TPW Advisory Friday Musings: Classic Cover June 4, 2021

1000 words, a 4 minute read.

And by Classic Cover I am not talking about someone covering a famous song but rather the classic business magazine cover which doubles as a contrarian indicator. This week it is The Economist with its Brazil – Dismal Decade cover which I expect will go down in history as an absolute classic example of the genre.

The Cover comes on a day the BRL rallied strongly to further a recent 12% or so up move against the USD. EWZ, the Brazil ETF, is up 45% off its Fall 2020 low though still close to 20% below its 2018 high. You would think someone at The Economist would run a check before doing this – after all it's not the 1st time.

Well, as someone once said: the only bad publicity is no publicity and so congrats to The Economist. I continue to like Lat Am equity very much (one of the largest equity positions in the model portfolio) as well as its local currency debt.

In fact, I just updated the Model Portfolios (recall we now offer two, global multi asset and global 100% thematic) and two things stood out; one was the near complete absence of any down positions for the past month and second was the good looking technical nature of virtually all the charts. Besides a few overbought conditions (ILF, GLD) and one near oversold – here's looking at you GBTC) the rest look quite good.

Given the unprecedented nature of the post Covid environment I think technical analysis can be very helpful across the multi asset space. In fact, a number of key segments are on big technical levels including Apple which just broke under its 200day support as a Big Tech bellwether and US Fixed Income with both AGG and TLT bouncing against resistance; JP Morgan notes that April – May's real yield rally puts UST at risk.

Does this mean we should buckle up for a rate rise inspired big tech selloff? No, I don't think so – Crypto Carnage wasn't enough to do it, the QQQs are 7% above its 200DS and as I noted in last week's monthly, JP Morgan's work suggests US growth stocks have not been this cheap relative to the broad SPY in roughly 35 years (chart 4 for those interested).

The embedded inflation bogeyman continues to lurk but time to come out of the shadows seems to be running out. Citi's US inflation Surprise index has spiked to a record – by its nature it is likely to roll over and return whence it came. I continue to think the end game of the great inflation debate will be bullish for risk assets.

Speaking of Crypto Carnage, May was BTC's 3rd worst month ever; GBTC sits right on its 200DS while ARKK has been unable to reclaim its 200D. BTC/gold volatilely ratio has blown out to 6x vs 2x last summer. I have been surprised by the lack of institutional buying on this sharp sell off. Could rising regulatory risk be the new impediment? Might regulatory clarity clear the air and set the stage for a more regulated upside opportunity?

On the commodity front, our friends at Bear Traps noted that Brent crude oil just broke $70 after 5 failed tries over the past 2 years – note that for every 1% move in DXY, Brent moves 2.8% in the opposite direction.

No, I think the action will be in the FX market and the USD in particular. All the other major assets have had big moves: stocks, bonds, commodities… FX is the one that has been meandering around. In the 2H I expect the USD to break its support and have a meaningful decline underpinned by the coming very important shift from staggered global reopening to a global synchronized recovery.

South Korea's May exports were up 45% y/y (30 year record) and up M/M suggesting robust global demand. BofA reports that a record 97% of its global growth indicators are in Bullish/Neutral territory while the Global Service (yes SRVICE) PMI is at a 15 yr. high. The EC just waived European fiscal stability rules for 2022.

Japan is setting up as the next positive surprise – after months of negative Olympic stories its vaccination process is accelerating rapidly, its Economic Surprise Index just hit a record, the yen is cheap, no one owns it, it's a cyclical asset & yet EWJ has done nothing for months and months.

This shift sets the stage for non US equity outperformance (we added) and the next leg up in Commodity prices (we added). I expect the laggards to turn into leaders with Latin America leading EM and Japan taking the DM reins while Europe continues to perform well (higher rates bullish EU equity – watch -.05% BUND level; MS highlights UK as V cheap rel to history & cheapest EU stock market) and the US gradually fades like an old favorite horse down the stretch of a big race. (hey it is the Belmont Weekend).

Speaking of sports how bout them Bruins last night – shout out to Brad Marchand!

Last point – I think it will be very important to not get off the (new leadership) train too early – whether it be US Value, non US equity, Commodities etc. There is soooo much room for these segments to catch up – here's a stat to contemplate – MS reports that ownership of US Fin and Energy are in the bottom 10% of the last decade levels. XLE is up 45% and XLF 30% YTD. Run AXCWX vs US past decade to see what I mean – near mind boggling.

Enjoy the Nucleus195 clip of the key Monthly takeaways & sign up here for next Wednesday's 2H Outlook webinar sponsored by the good folks at Tellimer (June 9th).

TGIF – after a crappy Memorial Day weekend NYC is looking good for 90 degrees and sunny both days – of course I will be out of town!