What to focus on in Global Macro for the week of November 23rd, 2020

Macro Themes on the Radar:

Last week was bookended by good news on the vaccine front from Moderna on Monday, and a disagreement that erupted late Thursday between Treasury Secretary Mnuchin and the Fed.

The Treasury called for a return of some of the funding provided to the Fed as backing for emergency lending facilities. This was quickly answered by a Fed statement urging that "the full suite" of measures be retained into 2021.

Many of the programs targeted by the Treasury have been under-utilized, but there is little doubt that this backstop allowed markets to bounce back more quickly than otherwise. While this tiff may end up being noise, it is occurring as election bickering and distrust continues, and Congress remains unwilling to pass further stimulus. A Biden administration is likely to reinstate the full menu of programs and push for an extension of the CARES Act. However, there is already enough uncertainty around how the current COVID outbreak will develop over the next few months vs. the potential rollout of multiple vaccines. The opening of this new split, in what has been a very stable and effective relationship, is making people nervous. Cooperation is critical in a world where policy is defined by what monetary authorities can do and what fiscal authorities are willing to do.

This is the current Treasury plan for those programs:

PROGRAM	REQUESTED EXPIRATION
Primary Market Corporate Credit Facility	Dec. 31
Secondary Market Corporate Credit Facility	Dec. 31
Municipal Liquidity Facility	Dec. 31
Main Street Lending Program	Dec. 31
Term Asset-Backed Securities Loan Facility	Dec. 31
Commercial Paper Funding Facility	Additional 90 days
Money Market Mutal Fund Liquidity Facility	Additional 90 days
Primary Dealer Credit Facility	Additional 90 days
Paycheck Protection Program Liquidity Facility	Additional 90 days

Bloomberg

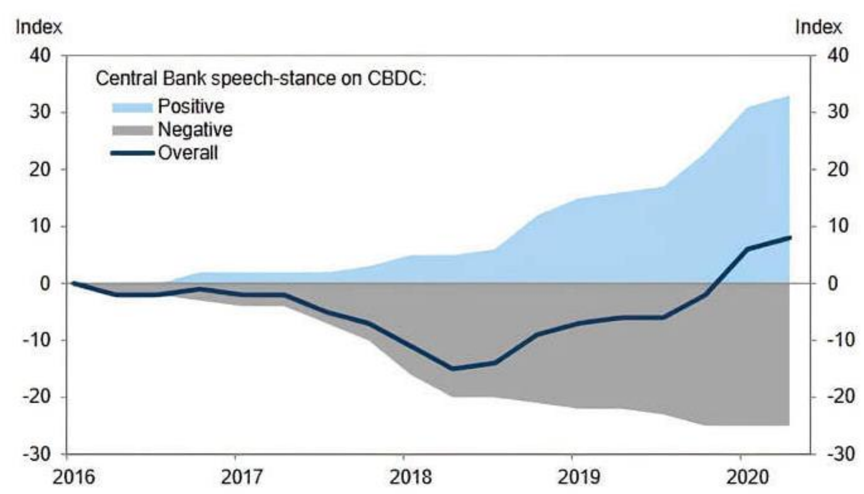
Europe

EU leaders made no progress this week as they continue to struggle to agree on the rule-of-law clause in the disbursement requirements. Hungary and Poland have continued to block the process and hold de facto veto power. I assume we will reach a compromise as it is the European way, but concern is starting to emerge that the disbursement of funds could be delayed.

Central Bank Digital Currencies

The flood gates have certainly opened when it comes to CBDC discussions in the media. Central bankers themselves have been increasingly vocal on the subject, with potential benefits being increasingly highlighted.

Exhibit 3: Central banks have increased their focus on CBDCs, particularly the potential benefits



Source: BIS, Goldman Sachs Global Investment Research

A just released working paper from the ECB provides an interesting window into how they are thinking…

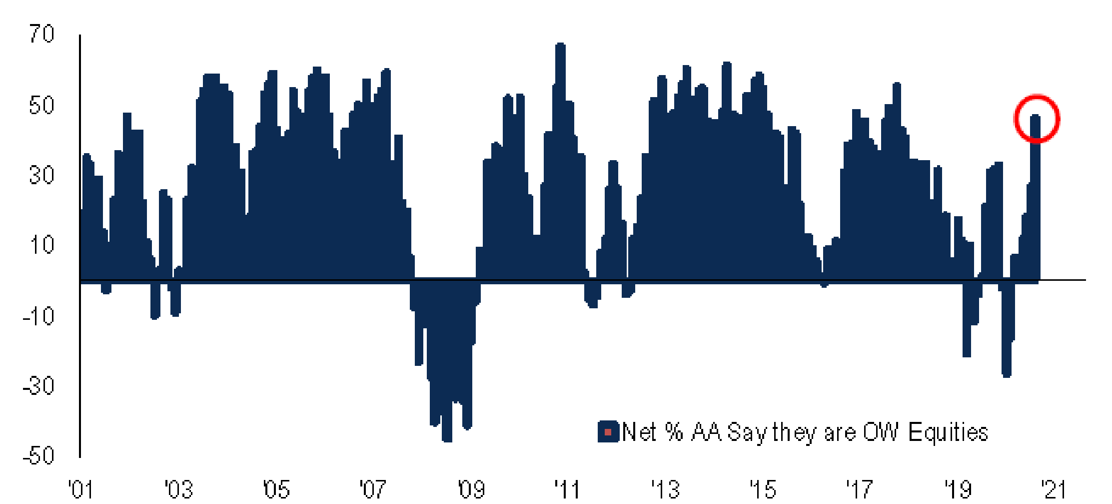
"A recent survey suggests that central banks representing a fifth of the world's population are likely to issue a CBDC "very soon", while 80 percent of central banks worldwide are working on a CBDC (BIS (2020)). More recently still, the Covid-19 pandemic has fanned public concerns that the virus could be transmitted by cash, thereby amplifying calls for developing contactless forms of payment, such as CBDCs (Auer et al. (2020)). A CBDC, in a nutshell, aims at enlarging access to central bank reserves beyond the small realm of commercial banks to the public at large – a concept sometimes referred to as "reserves for all". Cash would hence no longer be the only form of central bank money through which the public could transact and save. The same could be done with reserves deposited at the central bank."

What to Focus on Now:

Equities

Although the current COVID news continues to be grim in much of the world, investors have increasingly focused on the light at the end of the tunnel. The announcement of multiple vaccines and increased potential for near-term distribution, has delivered a big dose of investor optimism.

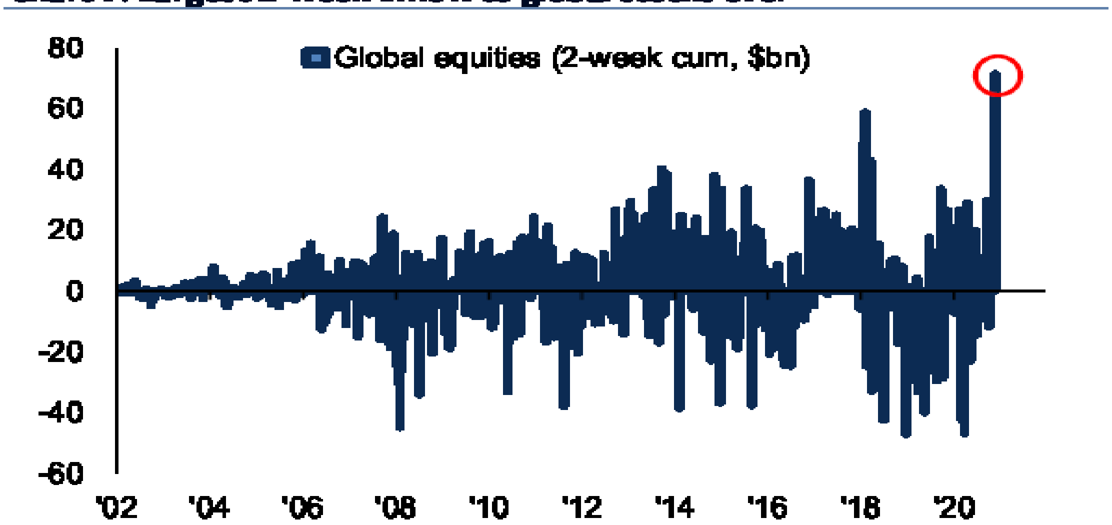
Exhibit 11: November survey shows FMS investor optimism on stocks skyrocketed



Source: BofA Global Fund Manager Survey

Resulting in big inflows.

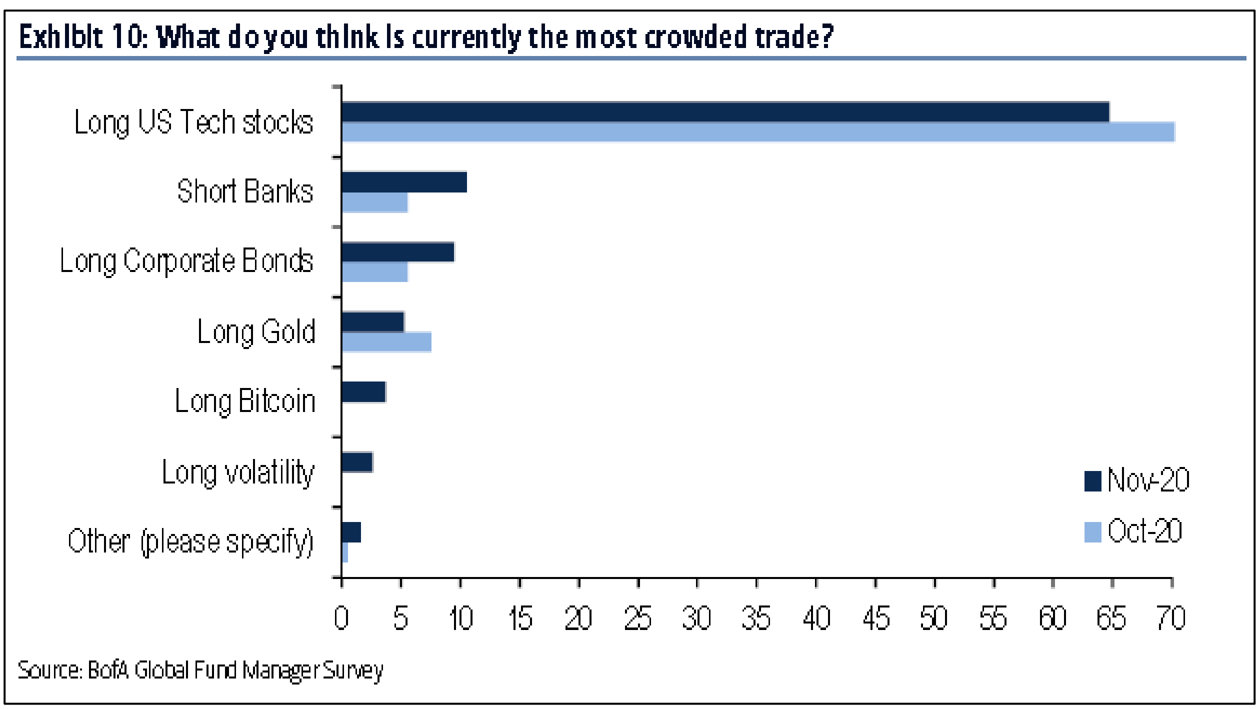
Chart 7: Largest 2-week inflow to global stocks ever



Source: BofA Global Investment Strategy, EPFR Global

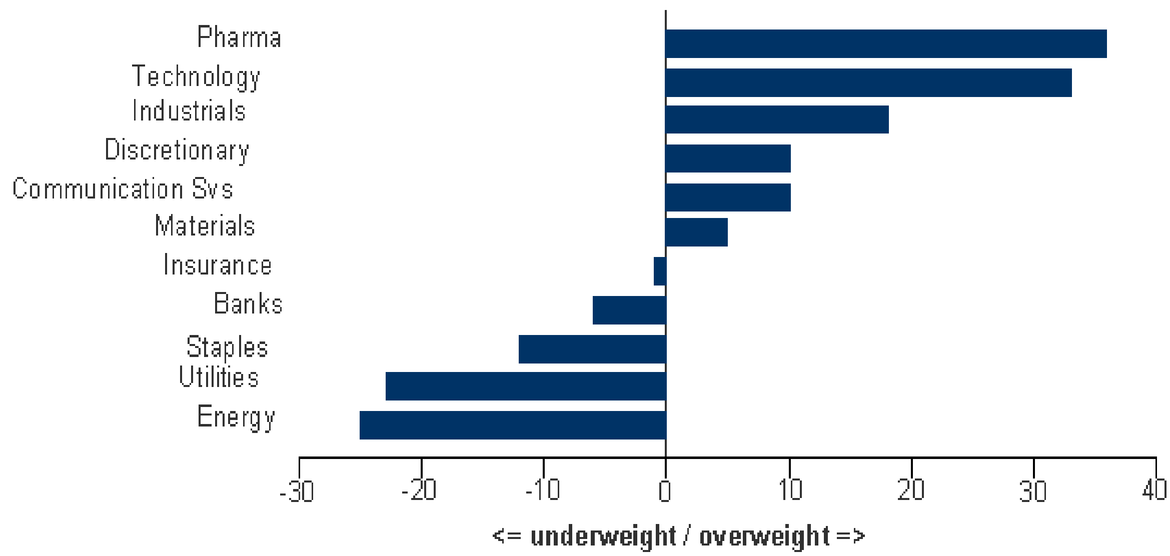
Institutional investors are also taking more risk as global growth hopes rise.

If we have finally started a durable rotation, it should still has a long way to run if positioning is any indicator.



While leveraged money has been forced to react, real money hasn't even started to do so in any meaningful way.

Exhibit 43: Global sector sentiment (% saying overweight - % saying underweight)

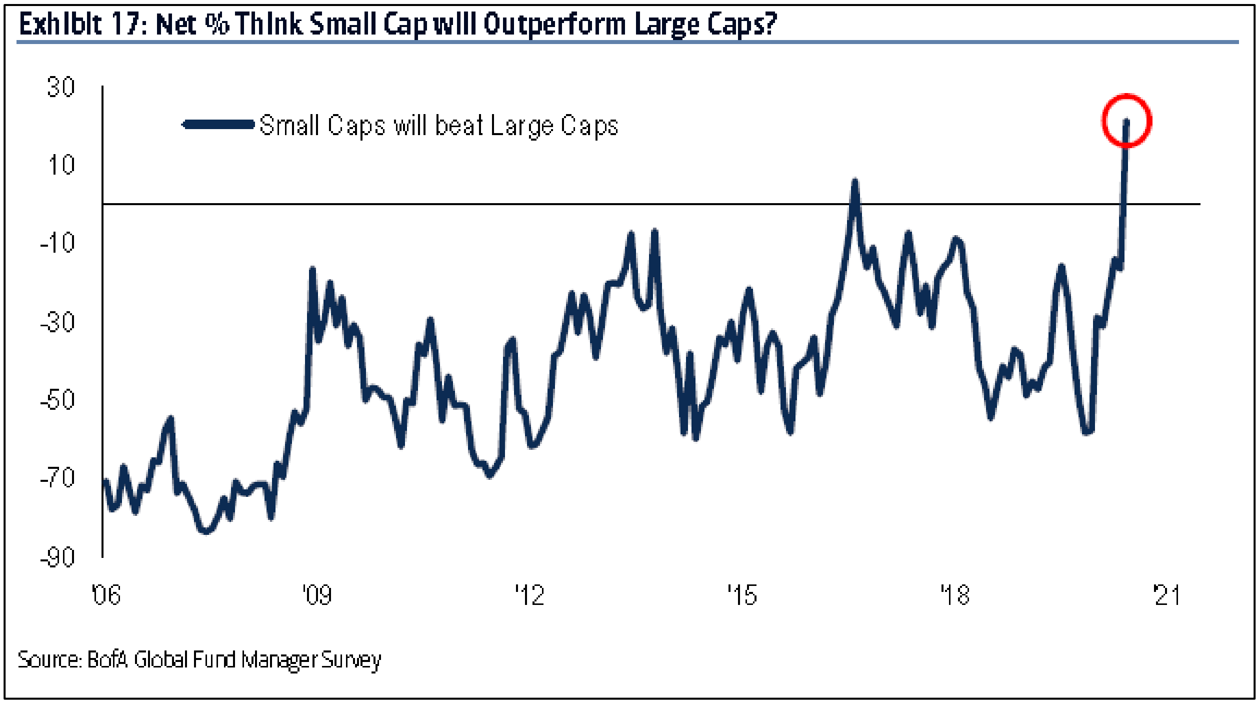


While positions are only starting to shift, sentiment is already there…

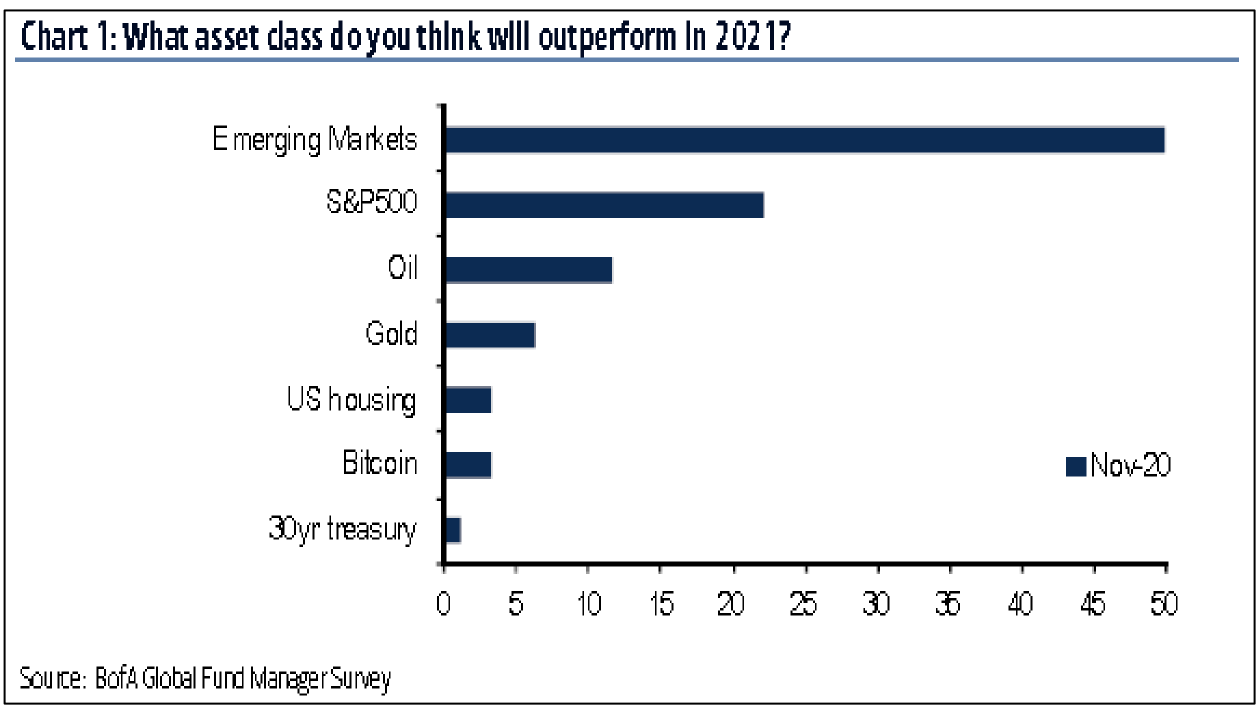
Exhibit 18: Net % Think 'Value' stock will Outperform 'Growth' stocks

Source: BofA Global Fund Manager Survey

Small Cap vs. Large Cap sentiment is also zooming…



As is the view of Emerging Markets performance going forward.



EM is starting to hold its own vs. the S&P now. We are at big levels here and further confidence in renewed global growth and/or renewed USD weakness could be enough to support a relative performance breakout.

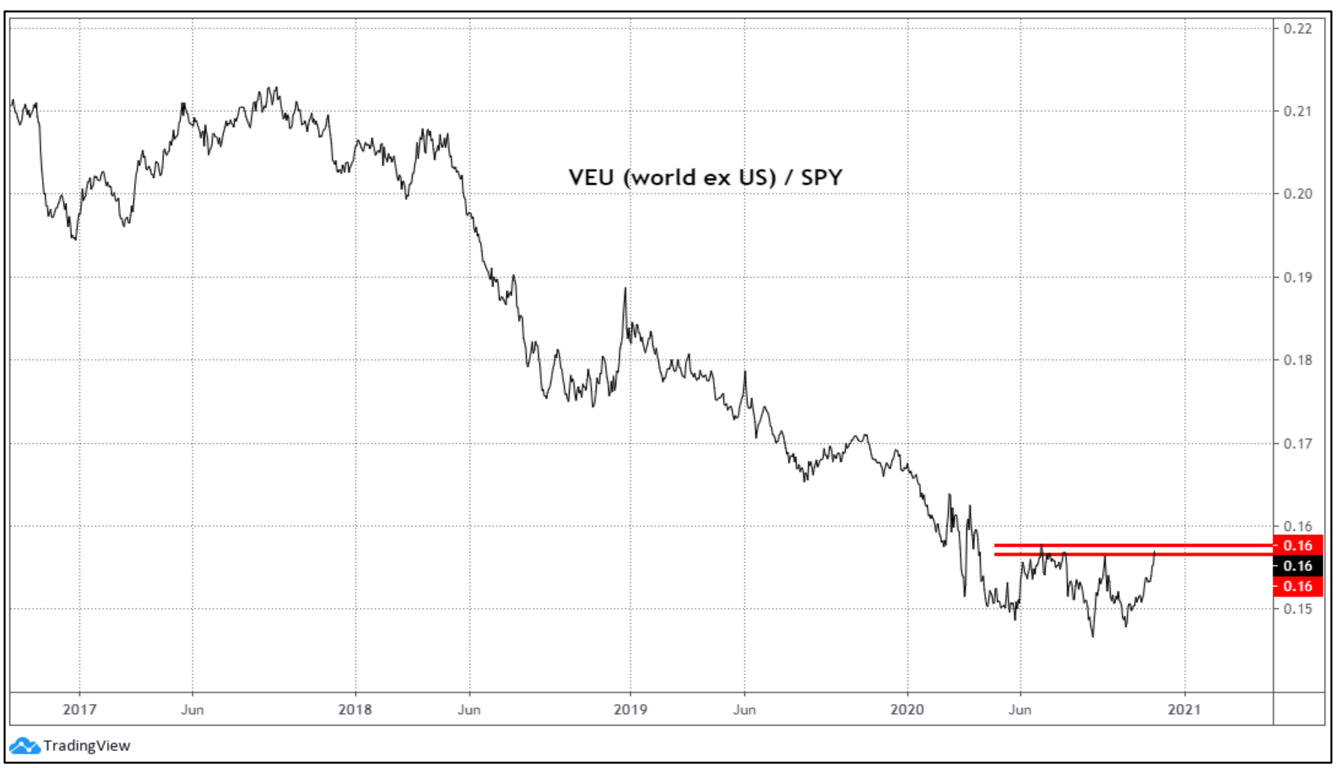
We have the potential for the reversal on the magnitude of H1 2018…

Which led to large and persistant outperformance by the US.

After its huge rally over the last two weeks, Europe is also knocking on the door of renewed outperformance.

Stargazer Asset Management

As is a portfolio of global (non-US) large and mid-cap names.

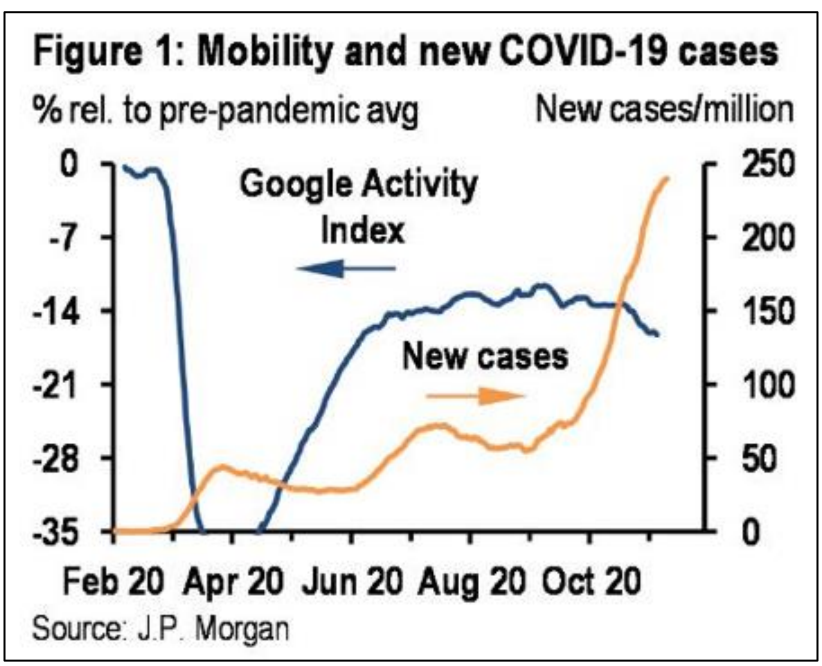


When it comes to non-US outperformance, it is basically a global version of the growth to value trade.

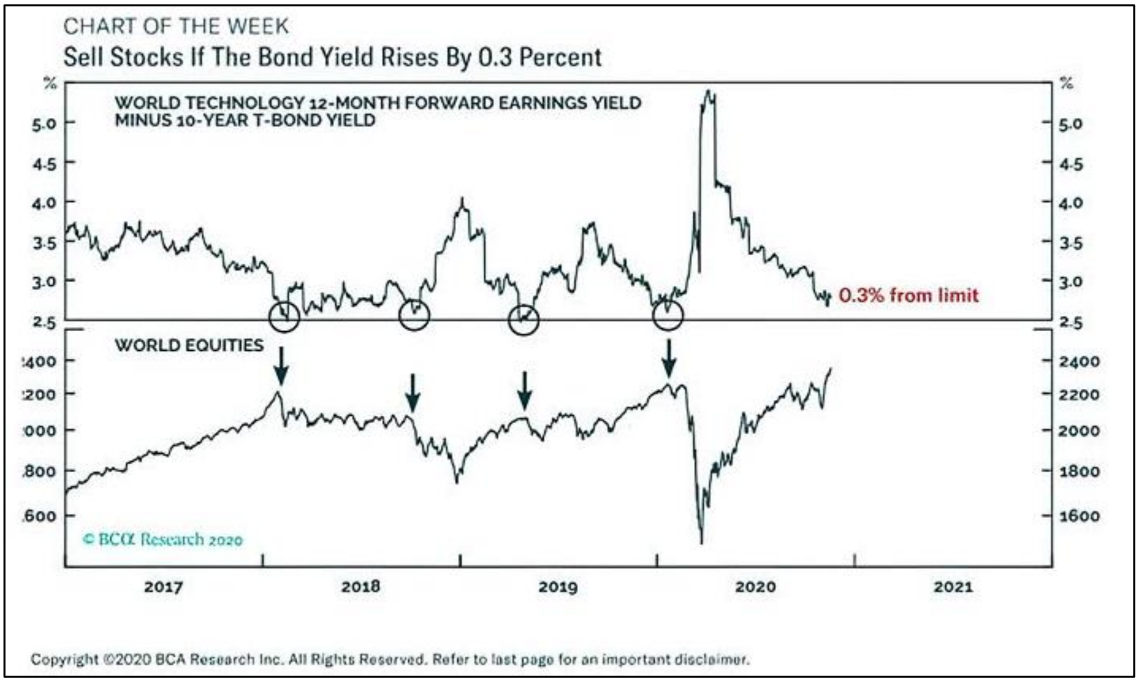
Contact: efill@stargazerfunds.com / SMS, WhatsApp and Voice at +1.203.219.3649

So far, despite high expectations, long yields have only been tentatively rising.

Sequencing could be an issue as current conditions have been softening with the resurgence of the virus. A real attempt at higher long end yields may have to wait for signs that the recent wave is flattening and starting to roll. In Europe we are already seeing it; not yet in the US.

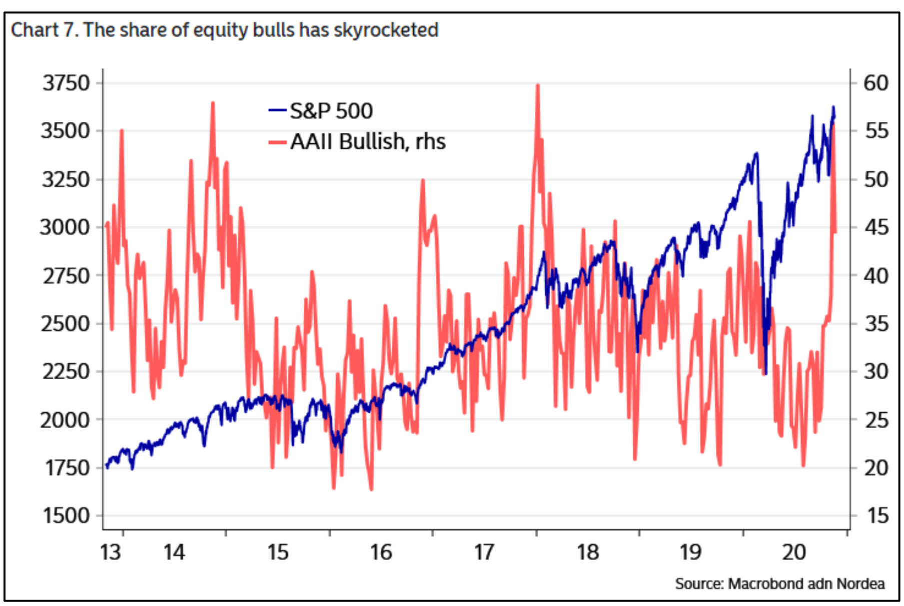


If and when we do get higher yields, how markets react will be important. BCA Research notes that rising 10-year yields have not been good for global stocks due to the importance of technology stocks. (Tech, Gold, Bitcoin etc. have been trading like bond replacements)

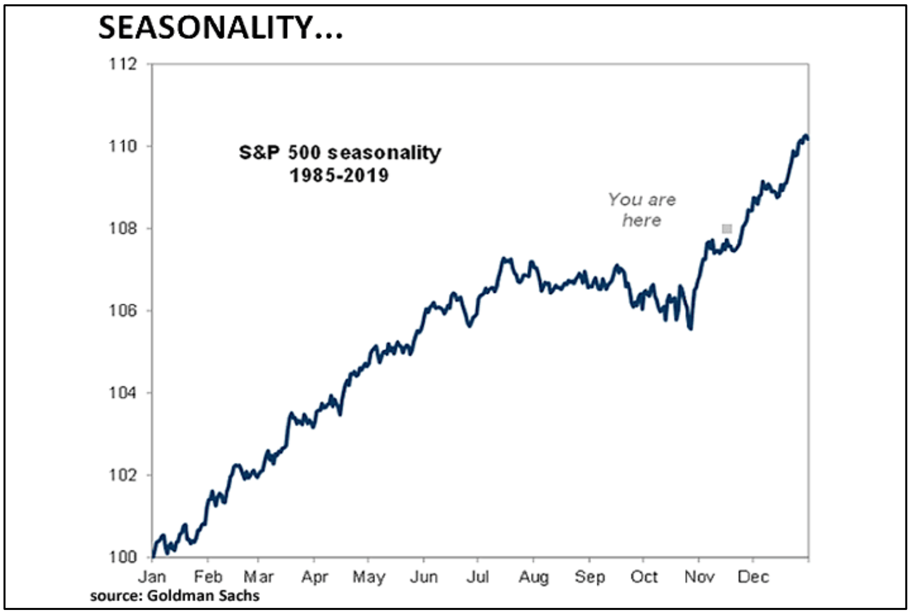


So, the question becomes, how does the overall market handle higher yields and can we have a benign rotation? I think we can, if we get a convincing global growth story to back it up.

However, it could be a bumpy road and as already noted above, flows and sentiment have already jumped.

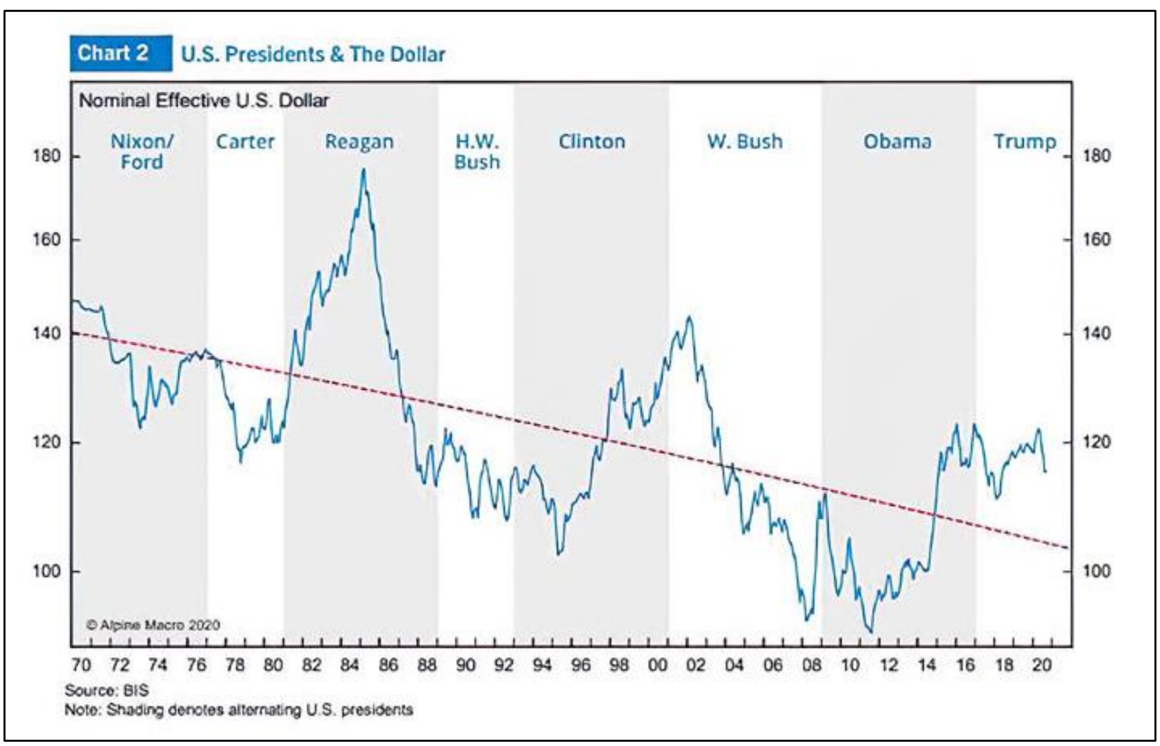


No doubt partially driven by expectations that the seasonals are kicking in and the "Santa rally" is underway. Average outcomes like that are always hard to trade, but especially in a year like 2020.

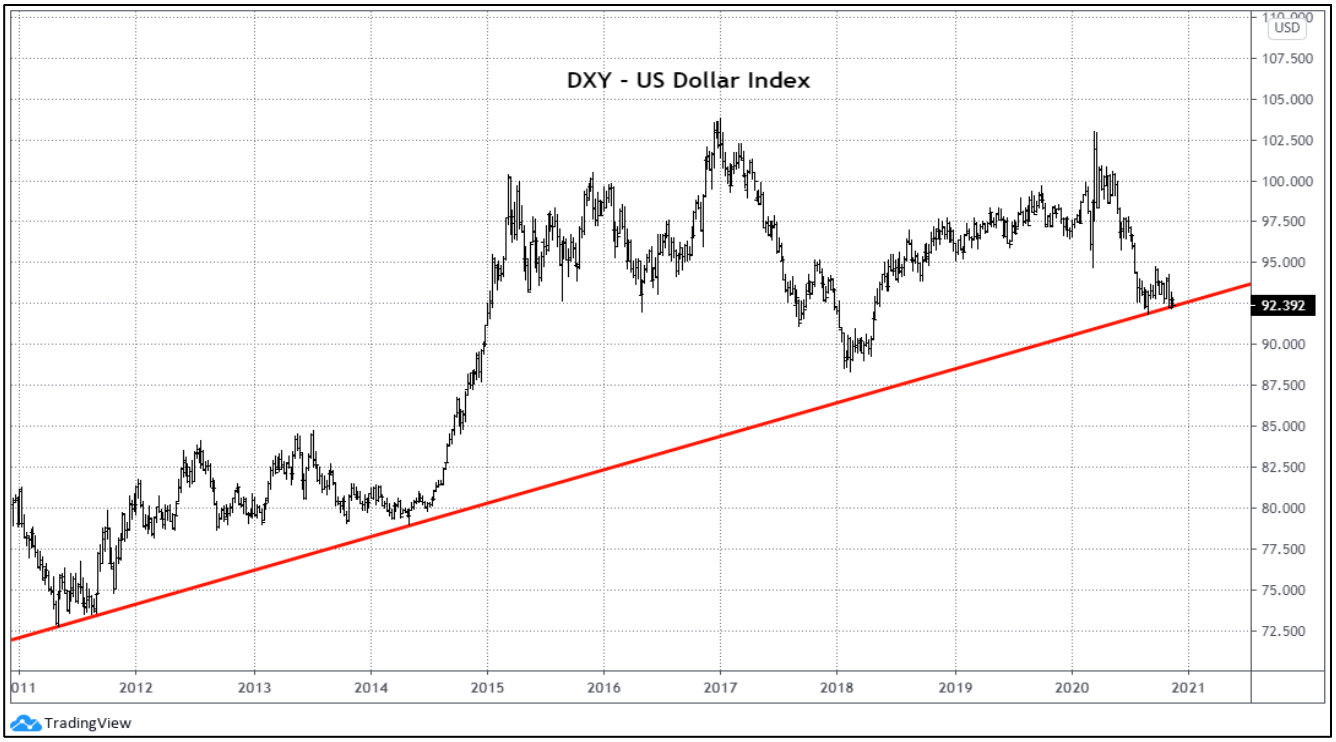


FX

There is high conviction in markets that Biden will be bad for the dollar. History isn't much help here as the specific policies enacted and the hand dealt will provide the outcome.

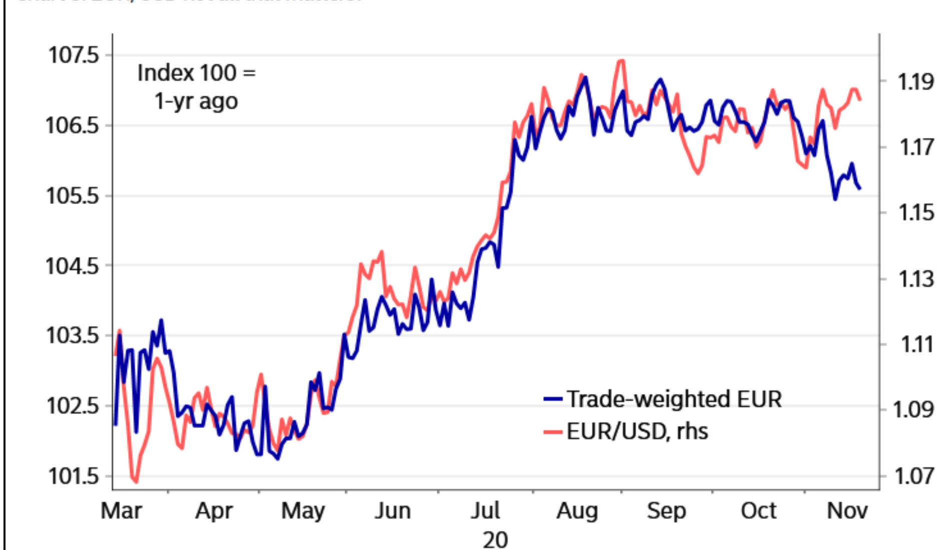


For now, we still seem to be in a holding pattern. We have seen a full three months of sideways price action now vs. the majors (EUR the driver). As we are just barely hanging above support, a weekly close under 92.00 on the DXY is worth watching for.



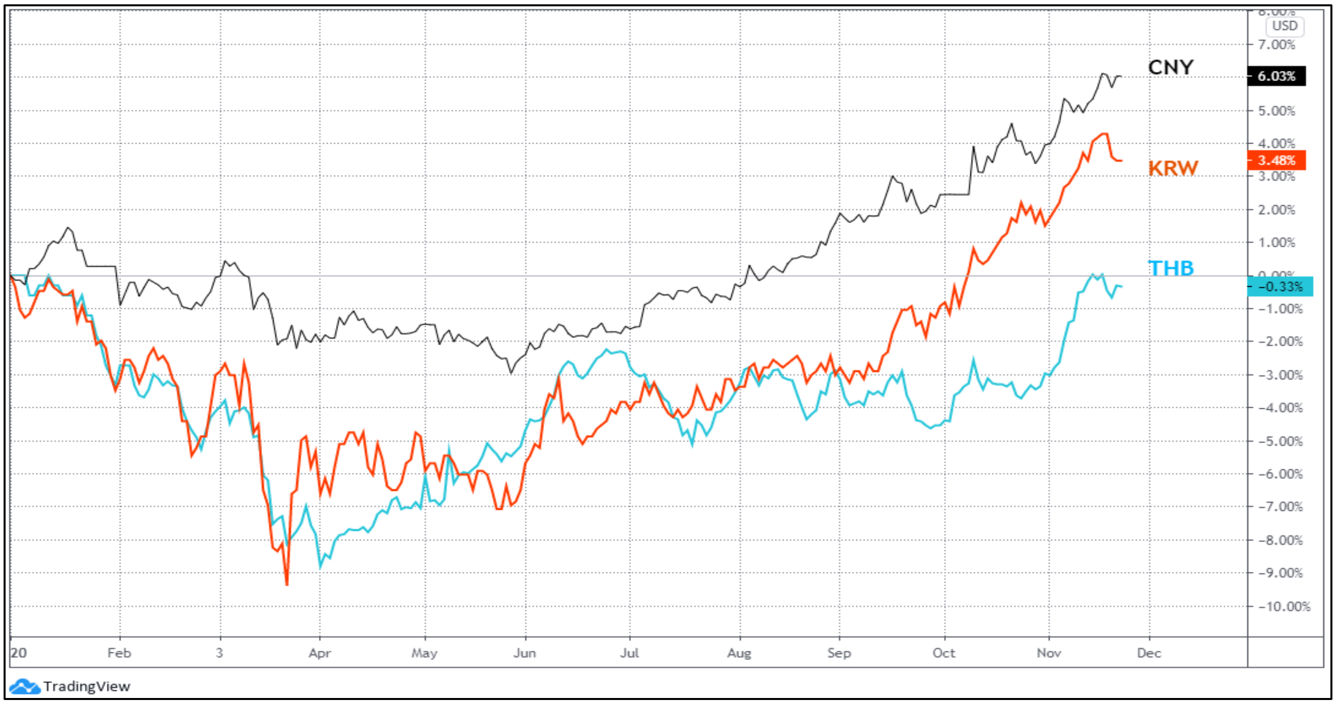
While the rebound in the EUR since the March lows has elicited some ECB protests, they don't have many options for stopping it, especially if a falling USD is the driver. The trade-weighted EUR should give them some comfort for now.

Chart 8. EUR/USD not all that matters?

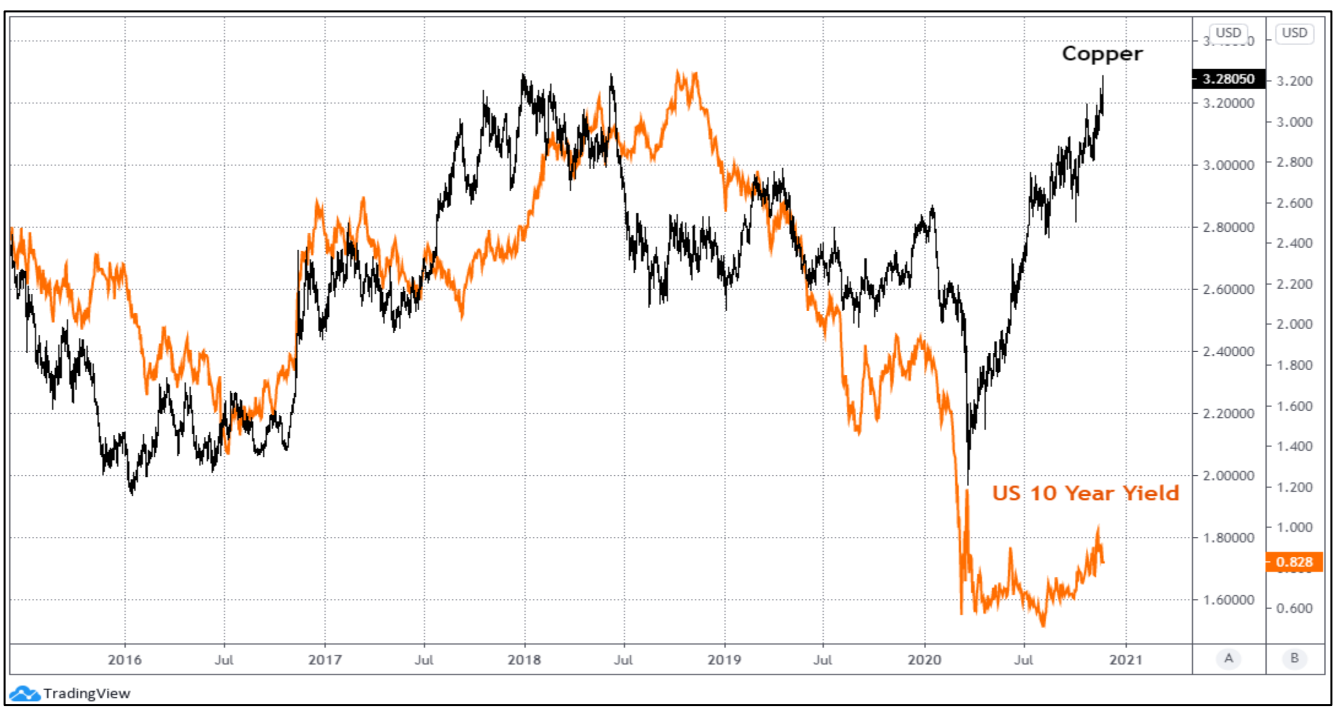


Source: Macrobond and Nordea

Other currencies have also been rallying as well vs. USD, especially in Asia. The relatively strong economic rebound in the region has attracted capital. Here too however, we are starting to hear protests from the likes of the PBoC, the Koreans and the Thais.

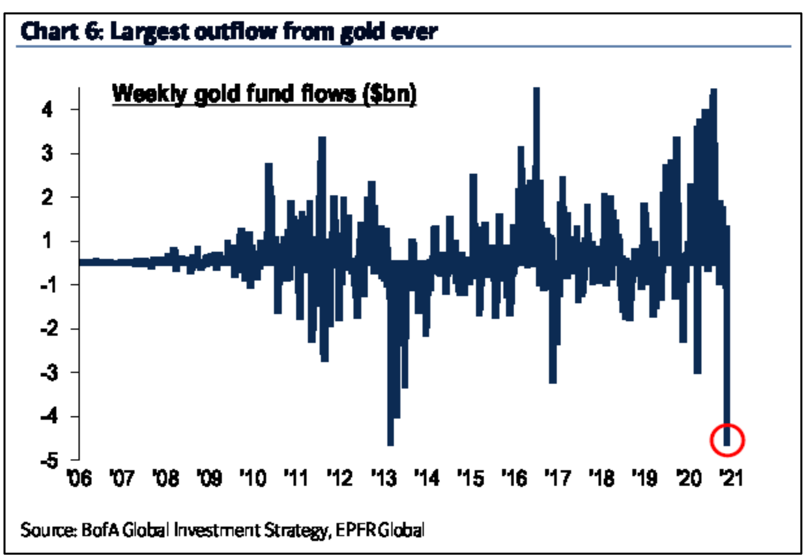


Bonds - As noted, yield curve expectations are at historic highs. Do we finally close the gap between yields, and the prices of things like copper, that have already come all the way back?



Again, the biggest risk for now is probably near-term political disarray and continued economic slowing via the virus. However, even then, a renewed fall in yields and a retrace in the rotation trade should be an opportunity.

Gold, Silver Platinum and Bitcoin – Despite a stable USD, somewhat higher yields and VERY negative recent Gold flows, prices have held up. Similar flows in 2013 knocked it down >25%.



So far, Gold has held above 1850. If we hold up here or only suffer a short-lived false break of that level, a move back above 1900 and then 1950 may force people back in.

Interestingly, long suffering Platinum is starting to see signs of life vs. Gold.

With the recent Bitcoin rally I thought this chart was interesting. It isn't much of a sample size, but maybe physical Gold can join the move in digital Gold, as it did in mid-2019. A lower USD would help.

Important Macro Data Releases and Events for the Week

Monday 11/23/2020

- Markit PMI's for much of Europe
- ECB's Schnabel SPEECH
- Chicago Fed National Activity Index (Oct) Forecast: -, Prior: .27
- Markit Manufacturing PMI (Nov) Forecast: 53, Prior: 53.4
- Markit Services PMI (Nov) Forecast: 55.5, Prior: 56.9
- Markit Composite PMI (Nov) Forecast: -, Prior: 56.3

Tuesday 11/24/2020		GDP YoY (Q3) Forecast: -4.3%, Prior: -4.3%
		GDP QoQ (Q3) Forecast: 8.2%, Prior: 8,2%
		IFO - Business Climate (Nov) Forecast: 90.8, Prior: 92.7
		IFO - Current Assessment (Nov) Forecast: 87.4, Prior: 90.3
		IFO - Expectations (Nov) Forecast: 93.8, Prior: 95
		BoJ Governor Kuroda SPEECH
		Housing Price Index MoM (Sep) Forecast: 1.1%, Prior: 1.5%
		S&P/Case-Shiller Home Price Indices YoY (Sep) Forecast: 4.2%, Prior: 5.2%
		Richmond Fed Manufacturing Index (Nov) Forecast: 29, Prior: 29
		Consumer Confidence (Nov)
		Fed's Williams SPEECH
		Fed's Clarida SPEECH
Wednesday 11/25/2020		EU Financial Stability Review REPORT
		Initial Jobless Claims Forecast: 725k, Prior: 742k
		Initial Jobless Claims 4-week ave. Forecast: - , Prior: 742k
		Continuing Jobless Claims Forecast: -, Prior: 6.372m
		Durable Goods Orders (various forms)
		Person Consumption Expenditure (various forms look to be weaker)
		GDP Annualized (Q3) Preliminary Forecast 33.1%
		Michigan Consumer Sentiment Index (Nov) Forecast: 77, Prior: 77
		New Home Sales MoM (Oct) Forcast: 0.97m, Prior: 0.959m

		New Home Sales Change MoM (Oct) Forecast: 1.8%, Prior: -3.5%
		Fed's FOMC Minutes
Thursday 11/26/2020		Thanksgiving Day
		Gfk Consumer Confidence Survey (Dec) Forecast: -2.8%, Prior: -3.1%
		ECB Monetary Policy Meeting Accounts
Friday 11/27/2020		German Buba President Weidmann SPEECH
		Consumer Confidence (Nov) Forecast: -18, Prior: -17.6
		Business Climate (Nov) Forecast: -, Prior: -0.74