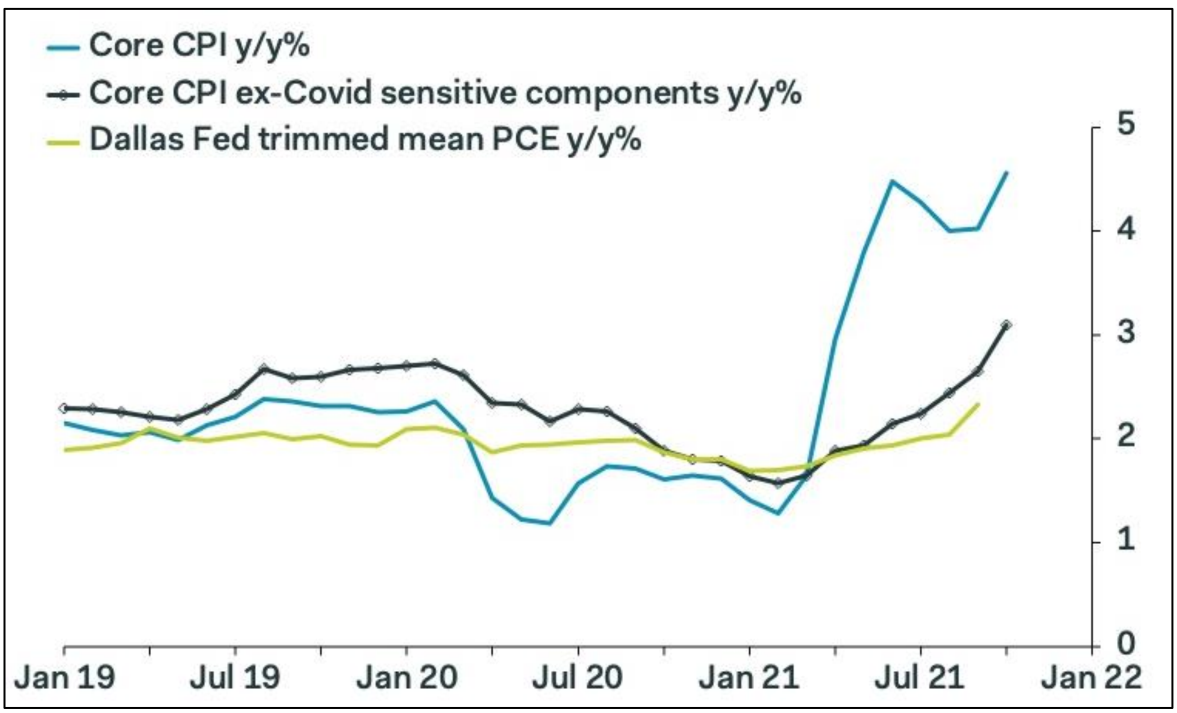
Stargazer
Asset Management

What to focus on in Global Macro for the week of November 15th, 2021

Macro Themes on the Radar:

Last week, saw another high print in US CPI. The headline number of 6.2% has not been seen in 30 years. The last two times we had such a deeply negative real 10-year yields were in 1974 and 1979. The drivers were continued strength in rents, both new and used automobiles, and hotels.

In the near-term wage pressures and continued supply constraints will continue, with some forecasters now looking for core CPI to only peak in Feb/March of next year at an eye-watering 6-6.5%. That will put massive pressure on the Fed in the next few months and I would expect further challenges to the "transitory" line from the markets as they keep the pressure on front-end rates.



Source: Pantheon Macro

We now have a crazy combination of:

- A record-high rate of people quitting their jobs.
- Record consumption data
- The fastest nominal income growth in 30 years
- A big jump in the number of people retiring
- ISM at 60
- But… rapidly falling consumer sentiment

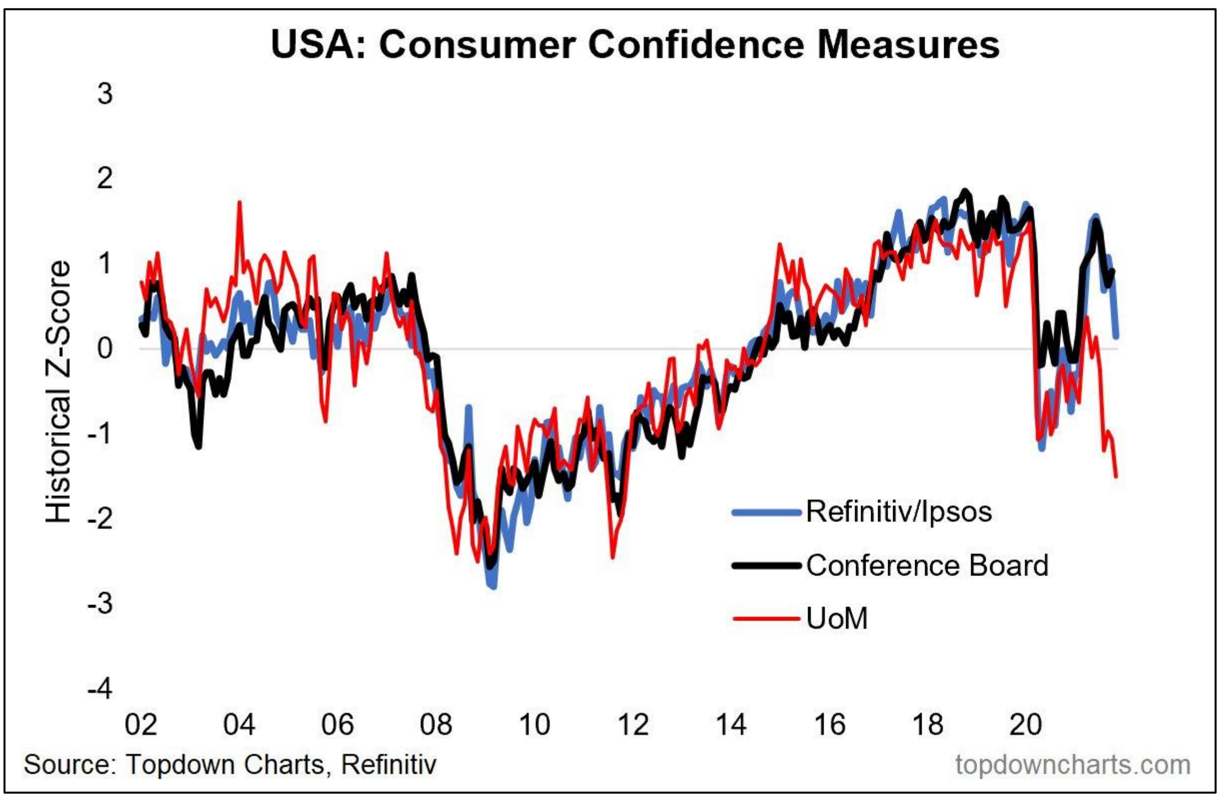
The very soft University of Michigan Consumer Sentiment Index, released on Friday, looks to be picking up on the inflation concerns.

Preliminary Results for November 2021

	Nov 2021	Oct 2021	Nov 2020	M-M Change	Y-Y Change
Index of Consumer Sentiment	**66.8**	71.7	76.9	-6.8%	-13.1%
Current Economic Conditions	**73.2**	77.7	87.0	-5.8%	-15.9%
Index of Consumer Expectations	**62.8**	67.9	70.5	-7.5%	-10.9%

Next data release: Wednesday, November 24, 2021 for Final November data at 10am ET

Initially, it looked like the outlier vs. other measures of consumer confidence, now the market is wondering if it is the leader.



As luck would have it, the Fed embraced their new Average Inflation Targeting framework, just as inflation took off. On paper, they have gotten what they want (plus a bit), but it occurred on a timeline and with a magnitude, they couldn't have imagined when they came up with this plan.

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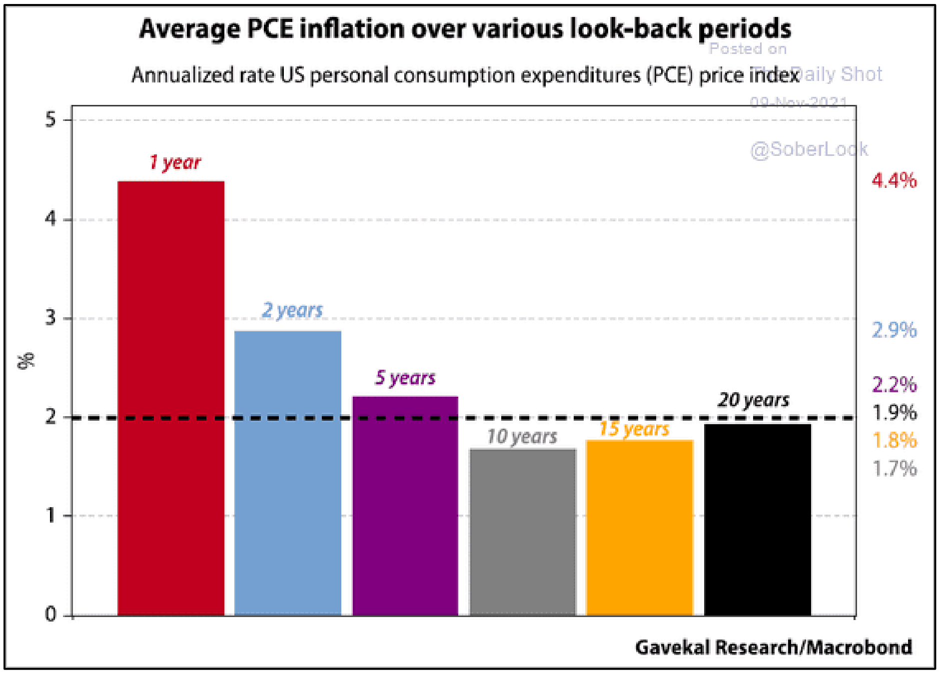
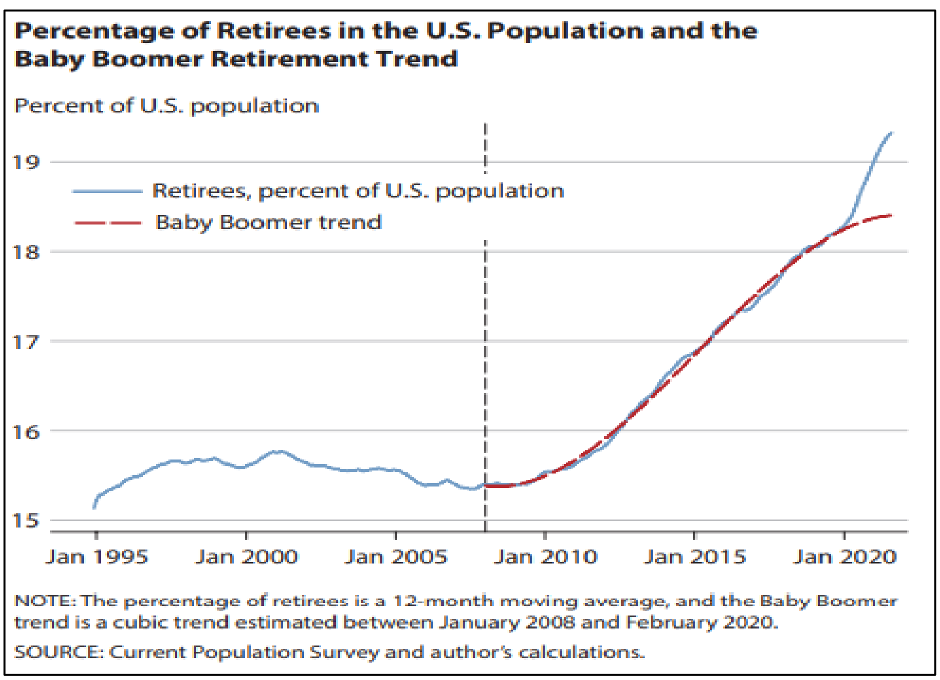
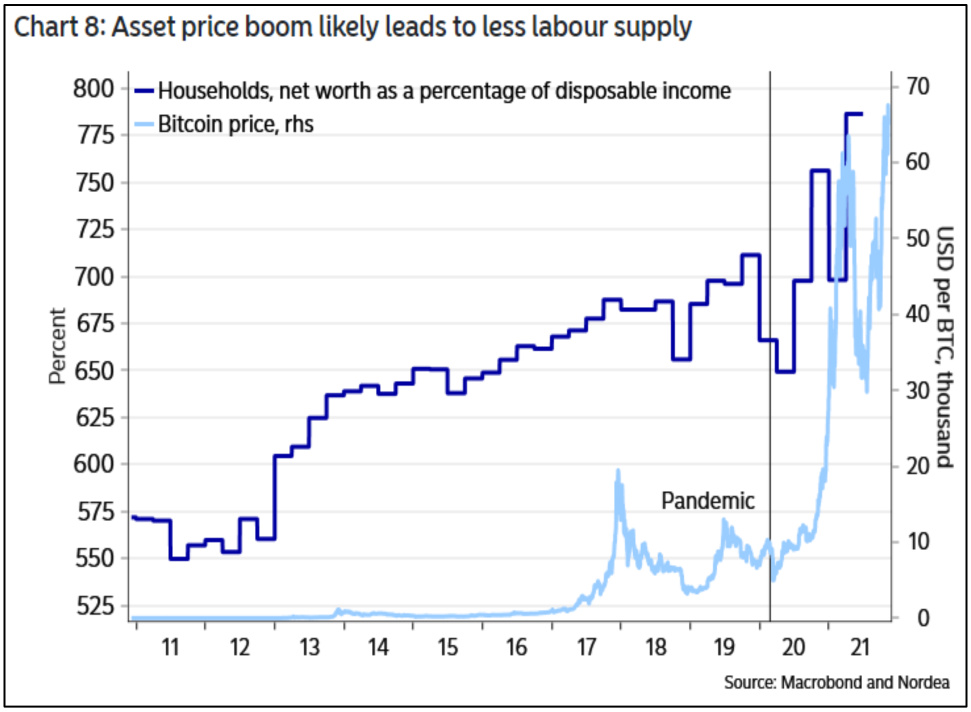


While many of the drivers are likely to fade over time, as they expect, in the near-term the pressure is on. A continued rise in wages, especially if the bottleneck between demand and supply continues, will be very hard for them to cope with. On one hand, rising wages are popular, on the other, it embodies the rise in inflation expectations that the Fed claims to be the main inflation focus. The employment story is very uncertain, with lots of inputs… Like the additional 3mn retirees COVID produced.



Source: St. Louis Fed



It is even suspected that the boom in asset prices is taking the pressure off of people to get "a real job". Is a link between asset price inflation and real-world inflation finally occurring in at least a small and weird way?

With inflation a global issue, it will be very interesting to watch how different nations, and their central banks, react. Potentially divergent outcomes, on a global scale, make for a fertile environment for Macro!


Madame Inflation

Diese Chanel-Frau macht Sparer und Rentner arm

BILD erklärt den Chanel-Style von Madame Inflation

Two more EM central banks hiked rates last week.

Even in Europe, where inflation has been especially weak until the recent jump, the disconnect between rising prices and central bank policy is becoming obvious.

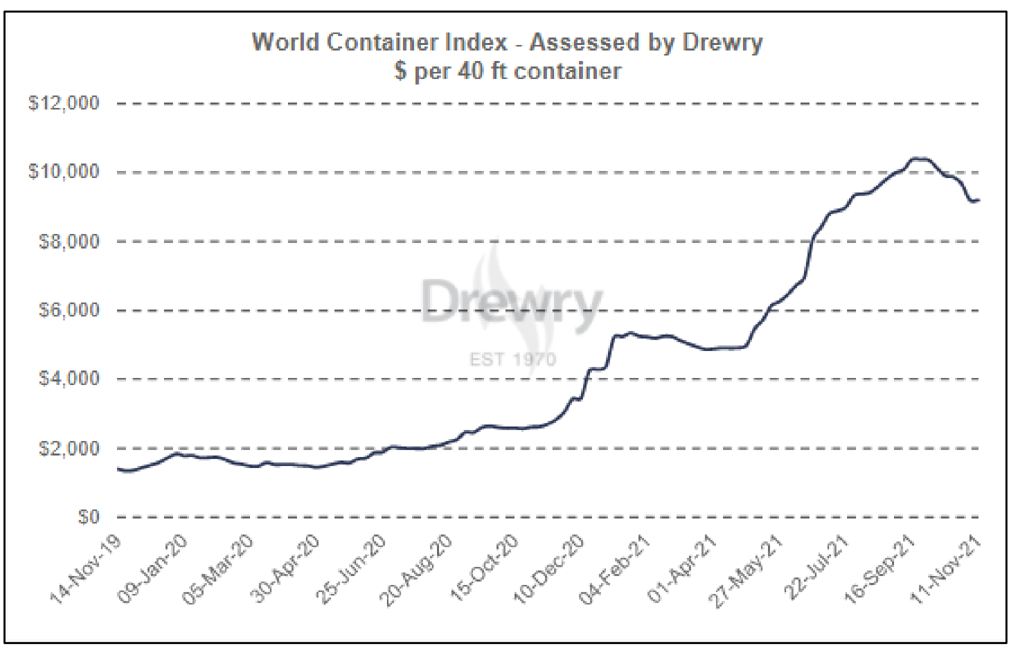
The German Bild ran this last week…

"Madame Inflation. This Chanel-clad-woman is making savers and retirees poor."

The potential good news, at least on the supply shortages front, is that some measures of shipping costs have likely peaked or look to be doing so.

Dry Bulk Shipping rates look to have topped a few weeks back…

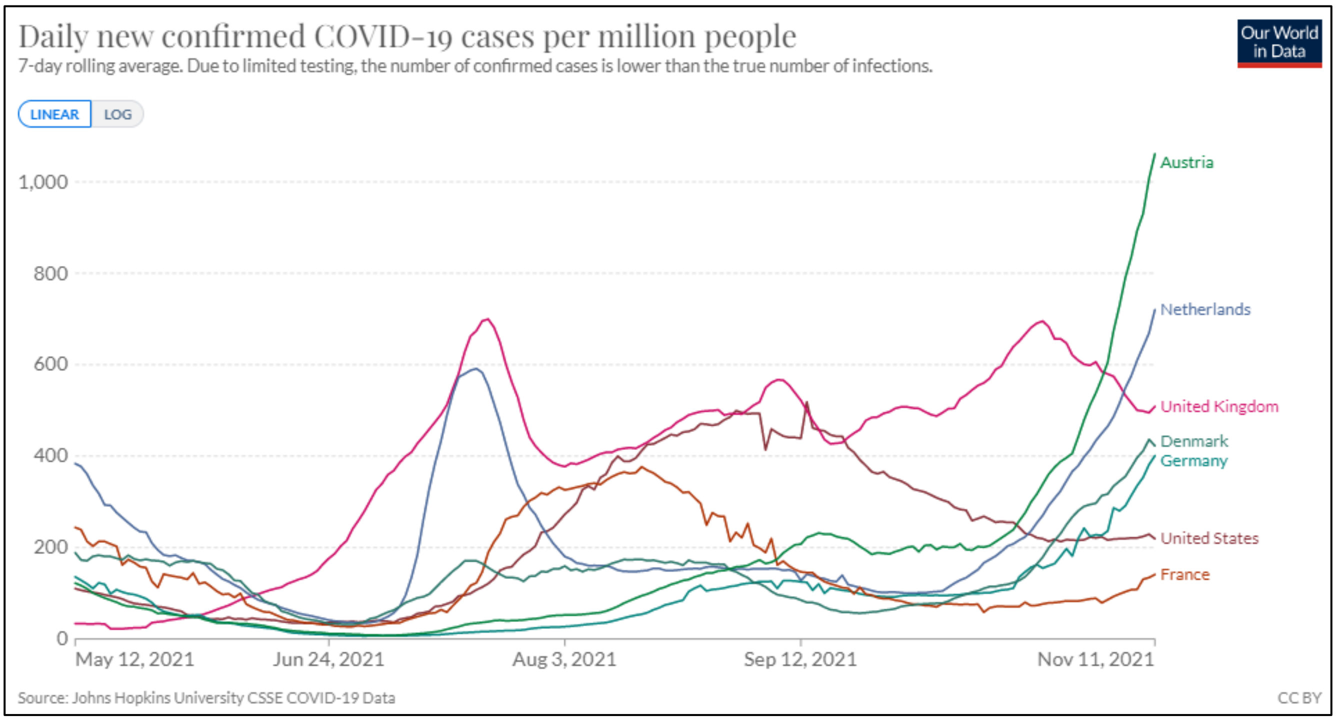
And now, various global container freight indices seem to have at least leveled off and could be showing the first signs of rolling.



A potential loosening of the supply constraints would of course be good news but will take months to find its way into the headline prints. In the meantime, the economy, at least partially held back by supply constraints, could again strengthen. If that occurs just as the employment logjam starts to clear in the coming months, it will really make it hard for the Fed to continue justifying a zero-interest-rate-policy.

COVID

Austria, Belgium, Denmark, the Netherlands, and Norway have recently tightened or re-instituted lockdowns, primarily on those who remain unvaccinated. Germany is contemplating similar measures. Austria and Germany, in particular, have only been able to talk two-thirds of the population into getting the shot, while in Spain and Portugal vaccination rates are closer to 90%.



China

It looks like last week's plenum was a victory for Xi as he gained party backing for a historical doctrine, opening the door for a third term and potentially installing him as leader for life as he looks to join Mao and Deng at the top of CCP. On Monday XI and Biden will have a chat about US/China relations … We should get more headlines next week on that, and the plenum outcome.

What to Focus on Now:

Equities - The last couple of weeks there has been increasing focus on markets outside the US given how pricey US equities now are. However, so far, there is little evidence that such allocations are benefiting from a sustainable turn in performance in favor of non-US equities. While Europe has held its own vs. the US, it hasn't outperformed yet.

Of course, EM has underperformed dramatically. A tiny shift recently but way too early to call a turn.

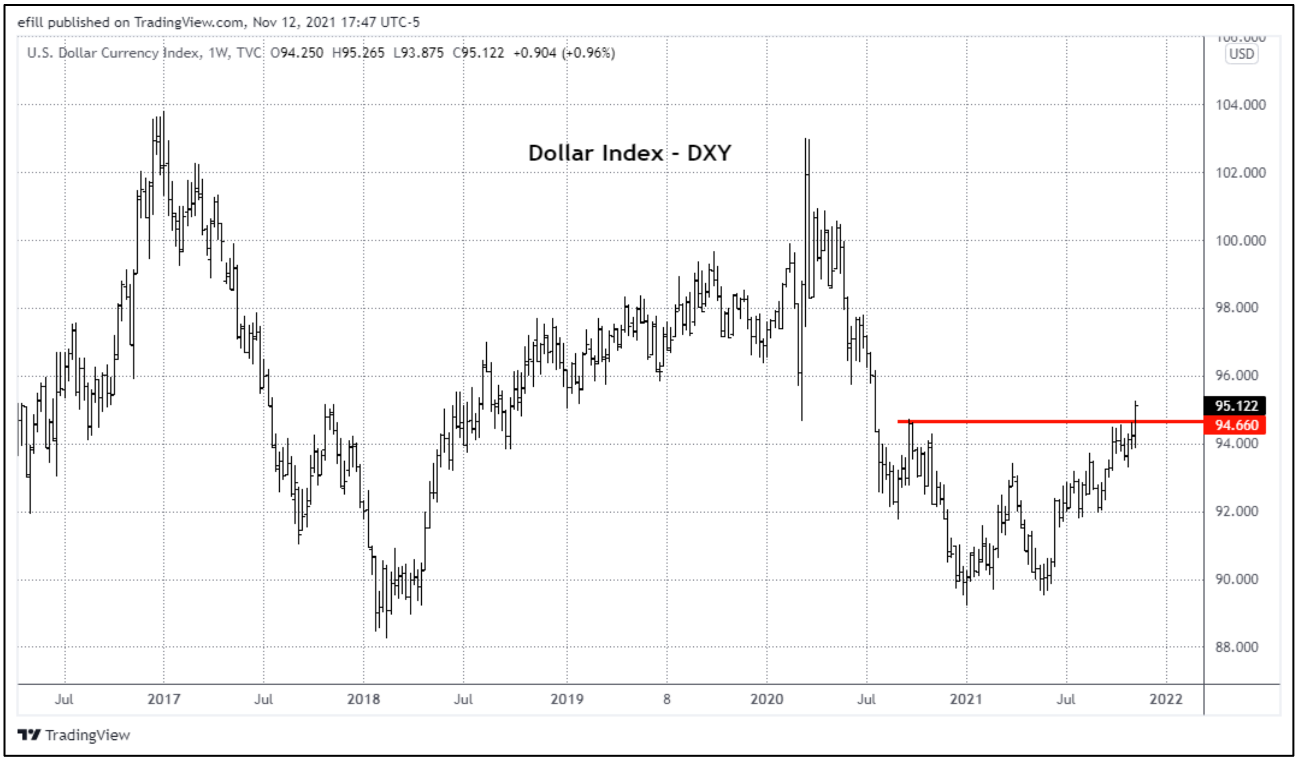
On a global scale, there remains little evidence of a meaningful turn non-US equity underperformance.

The one asset class that has meaningfully outperformed US equities over the last year is commodities.

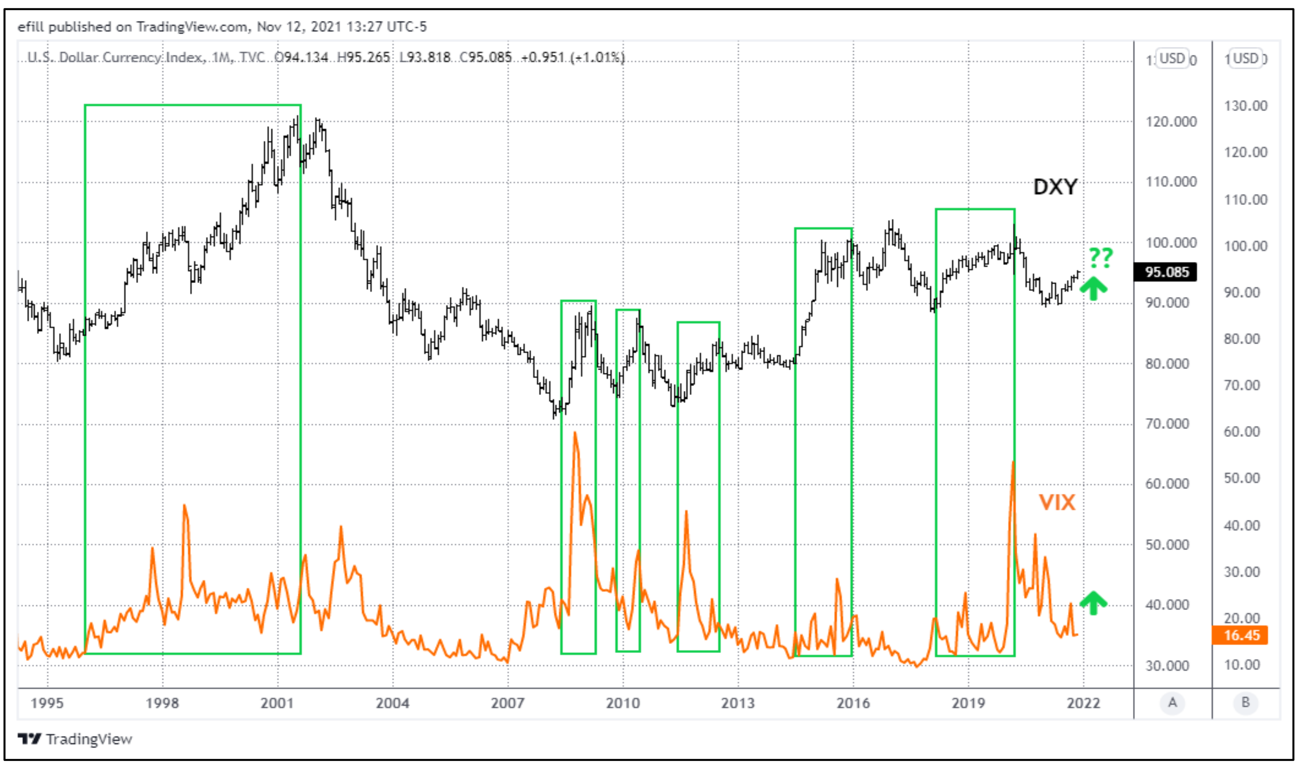
Fixed Income -US 30-year yields remain stuck in the 1.80%/2.20% range.

While 5-year yields saw new highs, thanks to the high inflation prints.

FX – The dollar saw a big jump last week. **This is a big deal if it proves to be sustainable.**



A continued USD rally tends to tighten global financial conditions and raise equity volatility.



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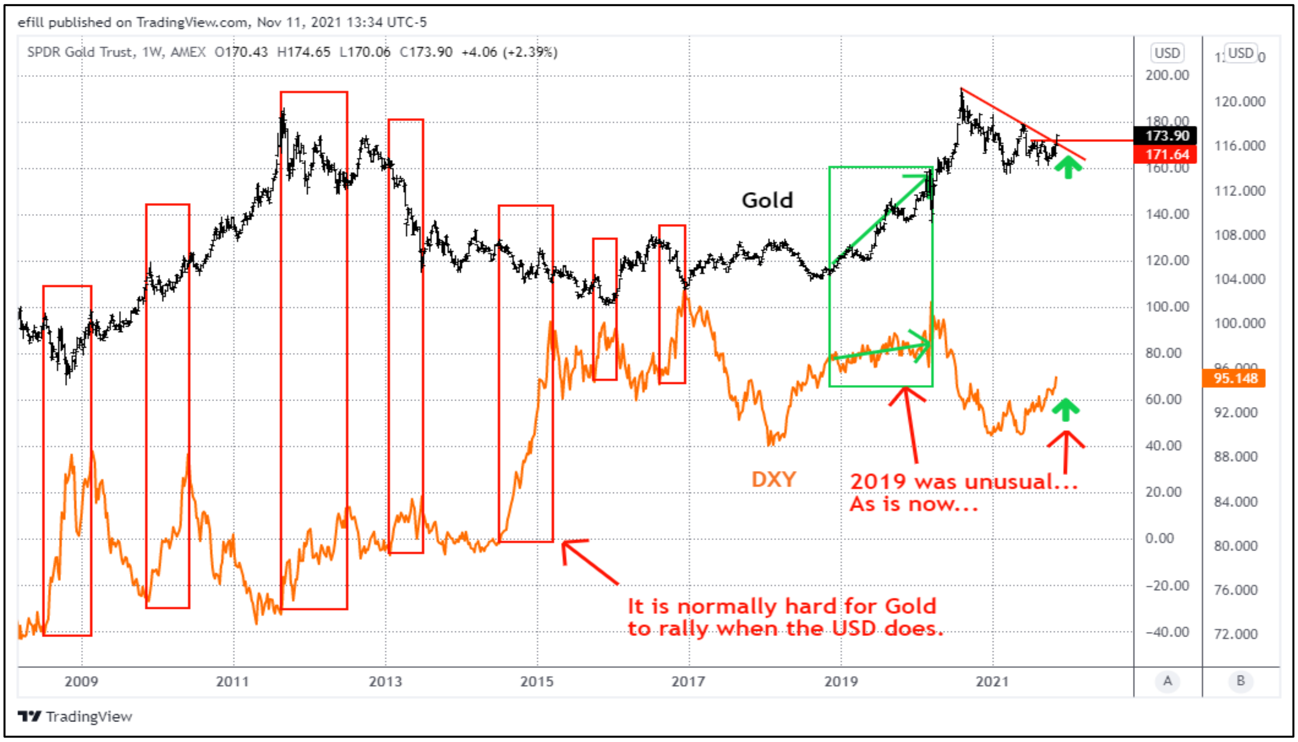
Commodities – Gold cracked those big levels discussed last week. Potentially, this is a big shift. Again, sustainability is the question, given the numerous false starts over the last few months. The fact that it is a broad-based rallying, against most currencies, is encouraging.

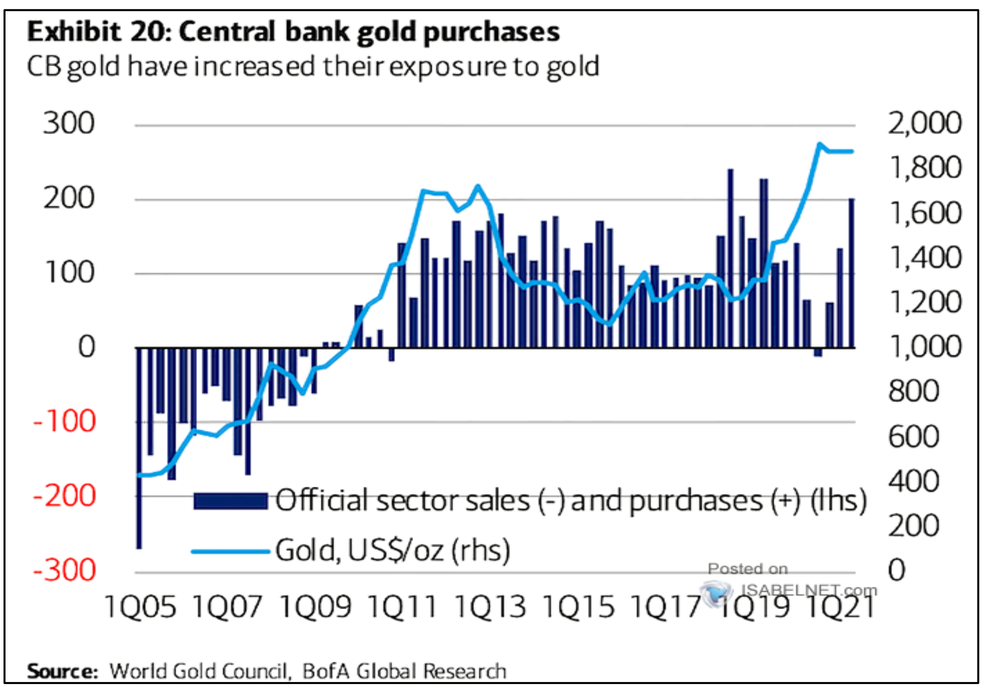
While it is VERY unusual for Gold to rally with the USD, I see that as a good sign as well. Performance in the face of adversity… Next week will be important for currencies and Gold.



I take the fact that Silver is outperforming Gold as a positive for precious metals overall.

However, again the need to prove itself at these critical levels remains.

At least someone seems to be back in buying…



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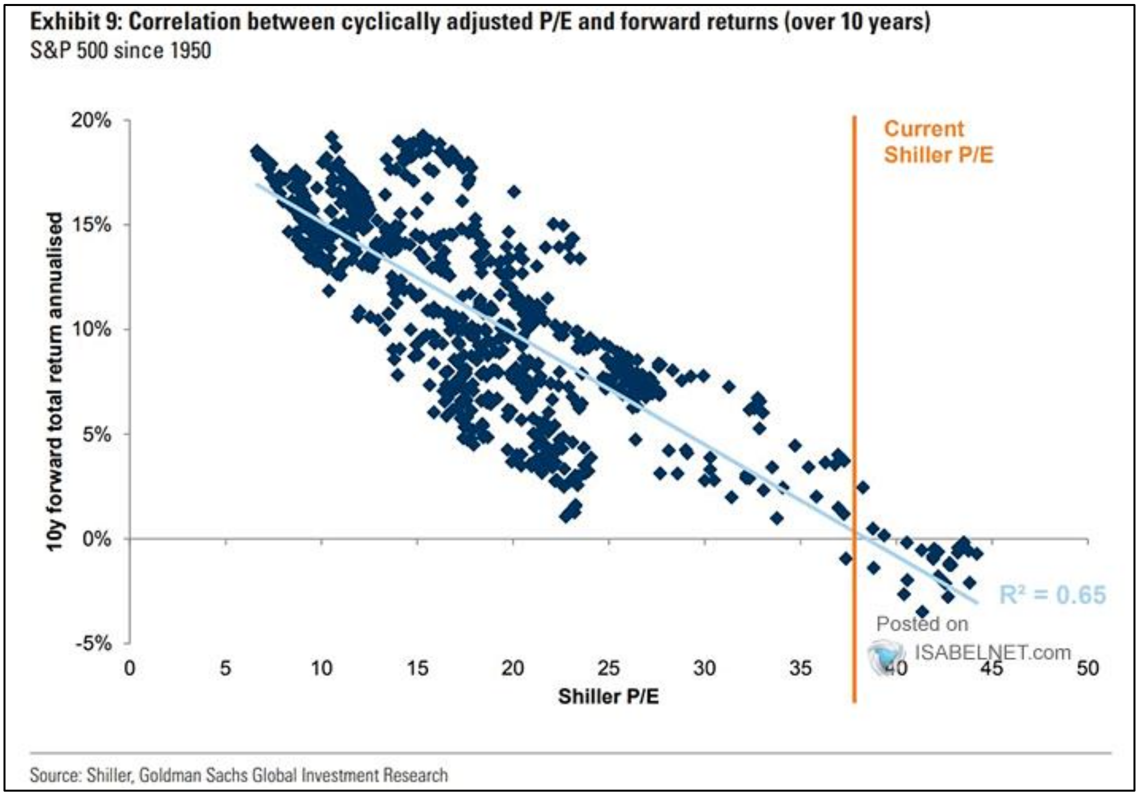
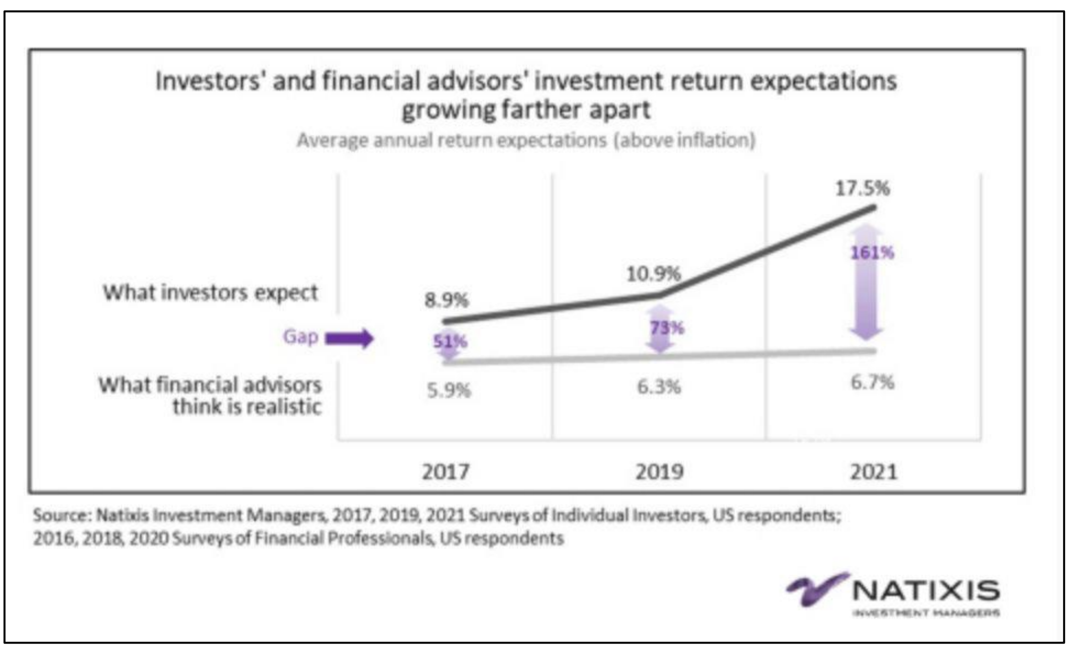
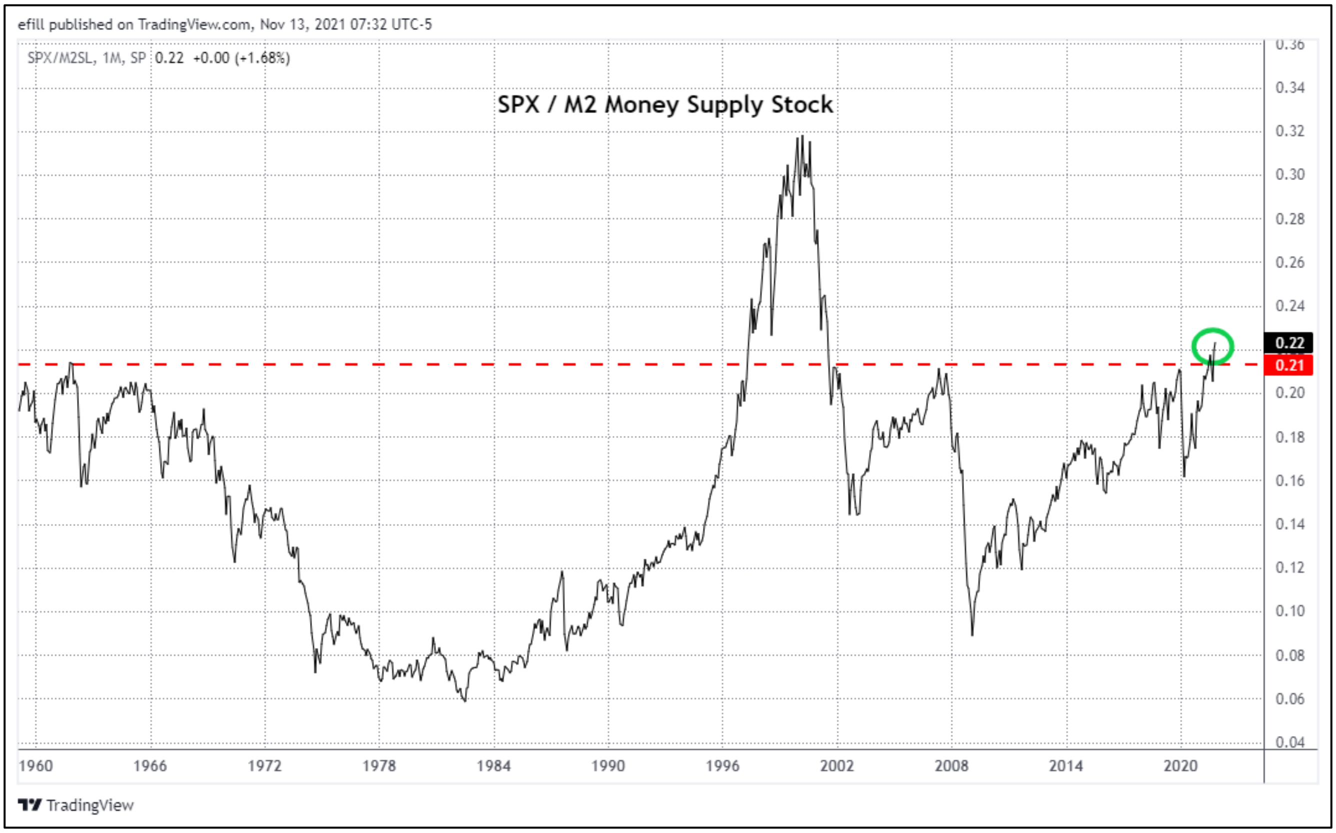
Big picture… US equities remain expensive, but it doesn't matter until it matters.



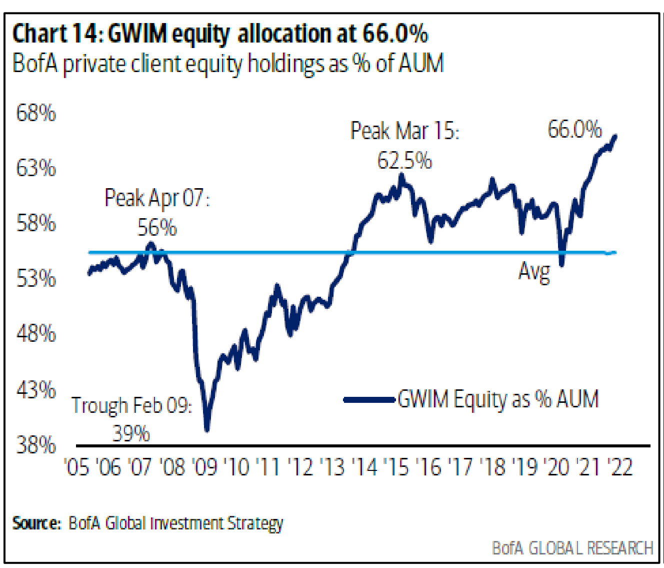
According to a recent survey, the average US retail investor now expects 17.5% forward annual returns. That is comparable to what similar surveys were showing back in December of 1999 when expectations reached 19%. In that case, it turned out that the actual forward 10-year return was -2.3% CAGR.

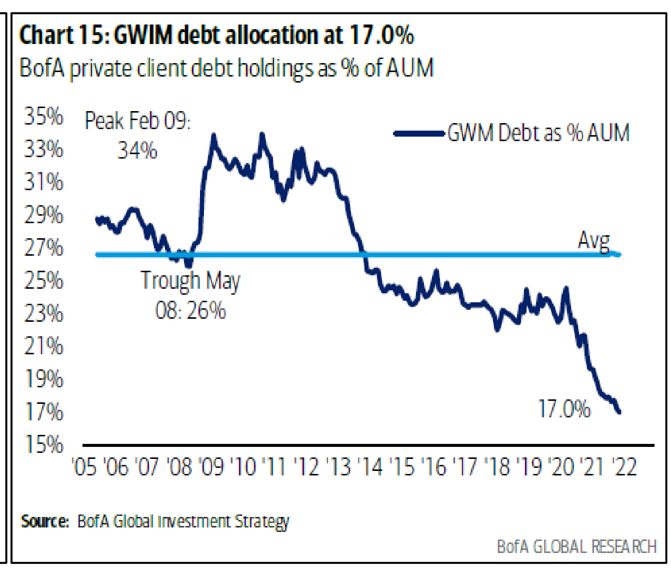


With all the talk about US equities and bubbles, I thought this was an interesting chart. It looks at the price of the S&P in relation to the stock of M2. I think it confirms that we are in the melt-up phase but tells you little about how far it can go.



To paraphrase one witty comment that I saw on Twitter, the last time we had high inflation you could put your money in 15% bonds, this time it either rots in cash or goes into tech companies trading at 50x sales. Kind of says it all… as do the current allocation choices being made by investors.





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Important Macro Data Releases and Events for the Week

Monday 11/15/2021	RBA Minutes
Tuesday 11/16/2021	GDP (Q3)
	Retail Sales (Oct)
	Speeches by Fed's Bostic, Barkin and Daly
Wednesday 11/17/2021	CPI YoY (Oct)
	Building Permits and Housing Starts (Oct)
	CPI Core YoY (Oct)
	Speeches by Fed's Williams, Bowman, Daly, Waller, Evans, and Bostic
Thursday 11/18/2021	CPI - Core YoY (Oct)
	Initial Jobless Claims
	Initial Jobless Claims 4-week average
	Continuing Jobless Claims
	Philadelphia Fed Manufacturing Survey (Nov)
	Speeches by Fed's Williams, Evans
	CPI YoY (Oct)
Friday 11/19/2021	ECB's President Lagarde Speech
	Speeches by Fed's Waller and Clarida

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