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Snow Days Don't Mean No Work Days

Holidays, snow days, mid February blues days… all of the above and yet markets are busy, busy, giving me plenty to distill for today's Musings. Roughly 960 words - a 7 min read. The Global Risk Nexus (GRN) will help stay on point.

HEALTH: Cases, hospitalizations continue to fall across US and EU, easing variant fears. Given harsh lockdowns EU offers most upside to vaccination success (cheapest relative valuations to ACWI in 25 yrs helps). Next several weeks key to see if vaccinations can break the link between rising mobility and rising cases.

Biden utilizes Defense Production Act (DPA) to ensure supplies while vaccine makers suggest supply will surge in coming months, shifting the focus to demand - a high class problem. Can you see it: spring time, easy access vaccinations, open restaurants - man, it's gonna be sweet.

ECONOMICS: Economic data BTE across the global board, underpinning financial asset price action. February PMIs reinforce the split between production and consumption with Manuf PMIs surging and at 2.5 yr highs in Europe while Service side remains under 50. Note Japan's manufacturing PMI broke above 50 for the 1st time in years as intra Asian trade surges (Japan Jan. X to China +37% Y/Y).

Strong retail sales #s in the US & China suggest this split might be at its wides. January US retail sales up 5% y/y - yes folks do spend the money they are given; China retail sales over the Lunar holidays rose roughly 30% y/y.

POLITICS: Biden Admin continues to move fast across both domestic and foreign policy, ditching the ill conceived America First thesis, opening the potential for talks with Iran & seeking partnership with like minded folks. All good as far as it goes.

Domestically the $1.9T Rescue Plan is expected to get its 1st vote a week from today with Senate passage likely in early March via reconciliation. The abject mishandling of Texas's power grid may help turn the state blue in coming elections.

POLICY: The EU Recovery Fund opened for business this week with many Govts presenting plans for how to use the money as disbursements begin in the coming months. A growing concern is that Europe will face large job losses and bankruptcies once it exits lockdown given its job furlough policy rather than the US fire first and hire back.

The Texas white out sets the stage for the Biden Climate/Infrastructure Plan. Big, visible problems coupled with subpar Govt response: Covid, Climate, Inequality, continue to make the case for robust Govt action, driving the US political sea change I have written about at length.

MARKETS: Oil has had two chances to sell off: the Saudi news regarding its ending of voluntary cuts come April coupled with the news of potential talks between US - EU and Iran… and took it like a champ which suggests a pause that refreshes. I continue to be a big believer in the commodity cycle if not supercycle. Dr. Copper hitting new highs simply reinforces it as does the attendant A$/Y cross break out.

Last week's Musings made the case that higher rates are a good thing (Higher Rates are a Good Thing). This week it's all anyone wants to discuss. UST rate breakout reflects the impeachment vote, Republicans cleaving to Trump which increases likelihood of both a bigger Rescue Plan and faster passage as Democrats utilize reconciliation.

The US path forward might follow China's 2020 path of higher rates, higher stock prices and a recovering economy - as I noted last Spring: China is 1st in and 1st out of Covid - its a global game of follow the leader.

Continued BTE economic data across the EU, US, Japan support my global economic boom thesis and in turn a global bear market in long duration Sovereign debt which has a "kryptonite" effect on Big Tech - setting up the Great Rotation & "Golden Age" of asset allocation discussed here at length.

Like oil, stocks are handling higher rates like a champ, no doubt helped by BTE EPS across the board, led by Europe with best beats in a decade. Barclays's Global Agg off to its worst start since 2013 & ACWI up roughly 5%. Look at Japan with 10 year JGBs now sporting a double digit positive yield (in bps), check out the German 30 yr, sporting a positive yield for the first time in almost a year. Will we see a positive yield on the 10 year BUND before YE? I think so. Finally making money in EUFN - only the beginning!

JPM notes that since March and over the past 20 years rising stock prices and bond yields are positively correlated. While we are early in this process, JPM reports that over 50% of its cross asset universe hit new 52 week highs last week. Continue to use cash freed up by Bond UW to maintain Equity and Comm OWs together with the thematic approach I have been highlighting.

On thematics note the reopening trade break out - MS now expects normal run rate for airlines by YE 21, early 22 vs consensus late 2023, early 24. JETS anyone? Note the selloff in clean energy - suggest those who missed the latest run up take a close look here - this subject is not going away. Note the fintech/Crypto meld, not yet a mind meld but getting close. Following the prior few week's Blackrock and BNY-Mellon news this week saw Canada approve the first Bitcoin ETF in the Americas and it was off to the races.

I covered some of this ground with the good folks at Bloomberg TV last Friday - enjoy the clip - I come on at the 5 min mark.

Excited for Monday's 2 pm EST Zoom session with Roberto Attuch and Ohmresearch!

From snowy NYC, TGIF!