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RUNNING FAST JUST TO STAND STILL

960 words: a 4 minute read.

Even for one who has been focused on "Covid Speed" for the past year the pace of change seems to be accelerating. The Covid speed model has been my go to: speed of spread, of policy response, of market reaction to policy response, of science, of distribution (ok vaccination roll out has been less than fast – the exception that proves the rule) & speed of Fall (deaths collapse in UK and US).

I have argued that the Covid speed of science model: global intellectual and financial capital focused on a single issue resulting in unprecedented success: multiple effective vaccines in 1/10th normal time - represents a paradigm shift that will impact other pressing global challenges such as climate, cyber security & the melding of traditional banking, fintech & Crypto. Furthermore, that investing thematically using ETFs is the best way to generate alpha given this paradigm shift.

These global challenges combined with cheap money are spurring Govts to act, reinforcing & supporting an environment of rapid change. I have written about regime shifts in virtually every facet of global macro: Economics (fiscal to the fore), Politics (Biden & the Era of Go Big & Go Fast Govt), Policy (Twin Engine Fiscal & Monetary Support, AIT) and Markets (Rise of the Thematic).

Now I want to add speed of process/accelerated discounting to the discussion. Markets have always been forward looking, discounting machines but I believe this has sped up of late, leaving even the most seasoned investors gasping to keep up. Covid speed perhaps started the process, Fintech, Bitcoin & Crypto add to it together with the ubiquity of information and the impact of machine learning on investor decision making.

Exhibit A is the UST rally. After a huge back up in rates, maybe it's not a surprise that investors got caught out – and get caught out they did with an early April Evercore survey suggesting that only 10% of respondents expected the next 25 bp move in 10 yr. UST to be down. Guess what, in less than 2 weeks its down close to that number.

But, but, but what about the Biden Jobs Plan & its $2.5T price tag or the March jobs # with close to 1M new jobs or the March PPI print over 4% or the March Retail Sales # up close to 10% y/y vs 6% consensus… rally, rally, rally, ending with yesterday's biggest one day UST rally in 6 months.

Bottom line: the market has already discounted huge, never before seen, economic numbers & not just in US – China just reported Q1 GDP up 18% y/y – market reaction- yawn. The market is telling us that these huge numbers & inflation itself will indeed be transitory, contrary to what the smart money believes – note huge UST short position. While supply concerns are discussed endlessly, recall that UST represent 65% of liquid, safe assets – thus we have Japan's latest buying = to the most in 6 months.

As a result, I have refined my testing time thesis - the time to worry will be in a few months -around the time of the June inflation report because those #s won't be mechanical increases from last yr.'s collapse but could signal the beginnings of non-transitory inflation. If I am wrong? Look to the Brazilian Real (now 5.6 to the USD) as an inflation hedge – if it break's 5.5 some see a rally to 4.50 and below.

Maybe this year will be a year to sell in May – who knows what level the S&P will be at in 1-2 months. With nominal yields range trading (I continue to expect 10 yr. to end 2021 around 2%) and inflation picking up real yields will fall, supporting Commodities and weakening the USD (continue to like EMLC).

I wrote last week about just such a UST rally with attendant Nasdaq leadership & thus risk to Value heavy portfolios such as TPW Advisory's global multi asset Model – check, check & check. I noted the need for a hedge & discussed how the thematic basket embedded in the model could do the job – happy to report its all Good. Adding Gold at the last update has also been a good addition.

One of the things that got me musing on this accelerated discounting process was the UST move; the second was Everett Randle's article n Tiger Global and its velocity focused strategy of better, faster, cheaper leading to a new and improved flywheel that is eating the VC community. Low cost, low touch allows lean teams to succeed. It resonated deeply with me & is most definitely worth a read.

What does it mean for TPW Advisory & its clients? Speed of process, focus forward, shrink the time between analysis and action. I thought about how writing the Musings every week keeps me current – real time as it were. How my information gathering process has shifted from copious note taking to snippets pieced together. How a lean team (myself and an intern) are working to do it better, faster, cheaper.

Never before has analysis about what has happened been of less value; the market discounting mechanism has sped up – TPW Advisory is on it. Are you?

There is tons more to write about: from China to Climate to Crypto (and that's just the letter C) but that can wait for next week – feel free to reach out in the interim. I am enjoying my conversations with new model delivery prospects & clients. I look forward to speaking with you when the time is right.

Enjoy this Nucleus195 video on TPW's process of Investing Thematically.

TGIF!

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THE SONG REMAINS THE SAME