OCTOBER 8, 2021

CALLING DR. COPPER

1,068 words – a 4 minute read.

It's not getting any easier is it? After all the back & forth of the past few weeks one was set up for a strong September jobs # to seal the deal on the rotation trade and start the run into YE. And true to recent form, we get a Delta inspired miss with less than 200k jobs added vs consensus 500k.

Amidst the headlines and conflicting takes, one needs to keep eyes on the direction of travel and course correct as necessary. From this armchair the direction is clear: an upcoming synchronized global expansion underpinned by massive inventory restocking needs, strong consumer balance sheets & a cap ex boom, leading to continued above trend GDP and EPS growth thru 2022 and beyond.

Global macro work requires a process – something that has rarely been more true than today. For us at TPWA that means our Global Risk Nexus (GRN) ordering system; let's make use of it now.

CLIMATE: The energy shortfall & resultant price spikes roiling global cross asset markets is just the latest issue du jour. Its akin to the price spikes already seen in lumber and iron ore earlier this yr., spike up, roll over, return to earth. Of course energy is different – the lights need to stay on and the room warm. Prices do appear to be rolling over already however.

Four points stand out: this is a temporary, seasonal crisis – April EU Nat gas contracts are priced at 50% of Nov; spot energy markets are proving dangerous for utilities; Govts are active and will protect consumers, if not utilities and companies; DM economies are much less energy dependent than 10, 20, 30 years ago.

ECONOMICS: Covid speed continues to work its magic. For all the backward looking, Q3 lull related, slow growth headlines, the on ground reality speaks to continued strong global growth. BofA highlighted a "a mini reopening" as it looks for Q4 US GDP growth of 6% Q/Q. The improvement in Sept's ASEAN wide Manuf PMIs supports our Asian Reopening case; ditto China's Sept Service & Composite PMIs (Caixin) much BTE and back above 50 vs 47 in August.

Europe's Sept Service PMIs were down slightly M/M but still strong at 56 – same for the Composite reading. US Manuf PMIs were also strong with capital goods new orders off the charts while Sept Services PMI reported easing prices paid and delivery times suggesting supply chain woes may have peaked. Collapsing China-US shipping costs provide further support to a peak in supply chain woes. JPM's real time mobility measures are also strong with EU commercial vehicle traffic approaching pre covid levels.

POLITICS: US centric with debt ceiling farce kicked down the road a few months while internal Democrat negotiations over the human infrastructure bill continue. Here the last two weeks have been marked by progress: red lines are known, Progressives showed unity, power and flexibility, Pres. Biden confirmed the 2 bills are linked. Odds of dual passage have gone up, not down. I continue to see it as a when (month end) and how much rather than a can it get done situation.

POLICY: Fed remains on course to taper – may be December instead of Nov but it will happen. China policy mix remains regulatory focused; PBOC flexibility given rate structure a plus. Covid, Climate, energy worries reinforce a central plank of our future outlook: the role of Govt is big and expanding across the Tri Polar World.

MARKETS: BofA reports recent selling has been historic: last 2 weeks saw 2 of the 10 trading days with selling pressure 3 st dev from normal – only the 24th time in close to 100 years (since 1928) of such concentrated ferocity. Good news is headwinds (sentiment, positioning, seasonality) have become tailwinds with 2nd lowest investor (II and AAII combined) bull readings in a decade. Offset is technical damage has been done; JPM arguing its akin to last Fall when ACWI broke its 100 day mav – which set up big move into YE – maybe the same lies ahead as fears fade and earnings come thru. I continue to think a run up into YE is quite possible.

Recent action in both the rates and energy (oil) markets support the Asian reopening > synchronized global expansion > internal equity rotation from Growth to Value thesis that underpins our model portfolio positioning. A$/Y is likewise supportive as has been the action in US hi beta vs low vol stocks. Watch XLE/XLK ; XLE has been basing for roughly two years, needs to break higher to confirm the rotation is real.

One commodity player is missing: calling Dr. Copper. Copper has been weak and not confirming the oil and rate moves. Whether this is because of China news flow or something more worrisome is one of the key outstanding questions. If a synchronized global expansion based on inventory rebuild and cap ex boom complete with Climate focused build outs is imminent then copper should rally and confirm the other indicators. A USD breakout is also non confirming. These are the two to watch in coming weeks.

As I wrote in the Monthly: transition times lead to unsettled markets and often provide opportunity. My sense is in line with the JPM call that the recent energy issues are more likely to accelerate the rotation from Growth to Value than inhibit it. As such this week's Model Portfolio Review sessions were spent looking for ways to press the bet where we have conviction.

To wit: Have you noted Crypto's big pop over the past few weeks? Technicals look solid as talk of a Bitcoin ETF grows louder. Did you see Japan equity was down 7 days in a row, has given back the bulk of recent gains and now offers nearly 20% upside to 2022 target? What about China tech – down 29% ytd, at an ATL & off 4 weeks in a row or China RE stocks trading at .4x BV according to Bloomberg?

It's not all doom and gloom. Earnings season lies ahead, S&P consensus is for 20% EPS Y/Y growth with other DM expected to report strong EPS #s as well.

I covered several of these points in Thursday's interview with Spain's leading business channel.

It's been a heck of week on the back of several just like it – TGIF for reals!

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AS THE TRI POLAR WORLD TURNS: TRANSITION TIME