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Down with Domination, Up with Innovation

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This week might well have marked the end of US equity dominance and the dawn of a UST bear market.

My 2021 outlook has been a Global Economic Boom (best in 50 years) stimulating a Great Rotation, including a bear market in UST (1st in 40 years), leading to a "Golden Age" for Asset Allocation . The Boom is imminent, the UST bear market is upon us and asset allocation is key.

More recently, I have argued that the Covid speed model: global intellectual and financial capital focused on a single issue leading to unprecedented outcomes (multiple effective vaccines in 1/10th normal time) will lead to a paradigm shift in investing as this model is replicated across global challenges like climate, cyber, fintech/Crypto etc, creating new opportunity sets accessible via investing thematically .

The past few weeks have been a real time example of trying to integrate these various perspectives, particularly around positioning and sizing within a global multi asset portfolio. In fact, I just updated the model portfolio delivery service where the rubber meets the road so to speak. Reach out to learn more.

The dramatic fixed income upheaval over a mechanical and most likely transitory pick up in inflation in coming months is pretty surprising even though I have previously noted that the consensus rate call at the turn of the year (1.2% 10 yr at YE 2021) was the sell side's worst prediction. Since last Fall, my own target has been 1.75-2.0%.

It's also worth noting how many folks have been complaining about how markets are not "free" and that the Fed controls everything and then when the other JP doesn't fix their problem of too rapid a rate rise, they complain about the lack of Fed leadership.

Understand the Fed is happy to see rates rise, even happy with some inflation - remember AIT? Benign financial conditions and elevated unemployment #s suggest that will be the case for some time - watch the Fed's March 17th meeting for an economic outlook update.

At this point, a FI duration related, growth equity correction seems pretty far advanced. As I have suggested for months: vaccines & rising rates = "Kryptonite" for Big Tech. FI markets have now priced in 3 rate hikes in 2023 while Nasdaq is in correction territory. The hi flying names like TSLA etc have been truly blasted, down 4 weeks in a row for 1st time in nearly 2 years while ARKK looks to be heading right for its 200 mav.

The clean energy thematics have been caught up in the wash, more so than I expected. Many are now off 30% from recent highs while on the Crypto front, GBTC sells at a 15% discount to BTC vs a 30% premium a month or so ago. The large embedded gains in many thematics have sustained the selling pressure.

It's safe to say that the past decade's US equity domination, led by large cap, growth tech is over and the ascent of non US equity, Cyclical/Value is underway. The Innovation Age is upon us and will remain the alpha opportunity set in the coming years.

Can one expect a sell the inflation rumor & buy the news market going forward? Higher rates now inoculate against the inflation pick up coming from the exit of last year's negative inflation #s. 1.5% on the 10 yr is a much better rate than .9% and reflects good news across multiple fronts. Higher rates are a good thing and much preferable to the opposite. Like Icarus they can fly too high too fast and that seems where we are today.

Could the next move be a rally in the 10 yr? The 2/10 Yield Curve is now almost as steep as during the infamous 2013 Taper Tantrum, suggesting a lot of ground has been made up. A rally is possible given resistance levels around 1.5-1.6%, the upcoming Fed meeting, attractive hedged yields for non US buyers coupled with a massive short futures position with borrowing costs near record levels.

The opacity in the FI market coupled with its interlocking nature makes determining an all clear difficult. A continued rapid rise towards the 2% level on the 10 yr would imply broader equity selling pressure that could lead to a correction in the SPY where even the cyclical plays get hit. SIzing and positioning among the long term secular themes amidst a significant equity style/factor rotation, the biggest economic boom in 50 years & a UST bear market is likely to remain a challenge.

Bottom line: a rate rally = growth stock rally; a straight shot to a 2% 10 yr would imply a broader equity selloff to include the S&P, cyclical/value plays.

Much more to cover but that will be next week's business. In the interim, enjoy this clip from Spain's leading business TV channel and don't forget Monday's video session @ 4:30 EST with Ohmresearch.