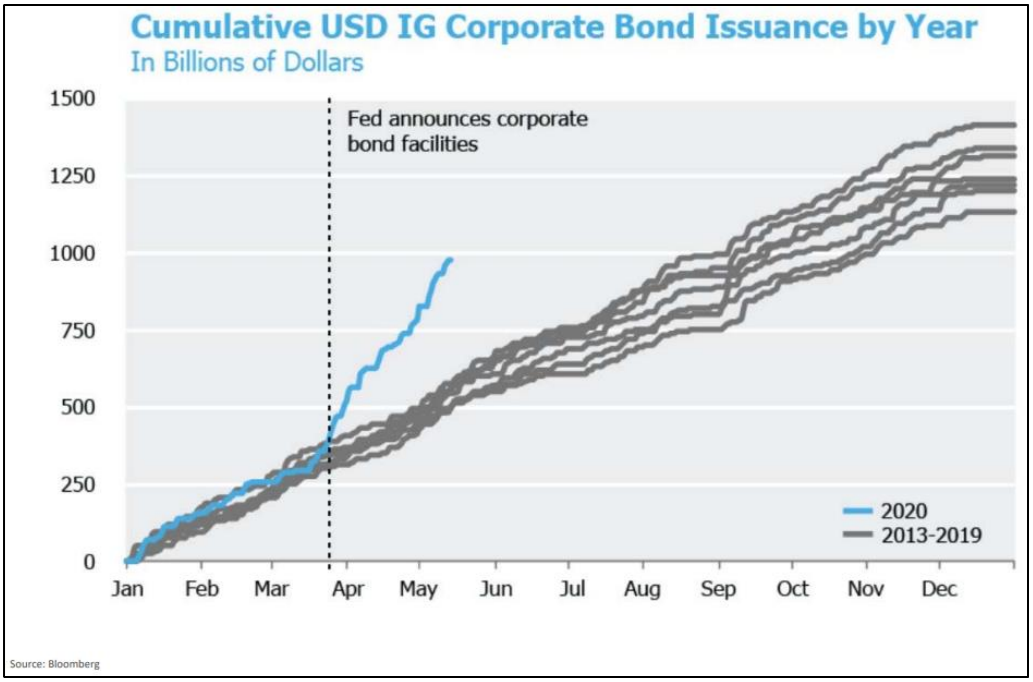
Source: BofA Global Investment Strategy, EPFR Global

If you are a fixed income investor and the economy is improving and rates are likely to stay low for a long time, it makes sense to move out the risk curve and get the extra yield. Of course, having the Fed on your side as the new buyer of IG and HY helps. A Powell put for fixed income?



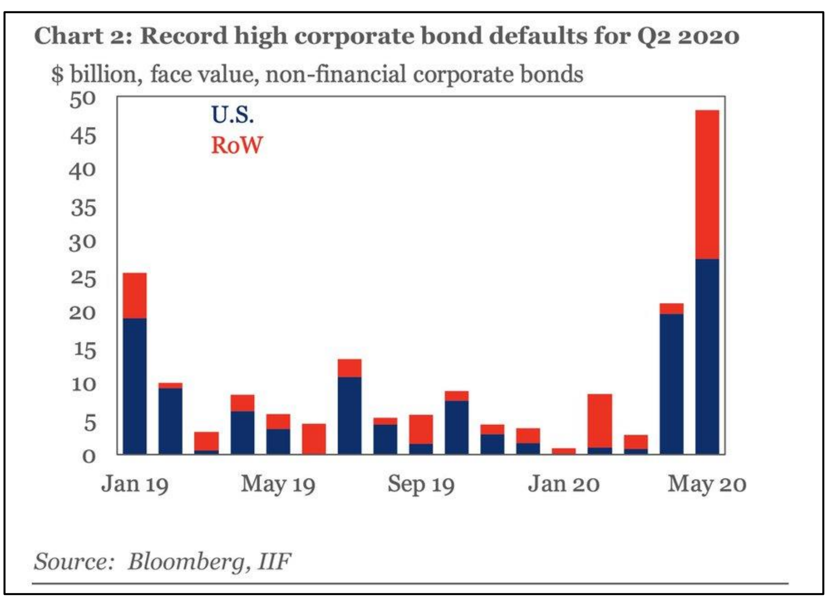


As discussed before, COVID-19 will leave behind a lot more debt as one of its legacies. The Fed's support of the market is facilitating this borrowing in a big way. That is not a bad thing, as it is better that they borrow from the markets than the government.



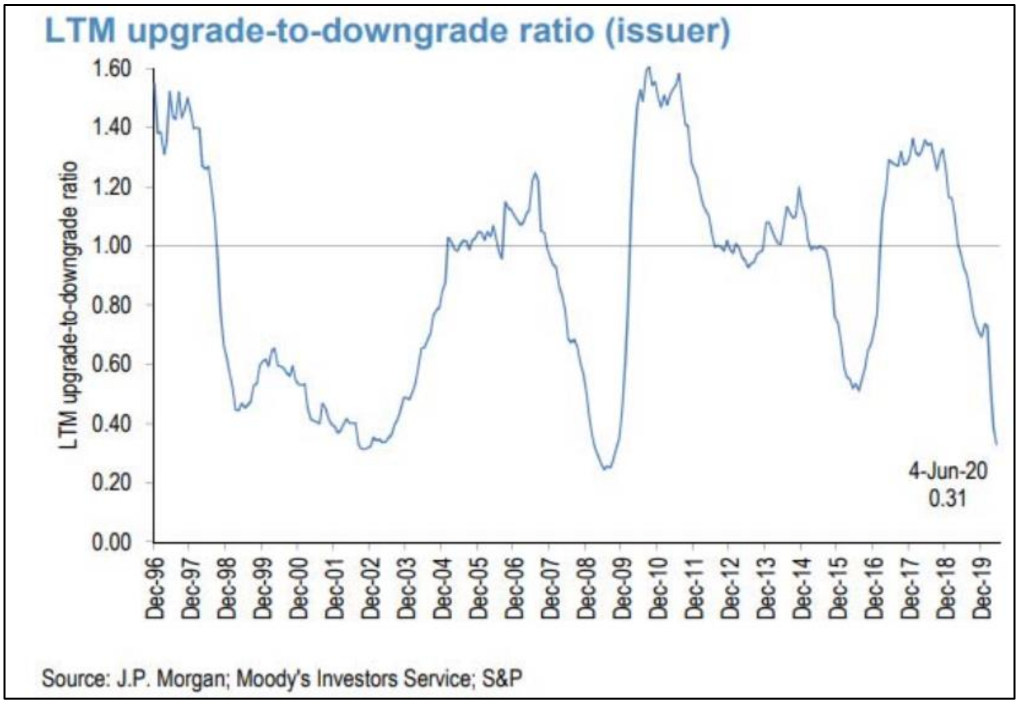
Given the Fed support, spreads never got as wide as they perhaps should have. Investors buying credit now are getting less reward for the risk they are taking as a result. Perhaps the risks are lower this time as well? Maybe, but that would imply the Fed is now a permanent fixture of the corporate bond market. Price discovery is getting harder and harder as the rules change.

Given the economic hit, it isn't surprising that defaults have taken off…

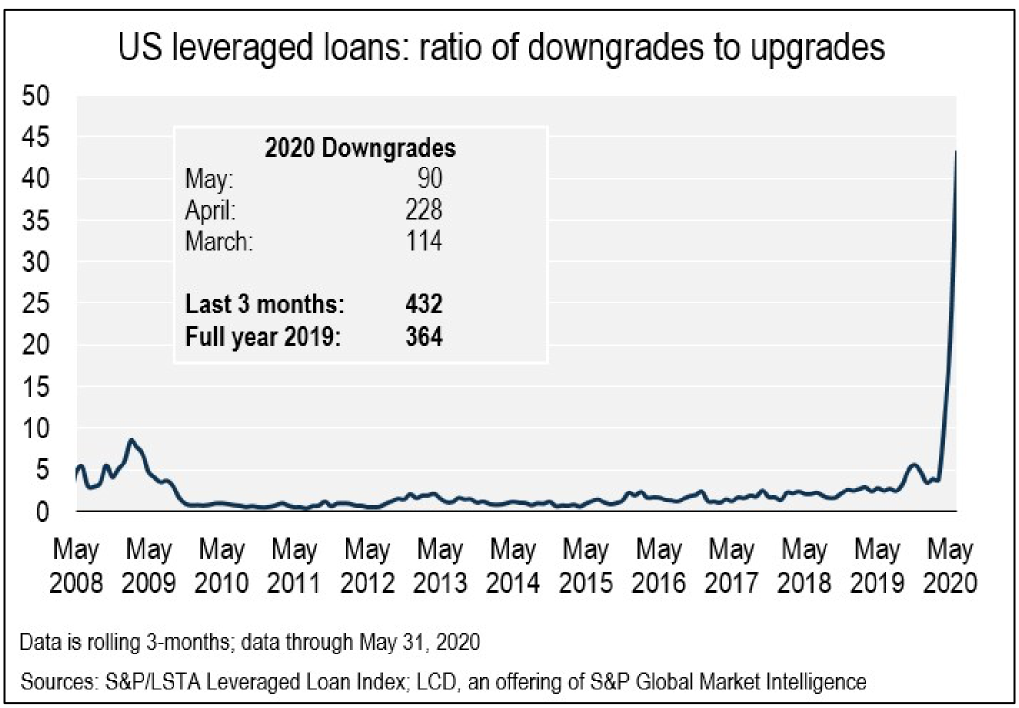


As have ratings downgrades…

In corporate bonds…

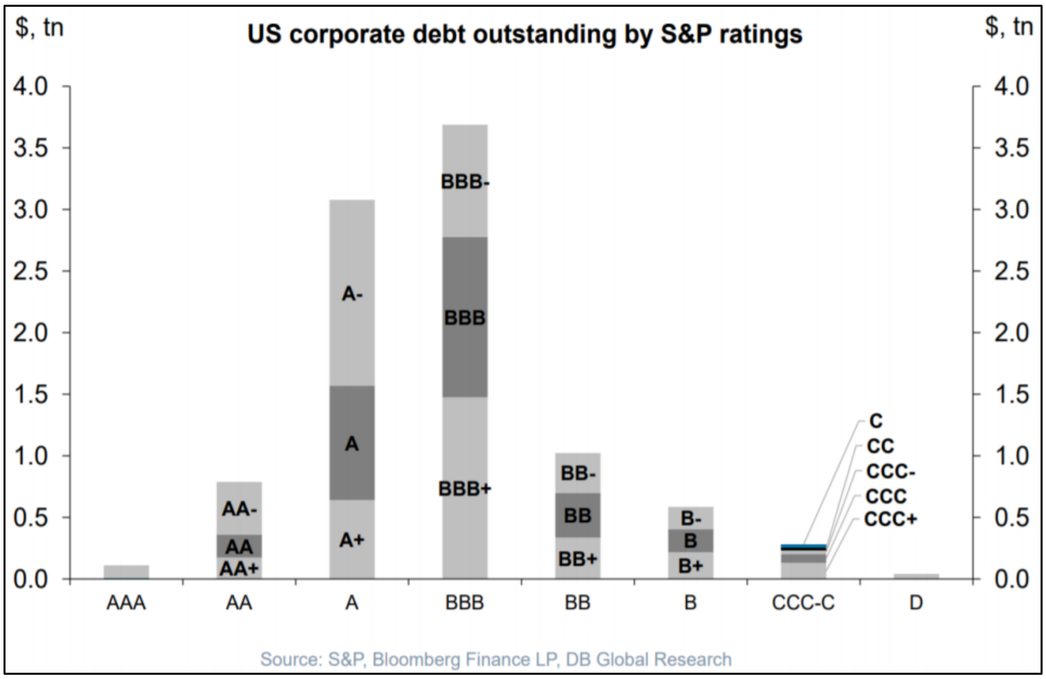


and in leveraged loans…



Either the economy recovers well in the coming months and corporate bond buyers are correct in looking past the valley, or the Fed will need to step up its buying of corporate paper in a big way.

Bond prices have a much closer relationship with the math than equities do. That linearity combined with the binary nature of the negative feedback loop that is triggered when a company goes from investment grade to high yield, undoubtedly has the Fed nervously watching the BBB column.



Let's hope Fed intervention is just a short-term bridge that gets us through the pandemic's aftermath and back on track. While QE seems to be here to stay, all the other 2008 emergency measures were rolled back over time. However, once deployed the taboo is broken.

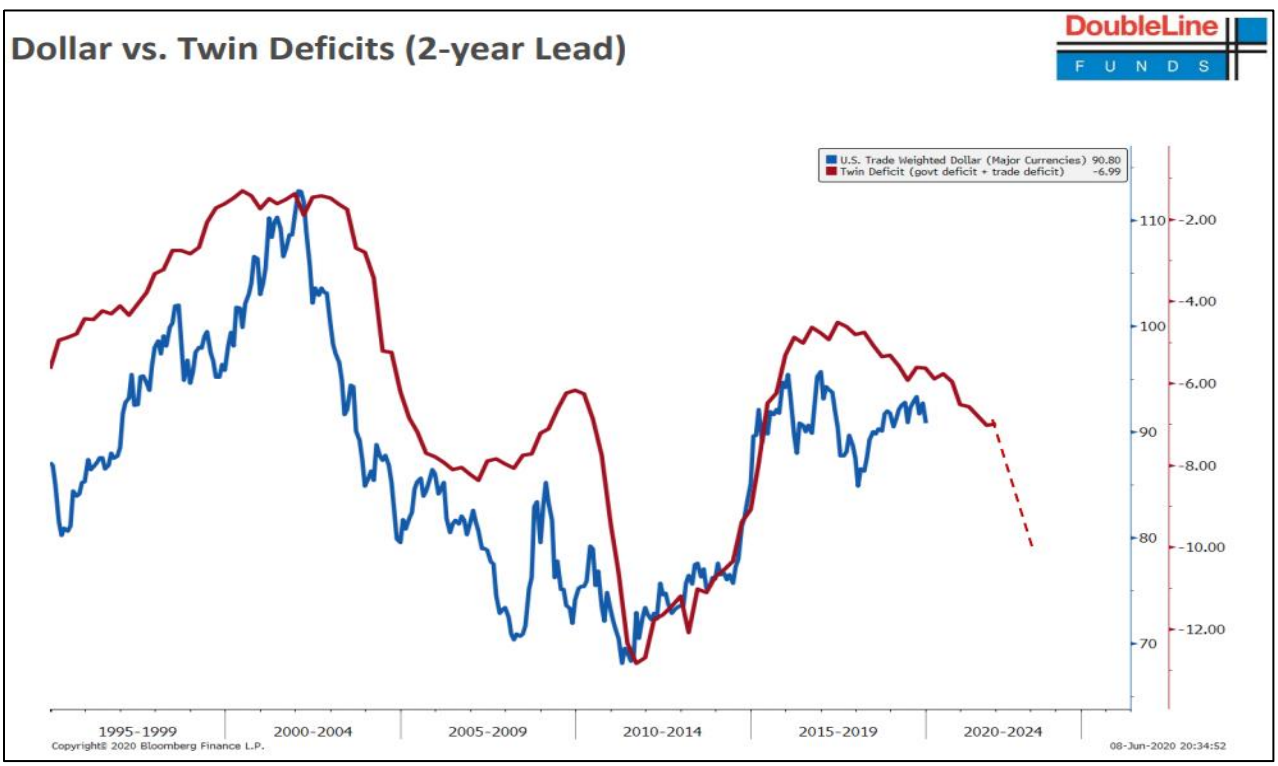
USD

The last two days aside, the dollar has continued to be under pressure over the last few weeks. The huge amount of USD liquidity provided via QE, lower rates and global swap lines eventually succeeded in drowning the stubborn USD demand.

In general, the weaker dollar should be supportive for global growth and asset prices. As discussed, it can be a tailwind for "value" both in the US and globally.

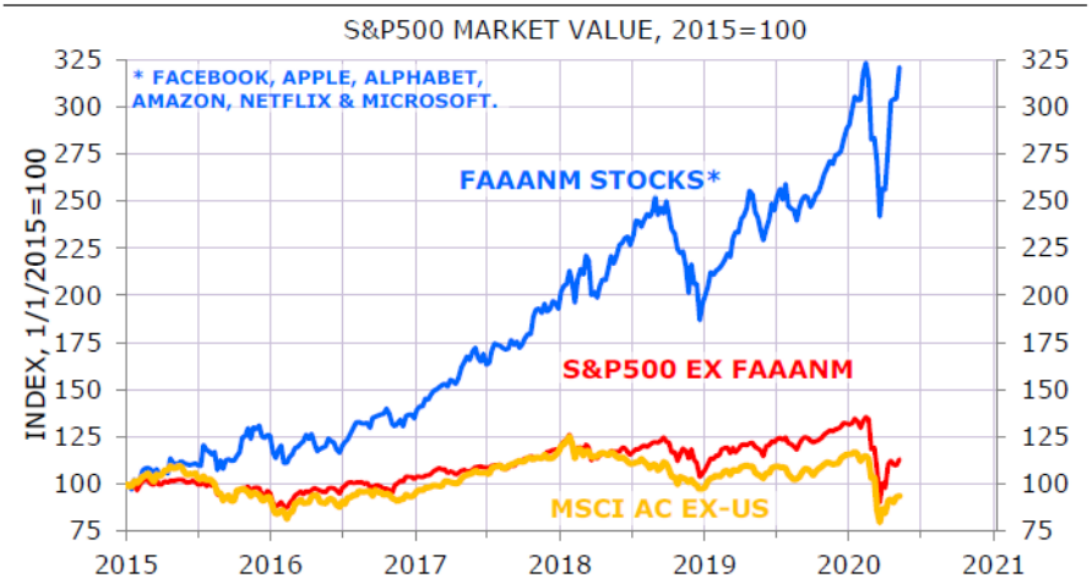
The reversal we had on Thursday and Friday may just be a little correction of what has been a powerful move. However, because of the big implications I'm be watching very carefully for any signs that dollar strength is re-emerging.

Given the move in interest rate differentials, the massive liquidity and fiscal spending additions and potentially growing trade deficit, it should fall. If it doesn't, or even shows renewed strength, it will be an issue for markets.



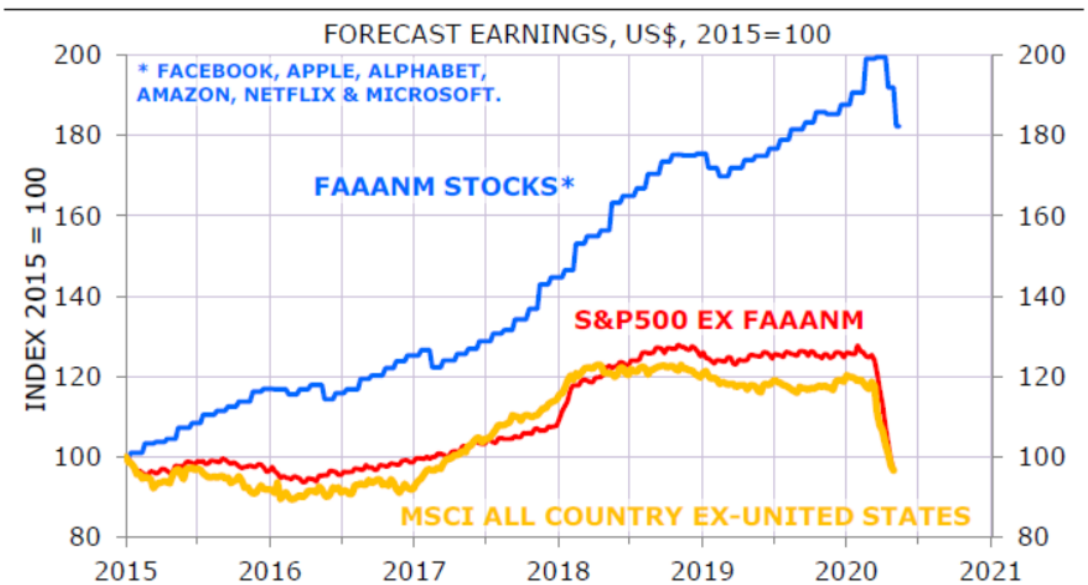
As you know the big tech companies have been THE source of US outperformance for years now. In a low growth world, they have been the growth trade. Gundlach at DoubleLine is making the case that this is coming to an end as their success will be their undoing as governments will see them as a cash cows and monopolies to be broken up. Agree or disagree, I think these two charts from his presentation are an excellent illustration of what has been driving US outperformance.

The super 6 explain most of the return gap



Source: MSCI, DataStream, Bloomberg; Minack Advisors

FAAANM stocks are the EPS difference

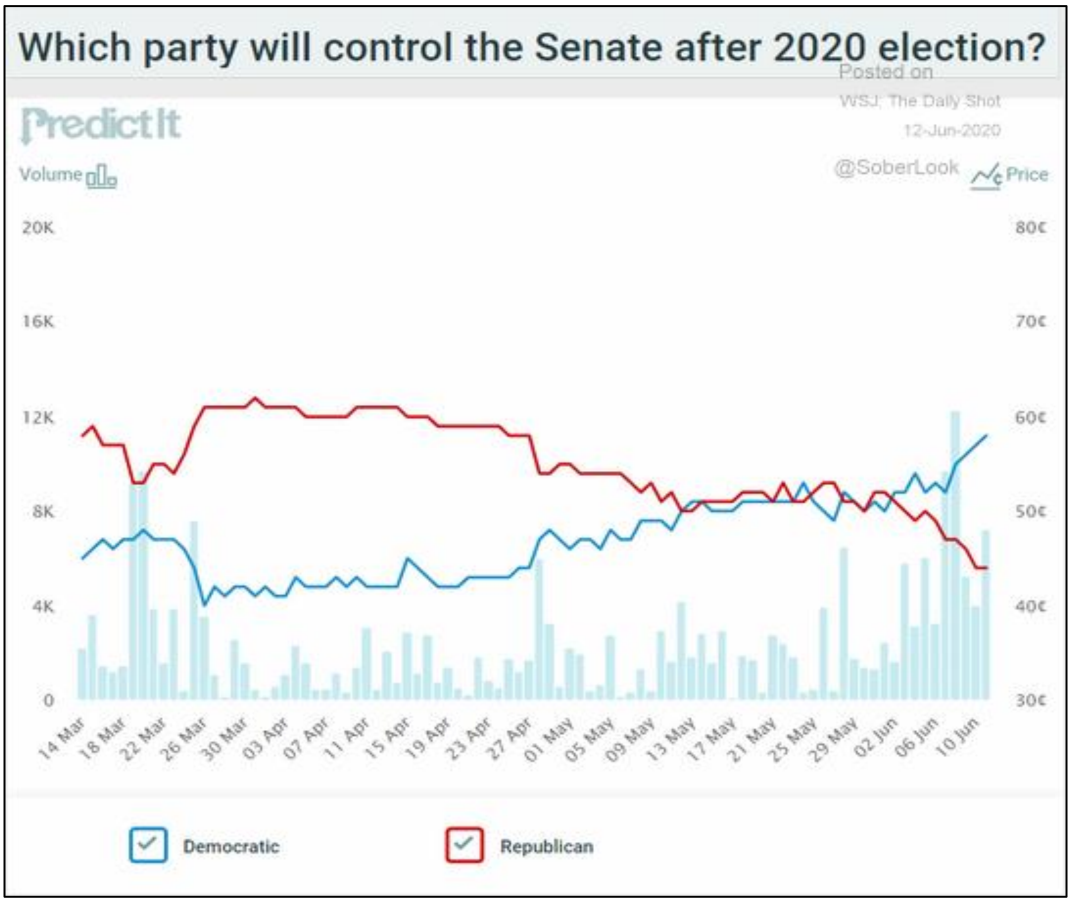


Source: MSCI, IBES/DataStream, Bloomberg; Minack Advisors

Stargazer Asset Management

Election

After months of COVID dominating the news cycle, the media is starting to talk about the upcoming election again. The Republicans were holding in fairly well during the darkest days of the pandemic and as lockdowns were being lifted. However, the recent nationwide protests and unrest have done some real damage. I expect this to get really ugly and increase polarization further in the coming months.



In addition to the below we also have the Swiss National Bank and the Bank of England monetary policy decisions on Thursday. The SNB is expected to hold the course while the BoE is expected to add to its asset purchases.

Important Macro Data Releases and Events for the Week

Monday 6/15/2020	BoJ Interest Rate Decision and Monetary Policy Statement / Current: -.10%
Tuesday 6/16/2020	Harmonized Index of Consumer Prices YoY (May) Forecast: 0.5%, Prior: 0.5%
	ZEW Survey - Current Situation (Jun) Forecast: -84.8, Prior: -93.5
	ZEW Survey - Economic Sentiment (Jun) Forecast: 60, Prior: 51
	Retail Sales MoM (May) Forecast: 7.6%, Prior: -16.4%
	Retail Sales ex Auto MoM (May) Forecast: 5.1%, Prior: -17.2%
	Retail Sales Control Group (May) Forecast: 4%, Prior: -15.3%
	Fed's Chai Powell TESTIFIES
	Fed's Clarida SPEECH
Wednesday 6/17/2020	Consumer Price Index - in various forms
	Building Permits MoM (May) Forecast: 1.215m, Prior: 1.066m
	Housing Starts MoM (May) Forecast: 1.09m. Prior: .891m
	Fed's Chair Powell TESTIFIES
	European Council Meeting
Thursday 6/18/2020	Economic Bulletin REPORT

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

Stargazer Asset Management

		Initial Jobless Claims Forecast: 1.3m, Prior: 1.542m
		Initial Jobless Claims 4-week ave. Forecast: - , Prior: 2.002m
		Continuing Jobless Claims Forecast: -, Prior: 20.929m
		Monetary Policy Meeting Minutes
		European Council Meeting
Friday 6/19/2020		PPI MoM (May) Forecast: -0.3%, Prior: -0.7%
		Fed's Quarles SPEECH
		Fed's Chair Powell SPEECH