Stargazer Asset Management

What to focus on in Global Macro for the week of January 27th, 2020

Macro Themes on the Radar:

ECB (Last week)

Not much new out of the ECB last Thursday. They covered their newly initiated "strategic review" in broad strokes, while omitting any interesting details. Yes, as expected they will focus on price stability. What should the inflation target be? How do they get there? What have the current policies yielded and what other options exist? We won't get any answers for a while

Lagarde noted that there had recently been moderate improvement on both the inflation and economic fronts. For the foreseeable future they will remain "highly accommodative".

With regard to fiscal policy, she restated that governments with the room to increase spending should be prepared to do so. (You know who you are.)

She defended her call to make climate change a priority for the Central Bank. There has been criticism that this falls outside of the mandate for Central Bankers and would be distracting to policy makers.

FOMC (This week)

This week's meeting will be all about the messaging as rates are expected to be left where they are.

What to watch for:

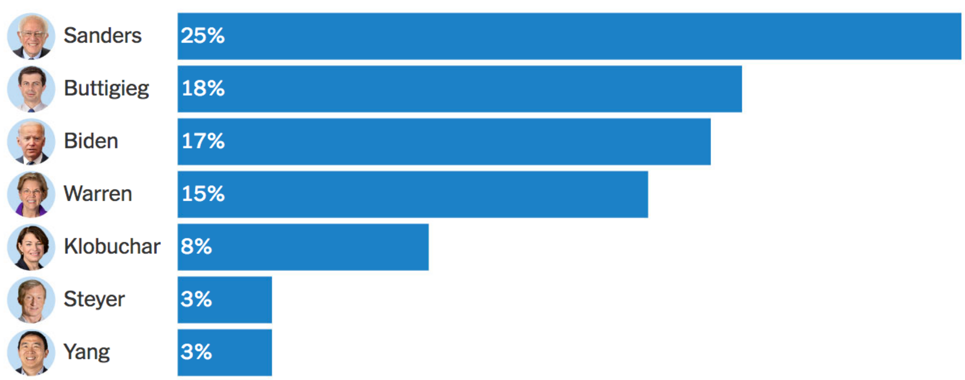
- Economic outlook and what they are watching now. (Coronavirus on radar now?)
- Expectations for rates.
- Comments on Inflation. While in theory they have a symmetrical policy around the 2% inflation target, recently the narrative has been decidedly asymmetric as they have talked about the need to let inflation run hot to make up for the undershoot in recent years.
- Repo/Liquidity Add – What are expectations for duration and magnitude. Long-term fix?
- Financial stability concerns and the connection (real or perceived) between large liquidity additions and the recent US equity market rally.

- Fiscal spending and the already large deficit. (Does Trump's proposed additional tax cut for the middle class get a mention?)

US Election – Sanders Gains Ground

A new Iowa poll shows Bernie Sanders in the lead.

Which of these Democrats would be your first choice in the Iowa caucuses?



Note: Candidates who polled below 3 percent are not shown in this chart. • Source: New York Times/Siena College poll conducted Jan. 20-23.

Interestingly, PredictIt has his probability of winning the nomination also rising.

Who will win the 2020 Democratic presidential nomination?

Contract	Latest Yes Price		Best Offer			Best Offer
Bernie Sanders	40¢	2¢ ▲	41¢	Buy Yes	Buy No	60¢
Joe Biden	33¢	1¢ ▼	35¢	Buy Yes	Buy No	66¢
Michael Bloomberg	15¢	2¢ ▲	15¢	Buy Yes	Buy No	86¢
Elizabeth Warren	7¢	2¢ ▼	8¢	Buy Yes	Buy No	93¢
Andrew Yang	7¢	1¢ ▲	8¢	Buy Yes	Buy No	93¢
Pete Buttigieg	5¢	NC	6¢	Buy Yes	Buy No	95¢

This potential outcome has not been priced by the markets yet.

Coronavirus – What matters?

Mortality rates and how easily it is spread. For comparison, the 2003 SARS mortality rate was in the 7-10% zone. The 1918 Spanish Flu was in the 10-20% mortality range. So far, this coronavirus outbreak looks to be running at about 3%, although it may be too early to tell.

The WHO monitors how contagious an infectious disease is using its Ro figure. Pronounced "R naught", Ro tells you the average number of people who will be infected by one contagious person. Current estimates for the coronavirus are 1.4-2.5, so far, though some scientists see it higher. The common flu is in the 0.9-2.1 range, while the Spanish flu was 1.4-2.8.

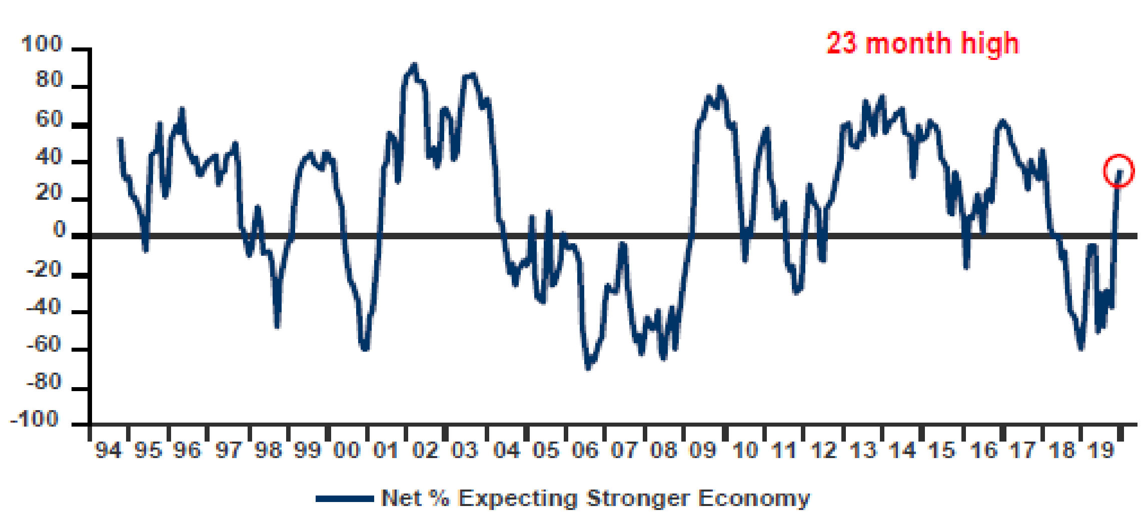
We should learn a lot more next week regarding both these metrics.

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

State of the Markets

Central Banks were quick to stimulate as economic expectations deteriorated. The PMI's have stabilized for the most part and the hard data, while a bit mixed, is holding up. As stocks have rallied, market participants have become more optimistic on global growth.

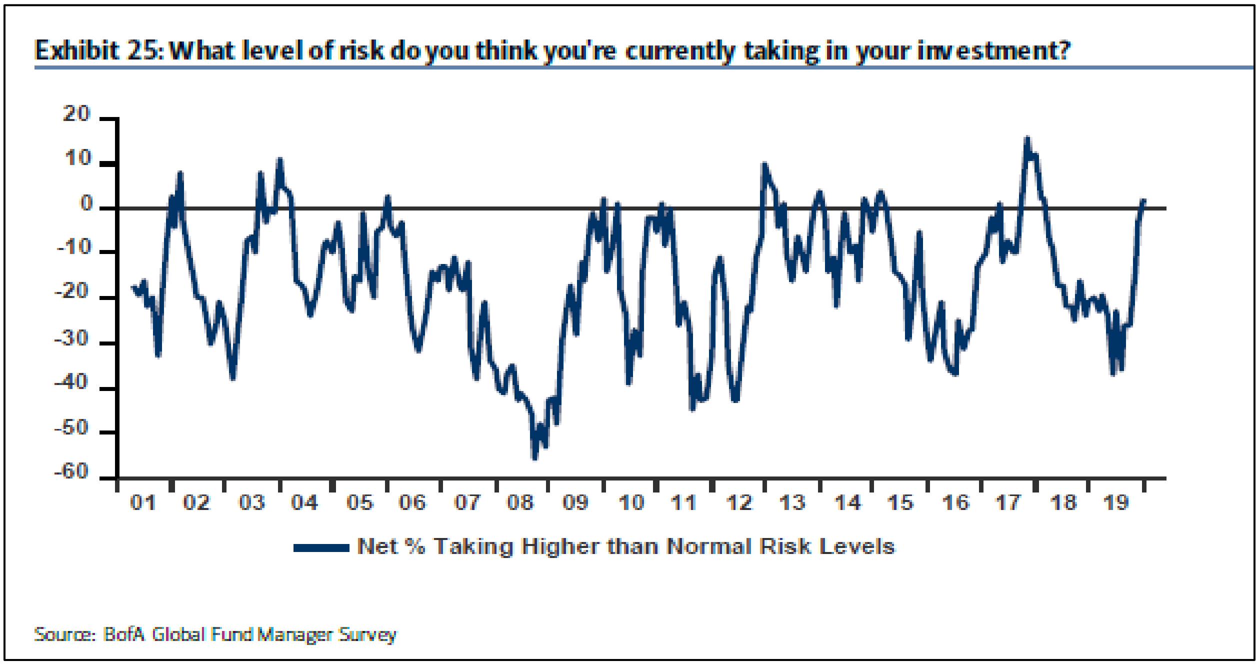
Exhibit 20: How do you think the global real economy will develop over the next 12 months?



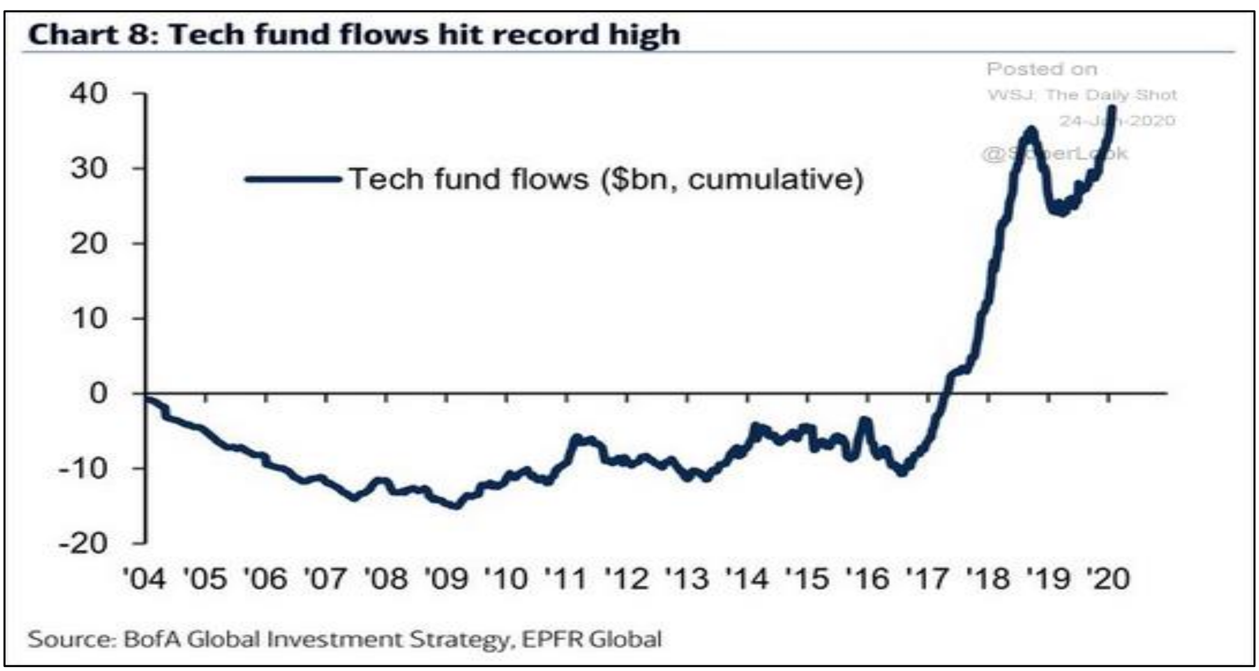
Source: BofA Global Fund Manager Survey

Investors have also been taking more risk. Certainly, the positive feedback loop of reflexivity is at work here. It is amazing how sentiment has shifted over the last few months.

From absolute gloom and doom (Global Trade, US Corporate Credit, Inverted yield curve, etc.) to all clear and full on FOMO.

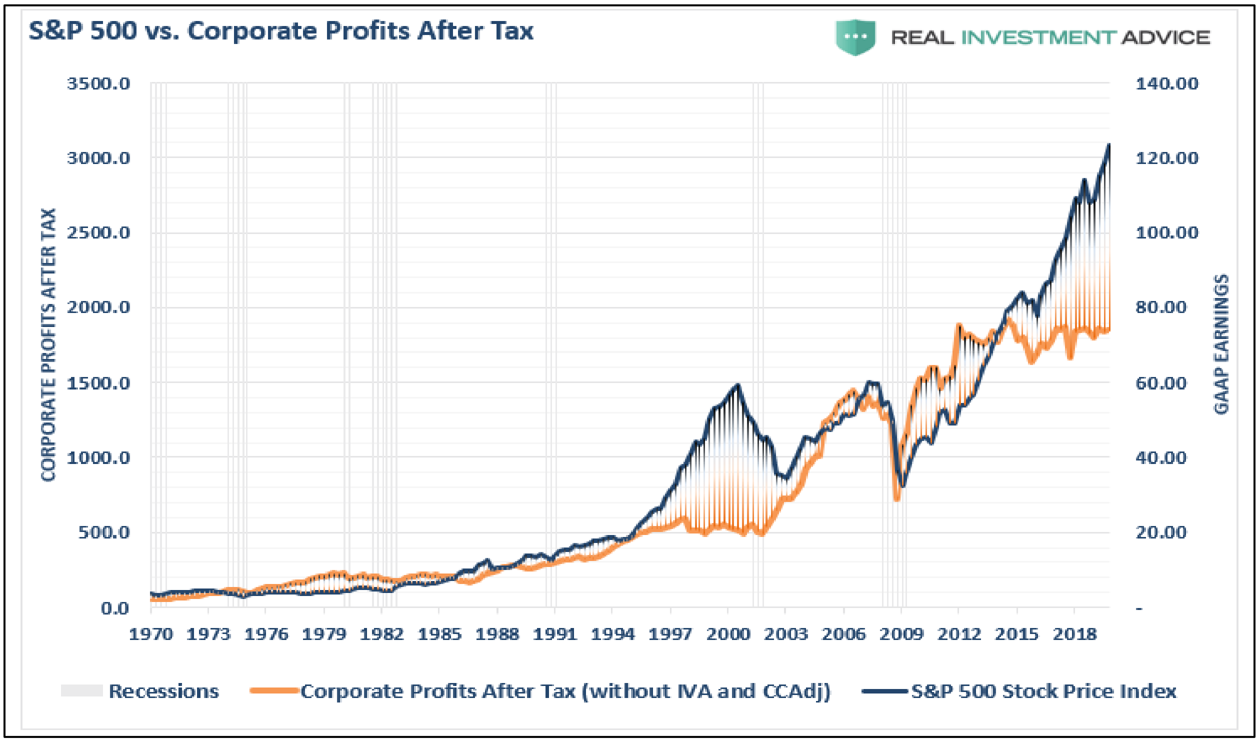


As money has continued to pour into Technology stocks, people are starting to draw parallels to early 1999.



There are certainly some similarities:

- Inflation was low (about the same level as now)
- Dollar was firm
- NASDAQ was the outperformer
- Corporate Profits (not EPS) were diverging from equity prices



... lots of difference too however:

- Fed Funds were 300 bps higher than now. Fed started to hike early '99 and kept going until mid-2000
- US had a budget surplus, vs. the current 5% deficit
- Retail is not nearly as excited or involved (quit your job to become a day trader)
- No "infinite upside" technology being priced (Unless you think AI and ML are)
- CRB started explosive rally in early '99

Some would argue that although we are lacking the euphoria and retail participation, the current mix of monetary and fiscal policy is much more stimulative than in 1999.

The Fed has gotten itself into a real pickle here... and they are starting to worry about it.

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Whether it's the continued large flow into passively managed funds or a "just stick with the winners" mentality, the biggest technology names are currently running the show.

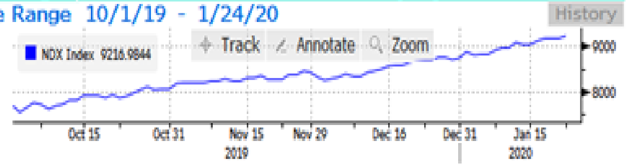
The boxed colum below shows what percentage of the NDX move, since Oct. 1st of last year, is attributable to each name. The top ten names account for nearly 70% of the move. Just AAPL and MSFT together, a wopping 35.91%.

NDX C 9216.984 +28.409
On 23 Jan O 9186.138 H 9221.126 L 9145.232 Prev 9216.984

NDX 2019/10/1-2020/1/24 | News | Export | Settings | Equity Index Movers

Group By None | Date Range 10/1/19 - 1/24/20 | History

Start	7749.45	End	9216.98
Net Chg	+1467.54	% Chg	+18.94%
Current	110	#Up	100
Additions	7	#Down	10
Removals	7	#Unch	0



Leaders

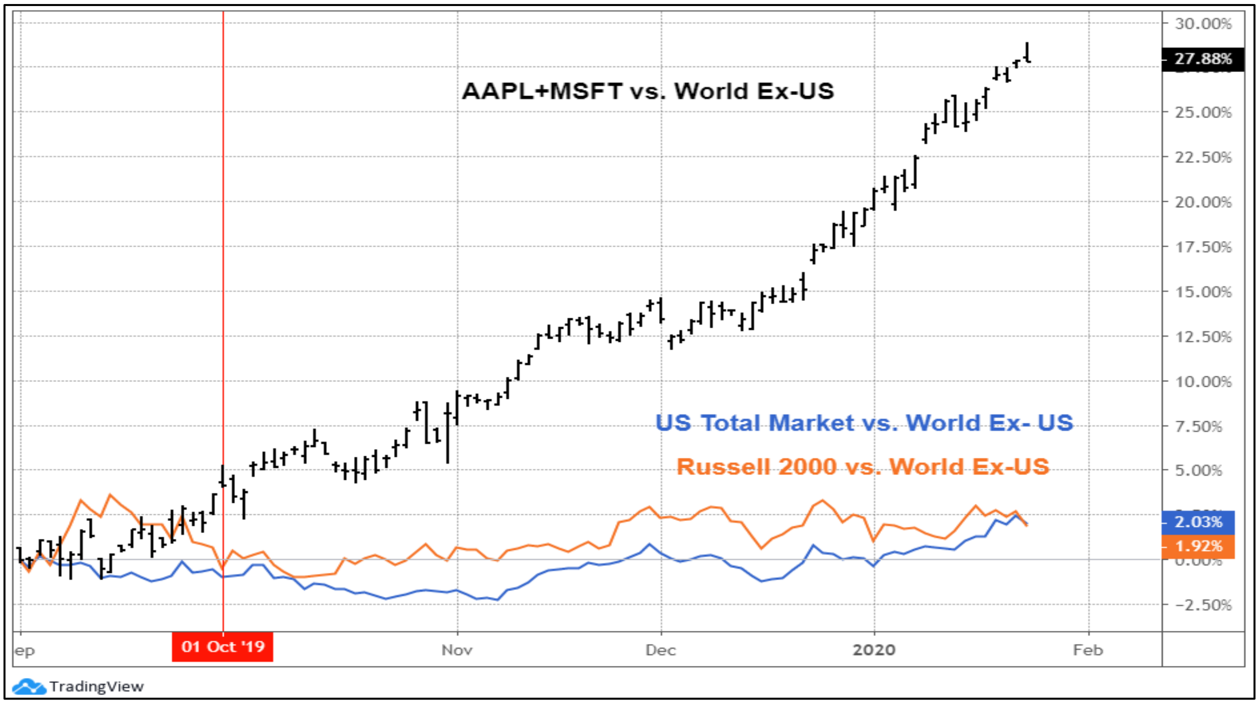
	Ticker	End Prc	% Chg	Points	%Idx Mv
1.	AAPL UW	319.23	+42.96%	+350.758	+23.90%
2.	MSFT UW	166.72	+20.32%	+176.315	+12.01%
3.	FB UW	219.76	+23.41%	+82.722	+5.64%
4.	GOOG UW	1486.65	+21.96%	+74.959	+5.11%
5.	GOOGL UW	1484.69	+21.58%	+69.277	+4.72%
6.	AMZN UW	1884.58	+8.56%	+58.806	+4.01%
7.	TSLA UW	572.20	+137.56%	+57.252	+3.90%
8.	INTC UW	63.32	+23.56%	+50.747	+3.46%
9.	NVDA UW	252.86	+45.37%	+45.361	+3.09%
10.	ADBE UW	351.76	+27.33%	+34.849	+2.37%
11.	NFLX UW	349.60	+30.63%	+33.816	+2.30%
12.	AMGN UW	235.04	+22.27%	+23.810	+1.62%
13.	AMD UW	51.71	+78.37%	+23.677	+1.61%
14.	CHTR UW	513.14	+24.51%	+21.067	+1.44%
15.	QCOM UW	92.00	+21.54%	+18.552	+1.26%
16.	AVGO UW	319.65	+16.96%	+17.398	+1.19%
17.	MU UW	59.20	+38.16%	+17.128	+1.17%
18.	PYPL UW	117.89	+13.80%	+16.307	+1.11%

Laggards

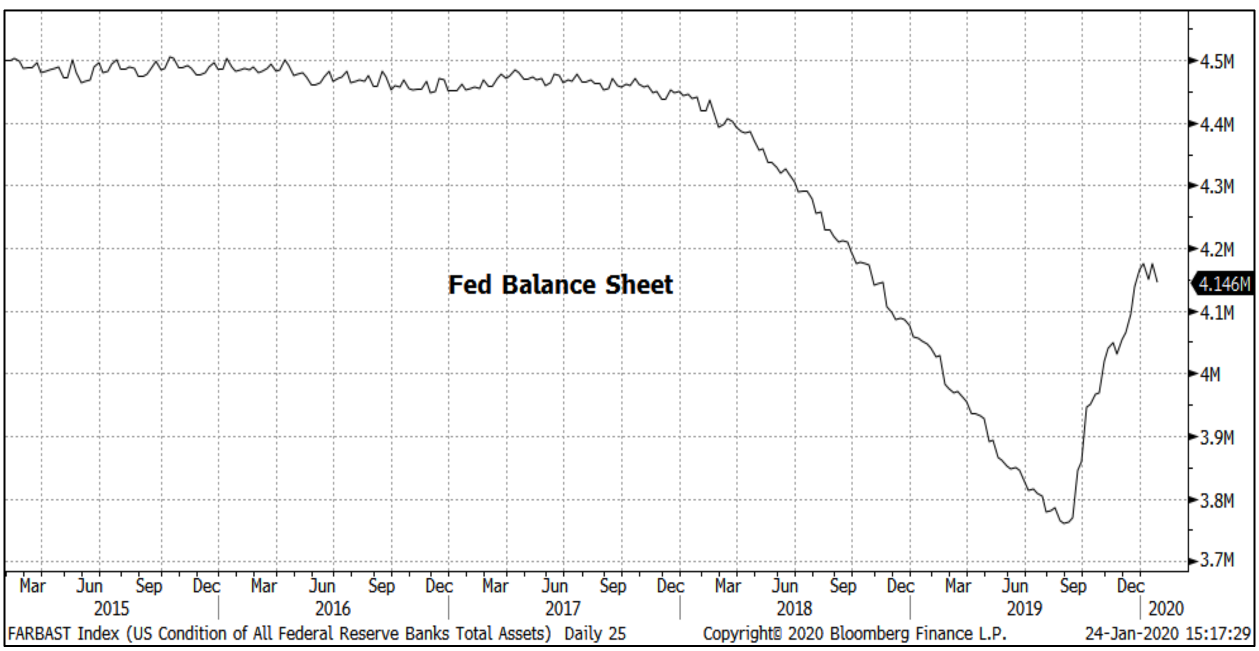
	Ticker		End Prc	% Chg	Points	%Idx Mv
1.	DLTR UW		87.94	-22.97%	-5.876	-0.40%
2.	EXPE UW		113.73	-15.08%	-2.546	-0.17%
3.	EBAY UW		35.61	-8.29%	-2.535	-0.17%
4.	LBTYK UW		19.31	-18.83%	-1.969	-0.13%
5.	HAS UW	-	103.59	-12.12%	-1.674	-0.11%
6.	WBA UW		53.30	-2.92%	-1.531	-0.10%
7.	UAL UW		84.88	-3.99%	-0.897	-0.06%
8.	LBTYA UW		20.26	-18.16%	-0.807	-0.05%
9.	CDW UW	+	138.73	-3.61%	-0.738	-0.05%
10.	SGEN UW	+	115.35	-1.65%	-0.329	-0.02%
11.	MYL UW	-	19.79	+0.05%	+0.010	+0.00%
12.	TTWO UW		129.07	+2.98%	+0.431	+0.03%
13.	HSIC UW	-	66.66	+4.98%	+0.435	+0.03%
14.	MDLZ UW		55.44	+0.74%	+0.591	+0.04%
15.	JBHT UW	-	116.72	+5.71%	+0.629	+0.04%
16.	INCY UW		78.24	+5.40%	+0.649	+0.04%
17.	AAL UW		28.80	+7.13%	+0.791	+0.05%
18.	CHKP UW		115.51	+5.49%	+0.883	+0.06%

As the money piles into passive indices, the funneling effect is astounding. The performance of the NASDAQ leaders is leaving the broader indices like the Total Market Index (3510 names) and the Russell 2000 in the dust.

For all the talk about US outperformance, it is the top names in the NASDAQ that are doing all the heavy lifting at the moment.

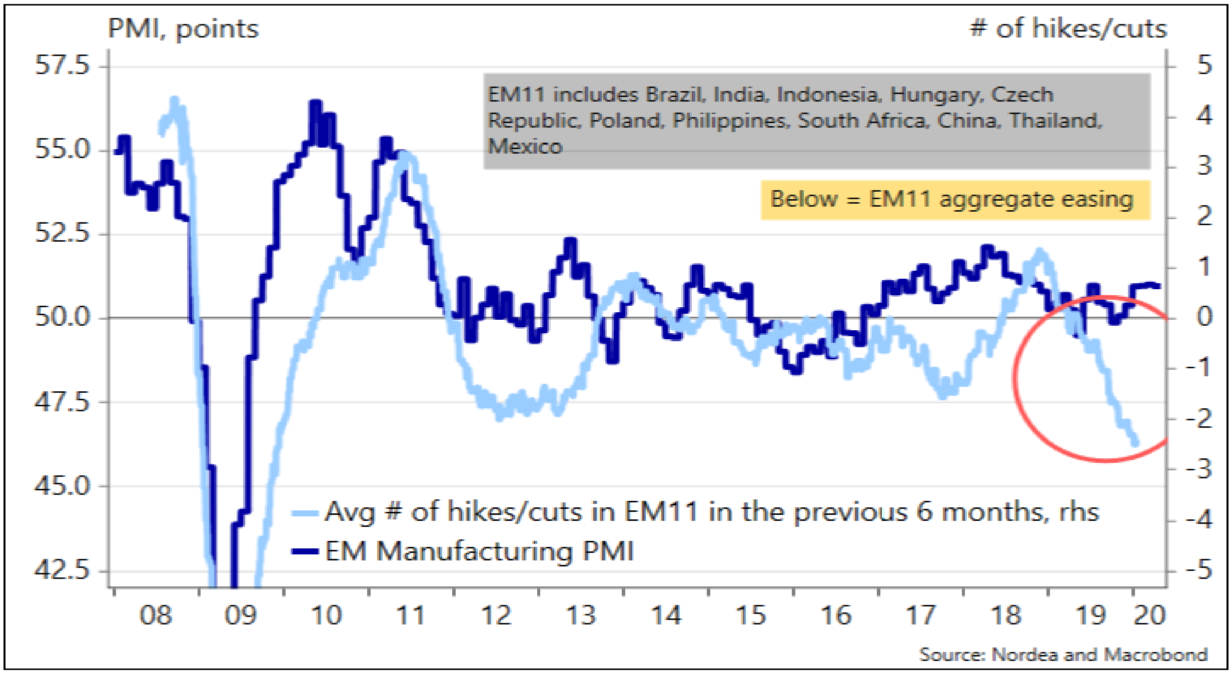


Although it is hard to comprehend the mechanics, the market finds the timing of the large Fed liquidity add to be too much of a coincidence. "Not QE" is being given the credit. It feels a lot like a short squeeze to me (too many people were bearish or underweight and it didn't go down). As you know prices can move on a good story; it doesn't have to be true.



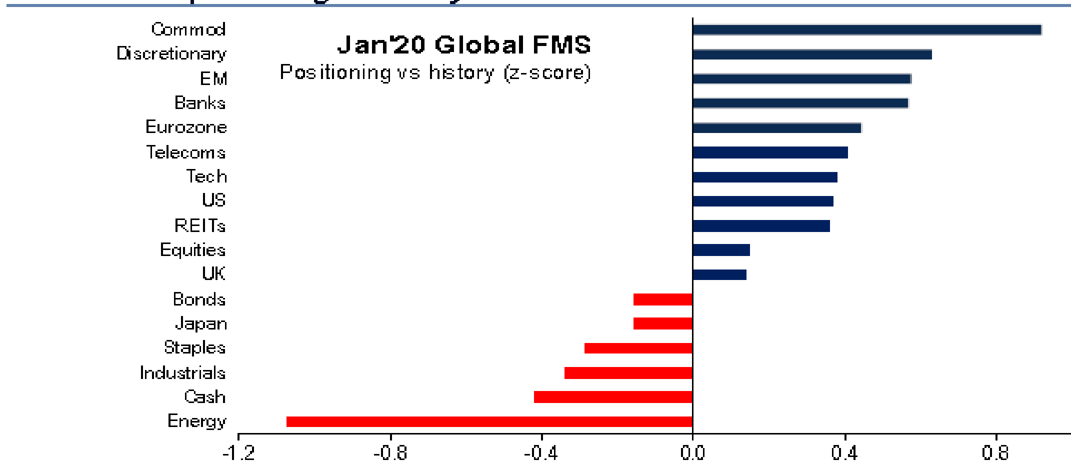
Reflation Trade: EM and USD

EM Central Banks have been as busy easing as their Developed Markets colleagues.



With all the global CB stimulus, the market has been looking for a round of reflation and a pop in global growth. A weaker USD would help in the effort. and potentially create a virtuous feedback loop. Investors have been positioning themselves accordingly.

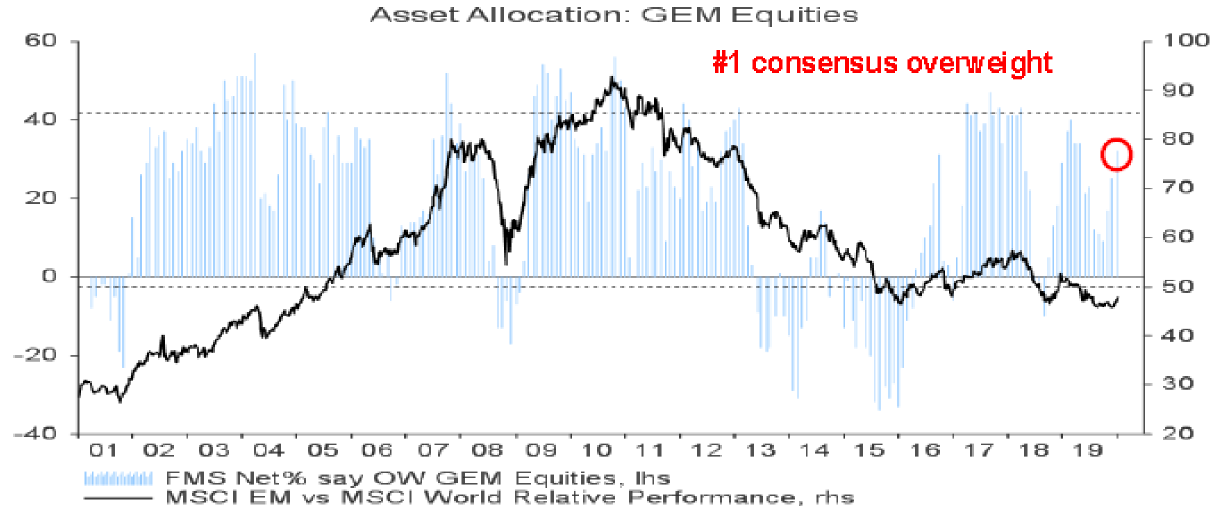
Exhibit 8: FMS positioning vs. history



Source: BofA Global Fund Manager Survey

EM, Commodities and even Eurozone, are all one global growth trade.

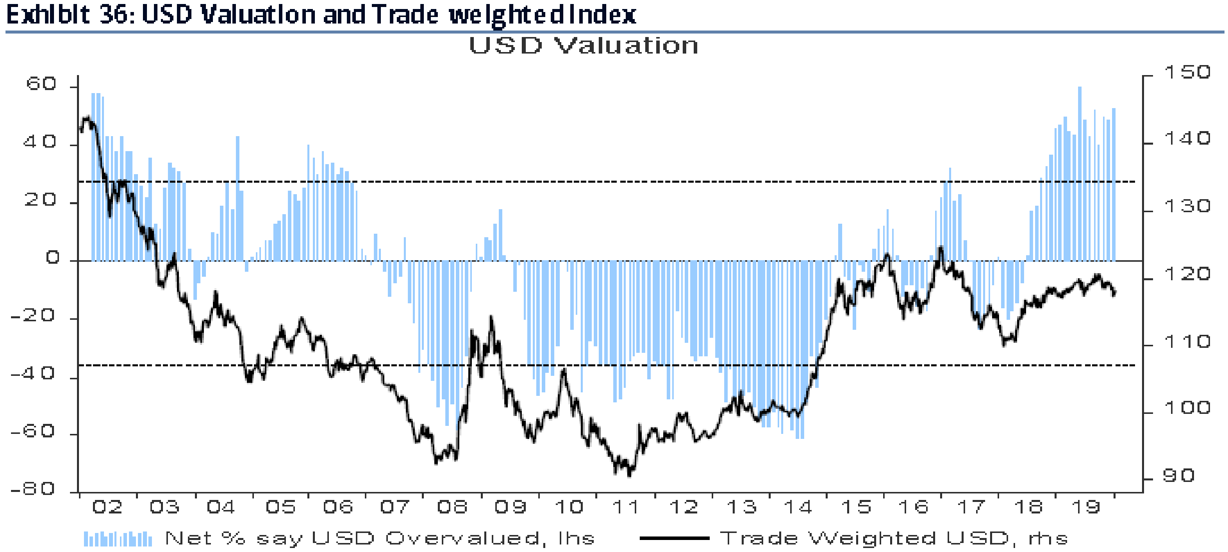
Exhibit 39: Net % AA Say they are overweight GEM Equities



Source: BofA Global Fund Manager Survey

However, at least so far, the key missing ingredient has been a steadily weakening USD. To be sure there has been some weakening, especially in selected EM currencies, just not enough. There has been little satisfaction for a market that continues to believe the USD is overvalued.

Exhibit 36: USD Valuation and Trade weighted Index



Source: BofA Global Fund Manager Survey

In recent days, as Coronavirus fears have risen, cracks are appearing in the reflation trade. Commodities, led by oil and copper, have quickly fallen as markets fear global growth will take a hit from the quickly spreading virus.

The dollar has popped higher as bonds have started to rally again.

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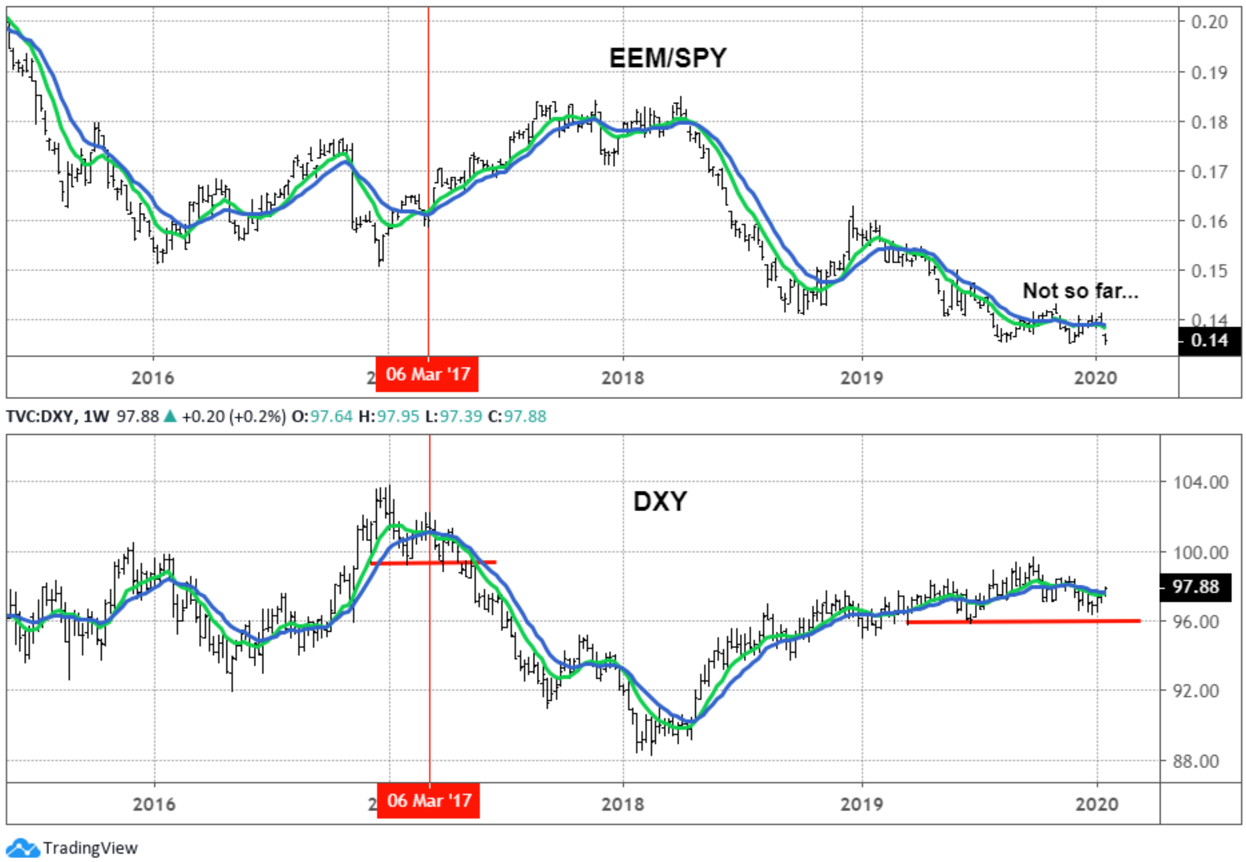
While people have been looking for USD weakness, as the Fed stays very easy or even cuts rates further, the expected interest rate differential has not been the driver. Rather, the overall direction of the dollar has been much more in tune with reflationary expectations. Falling bond yields have been in step with a rising dollar and vice versa as we price reflation-on, reflation-off.

This has been especially true vs. the EUR, a large component in the DXY and all trade weighted dollar indices.

Against EM and some of the Commodity currencies, the dollar weakness has been more pronounced over the last two months. However, it is rare for EM and DM to diverge too much from each other as an overall USD regime tends to rule the price action at any given time.

<u>The dollar is important here.</u> As noted above, people are positioned for a weaker USD, and this development is requirement for a meaningful reflationary outcome in my view. A dollar weakness can fuel a virtuous cycle, leading not only to a rally in EM but to actual outperformance.

Note how EEM did relative to the SPY in 2017 as the dollar fell. So far, no sign of that type of price action yet.



Renewed strength now in the USD, and the reflationary thesis will be in danger of crumbling or at least being on hold for the time being.

If Coronavirus concerns dissipate and global growth and PMI's start to gain traction, it is likely to only be a pause that has forced out some of the positioning. We are at a decision point and the USD can help you determine which way the situation is likely to resolve.

<u>Actionable Trades and Developments:</u>

<u>Equity Indexes:</u> Cut EM longs for now. The dollar bid and downward pressure on commodities are concerning. Waiting to see what if anything the outside reversal in NDX on Friday develops into.

<u>Fixed Income:</u> Long June 98.50 Eurodollar calls.

<u>Commodities:</u> Still like Gold big picture but sidelined for now. Platinum had a major long-term breakout.

<u>Currencies:</u> No FX positions at the moment.

Stargazer
Asset Management

Important Macro Data Releases and Events for the Week

Monday 1/27/2019	IFO - Business Climate (Jan) Forecast: 97, Prior: 96.3
	IFO - Current Assessment (Jan) Forecast: 99.4, Prior: 98.8
	IFO - Expectations (Jan) Forecast: 95, Prior: 93.8
	New Home Sales MoM (Dec) Forecast: 0.725 M, Prior: 0.719 M
Tuesday 1/28/2019	Durable Goods Orders (Dec) Forecast 0.4%, Prior: -2.1%
	Durable Goods Orders ex Transportation (Dec) Forecast 0.1%, Prior: -0.1%
	Durable Goods Orders ex Defense (Dec) Forecast 0.5%, Prior: 0.7%
	Non-Defense Capital Goods Orders ex Aircraft (Dec) Forecast 0.2%, Prior: 0.1%
	S&P/Case-Shiller Home Price Indices YoY (Nov) Forecast: 2.4%, Prior: 2.2%
	Consumer Confidence Forecast: 128, Prior: 126.5
Wednesday 1/29/2020	Gfk Consumer Confidence Survey (Feb) Forecast: 9.8, Prior: 9.6
	ZEW Survey - Expectations (Jan) Forecast: - , Prior: 12.5
	Pending Home Sales MoM (Dec) Forecast: 0.3%, Prior: 1.2%
	FOMC Statement, Interest Rate Decision and Press Conference
Thursday 1/30/2020	KOF Leading Indicator (Jan) Forecast: 96.5, Prior: 96.4
	Unemployment Rate s.a. (Dec) Forecast: 5%, Prior:5%

- Unemployment Change (Dec) Forecast: -11k, Prior: 8k
- Harmonized Index of Consumer Prices YoY (Jan) PREL Forecast: 1.7% Prior: 1.5%
- Business Climate (Jan) -0.26, Prior: -0.25
- Unemployment Rate (Dec) Forecast: 7.5%, Prior: 7.5%
- **BoE Interest Rate Decision Current: 0.75%/ Minutes / Carney Speech**
- Initial Jobless Claims Forecast: 218k, Prior: 211k
- Initial Jobless Claims 4-week ave. Forecast: - , Prior: 213.25k
- Continuing Claims Forecast: 1.746m, Prior: 1.731m
- PCE Prices QoQ (Q4) PREL Forecast: 2%, Prior: 1.5%
- Core PCE QoQ (Q4) PREL Forecast: 2.1%, Prior: 2.1%
- GDP Annualized (Q4) PREL Forecast: 2.1%, Prior: 2,1%
- GDP Price Index (Q4) PREL Forecast: 1.9%, Prior: 1.7%
- German Buba President Weidmann **SPEECH**
- Japan data including CPI, Unemployment, Retail Sales and Industrial Production

Friday
01/31/2020

- **Brexit Deadline**
- Non-Manufacturing PMI (Jan) Forecast: 53.5, Prior: 53.5
- NBS Manufacturing PMI (Jan) Forecast: 50, Prior: 50.2
- Consumer Price Index YoY (Jan) PREL Forecast: 1.4%, Prior: 1.3%
- Consumer Price Index Core YoY (Jan) PREL Forecast: 1.2%, Prior: 1.3%
- GDP s.a. QoQ (Q4) PREL Forecast: 0.2%, Prior: 0.2%
- GDP s.a. YoY (Q4) PREL Forecast: 1.1%, Prior: 1.2%

- Core PCE - Price Index MoM (Dec) Forecast: 0.2%, Prior: 0.1%
- Core PCE - Price Index YoY (Dec) Forecast: 1.6%, Prior: 1.6%
- Personal Spending (Dec) 0.3%, Prior: 0.4%
- Personal Income (Dec) 0.3%, Prior: 0.5%
- Chicago PMI Forecast: 48.7, Prior: 48.9
- Michigan Consumer Sentiment Index (Jan) Forecast: 99.3, Prior: 99.1