Stargazer
Asset Management

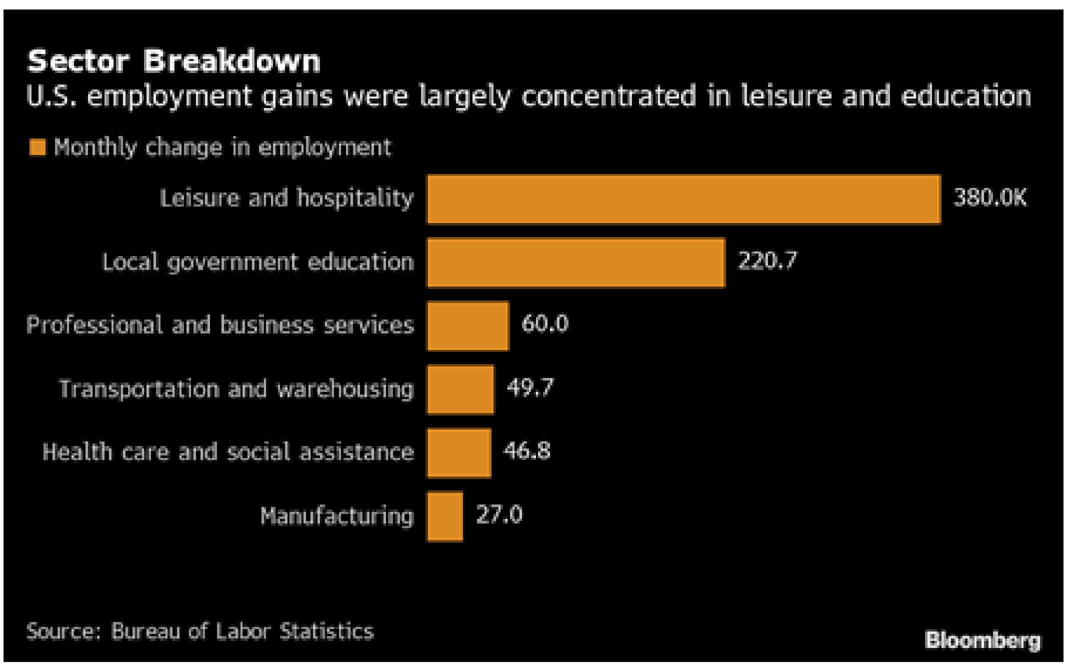
What to focus on in Global Macro for the week of August 9th, 2021

Macro Themes on the Radar:

Last week was a messy one for markets as macro data and various Fed speakers whipped around markets. Weak ADP employment data was followed by strong services ISM, then better than expected payrolls and unemployment numbers.

Fed Vice Chair Clarida commented on a likely taper announcement before year end and that in his view, continued progress along the current path would mean that conditions for rate liftoff "could be met by end of 2022". He also indicated that he felt risks to the inflation outlook are "to the upside". Personally, I didn't see much new in his comments, but the market took them to be hawkish. Can they let it run hot AND not risk having to then do something sudden and forceful?

Friday's nonfarm payrolls beat expectations as the unemployment rate fell to 5.4%, -.5% on the month. The big gap between the ADP number and the Nonfarm number was largely due to the jump in local government educational hiring as ADP only counts private payrolls. Leisure and hospitality workers are reengaging now it seems.



This Wednesday we get a look at how CPI (Jul) is tracking. The last two big beats were not as impactful as one might have guessed as the market was busy getting stopped out of short bond positions. However, with this week's turn in yields this number could be important. Continued high inflation prints AND good employment data could be hard to ignore. The breakdown of the number will be important for the transitory argument to continue holding up.

One more employment report like that, and I think they will announce the taper in September.

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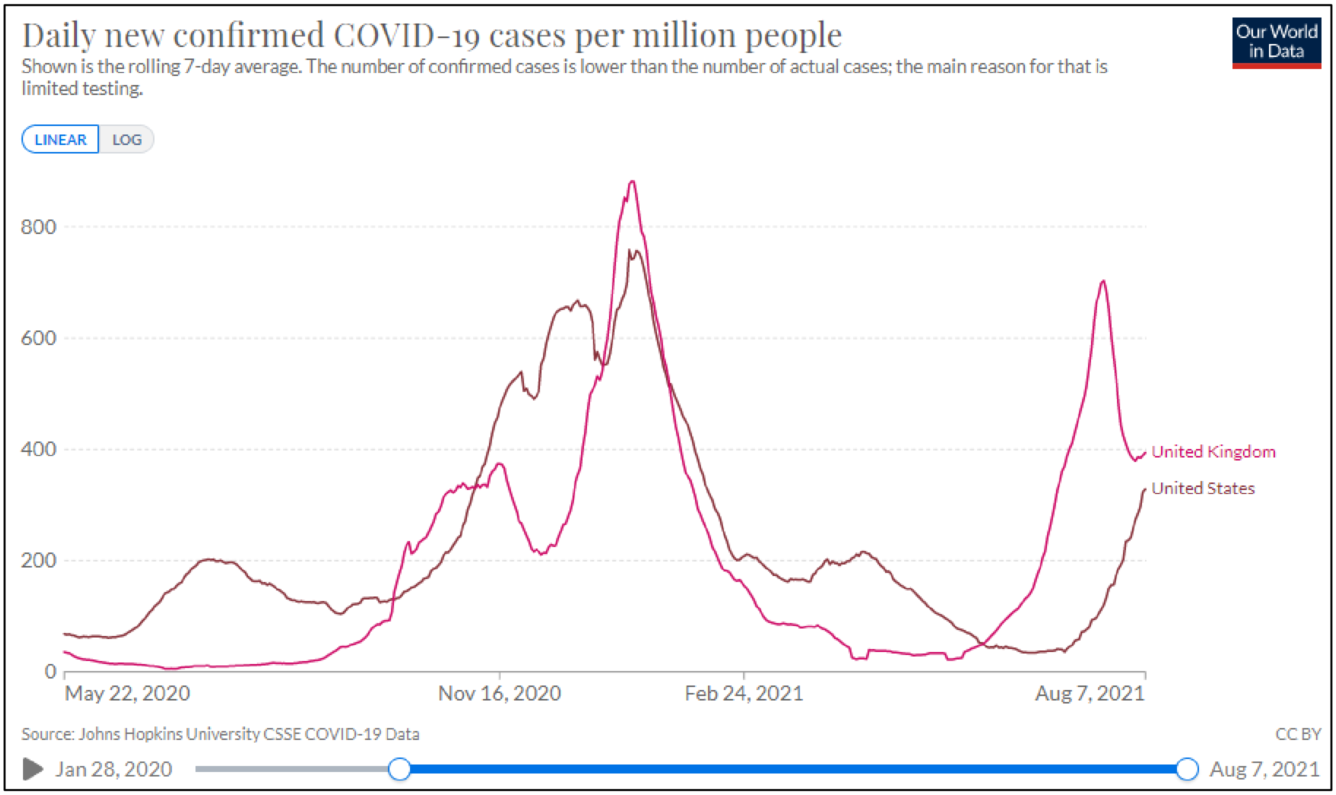
The wild card now is the current US COVID wave, largely centered in the south. It isn't clear how much of an economic impact it will have. Masks are one thing, but new meaningful restrictions on activities don't look likely. Afterall, as someone wrote on Twitter, from an activity/economic point of view, there are vaccinated and unvaccinated people, neither of which are worried about the virus at this point.

If we are lucky, we are a few weeks behind the UK … but probably worse to come first.



China

The recent Politburo meeting indicated a willingness to potentially slow the reforms (crackdowns) and boost both fiscal and monetary accommodation to stabilize the economy.

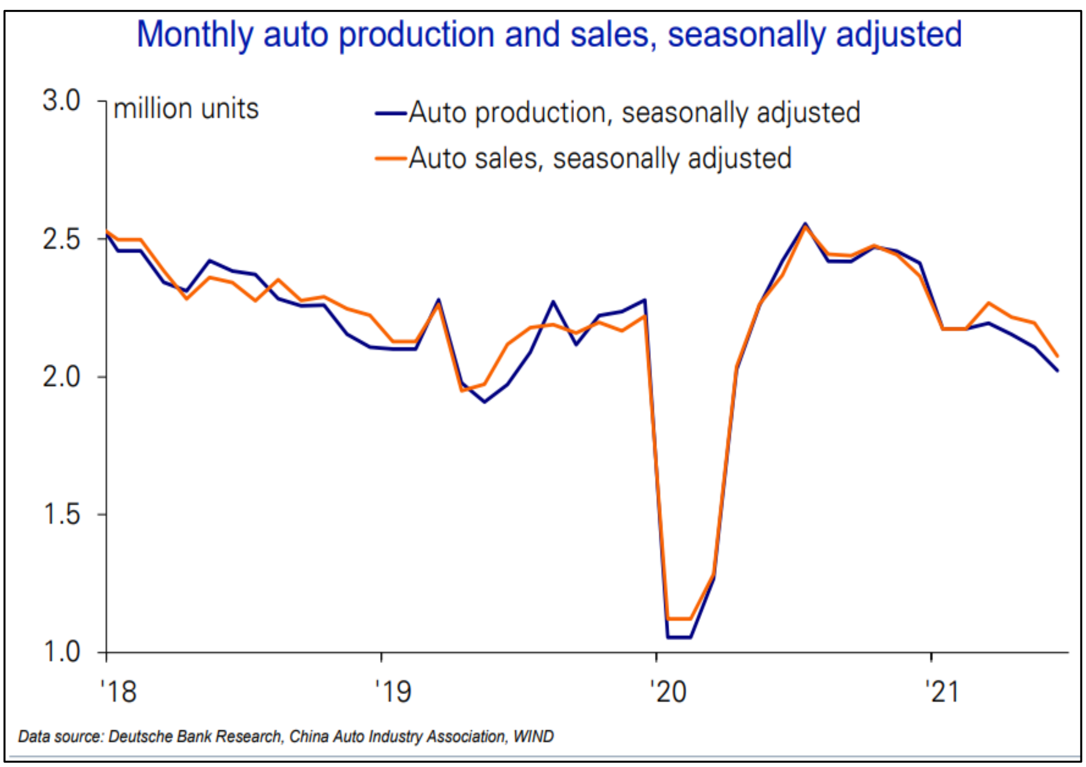
Another RRR cut is likely in the coming months and there is the potential for a proper rate cut by the PBoC, if the economy shows further softening.

Over the coming weeks, we will get a feel for how much damage the combination of regulatory crackdowns, floods in Henan province, and the new COVID wave are causing.

A big question is whether China will double down on its COVID zero-tolerance policy (more costly lockdowns could follow + continued global supply chain issues) or move to the "living with COVID" policy, now being suggested by even some Chinese experts.

Is it the comparatively lower levels of fiscal and monetary stimulus?

Or just the post V-recovery tracking sideways now? Maybe both.



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What to Focus on Now:

We covered a fair bit of real estate in yields this week. First falling across the curve, then reversing on Wednesday (Clarida & Service ISM) and jumping again on Friday's employment numbers.

Interestingly, the front of the curve led the way… with the long end only catching up on Friday.

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In the process we put in outside reversal weeks, which usually produce a more durable low, in everything from Eurodollars to 30-years.

The curve, while flattening a little on the week, was saved from breaking lower by the jump in longer term yields after payrolls.

Everyone is looking at yields up/down, and no doubt those have had a big effect on which equity sectors have out/underperformed, but it is also worth keeping an eye on what the yield curve does going forward. In the past, taper has tended to <u>flatten</u> the yield curve (as inflation expectations fall), although this time, given all the fiscal spending, that dynamic could be different.

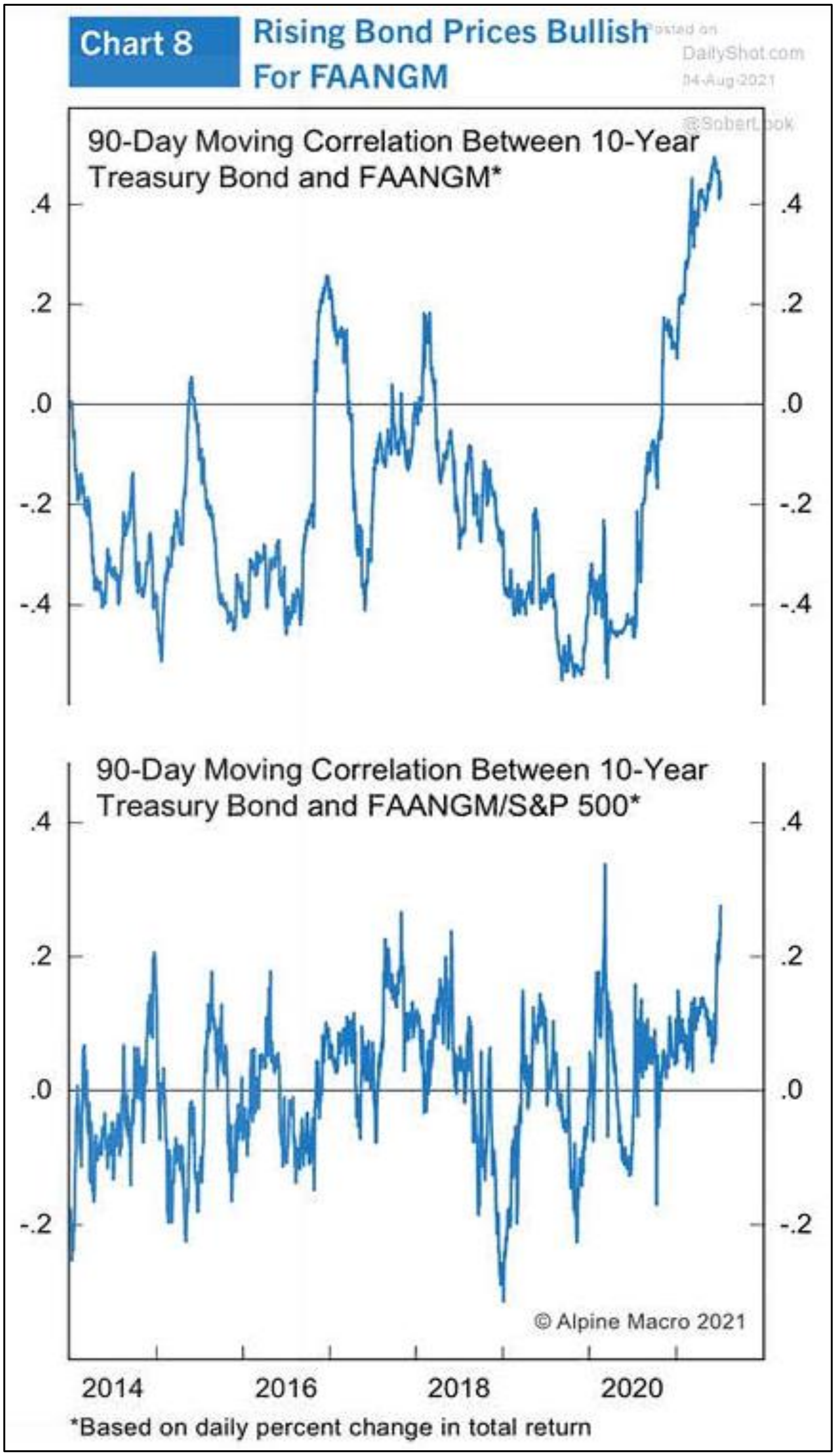
Either way, a meaningful change in direction for yields now will have a big impact across markets.

TIPS have been very popular as investors seek protection against inflation. The Fed has been buying them as well. However, it is worth noting that a rise in bond yields now, if it were to happen as the Fed reduces QE, could spell trouble for TIPS.

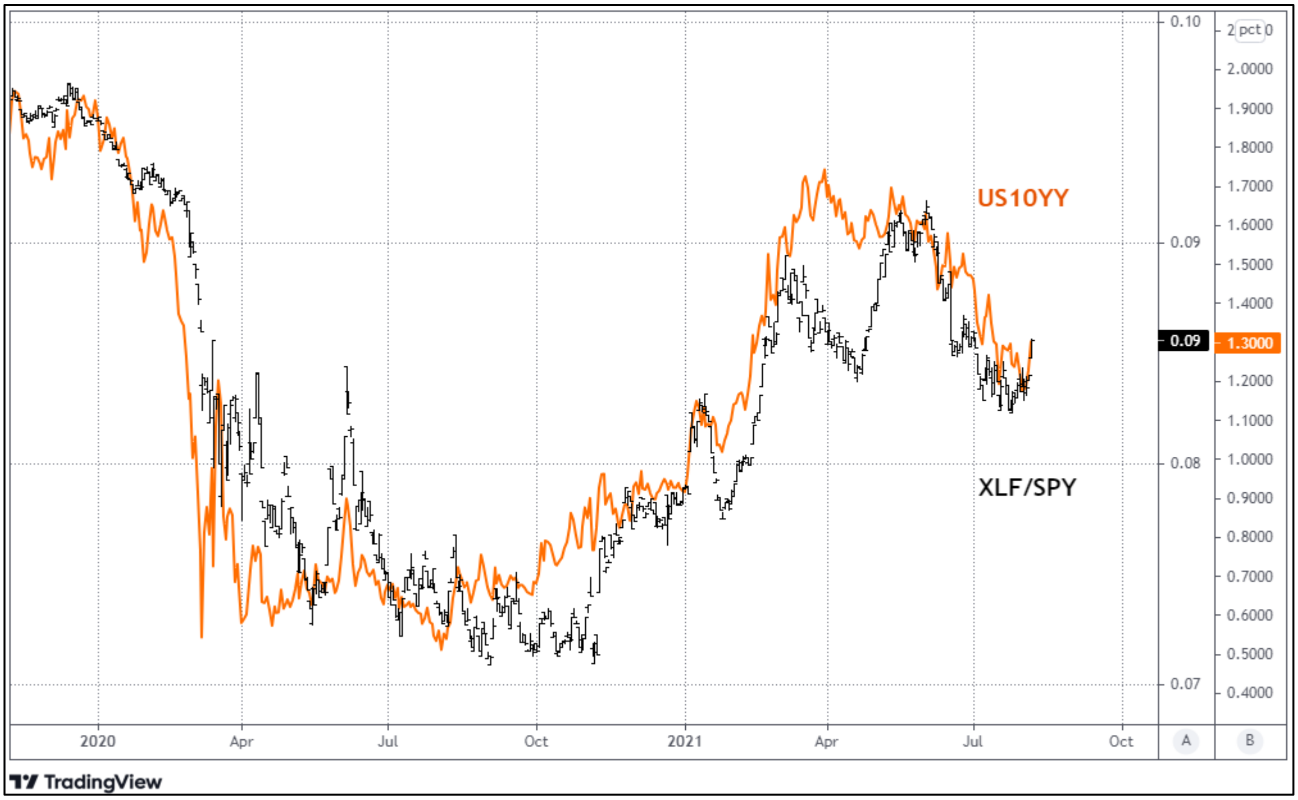
Generally, yields and TIPS have moved in opposite directions as TIPS incorporate both duration and inflation expectations in the price.

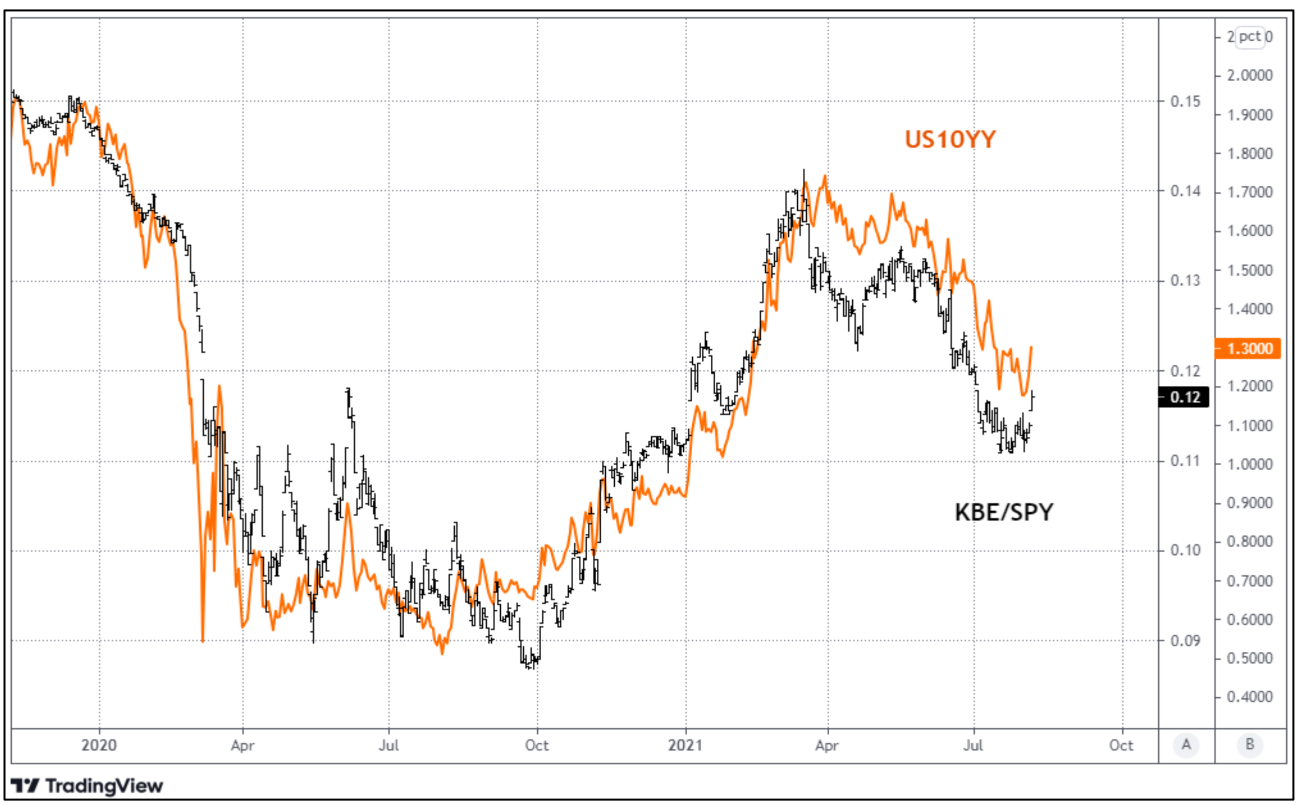
On the equity side, yields and the underperformance of the Russell vs. NDX have continued to be closely linked.

In fact, tech's correlation to yields has been rising… as the team at Alpine Macro points out.



The relative performance of Financials also continues to be closely tied to yields.





Globally, the US has continued to be the leader via technology stocks. Strong US earnings and very accommodative fiscal and monetary policy are providing a strong tailwind.

Country	Total people vaccinated with at least 1 dose % of pop	Total people fully vaccinated with 2 doses % of pop	Total vaccination (doses administered)
Malta	90.96	87.74	765,417
United Arab Emirates	79.60	71.20	16,935,702
Iceland	79.33	74.64	472,176
Bahrain	65.45	62.36	2,341,693
Chile	72.49	64.54	25,688,833
Singapore	74.01	60.88	7,767,442
Canada	71.82	60.54	49,920,544
Israel	66.98	62.24	11,447,601
Denmark	73.25	56.92	7,493,625
United Kingdom	70.25	57.99	85,661,367
Belgium	69.60	60.34	14,765,390
Spain	69.83	59.48	57,653,031
Portugal	69.77	58.53	12,413,467
Ireland	67.92	56.97	5,948,704
China	N/A	N/A	1,726,223,000
Netherlands	69.49	54.11	20,457,864
Italy	64.48	53.76	70,126,104
France	66.28	50.40	75,279,957
Luxembourg	63.05	51.56	717,418
Germany	61.64	53.19	93,747,844
Austria	59.09	52.43	9,840,982
Sweden	63.85	42.87	10,812,002
United States	58.19	49.95	348,102,478

A big initial lead in vaccine distribution has helped.

However, much of Europe has now caught up.

Despite the big progress with vaccinations, Europe is still far more locked down than the US is, and delta is on the rise there are well.

European stocks have been rallying, but so far have not been able to outperform the US.

This is a relationship to watch however, as a reversal of such a long trend can be powerful if/when it occurs.

On a relative basis, EEM continues to suffer from its high China exposure...

Last week's data was enough to pop the dollar again. Are we heading back to the top of the range? Watch 93.25/50… potentially important if it cracks. EURUSD is already knocking on the door…

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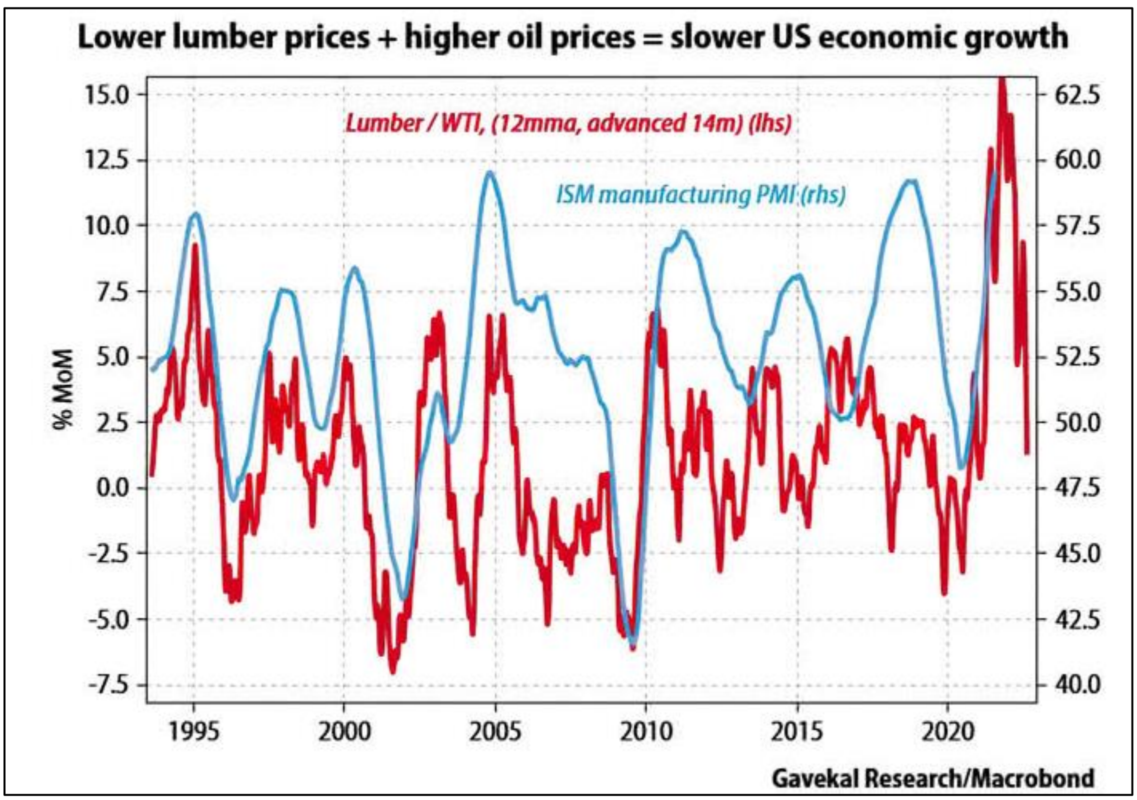
Unless we get a big move either way, the dollar is currently more a barometer of global financial conditions (reserve currency and all). Bonds (price) down, dollar down tends to reflect reflationary tailwinds and be good for equities, while bonds (price) up dollar up tends to feel more worrying for equities (safe haven stuff). Bonds down, dollar up, like last week, tends to be more nuanced but ok for the US at the expense of EM, for example. With high global asset prices, any change in the current regime can be destabilizing.

Finally, an unrelated chart… just eyeballing it, we seem to have lost some of the correlation over the last few years. There is a high probability that any existing relationship has also been totally screwed up by COVID and its aftermath. Still, kind of interesting, and makes some intuitive sense. Guess we will see if it applies this time around. Put it in the "just for fun" category.



The main macroeconomic highlight will be the highly anticipated US CPI reading for July.

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Important Macro Data Releases and Events for the Week

Monday 8/9/2021	(Sunday Night) CPI YoY (Jul) Forecast: 0.8%, Prior: 1.1%
Tuesday 8/10/2021	Foreign Direct Investment YTD YoY (Jul) Forecast: -, 28.7%
	ZEW Survey - Economic Sentiment (Aug) Forecast: 72, Prior: 61.2
	ZEW Survey - Current Situation (Aug) Forecast: 30, Prior: 21.9
	ZEW Survey - Economic Sentiment (Aug) Forecast: 57, Prior: 63.3
	Nonfarm Productivity (Q2) Forecast: 3.6%, Prior: 5.4%
	Unit Labor Costs (Q2) Forecast: 1.2%, Prior: 1.7%
Wednesday 8/11/2021	Harmonized Index of Consumer Prices YoY (Jul) Forecast: 3.1%, Prior: 3.1%
	CPI ex Food & Energy MoM (Jul) Forecast: 0.4%, Prior: 0.9%
	CPI ex Food & Energy YoY (Jul) Forecast: 4.3%, Prior: 4.5%
Thursday 8/12/2021	PPI ex Food & Energy YoY (Jul) Forecast: 5.7%, Prior: 5.6
	Initial Jobless Claims Forecast: -, Prior: 385k
	Initial Jobless Claims 4-week average Forecast: -, Prior: 394k
	Continuing Jobless Claims, Prior: 2.93M
Friday 8/13/2021	Michigan Consumer Sentiment Index (Aug) Forecast: 81.3, Prior: 81.2

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