

Macro Update

2021-04-22

Markets

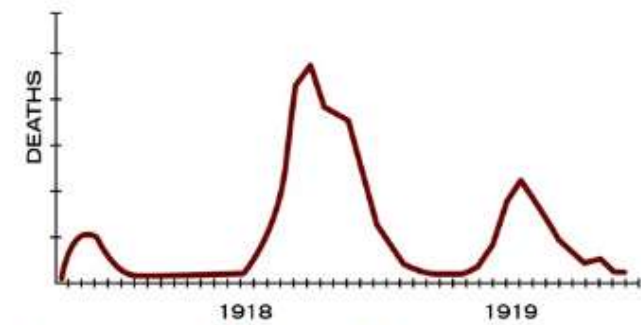
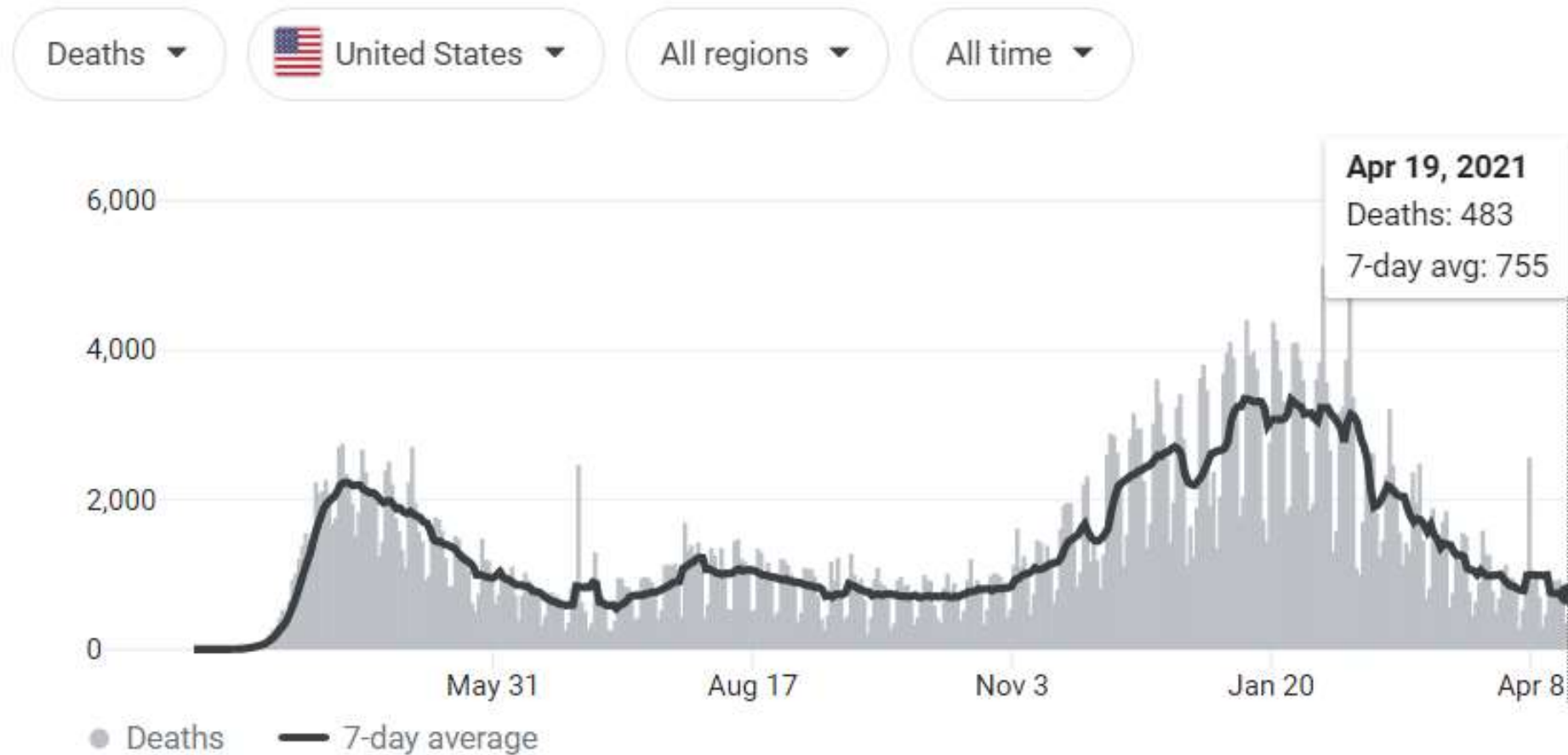
- SP500: 4138
- Baa yield: 3.74%
- 10 year: 1.55%
- 10 year real rate: -0.75%
- 10 year breakeven inflation: 2.3%
- Core CPI yoy (Feb): 1.65% ;
- Headline CPI yoy (Feb): 2.64%
- Brent: \$65.57/bbl
- Gold: \$1783/ounce



Covid deaths worldwide vs. Spanish flu

Daily change

From [The New York Times](#) - Last updated: 5 hours ago

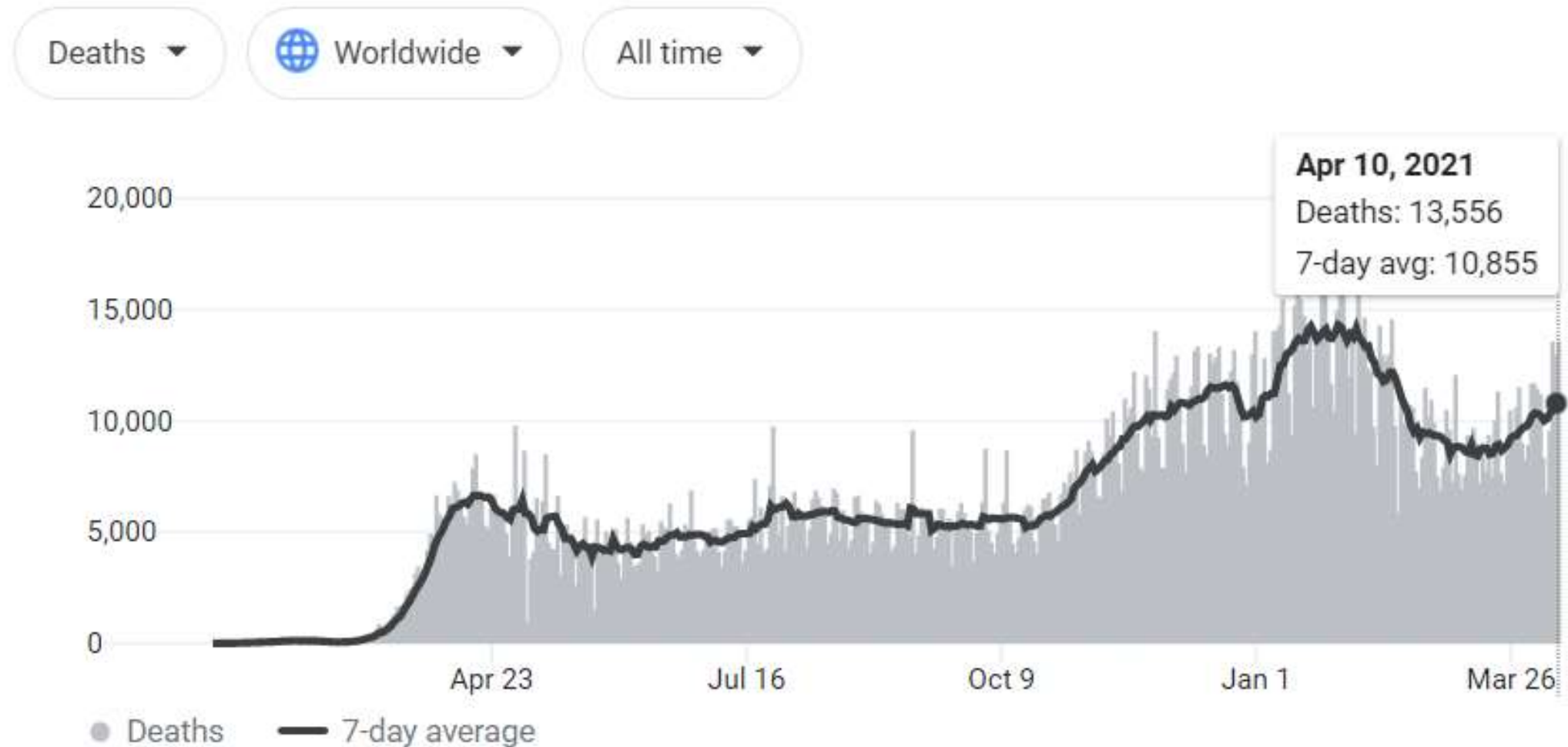


There were 3 different waves of illness during the pandemic, starting in March 1918 and subsiding by summer of 1919. The pandemic peaked in the U.S. during the second wave, in the fall of 1918. This highly fatal second wave was responsible for most of the U.S. deaths attributed to the pandemic.

New variants are keeping deaths high

Daily change

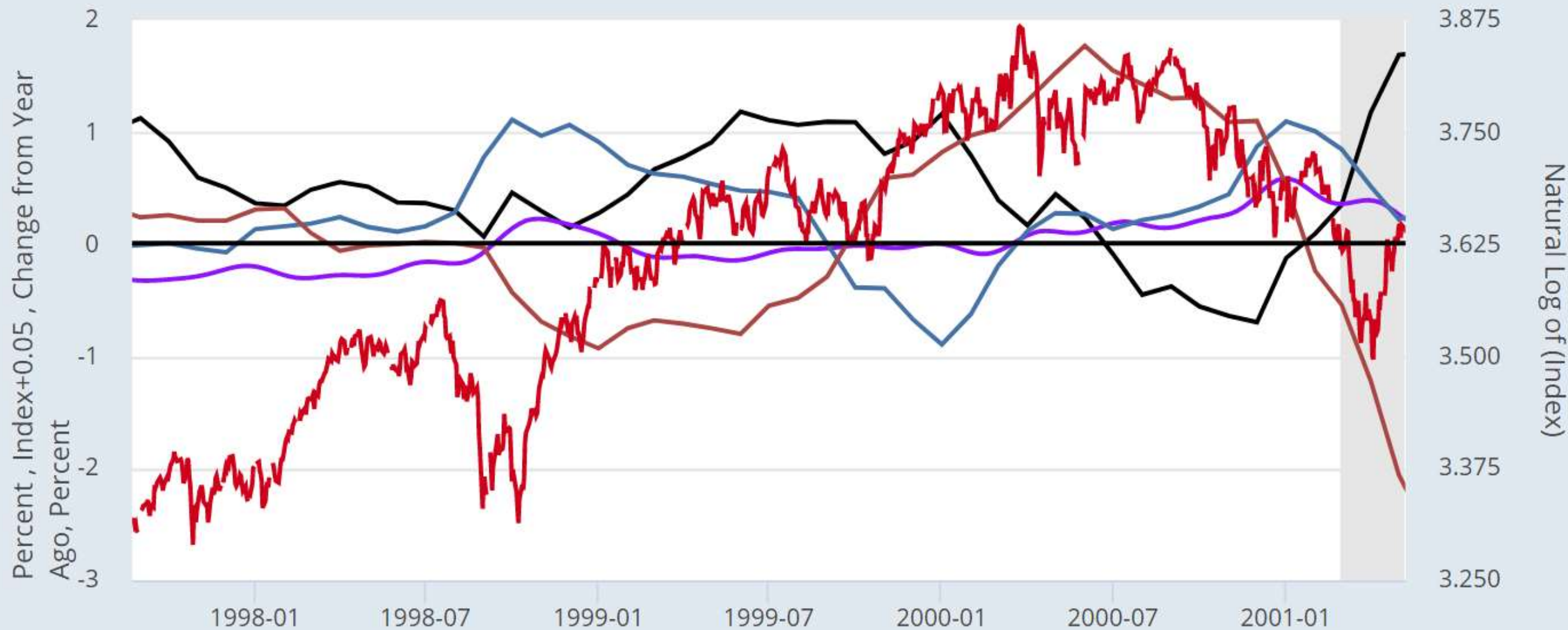
From [Wikipedia](#) · Last updated: 3 days ago



- 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity (left)
- Wilshire 5000 Total Market Full Cap Index (right)
- Chicago Fed National Financial Conditions Credit Subindex+0.05 (left)
- Moody's Seasoned Baa Corporate Bond Yield Relative to Yield on 10-Year Treasury Constant Maturity (left)
- Effective Federal Funds Rate (left)



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SPX bounced 68% after 1998 crisis



SPX has bounced 90% post covid



SPX has exceeded pre-covid high by 23%



Nasdaq exceed 1998 high by 224%



Nasdaq has exceeded pre-covid high by 44%



Nasdaq 100 Index - 1W - NASDAQ - D O 13970.83 H 14025.64 L 13716.76 C 13762.36 -279.55 (-1.99%)

13762.36 0.00 13762.36

VStop.18.high.4

ES1!, CME_MINI 4131.25 -45.00 (-1.08%)



USD

High 4816.35

Low 1063.27

ESM2021 14.81%



13762.36 0.00 13762.36

VStop..18 high.4

ES1!, CME_MINI 4130.75 -45.50 (-1.09%)



USD

High 14050.38
NDX 46.39%
23:19:51

ESM2021 24.21%

Low 6771.91



multiple = 30 would -> SPX > 5300 @ current earnings,
i.e. another 27% w/o earnings growth

CPATAX 15y P/E vs. 10y future returns

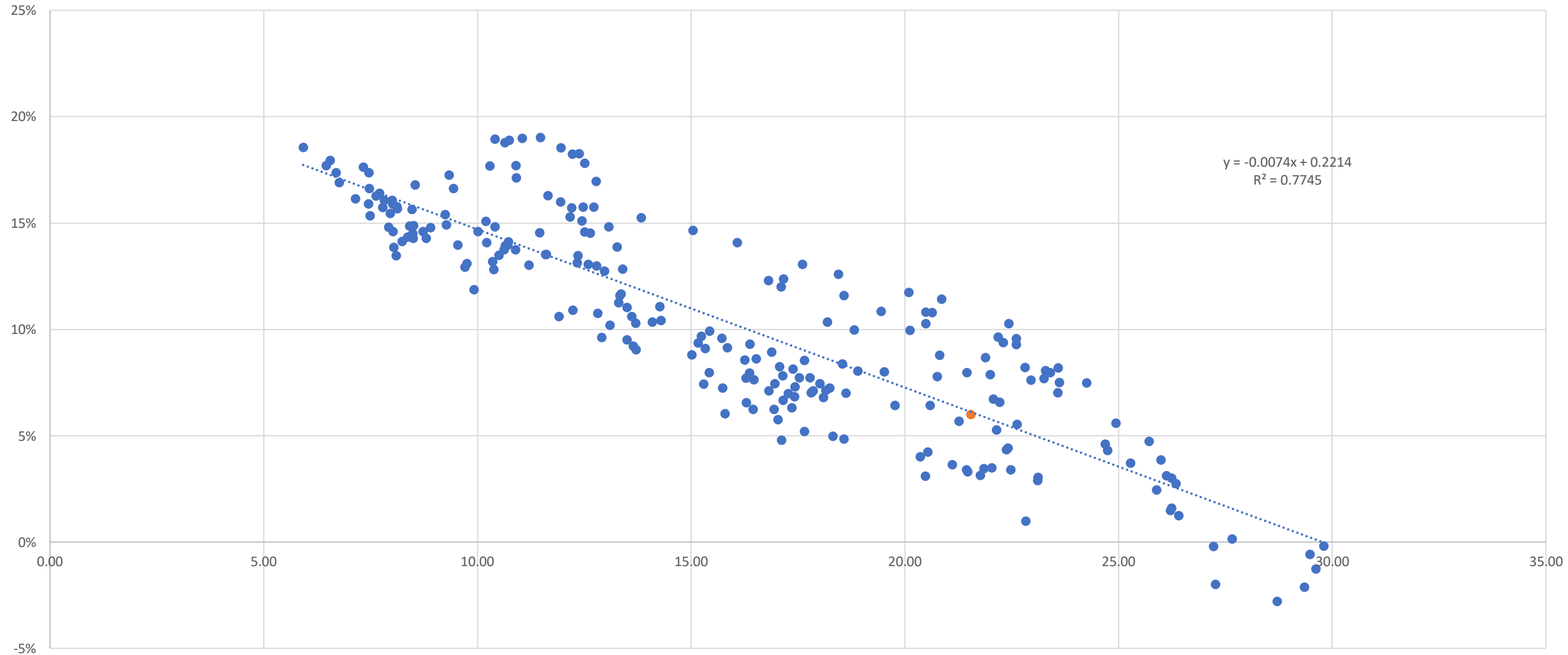


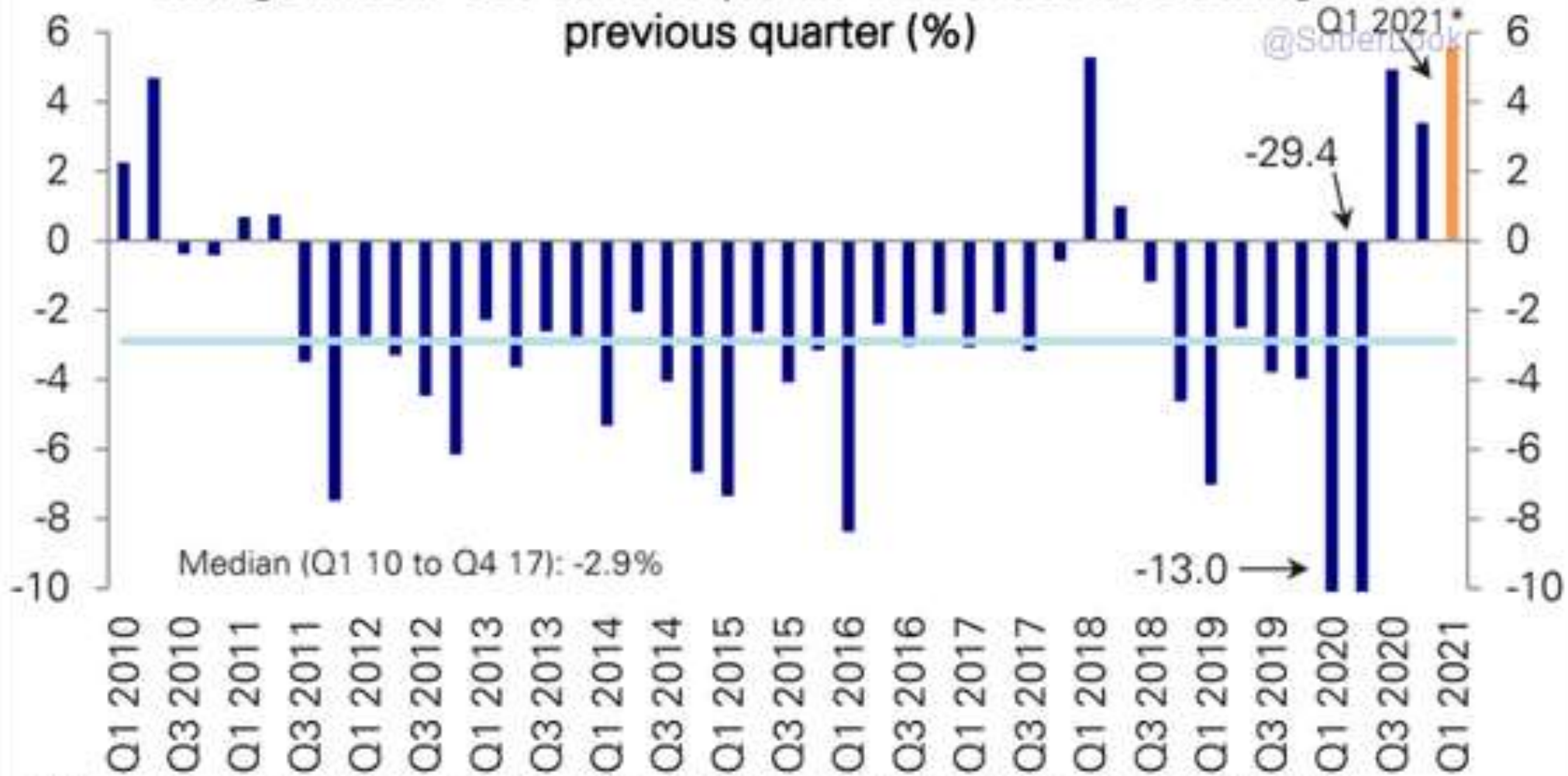
Figure 6: Q1 2021 has seen the largest upgrade to earnings estimates going into any earnings season over the last 10 years

Posted on
DailyShot.com

12-Aug-2021

@SuberBook

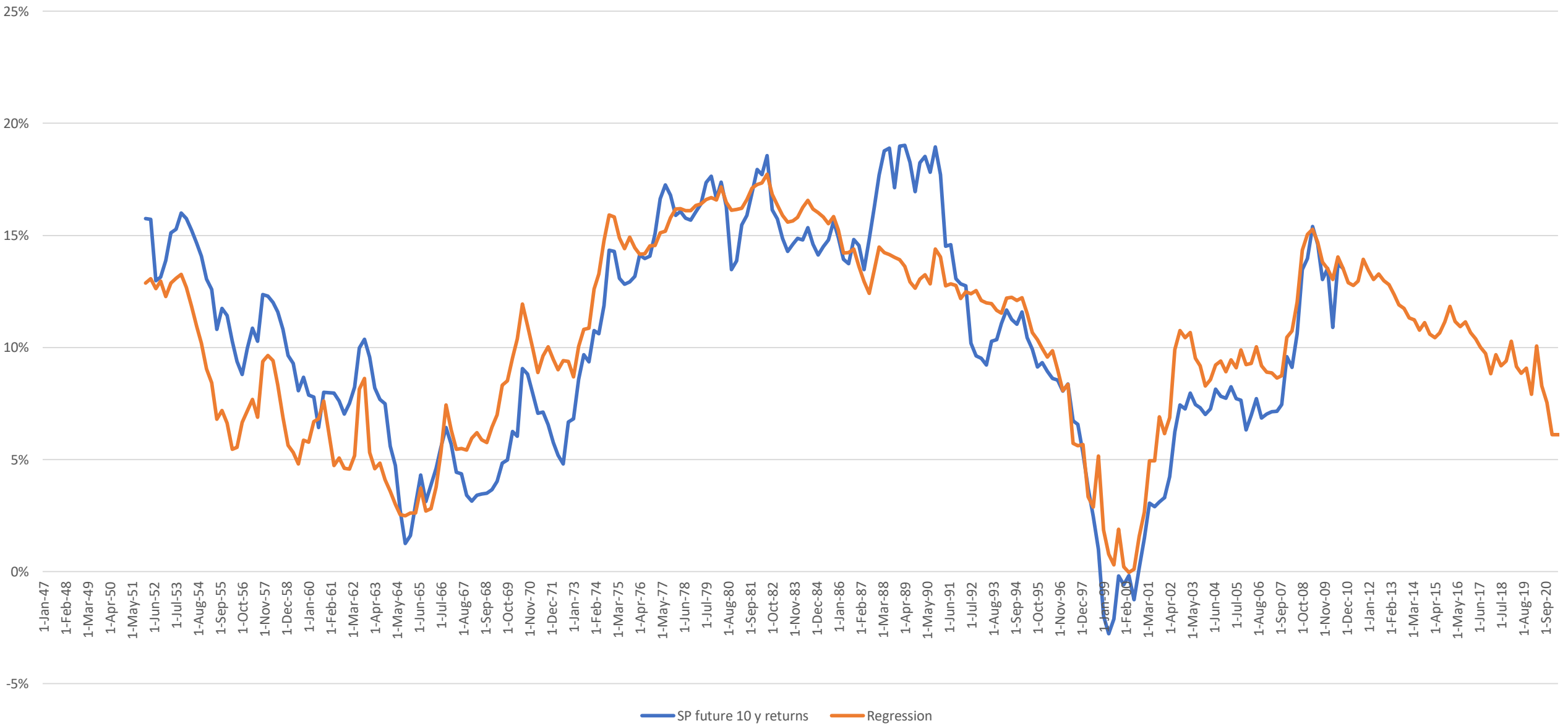
Change in S&P 500 current quarter consensus EPS during the previous quarter (%)



*Q1 earnings estimate change from Dec 30 to Mar 31 vs. comparable periods for previous quarters

Multiples suggest ~6% nominal over next 10 years

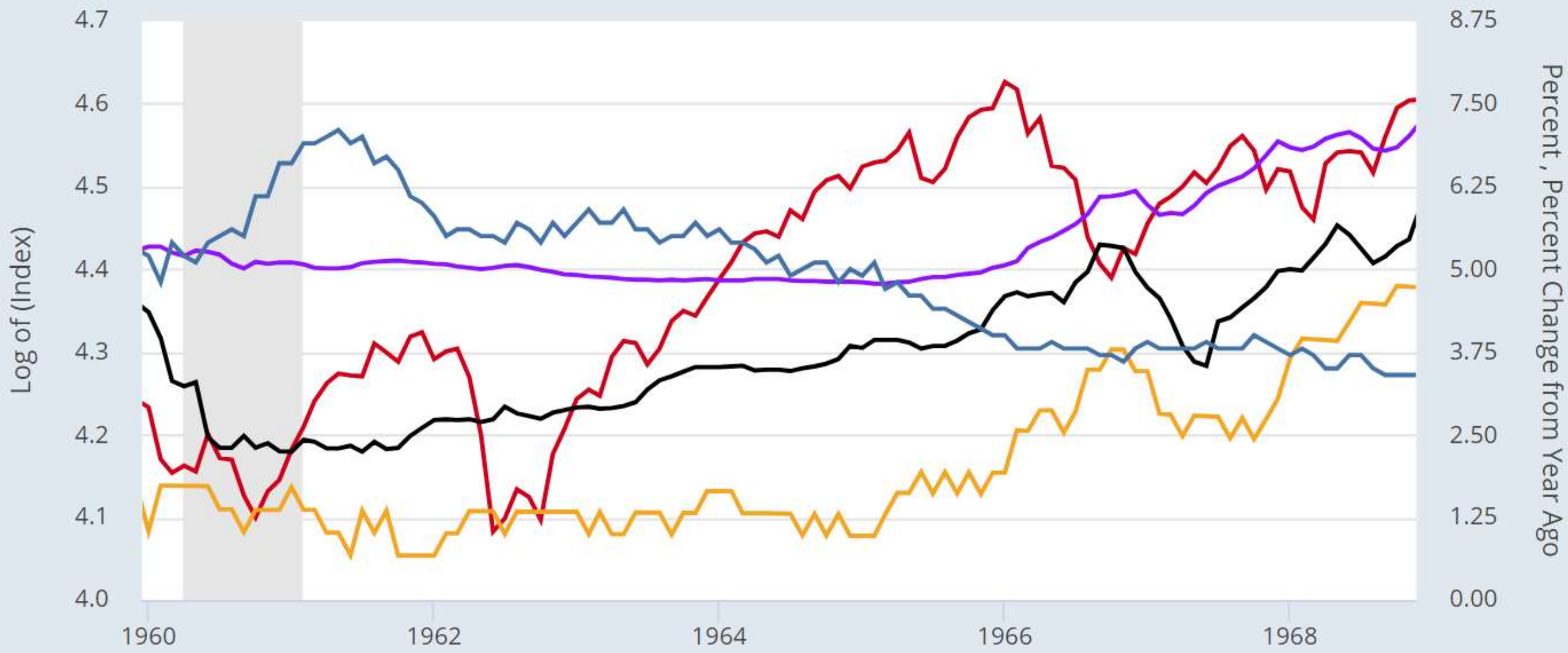
oct 64 multiple -> 4700 another 12%



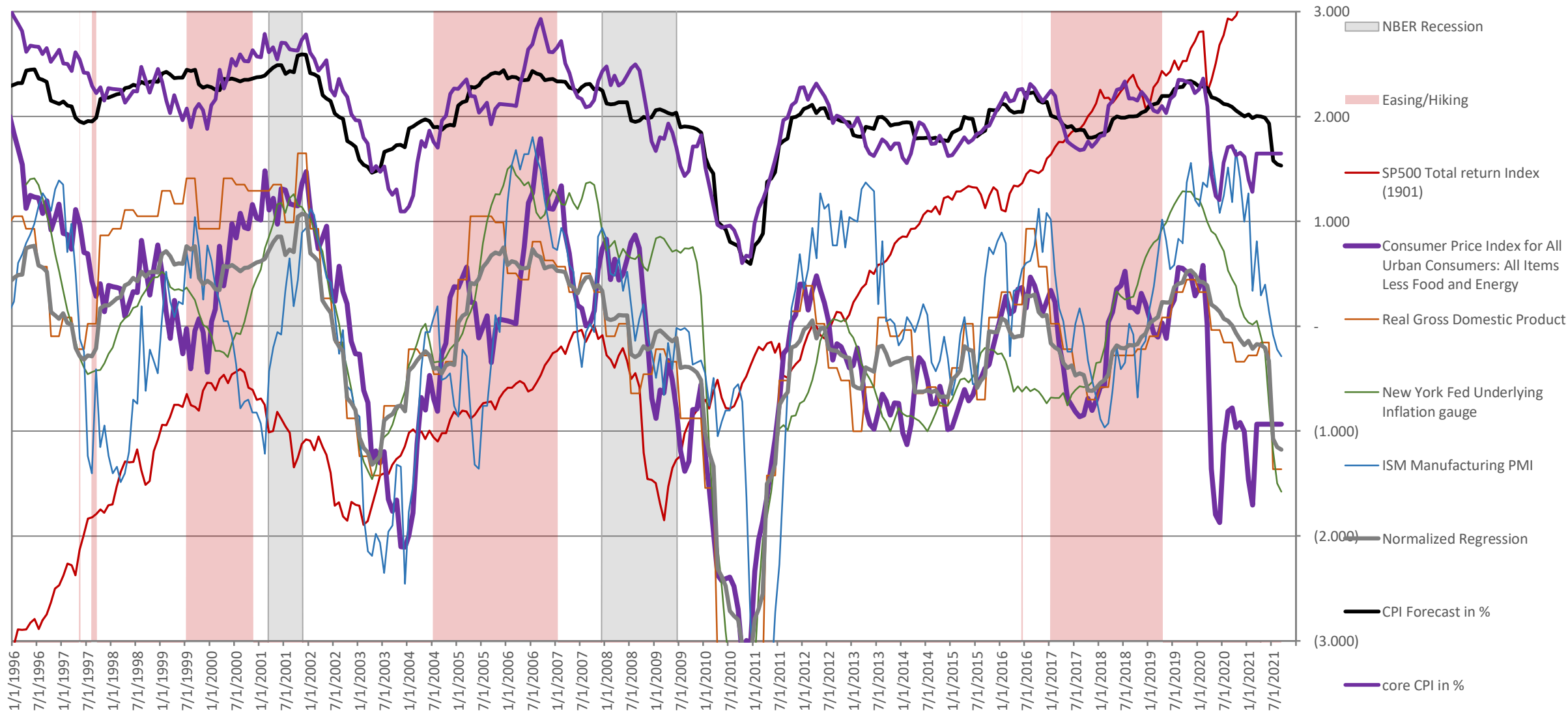
Oct 64 followed by stagflation



- Dow-Jones Industrial Stock Price Index for United States, Dec 1968=100 (left)
- 3-Month Treasury Bill: Secondary Market Rate (right)
- Consumer Price Index for All Urban Consumers: All Items in U.S. City Average (right)
- Moody's Seasoned Baa Corporate Bond Yield (right)
- Unemployment Rate (right)

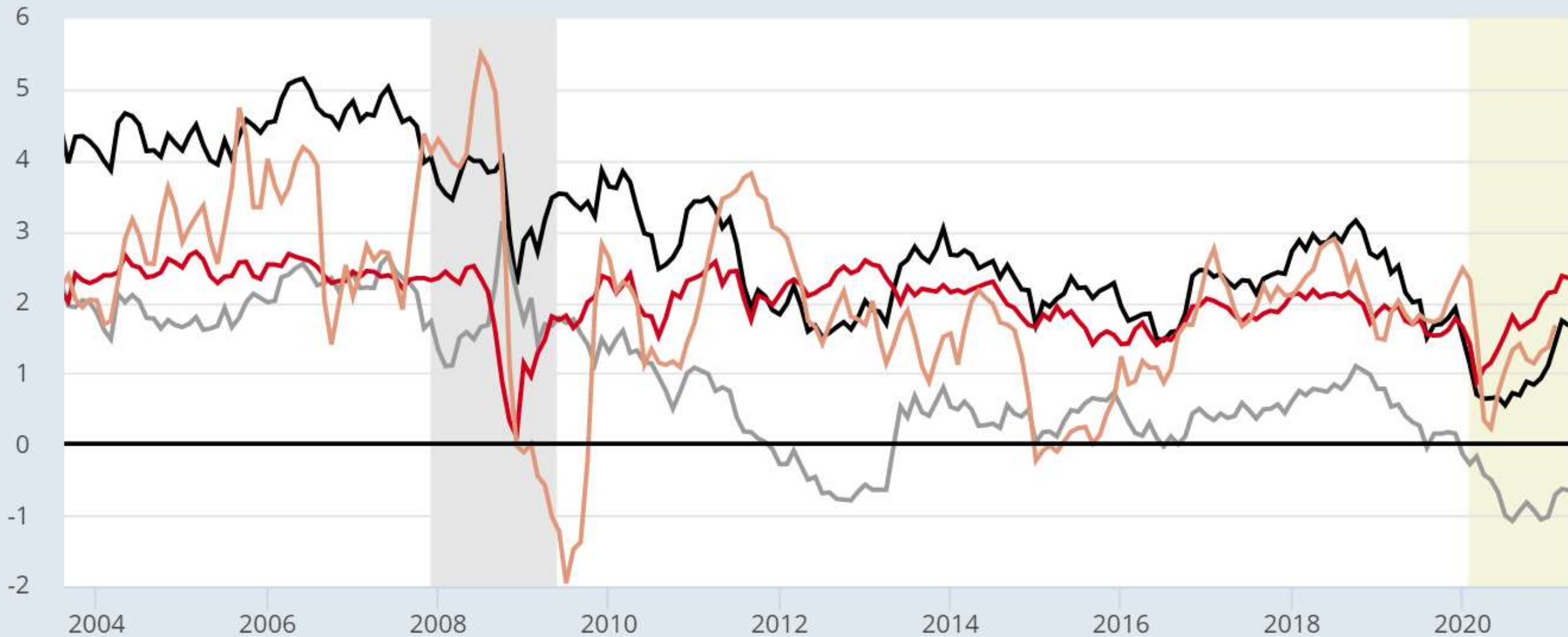


Inflation not a concern of the Fed



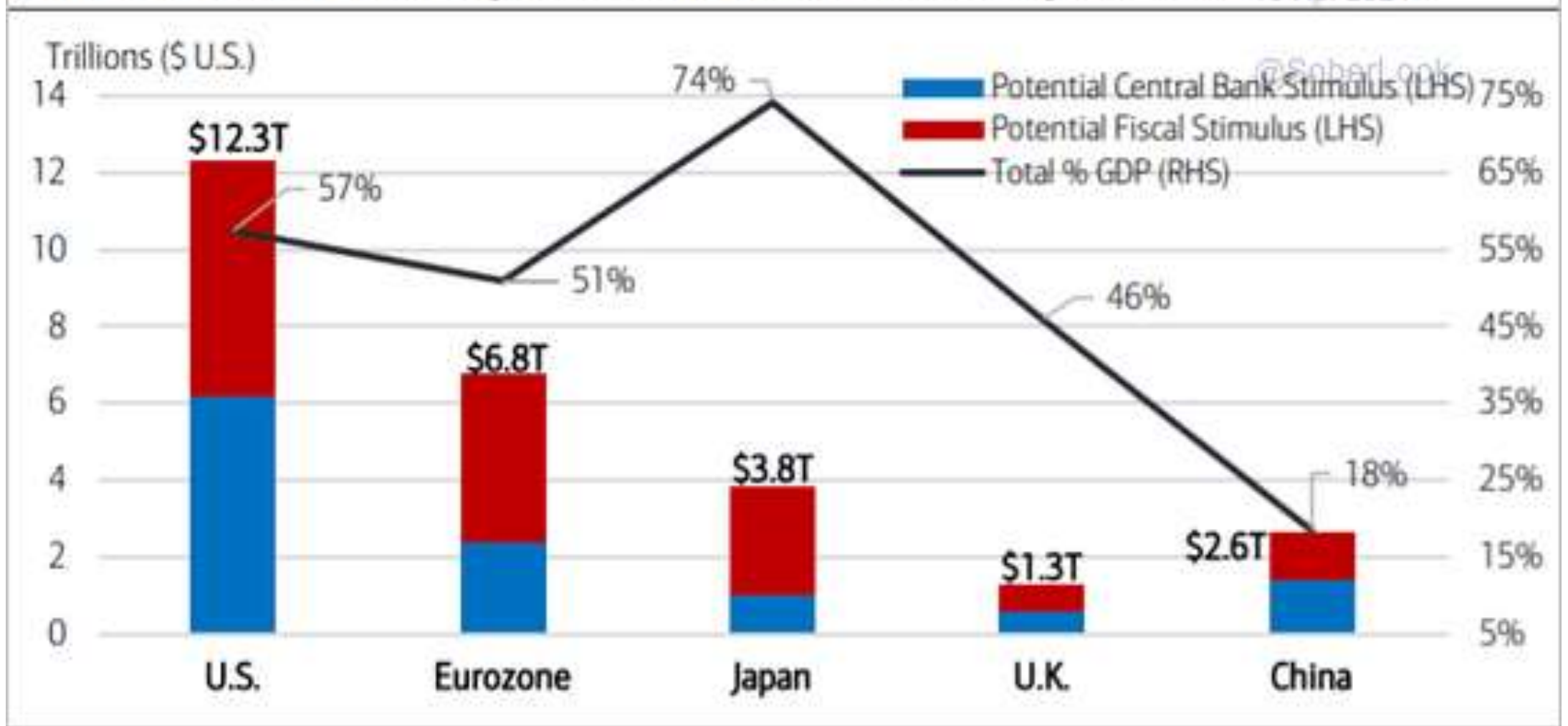
- 10-Year Treasury Constant Maturity Rate
- 10-Year Treasury Inflation-Indexed Security, Constant Maturity
- 10-Year Breakeven Inflation Rate
- Consumer Price Index for All Urban Consumers: All Items in U.S. City Average

Percent, Percent Change from Year Ago



US winner in terms of easing

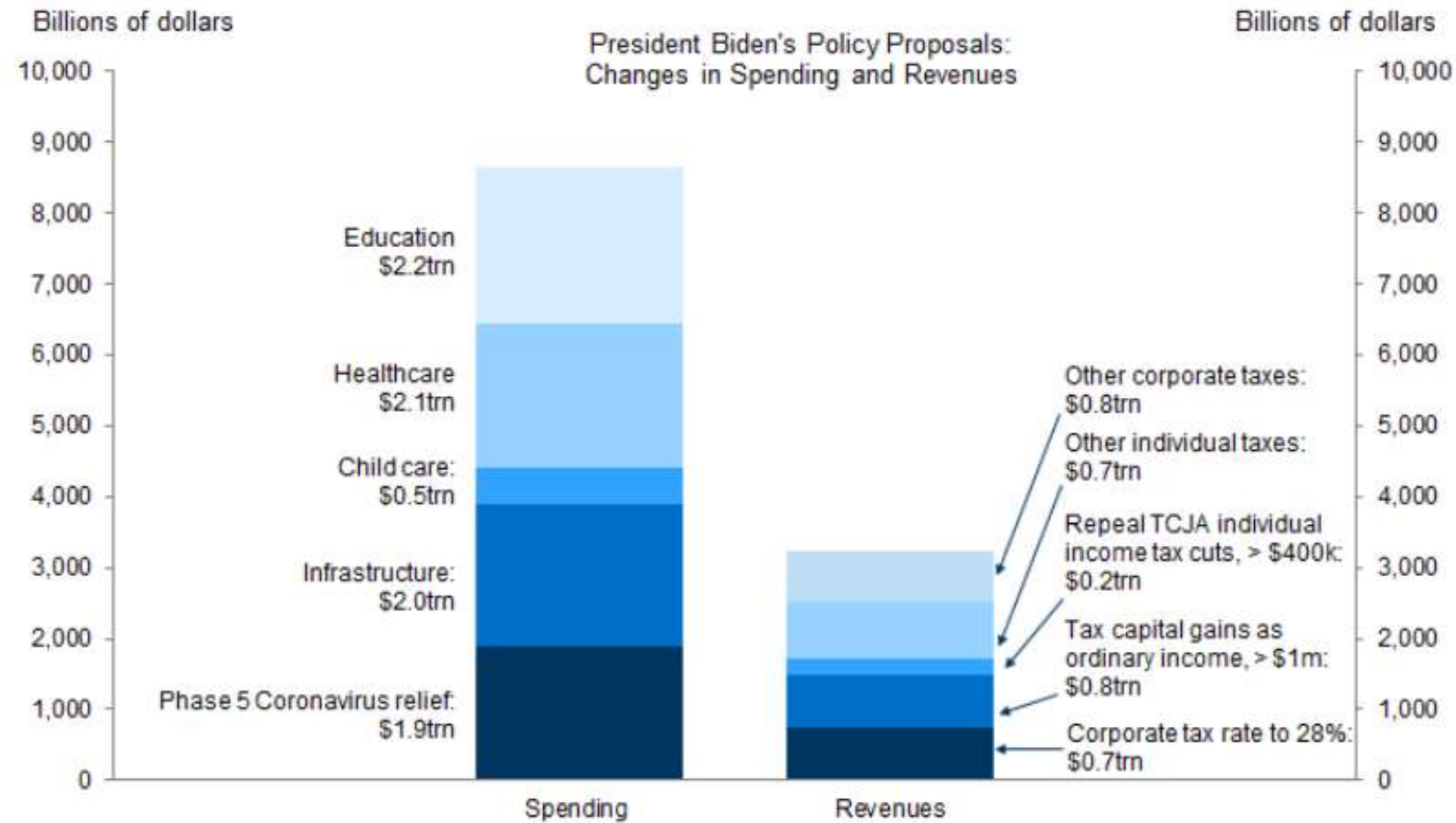
Exhibit 3: Global Monetary and Fiscal Stimulus February 2020–March 2021.



Source: Cornerstone Macro Research. Data as of March 31, 2021. Past performance is no guarantee of future results.

Biden plans to spend in Infrastructure

Exhibit 3: President Biden Has Proposed Several Trillion Dollars of New Spending Partially Offset With Tax Increases



	House of Representatives, 2020 (H.R. 2)	Biden Camp
Billions of dollars		
Transportation Infrastructure		
Highways	319	369
Transit	105	?
Passenger Rail	60	?
Air Transport	38	28
Water Infrastructure		
Clean Water	40	?
Drinking water	25	?
Construction/Retrofitting		
Health Facilities	30	?
Housing	189	300
Child Care Infrastructure	10	?
Schools	100	100
Building retrofitting	27	?
Bond Financing	84	?
Broadband	100	100
Clean Energy and Transportation		
Clean Transportation	70	?
Clean Energy	220	400
Other	85	?
Total	1500	2000

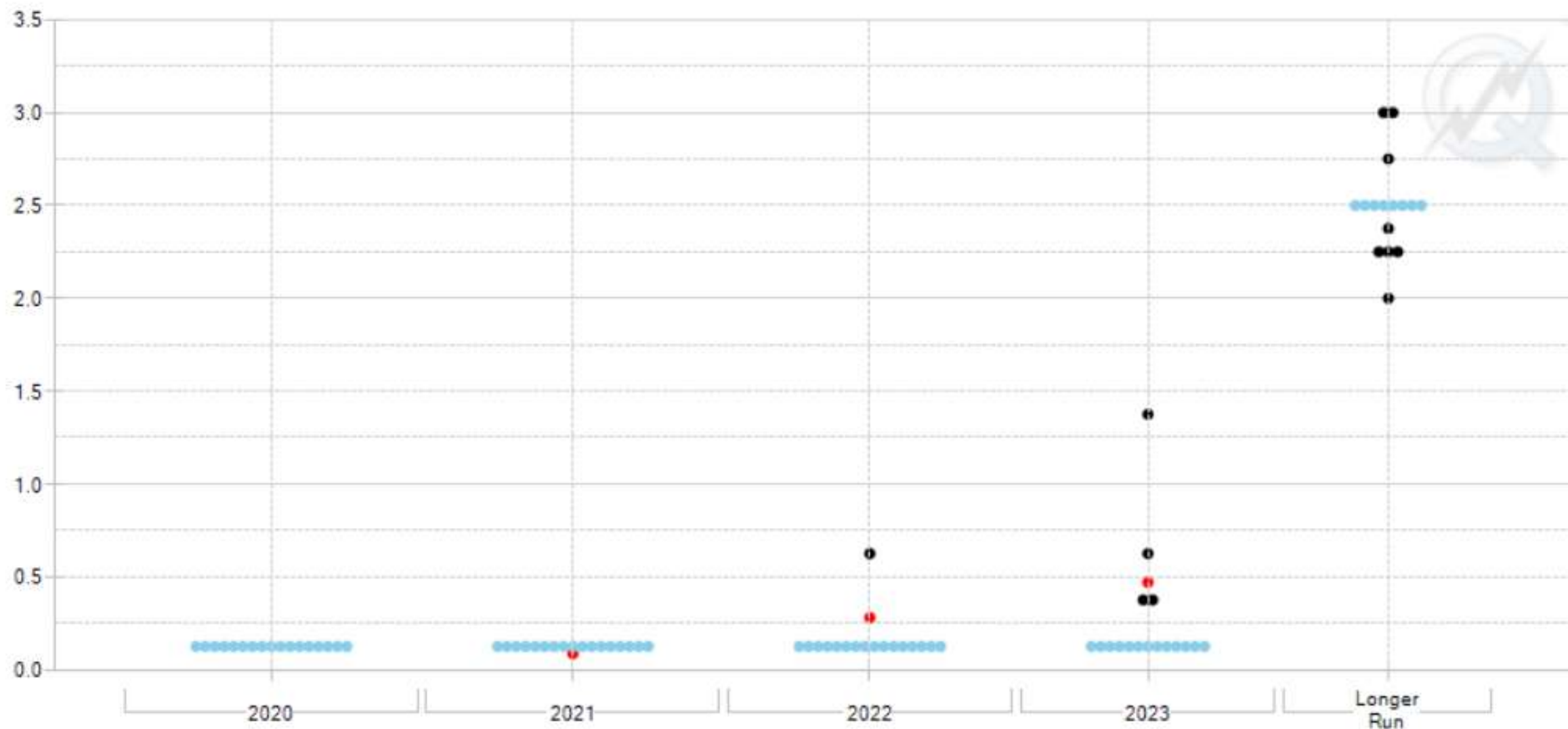
Source: Tax Policy Center, Center for a Responsible Federal Budget, Goldman Sachs Global Investment Research

Biden "American Jobs Plan" & "Made in America Tax Plan"

Policy	Description	Size	
		USD, Bln	%GDP
Spending & Tax Credits (Over 8 Years)		2,688	13.4%
Traditional Infrastructure		558	2.8%
Transport Infrastructure	\$115 bln for highways, \$85 bln for transit, \$80 bln for passenger rail, \$25 bln for airports, \$17 bln for ports/waterways	447	2.2%
Clean & Safe Water	\$45 bln to eliminate lead pipes and service lines, \$56 bln in grants/loans to states to upgrade water systems	111	0.6%
Clean Energy & Power		674	3.4%
Clean Energy Tax Credits	Renewable production and investment tax credits	400	2.0%
Electric Vehicles	Investments to expand domestic supply chains, retool factories, create 500K charging stations by 2030	174	0.9%
Electric Grid Modernization	Incl investment tax credit for high-voltage capacity power lines, tax credit for clean energy generation and storage	100	0.5%
Competitiveness		690	3.5%
Domestic Manufacturing	Incl \$52 bln for capital access programs, \$50 bln for semiconductors, \$46 bln in fed procurement for green energy, \$30 bln for pandemic preparedness (over 4 years), \$31 bln to small businesses, \$20 bln for regional innovation hubs	300	1.5%
R&D Funding & Incentives	Incl \$50 bln for a tech directorate at NSF, \$40 bln to upgrade R&D infra and labs, \$35 bln for climate R&D	180	0.9%
Workforce Development	Incl \$48 bln for apprenticeship and worker development programs, \$40 bln for dislocated worker programs	110	0.6%
Universal Broadband	Funding to expand coverage prioritizing underserved areas; goal is 100% "future proof" coverage	100	0.5%
Social Safety Net		766	3.8%
Elder & Disability Care	Expand access to home- and community-based care primarily through Medicaid program expansion	400	2.0%
Affordable Housing	To produce, preserve, and retrofit >2 mln affordable homes; eliminate exclusionary zoning policies	213	1.1%
Childcare & Schools	\$100 bln to retrofit schools, \$25 bln to upgrade childcare facilities, \$18 bln for VA hospitals, \$10 bln for fed buildings	153	0.8%
Tax Increases (Over 10 Years)		1,737	8.7%
28% Corporate Tax Rate	Proposal would return corporate rate to pre-Trump-tax-cut levels (currently at 21%)	700	3.5%
Tighten GILTI	Raise the effective tax rate to 21% from 10.5%, evaluate on country-by-country basis, eliminate QBEC and CBC	500	2.5%
Replace BEAT w/ SHIELD	Deny related-party deductions for foreign firms operating in US if their related party has a lower effective rate	200	1.0%
Repeal FDII	FDII effectively reduced tax rate on foreign-derived sales and service income to 13.125% vs corp rate of 21%	100	0.5%
15% Min Tax on Book Income	aka "Amazon tax"; White House fact sheet says will apply only to "the very largest corporations"	175	0.9%
Other Costed Measures	Restrictions on inversions (\$27 bln), repeal fossil fuel subsidies (\$35 bln)	62	0.3%
Non-Costed Measures	Onshoring credit, offshoring penalty, stronger IRS enforcement, revenue effects from base increase/erosion	---	---

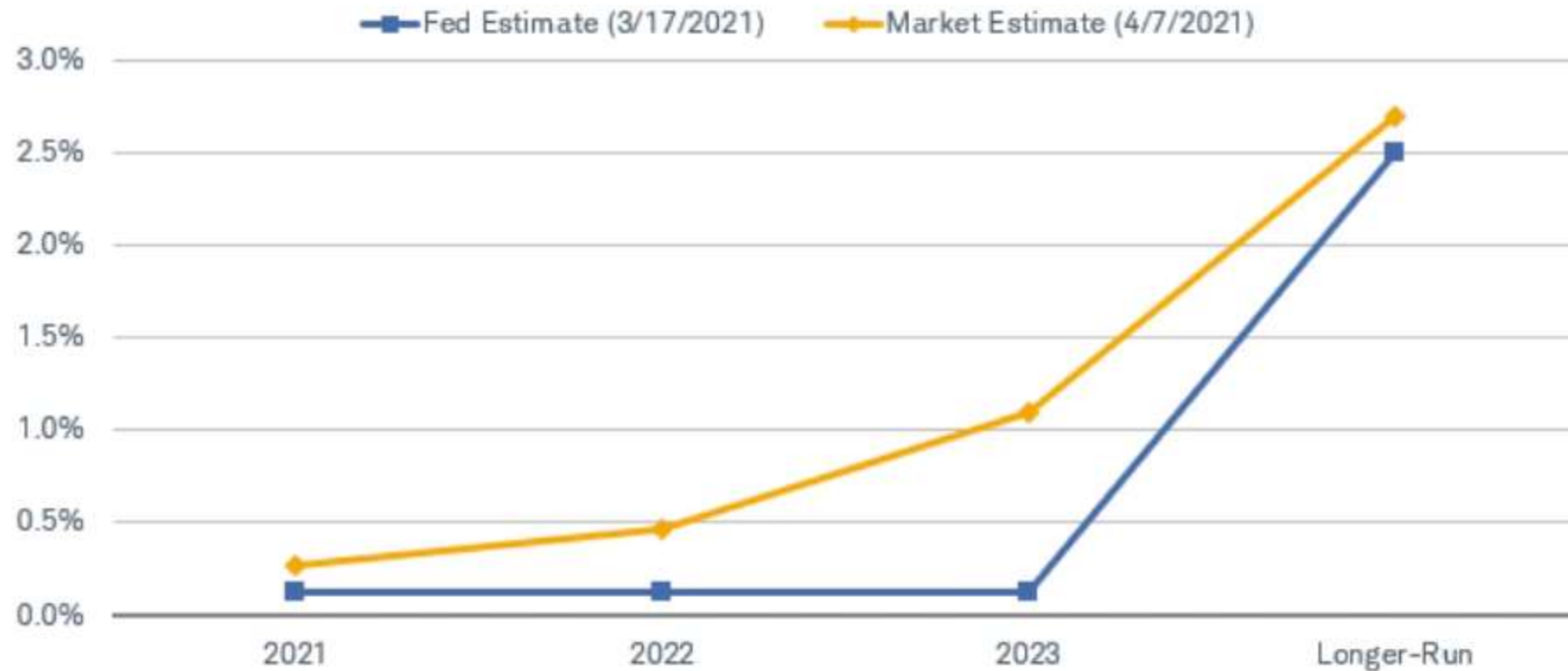
* Does not include cost estimates for all proposed tax changes

FOMC Participants' Assessments of Appropriate Monetary Policy : "Dot-Plot"



Blue dots indicate the median projection. Data is based on the economic projections published on September 16, 2020.
Red dots indicate the effective rate implied by the year-end FedFund future price.

The Fed versus the market



Source: Bloomberg. The market estimate of the federal funds target rate using Eurodollar futures. The term Eurodollar refers to U.S. dollar-denominated deposits at foreign banks or at the overseas branches of American banks. The 12/15/2027 Eurodollar futures rate was used for the longer-run market rate. As of 4/7/2021.

Some inflationary pressure

Fed's Bullard Says 75% Vaccinations Would Allow for Taper Debate



Taxes could hit highest flying stocks

