A Bit More Nuanced

February 2021

The soft data doesn't get much better

The question is do we dip to the low 50's or can the fiscal spending enable us to repeat Trump's 2016-18 growth burst?

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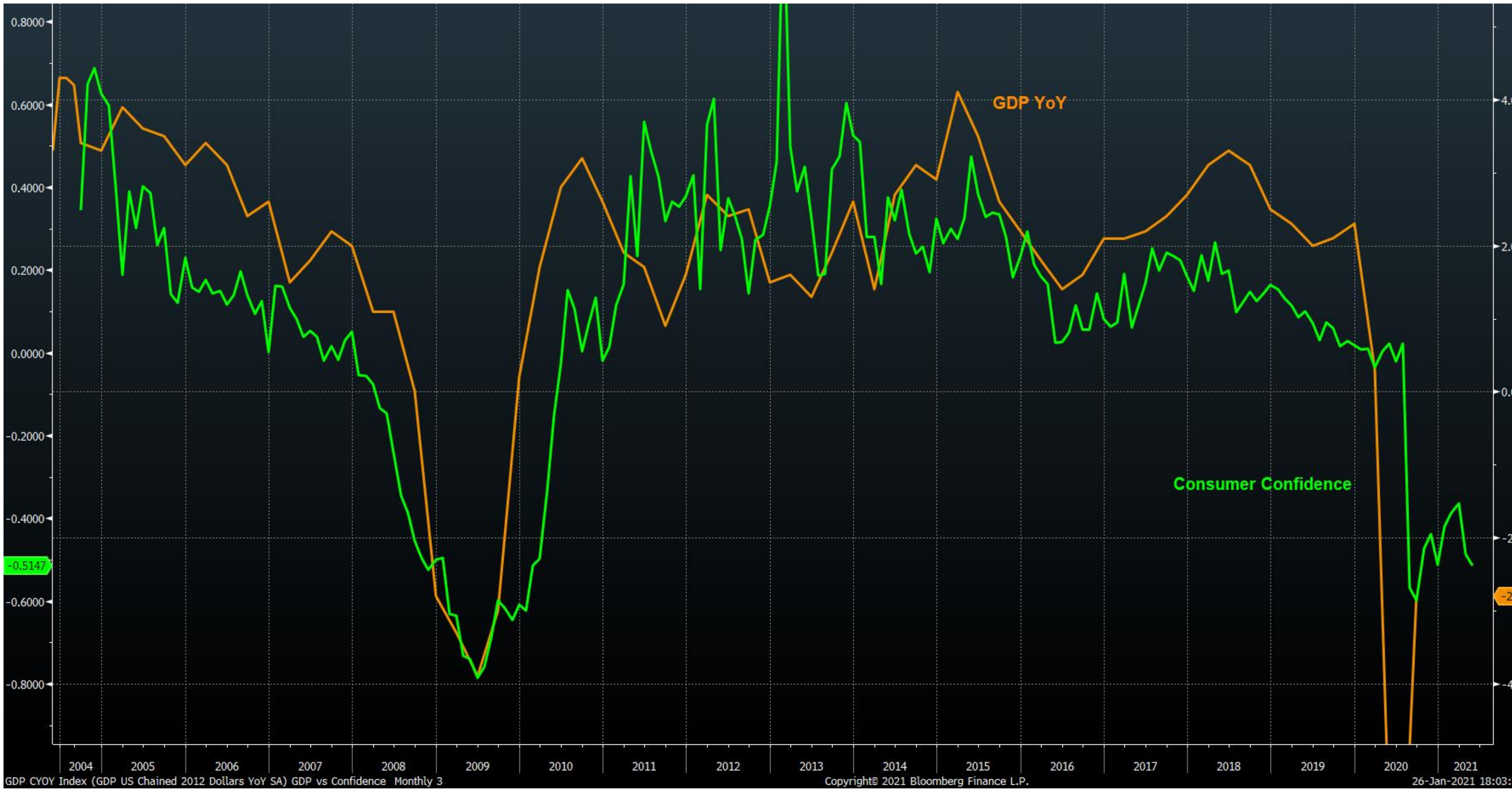
Also in the absence of fiscal stimulus ask yourself just how healthily is the consumer?



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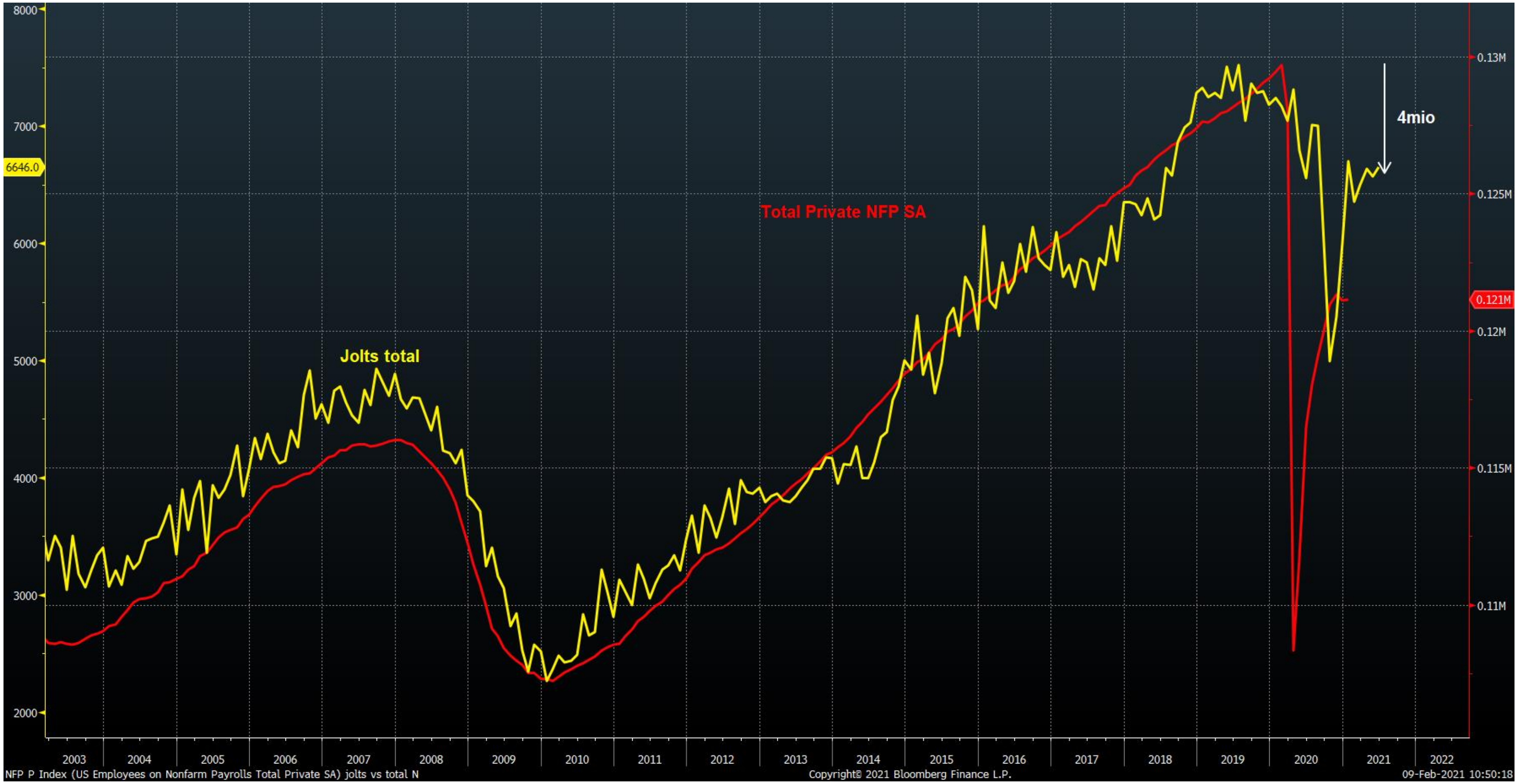
The good news is employment will improve
The bad news is it looks like we have lost 4mio jobs

Added to the unemployment rate at the start of the downturn would give us an end rate of over 6-7%



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The Fed will do their bit but are low on ammo

According to the Chicago Fed broad financial conditions are tighter than at the start of 2020
Note financial conditions = short/long term yields, credit spreads, stocks and the dollar

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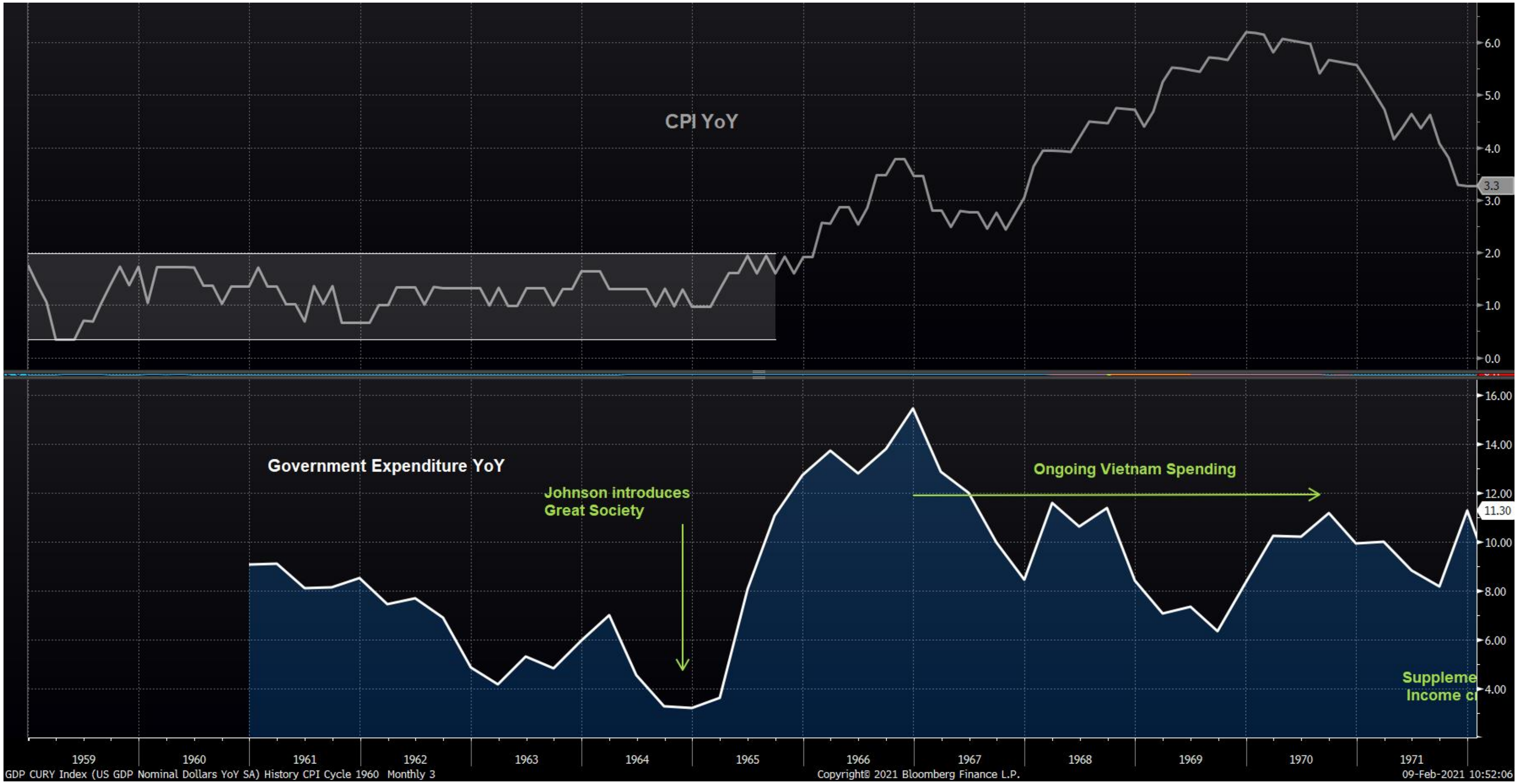
This level of fiscal spending could easily recreate the errors of the late 60s

Having averaged 1.3% 1959-1965 excessive fiscal spending overstimulating the economy initially boosting inflation to 3% and later 6%



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So why are increasingly turning cautious?
On reason is the risk from higher yields

In a world of anaemic GDP and yields investors have found an alternative to treasuries
Growth stocks are the new safe haven and investors have been willing to pay more and more!
But what happens to PEs if yields rise? …PS watch out if we get a daily close below 130

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Tesla is a classic bubble

We don't have a confirmation of a top yet
But a clean break of $800 would be a red flag

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The barometer to watch is the dollar!

Loose fiscal and monetary policy = weak dollar i.e. 13% decline 1989-92 and 27% from 2001-04
Loose fiscal and tight monetary = strong dollar i.e. 50% rise 1980-83 and 20% 2008-09