Stargazer Asset Management

What to focus on in Global Macro for the week of March 22nd, 2021

Macro Themes on the Radar:

Fed

Last week's highly anticipated Fed meeting has come and gone. They stuck with the expectation that rates will not be raised until 2024 (average dot plot), despite upgrading both the growth and inflation outlooks. Given their previous modus operandi, they are behind the curve and loving it. This is a new Fed, at least on paper, and the market is likely to remain volatile as the tension continues to build between the plan and the outcome.

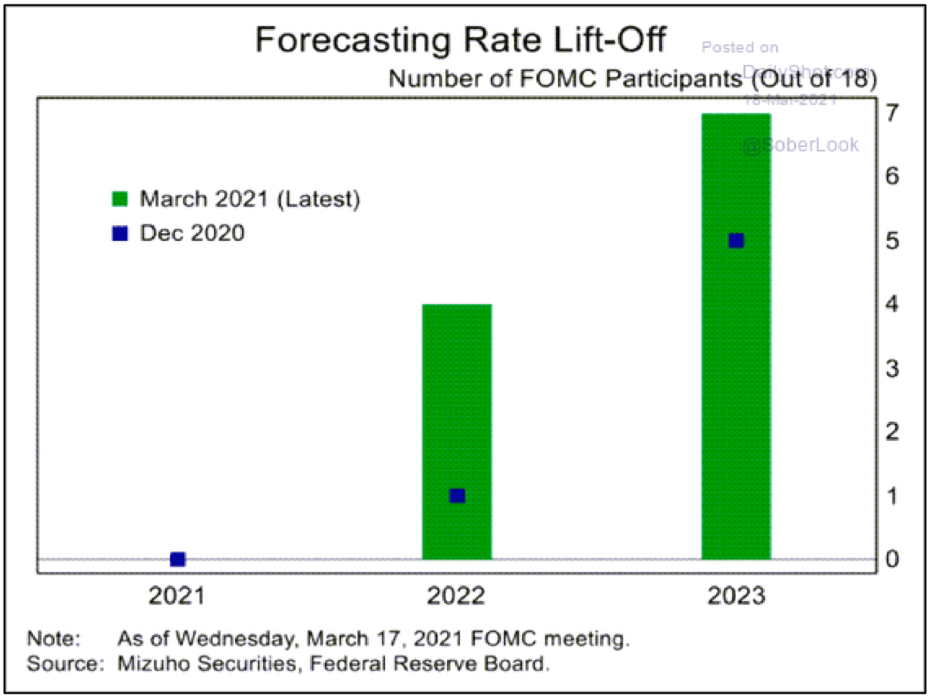
My big takeaways remain:

- They will look through almost any near-term jump in inflation as base effects and temporary bottlenecks/pent up demand.
- Unlike previously, the new "framework" dictates that they will be focused on actual progress towards goals rather than forecasts.
- Deemphasized importance of dots for that reason. Just an aggregation of individual forecasts.
- On the move in 10yy's it is all about Financial Conditions. If they tighten it would be an issue for them. They include things like stocks, credit spreads, yields and the dollar. Otherwise, they would also be concerned if markets were disorderly. In other words, if yields start to really rock the markets or the yield move is "disorderly", they will likely comment, potentially even act.
- Powell emphasized that they must follow through on what they are saying to achieve credibility for the new framework.
- They probably won't start talking about tapering asset purchases until late in Q4.

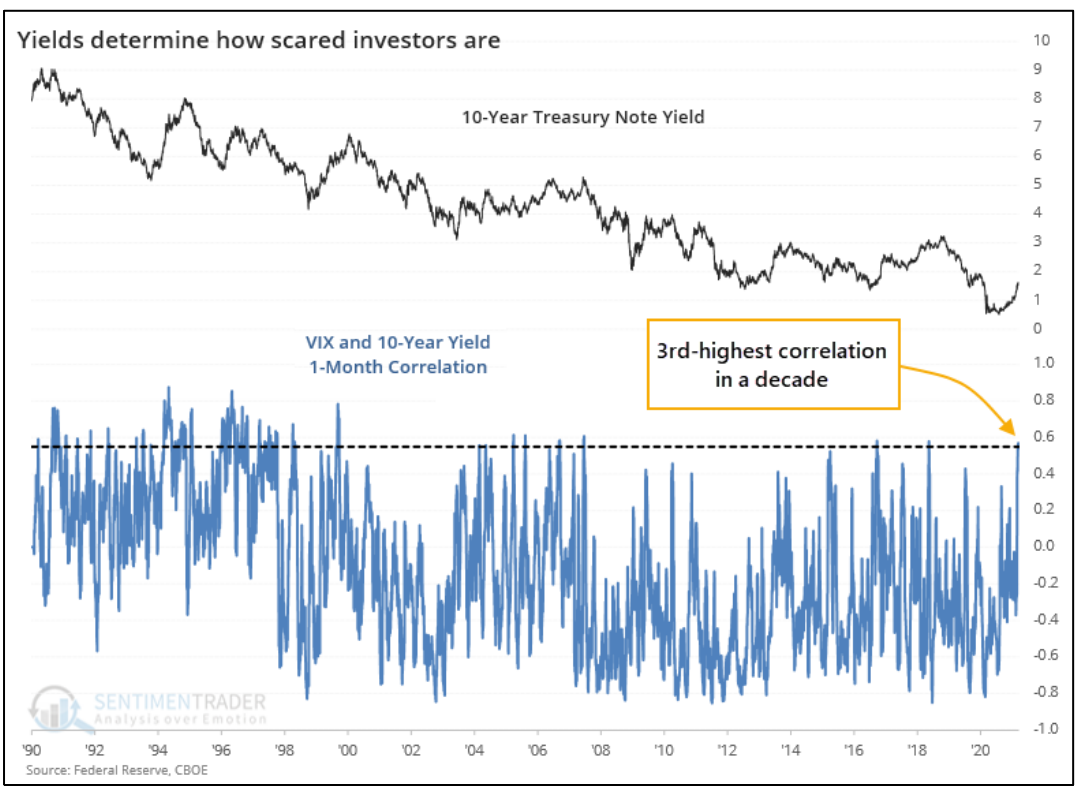
The newness and uncertainty around the new framework mean Fed watchers are all over the place in terms of rate lift-off expectations. Some arguing that very strong likely growth and inflation numbers will mean that the Fed will be forced to bring forward the first hike to mid or even early 2022. Others, like Deutsche Bank, have now pushed out their expectations for the first hike into 2024.

Now add the huge uncertainty about how strong the growth and inflation jump will be and how lasting. For the moment the data has been relatively calm, but the jump in inflation prints is yet to come. If the market starts to doubt the transitory nature of inflation at any point that's when the fun and games start.

Payroll prints could be very large indeed, once the service industry gets back into full swing. We just don't know how long it will actually take to get back to full employment. The good news for the real economy is that it is likely to be fairly inelastic to the rising yields for now as the re-opening should out way any negative effects.



The effect on the financial markets should be continued volatility.



BoJ

The BoJ meeting followed closely on the heels of the Fed and is taking some of the blame for the selloff in bonds on Thursday. They are going to widen the intervention band for JGB's and that is being seen as a nod to upward pressure on yields. They are also going to remove the target they had for buying ETF's. Both these things have been seen as potentially having a whiff of reduced monetary accommodation. I'm not sure that this was really the driver for the US move, given the green light from the Fed, but it probably didn't help.

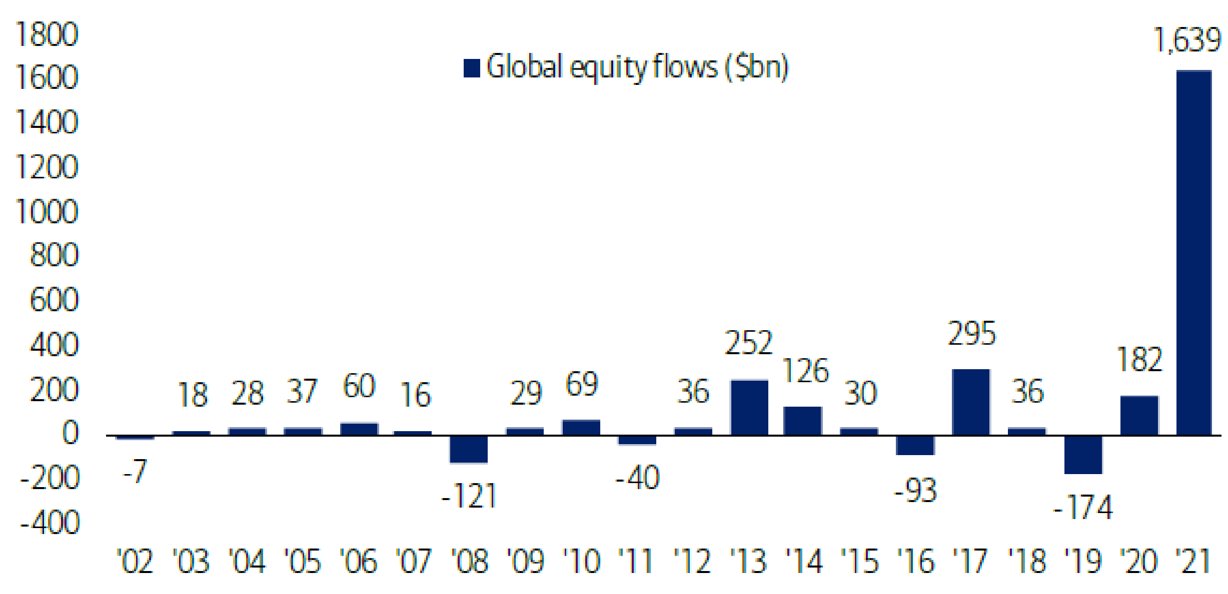
What to Focus on Now:

Equities

The flow so far this year into equities has been impressive… to say the least.

Here annualized…

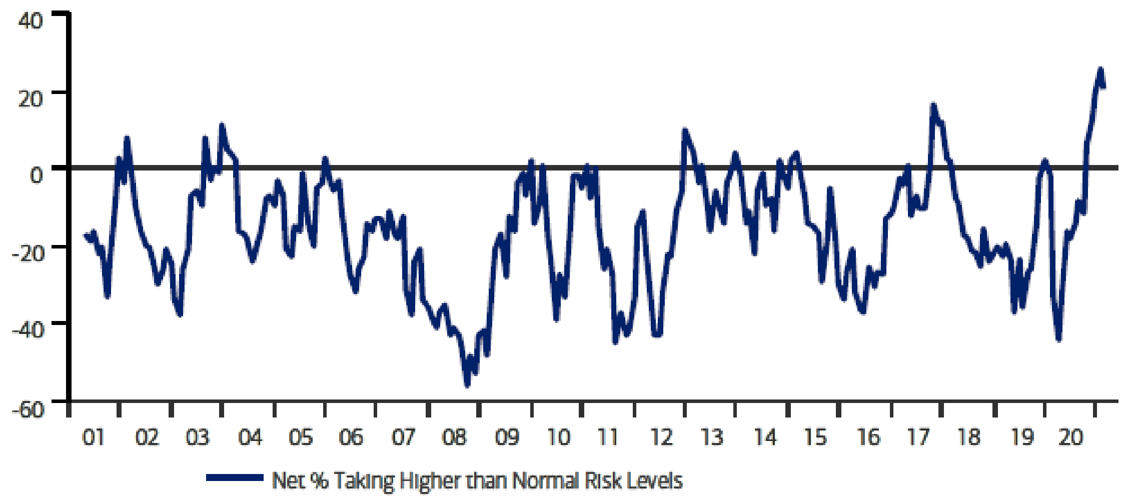
Chart 3: Inflows to Stocks…come get 'em while they're still hot
Annual global equity flows by year, $bn



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

The potential for the re-opening is certainly well understood and people are positioned for it.

Exhibit 34: What level of risk do you think you're currently taking in your investment?
Net% of FMS investors taking higher than normal risk levels

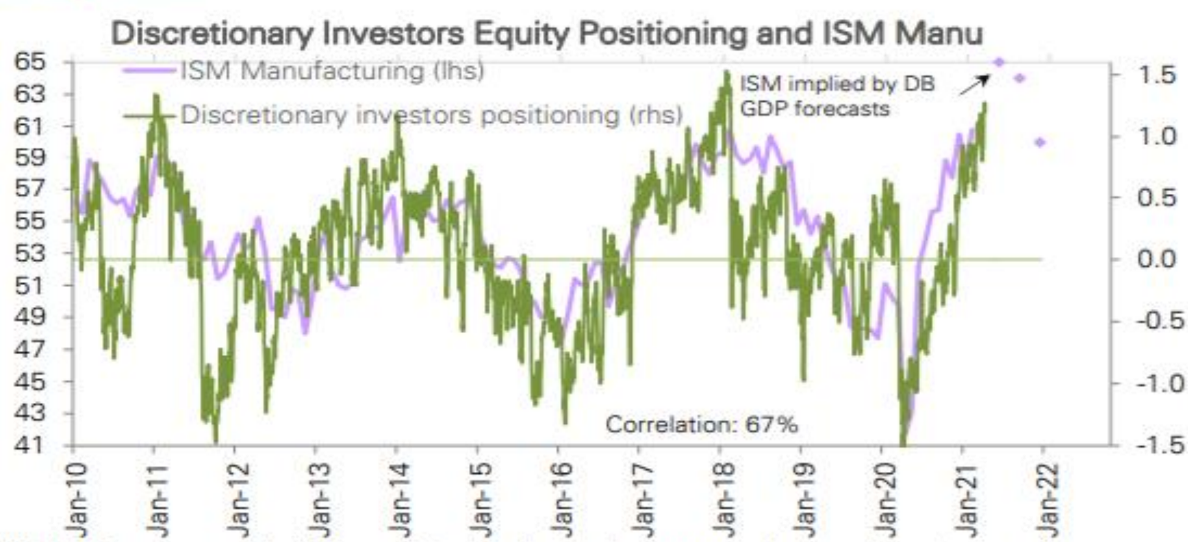


Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Expectations are high and positioning is too.

Figure 5: Discretionary positioning is near all-time highs but in line with very strong growth

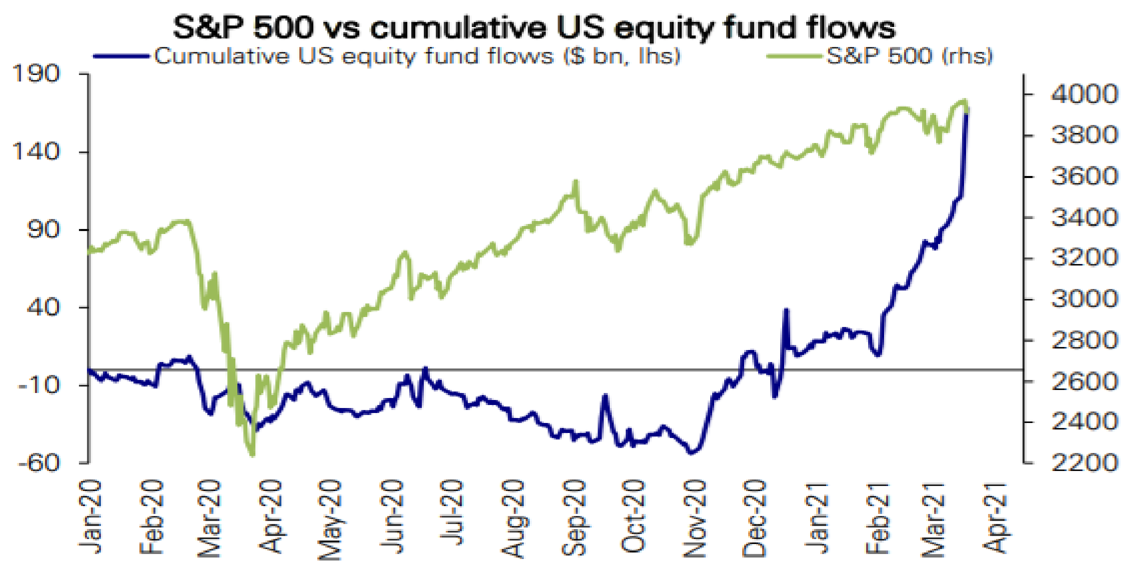


*Wtd avg Z-score across indicators; weights based on explanatory power in regression w/equity perf

Source : EPFR, CFTC, Haver, Bloomberg Finance LP, Deutsche Bank Asset Allocation

November, with the election and the first vaccine announcements, kicked off this round of buying.

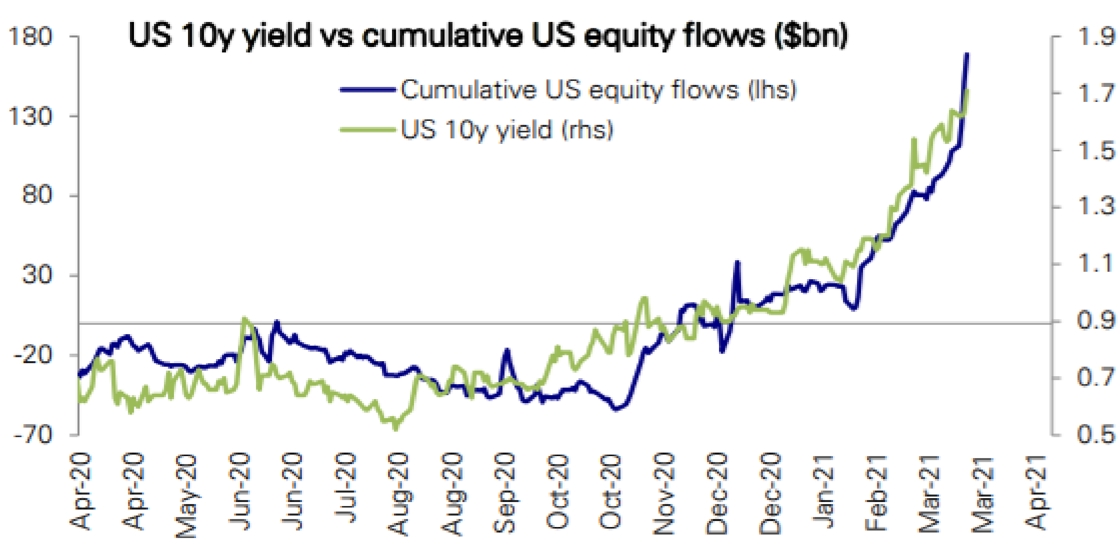
Figure 6: Equity flows have surged higher since November ...



Source : EPFR, Haver, Bloomberg Finance LP, Deutsche Bank Asset Allocation

While the rotation has been furious, overall flows have not been deterred by rising yields. Rather, it has really been two expressions of the same view.

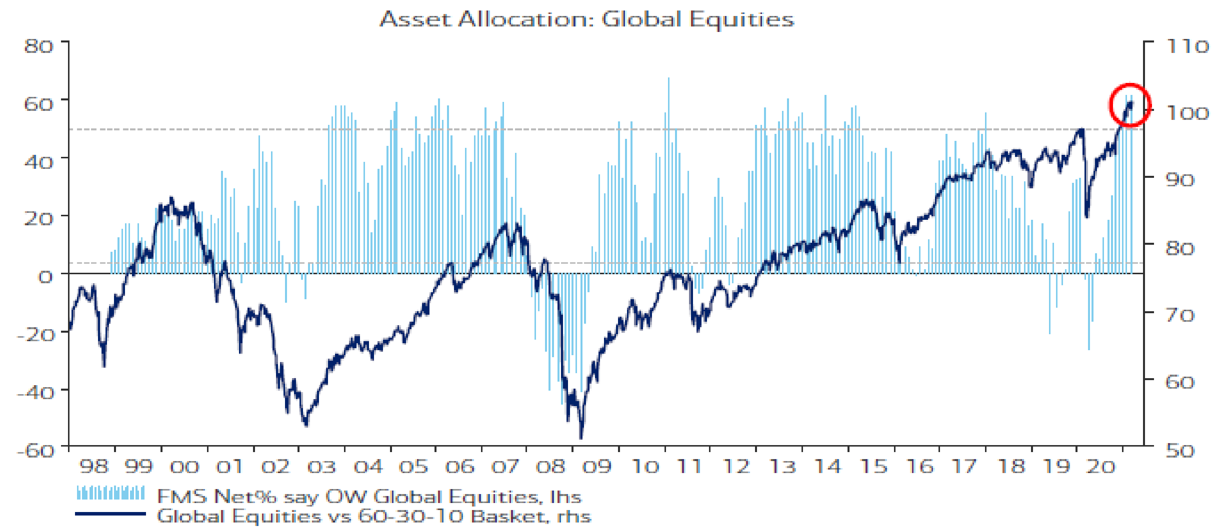
Figure 7: ... as rates have risen



Source : EPFR, Haver, Bloomberg Finance LP, Deutsche Bank Asset Allocation

Here is another way of looking at it… in Equities

Exhibit 38: Net % AA Say they are overweight Equities
Net% of FMS investors overweight equities

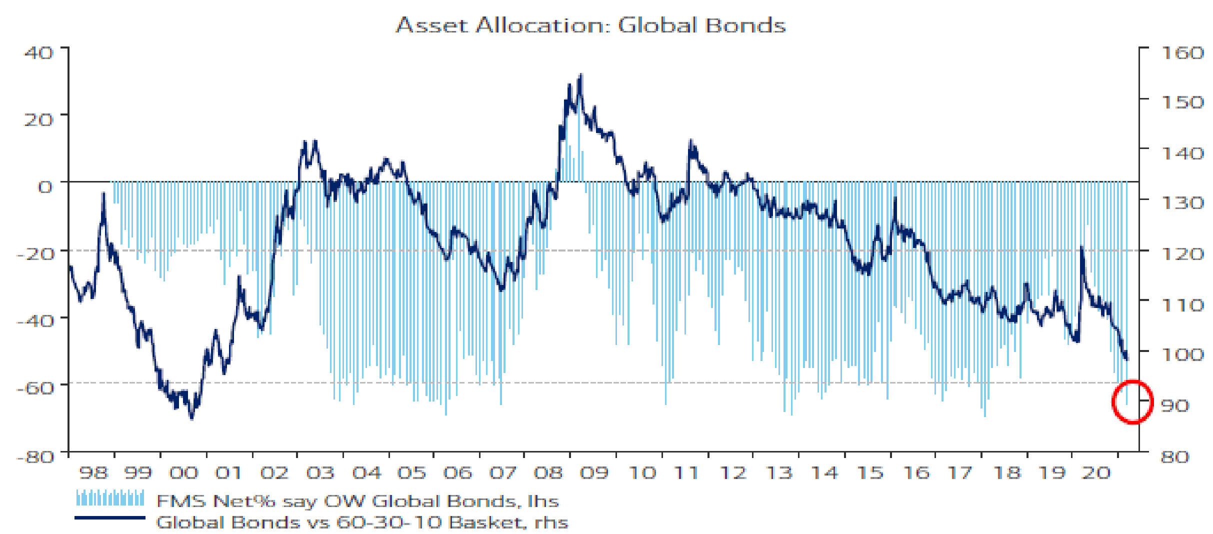


Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

and in Bonds…

Exhibit 39: Net % AA Say they are overweight Bonds
Net% of FMS investors overweight bonds



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

We have come a long way for inflation expectations. A Fed purposefully seeking to be behind the curve helps…

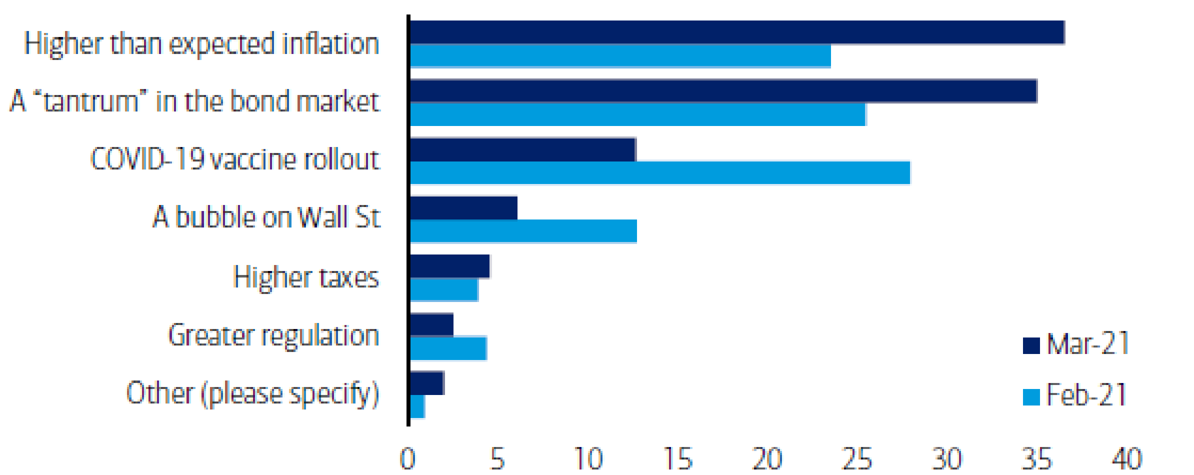
Exhibit 8: Inflation expectations now at an all-time high
Net % Expecting Higher Global CPI

Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

However, it is also moving us towards the "fear of inflation" paradigm mentioned a few weeks back.

Exhibit 1: COVID-19 is no longer the biggest 'tail risk'
What do you consider the biggest 'tail risk'?



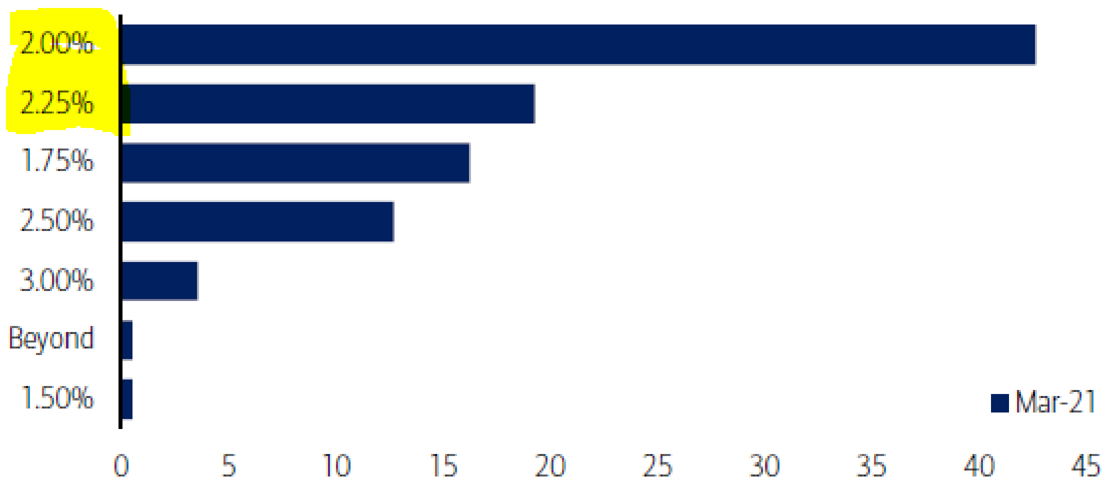
Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

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

The monthly BoA Global Fund Managers Survey has respondents eyeing the 2-2.25% level in 10-year yields as the danger zone for equities.

Exhibit 12: 2.0% on the 10-year Treasury could be the level of reckoning for stocks
What level on the 10-year Treasury yield will cause a +10% correction in stocks?

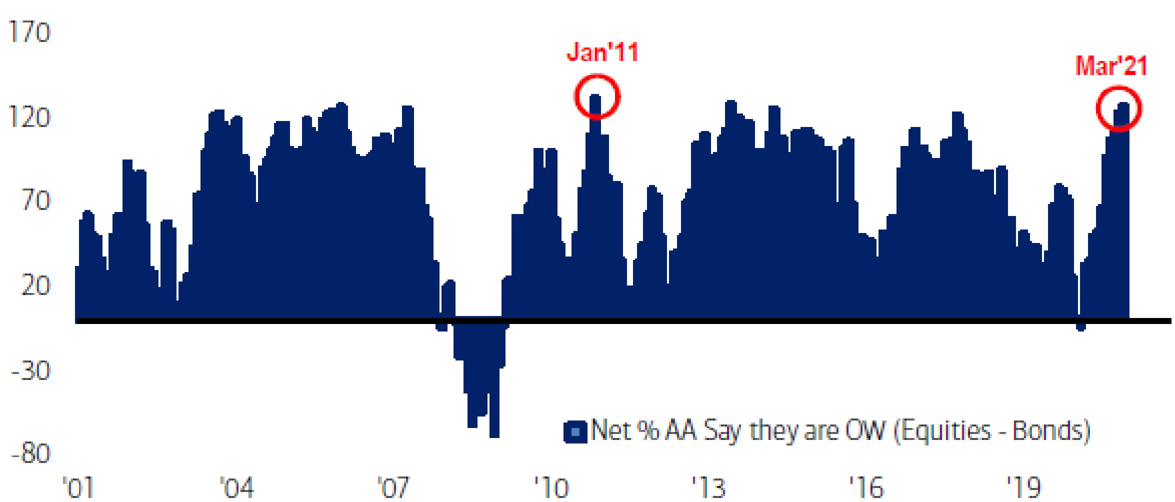


Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

However, for now, they are happy to be long stocks and short bonds. If we get something that suddenly changes that, like an acceleration in the yield move, liquidity could be challenging.

Exhibit 19: Spread between equity vs bonds OW close to the highest ever
Spread between Net % AA Say they are OW Equities over Bonds

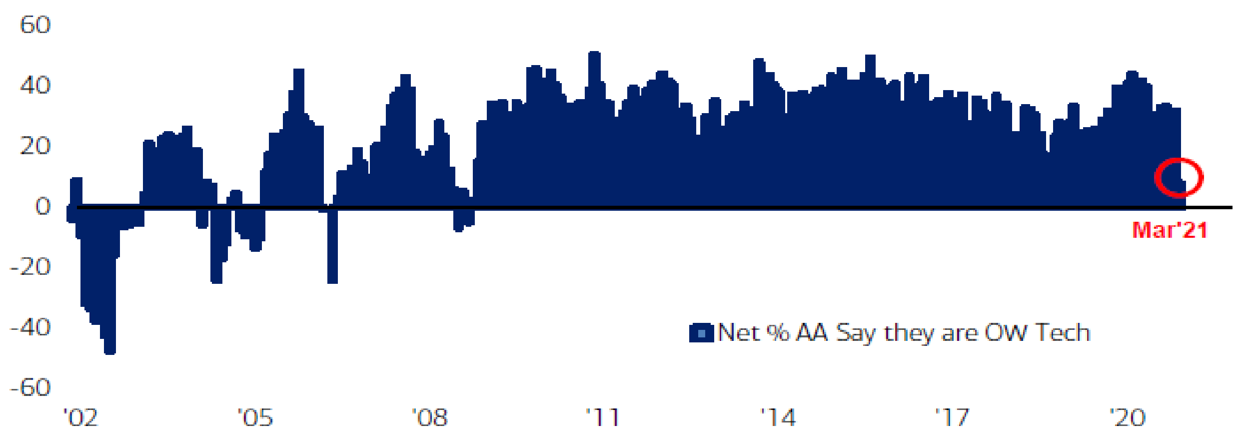


Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

There has already been a lot of selling of tech.

Exhibit 24: FMS tech overweight cut to lowest level since Jan'09
Net % AA Say they are OW Tech

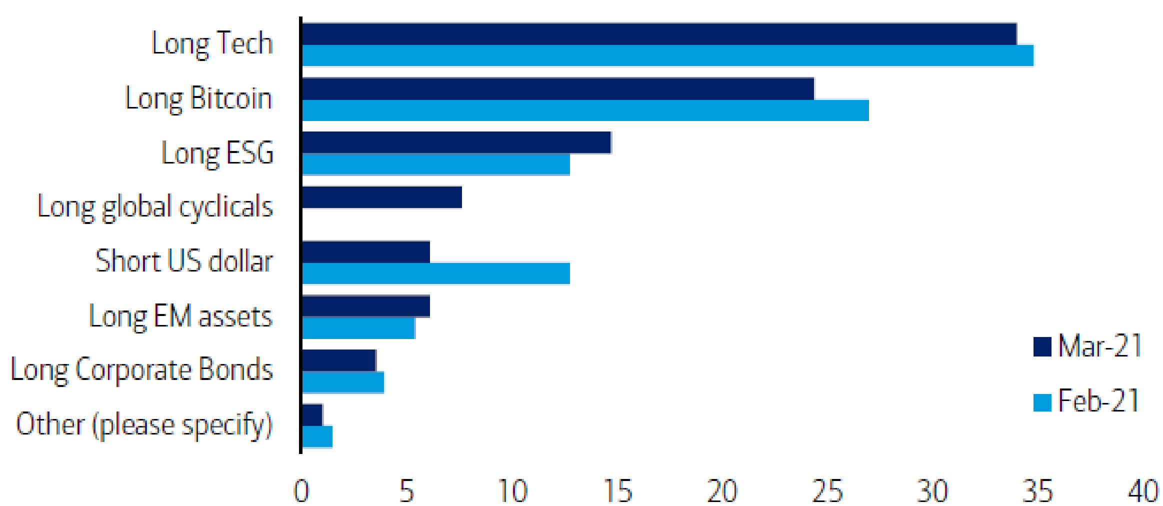


Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Yet, investors still think it is the most crowded position.

Exhibit 25: "Long Tech" still the most crowded trade but down in recent months
What do you think is currently the most crowded trade?

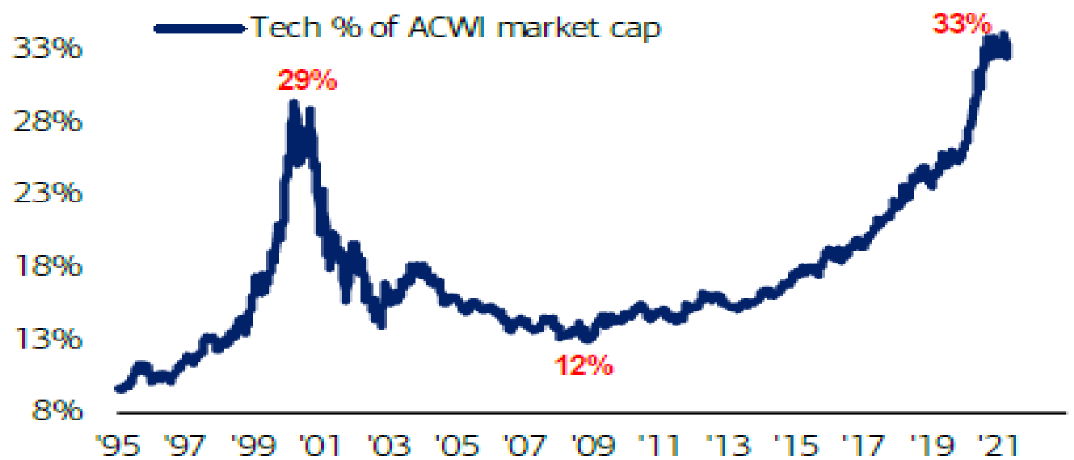


Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

For stocks, the continued shift from tech to "value" is messy. The last time we changed leadership after a massive run in tech it got really messy, however, that was a different set-up for sure. Still, more/continued volatility is very likely.

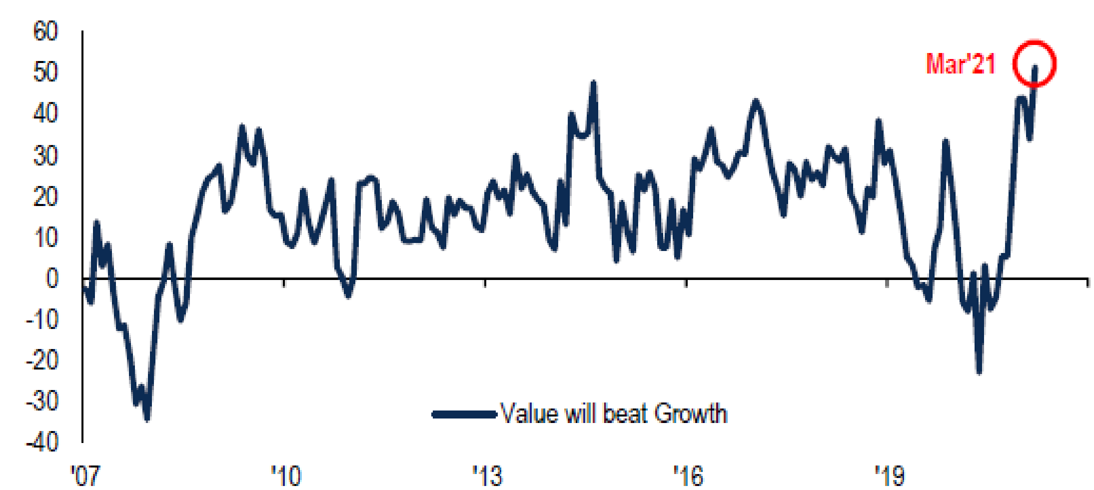
Chart 5: Tech/FAANG peaking at 33% of global equity market cap in Q1
Technology as a share of global equity market cap



Source: BofA Global Investment Strategy, Bloomberg, Datastream; note includes ACWI IT + Media & Entertainment + Alibaba (beginning in 10/2018) + Amazon
BofA GLOBAL RESEARCH

Given the current expectations, it is of course no wonder the market is positioning the way it is.

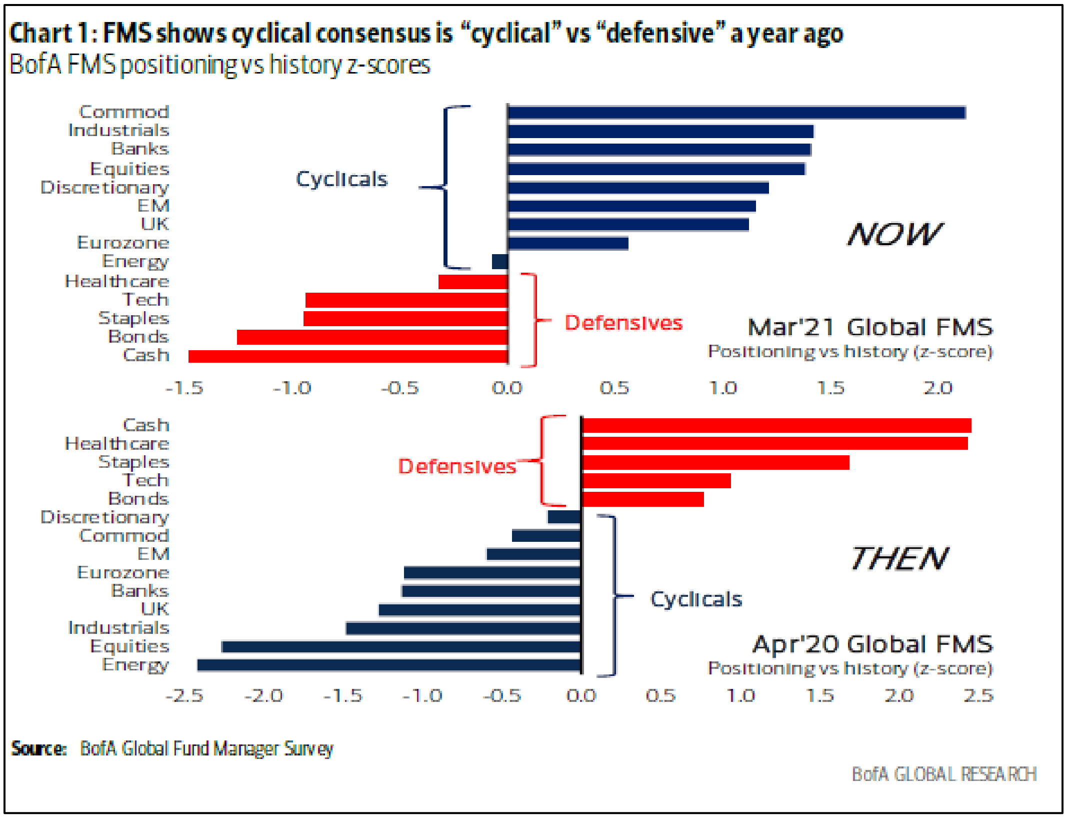
Exhibit 26: Record net % think value will outperform growth
Net % Think Value will Outperform Growth



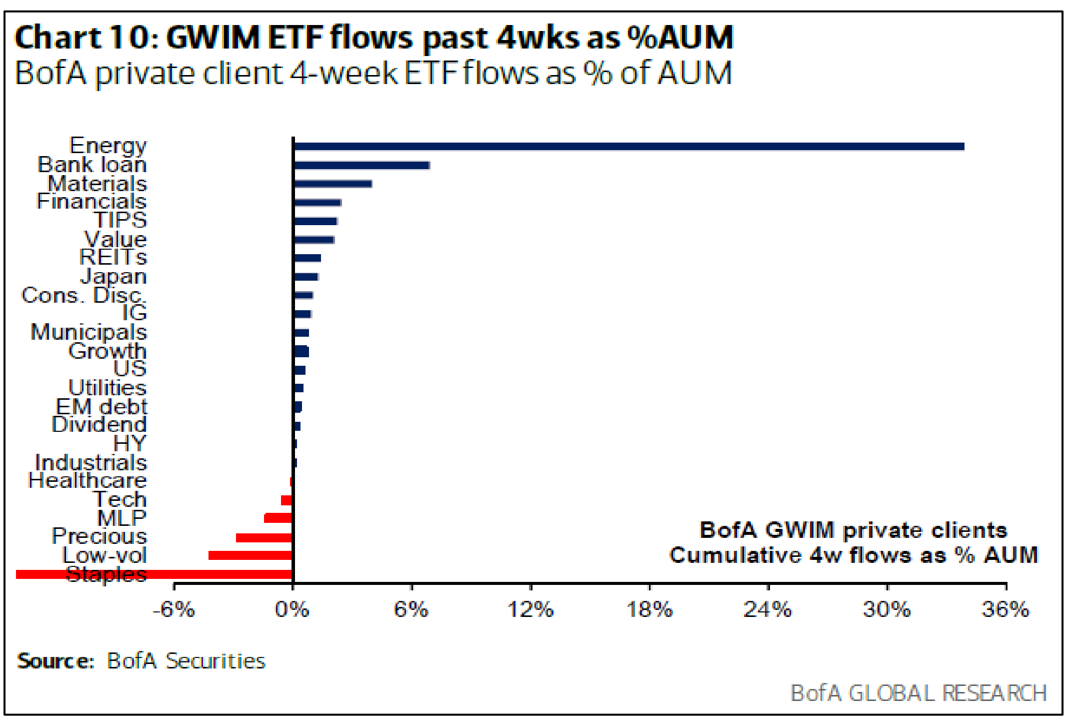
Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

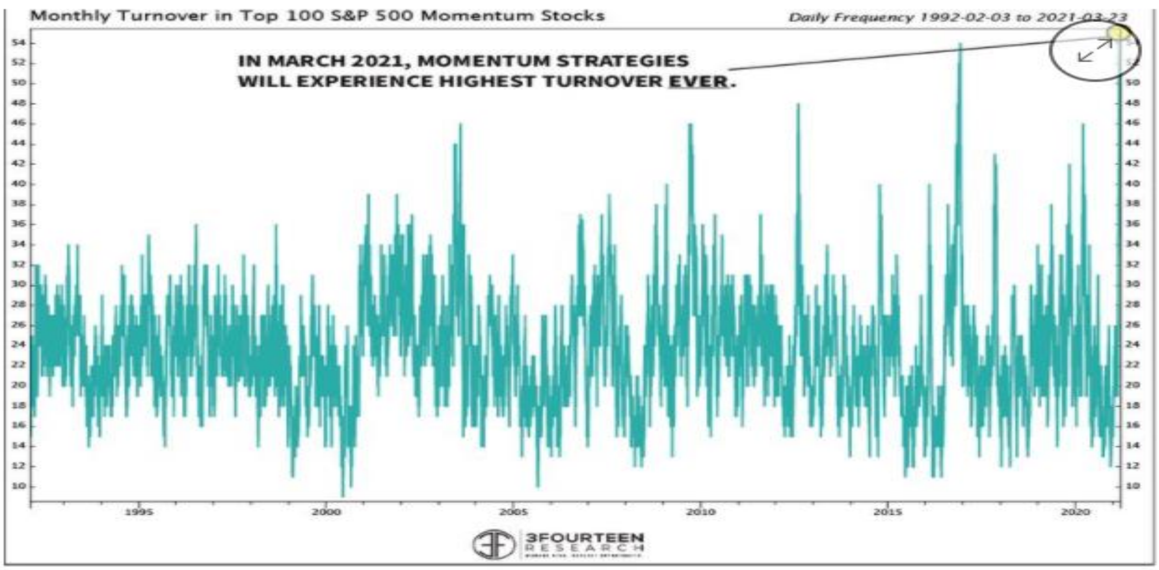
A full 180 degree turn from a year ago…



Recent flows into "inflation" assets and sectors are dramatic for HNW as well.



The big switch from one set of momentum leaders to a new set is also underway.



Source: 3Fourteen Research report dated Feb. 25. Data based on 12-month price change assuming constant prices for future dates.

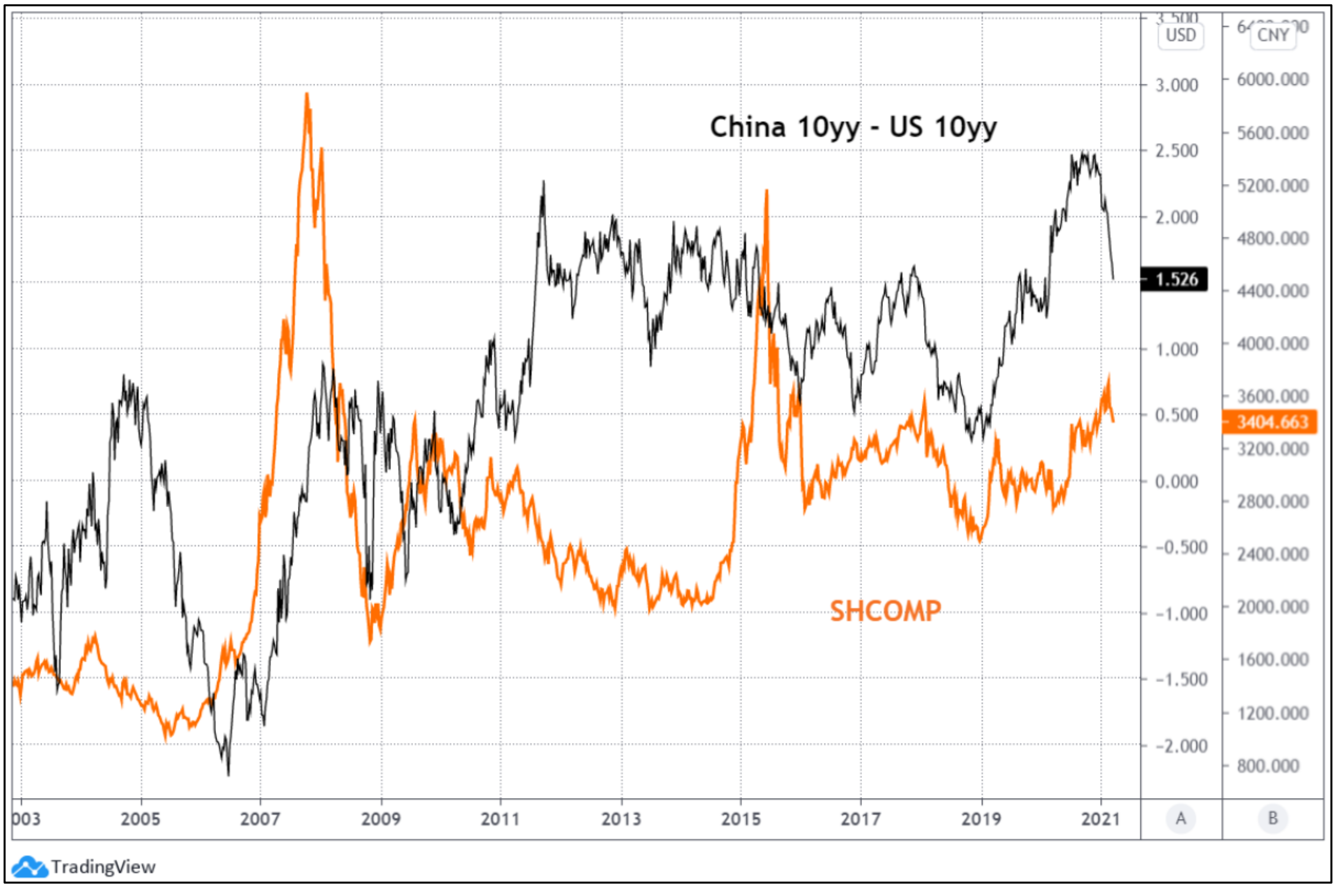
We are facing a crazy set-up in terms of monetary and fiscal policy as we emerge from a crisis without historical precedent. There is a lot of experimentation happening on the policy front and outcomes are uncertain. I continue to look for inexpensive ways to own tail outcomes.

Europe – So far, no break as they continue to suffer from lockdowns and poor vaccine distribution. A matter of time, I think.

China and EM

The PBoC recently warned about more turbulence in financial markets due to the country's policy divergence with the US. At the same time, Chinese policy makers are focused on reducing financial risks (leverage, high valuations) in markets while supporting growth in the real economy. They have repeatedly commented on other countries being too accommodative regarding monetary and fiscal policy and that they think it is dangerous to global financial stability.

Indeed, the Shanghai Composite doesn't tend to do so well when the 10-year spread is narrowing.



The tech heavy CSI-300 has been under pressure and the SHCOMP recently broke down and has not been able to regain its footing.

The combination of high positioning, rising yields and a somewhat stronger USD, has weighed on EM overall over the last few weeks. EEM in particular has large greater China exposure.

Stargazer Asset Management

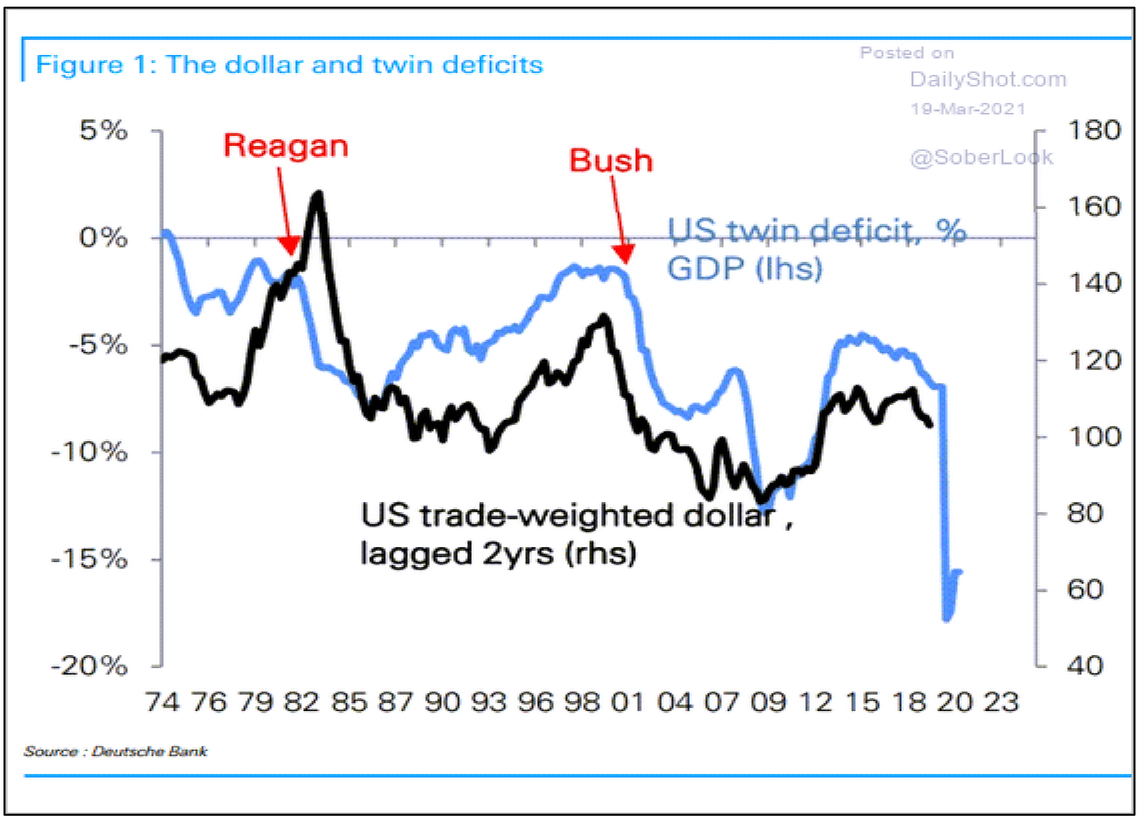
Bonds

Next week should be interesting for bond markets. Powell alone has three opportunities to comment on markets and policy, not to mention numerous other Fed speakers during the week.

All eyes will be on yields. Over the coming months, I will continue to watch breakevens. If they break down, it will be an indication that yields have risen far enough to adversely affect inflation expectations. Also, watch 5-years for signs that the market is not buying the Fed's ability to stick with the current plans for lift-off.

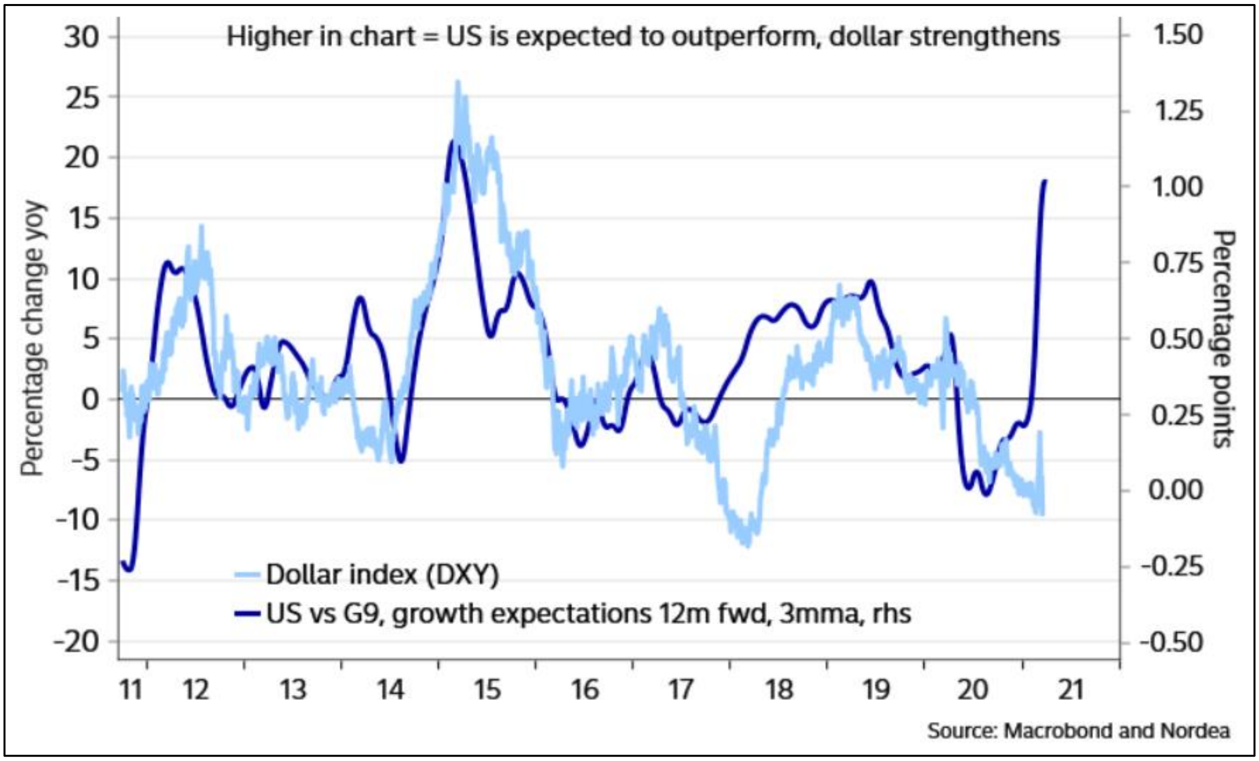
FX

Over the medium term, the market expectation continues to be for a weaker dollar as the need to fund twin US deficits means a weaker currency.

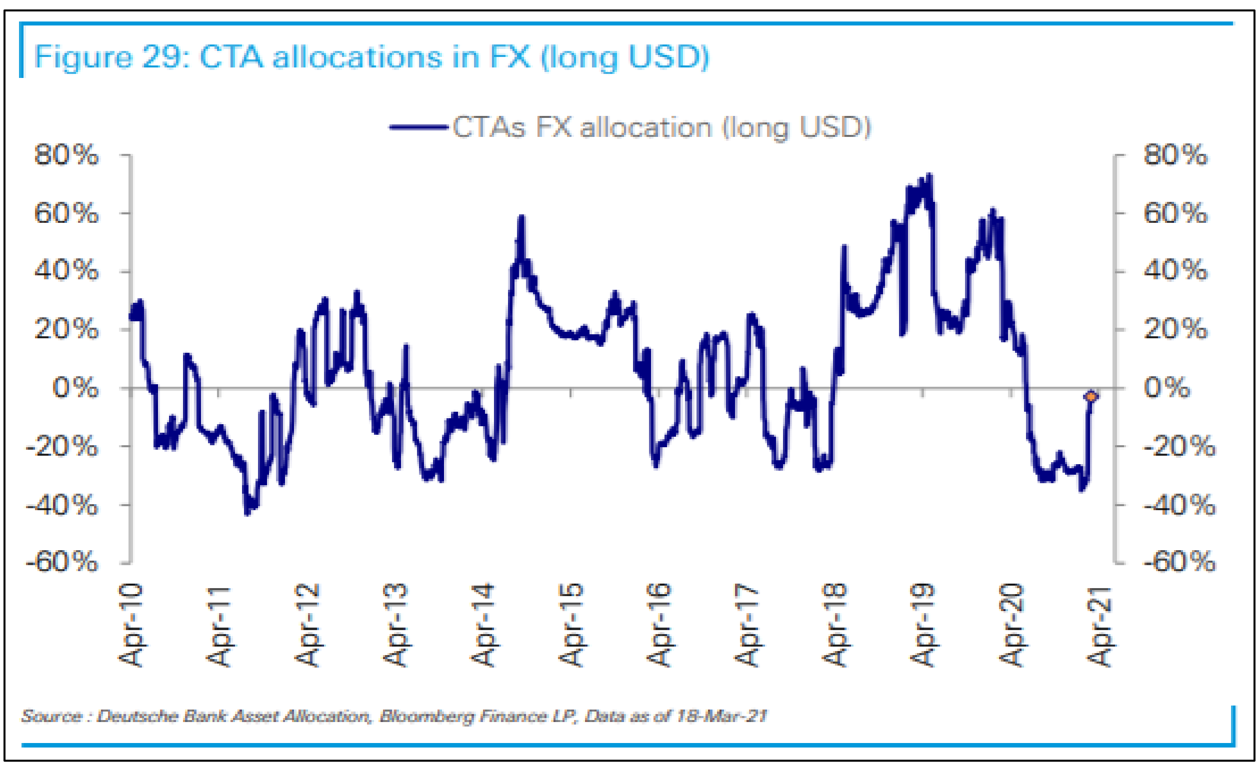


However, in the near-term relative growth and by extension relative monetary policy expectations continue to support the dollar, especially vs. other DM currencies.

Stargazer
Asset Management



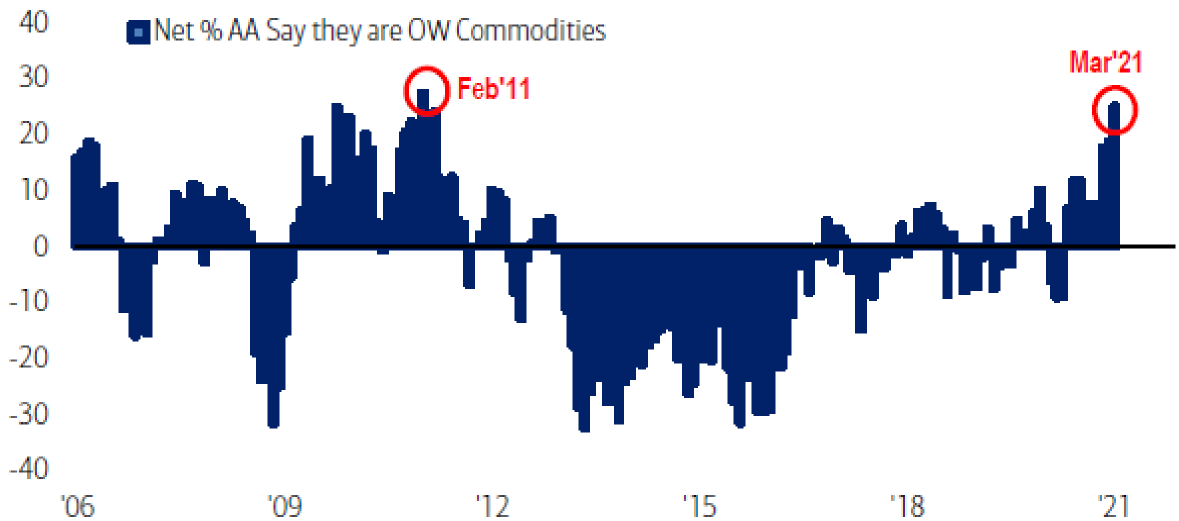
Extreme short USD positioning has started to unwind.



Commodities

The inflation trade has led to the addition of meaningful commodity exposure in recent months.

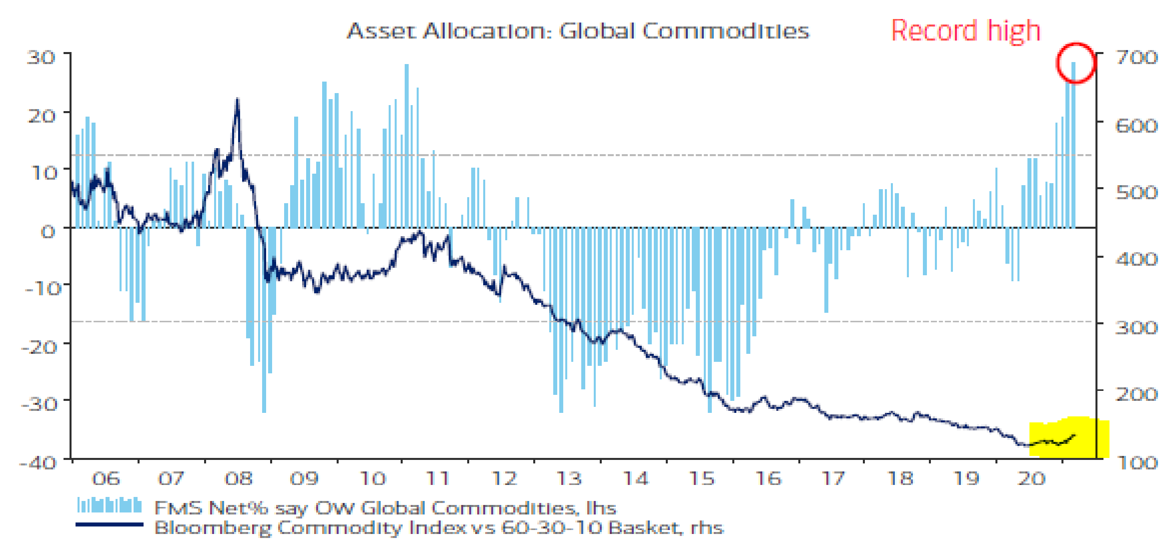
Exhibit 21: FMS Global commodity allocation highest ever
Net % AA Say they are Commodities



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Exhibit 42: Net % AA Say they are overweight Commodities
Net% of FMS investors overweight commodities



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Having said that, the total amount of exposure to commodities, either outright or vs. commodity related equities, is still relatively low in aggregate. The last two decades have had a persistently disinflationary backdrop, so that shouldn't be a surprise.

Last week triggered a nasty break lower in Oil after a spectacular run. I would think we are just working off very overbought conditions, and that after a pause, we try the highs again. The timing of Thursday's ~7% drop suggests that April WTI contract rolls may have played some part. However, the feedback for inflation expectations can be circular with Oil, so this is one to keep an eye on.

In other news, Summers and Krugman continue their battle regarding current mix of monetary and fiscal policy. Summers issuing a stark warning and Krugman sticking with his "all under control" call.

"Former Treasury Secretary Lawrence Summers warned that the U.S. is suffering from the "least responsible" macroeconomic policy in four decades, pointing the finger at both Democrats and Republicans for creating "enormous" risks." Bloomberg

Stargazer Asset Management

Important Macro Data Releases and Events for the Week

Sunday
3/21/2021

- PBoC Interest Rate Decision - Currently: 3.85% - No change expected

Monday
3/22/2021

- Chicago Fed National Activity Index (Feb) Forecast: 0.21 Prior: 0.66
- **Fed's Chair Powell SPEECH**
- Fed's Daly SPEECH
- Fed's Quarles SPEECH
- Fed's Bowman SPEECH

Tuesday
3/23/2021

- BoE's Governor Bailey SPEECH
- New Home Sales MoM (Feb) Forecast: 880k, Prior: 923k
- **Fed's Chair Powell Testifies to Congress**
- Fed's Brainard and Williams SPEECHES

Wednesday
3/24/2021

- Markit PMI's across Europe
- Bund Auction
- Durable Goods Orders (Feb) Forecast: 1%, Prior: 3.4%
- Non-Defense Capital Goods Orders ex-Aircraft (Feb) Forecast: 0.7%, Prior: 0.4%
- **Fed Chair Powell Testifies to Congress**
- Markit PMI's for US
- Consumer Confidence (Mar) Forecast: -14.3%, Prior: -14.8%
- 5-year Note Auction

	Fed's Williams SPEECH
Thursday 3/25/2021	European Council Meeting
	Gfk Consumer Confidence Survey (Apr) Forecast: -11.8, Prior: -12.9
	SNB Interest Rate Decision and Monetary Policy Assessment
	Economic Bulletin
	Initial Jobless Claims Forecast: -, Prior: 770k
	Initial Jobless Claims 4-week ave. Forecast: - , Prior: 746.25k
	Continuing Jobless Claims Forecast: -, Prior: 4.124m
	GDP Annualized (Q4) Forecast: 4.1%, Prior: 4.1%
	GDP Price Index (Q4) Forecast: 3.7%, Prior: 2%
	PCE Prices QoQ (Q4) Forecast: 1.6%, Prior: 1.6%
	Core PCE (QoQ (Q4) Forecast: 1.4%, Prior: 1.4%
	Fed's Bostic, Clarida and Williams SPEECHES
Friday 3/26/2021	European Council Meeting
	IFO - Business Climate (Mar) Forecast: 93, Prior: 92.4
	IFO - Current Assessment (Mar) Forecast: 92.4, Prior: 90.6
	IFO - Expectations (Mar) Forecast: 95, Prior: 94.2
	Core PCE Price Index MoM (Feb) Forecast: 0.1%, Prior: 0.3%
	Core PCE Price Index YoY (Feb) Forecast: 1.5%, Prior: 1.5%
	Personal Income MoM (Feb) Forecast: -7.2%, Prior: 10%

Stargazer Asset Management

Personal Spending MoM (Feb) Forecast: 0.1%, Prior: 2.4%

Michigan Consumer Sentiment Index (Mar) Forecast: 83.5, Prior: 83

Disclaimer