Rosenberg Research

No New Eras

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Economic Research for Informed Investing

We are a global independent economic research and markets strategy firm, providing clients with unbiased insights and actionable investment guidance.

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NO NEW ERAS: INTRODUCTION

As you can see by the title, I'm positioned against the consensus view, especially when it comes to inflation, and I do indeed find myself in the Jay Powell camp that as the pandemic caused a temporary deflationary condition because the initial shock hit demand greater than supply, we now have the combination of the fiscal juice and re-openings creating the exact opposite condition where demand is outstripping supply. But I think it's a tad disingenuous to believe that supply won't catch up, and when it catches up, demand growth will be subsiding since so much of it is artificial in nature and the conditions for disinflation will come back into vogue; I actually expect to see this happen before the end of the year.

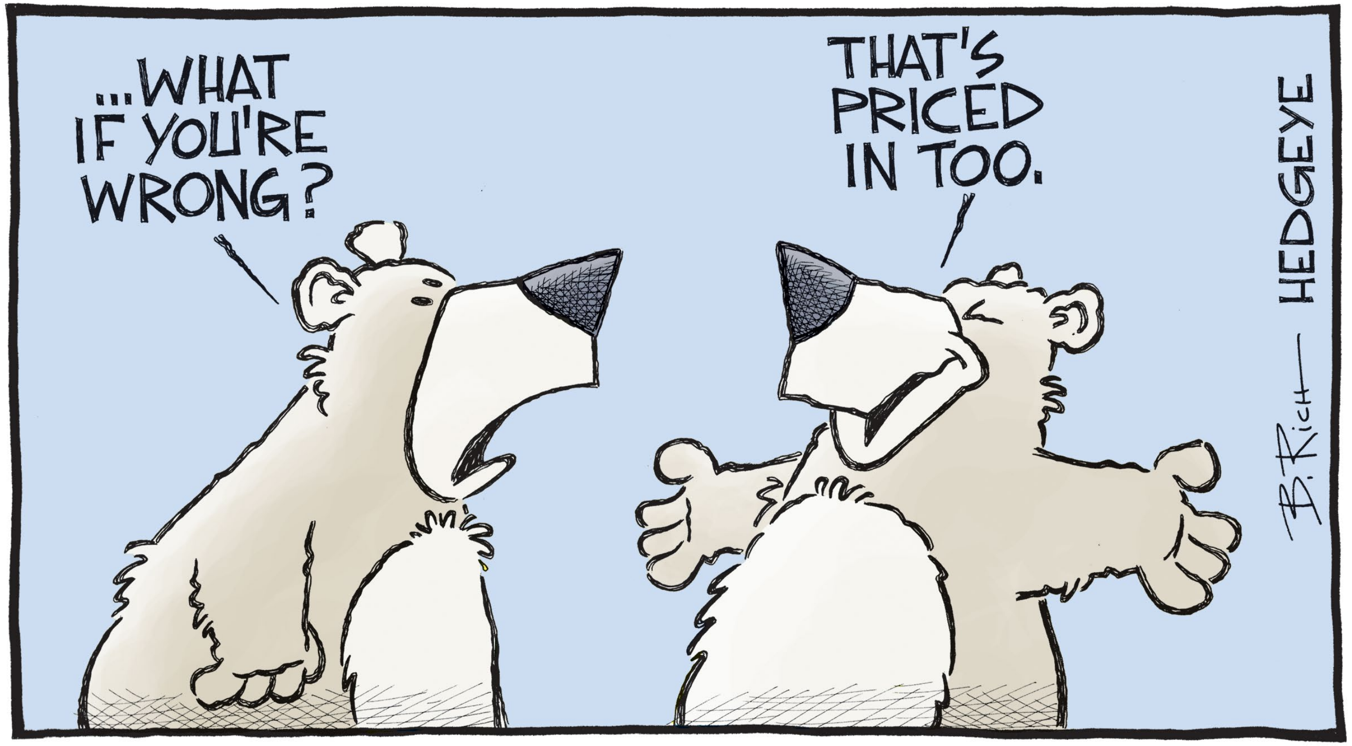
And this is not the same economy of the 1970s any more than the 1870s so comparisons here are completely off base. But what I find is that most market pundits I talk to don't really understand what inflation is, and that it is a sequence of price increases, not a one-off shift in the price level to protect profit margins from a short-term dislocation between demand and supply, which so very clearly reflects the residual impacts from the pandemic. Jay Powell is right — the inflation everyone is talking about will be almost as transitory as the deflation was a year ago when we saw the front-month contract on WTI go negative for a day, copper and corn collapse 20%, and we had three straight months of negative readings on the CPI. The worst thing to do back then was extrapolate, and that holds today as well as it did a year ago.

With a tip of the hat to Cosmo Castorini during his famous kitchen lecture to Loretta in the classic 1987 flick *Moonstruck*, *"everything is temporary, that don't excuse nothin'!"*

BOB FARRELL'S 10 MARKET RULES TO REMEMBER

1. **Markets tend to return to the mean over time**
2. Excesses in one direction will lead to an opposite excess in the other direction
3. **There are no new eras — excesses are never permanent**
4. **Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways**
5. The public buys the most at the top and the least at the bottom
6. Fear and greed are stronger than long-term resolve
7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names
8. Bear markets have three stages — sharp down, reflexive rebound and a drawn-out fundamental downtrend
9. **When all the experts and forecasts agree — something else is going to happen**
10. Bull markets are more fun than bear markets

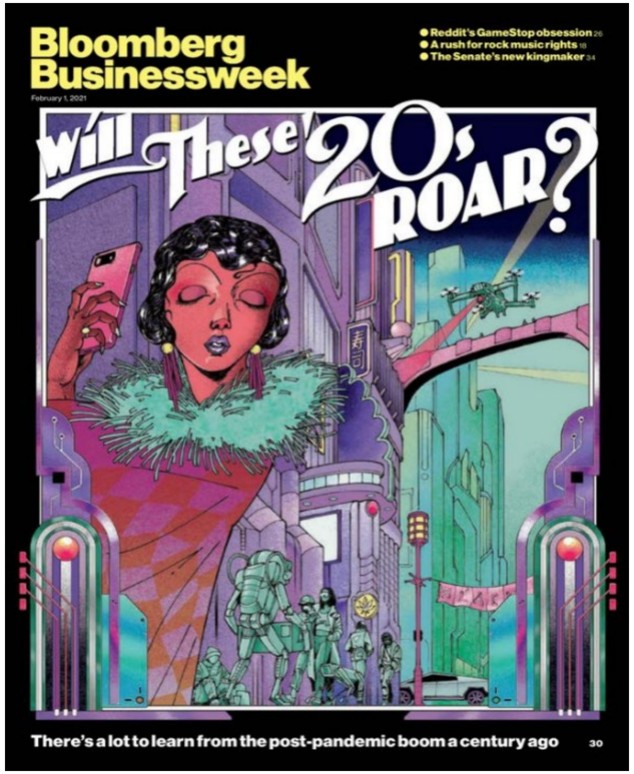
WHAT'S PRICED IN



Source: Hedgeye

FADE THE FRONT COVER (1/2)

JAN 16TH 2021
The roaring 20s? Towards a new era of innovation



Source: The Economist, MoneyWeek, Bloomberg Businessweek

FADE THE FRONT COVER (2/2)

Let's assess this "Roaring Twenties" theme that has morphed from a fad to a consensus view. Let's compare then to now:

- The median age of the population was 28, not 38.
- The government debt ratio was 10%, not 110%, and that paved the way for a decade of personal and corporate tax cuts.
- The prime reason for the "Roaring Twenties" was that Europe spent most of the decade rebuilding its war-ravaged economy and the U.S. took advantage of that by grabbing an ever-increasing share of global exports.

THE “ROARING TWENTIES”? MORE LIKE THE “BORING TWENTIES”

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Special Report:

The “Roaring Twenties”?

Author: David Rosenberg

Economic Commentary **December 7, 2020**

IN THIS ISSUE

- Why anyone would compare today’s landscape to what happened after the Spanish Flu (and the devastation from WWI) is anyone’s guess except for the reality that this is the story that most investors yearn to hear
- Outside of the fact that these two periods shared a health crisis, there are no other comparisons that are relevant — I would highly recommend that nobody draw inferences from what happened in the 1920s
- Not only is the outlook for demographic support, productivity, debts and taxation so vastly different, but so is the starting point on valuations for the stock market
- Read on to explore the key reasons why the post-Spanish Flu and post-COVID-19 economies don’t compare

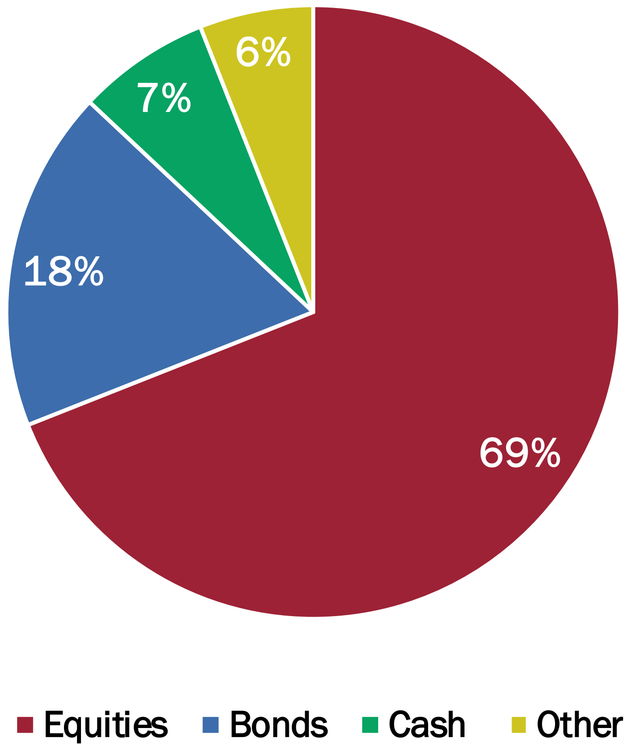
Source: Rosenberg Research

BARRON'S BIG MONEY POLL: A BULL MARKET IN OPTIMISM

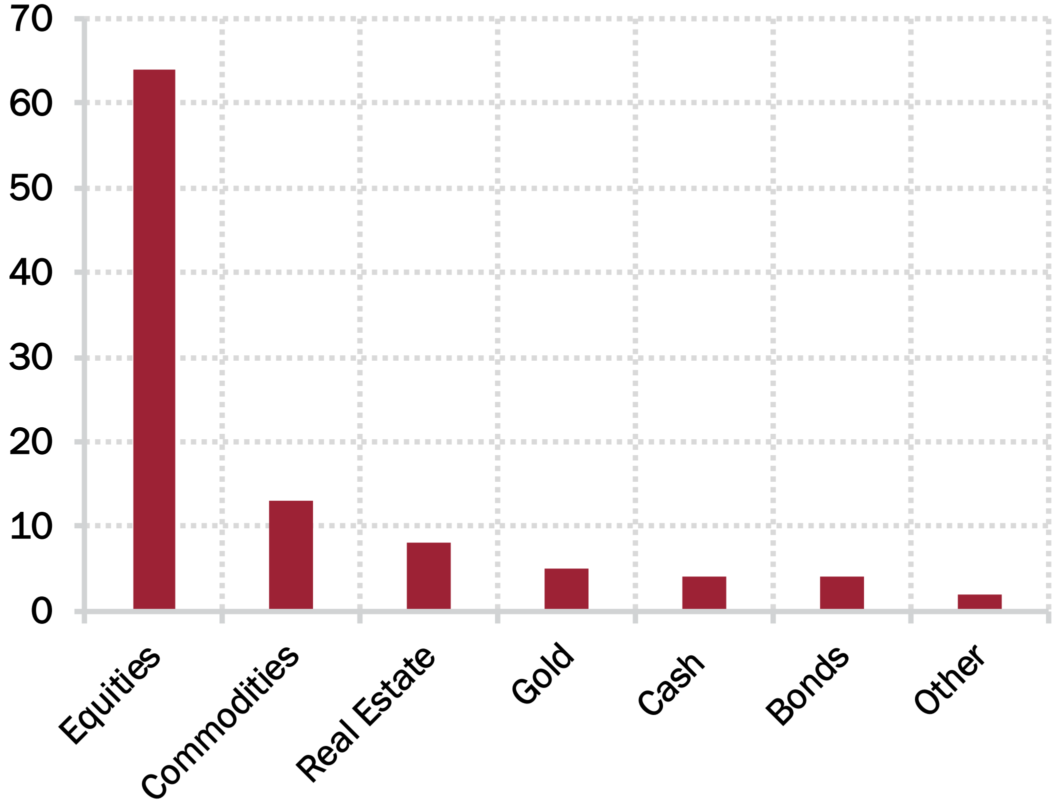
Source: Barron's

BARRON'S BIG MONEY POLL – APRIL 2021 (1/2)

United States: Describe Your Current Portfolio Allocation
(percent)



United States: Which Asset Class Do you Consider Most Attractive Today?
(percent)



Source: Barron's, Rosenberg Research

BARRON’S BIG MONEY POLL – APRIL 2021 (2/2)

In the Barron’s Big Money poll, we can see that 69% of the asset mix is in equities; it doesn’t get much bigger than that.

There’s just an 18% underweight in bonds, even after the yield run-up this year.

And only 5% of portfolio managers see Treasuries as being attractive compared to 65% for stocks.

So at least we know where we stand.

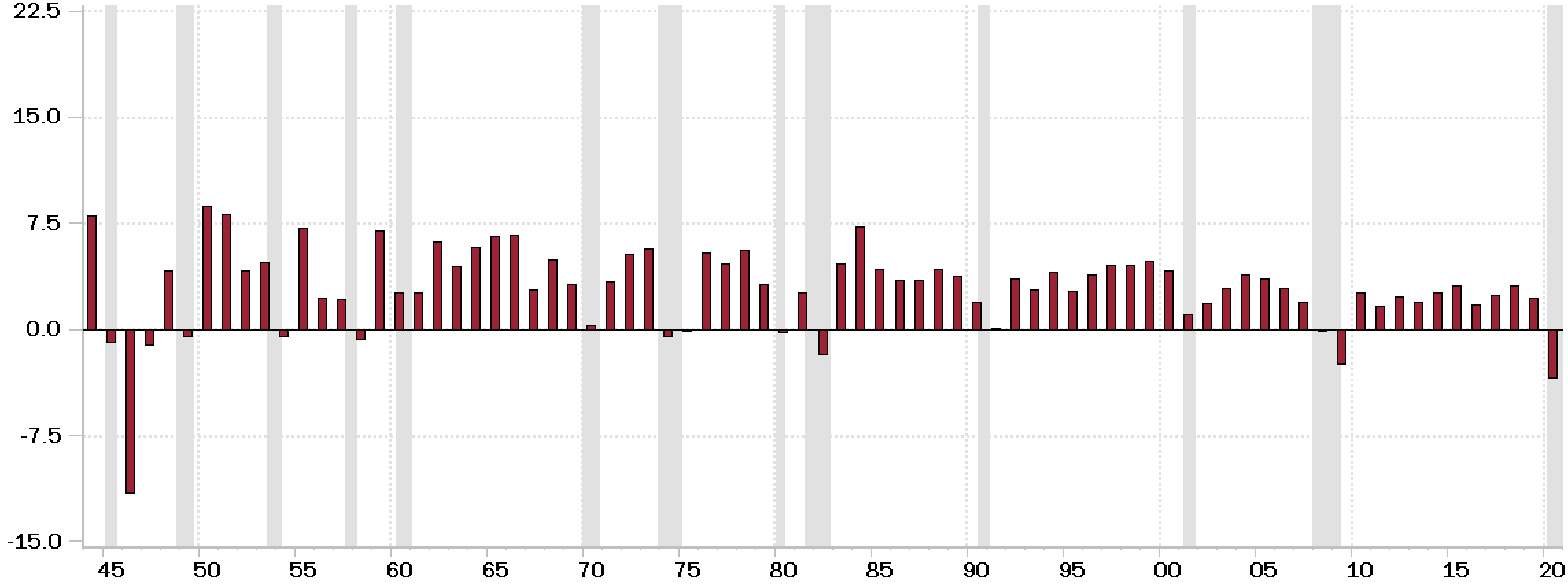
THE MACRO STORY: LESS THAN MEETS THE EYE

Source: cartoonistgroup.com

SHARPEST DECLINE IN REAL GDP SINCE 1946! (1/2)

United States: Real GDP

(year-over-year percent change)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

SHARPEST DECLINE IN REAL GDP SINCE 1946! (2/2)

The pandemic and lockdowns took real GDP down 3.5% last year — the worst since 1946.

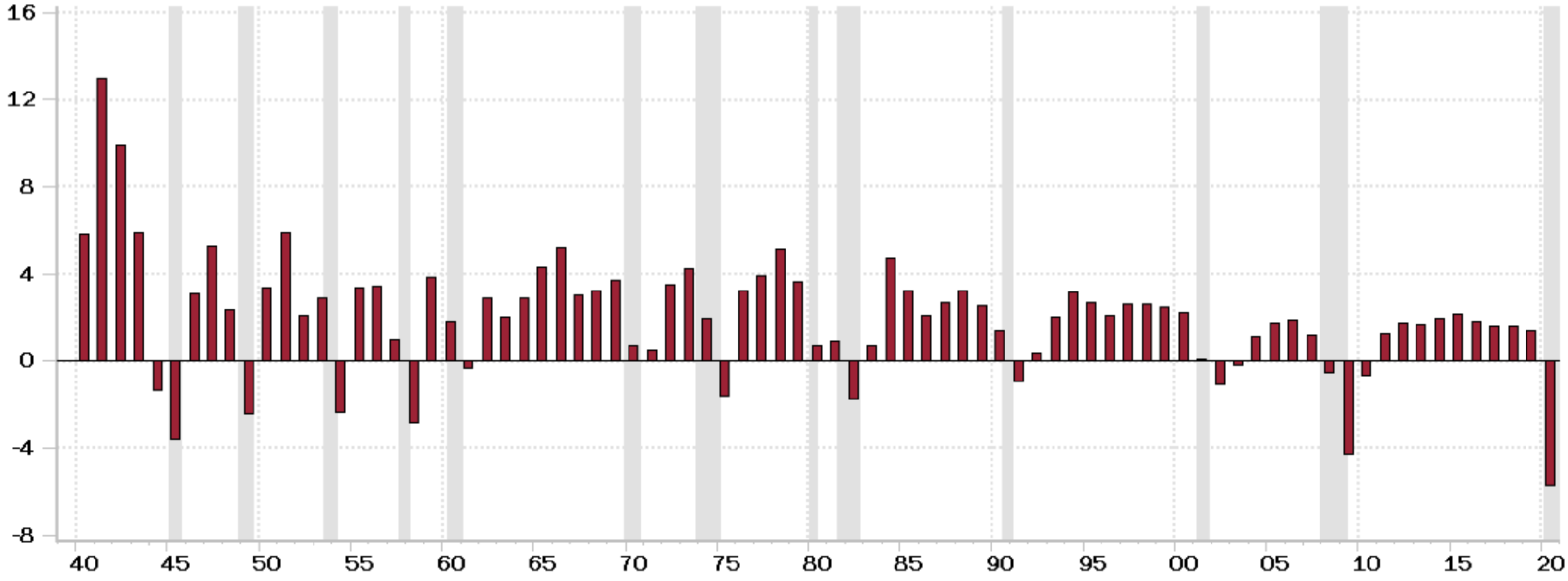
By way of comparison, the contraction in 2009 was 2.5%.

The chart clearly shows that the economy always comes back after an annual contraction, no surprise this time.

RECORD DECLINE IN EMPLOYMENT (1/2)

United States: Total Non-Farm Employment

(year-over-year percent change)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

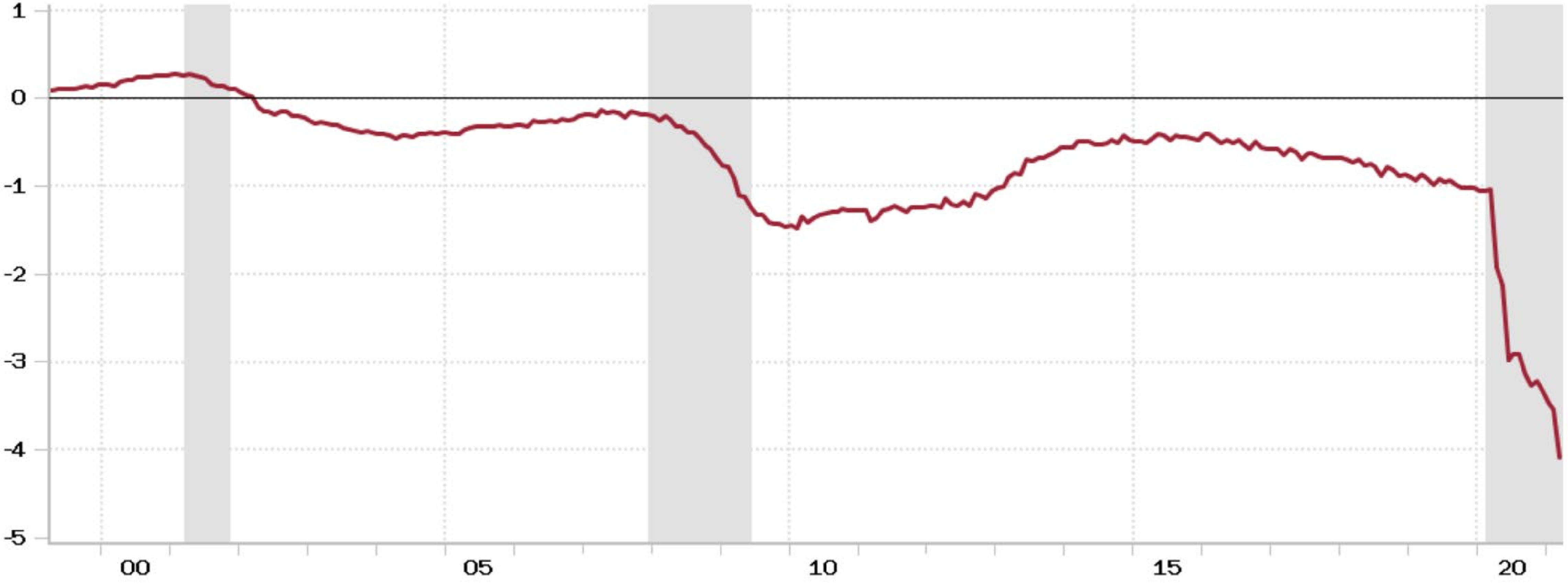
RECORD DECLINE IN EMPLOYMENT (2/2)

Employment fell harder, by 4.5%, the worst decline since the Great Depression.

The labor market's road back is going to take a lot longer than GDP, which is great news for productivity but also the preoccupation of the Fed for now and in the near future.

HOW CAN THE ECONOMY NOT BE BOOMING WITH THE DEFICIT SOARING 4X? (1/2)

United States: Federal Surplus/Deficit
(12-month moving total; $ trillions)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

HOW CAN THE ECONOMY NOT BE BOOMING WITH THE DEFICIT SOARING 4X? (2/2)

As for the nature of this recovery, it is one part re-opening and three parts unprecedented policy stimulus.

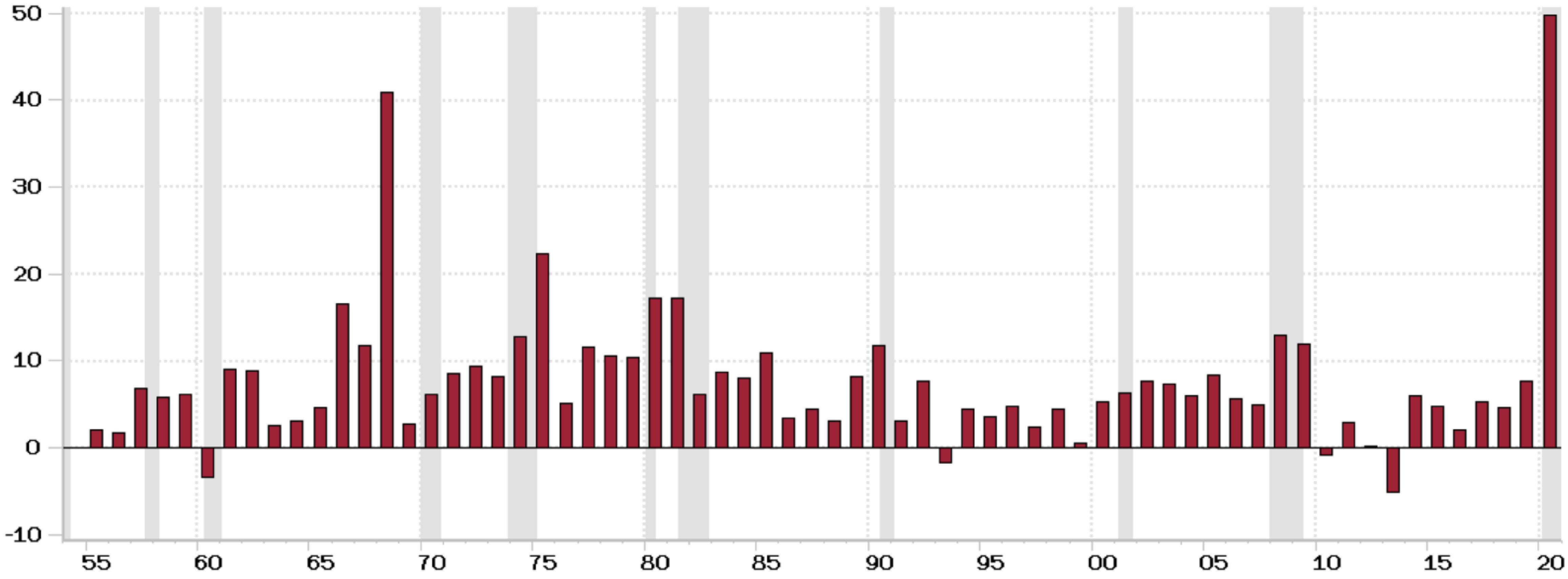
How can we not have some sort of recovery when the fiscal deficit soars 4-fold from $1 trillion to $4 trillion, or a Japanese style 20% of GDP?

There's most of the recovery story.

EVEN LBJ WOULD HAVE BLUSHED (1/2)

United States: Federal Outlays

(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

EVEN LBJ WOULD HAVE BLUSHED (2/2)

And the fiscal deficit hasn't soared because government revenues have declined.

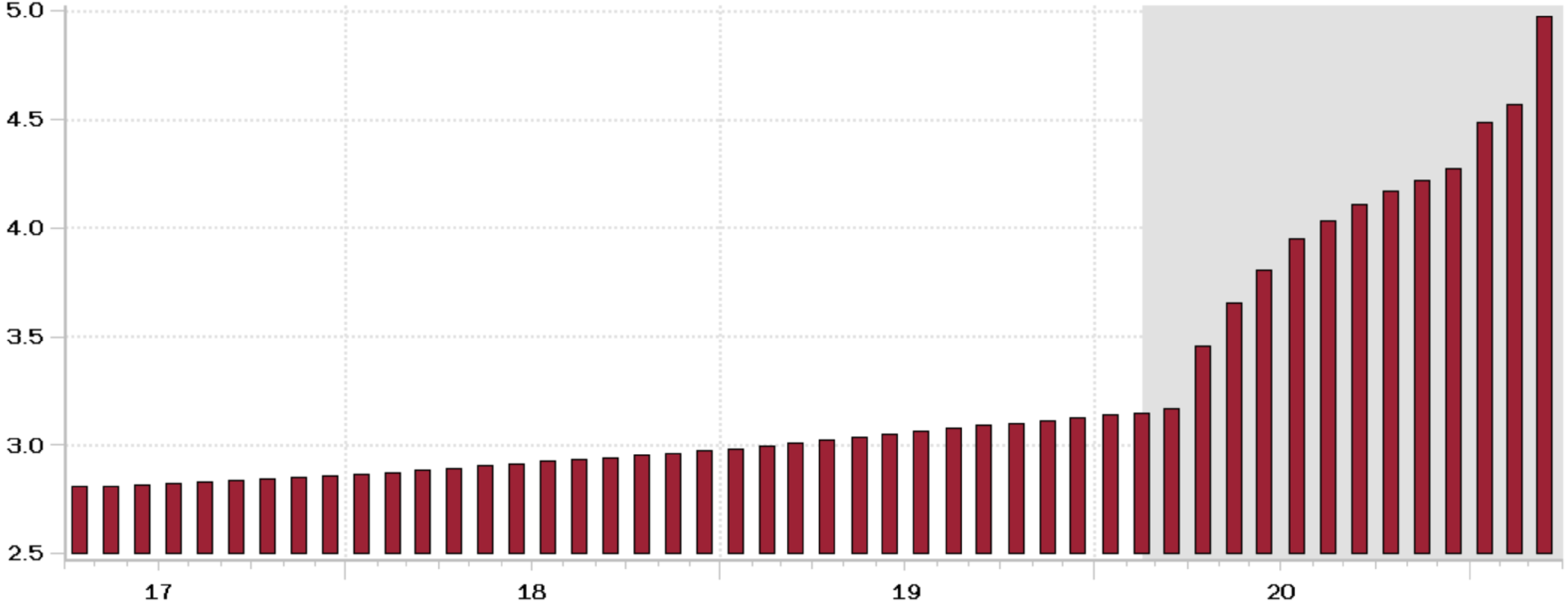
It's because of all the spending spigots.

Of course we have a vigorous rebound when government spending soars 50% in a year — it's unprecedented.

A BOOM IN GOVERNMENT HANDOUTS (1/2)

United States: Personal Current Transfer Receipts

(12-month moving average; $ trillions; SAAR)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

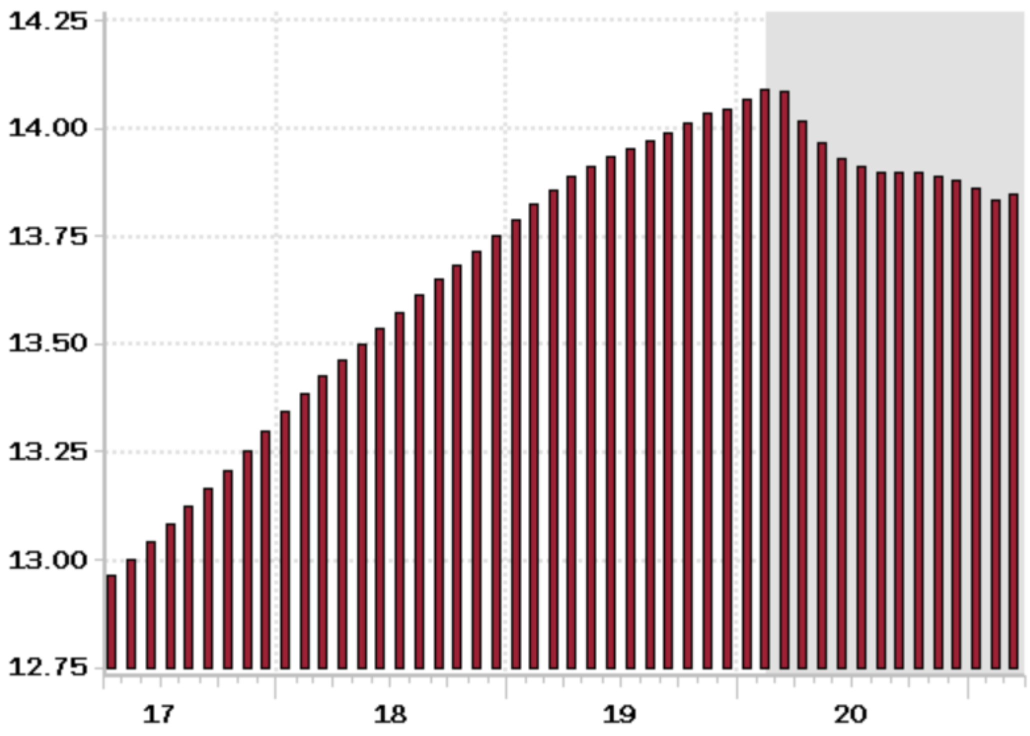
A BOOM IN GOVERNMENT HANDOUTS (2/2)

And most of the stimulus is short-term in nature with the stimulus checks and generous jobless benefits.

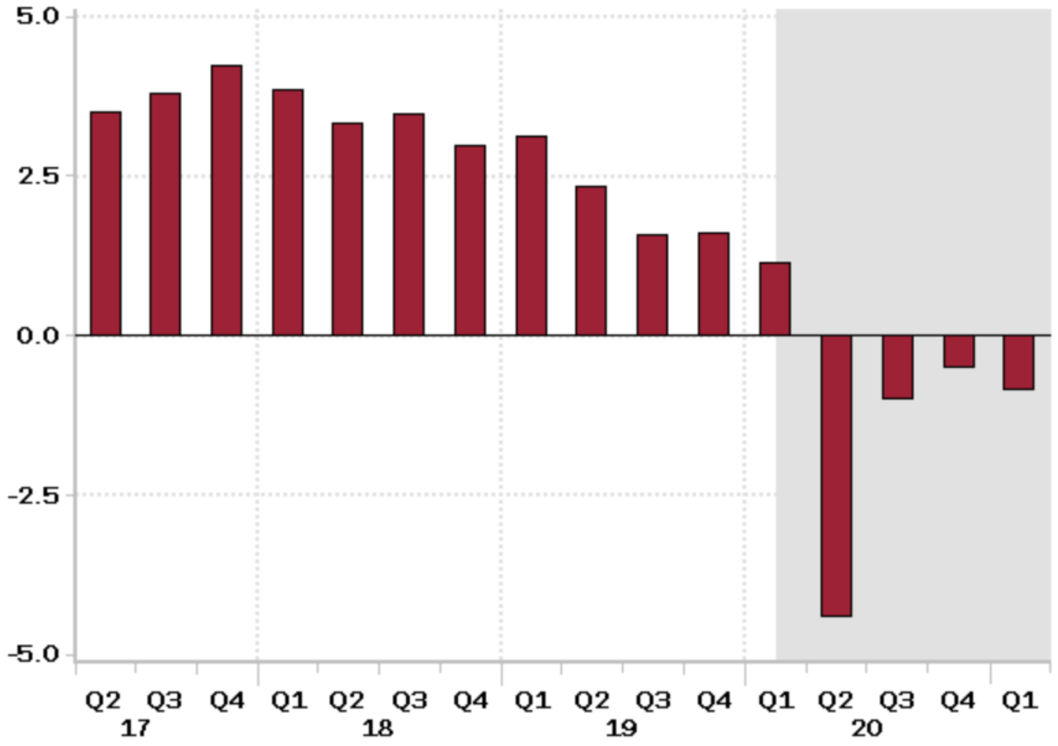
This is the prime source of vitality in the economy — government handouts with nearly $5 trillion of transfer payments to the personal sector.

ORGANIC REAL INCOMES ARE ACTUALLY STILL CONTRACTING (1/2)

United States: Real Personal Income Excluding Current Transfer Receipts
(12-month moving average; $ trillions; SAAR)



United States: Real Personal Income Excluding Current Transfer Receipts
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

ORGANIC REAL INCOMES ARE ACTUALLY STILL CONTRACTING (2/2)

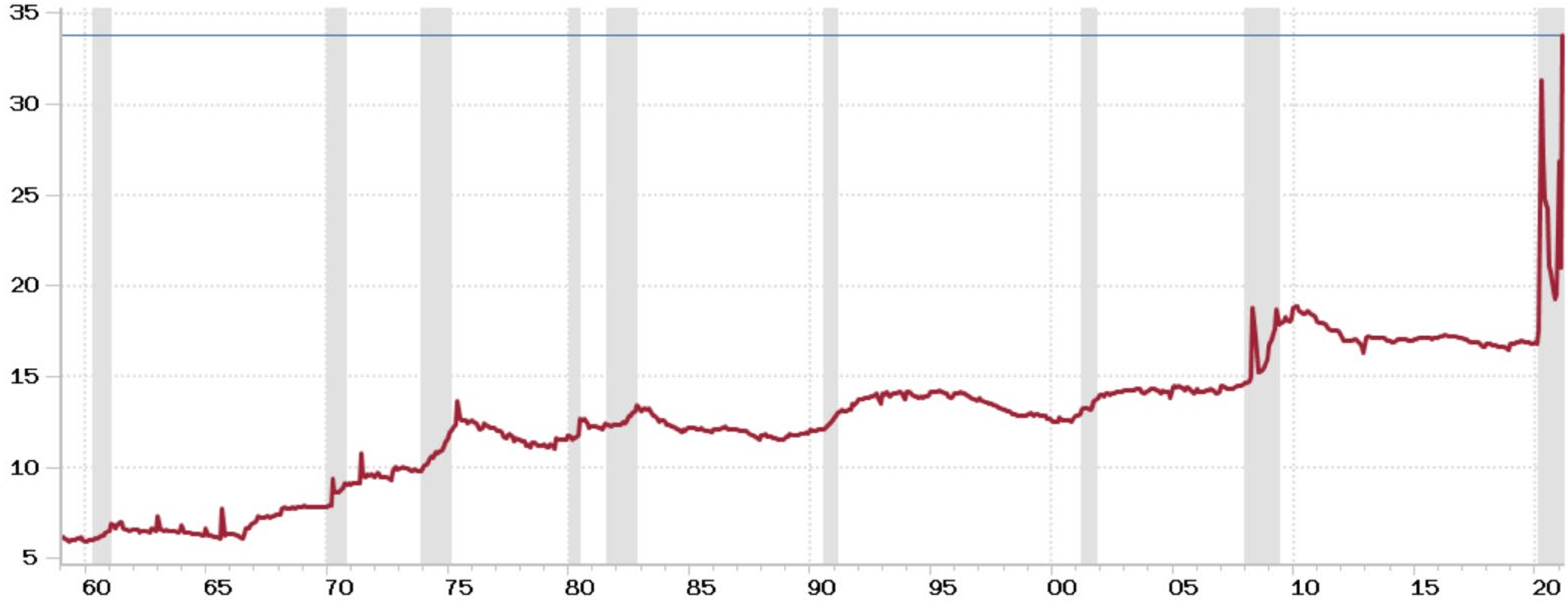
But what does the economy look like when the emperor is disrobed?

Well, as you can see, real personal incomes are still weakening when government transfers are netted out — the dirty little secret in the first quarter GDP report that came out last week, which saw 6.4% headline growth and 10% consumer spending growth, was that real incomes excluding government transfers came in flat (and were actually down 0.8% YoY).

No growth in this $14 trillion segment of the economy.

ALMOST 35% OF HOUSEHOLD INCOME COMES FROM UNCLE SAM'S WALLET (1/2)

United States: Personal Current Transfer Receipts as a Share of Personal Income
(percent)



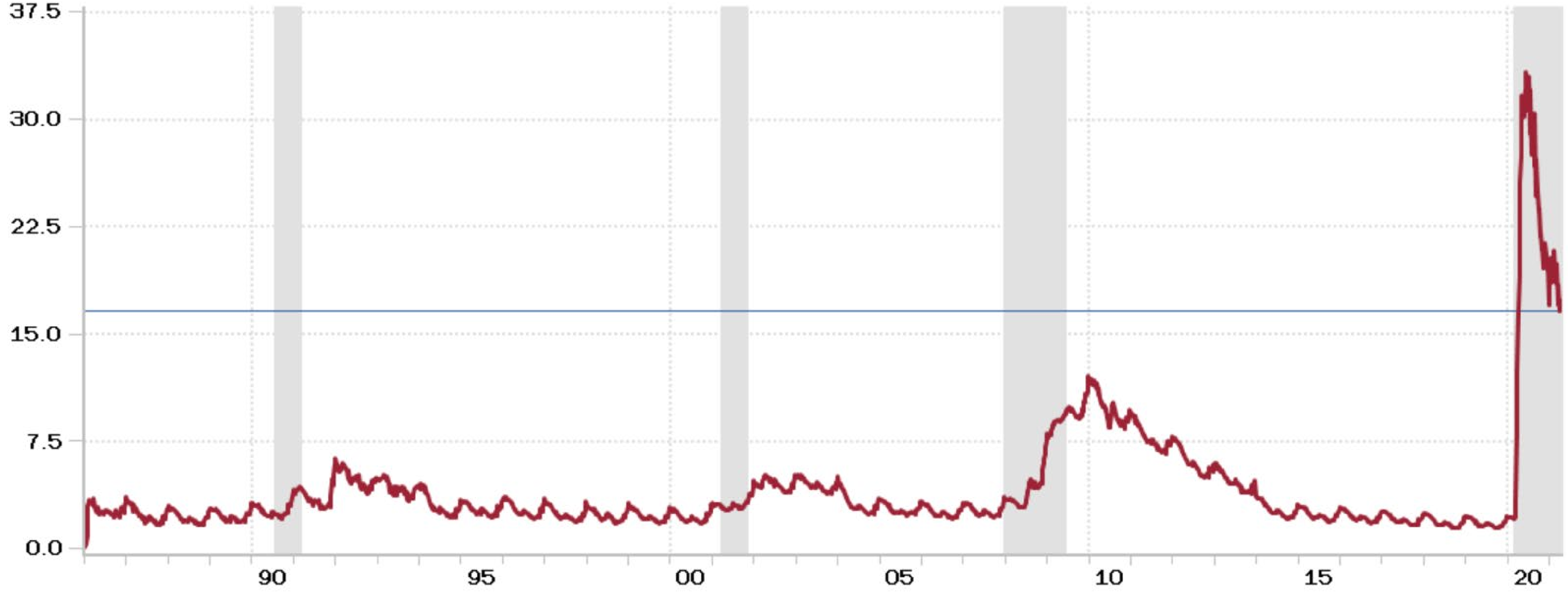
Shading indicates recession
Source: Haver Analytics, Rosenberg Research

ALMOST 35% OF HOUSEHOLD INCOME COMES FROM UNCLE SAM'S WALLET (2/2)

So we are at a point where nearly 35% of personal incomes rely on Uncle Sam's wallet, double the historic norm.

ALMOST 17 MILLION (OR 1-IN-8 AMERICANS) ON AT LEAST ONE BENEFIT PROGRAM (1/2)

United States: UI Benefits in All Programs
(millions)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

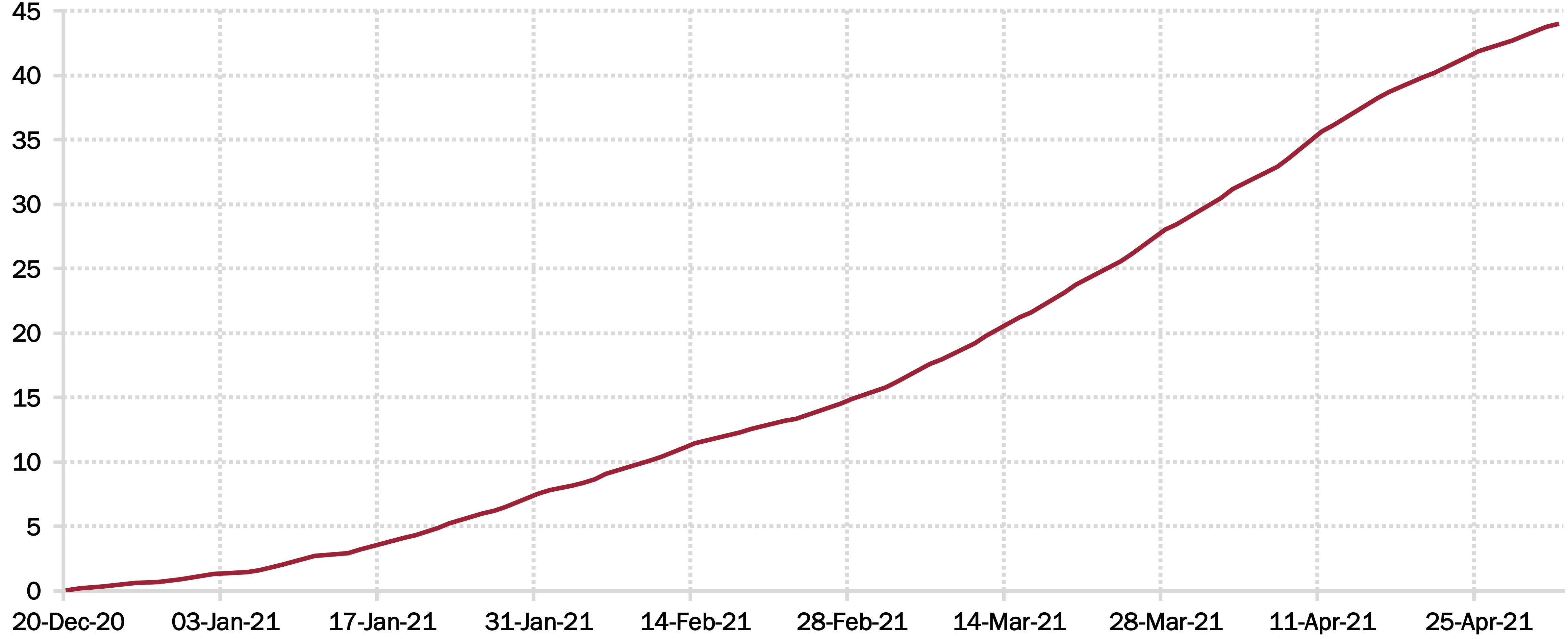
ALMOST 17 MILLION (OR 1-IN-8 AMERICANS) ON AT LEAST ONE BENEFIT PROGRAM (2/2)

And we have nearly 17 million Americans on at least one benefit program, so when I said last year that we entered some sort of economic depression, this is the chart that supports the view.

The soup line of the 1930s is a stimulus check in your bank account today, and make no mistake, we had ripping growth in 1933, 1934, 1935 and 1936 — and the first small tightening by the Fed in what was still a fragile economic setting set the stage for the 1937 and 1938 relapse, which was worse than anything we saw in the Great Recession of over a decade ago.

OVER 40% OF THE U.S. POPULATION HAS RECEIVED AT LEAST ONE DOSE OF THE VACCINE (1/3)

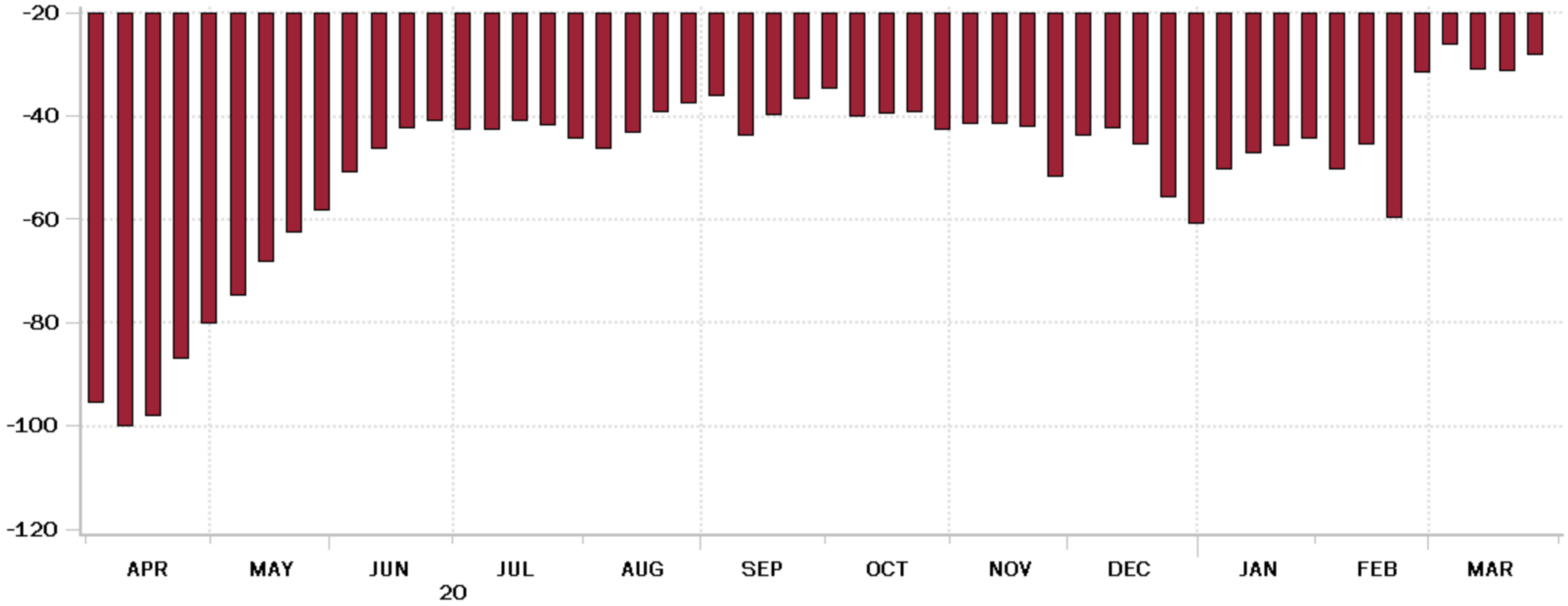
United States: Share of Population That Has Received at Least One Dose of COVID-19 Vaccine
(percent)



Source: Our World in Data, Rosenberg Research

THE ECONOMY HAS ALMOST FULLY RE-OPENED (2/3)

United States: Mobility Engagement Index
(index)



Source: Haver Analytics, Rosenberg Research

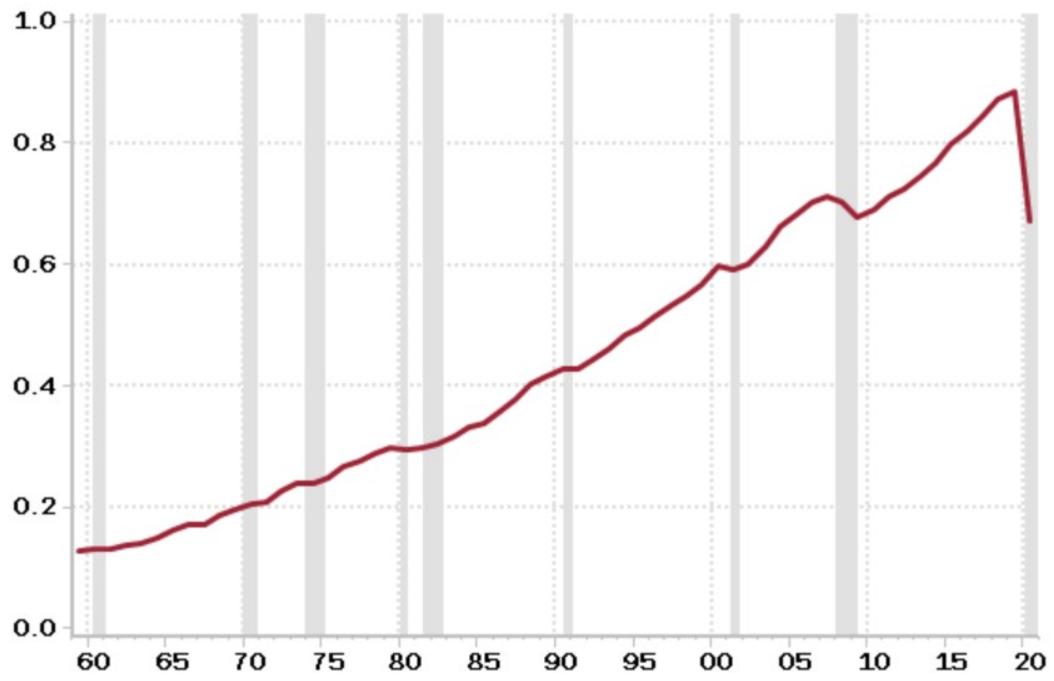
THE ECONOMY HAS ALMOST FULLY RE-OPENED (3/3)

In addition to the massive fiscal support, the vaccination progress has been impressive and a game changer to be sure and the economy is now 80% re-opened.

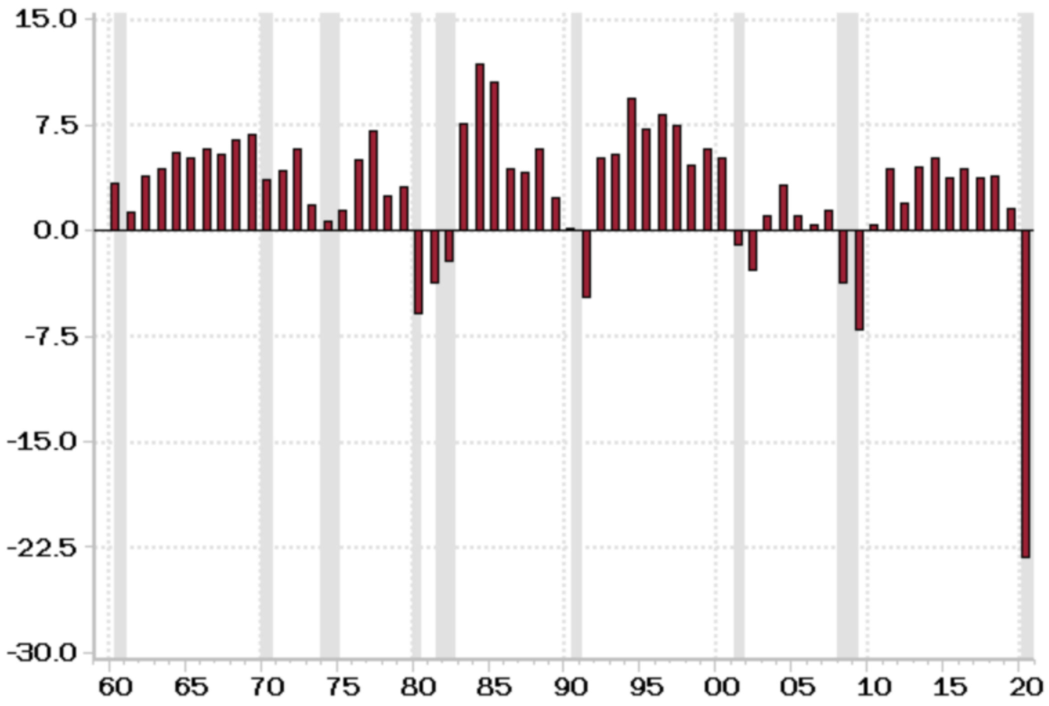
To the point where the Dallas Fed has ceased the publication of its weekly “mobility and engagement” index.

SPENDING ON HOTELS, RESTAURANTS, AIR TRAVEL, CASINOS & THEME PARKS IS $800 BILLION (1/2)

United States: Real PCE: Hotels, Restaurants, Air Travel, Casinos
($ trillions; SAAR)



United States: Real PCE: Transportation Services
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

SPENDING ON HOTELS, RESTAURANTS, AIR TRAVEL, CASINOS & THEME PARKS IS $800 BILLION (2/2)

I don't know if I would call it "pent-up demand," since that is a nebulous concept when it comes to services since what we lost here in the pandemic is lost forever, but it's plain that after an epic plunge in service sector spending, we are going to see a huge bounce.

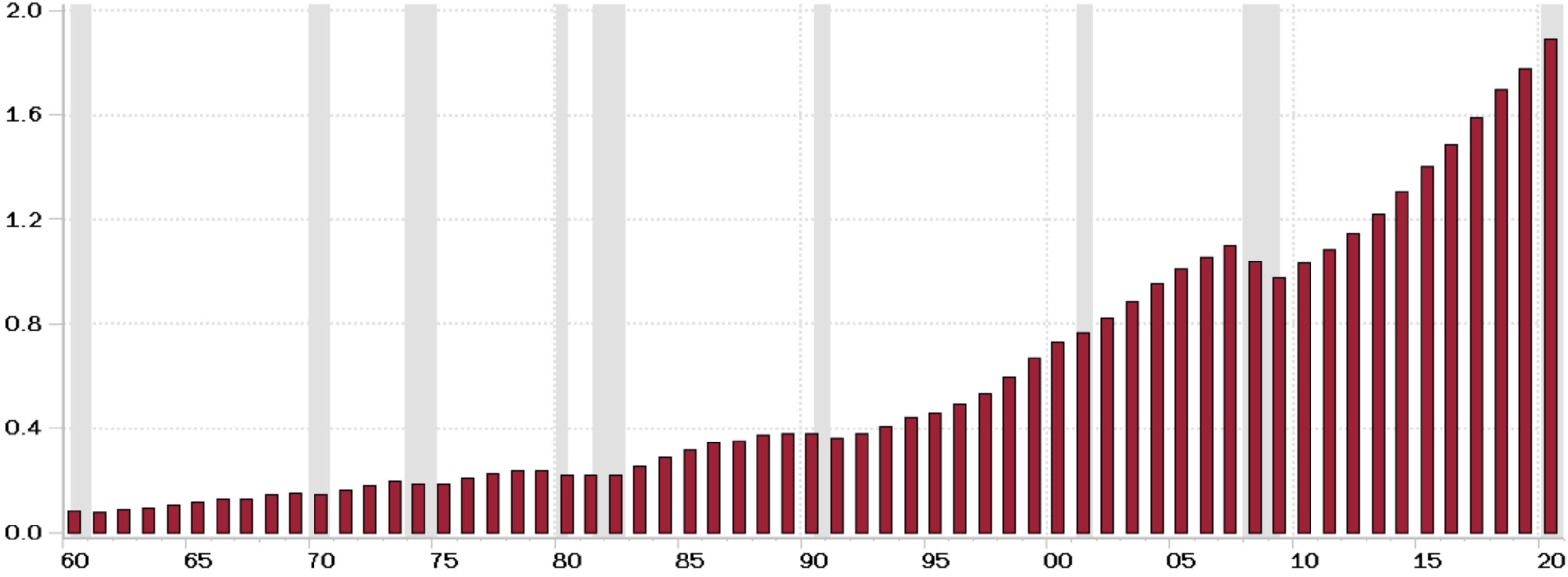
The question is the path to recovery because you can replace a car, but you can't replace last year's forgone vacation and you're not going to deliberately make up for what's gone by taking extra vacations or eating out five times a day or seeing your barber twice a week.

That said, the big recovery in service spending is already starting, but keep in mind that in a 20 trillion dollar economy, we are talking about $800 billion, or a 4% share of GDP. We've never before seen a recovery hinging on restaurants, theme parks and hotels.

DURABLE GOODS SPENDING IS A NEAR $2 TRILLION BUSINESS

United States: Real PCE: Durable Goods

($ trillions; SAAR)

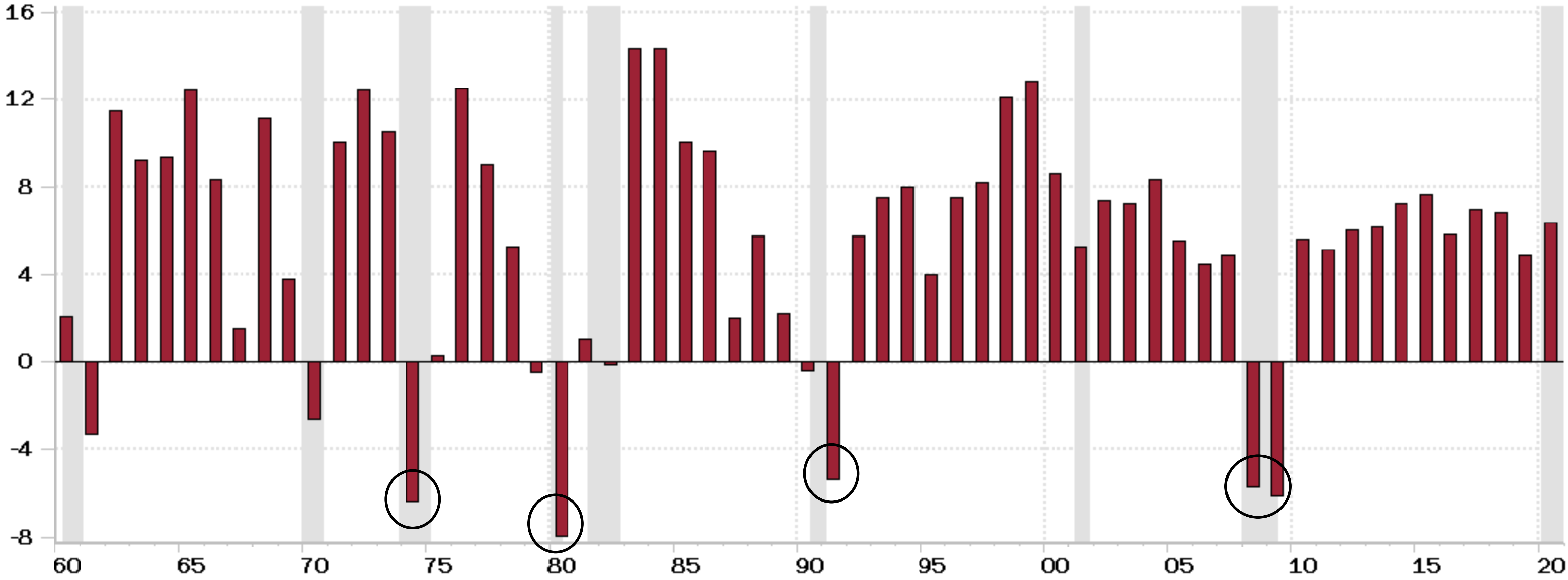


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

A RECESSION WHERE DURABLE GOODS SPENDING ROSE

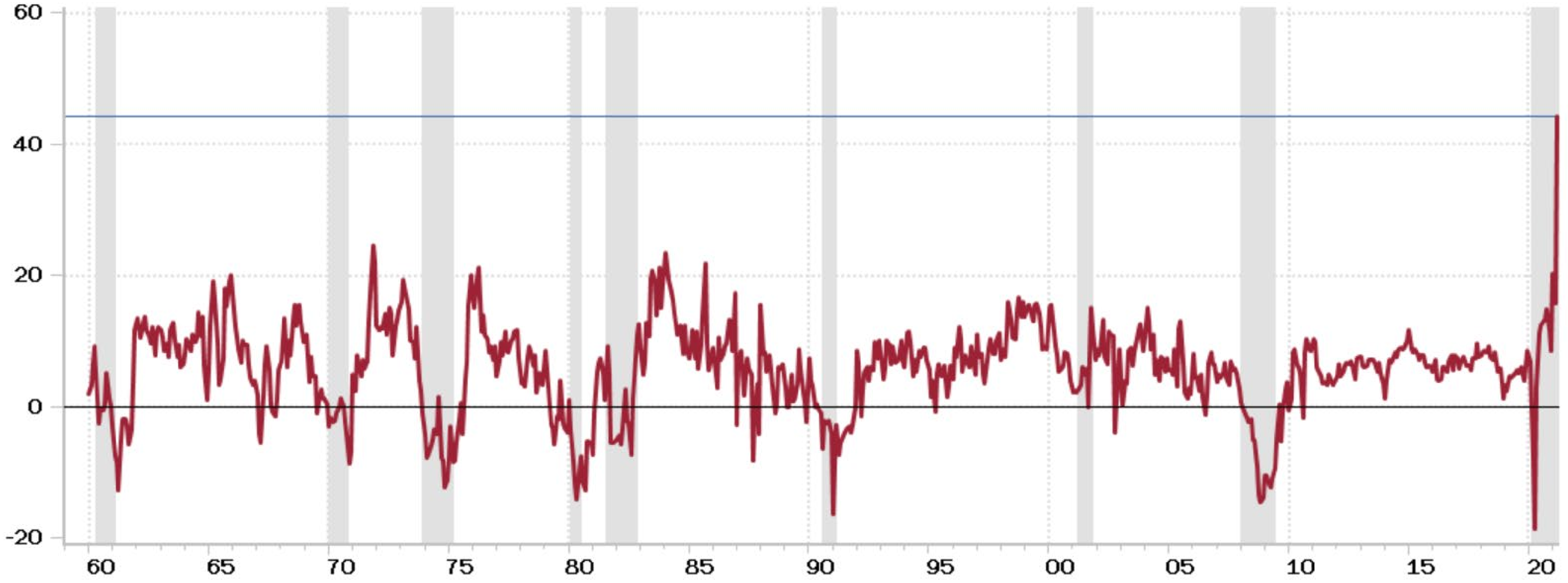
United States: Real PCE: Durable Goods
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

LATEST YoY TREND FOR MARCH SHOWS DURABLES SPENDING SOARING AT A 60-YEAR HIGH!

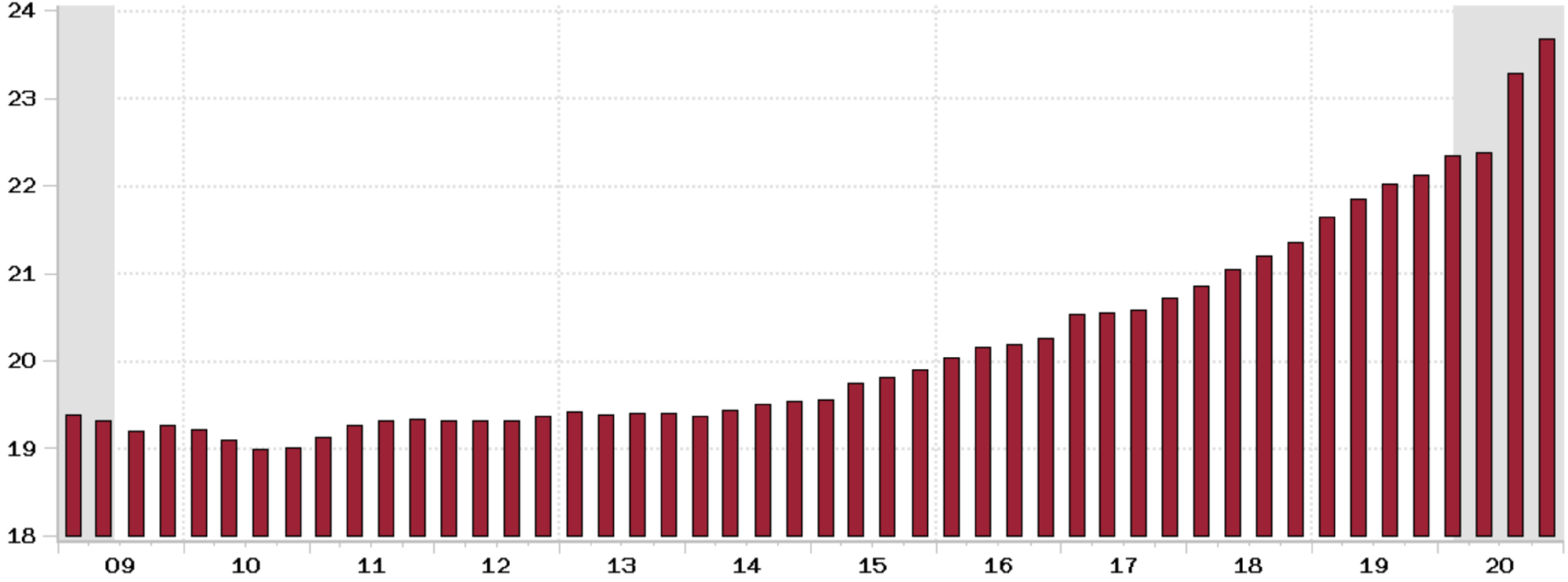
United States: Real PCE: Durable Goods
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

CONSUMER DURABLE GOODS ASSETS PER CAPITA AT RECORD HIGH! (1/2)

United States: Consumer Durable Goods Assets per Capita
($ thousands)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

CONSUMER DURABLE GOODS ASSETS PER CAPITA AT RECORD HIGH! (2/2)

Normally, in a recession, it is durable goods that take the big hit and then lead the recovery.

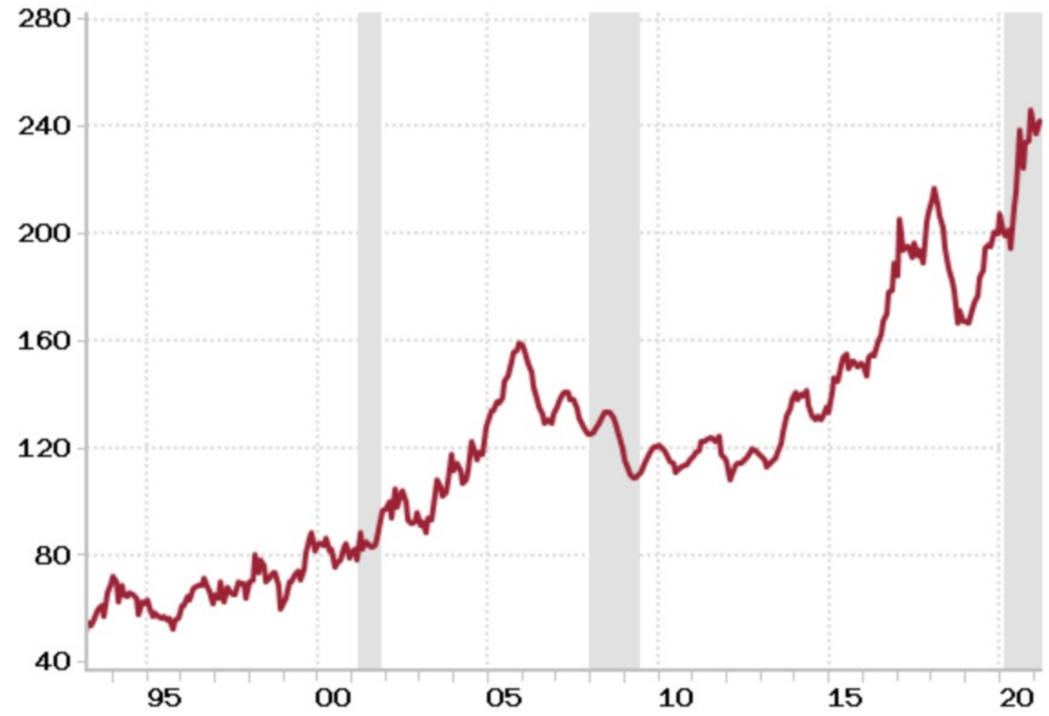
This is a $2 trillion market, with high paying jobs and much more powerful multiplier effects on the economy.

This is why I'm skeptical about this recovery beyond the initial euphoric spending after the third quarter based on cyclical consumer services, because we come out of this crisis having spent like mad on merchandise.

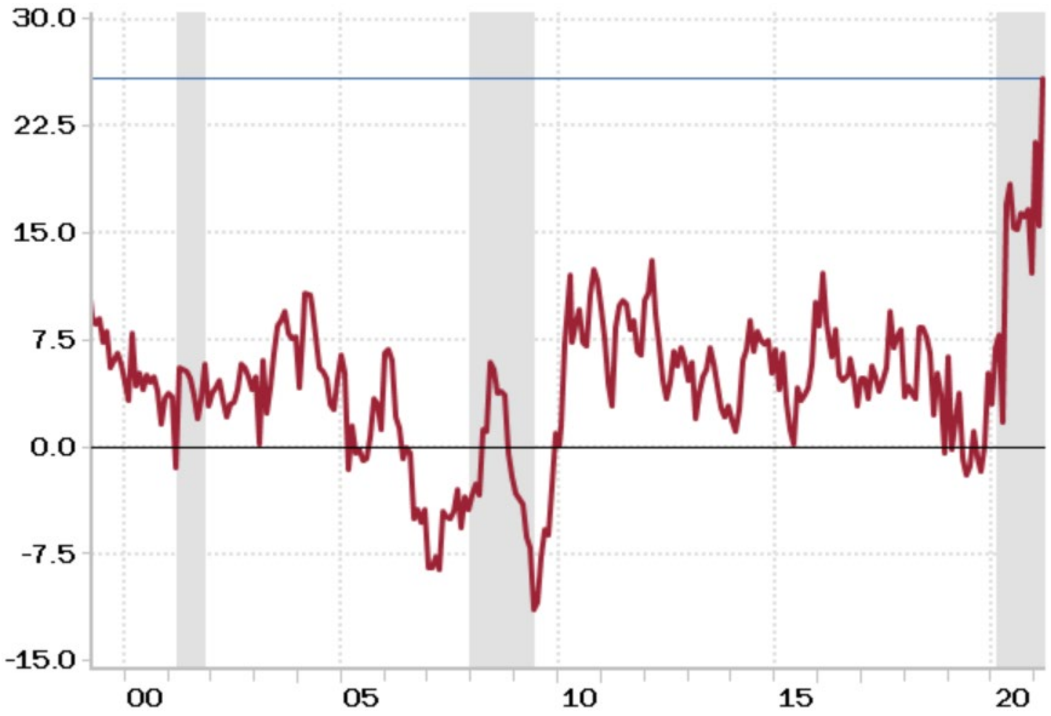
Usually, consumer durable goods go down in a recession but this time, they surged and you can see that, on a per capita basis, household ownership of consumer durable goods has jumped sharply, way above trend, so we go into the recovery phase with no pent-up demand in a part of the consumer spending space that is more than twice the size of cyclical services.

BUT HOW MANY TIMES CAN YOU REMODEL YOUR HOME? (1/3)

United States: Construction: Residential Improvements
($ billions)



United States: Real PCE: Tools & Equipment for House & Garden
(year-over-year percent change)

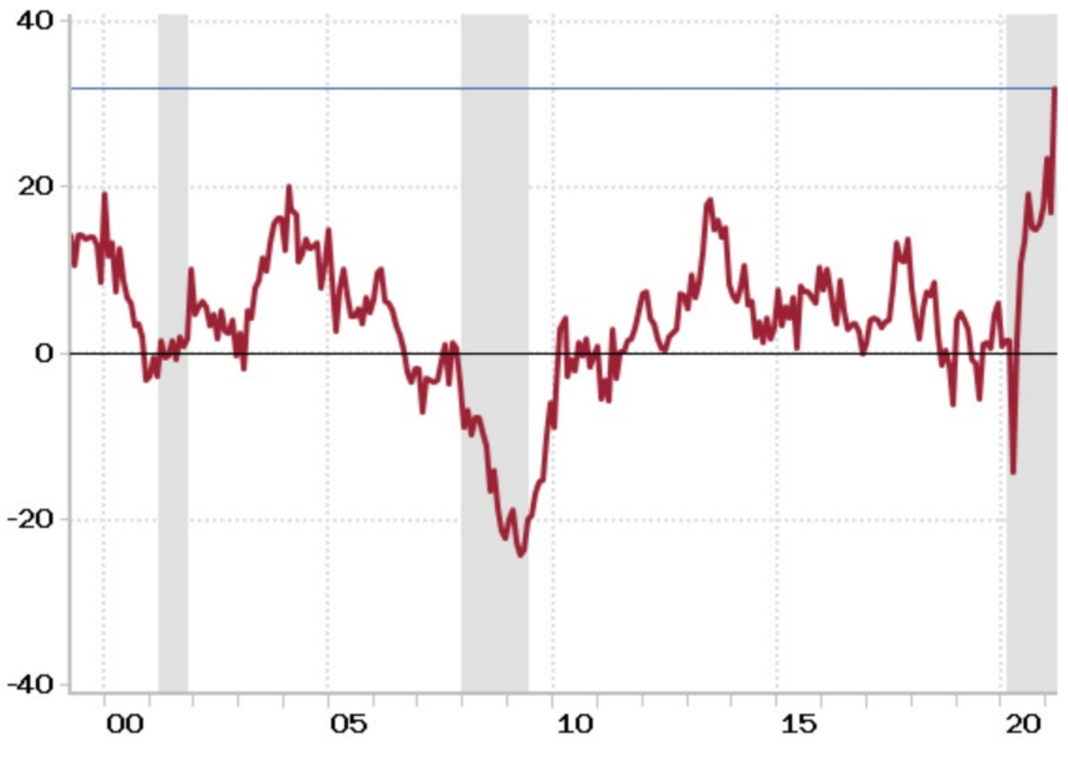


Shading indicates recession
Source: Haver Analytics, Rosenberg Research

... OR REDECORATE? (2/3)

United States: Real PCE: Furniture
(year-over-year percent change)

United States: Real PCE: Carpets & Floor Coverings
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

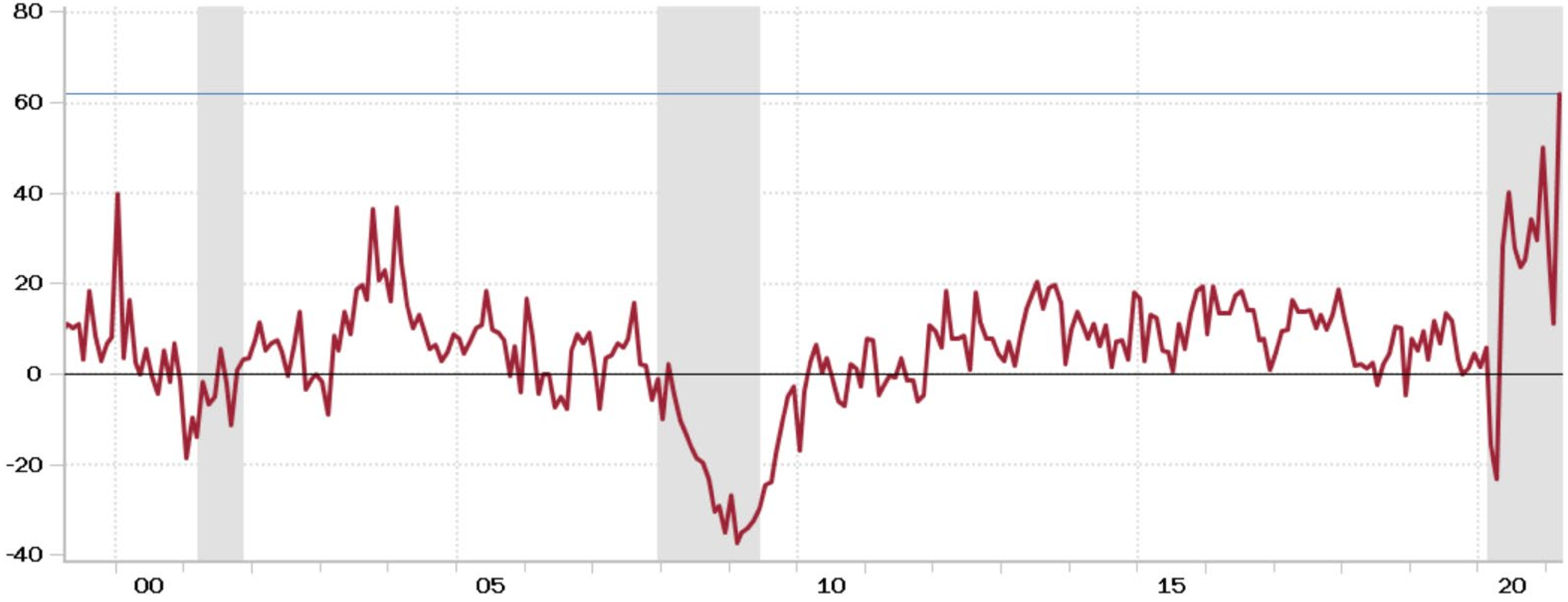
BUT HOW MANY TIMES CAN YOU REMODEL YOUR HOME? … OR REDECORATE? (3/3)

You have to ask yourself the question — how many more tables can you fit in the dining room?

And so on and so forth.

62% GROWTH IN LUXURY BOATS & PLANES? IN A PANDEMIC?

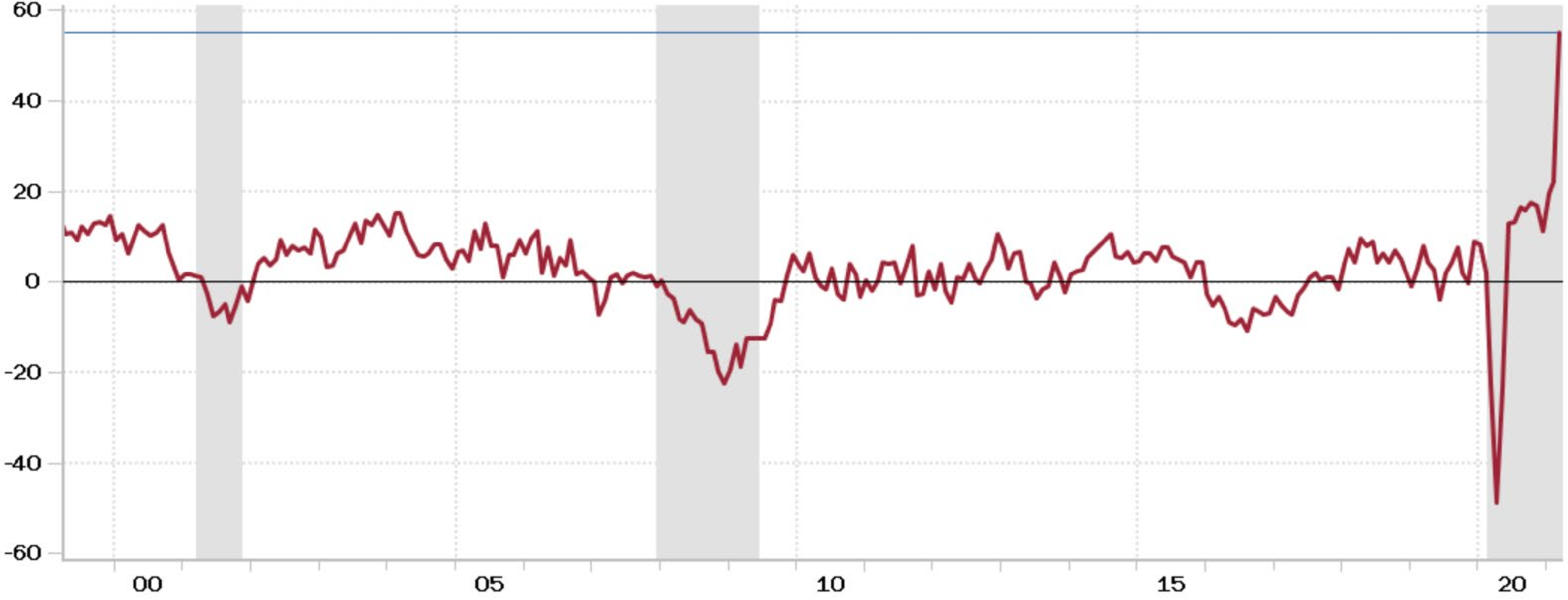
United States: Real PCE: Pleasure Boats, Aircraft & Other Recreational Vehicles
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

DIAMONDS ARE FOREVER, AFTER ALL

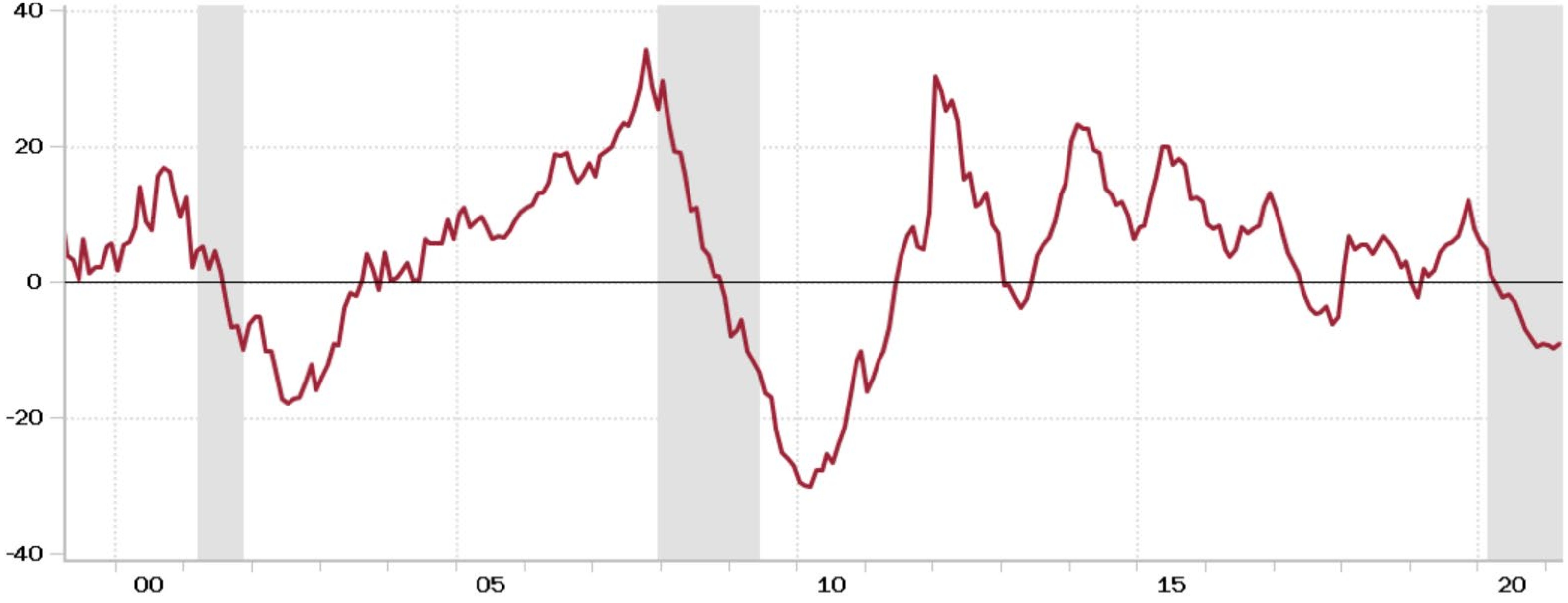
United States: Real PCE: Jewelry & Watches
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

SOME THINGS ARE NOT COMING BACK THAT QUICKLY (1/2)

United States: Non -Residential Construction
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

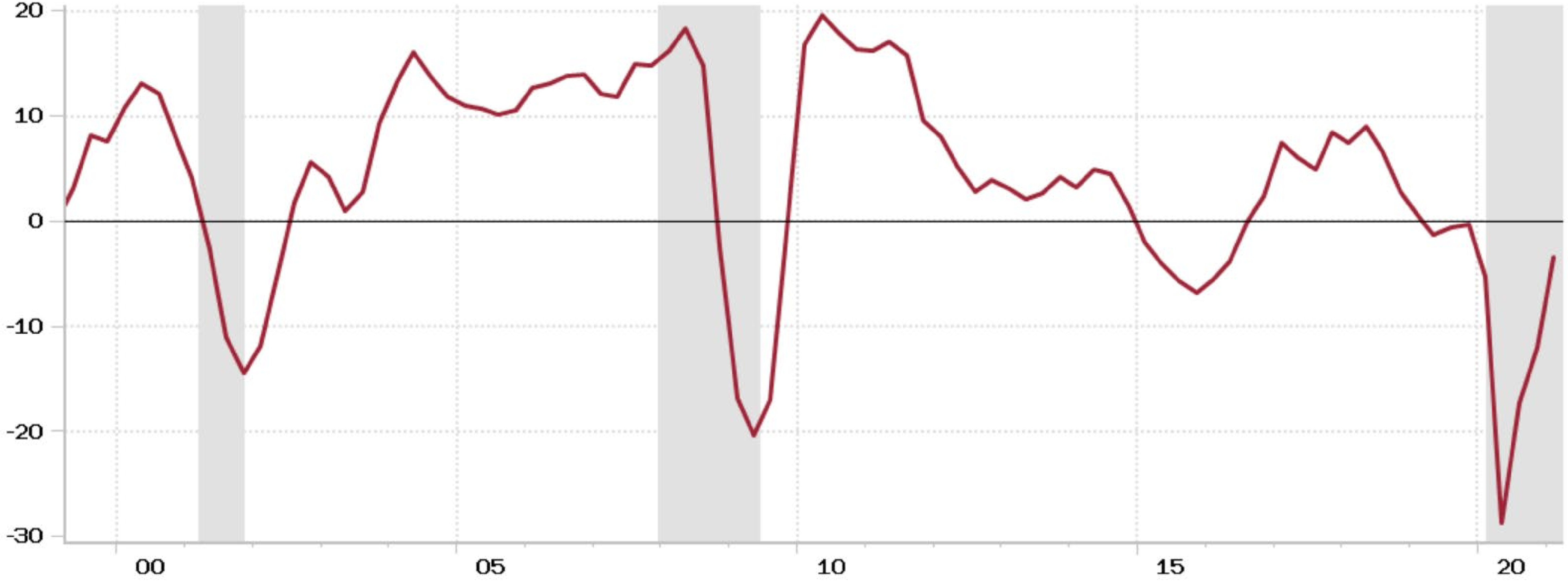
SOME THINGS ARE NOT COMING BACK THAT QUICKLY (2/2)

Then there are other areas of the economy that will take a long time to come back — commercial real estate being one for obvious reasons.

EXPORTS ARE IN A BEAR MARKET (1/3)

United States: Exports

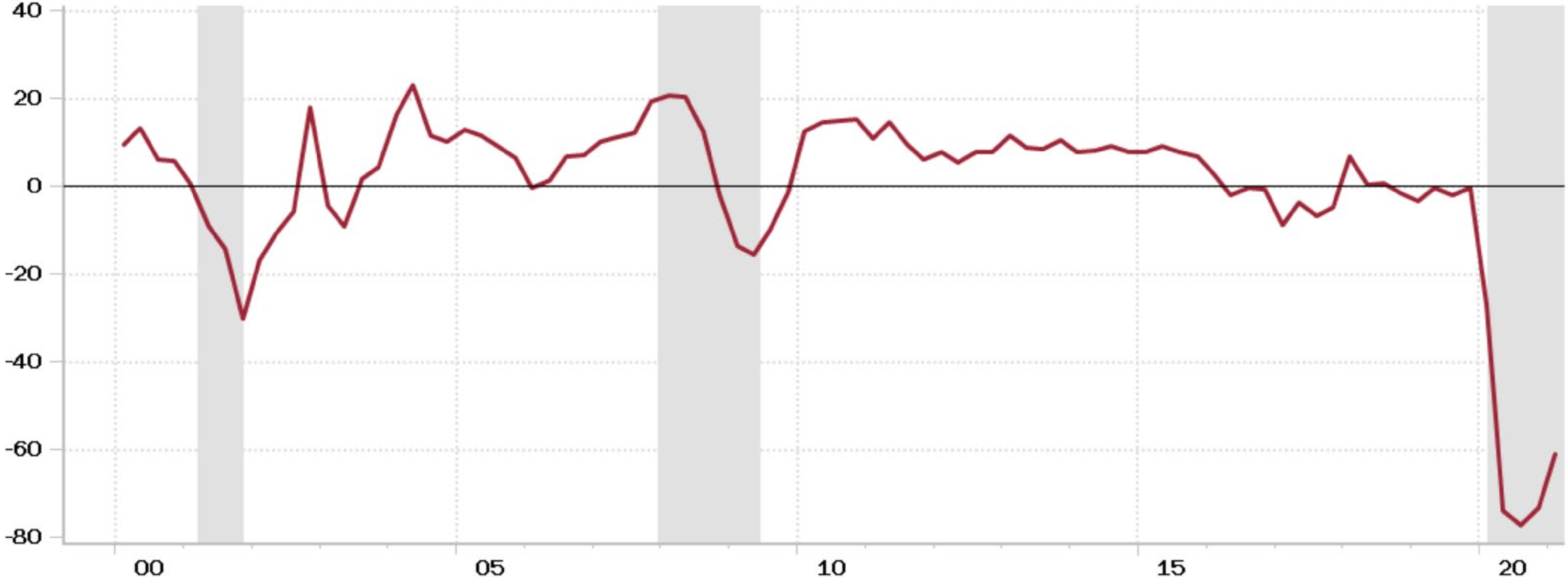
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

FOREIGN TRAVEL & TOURISM GROUNDED TO A HALT (2/3)

United States: Exports of Services: Travel
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

EXPORTS ARE IN A BEAR MARKET (3/3)

And with the rest of the world lagging so far behind in beating the pandemic (including up here in Canada), exports, which are a $2 trillion business in the U.S., are in a clear bear market and the same goes for travel and tourism inflows and this will continue to weigh on the gaping trade deficit, which is going to likely outlast the near-term fiscal boost to the economy.

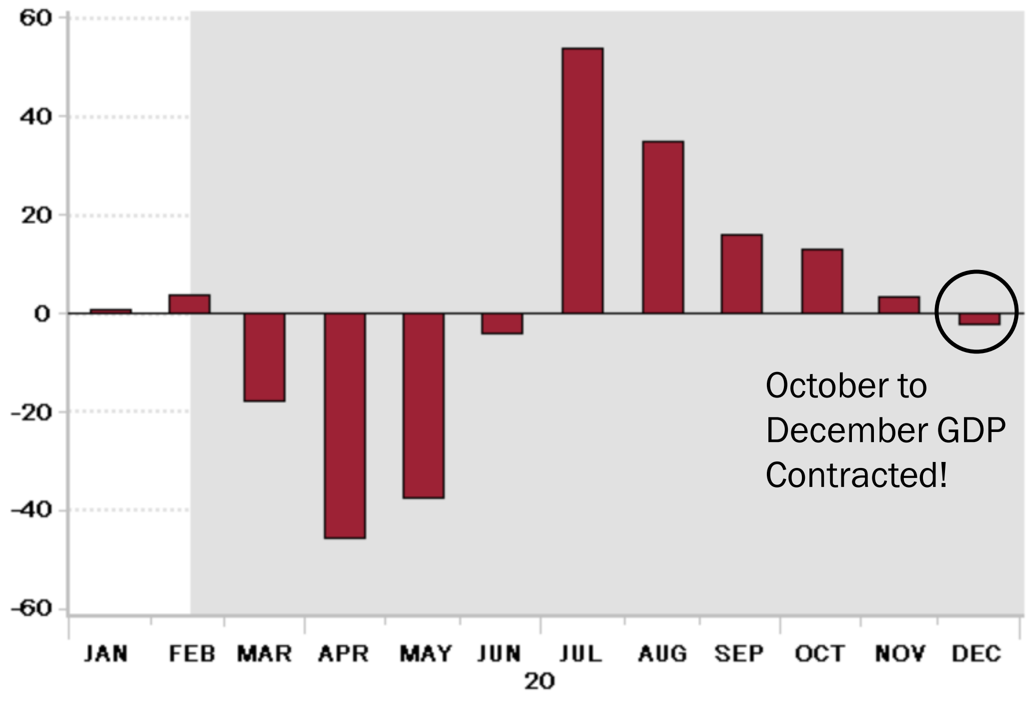
WIDENING TRADE DEFICIT IS A DRAG ON GROWTH

United States: Trade Balance
($ billions)

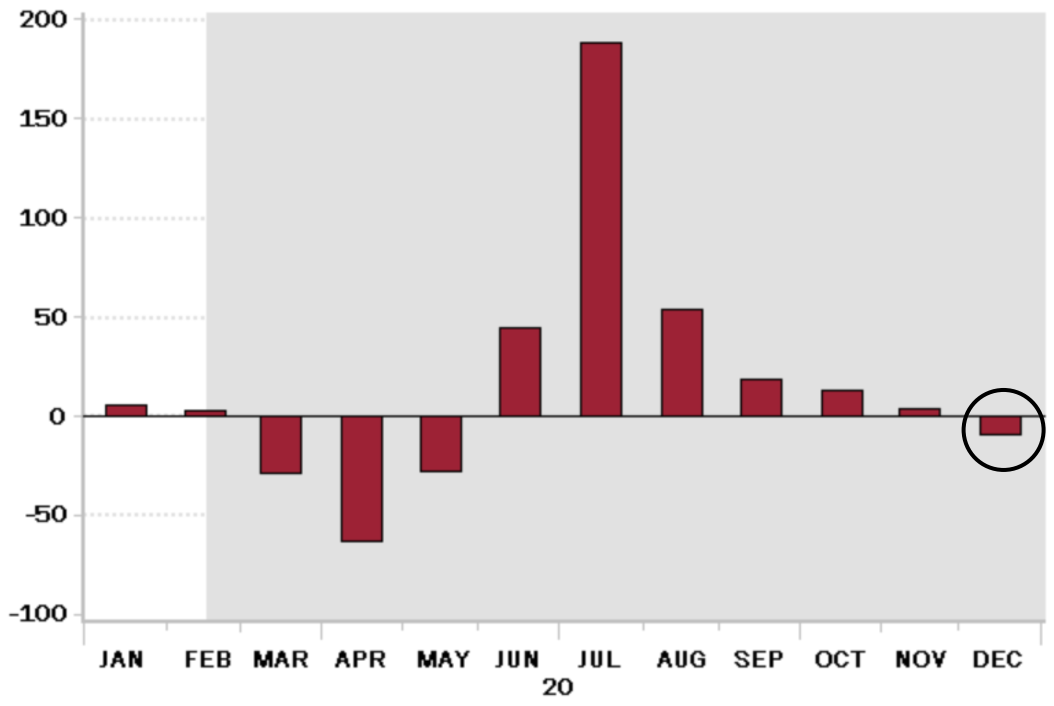
Shading indicates recession
Source: Haver Analytics, Rosenberg Research

WE ALREADY KNOW WHAT HAPPENS WHEN THE STIMULUS CHECKS FADE (1/2)

United States: Monthly Real GDP
(3-month percent change; annualized)



United States: Retail Sales
(3-month percent change; annualized)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

WE ALREADY KNOW WHAT HAPPENS WHEN THE STIMULUS CHECKS FADE (2/2)

Just remember that all the fiscal policy stimulus is temporary. And we have the template of what happened when the stimulus checks ran dry late last year — the monthly real GDP data contracted in the three months to December, and we saw the same fate for retail sales.

Next thing you know, Donald Trump signs onto a new fiscal package and then we get another quick instalment by Joe Biden, which is huge but because it is all short-term, the impact is going to fade and all the government has done is create the conditions for a boom-bust economy.

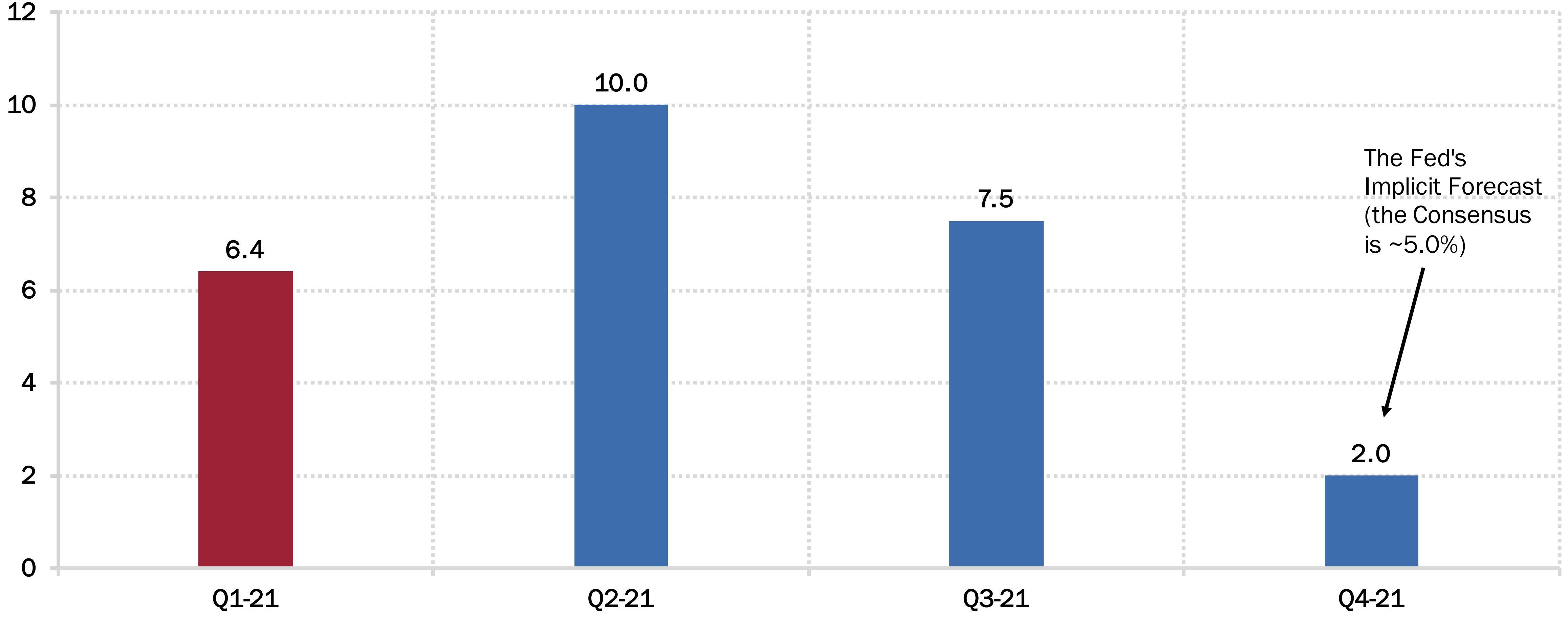
Boom now, bust later.

And Biden is figuring out now that the easy part on getting stimulus through Congress is in the rear-view mirror.

LOOK OUT FOR A YEAR-END GROWTH RELAPSE (1/2)

United States: Real GDP

(quarter-over-quarter percent change; annualized)



Note: values for 2021Q2 to 2021Q4 are forecasts
Source: Bloomberg, Rosenberg Research

LOOK OUT FOR A YEAR-END GROWTH RELAPSE (2/2)

The consensus is at 5% growth for Q4 of this year, but the implicit Fed forecast is closer to 2% (and we are at 0%).

This is the primary risk for the risk-on trade.

It is not inflation and it is not an early Fed taper, which is the common consensus view.

It is disappointment between what is expected today and what is likely to happen by year-end.

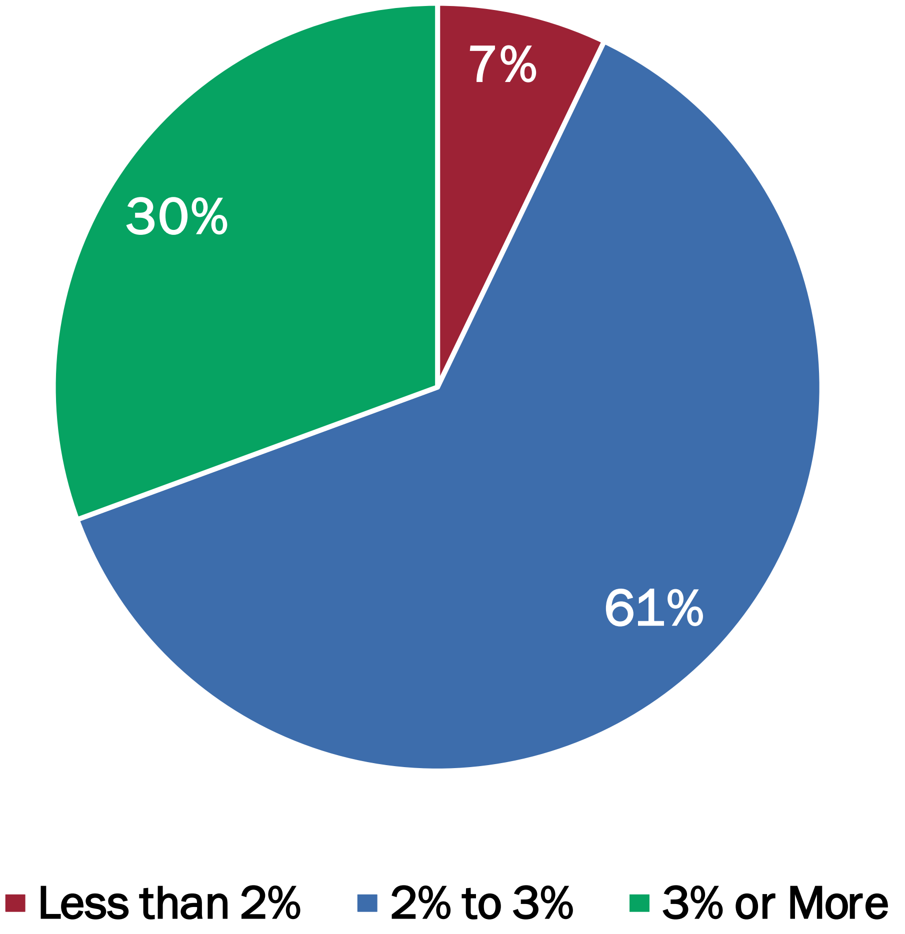
Take note that the consensus is at +10% QoQ for fourth-quarter corporate earnings forecasts and that will be next to impossible if we (and the Fed) are correct on how far off-base the consensus is on how the economy will be faring by Q4 as the massive volume of fiscal stimulus falls out of the data.

INFLATION FEARS ARE WAY OVERDONE

Source: cagle.com

BARRON'S BIG MONEY POLL – APRIL 2021 (1/2)

United States: Where is Inflation by the End of 2021?
(percent)



Source: Barron's, Rosenberg Research

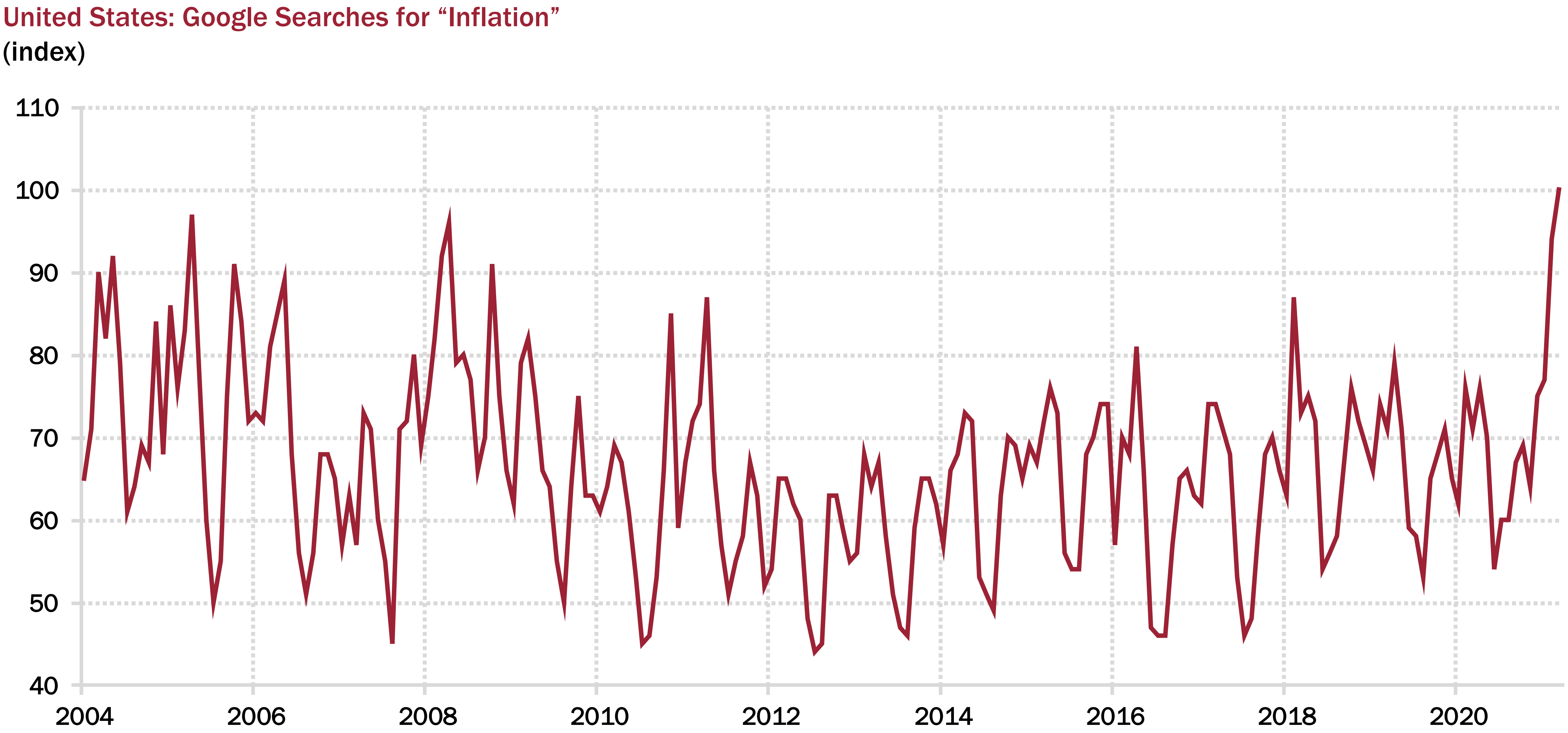
BARRON'S BIG MONEY POLL – APRIL 2021 (2/2)

Inflation — all the rage.

Only 7% on the Barron's Big Money poll respondents believe inflation will be lower at the end of the year; four times that see 3% plus.

So it's in the market.

GOOGLE SEARCHES FOR "INFLATION" AT RECORD HIGH!

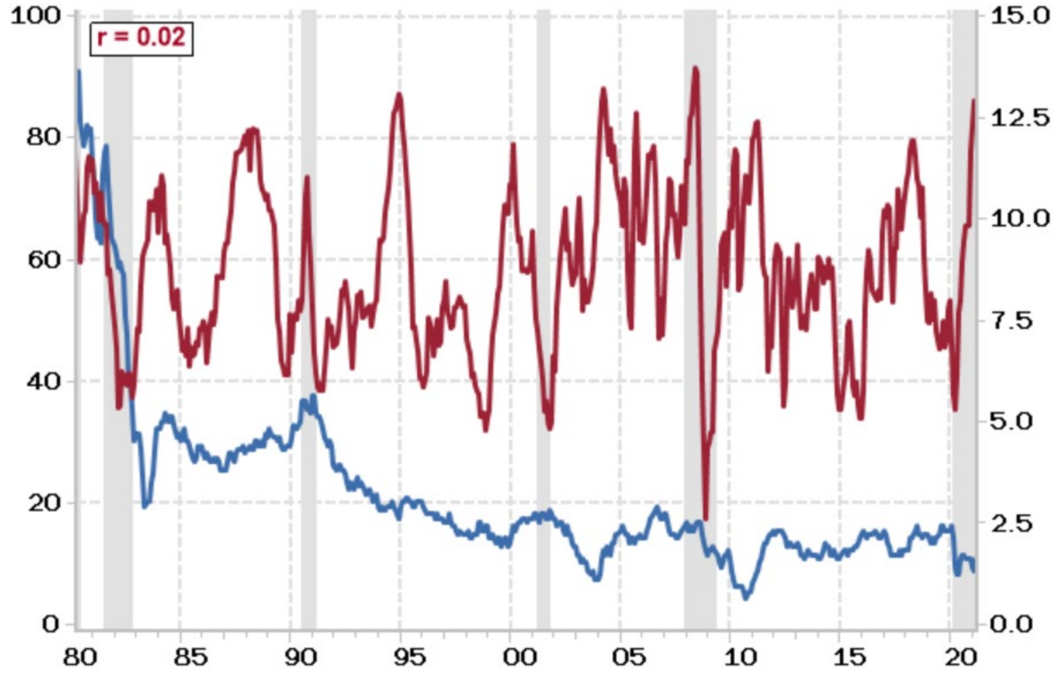


Source: Google Trends, Rosenberg Research

THESE DIFFUSION INDICES SURE DON'T TELL US MUCH ABOUT NEAR-TERM INFLATION! (1/2)

United States: ISM Manufacturing PMI: Prices Index & Core CPI

(red line; ISM prices index; >50 denotes expansion; LHS)
(blue line; core CPI; year-over-year percent change; RHS)



United States: ISM Services PMI: Prices Index & Core CPI

(red line; ISM prices index; >50 denotes expansion; LHS)
(blue line; core CPI; year-over-year percent change; RHS)

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

THESE DIFFUSION INDICES SURE DON'T TELL US MUCH ABOUT NEAR-TERM INFLATION! (2/2)

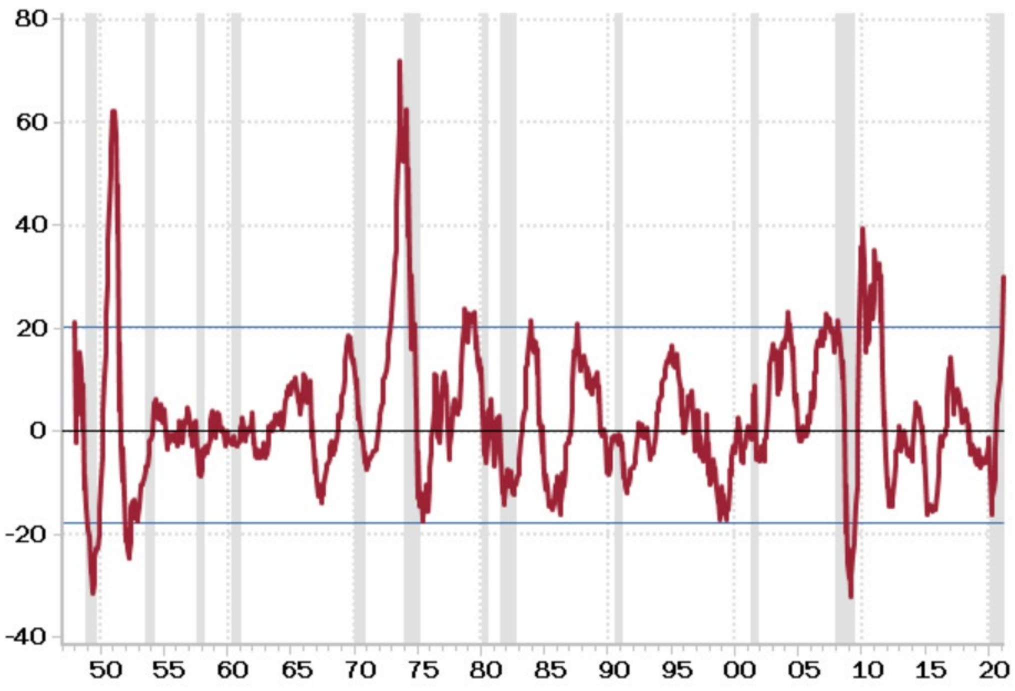
People like to look at the ISM price indices, which are plotted in red.

They have no correlation with core inflation. None.

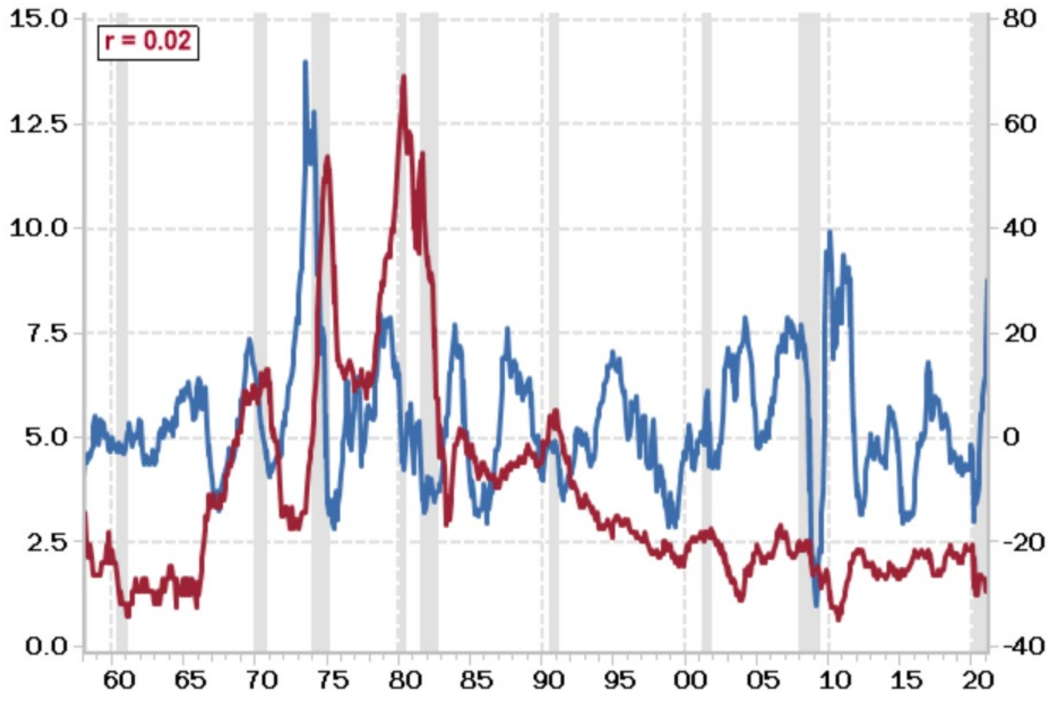
Don't waste your time.

DON'T BE FOOLED – COMMODITIES ACTUALLY HAVE NO CORRELATION WITH INFLATION! (1/2)

United States: CRB Commodity Price Index
(year-over-year percent change)



United States: Core CPI & CRB Commodity Price Index
(red line; core CPI; year-over-year percent change; LHS)
(blue line; CRB index; year-over-year percent change; RHS)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

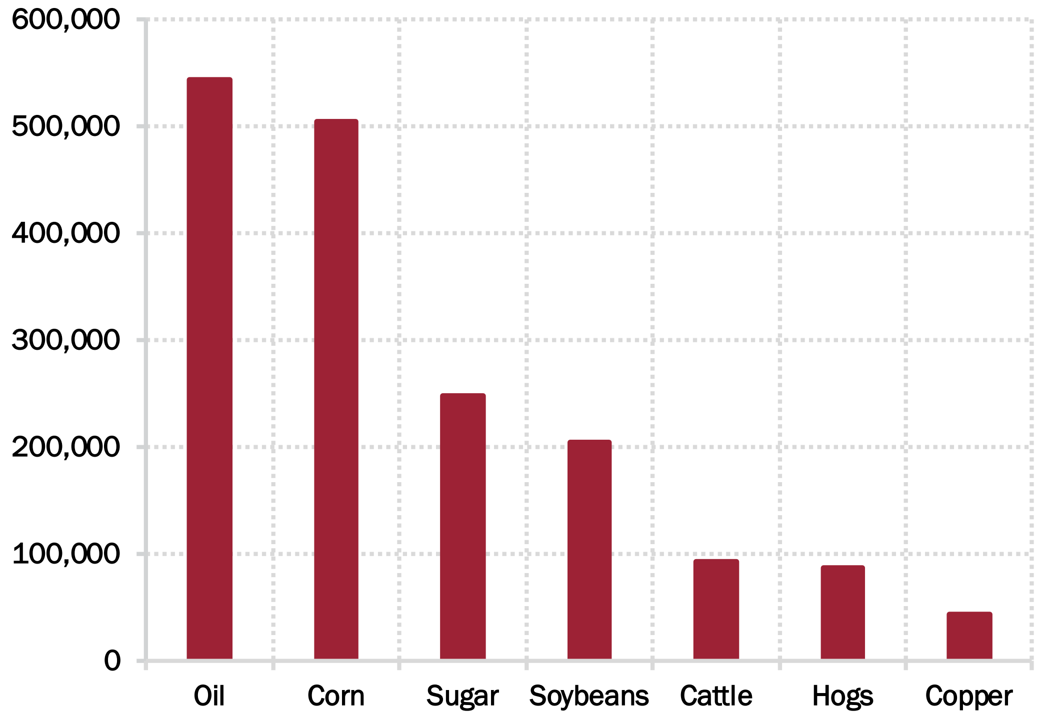
DON'T BE FOOLED – COMMODITIES ACTUALLY HAVE NO CORRELATION WITH INFLATION! (2/2)

Commodities — we have had 15 cycles in the past seven decades.

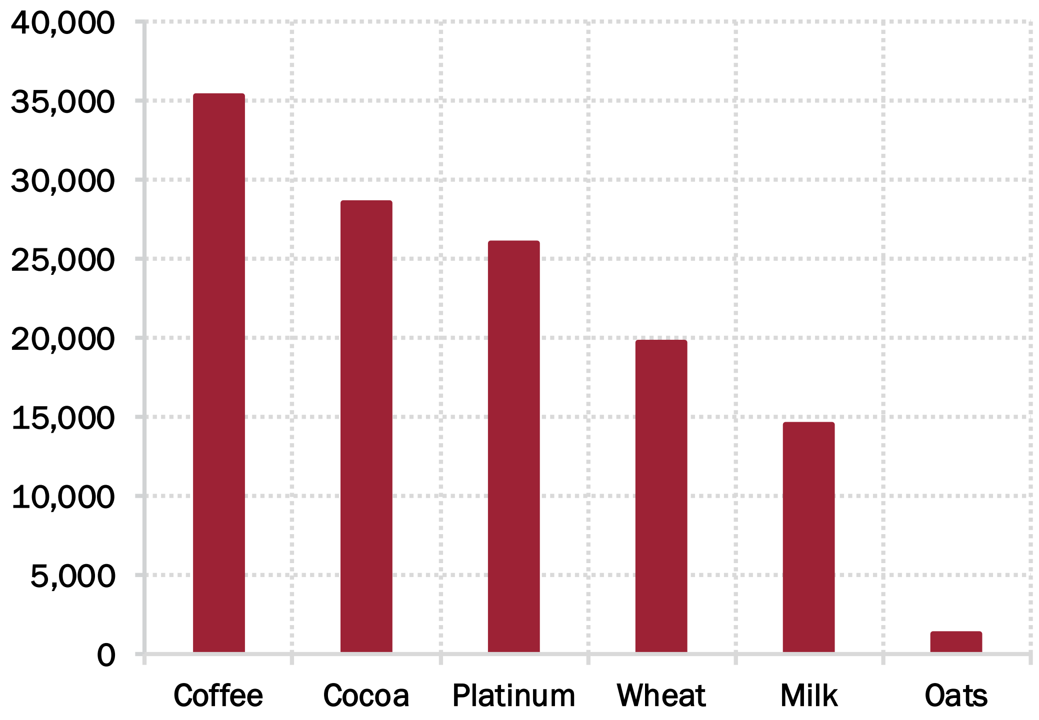
Correlation to core inflation. Zero.

THE COMMODITY STORY IS A FINANCIAL DEMAND (READ: SPECULATIVE) STORY (1/2)

United States: Net Speculative Long Positions
(number of contracts)



United States: Net Speculative Long Positions
(number of contracts)

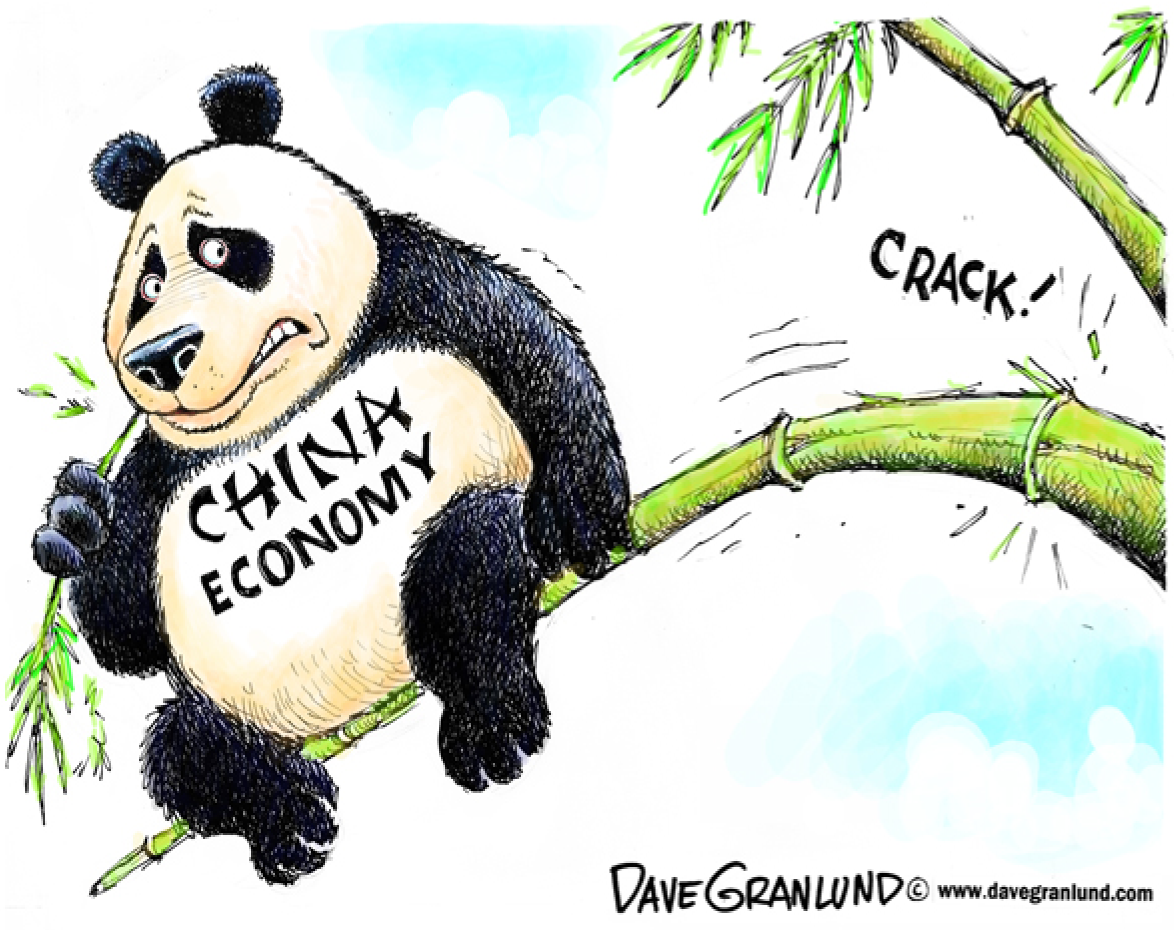


Source: Haver Analytics, Rosenberg Research

THE COMMODITY STORY IS A FINANCIAL DEMAND (READ: SPECULATIVE) STORY (2/2)

And it's not real demand driving this commodity cycle but speculative or financial demand — the net speculative long positions in the futures and options pits from copper to crude to corn are off the charts.

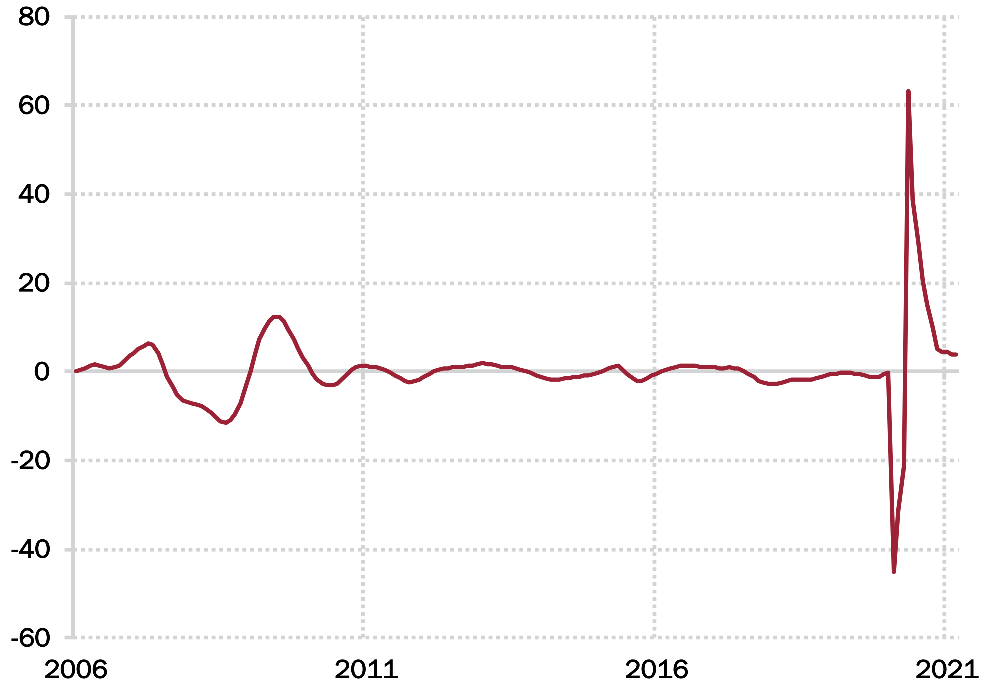
This is less an economic story than meets the eye — it's investors playing this inflation theme.



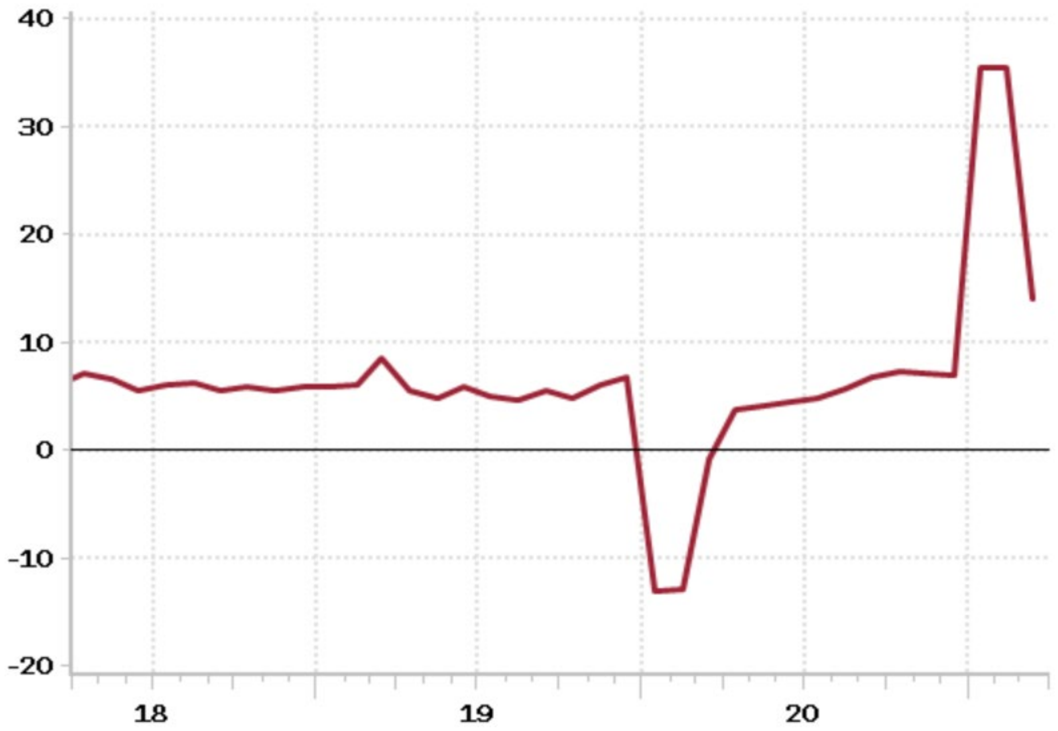
Source: Dave Granlund

THERE IS NO "COMMODITY SUPER CYCLE" WITHOUT CHINA (1/3)

China: OECD's China Leading Economic Indicator
(3-month percent change; annualized)



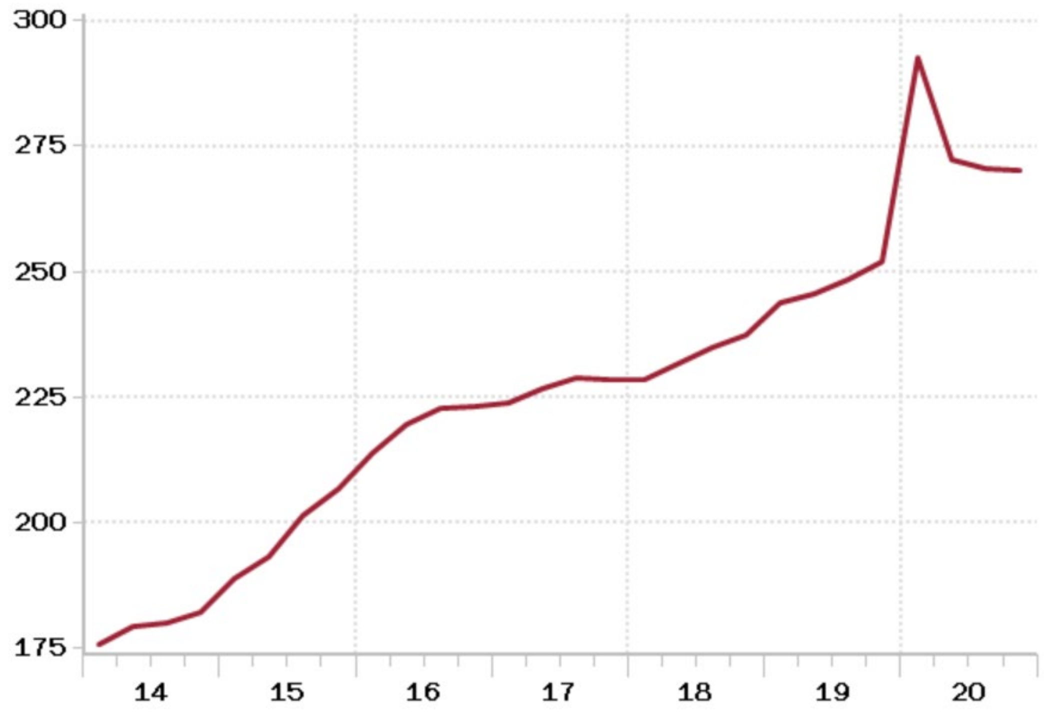
China: Industrial Production
(year-over-year percent change)



Source: Haver Analytics, Rosenberg Research

CHINA IS DELEVERAGING (2/3)

China: Domestic Economy Debt as a Share of GDP
(percent)



China: Dow Jones China 88
(index)

Source: Haver Analytics, Rosenberg Research

THERE IS NO "COMMODITY SUPERCYCLE" WITHOUT CHINA... AND CHINA IS DELEVERAGING (3/3)

You hear about this "commodity supercycle" — well, we last had that in the 2000s when the Chinese economy was booming at double digit annual rates of growth that took the oil price to $140 per barrel in the summer of 2008 and everyone back then had inflation on the brain, too.

That didn't last too long. But the Chinese economy, after springing out of the gates a year ago, is actually cooling off and its trend rate of growth is half what it was and it's not just negative demographics, but that Beijing is the only area of the world deleveraging its economy and the stock market there is off 7% from the highs.

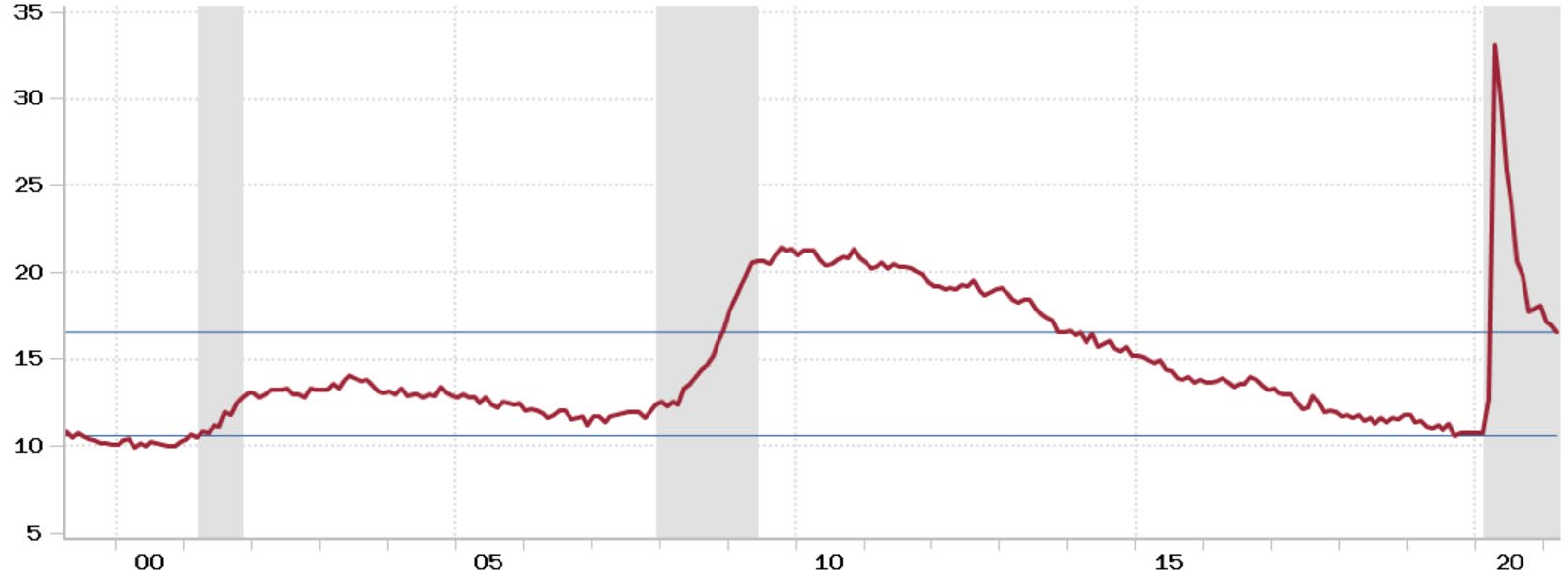
China consumes half the world's resources so color me a skeptic on this commodity story.

U.S. LABOR MARKETS IMPROVING BUT A LONG WAY TO GO

Source: Press Telegram

FULL EMPLOYMENT MEANS WE HAVE A LABOR POOL OF 10M – SO ACTUALLY IT IS 6M TO GO

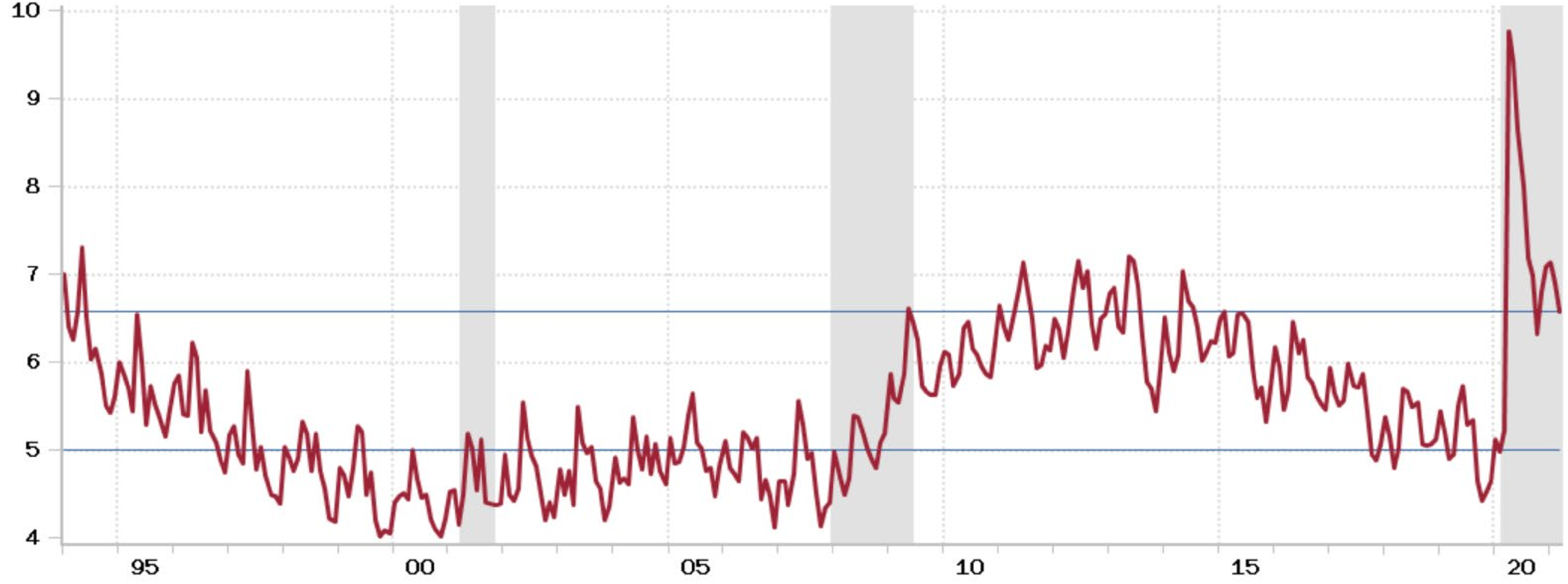
United States: Labor Supply
(millions)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

POTENTIAL LABOR MARKET COMPETITION FROM THOSE NOT IN THE LABOR FORCE

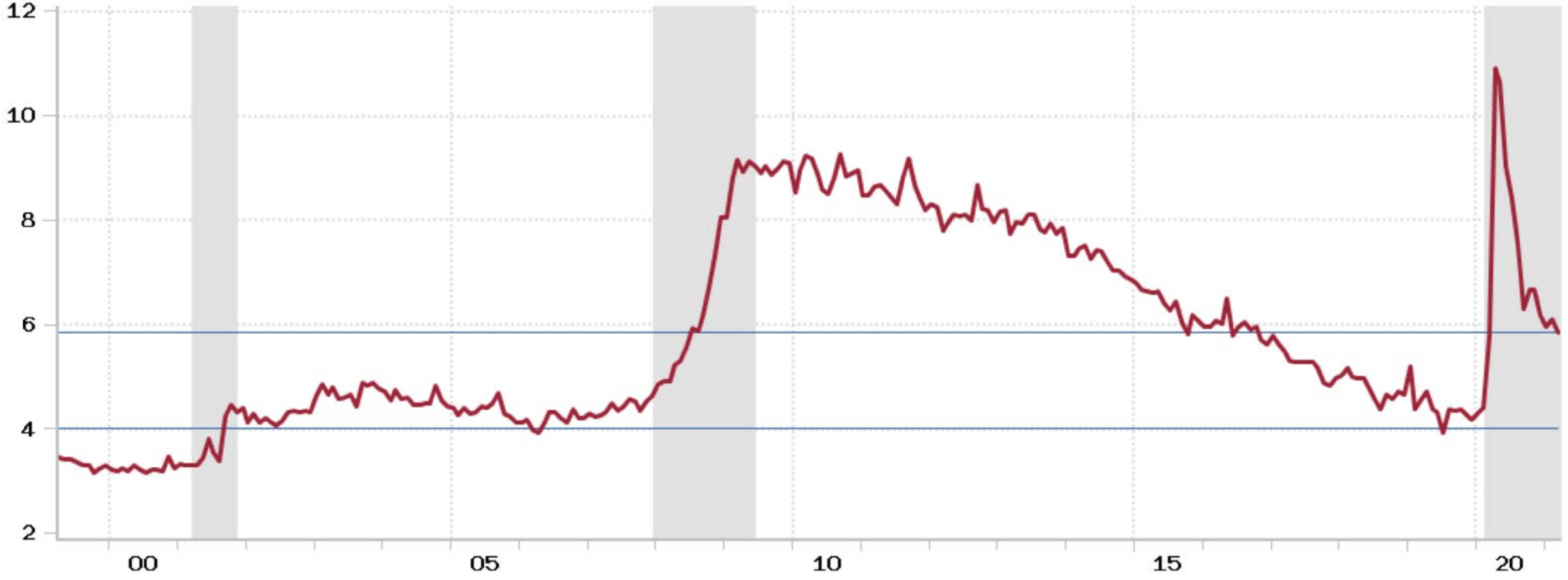
United States: Not in Labor Force but Want a Job
(millions)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

ABOUT 6 MILLION AMERICANS WORKING PART-TIME WHO WANT A FULL-TIME JOB (1/2)

United States: Part-Time for Economic Reasons
(millions)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

ABOUT 6 MILLION AMERICANS WORKING PART-TIME WHO WANT A FULL-TIME JOB (2/2)

Jay Powell told us last week that there is no evidence, in theory or practice, that will allow for any persistent inflation until the resource gap in the labor market closes.

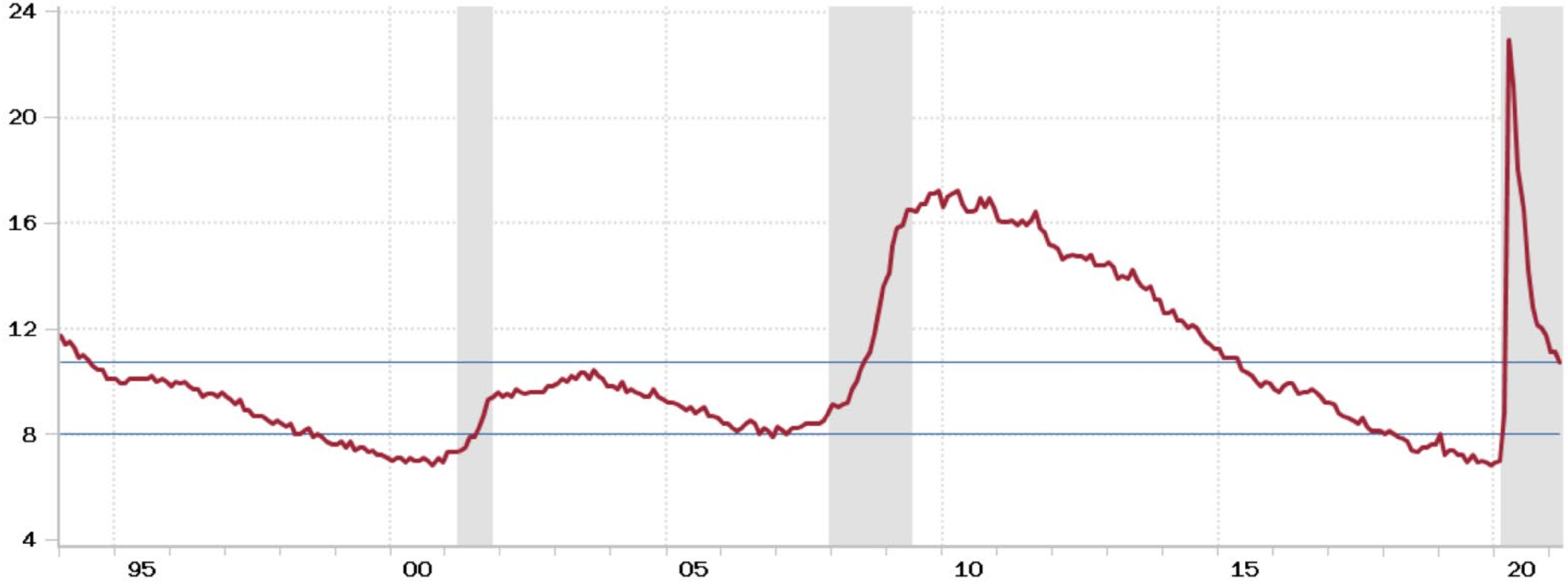
That makes sense to me since I already showed commodities are not a pervasive source of inflation. So we have the pool of available labor some 7 million deeper than it was in early 2020.

People say — look at the 6% unemployment rate but that is not always the best measure of economic slack because of what it doesn't include — like people not counted in the labor force but actually wanting a job.

Those working part-time but want full-time work also represents slack in the labor market — remember that the unemployment rate treats full-time and part-time work the same.

INFLATION? DIAL ME UP WHEN WE APPROACH 8% ON THE U-6 JOBLESS RATE (1/2)

United States: U-6 Jobless Rate
(percent)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

INFLATION? DIAL ME UP WHEN WE APPROACH 8% ON THE U-6 JOBLESS RATE (2/2)

So dial me up when we move the U-6 jobless rate, the broadest measure, from almost 11% today to 8% and then we can talk about sustainable inflation. That is going to take years.

TIGHT LABOR MARKETS HERE?

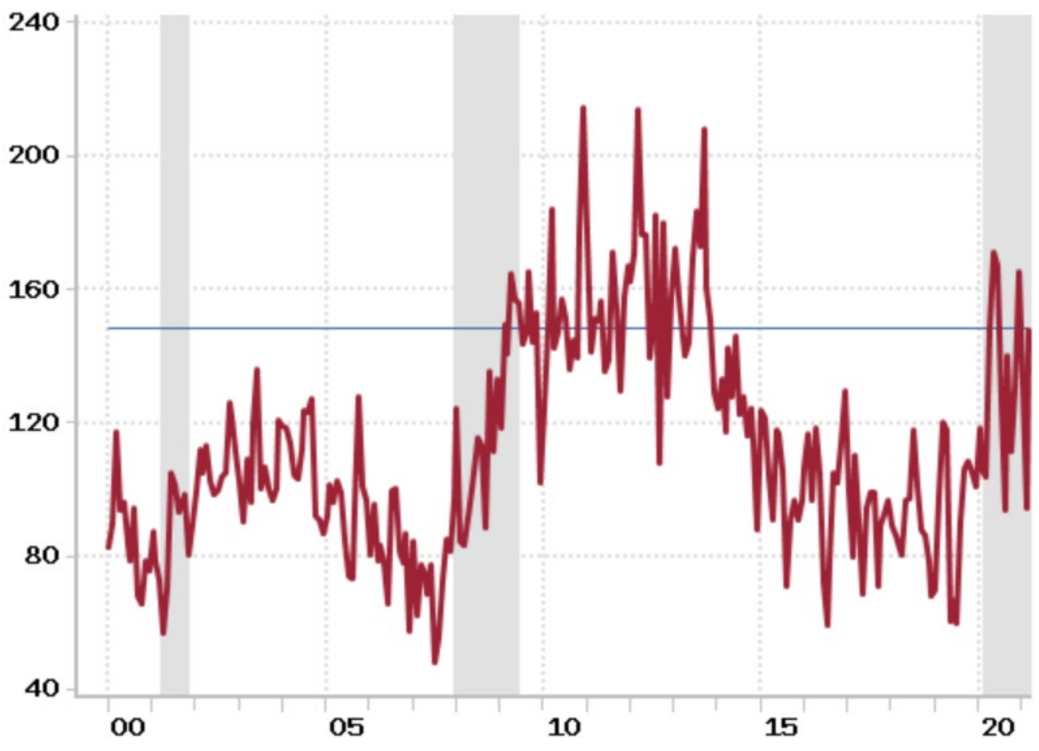
United States: Unemployment: Construction
(millions)

United States: Unemployment: Manufacturing
(millions)

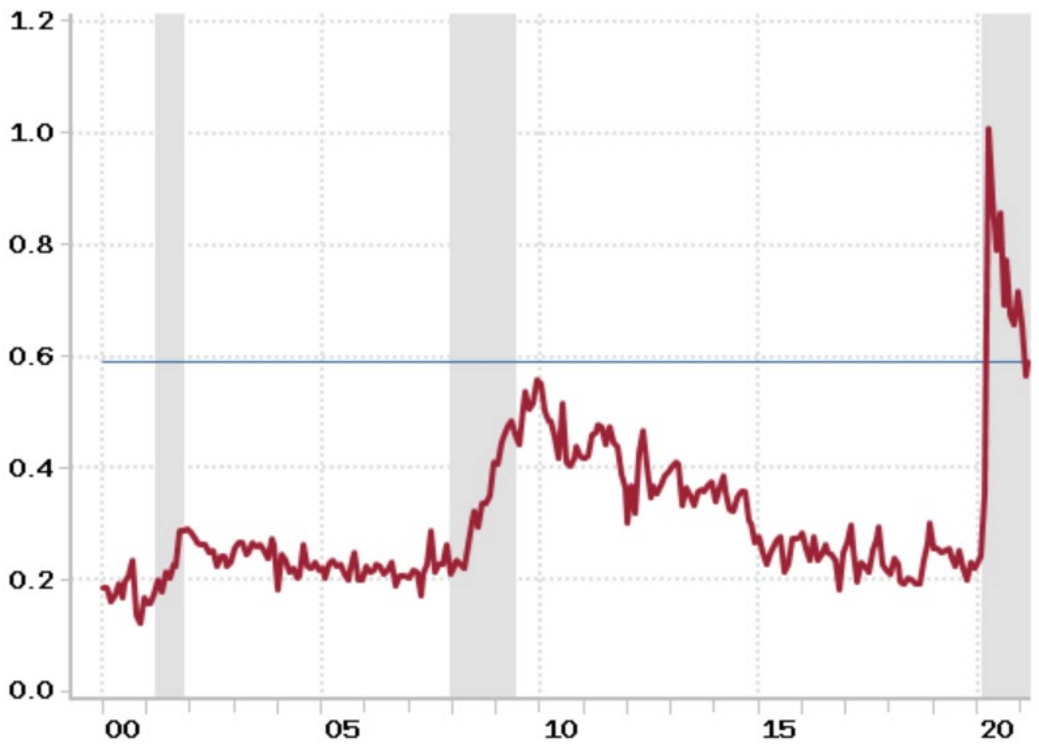
Shading indicates recession
Source: Haver Analytics, Rosenberg Research

... OR HERE?

United States: Unemployment: Food Manufacturing
(thousands)



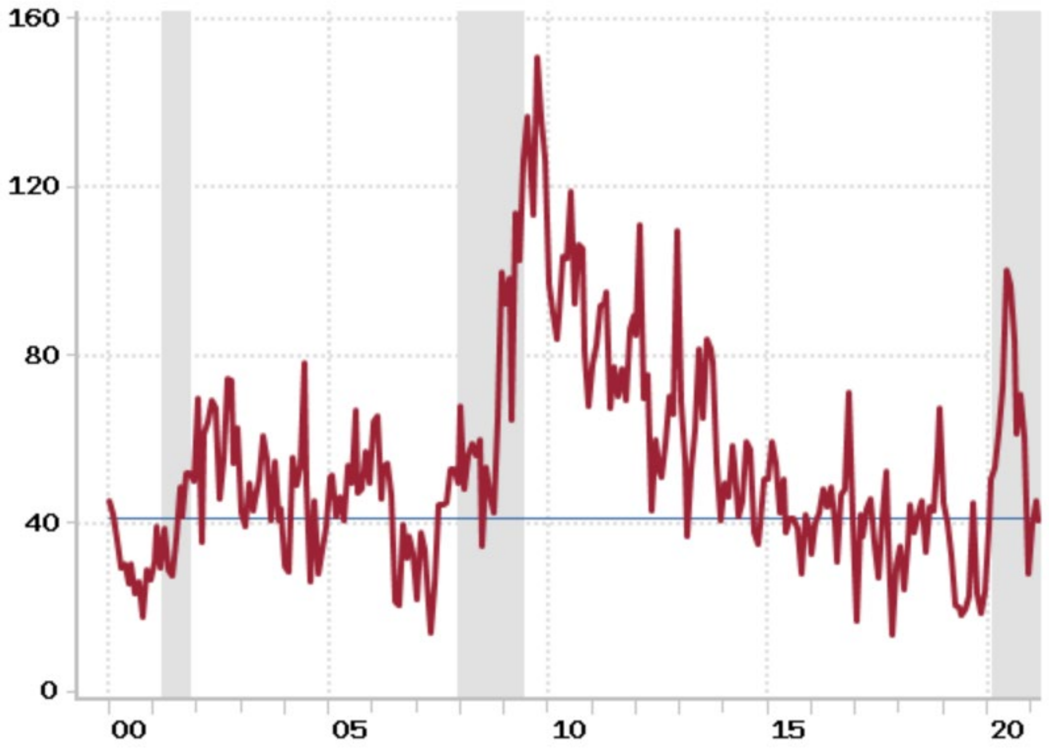
United States: Unemployment: Transportation & Warehousing
(millions)



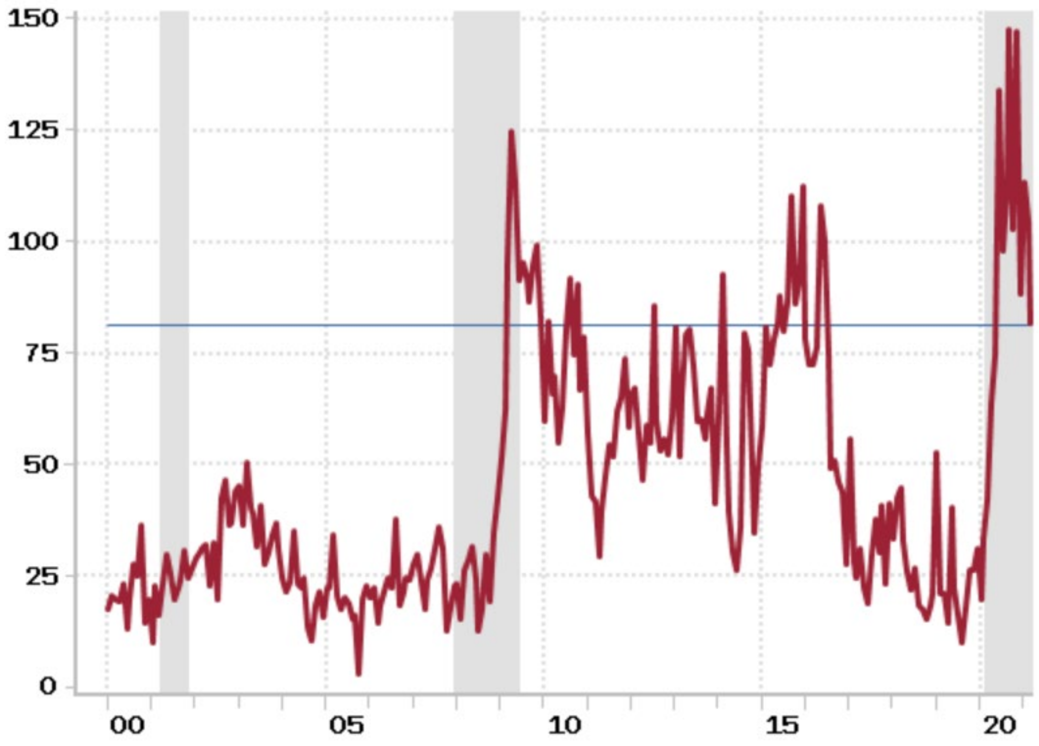
Shading indicates recession
Source: Haver Analytics, Rosenberg Research

... OR HERE?

United States: Unemployment: Chemicals
(thousands)



United States: Unemployment: Mining
(thousands)

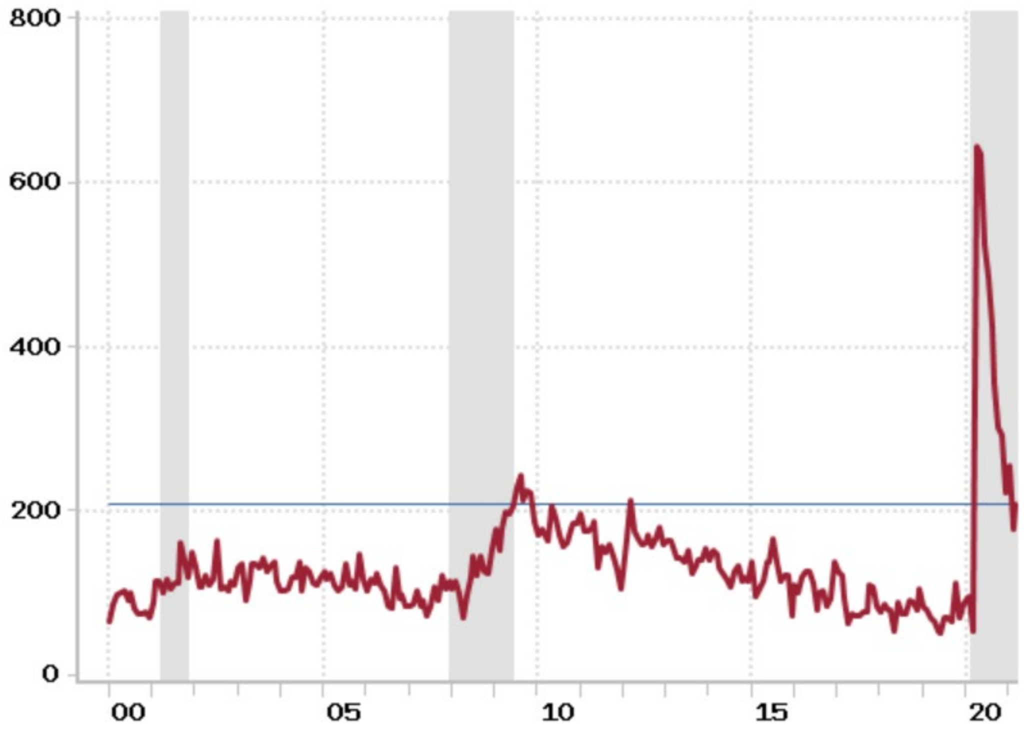


Shading indicates recession
Source: Haver Analytics, Rosenberg Research

... OR HERE?

United States: Unemployment: Restaurants
(millions)

United States: Unemployment: Accommodations
(thousands)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

NO EVIDENCE OF ACCELERATING WAGES FROM THE ATLANTA FED TRACKER (1/2)

United States: FRB Atlanta Wage Growth Tracker
(3-month moving average; year-over-year percent change)

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

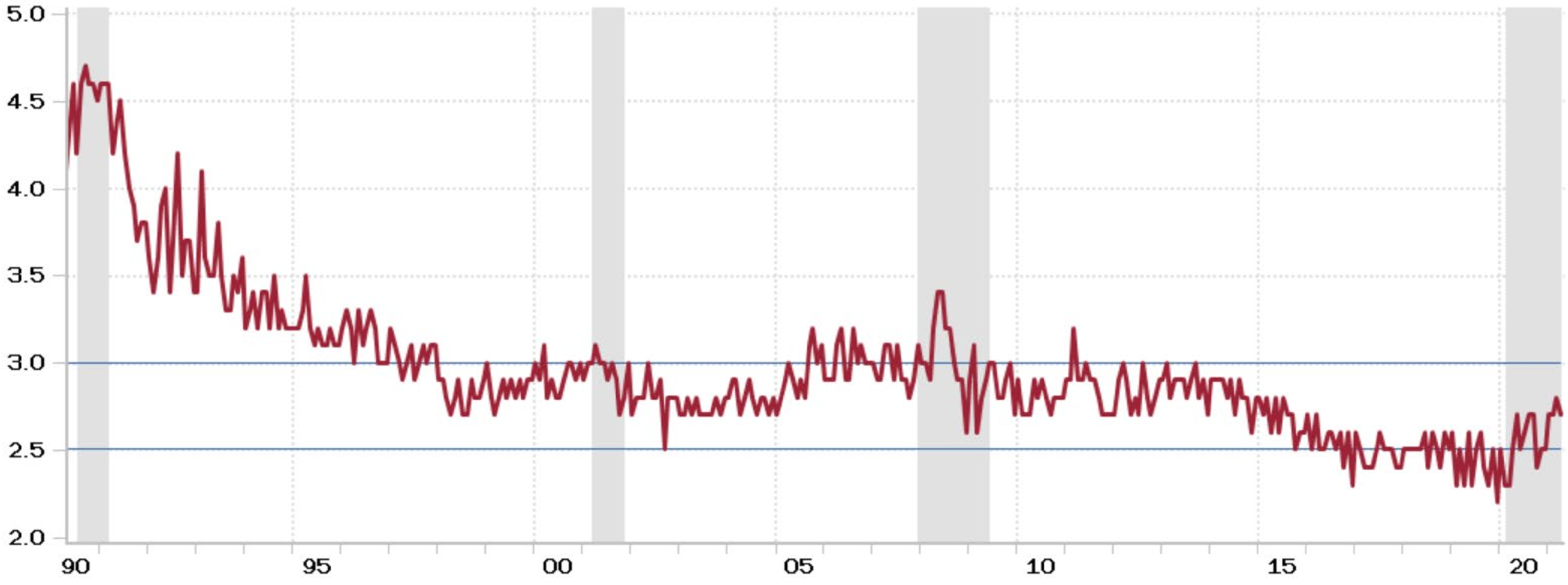
NO EVIDENCE OF ACCELERATING WAGES FROM THE ATLANTA FED TRACKER (2/2)

You hear a lot anecdotally about wages in the news and in the surveys, but I like to stick to the data.

The Atlanta Fed wage tracker is a great leading indicator and despite all the scare mongering, I fail to see any breakout.

NO BREAKOUT AT ALL IN CONSUMER INFLATION VIEWS

United States: University of Michigan Survey of Consumers: 5-10 Year Inflation Expectations
(percent)

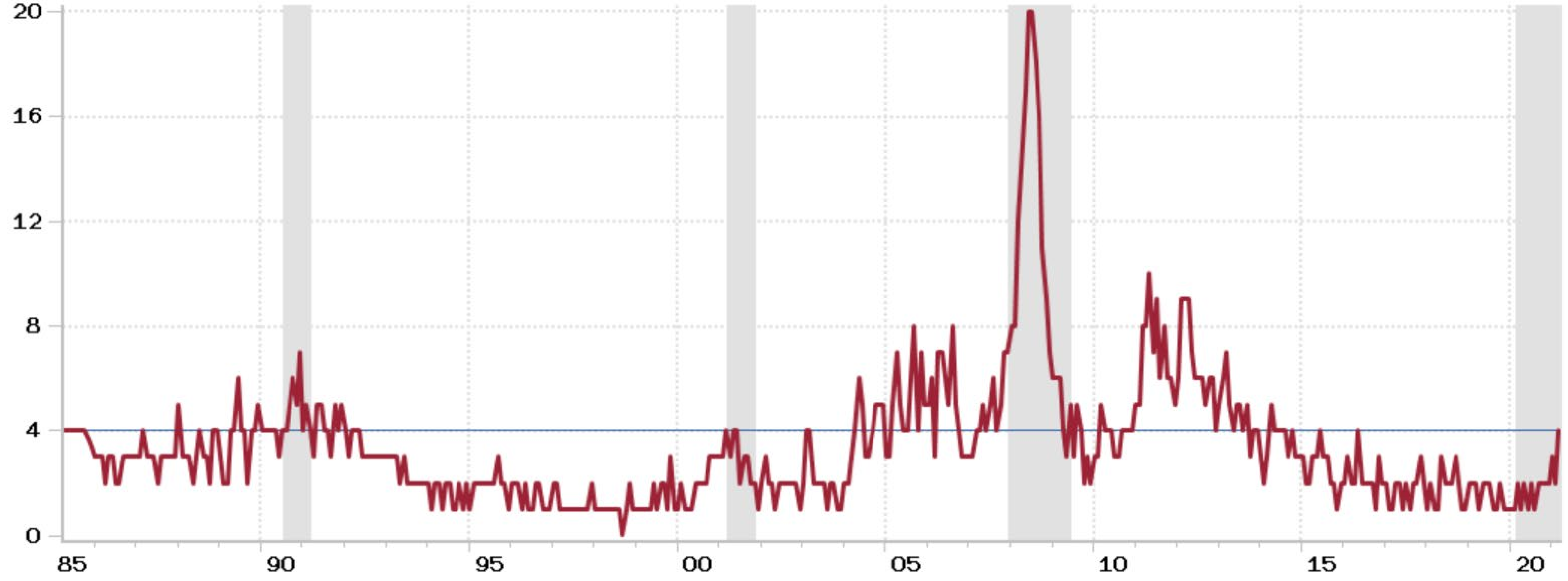


Shading indicates recession
Source: Haver Analytics, Rosenberg Research

ONLY 4% OF SMALL BUSINESSES CITE INFLATION AS TOP CONCERN (1/2)

United States: NFIB: Share Reporting Inflation as Single Most Important Problem

(percent)



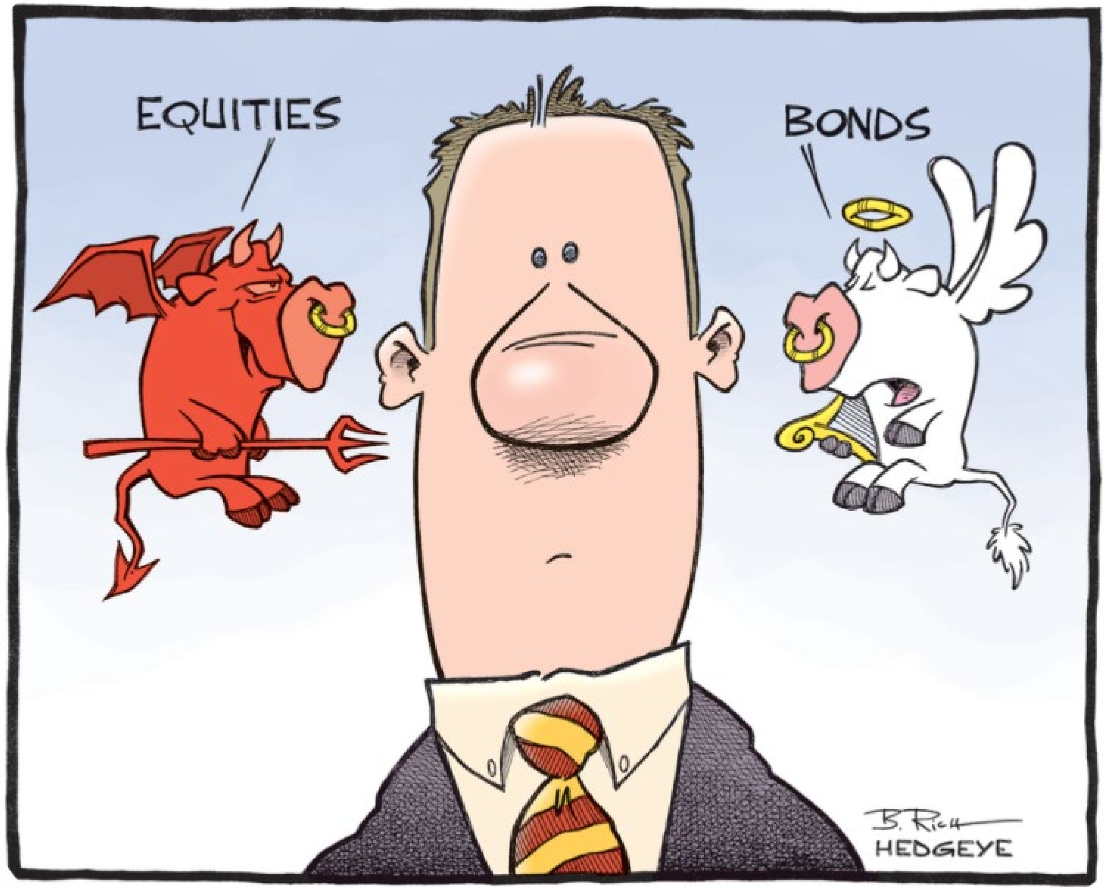
Shading indicates recession
Source: Haver Analytics, Rosenberg Research

ONLY 4% OF SMALL BUSINESSES CITE INFLATION AS TOP CONCERN (2/2)

And for all the bellyaching on company calls, I find it amusing that the grand total of 4% of small businesses from the NFIB survey say inflation is what bothers them the most — off the lows, to be sure, but we were here in the spring of 2016, which actually would have been a horrible time to be underweight bond duration.

If you want to see what small businesses are really worried about, 17% say taxes and 10% say their sales outlook — that puts 4% on inflation into perspective.

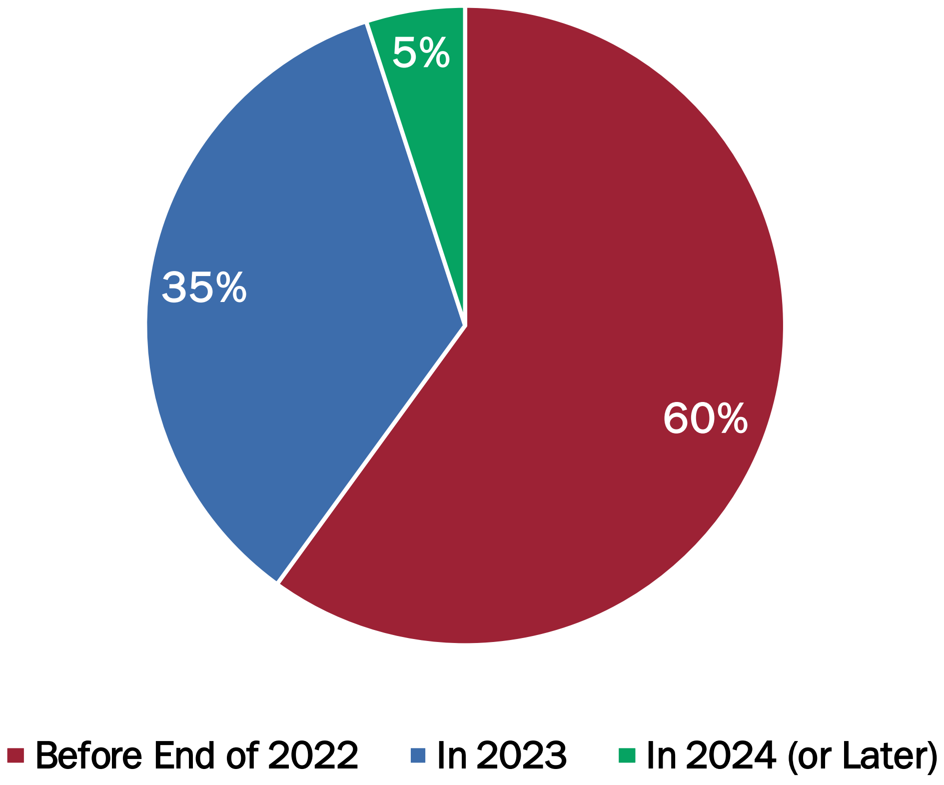
THE BOND MARKET HAS ALREADY PRICED IN A LOT



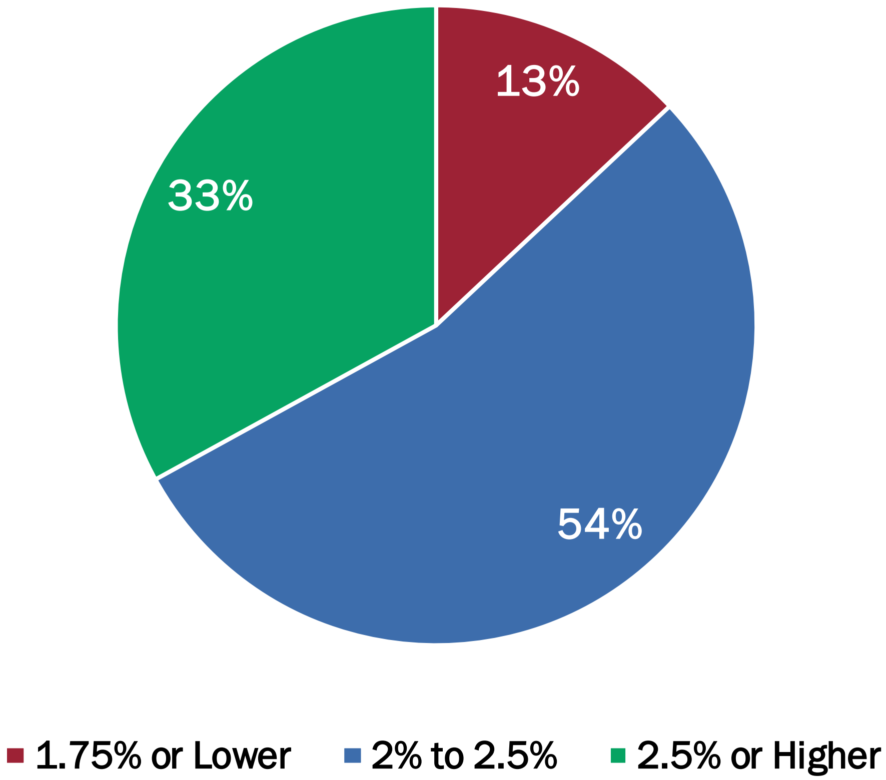
Source: Hedgeye

BARRON'S BIG MONEY POLL – APRIL 2021 (1/2)

United States: When is the First Fed Rate Hike?
(percent)



United States: Where is the 10-Year Treasury Note Yield 12 Months Out?
(percent)



Source: Barron's, Rosenberg Research

BARRON’S BIG MONEY POLL – APRIL 2021 (2/2)

Meanwhile, let’s see what’s priced in.

Only 5% agree with Powell on the timing of the next tightening cycle.

Only 13% of the Big Money poll participants see the 10-year yield a year from now being at 1.75% or lower.

Almost three times that share think we’ll be up 90 basis points or more.

10-YEAR TIPS BREAKEVEN LEVELS BACK APPROACHING 2.5% FOR THE FIRST TIME SINCE 2013 (1/2)

United States: 5-Year TIPS Breakevens
(percent)

United States: 10-Year TIPS Breakevens
(percent)

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

10-YEAR TIPS BREAKEVEN LEVELS BACK APPROACHING 2.5% FOR THE FIRST TIME SINCE 2013 (2/2)

The breakeven levels from the TIPS market say the same story — pricing in 2.5% inflation for the next 5 and 10 years which is possible, but keep in mind that when we had a 3.5% unemployment rate at the start of 2020, these inflation measures were a bit below what's priced in today in the futures strip.

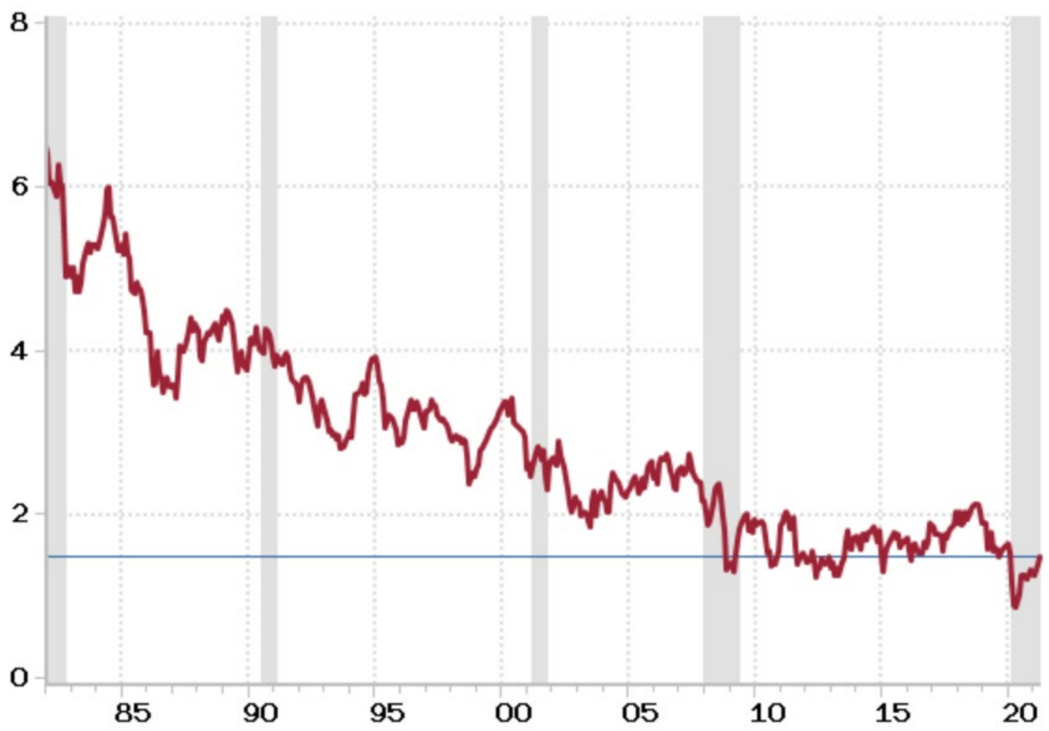
Now these breakeven levels in the TIPS market are correlated to one thing and one thing only, which is the CRB index.

And I showed you before that there is no correlation between the CRB index and underlying consumer inflation over time.

As an aside, looking at the history of these breakevens over five year intervals, not once have they ever correctly predicted the direction of inflation when they have gone to the levels they are at today.

CLEVELAND FED INFLATION EXPECTATIONS REMAIN WELL BELOW MARKET-BASED ESTIMATES (1/2)

United States: FRB Cleveland 5-Year Expected Inflation Rate
(percent)



United States: FRB Cleveland 10-Year Expected Inflation Rate
(percent)

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

CLEVELAND FED INFLATION EXPECTATIONS REMAIN WELL BELOW MARKET-BASED ESTIMATES (2/2)

The Cleveland Fed 5- and 10-year inflation expectations are nearly 100 basis points below the TIPS breakeven levels – but as I said, the inflation-expectations that the bond pits use are correlated to the CRB and not one iota sensitive to the labor market where 70% of business is actually derived.

The Cleveland Fed model is correlated to labor market fundamentals and understands the massive resource gap that still exists.

If, by chance, these TIPS breakeven levels ever converge on the Cleveland Fed model, the returns to the long bond would be spectacular (would take the yield back to where it was in September) – like +27% in a one-year time horizon.

THE FORWARD CURVE HAS ALREADY PRICED IN THE PEAK FED FUNDS RATE (1/2)

United States: Treasury Yield Compounded Forward Rate in 5 Years: 5-Year
(percent)

United States: Treasury Yield Compounded Forward Rate in 9 Years: 1-Year
(percent)

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

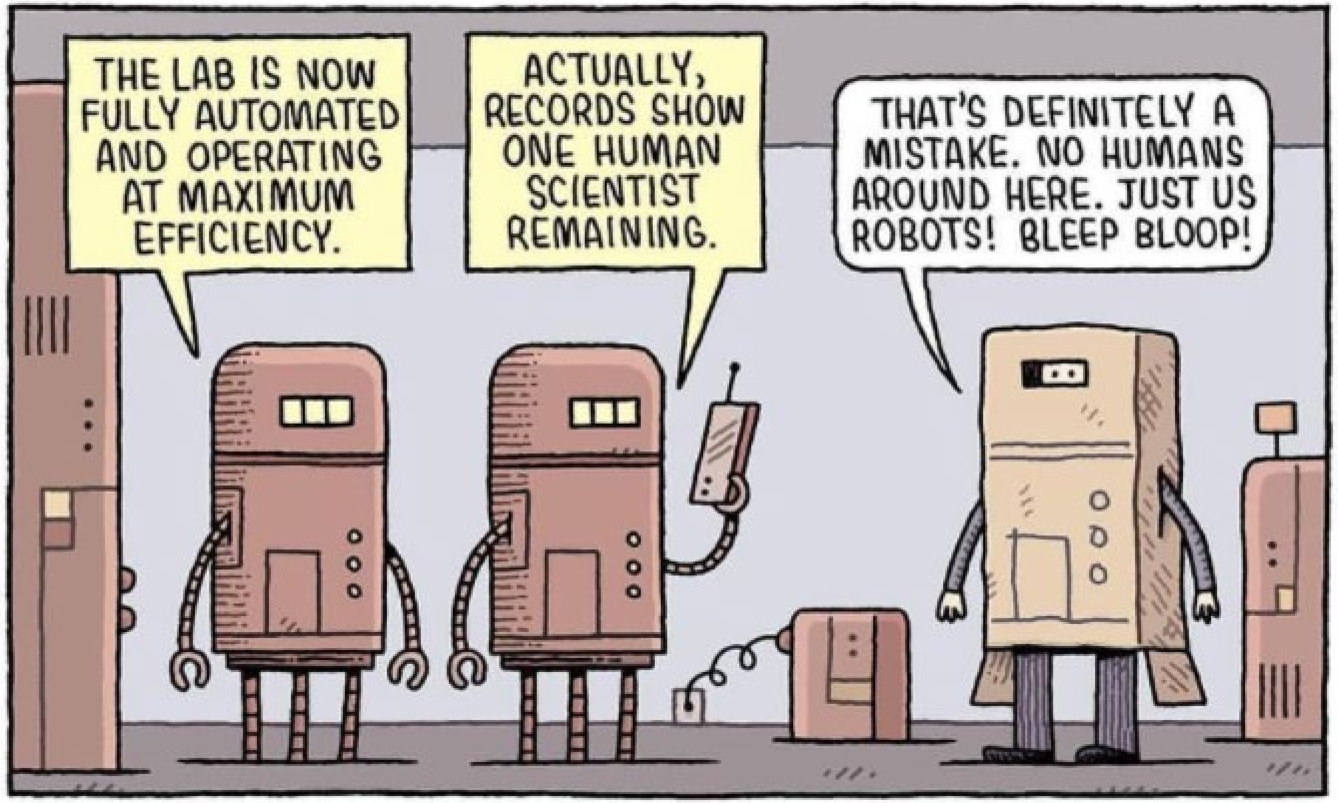
THE FORWARD CURVE HAS ALREADY PRICED IN THE PEAK FED FUNDS RATE (2/2)

Looking at what's priced into the futures strip, there is no doubt that the bond vigilantes have been playing this game of chicken with the Fed.

But let's be realistic here. The markets are telling you that in the next cycle, we are going to see inflation and the funds rate back to where they were at the best part of the last cycle when the unemployment rate was 3.5%, core and headline inflation were barely above 2% and the funds rate was 1.75%.

Yet, I see nobody saying we are going back to that degree of tightness in the jobs market, but somehow the funds rate and the inflation rate are going to the levels of the last cycle that coincided with a 3.5% jobless rate.

PRODUCTIVITY IS AN INFLATION KILLER



Source: NewScientist

A CONTRARY SIGNAL LIKE THIS HAS RARELY BEEN ON SUCH PUBLIC DISPLAY

WSJ | OPINION

The Fed in the Sand as Inflation Threatens

We aren't going back to the 1970s, but the central bank isn't being realistic about the risk of higher prices.

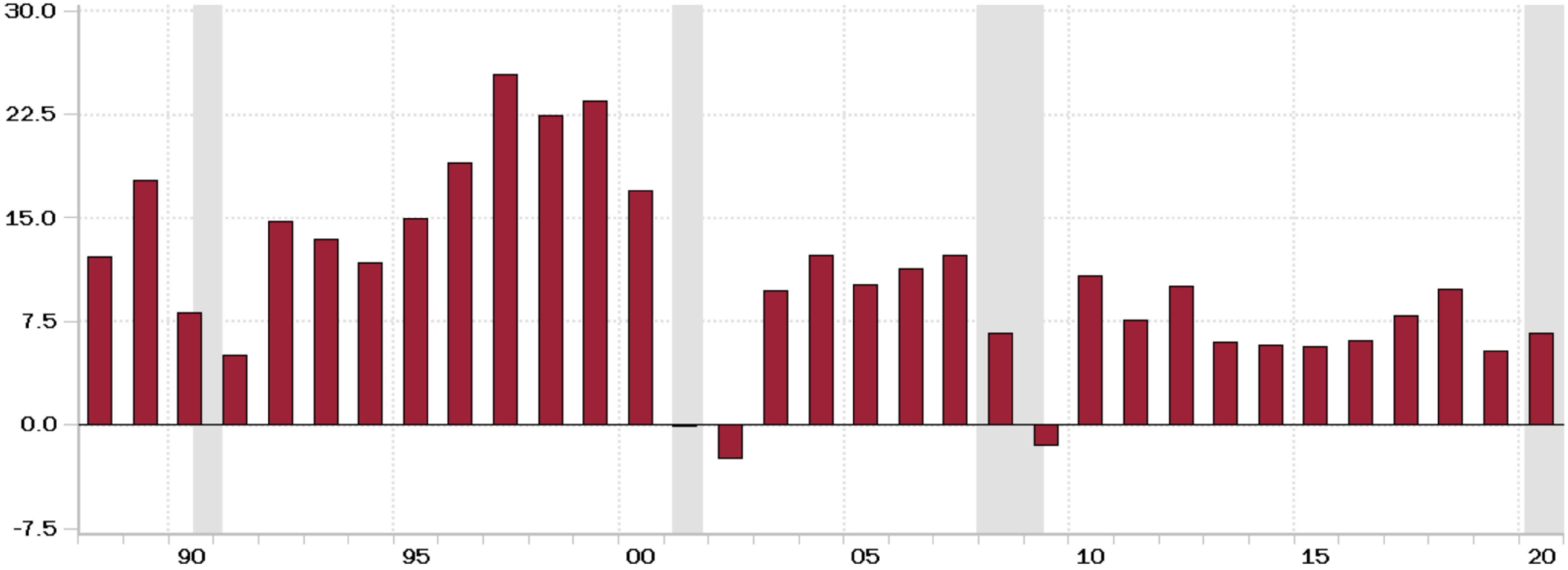
By Mickey D. Levy and Michael D. Bordo
April 26, 2021 12:46 pm ET

Source: WSJ, Rosenberg Research

BUSINESS SPENDING ON AUTOMATION EXPANDED 7% IN 2020

United States: IT Equipment & Software Investment

(year-over-year percent change)

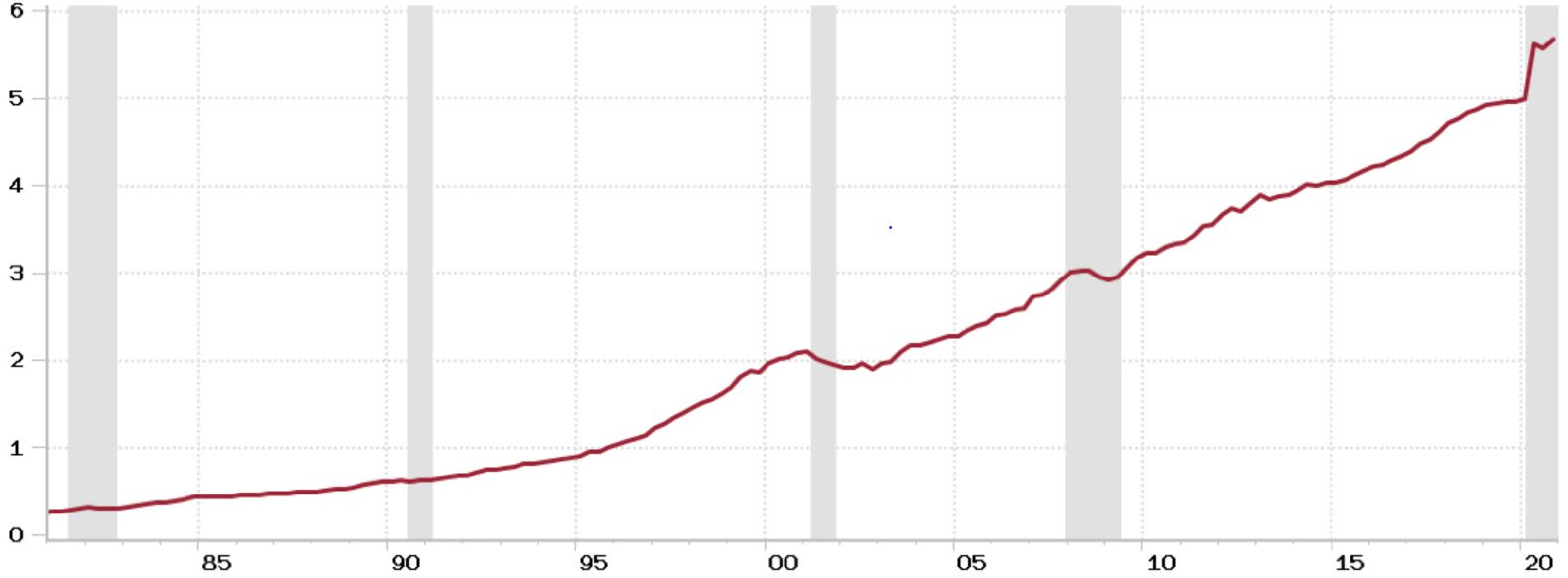


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

TECH SHARE OF GDP IS ON A SUSTAINED UPTREND

United States: IT Equipment & Software Investment as a Share of GDP
(percent)

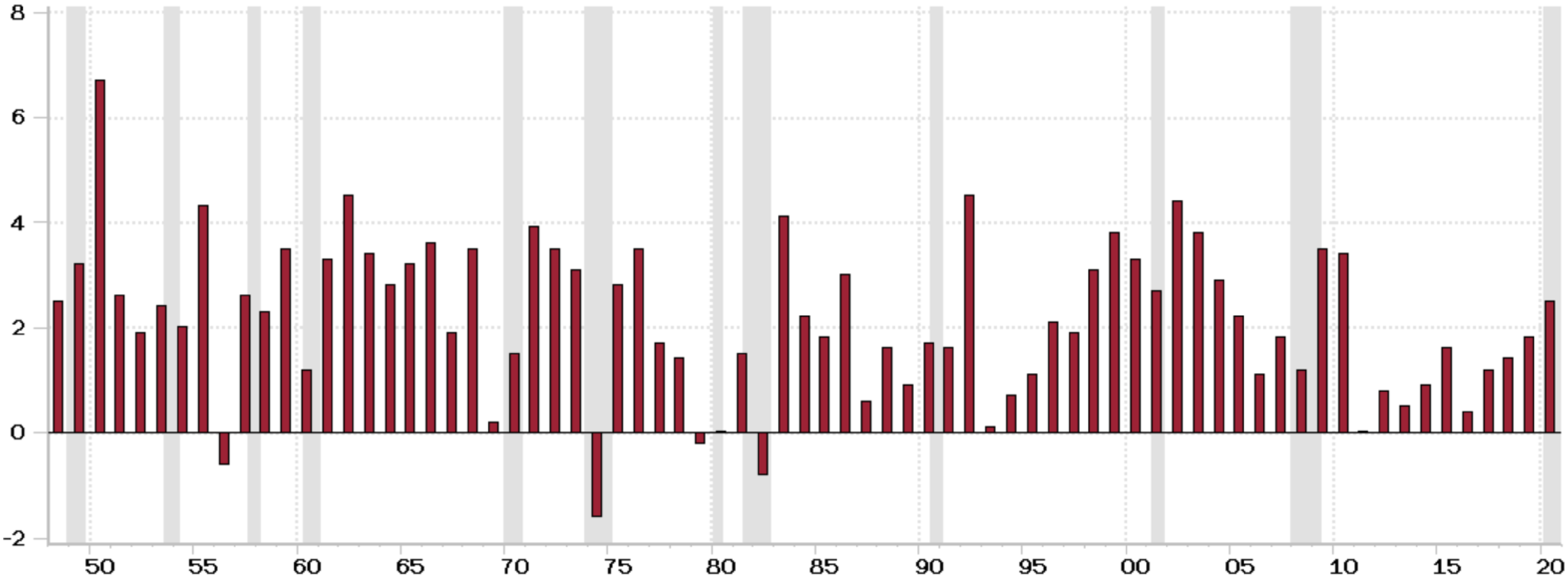


Shading indicates recession
Source: Haver Analytics, Rosenberg Research

BEST YEAR FOR PRODUCTIVITY GROWTH IN A DECADE (1/2)

United States: Real Output per Hour

(year-over-year percent change)



Shading indicates recession

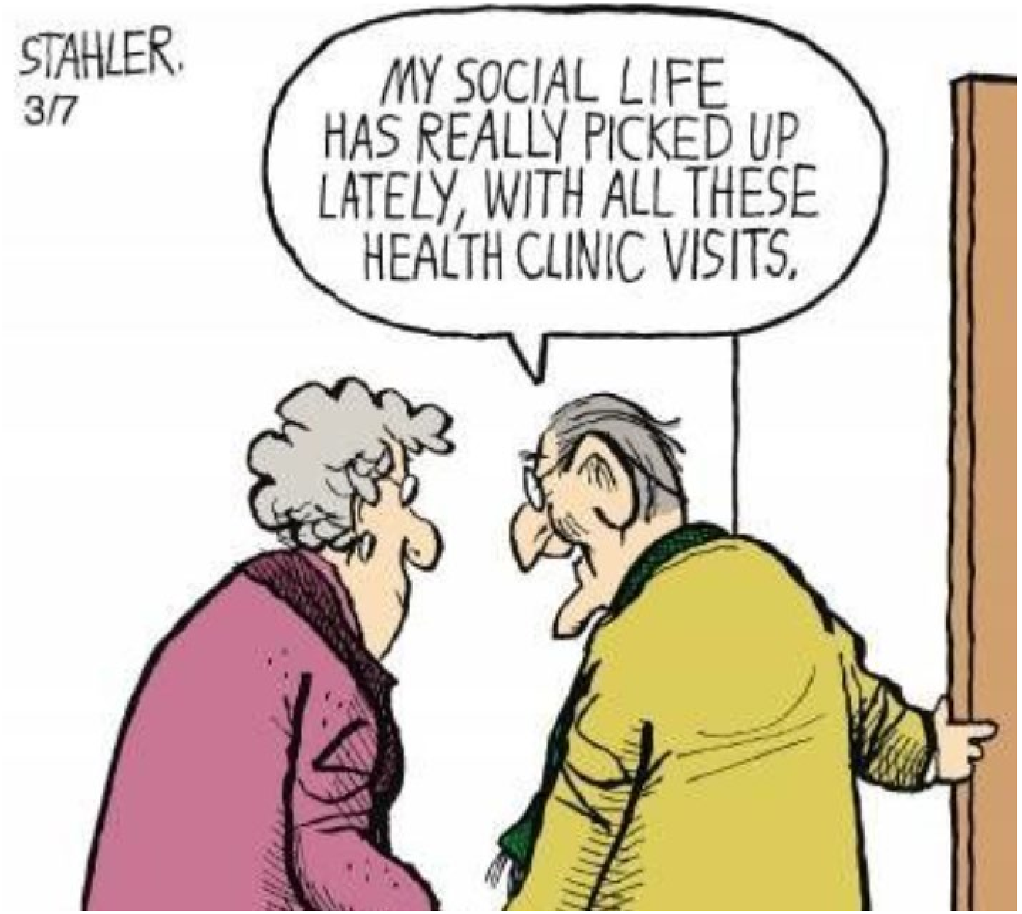
Source: Haver Analytics, Rosenberg Research

BEST YEAR FOR PRODUCTIVITY GROWTH IN A DECADE (2/2)

I noticed Mickey Levy co-authored a classic inflation piece in the journal a few weeks ago — and like so many like this, not one mention of productivity.

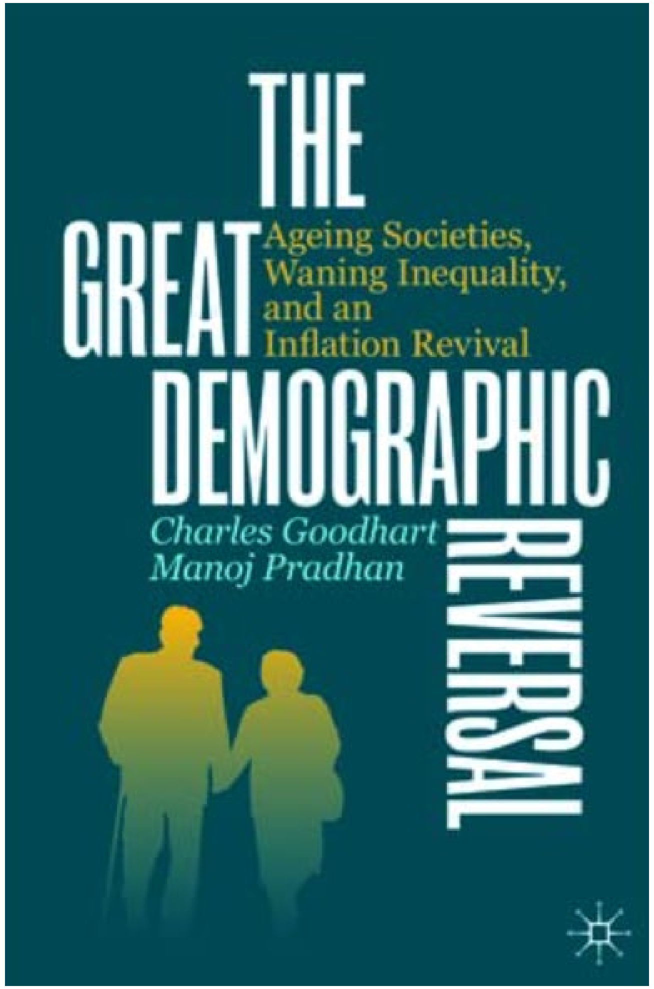
Meanwhile, in the worst year for the economy since 1946, businesses raised their spending on IT equipment and software by 7%, even as labor was shed by 4.5%, to the point where automation as a share of GDP has risen to an all-time high and so what happened in the pandemic, and what should be the case in the future, is this boom in productivity, which is an absolute inflation killer, and why it is next to impossible that inflation becomes a permanent problem for us.

THE PANDEMIC DIDN'T STOP US FROM GETTING OLDER



Source: cartoonstock.com

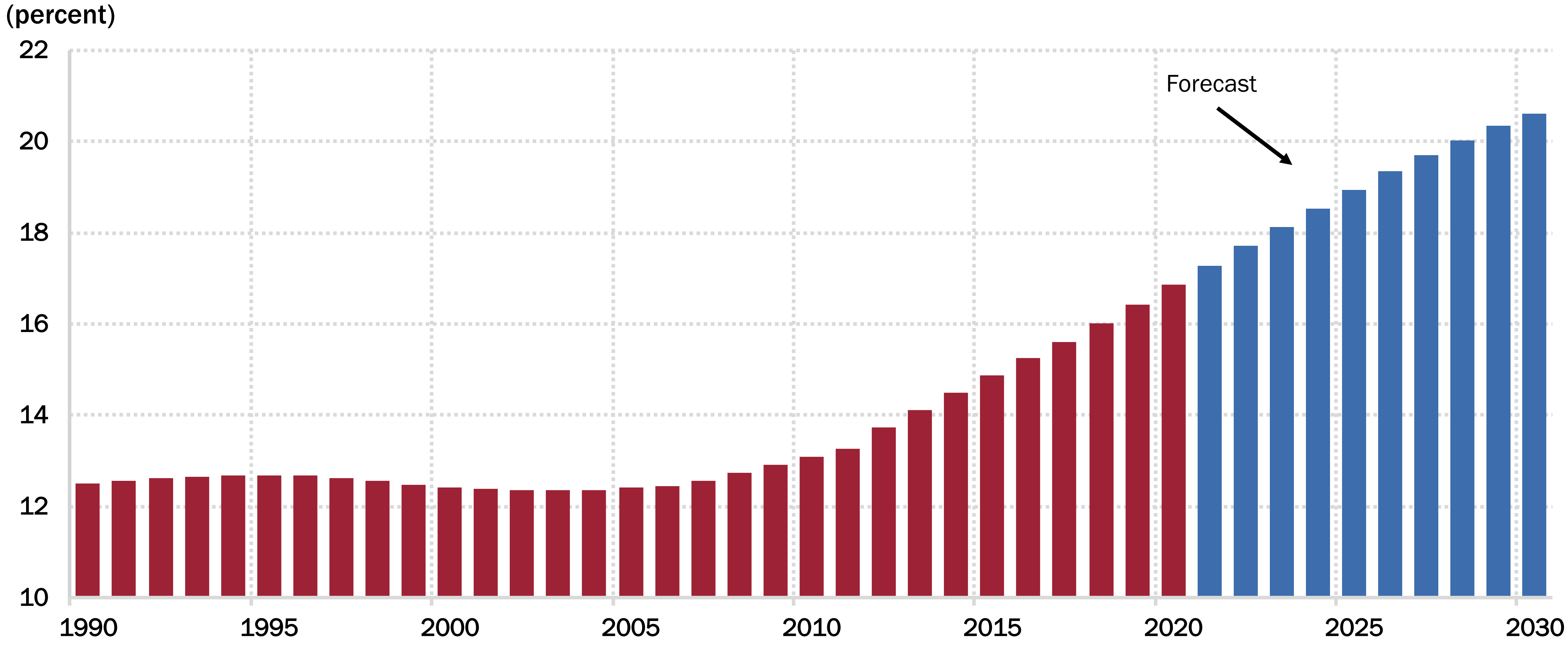
THE GREAT DEMOGRAPHIC REVERSAL (1/4)



Source: Manoj Pradhan, Charles Goodhart

POPULATION SHARE AGED 65+ (2/4)

United States: Share of Population Aged 65+

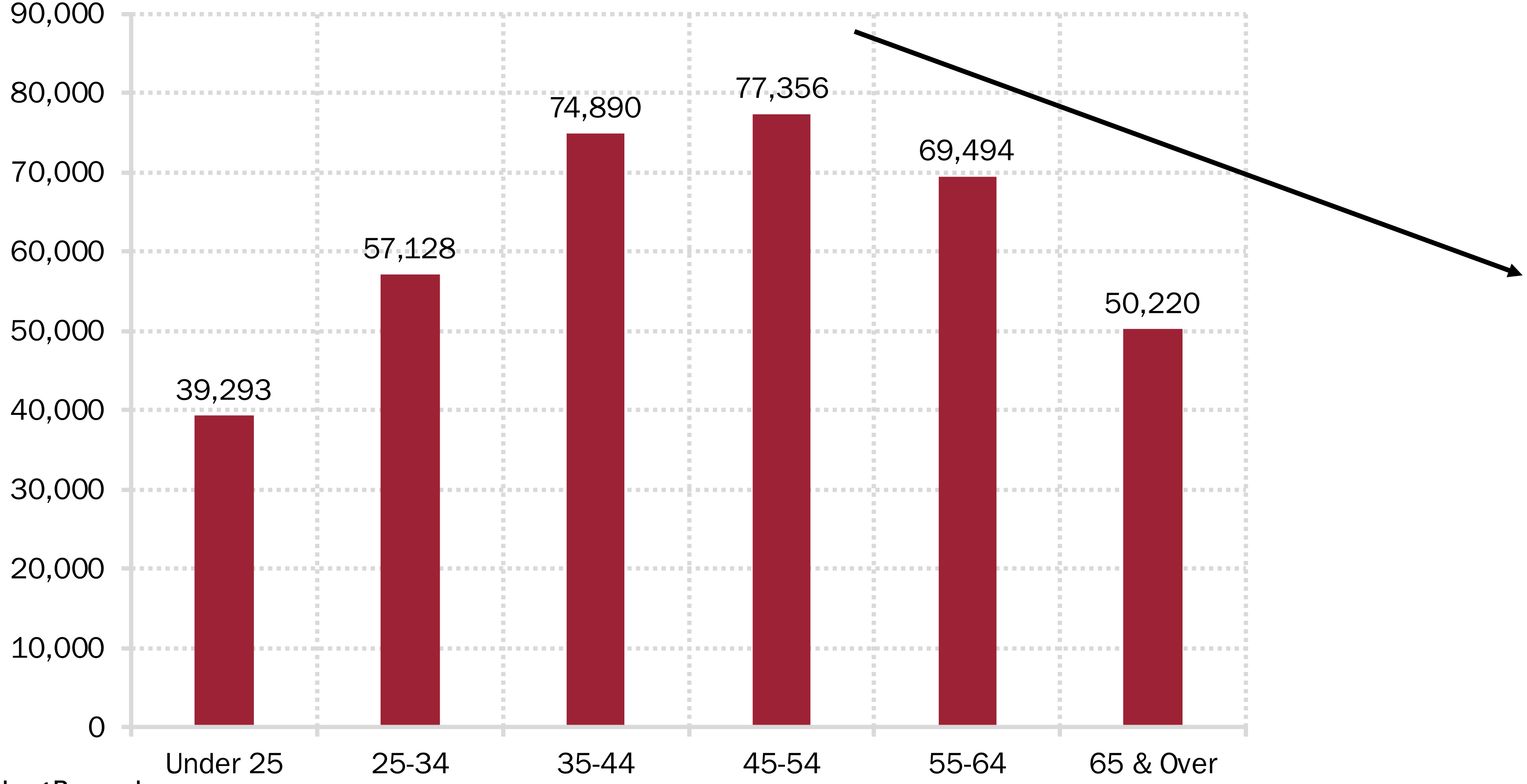


Note: values for 2021 to 2030 are forecasts
Source: Haver Analytics, Rosenberg Research

CONSUMER SPENDING THROUGH THE LIFE-CYCLE (3/4)

United States: Total Consumer Expenditures

($)



Source: Haver Analytics, Rosenberg Research

CONSUMER SPENDING THROUGH THE LIFE-CYCLE (4/4)

So there are structural lowflation forces at play here that the pandemic didn't change.

At the margin, productivity growth is stronger and that is going to contain unit labor costs.

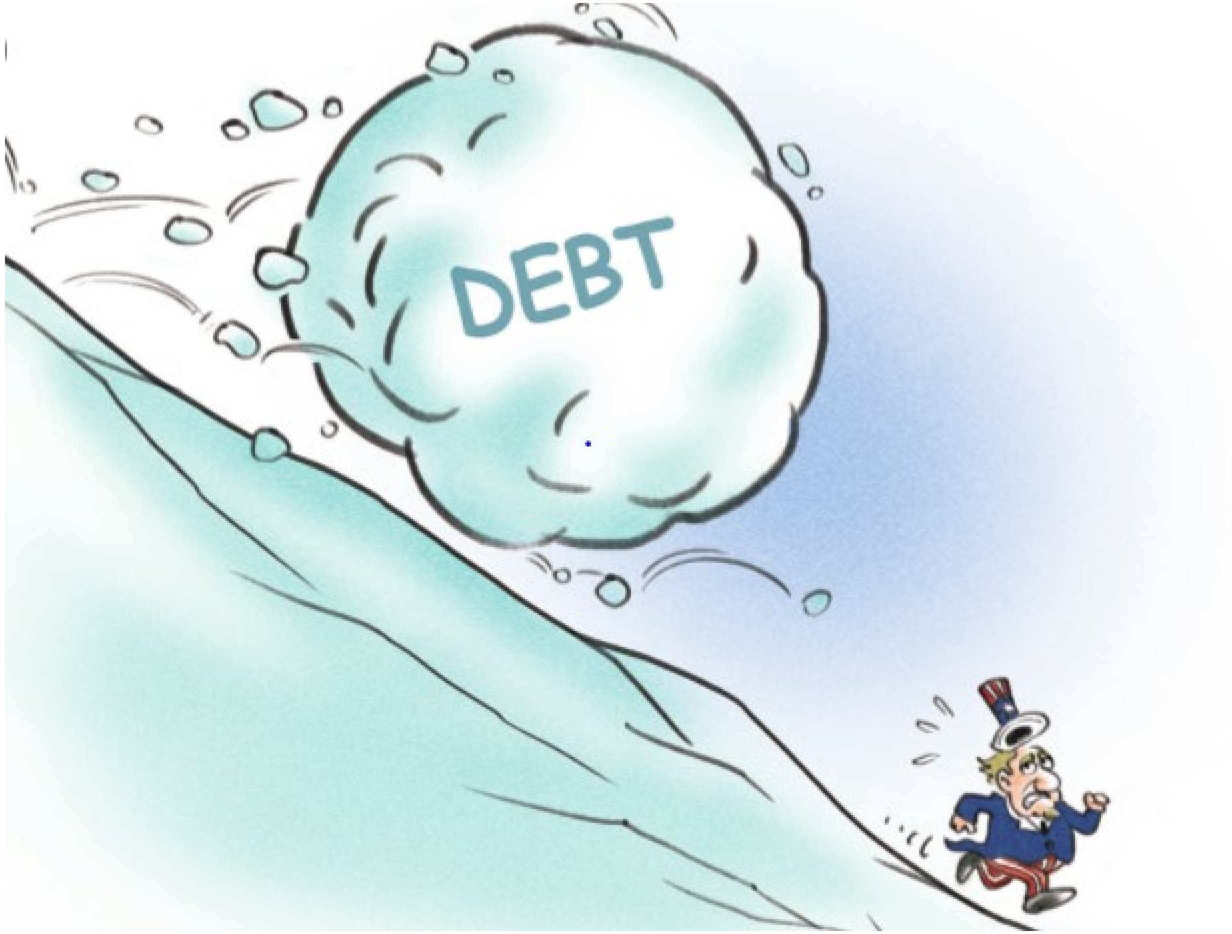
Ask the inflationists what work they've done on this.

What about demographics, because the pandemic hasn't stopped the median age of the population from aging one month every year — and the market for myths must be a lucrative one because someone sent me this book that was published recently on how aging demographics are inflationary.

Well, the share of the 65 and up crowd has been rising for nearly 20 years and all we have seen is the trend in core inflation slow down, and this share is going to accelerate from 16% today to over 20% by 2030 and I will tell you why it is disinflationary.

Because once you hit 65, your spending goes down 30%, so the dampening impact on aggregate demand growth is ongoing and transcends this financial speculation in commodities, which is your primary inflation narrative.

DEBT ACTS AS A FUNDAMENTAL CONSTRAINT ON GROWTH & INFLATION

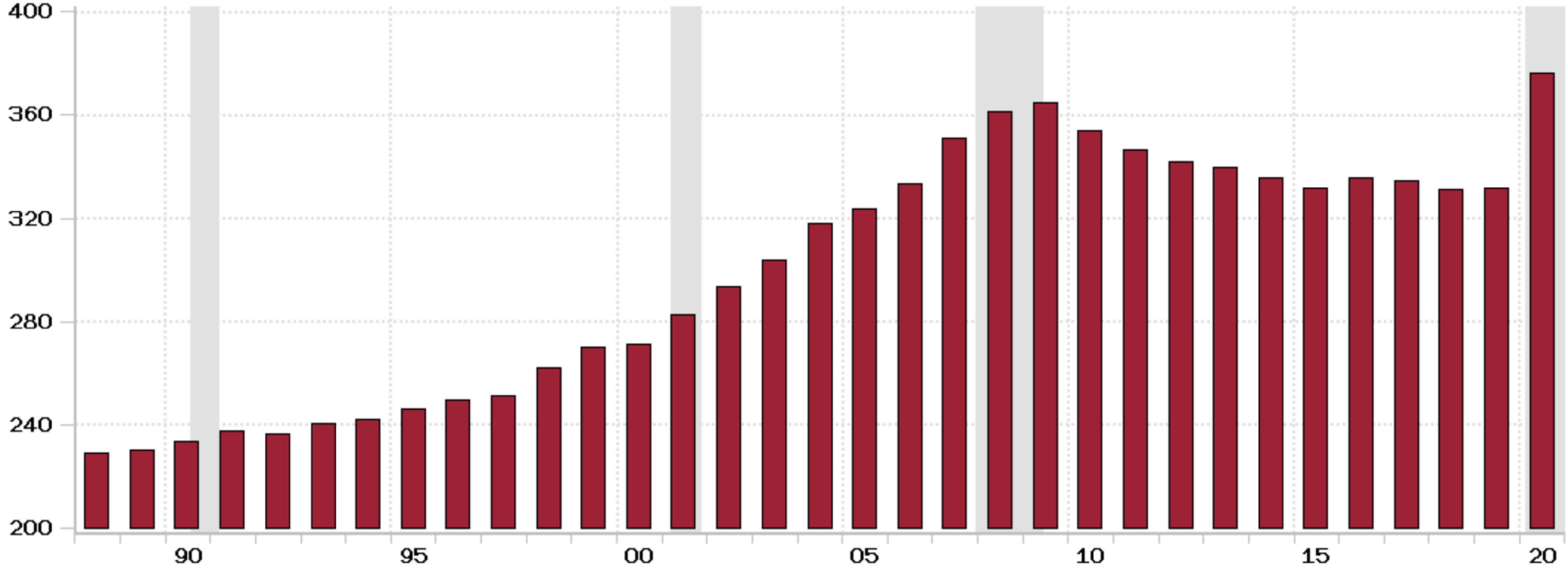


Source: Global Times

DEBT AS A SHARE OF GDP HAS SURPASSED THE 2008 RECESSION PEAK (1/2)

United States: Debt Outstanding as a Share of GDP

(percent)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

DEBT AS A SHARE OF GDP HAS SURPASSED THE 2008 RECESSION PEAK (2/2)

So we're more productive. We're older. And we're deeper in debt. And we all own this debt.

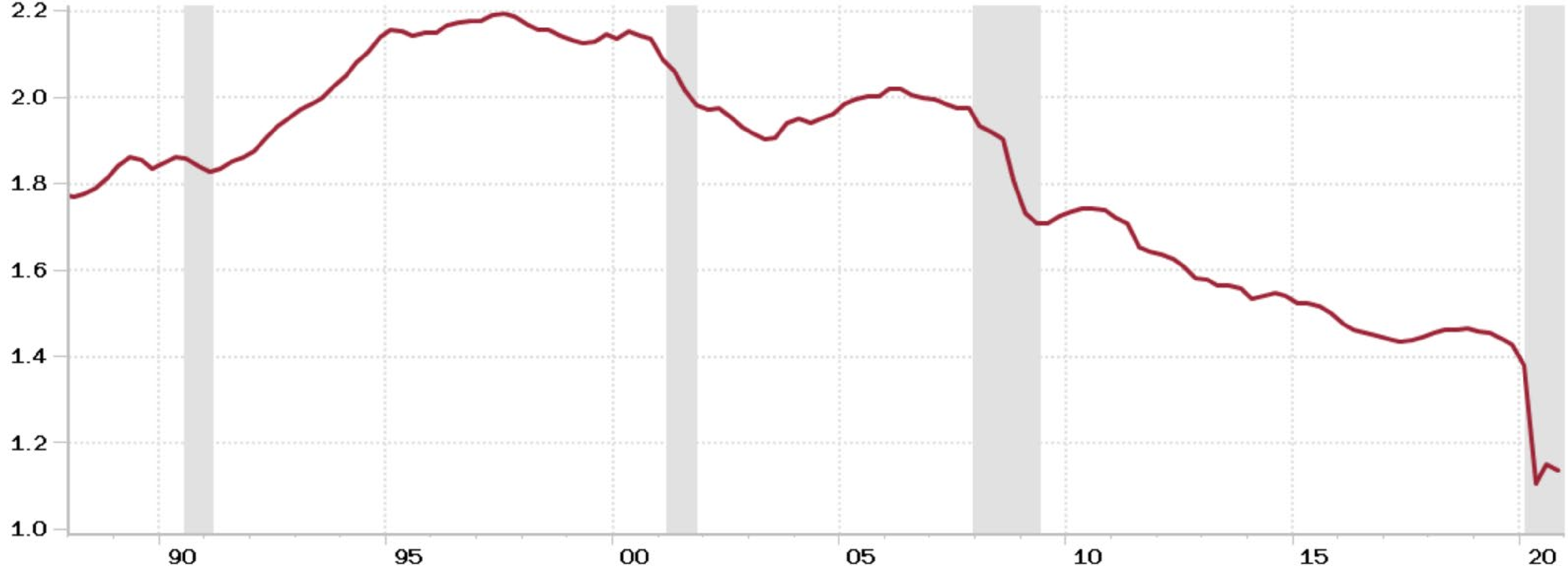
When you look at all levels of society — government, business and consumer — the debt-to-GDP ratio has soared 40 percentage points in this past year, and we have taken out the peak of the Great Financial Crisis — a debt ratio that acted as a pervasive constraint on growth, on inflation and on interest rates from 2009 to 2019.

And now it's an even larger constraint.

And it is this destabilizing debt — remember how the repo market blew up in 2019, how the Fed was forced to cut rates three times and expand its balance sheet long before the pandemic hit — that has impaired the credit and money multipliers.

M2 MONEY SUPPLY MAY HAVE SURGED, BUT MONEY VELOCITY HAS PLUMMETED! (1/5)

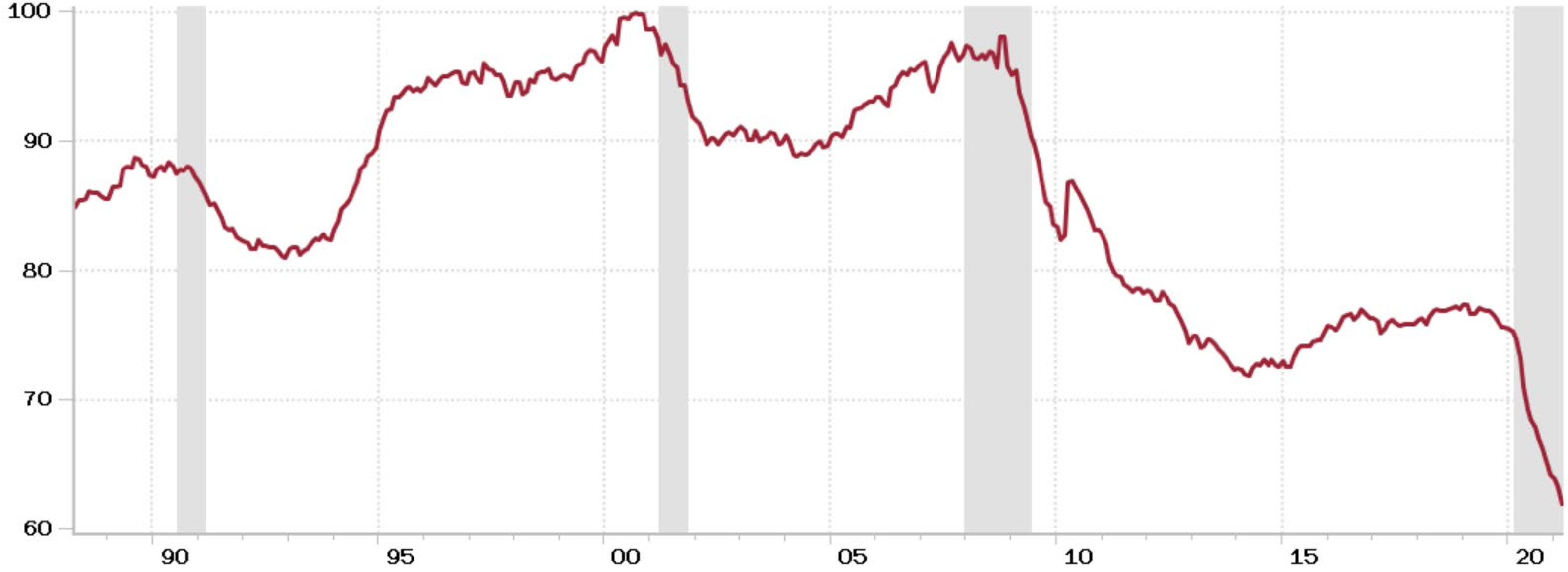
United States: M2 Money Velocity
(ratio)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

AND SO HAS THE LOAN-TO-DEPOSIT RATIO (2/5)

United States: Loan-to-Deposit Ratio
(percent)

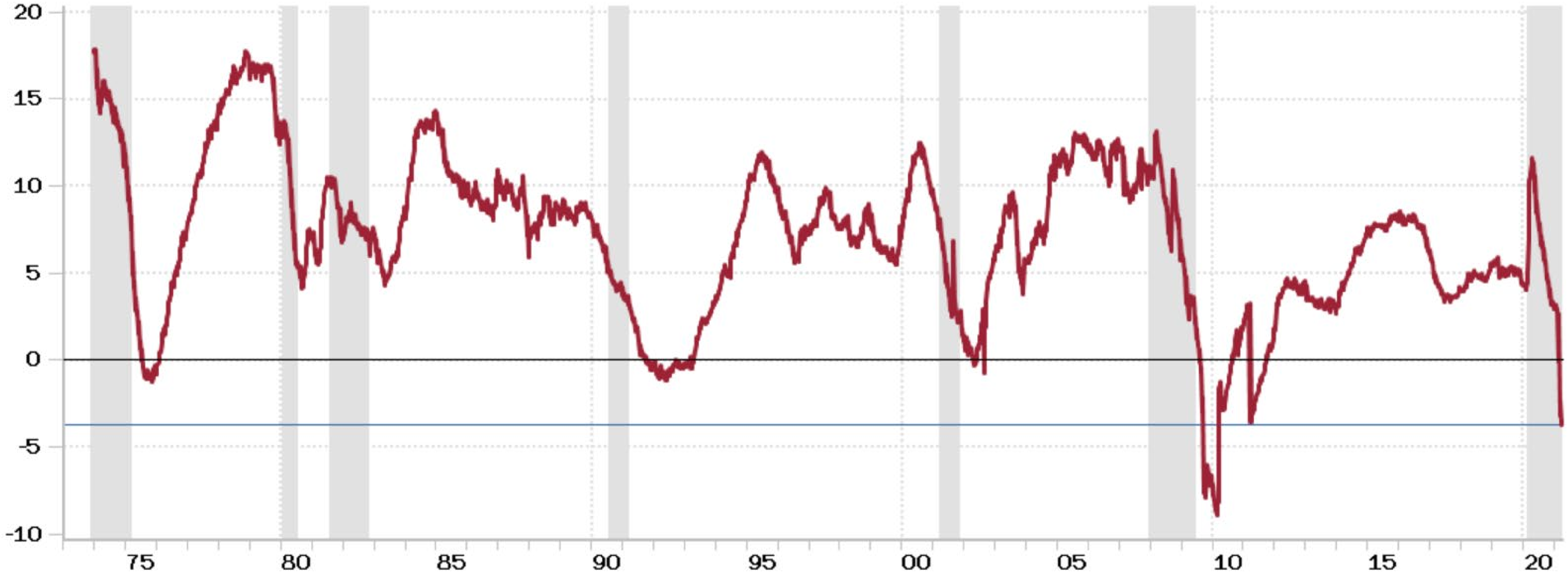


Shading indicates recession
Source: Haver Analytics, Rosenberg Research

BANK LENDING REMAINS DEPRESSED (3/5)

United States: Loans & Leases

(year-over-year percent change)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

BANK LENDING TO HOUSEHOLDS STILL CONTRACTING (4/5)

United States: Consumer & Residential Real Estate Loans

(year-over-year percent change)

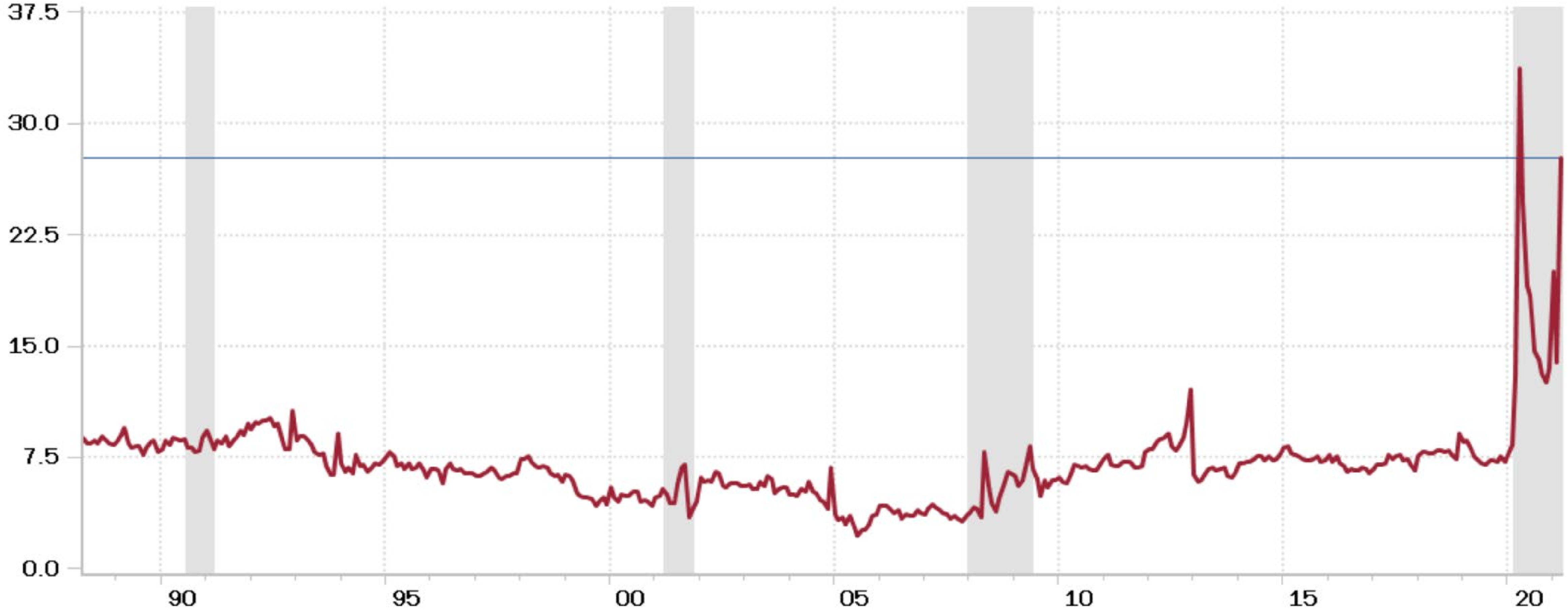
Shading indicates recession
Source: Haver Analytics, Rosenberg Research

BANK LENDING TO HOUSEHOLDS STILL CONTRACTING (5/5)

Velocity still has yet to turn up, the loan-deposit ratio is following this downtrend, and so as the government ramps up its balance sheet, demand for bank credit is imploding, the banks are making their money on capital markets, trading and wealth management — their loan books are contracting and it is the household sector that remains in full-scale deleveraging mode.

THE FUTURE IS FRUGAL – THE BULL MARKET WILL BE IN SAVINGS (1/2)

United States: Personal Saving Rate
(percent)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

THE FUTURE IS FRUGAL – THE BULL MARKET WILL BE IN SAVINGS (2/2)

One has to remember that when forecasting interest rates, it is not the fiscal deficit alone that matters, but the entire savings pie relative to desired spending and investment.

So while the deficit boom has resulted in the federal government having “dissaved” by $3 trillion over the past year, household savings have ballooned $4 trillion and the net savings in the corporate sector has expanded $100 billion (internally generated cash flows minus capital spending).

In other words, we are still stuck in a savings glut, and it remains to be seen just how profligate Congress will be in the future and just how much consumers are going to unleash their savings cache in view of the fact that the spending spree we will see in services is likely to be short-lived and that there is no “pent-up” demand for the much larger (more than double) market for household durable goods.

We’ll see where the new post-pandemic personal savings rate levels out — something tells me it will be a lot higher than the pre-COVID-19 level of 7%, just as that 7% was higher than the 5% savings rate that existed before the Great Financial Crisis.

HOW AMERICANS SPENT THEIR THREE STIMULUS CHECKS (1/2)

United States: How Households Use Their Stimulus Checks
(percent)

Stimulus Round	1	2	3
Reporting Month	June	January	March
Share Spent	29.2	25.5	24.7
Share Saved	36.4	37.1	41.6
Share Used Towards Del	34.5	37.4	33.7

Source: Ny Fed Survey of Consumer Expectations; Rosenberg Research

HOW AMERICANS SPENT THEIR THREE STIMULUS CHECKS (2/2)

And we can see this shift in preferences towards saving in the data — look at the New York Fed's tracking.

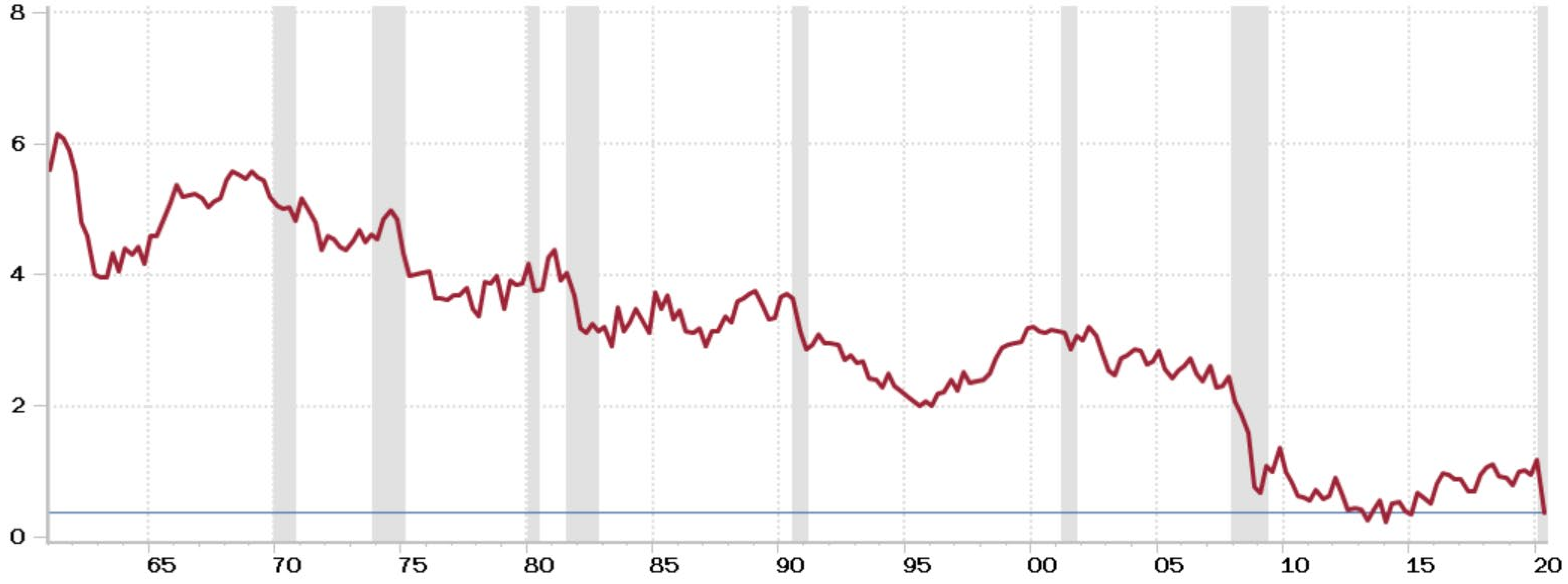
Maybe this is why Biden felt the need to go big — less than 25% of these stimulus checks are going into the real economy and that share is going down with each fiscal package.

One-third is going to pay down debt and over 40% is being saved, which is code for opening up a Robinhood account.

AGING DEMOGRAPHICS + DEBT OVERHANG = EVER-LOWER NEUTRAL INTEREST RATE (1/2)

United States: Natural Rate of Interest

(percent)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

AGING DEMOGRAPHICS + DEBT OVERHANG = EVER-LOWER NEUTRAL INTEREST RATE (2/2)

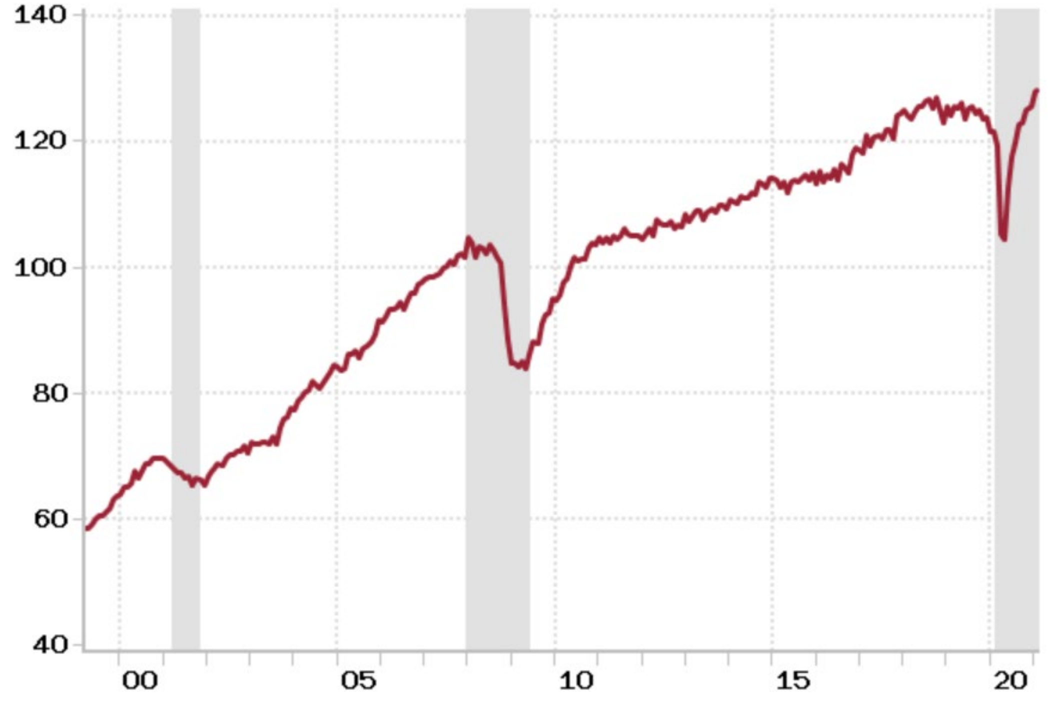
So we add up what is important, the structural forces at play — demographics, debt, technological change, and the answer is no — the downtrend in the natural rate of interest has not been impaired by a commodity cycle and supply chains that have undergone a temporary disruption.

GLOBALIZATION IS NOT DEAD

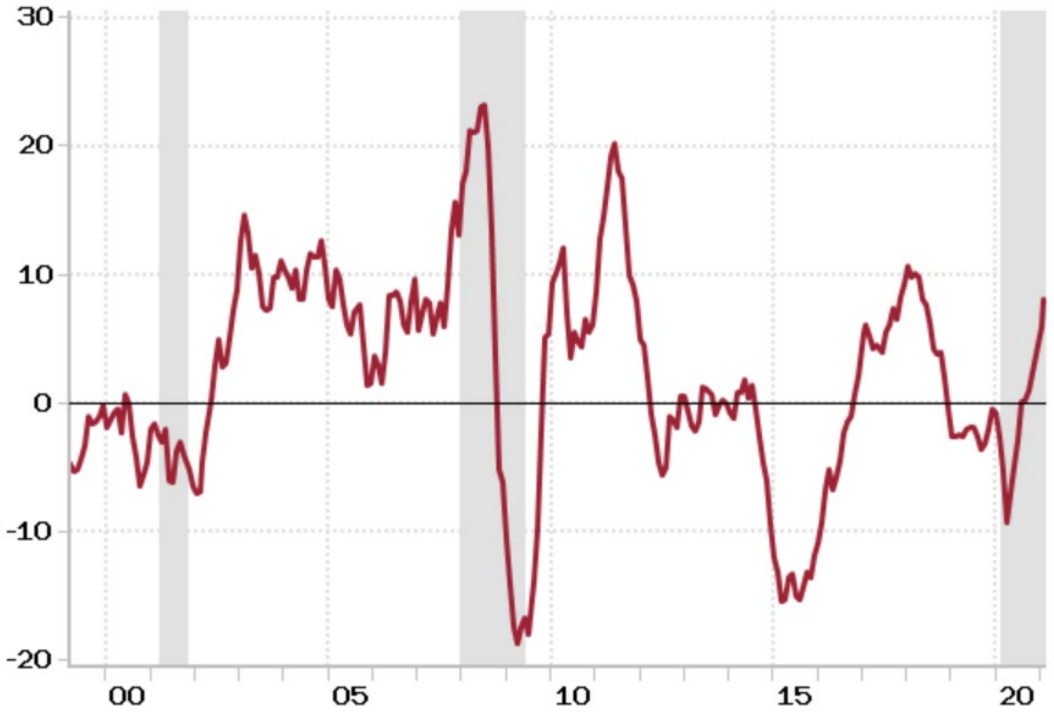
Source: Uncommon Thought

THE GLOBAL ECONOMY IS MORE INTERCONNECTED THAN EVER (1/2)

Global: World Trade Volume
(index)



Global: World Trade Unit Value
(index)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

THE GLOBAL ECONOMY IS MORE INTERCONNECTED THAN EVER (2/2)

Oh, I hear that we are going to see onshoring and the like, and that globalization is dead.

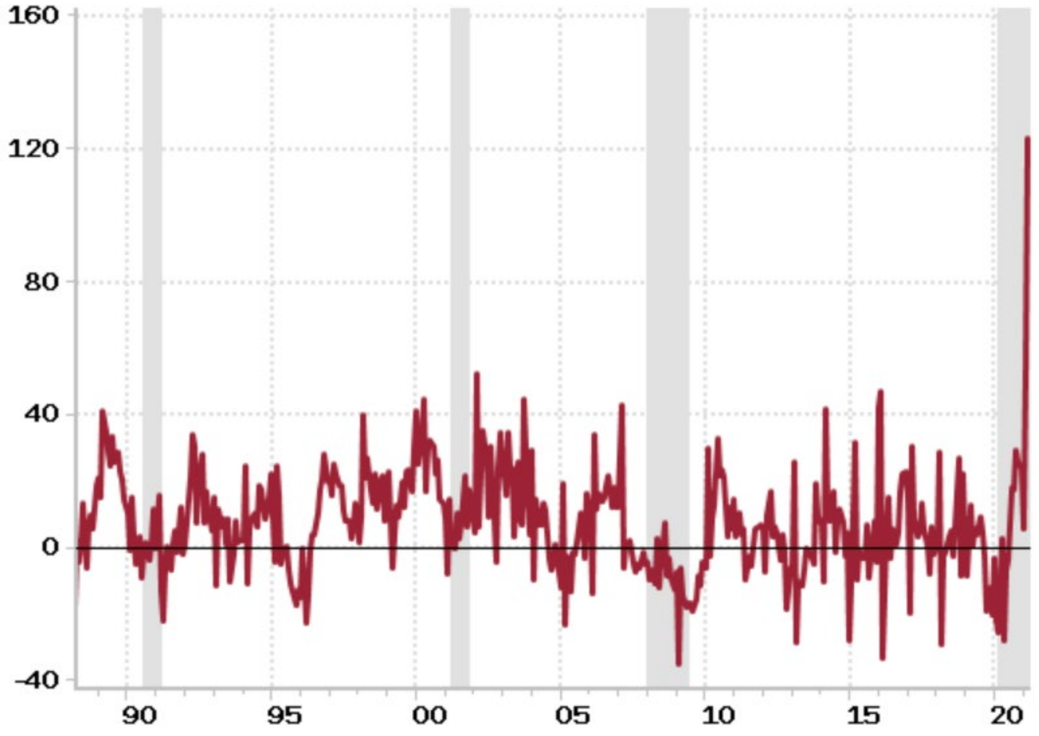
Good grief, how many times did we hear when Trump got elected about nationalism, protectionism, tariffs and trade barriers and inflation, inflation, inflation — remember how viciously bonds sold off in those early days and we had the likes of Larry Lindsey calling for 5% Treasury yields.

Contrarians like me should note that he's now calling for 3%; at least he's not at 5% any longer.

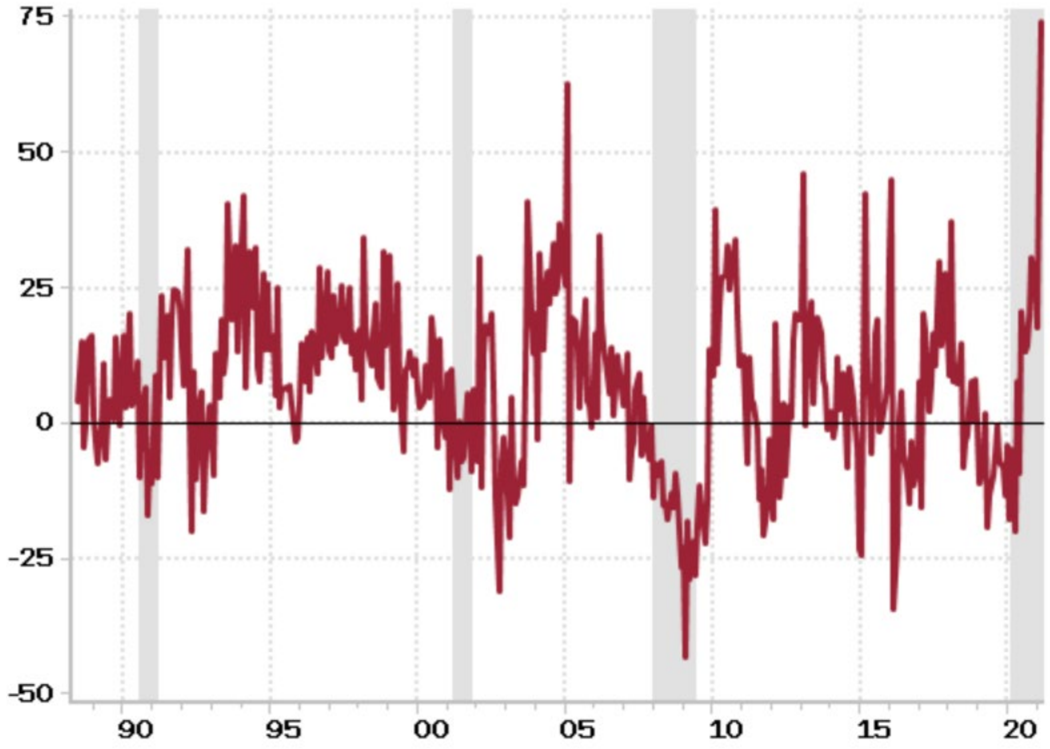
But the pandemic, contrary to popular opinion, has not caused globalization to reverse, there is no evidence of that from the global trade data flows whatsoever.

RECORD NUMBER OF CONTAINER SHIPS SITTING OUTSIDE PORTS OF LA AND LONG BEACH (1/2)

United States: Port of LA Inbound Loaded Containers
(year-over-year percent change)



United States: Port of Long Beach Inbound Loaded Containers
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

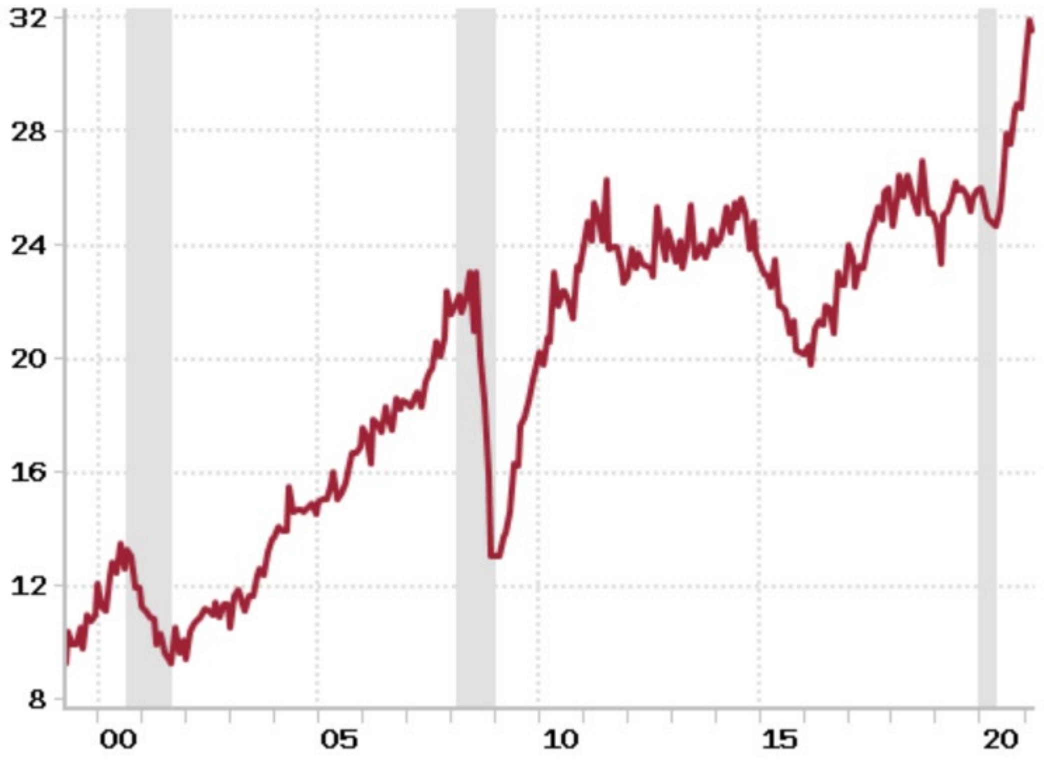
RECORD NUMBER OF CONTAINER SHIPS SITTING OUTSIDE PORTS OF LA AND LONG BEACH (2/2)

Meanwhile, I only hear about massive shortages — but for how long?

The filled-up container ships sitting outside the two busiest ports are brimming with supplies.

GUESS WHAT THESE TWO EXPORT? TRY SEMICONDUCTORS (1/3)

Taiwan: Merchandise Exports
($ billions)



South Korea: Merchandise Exports
($ billions)

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

GUESS WHAT THESE TWO EXPORT? TRY SEMICONDUCTORS (2/3)

Taiwan: Merchandise Exports
(year-over-year percent change)

South Korea: Merchandise Exports
(year-over-year percent change)

Shading indicates recession
Source: Haver Analytics, Rosenberg Research

GUESS WHAT THESE TWO EXPORT? TRY SEMICONDUCTORS (3/3)

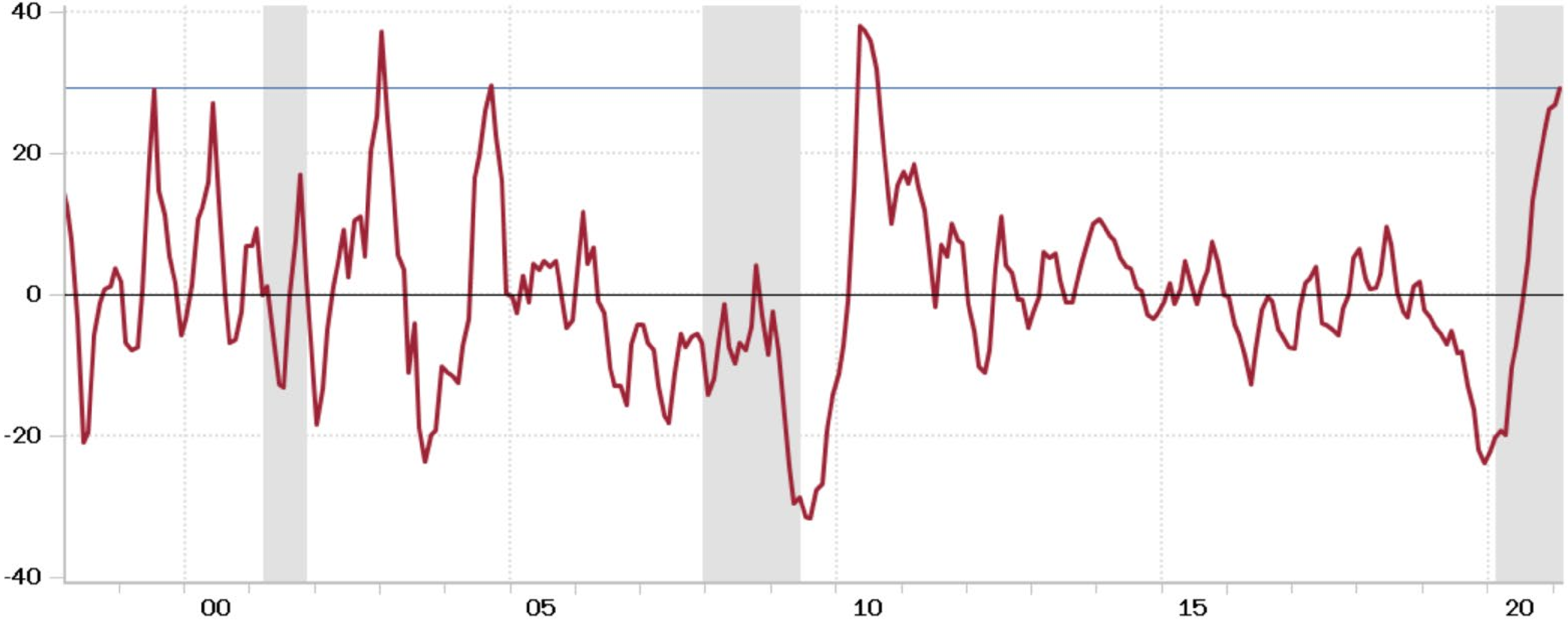
As for semiconductors, the question is how much longer will these shortages persist with exports from Taiwan and Korea soaring in the past few months.

What do you think they're exporting? Components, that's what.

I've been to Asia countless times and I can tell you that Taiwan is one massive chip manufacturing facility and that's about it.

CANADIAN LUMBER PRODUCTION IS RUNNING NORTH OF 20%! (1/2)

Canada: Forestry & Logging
(year-over-year percent change)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

CANADIAN LUMBER PRODUCTION IS RUNNING NORTH OF 20%! (2/2)

Oh — and the lumber shortage? Another fairy tale.

Look at the Canadian production — most of it exported.

Employment in the residential construction industry last month went to an all-time high.

So for those folks in the shortage camp, explain how it is that the builders broke ground on 1.7 million housing starts in March, 7.5% above the pre-COVID-19 peak and the highest since the real estate bubble of 2005-06.

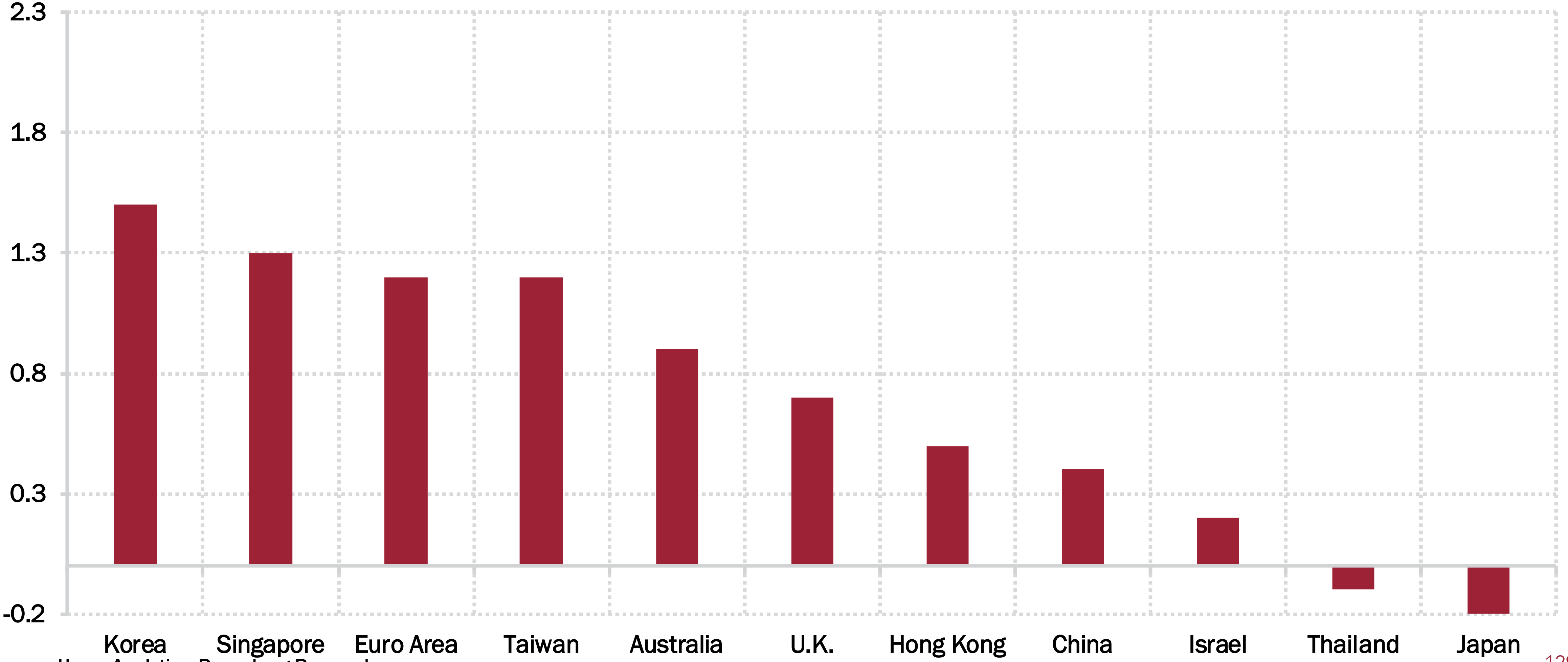
GLOBAL INFLATION IS STILL BENIGN

Source: Bendspace

INFLATION IS A U.S. PROBLEM ALONE?

Global: CPI

(year-over-year percent change)



Source: Haver Analytics, Rosenberg Research

INFLATION OUTSIDE THE U.S. IS RUNNING NEAR RECORD LOW (WITH 10-MONTH COMMODITY CYCLE)

Global Ex.-U.S.: CPI
(year-over-year percent change)

Global Ex.-U.S.: Core CPI
(year-over-year percent change)

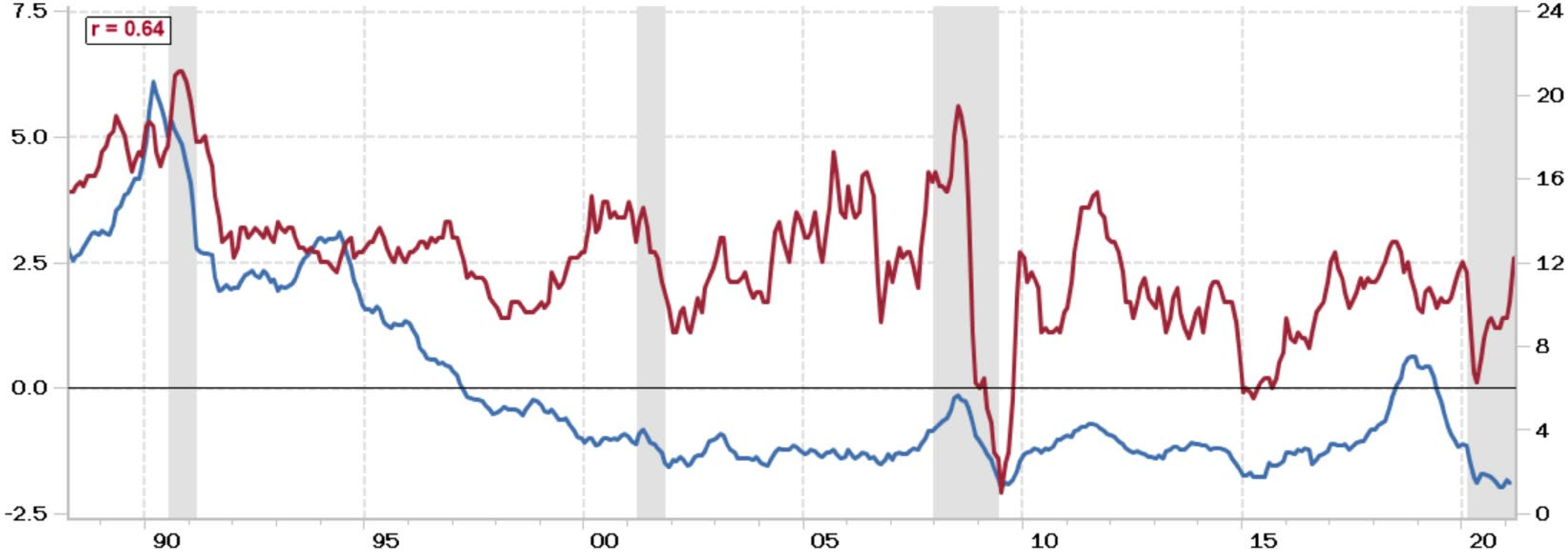
Shading indicates recession
Source: Haver Analytics, Rosenberg Research

THERE IS A 64% CORRELATION BETWEEN U.S. INFLATION AND GLOBAL INFLATION (1/2)

Global: CPI

(red line; U.S. CPI; year-over-year percent change; LHS)

(blue line; world ex.-U.S. CPI; year-over-year percent change; RHS)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

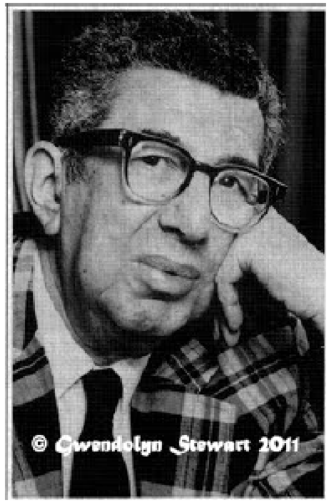
THERE IS A 64% CORRELATION BETWEEN U.S. INFLATION AND GLOBAL INFLATION (2/2)

The one thing we also have to identify in this globalized economy is how inflation in the U.S. has increasingly been determined over time by inflation in the rest of the world.

No sign of a breakout overseas and that is because their output gaps are even larger.

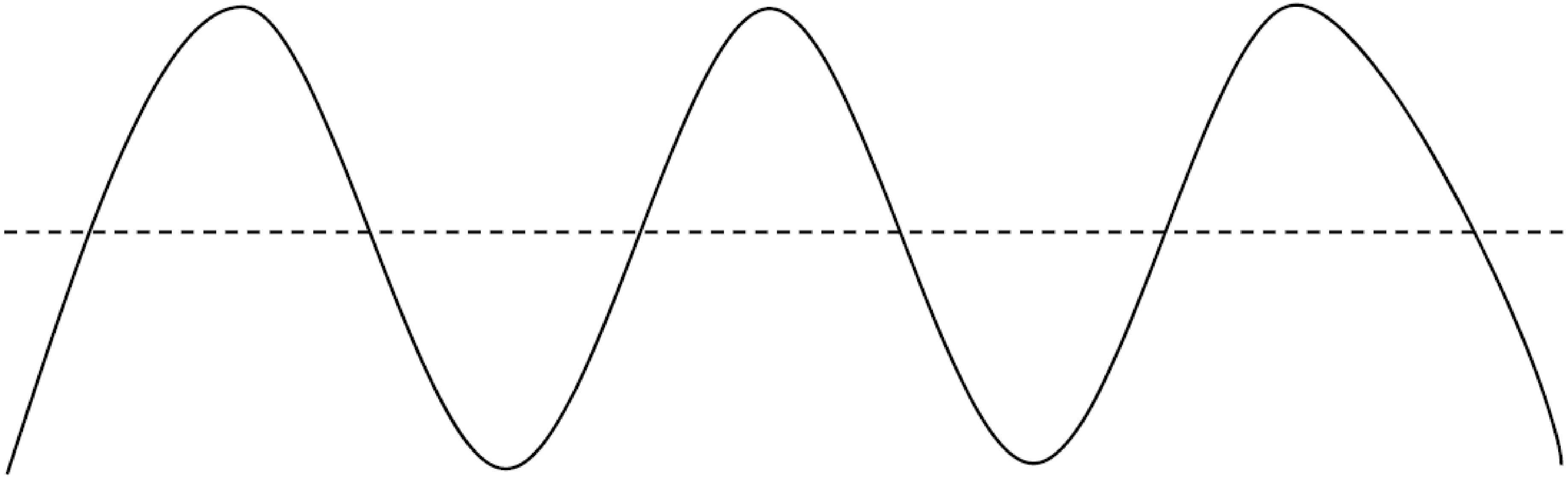
WHAT, ME WORRY?

Source: chronicle.com



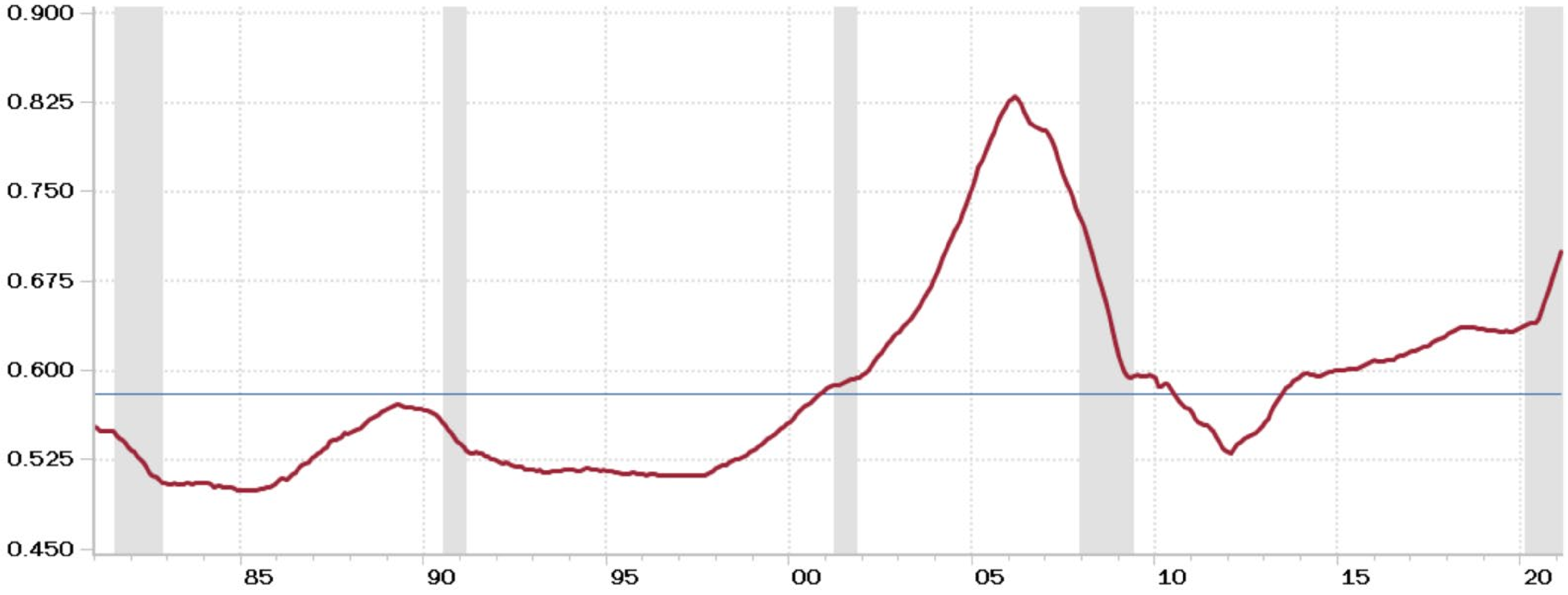
"If something cannot go on forever, it will stop."

— Herbert Stein's Law



HOME PRICE-TO-RENT RATIO 20% ABOVE THE LONG-RUN MEAN (1/2)

United States: Home Price-to-Rent Ratio
(ratio)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

HOME PRICE-TO-RENT RATIO 20% ABOVE THE LONG-RUN MEAN (2/2)

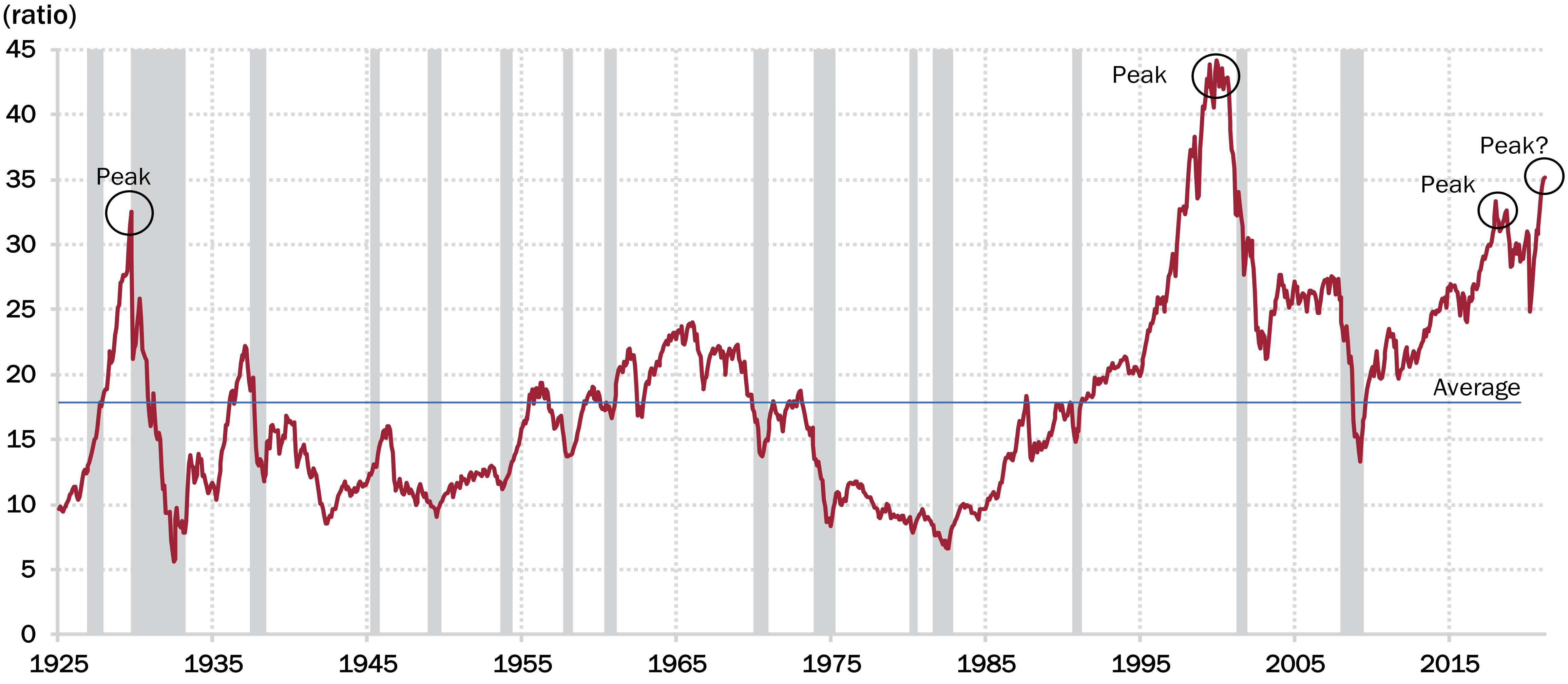
What has me worried is not the prospect of consumer inflation, but rather asset deflation from the unsustainable levels we are at right now.

Whether it be home prices-to-rents or home prices-to-income, we have a big bubble in residential real estate valuations.

Nothing like the mid-2000s, but the excess valuation is 20%.

SECOND MOST OVERVALUED STOCK MARKET (1/2)

United States: Cyclically Adjusted Price-to-Earnings Ratio



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

SECOND MOST OVERVALUED STOCK MARKET (2/2)

We also have a CAPE multiple pressing against 37x, which has only been exceeded once before in the tech bubble in 1999.

So the consequences, for whatever reason, of a classic Bob Farrell type of mean reversion here, would cost the economy 3% of economic growth, tracing out the negative wealth effects on spending.

If both real estate and equity valuations pull off a classic Bob Farrell Rule #1 (mean revert, that is), the total hit on nominal GDP would be closer to 6%!

We've seen this play out before, the question is what the catalyst will be — maybe it is near-term interest rate pressures but as we saw in 2007 and again in 2018, higher rates in this supercharged leverage economy can be a dangerous thing, all the more so seeing how super inflated consumer balance sheets are on the asset side.

FRBSF Economic Letter

2018-01 | January 8, 2018 | Research from Federal Reserve Bank of San Francisco

*"Current valuation ratios for households and businesses are high relative to historical benchmarks…**we find that the current price-to-earnings ratio predicts approximately zero growth in real equity prices over the next ten years**."*

*"The net worth-to-income ratio — defined as household assets net of liabilities divided by personal disposable income — provides a valuation metric for a broad set of assets including debt, equity, and real estate weighted by the proportion in which they are being held by households. **Similar to the P/E ratio, this ratio tends to revert toward its historical average and does not remain at extreme values, either high or low, for prolonged periods**."*

Source: FRB San Francisco; *Valuation Ratios for Households and Businesses;* January 8, 2018

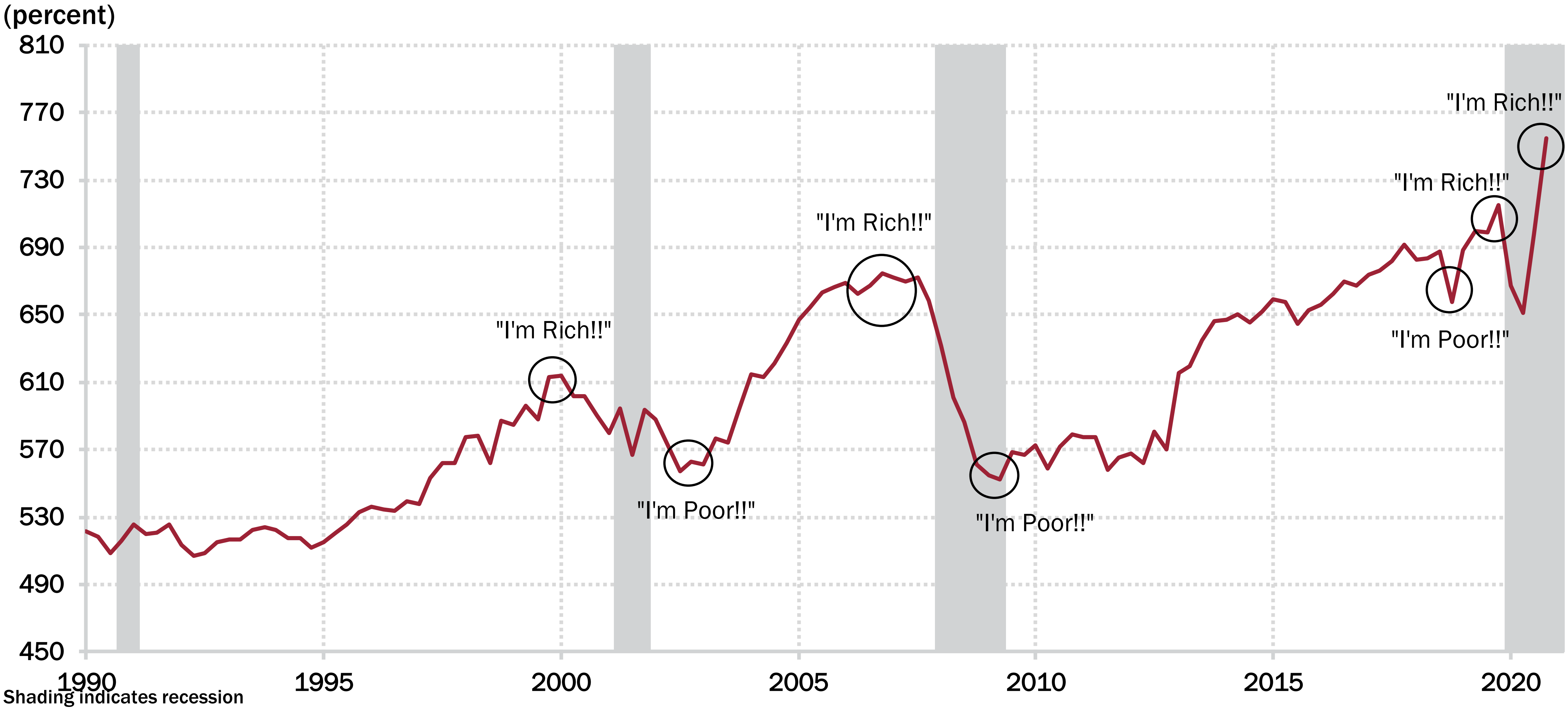
SOME WARNINGS FROM THE SAN FRAN FED (2/2)

Let's go back to January 2018 — San Francisco Fed paper — that the CAPE level back then was consistent with zero growth real equity market returns for the coming decade — great news here for active investors but I would hazard to say not so for passive index investing.

Like I said, the CAPE was 33x then, it's 37x now. And, since that report, the annualized real return has been 9%, but that means the next 7 to 10 years are probably going to really be tough to make money being long the S&P 500.

WHAT'S EVERY PEAK TYPICALLY FOLLOWED BY? (1/2)

United States: Household Net Worth Share of Disposable Personal Income



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

WHAT'S EVERY PEAK TYPICALLY FOLLOWED BY? (2/2)

And that the household net worth-to-income ratio is a mean reverting series and is at almost 770% today.

We are 100 percentage points higher than we were at the housing bubble peak in 2007 and 150 percentage points higher than we were at the height of the dotcom bubble peak in 1999.

That chart, coupled with Bob Farrell's Rule #1, may be one reason why I believe that we will get to a point where consumer inflation will be replaced on the front pages from mean-reverting asset deflation.

DISCLAIMER