Stargazer
Asset Management

What to focus on in Global Macro for the week of May 23rd, 2022

Last week, El-Erian told Bloomberg Television that while the US can probably avoid a recession, “what is unavoidable is stagflation”…“we’ve seen growth coming down and we’re seeing inflation remaining high.”

In fact, that is exactly what markets fear, and have been pricing.

Chart 7: “Stagflation” expectations highest since Aug’08
Which of the following do you think best describes the global economy over the next 12 months?

Source: BofA Global Fund Manager Survey

In an environment where supply rather than demand is the major inflation driver, central banks need to stomp extra hard on demand to move the inflation needle.

Markets are struggling with the extent to which it really is “different this time”. After getting used to the Fed always having the ability to come to the rescue with liquidity given a disinflationary backdrop, markets are now faced with a Fed that is so far unphased by falling markets. Instead, they are, at least so far, welcoming the price action, seeing it as part and parcel of the tightening financial conditions they are pursuing. On Thursday, following up on a string of hawkish Fed speakers, Kansas City Fed President Esther George made it clear that the central bank wasn’t deterred by a falling stock market… *“I think what we are looking for is the transmission of our policy through markets understanding, and that tightening should be expected. It is one of the avenues through which tighter financial conditions will emerge.”*

So far, the expected turn lower in inflation is starting to show itself as base effects start to kick in. However. As mentioned last week, the move away from goods and towards services is so far holding up further progress.

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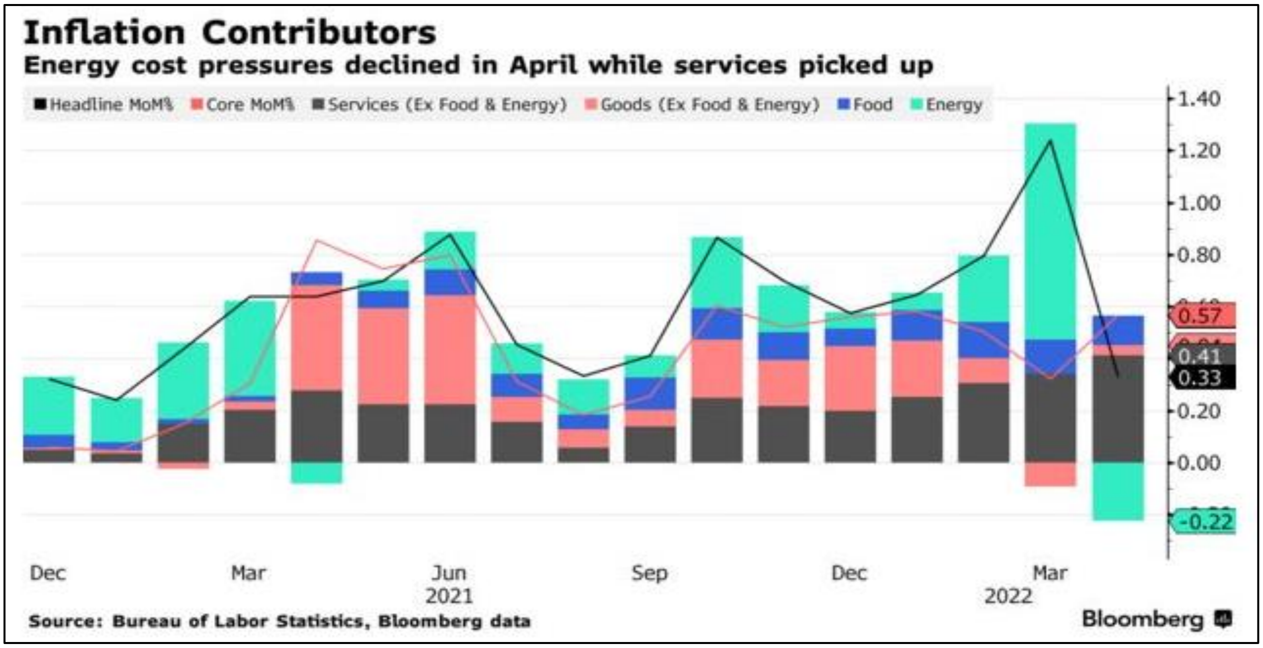
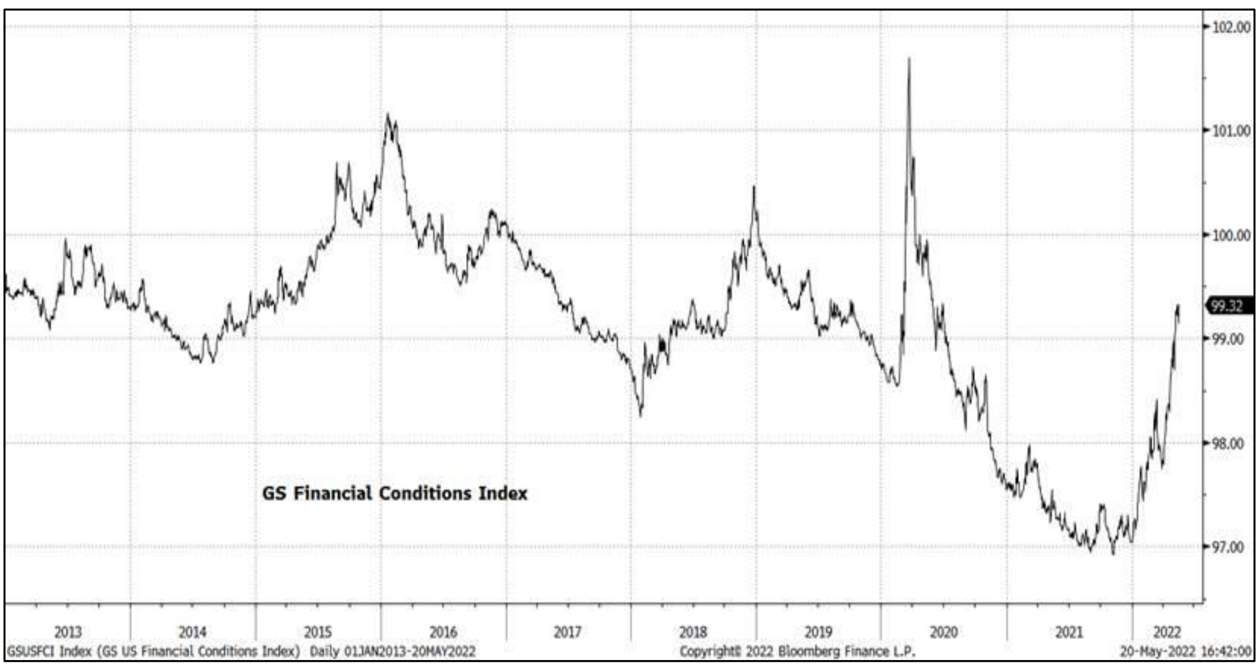
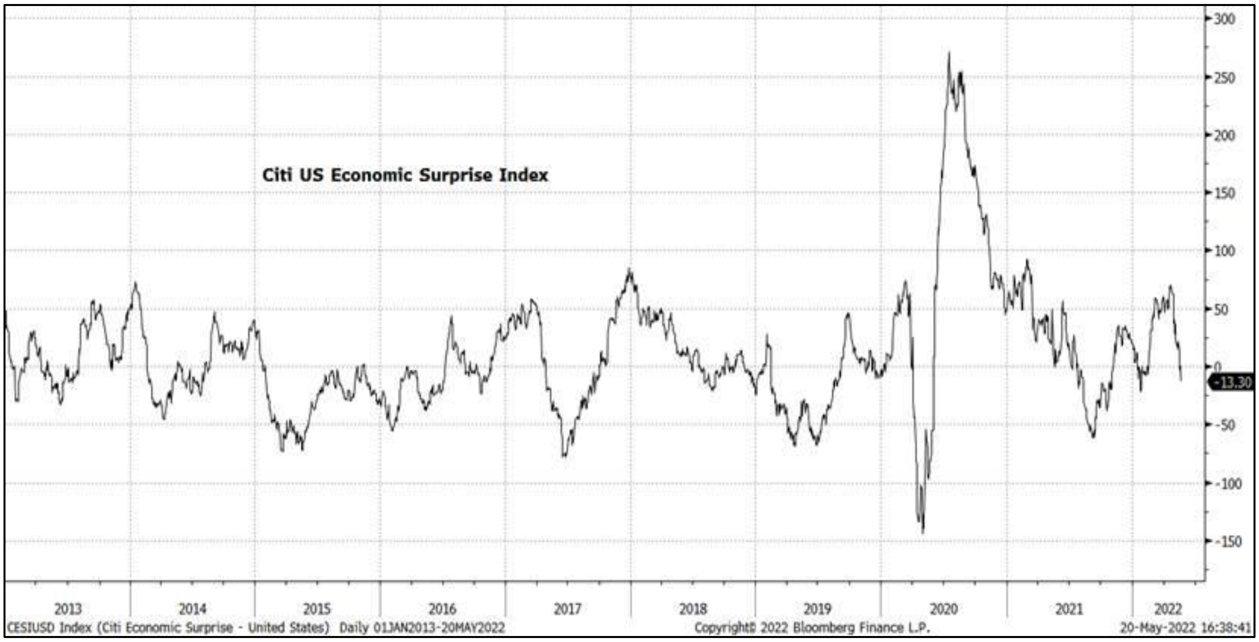


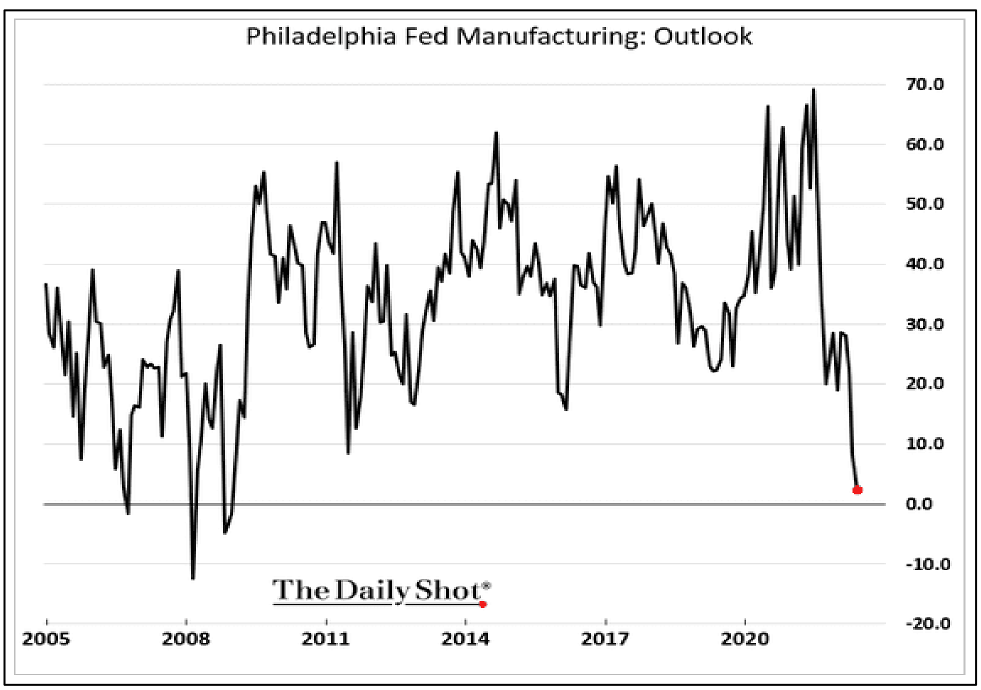
Be it coincidence or cause and effect, the tighter financial conditions are starting to correlate with signs the economy is slowing.



Recent economic data has started to disappoint.



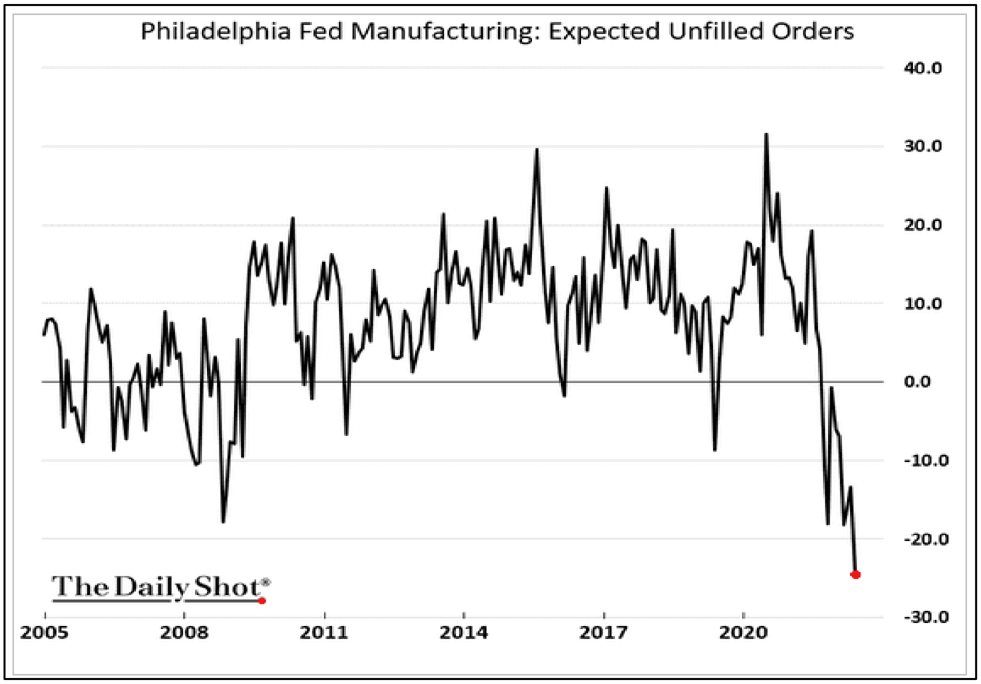
Last week's poor Empire survey was followed later in the week by a very poor Philly Fed Manufacturing Survey.



Perhaps the good news was that prices paid, while still high, may be topping out…

As Expected Delivery Times fall…

And Expected Unfilled Orders continue to drop.



There was some obvious retail pain at some large stores as consumers shifted away from goods, and base effects hit, just as inventories have been rebuilt.

Target CEO Brian Cornell's comments were interesting:

"… in our other three core merchandise categories, Apparel, Home, and Hardlines, we saw a rapid slowing in the year-over-year sales trend at the beginning of March, when we began to annualize the impact of last year's stimulus payments

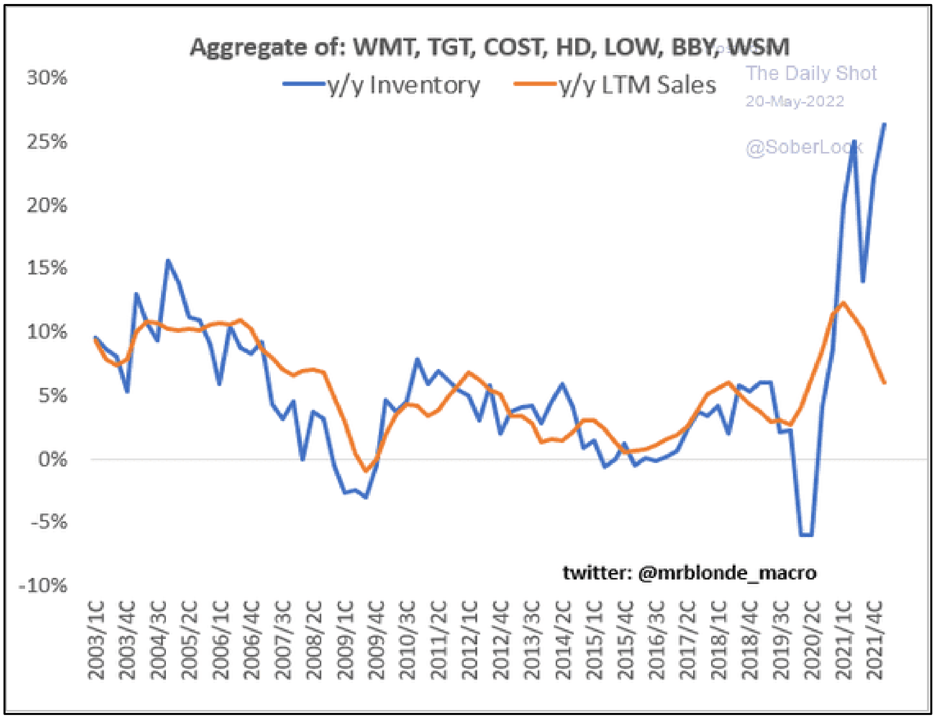
While we anticipated a post-stimulus slowdown in these categories and we expected the consumer to continue refocusing their spending away from goods and into services, we didn't anticipate the magnitude of that shift."

The Fed's Bullard wasn't shy to share his thoughts, as usual.

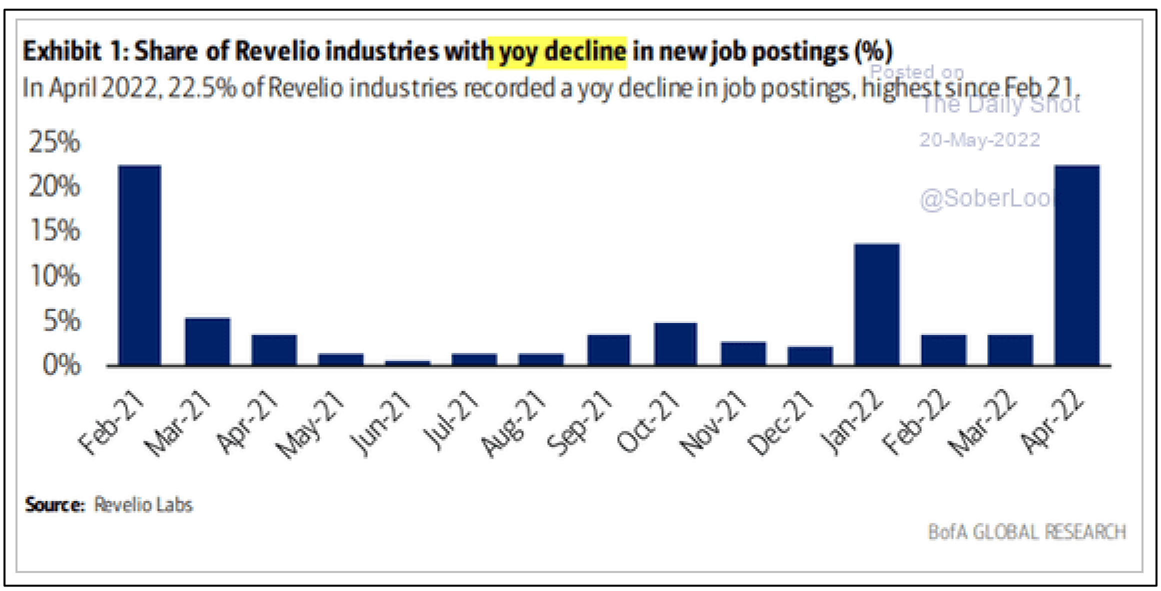
Fed's Bullard says retailers who don't understand that consumers are stretched thin by inflation are going to get 'punched in the face'

Last Updated: May 21, 2022 at 12:32 p.m. ET

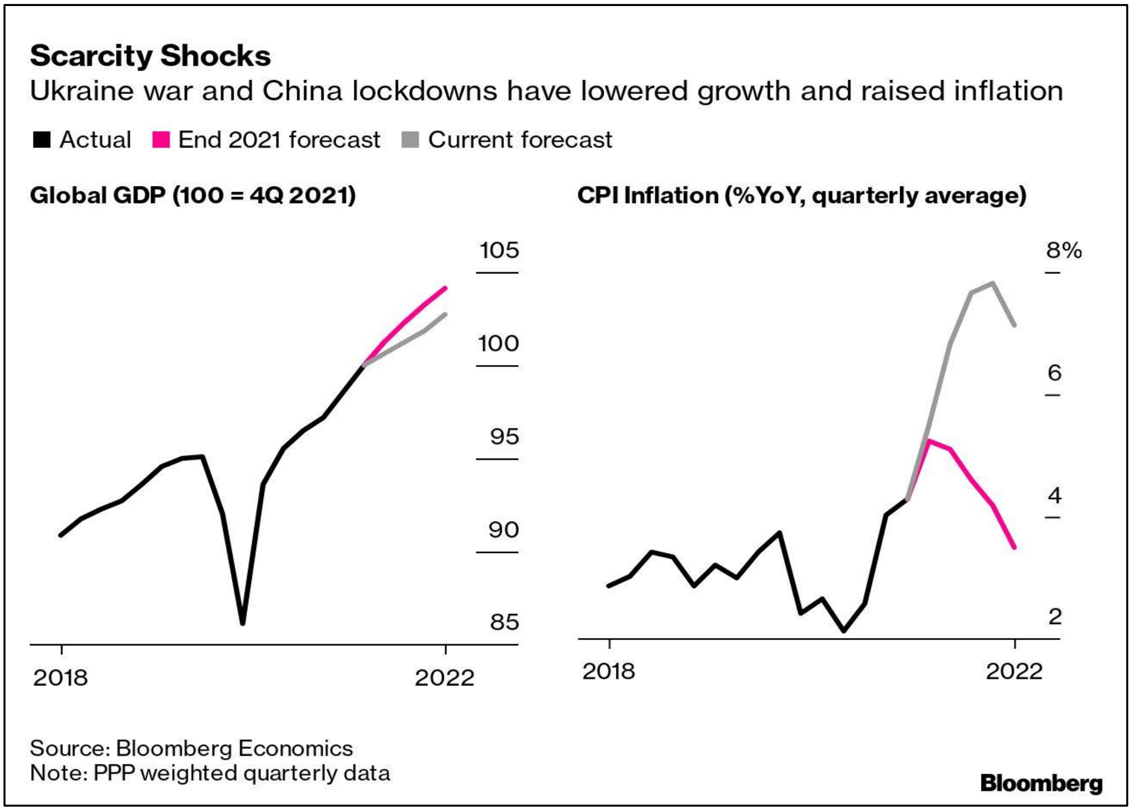
Source: Marketwatch



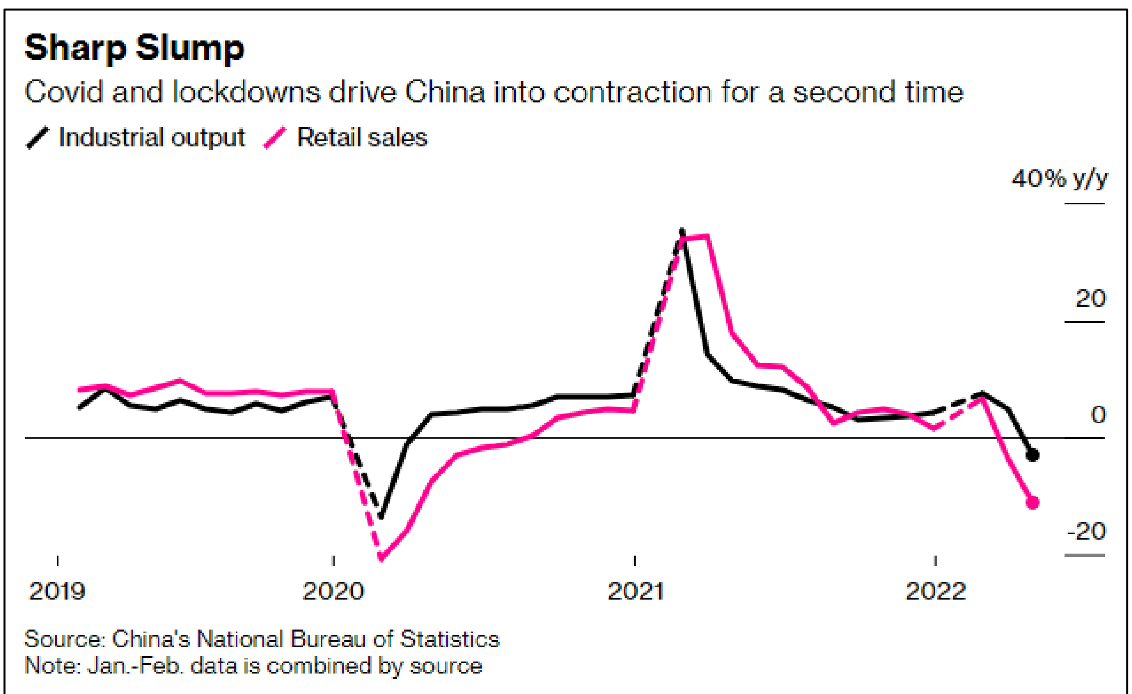
Revelio Labs, which parses huge amounts of HR data from all over the country, has detected a potential initial decline in job postings. We will see if that is confirmed in the coming months in the jobs data.



In the meantime, the Ukraine war and the Chinese lockdowns continue to foster a stagflationary environment in the US, and globally.



With the lockdowns in China dragging on, policymakers are rightfully getting nervous about growth.



Not only did the PBoC cut rates last week, but as Bloomberg reported, Premier Li got involved:

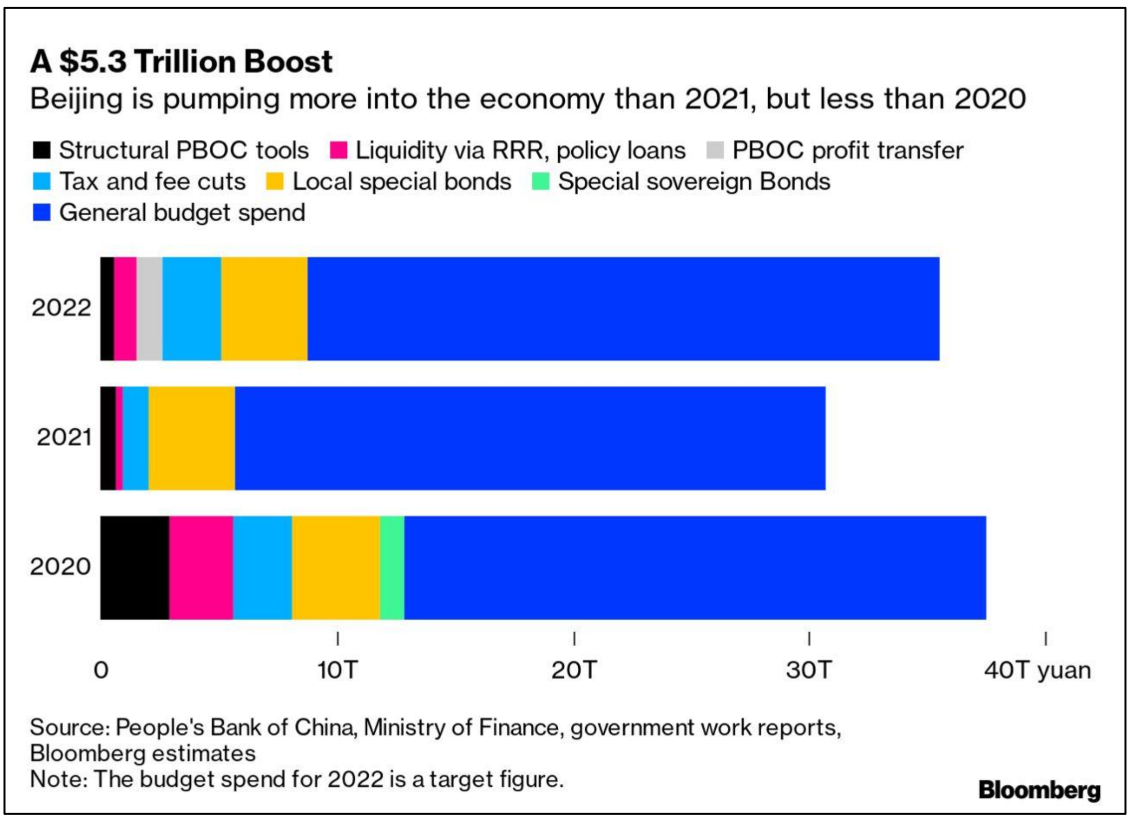
Chinese Premier Li Keqiang told local governments to "act decisively" on measures to support growth in the coming weeks in an effort to bring the economy back on track as soon as possible.

Everyone should "add a sense of urgency" to their actions to counter "further intensified new downward pressure" on the economy, Li said Wednesday during a trip to Yunnan province in southwestern China, according to a report in the official Xinhua News Agency.

The Chinese premier also reiterated support for digital platform companies and their public listings, echoing comments made by Vice Premier Liu He earlier this week that provided another sign Beijing may be ready to let up on a yearlong clampdown on technology firms.

For what it is worth, Bloomberg's economics team now sees the US economy outperforming China's in 2022, for the first time since 1976.

The stimulus is starting to add up. What isn't clear is how effective it will be or how long the lag is given ongoing lockdowns.



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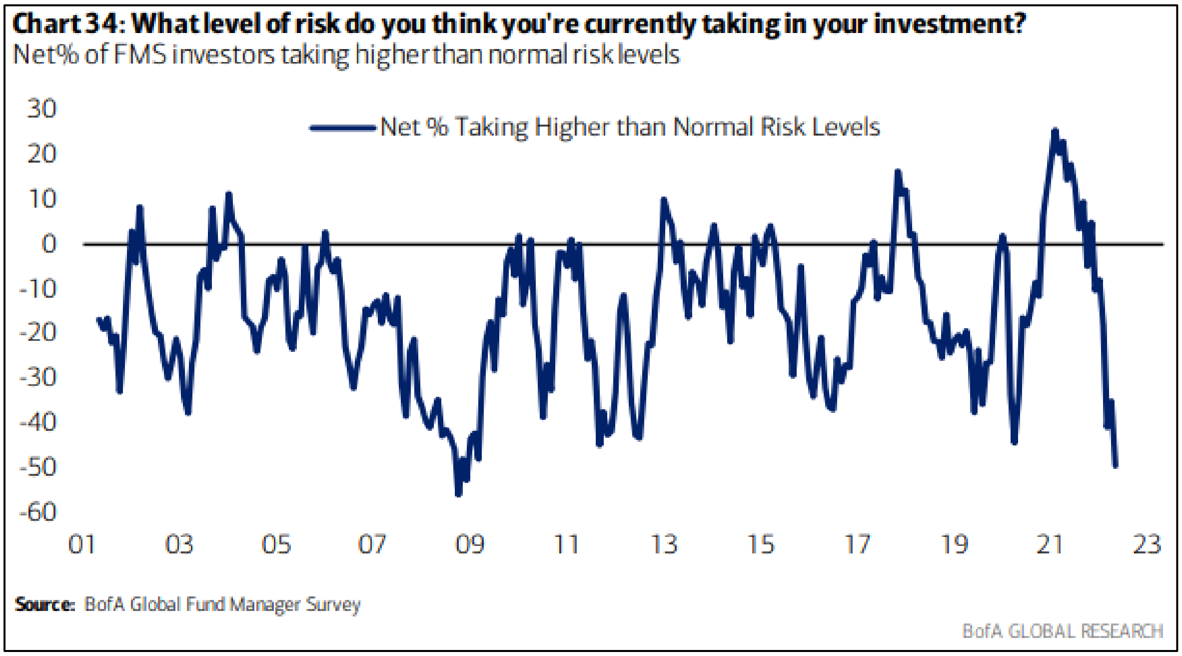
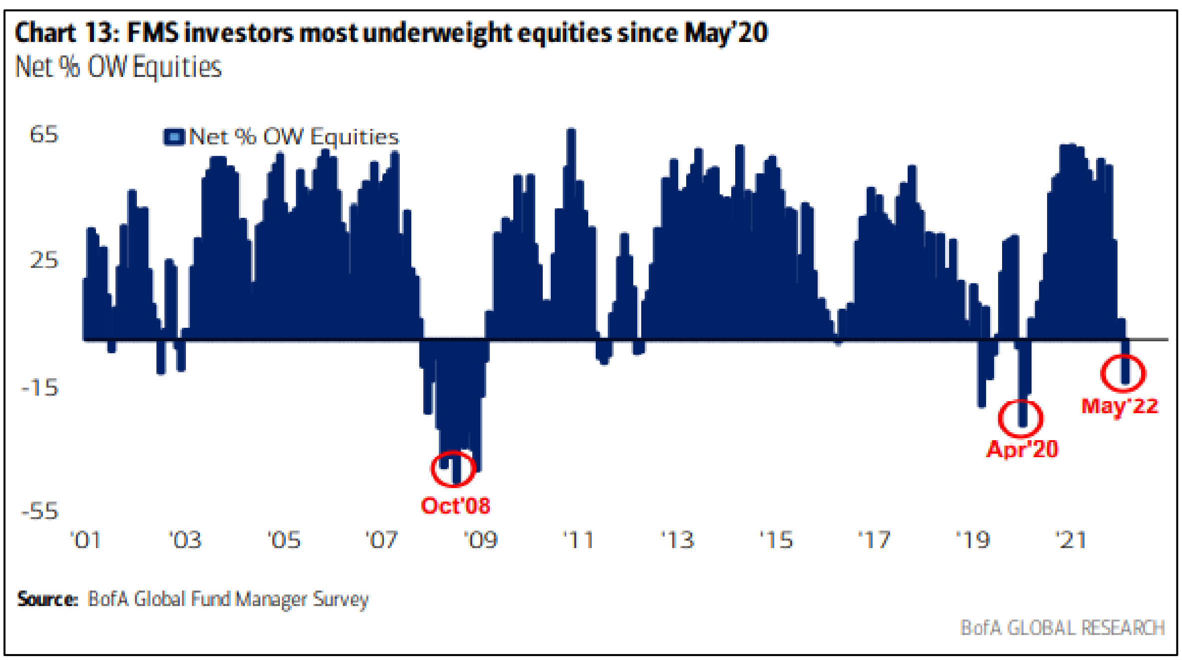
Equities - Friday's options expiration only added to the volatility in an already wild week as $1.9 trillion in equity derivatives rolled off.

Now what? An obviously bad Macro environment for equities is colliding with sentiment and positioning that have already discounted a good part of that environment.



While it obviously isn't the start of the selloff or portfolio adjustment process, it also isn't yet a screaming extreme.



The fact that the Fed is currently unable and unwilling to come to the rescue of the markets given the inflation situation adds a degree of danger that markets have not seen for at least two decades.

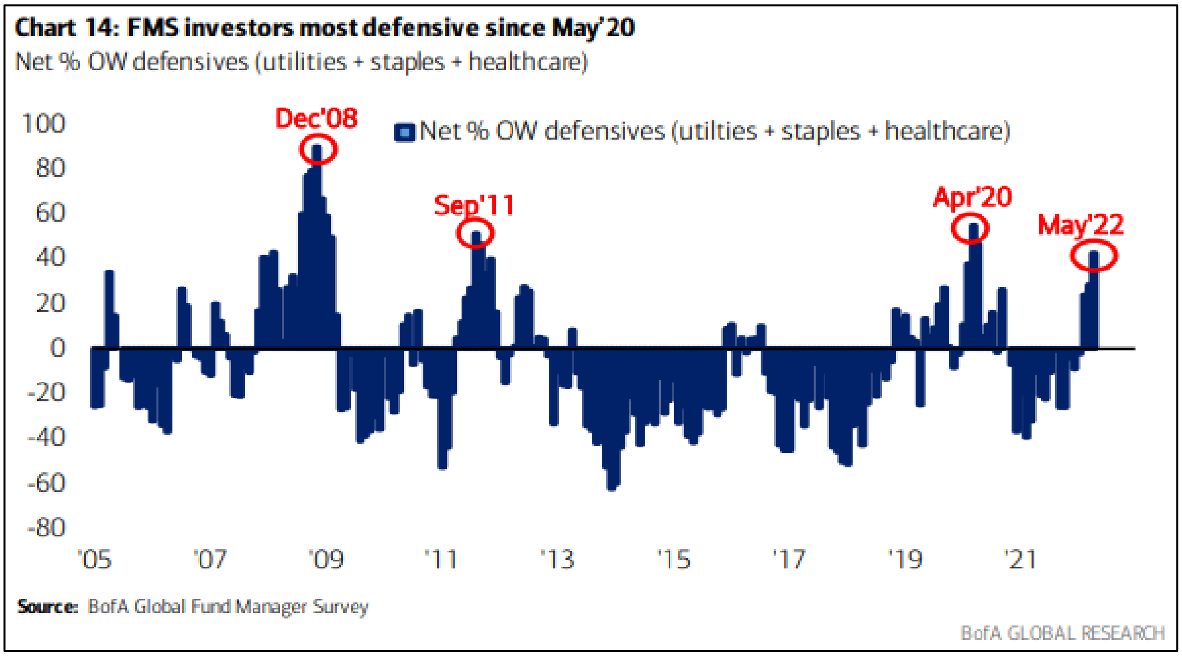


Chart 14: FMS investors most defensive since May'20
Net % OW defensives (utilities + staples + healthcare)
Source: BofA Global Fund Manager Survey

That has not been lost on markets.

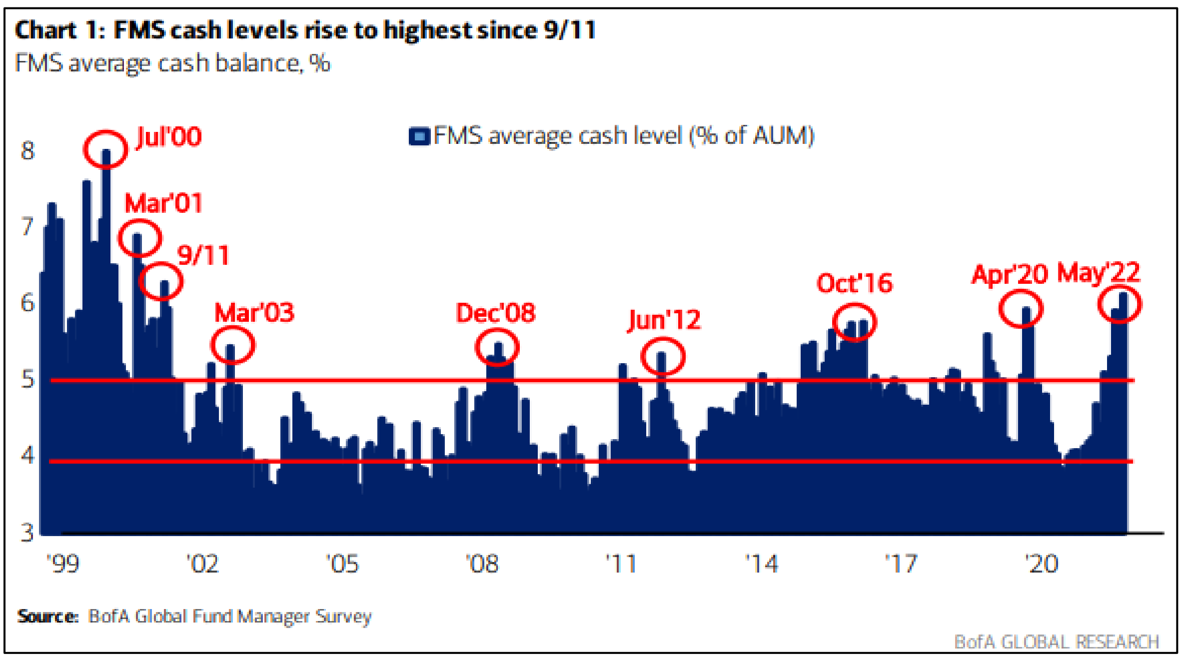
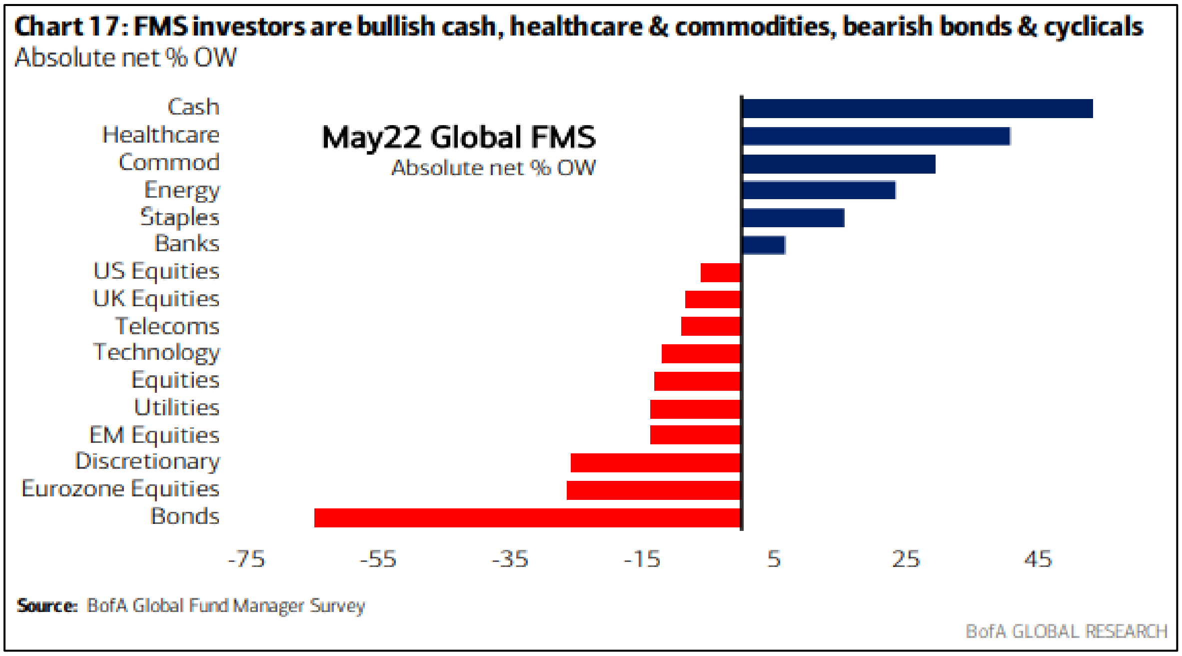


Chart 1: FMS cash levels rise to highest since 9/11
FMS average cash balance, %
Source: BofA Global Fund Manager Survey

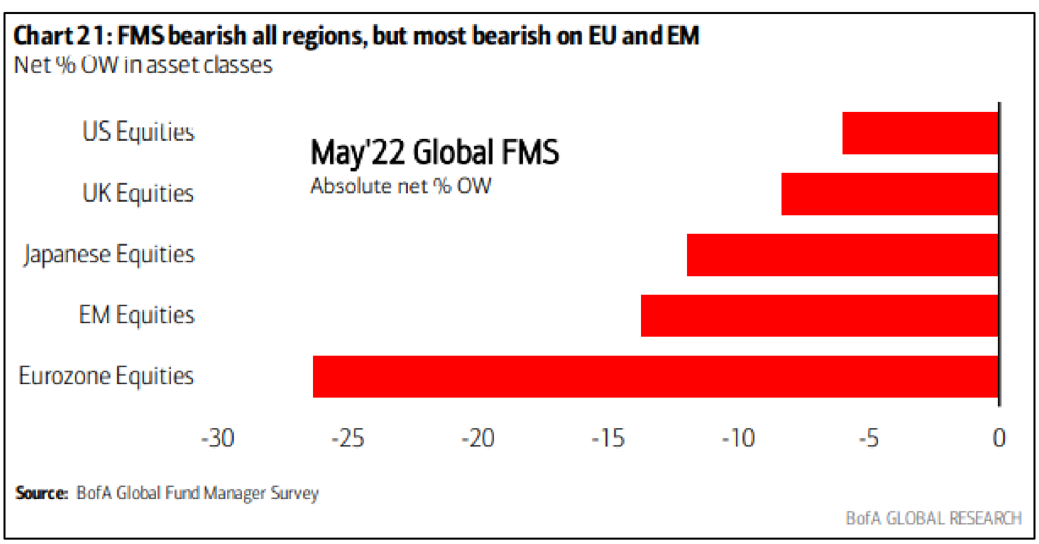
The positioning in the monthly Global Fund Managers Survey from BoA illustrates the mood.



On Friday, we hit and bounced off the first Fibonacci retracement level in the S&P. At least, for now, that may be a level people try to buy against.

Goldman estimates that 52% of retail positions in NDX stocks accumulated since Jan-2019 have been sold, while for the SPX about 26% have been sold.

Amongst the generally out of favor equities, Europe remains the least popular, for obvious reasons.



Despite the war and the energy issues, European equities have been holding up reasonably well, not making new lows in recent days, while the US has.

No doubt, a less fervent CB and a weak currency probably help. Not to mention the fact that investors have already sold. Still, the relative performance is worth keeping an eye on.

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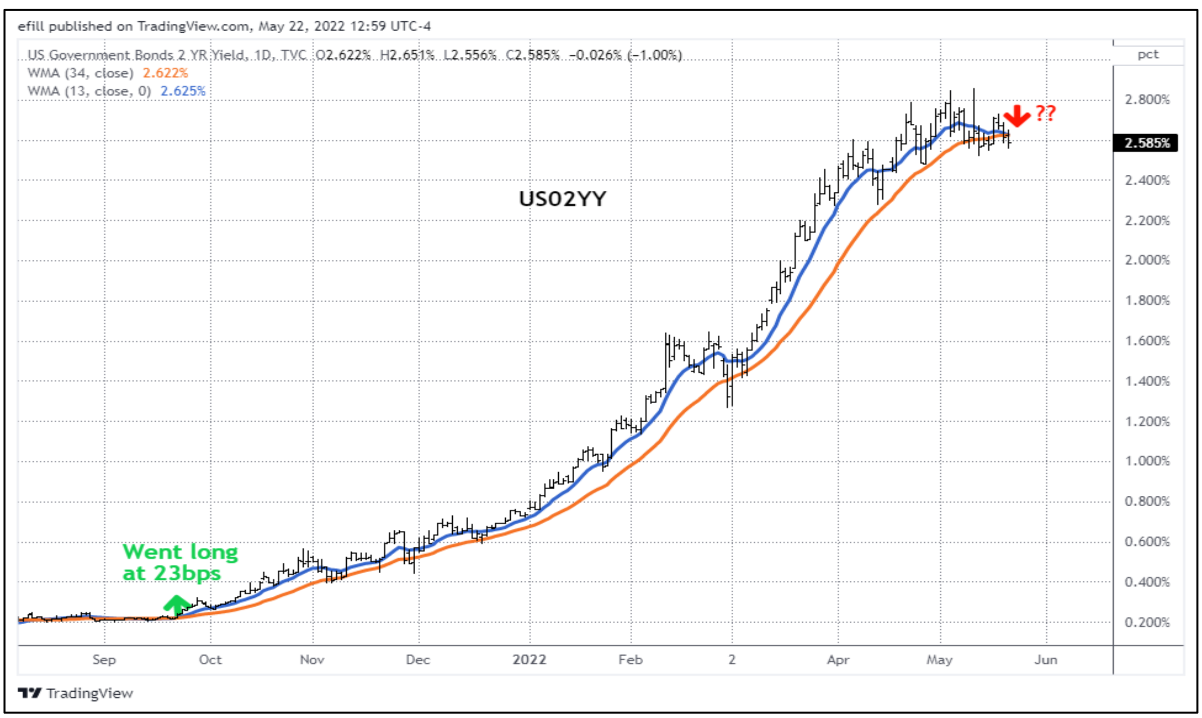
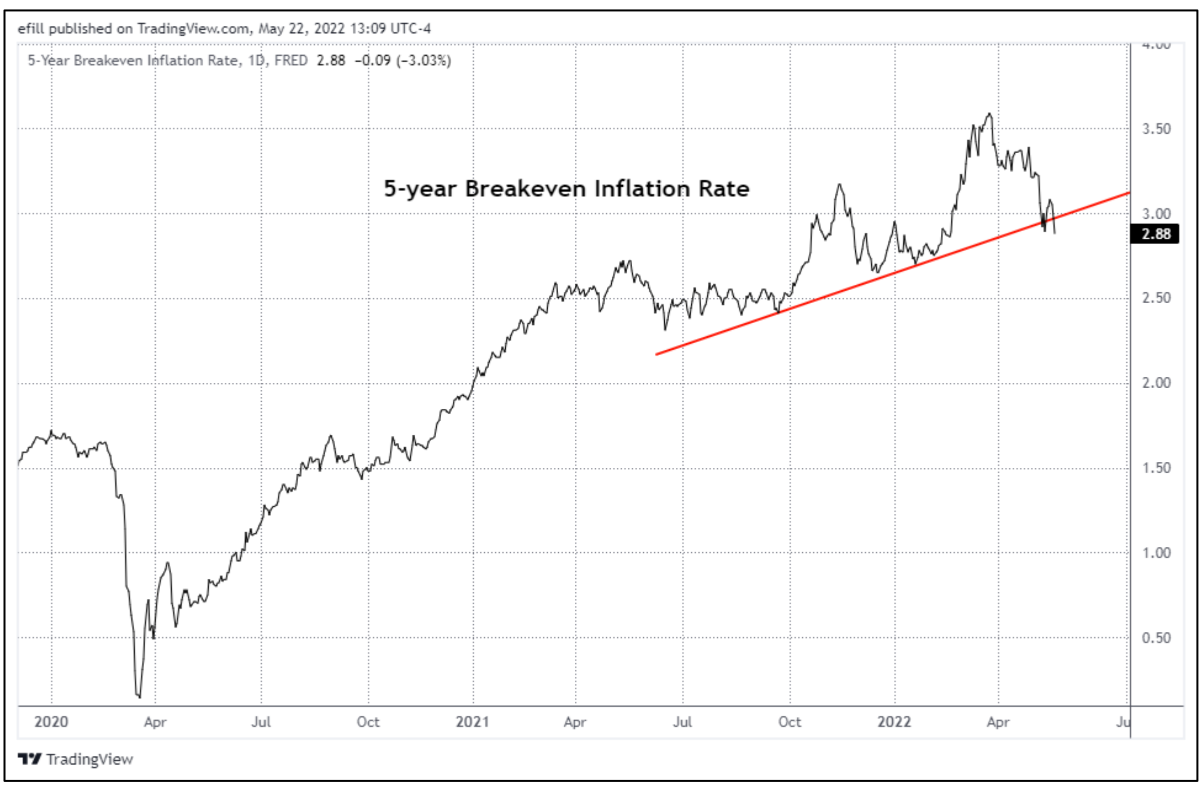
Fixed Income

As noted, there are some signs that market interest rates are topping out. We will see if it gathers momentum or is just a byproduct of weak equity markets. With an outside week reversal still in place followed by daily downside reversals and rolling momentum, I have to give it the benefit of the doubt.

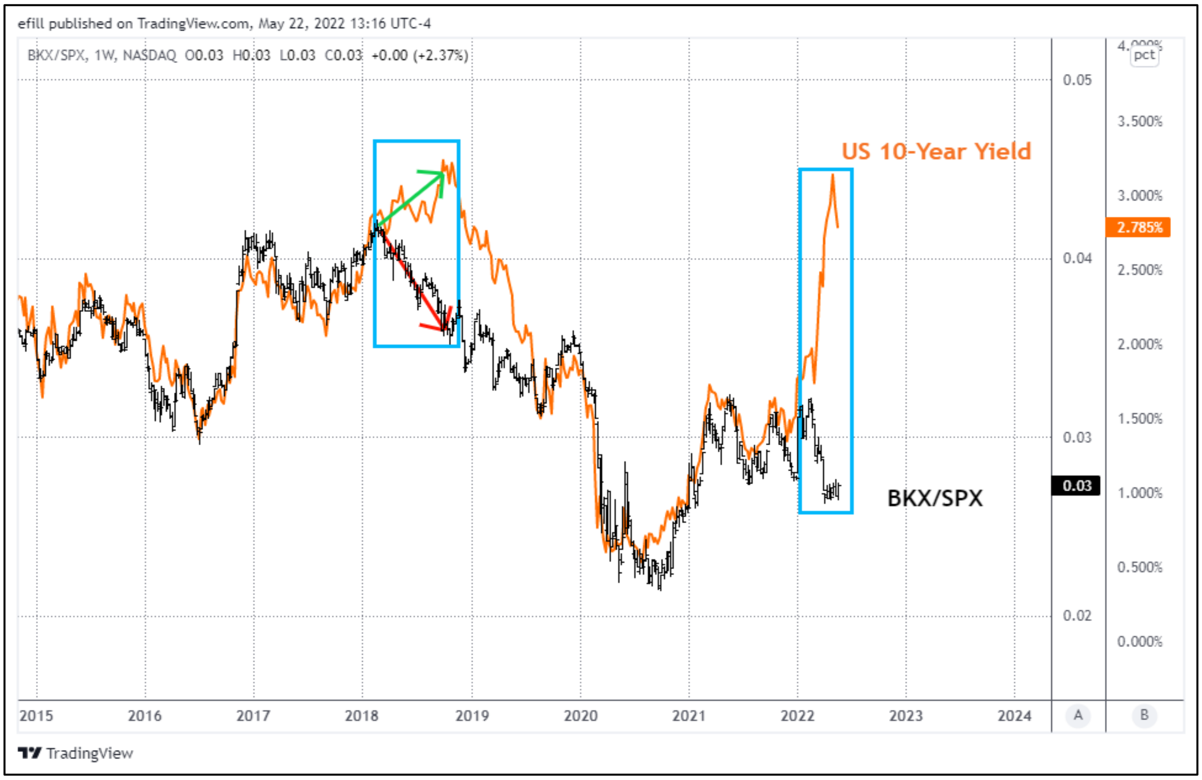


December 2023 Eurodollar futures are trying to break higher as well.

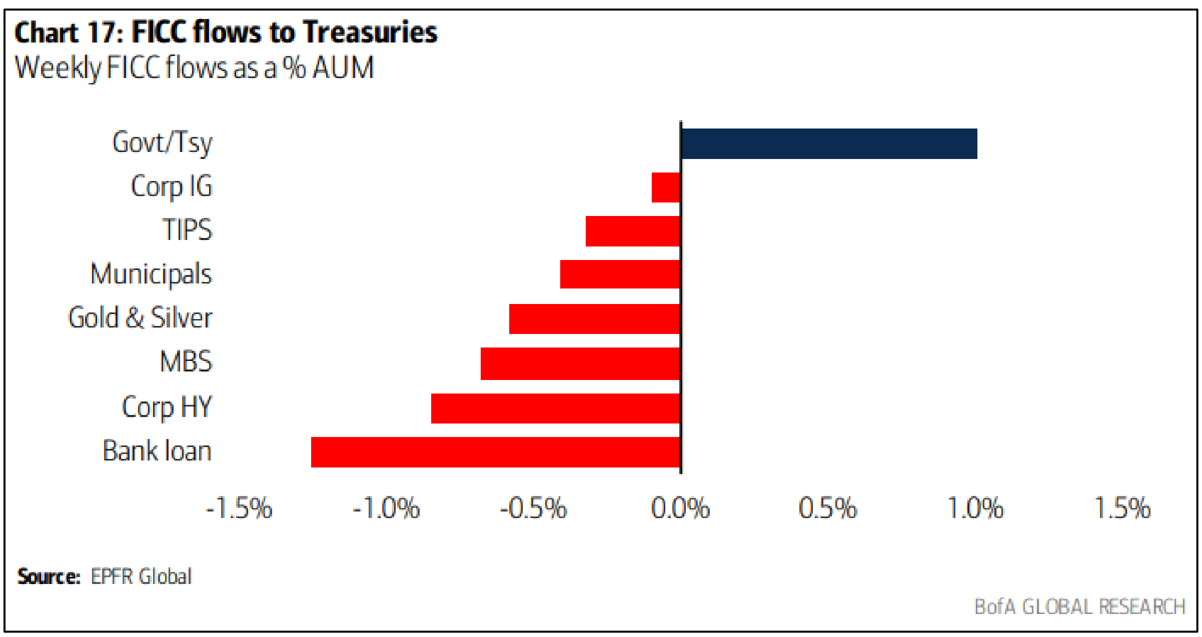
Although of dubious value, 5-year breakeven inflation expectations are cracking a bit.



It is still going to be very interesting to see how yields and the relative performance of banks are resolved.



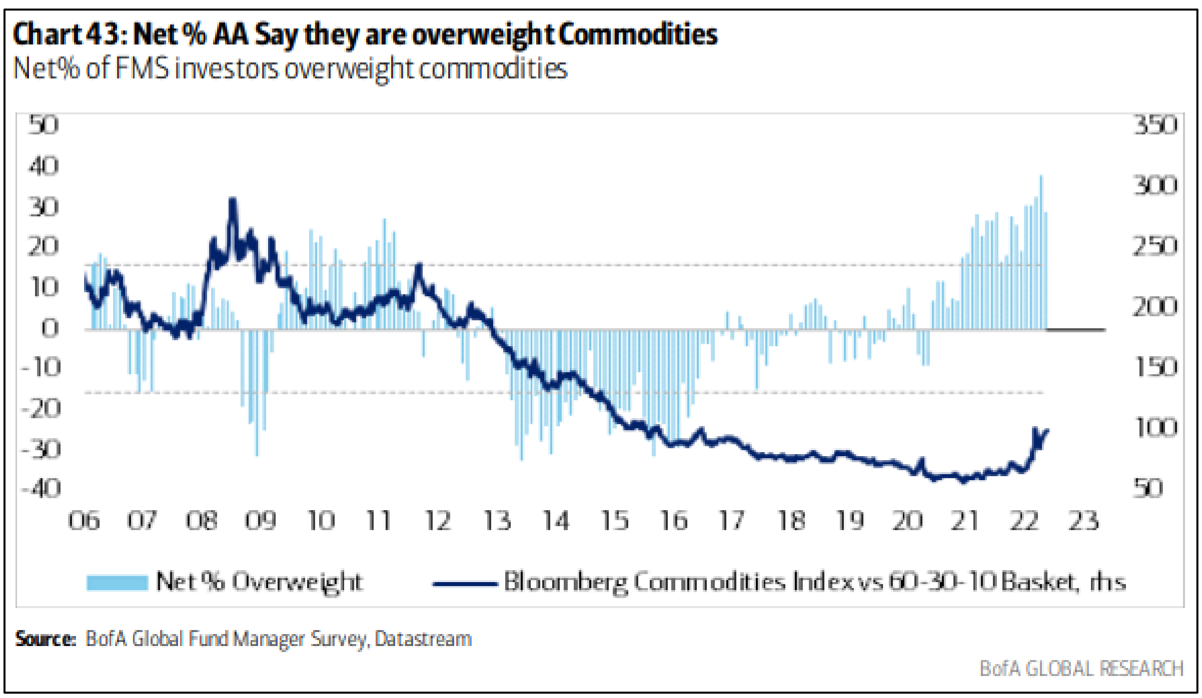
Flows have started to come into Treasuries.



Given that we have now seen global negative-yielding debt go from $18Trl to $2Trl in only 9-months, I would be surprised if some bodies don't float to the surface. Europe is the epicenter of this, and I continue to watch the spread between Italy and Germany.

FX – The dollar saw a meaningful drop from the highs last week as US rates backed off and the Yuan rallied back a bit, lifting EM FX. More weakness to come if US rates drop otherwise, range.

Commodities – Investors remain very overweight commodities. A lot of that is via energy exposure which so far has not backed off meaningfully.



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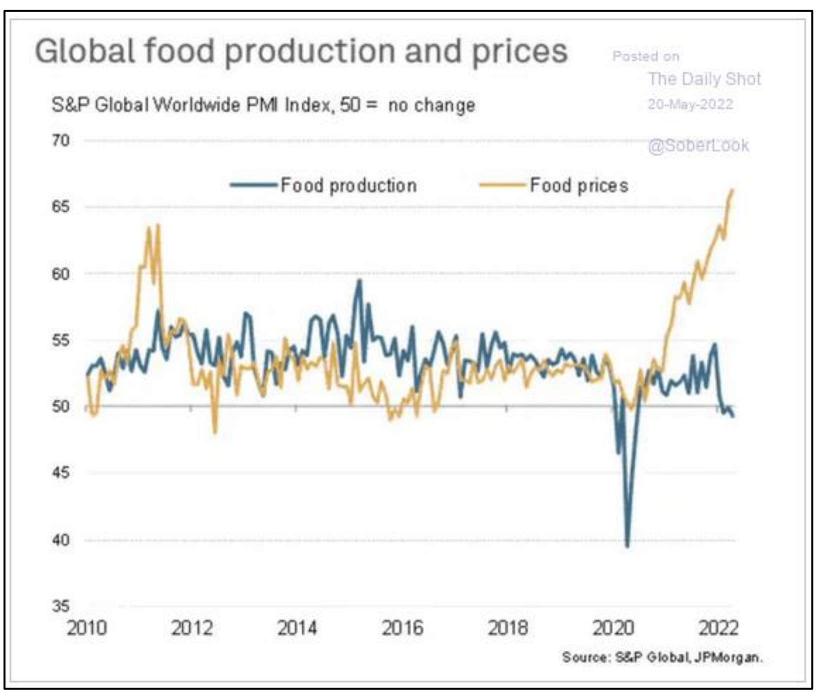
Gold saw a little rally off the lows last week as interest rates backed off and the dollar dropped. However, we need to regain 1860 for me to focus on it at this point.

There was a lot of talk about global food prices last week. The fact that Ukraine provides 28% of globally traded wheat has certainly brought some real pain to various big importers from North Africa to the Middle East that rely heavily on "the breadbasket of Europe".



Supply shocks seem to come in clusters, or at least they seem to matter more when they start to accumulate.

The IMF has been warning about a global food crisis and last week the Bank of England referred to food price inflation as “apocalyptic”. Increasingly, there are warnings that if things break the wrong way for producers in the US, the situation could deteriorate further, both at home and abroad.

There are shortages of fertilizer, herbicide, machinery, labor, and now increasingly propane (used to dry grain in silos for storage, who knew?).

This is far from my area of expertise, so I will defer to others regarding which way this breaks. In any case, a worsening or resolution of the situation is well worth watching for, given the economic and geopolitical repercussions that could follow. Talk about a supply shock that leaves the Fed powerless.

On the bright side, this week’s Economist made me think of an old colleague of mine who upon seeing it would have said, “you don’t get that at the lows!”

Here is a fun piece by Brent Donnelly on "The Magazine Cover Indicator" that seems to work especially well for commodity markets… [A somewhat empirical look at The Magazine Cover Indicator | by Brent Donnelly | Medium]

A chart from the piece…

This week we have FOMC minutes. Keep an eye out for headlines regarding China tariffs this week. Eliminating Trump tariffs would probably be the fastest (only) way for the administration to do much about inflation in the near term. Everyone from Summers to Yellen is pushing it, but the looming mid-terms are getting in the way.

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Important Macro Data Releases and Events for the Week

Monday 5/23/2022	IFO - Business Climate, Current Assessment, and Expectations (May)
Tuesday 5/24/2022	PMIs across Globe - Manufacturing, Service, and Composite (May)
	New Home Sales (Apr)
Wednesday 5/25/2022	Gfk Consumer Sentiment Survey (Jun)
	BoJ's Governor Kuroda speech
	Durable Goods Orders (Apr)
	FOMC Minutes
Thursday 5/26/2022	GDP (Q1)
	Initial Jobless Claims
	Initial Jobless Claims 4-week average
	Continuing Jobless Claims
	PCE Prices QoQ (Q1)
Friday 5/27/2022	Core PCE - Price Index MoM and YoY (Apr)
	Personal Income and Personal Spending (Apr)
	Michigan Consumer Sentiment Index (May)

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