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What to focus on in Global Macro for the week of July 6th, 2020

Macro Themes on the Radar:

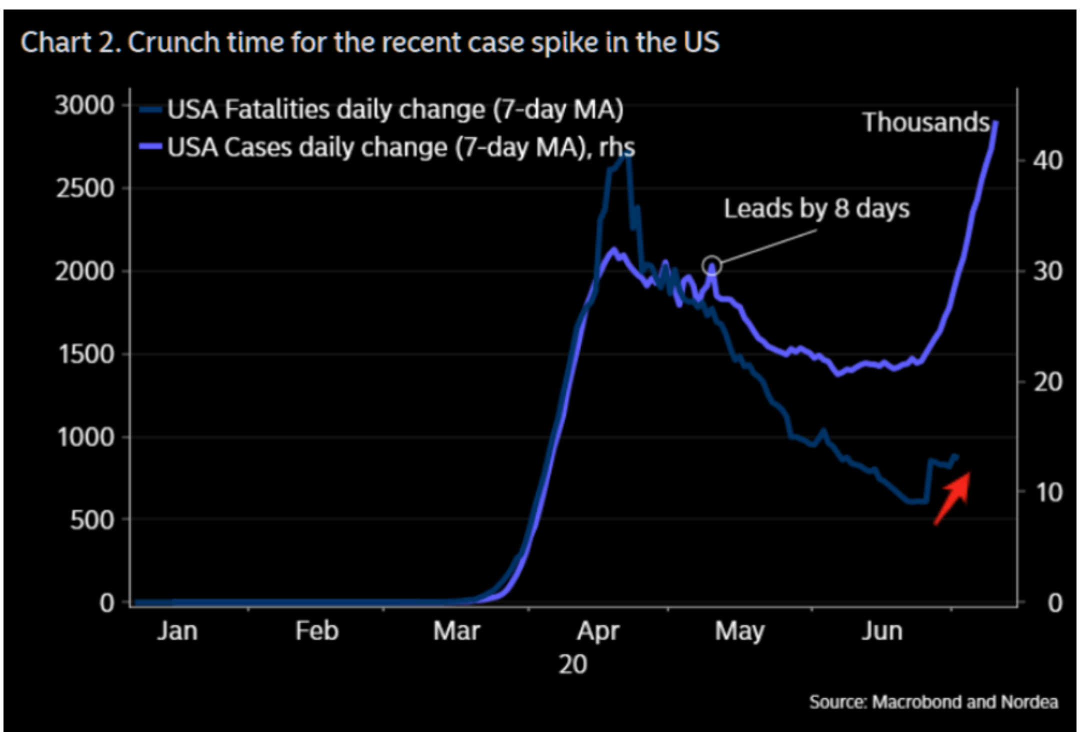
The recent spike in COVID cases hasn't mattered much to markets so far.

Potential good news:

- Some of the new cases likely from increased testing
- The average age of the newly infected is substantially lower (higher proportion <35)
- Older and more vulnerable seem to be protecting themselves
- Lower death rates are the result

Potential bad news:

- Death rates could rise dramatically in the near future as they tend to lag the outbreaks by two weeks.



Some of the higher frequency data is starting to show a flattening of the recovery. It is hard to know if that is a reaction to the new spike in cases or just a natural deceleration of the bounce off the lows.

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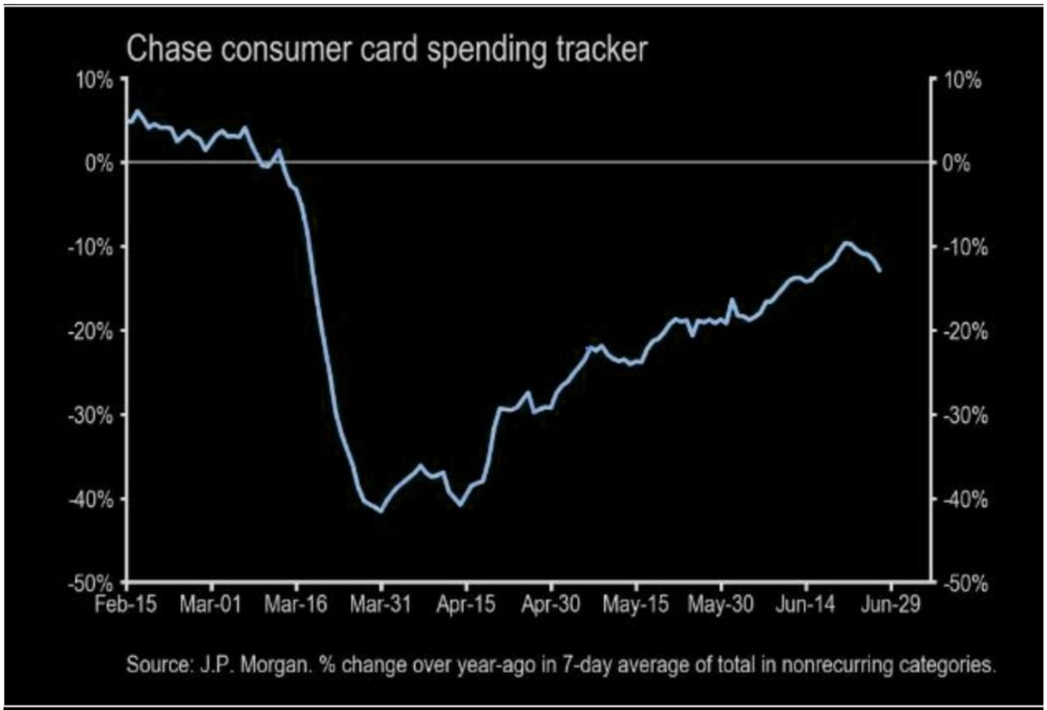
Consumer credit card spending has leveled off … are we seeing the unfolding of the 90% economy?



The rapid recovery in retail traffic is flattening out too.

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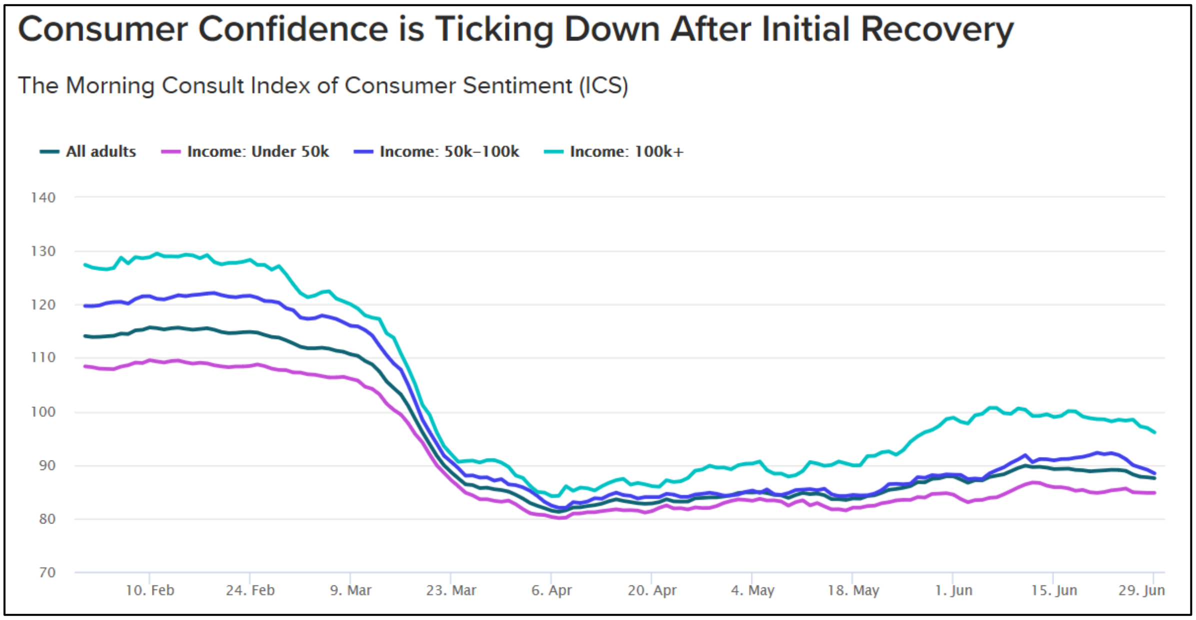
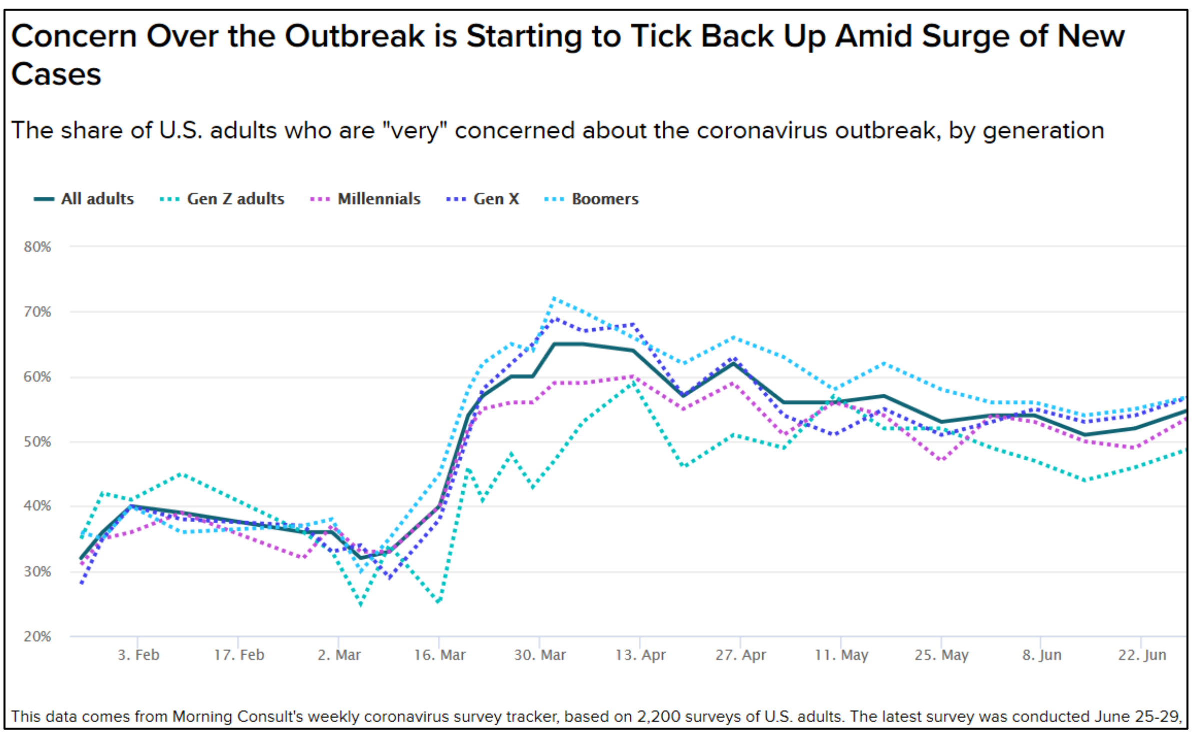
By some measures the bounce off the lows in consumer confidence is now stalling…



as concern over the rising number of new cases starts to tick up.



According to Morning Consult data from June 29th, consumer comfort levels with certain activities has ticked down for the first time in weeks.

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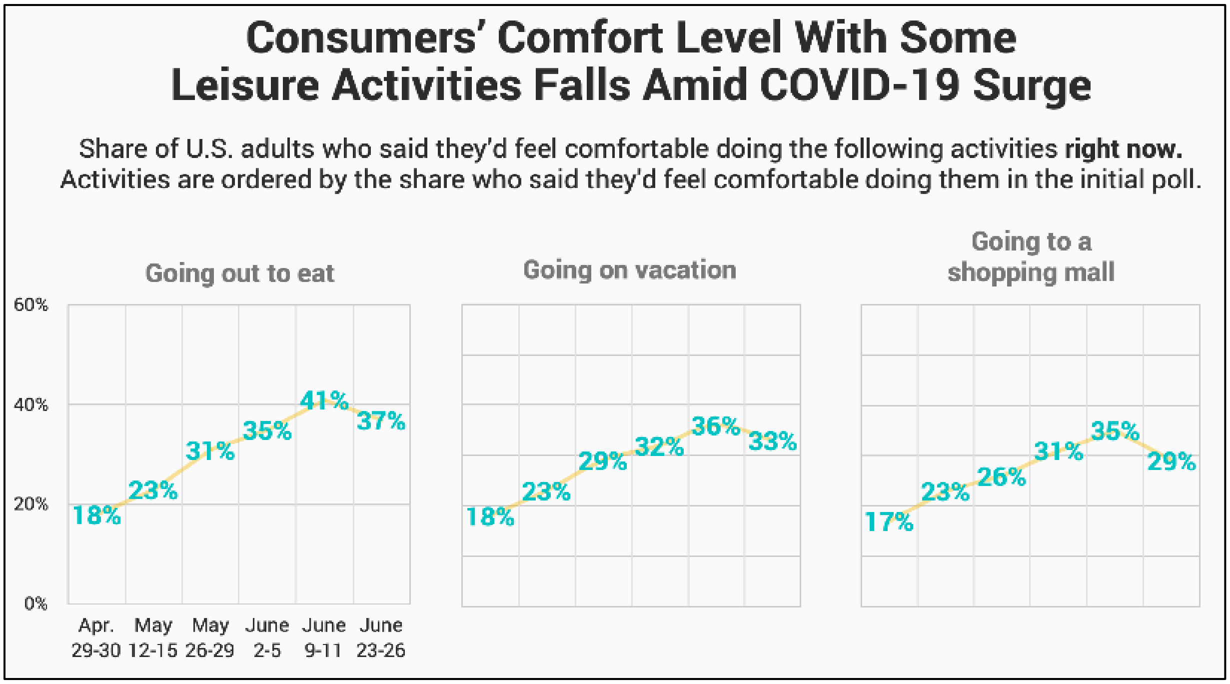
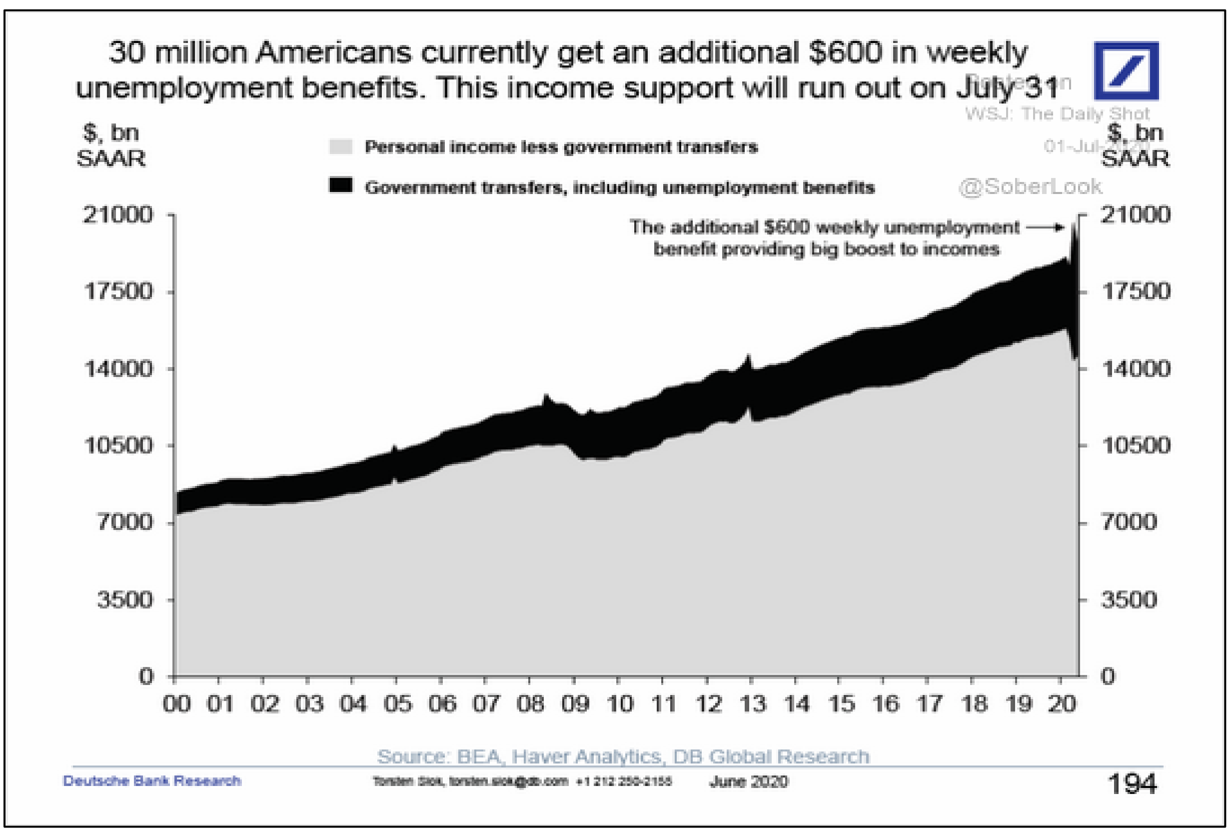
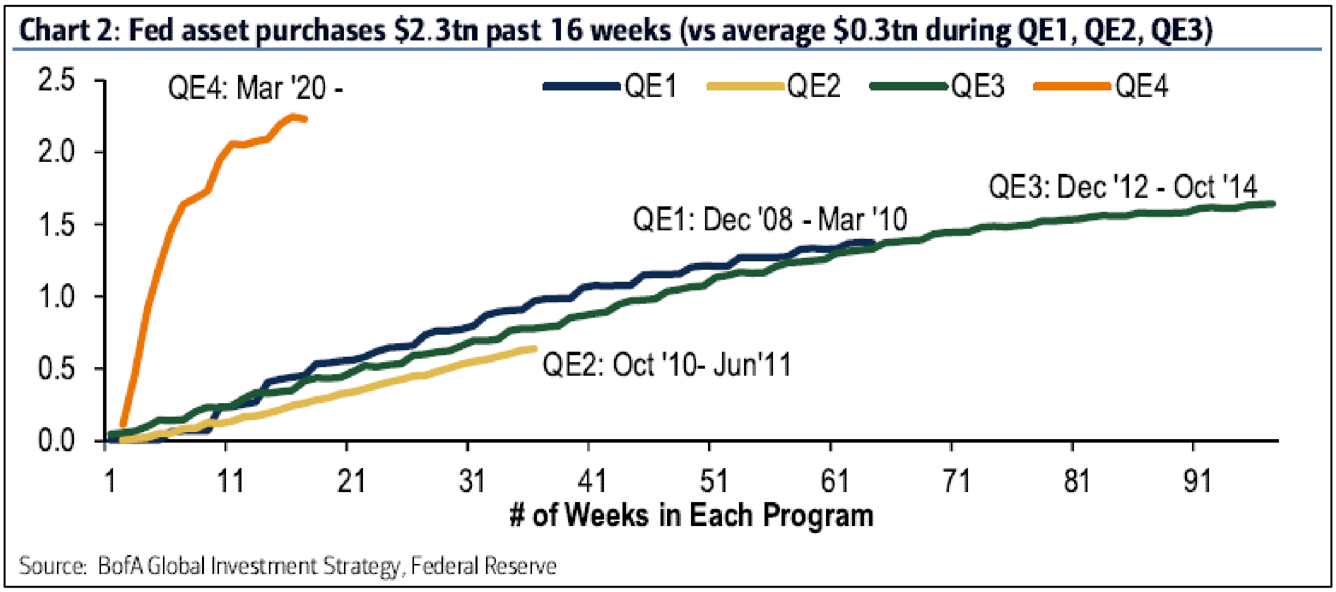


On the bright side, the government has had the consumers back… Compared to other recessions, unemployment benefits (boosted by the $600 COVID bonus) have vastly outweighed the loss of income from higher unemployment.

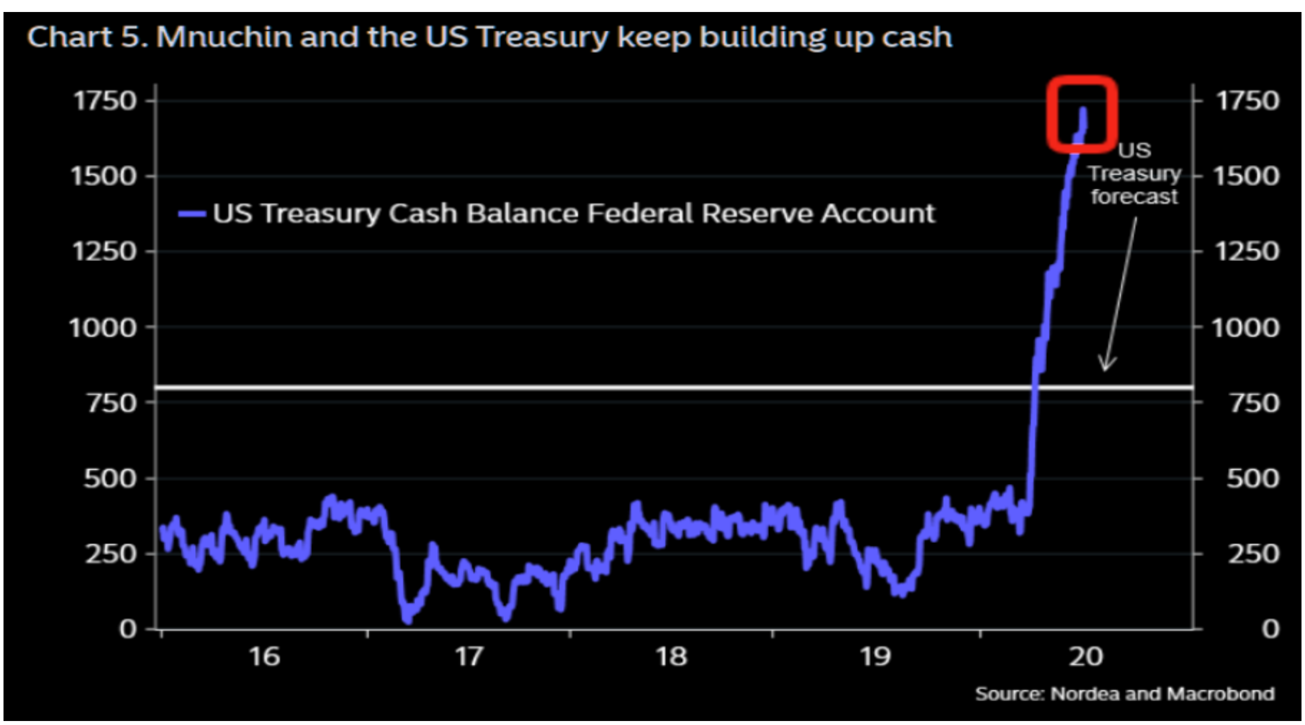


This fact has allowed consumer sentiment to hold up much better than you might expect, given the large number of unemployed.

Now add QE4 and the other forms of unprecedented stimulus and it quickly explains how markets can price a better outcome than the 30m unemployed would otherwise suggest.



In the meanwhile, the Treasury is further expanding its cash hoard. The TGA hit a new high this week. They will need to either slow borrowing or accelerate spending… soon.



What to Focus on Now:

US technology and healthcare have continued to lead.

Take them out and it makes a big difference.

Chart 5: if S&P500 was tech, healthcare, Amazon, Google = 4000 today

Source: BofA Global Investment Strategy, Bloomberg

And the leadership is more concentrated than ever.

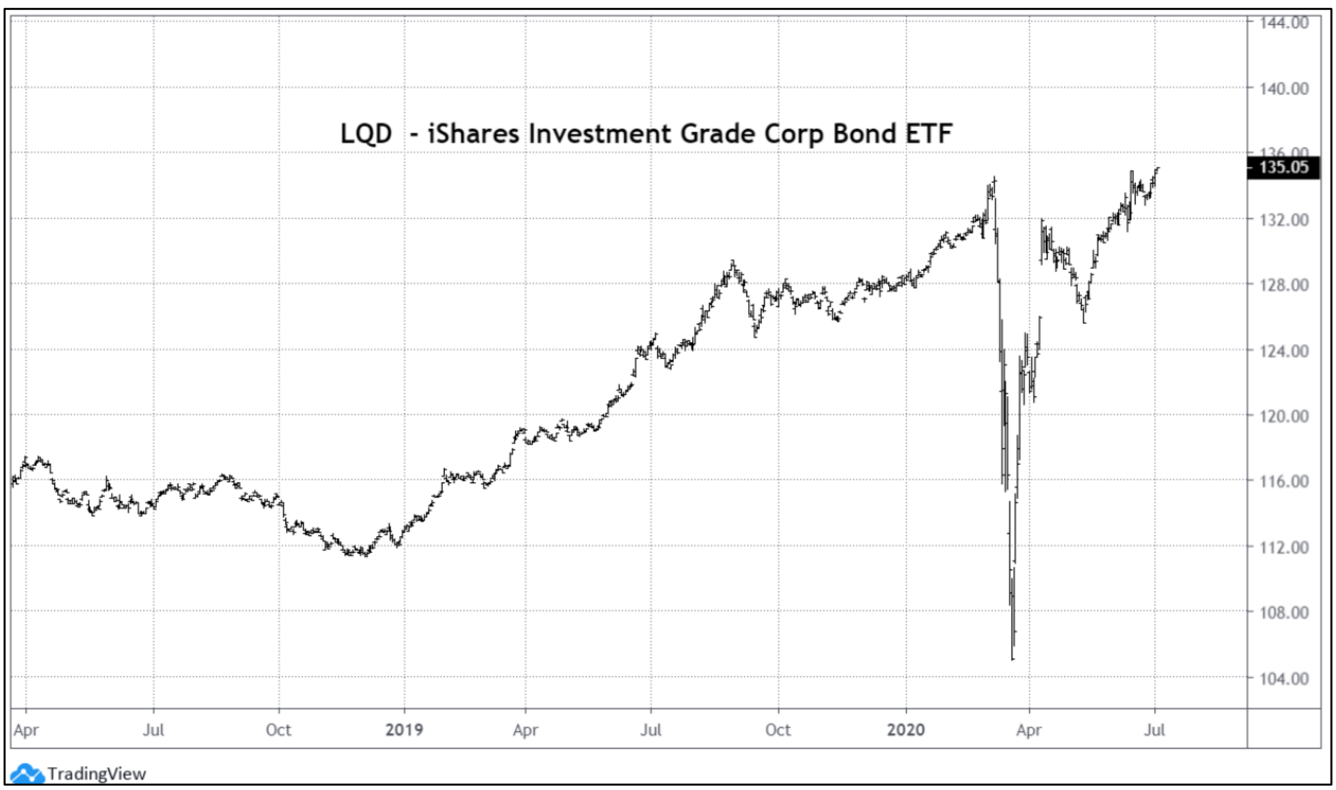
Chart 7: S&P500 more concentrated in the 5 largest stocks than ever

Source: BofA Global Investment Strategy, Bloomberg

The Charts

With the forward fundamentals hard to read, I'm focused on positioning and the flow of capital. This makes technicals especially important here as they are a way of visualizing the above. However, the extreme government intervention has introduced a lot of non-investment capital into the markets, capital that doesn't care about what price it is paying. Old relationships and correlations have either been broken or are shifting.

For example, the price of credit has lost its ability to provide information via the voting machine that is the market. The Fed is now the third largest holder of the largest credit ETF. The Fed has in effect bought the votes. While this tells us a lot about what the Fed is willing to do, it no longer allows prices to pass on any information about the actual ex-Fed underlying conditions. Of course, this is exactly what they are trying to achieve, at least for now. Price discovery is hobbled.



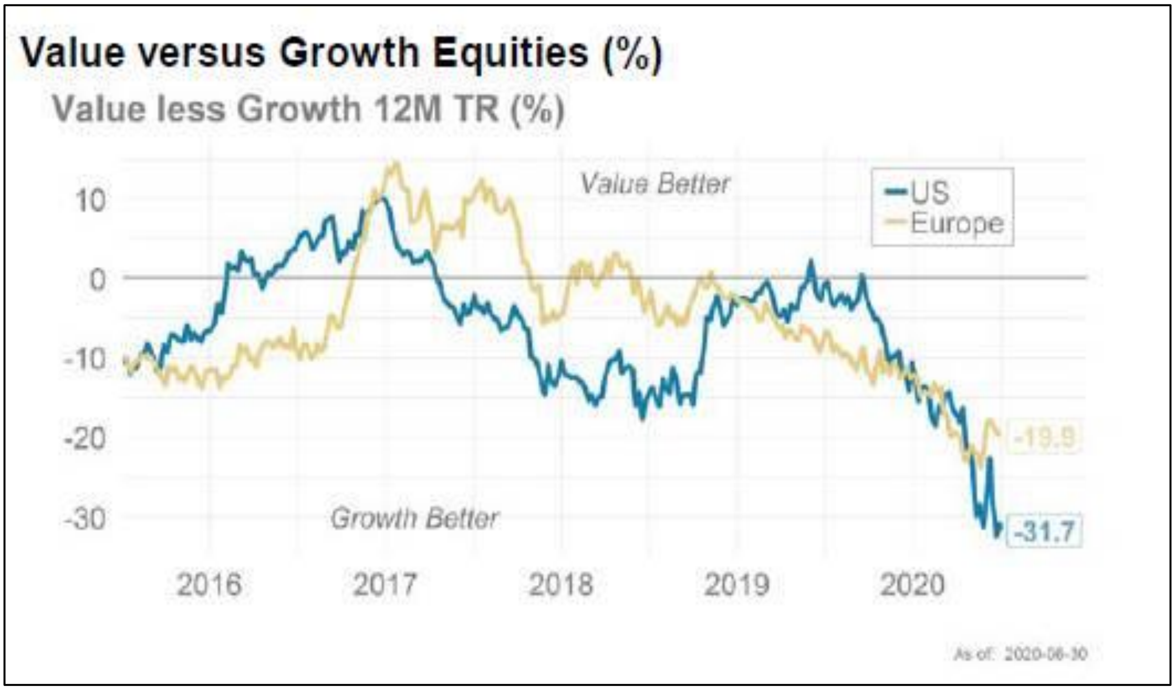
We are potentially seeing the same thing in bonds vs. equities…

Although US equities have exploded higher off the March lows, bonds have barely moved. Some would argue that bonds reflect the grim economic fundamentals while equities reflect the money that is being printed.

However, we could just as easily argue that NIRP abroad and zero rates in the US, for potentially years to come, means that bonds are too attractive to be sold here. Add to that all the global QE that is absorbing the issuance and what do you expect? Monetary Financing.

As per the technology outperformance, this chart really shows how extreme things have gotten… some sectors have been huge beneficiaries, while other sectors born the consequences.

Value had a short-lived bounce a few weeks back, but without the tailwind of a further fall in the USD, or rising bond yields, it has been difficult to maintain.



And US Growth (tech) has quickly gone back to the highs vs. the World ex-US.

While tech is now meaningful in the S&P500 it has not been able to keep up with the NASDAQ given all the "dead weight" from the other names. Back to the highs and pushing on.

EM has been holding up well on a relative basis… I'll be watching for signs of acceleration. A weaker USD would obviously help.

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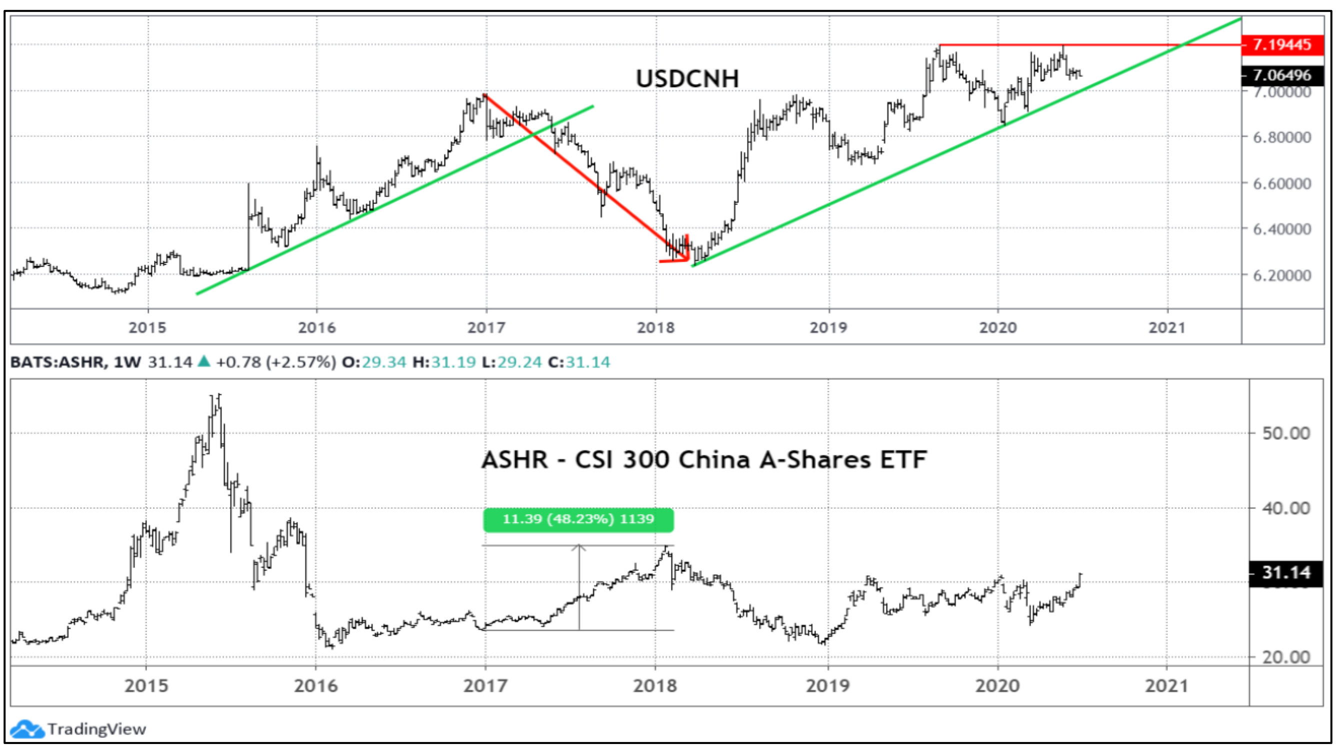
China

With the large weighting that greater China has in most EM indices, this week's breakouts are notable. Given the HK tensions and foreign relations issues China is facing, the price action is a bit surprising. Is this just another case of government intervention? Or a Biden win being priced?

The China A shares ETF is trying to crack the top of its two-year range… momentum breakout.

Again, a weaker USD would help.

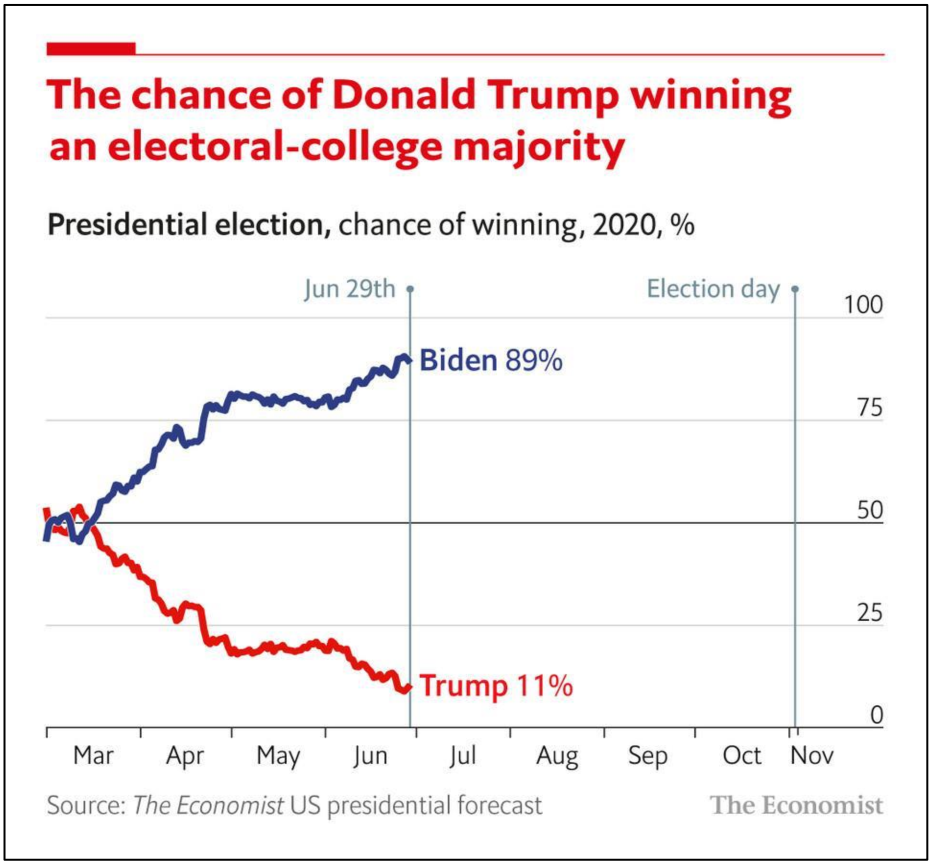


FX - Still no decisive break in the USD …

While we wait for a clearer sense of direction in the dollar, it is worth watching some of the crosses. EURGBP is now sitting on trend support, threatening EUR underperformance vs. GBP, should it crack. Brexit news has been poor as a hard exit is looking increasingly likely, at the same time we have seen potentially better news for the EU via the Recovery Fund. All of which makes a break lower, should we get it, more interesting.

US Election

With lots of poles now saying that Biden has a growing lead lets remember that there could still be plenty of stealth Trump supporters out there, potentially leading to a surprising election result. The better metric and arguably the only one that matters, is the electoral college. Here *The Economist* had an interesting chart (although I can't attest to their methodology).



Important Macro Data Releases and Events for the Week

Monday 7/06/2020	Factory Orders s.a. MoM (May) Forecast: 15%, Prior: -25.8
	Retail Sales YoY (May) Forecast: -7.5%, Prior: -19.6%
	Markit Services MoM (May) Forecast: 46.7 Prior: 46.7
	Markit PMI Composite (May) Forecast: 46.8, Prior: 46.8
	ISM Non-Manufacturing PMI (Jul) Forecast: 49.5, Prior: 45.4

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- ISM Non-Manufacturing New Orders Index (Jul) Forecast: 44, Prior: 41.9
- ISM Non-Manufacturing Employment (Jul) Forecast: 30.7, Prior: 31.8
- ISM Non-Manufacturing Prices Paid (Jul) Forecast: 53.9, Prior: 55.6

Tuesday
7/07/2020

- RBA Interest Rate Decision and Statement / Current .25%
- Leading Economic Index (May) Forecast: 73.2, Previous: 77.7
- Industrial Production s.a. MoM (May) Forecast: 10%, Prior: -17.9%
- Ivy Purchasing Managers Index s.a. (Jun) Forecast: 25.1, Prior: 39.1
- Fed's Quarles SPEECH

Wednesday
7/08/2020

- ECB's De Guindos SPEECH

Thursday
7/09/2020

- Eurogroup Meeting
- CPI YoY (Jun) Forecast:2.5%, Prior: 2.4%
- Trade Balance s.a. (May) Forecast: EUR 10B Prior: EUR 3.2B
- Initial Jobless Claims Forecast: 1.375m, Prior: 1.427m
- Initial Jobless Claims 4-week ave. Forecast: - , Prior: 1.503m
- Continuing Claims Forecast: - , Prior: 19.29m

Friday
7/10/2020

- EcoFin Meeting
- PPI ex Food & Energy YoY (Jun) Forecast: 0.5%, Prior: 0.3%
- Unemployment Rate Forecast: 11.9%, Prior: 13.7%
- Net Change in Employment (Jun) Forecast: 675k, Prior: 289.6k

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