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**2H Outlook:  
Opportunity Beckons In EM Laggards**

June 9th, 2021

# Summary

- Covid Speed's breakneck pace has ebbed somewhat as markets tread water, reopenings proceed & vaccinations continue. I expect this to be the pause that refreshes, remain constructive on risk assets & think recent high beta/thematic price action is a "tell" that suggests the next move will be higher.
- How the various Dueling Dualities (physical price pressures vs "digitalization of everything", Record MS growth vs nonexistent velocity etc) resolve will help provide NT direction.
- We enter Summer with staggered global reopenings; we will exit the year in a synchronized global economic recovery that is supportive of higher stock/commodity prices & DM rates.

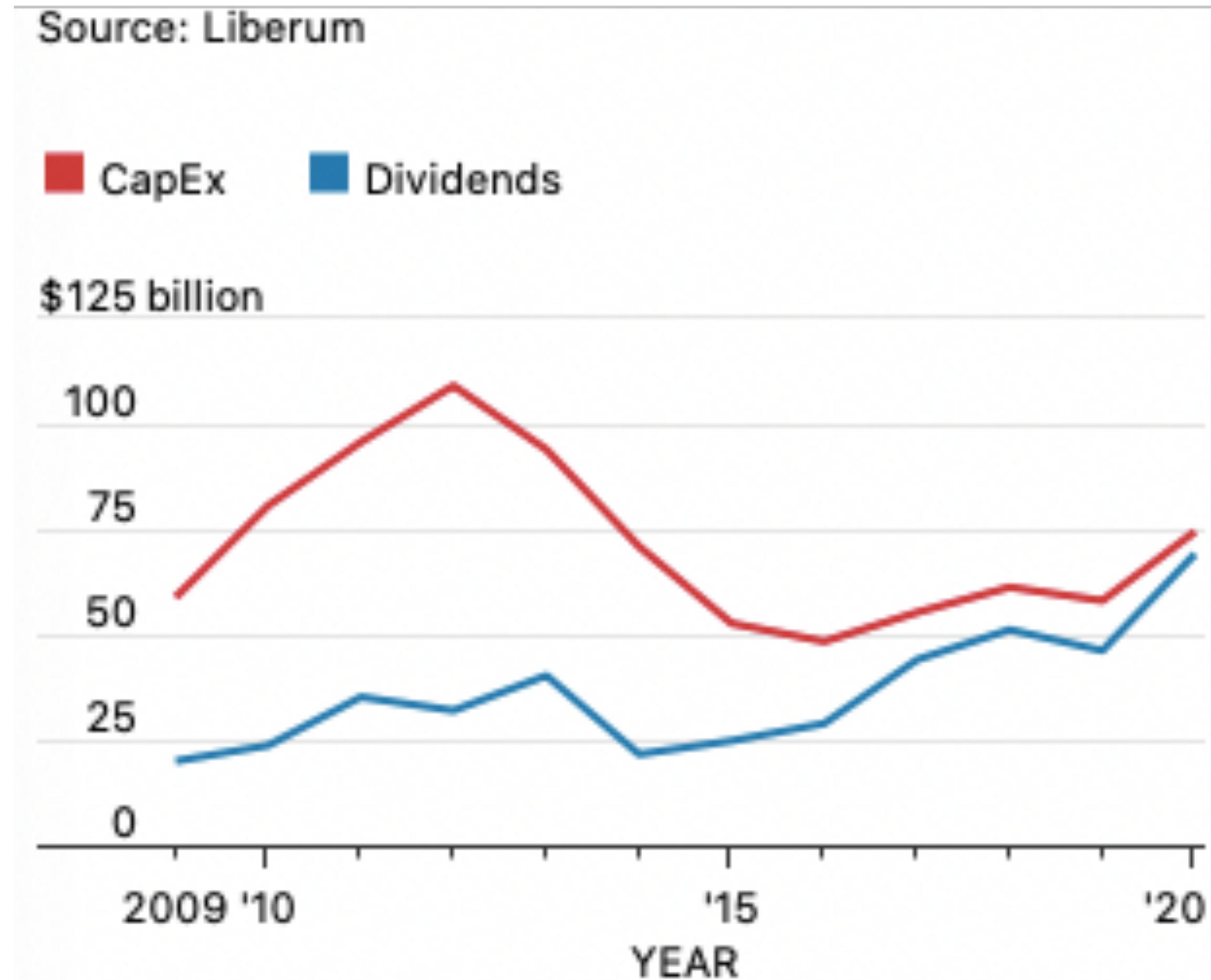
# Climate

**From Health to Climate, from a one year market event to a decades' long focus.**

- With Covid no longer driving either economies or markets, I replace Health with Climate. If Covid was a one year event (for markets), Climate will be a decades long process – one investors need to understand and invest in.
- As such its perhaps not a surprise that in our new 100% thematic global model portfolio – The TPW 20 - Climate is the single biggest thematic category.
- Two takeaways: first, the acceleration of climate related action will continue as stakeholder concerns and ESG disclosures push the pace – see Exxon's recent AGM. Second, ESG related financing caps & rising demand for clean energy related commodities will result in a S/D imbalance that only price can fix.

# Climate

Will ESG Financing Concerns Further Limit Miner CapEx?



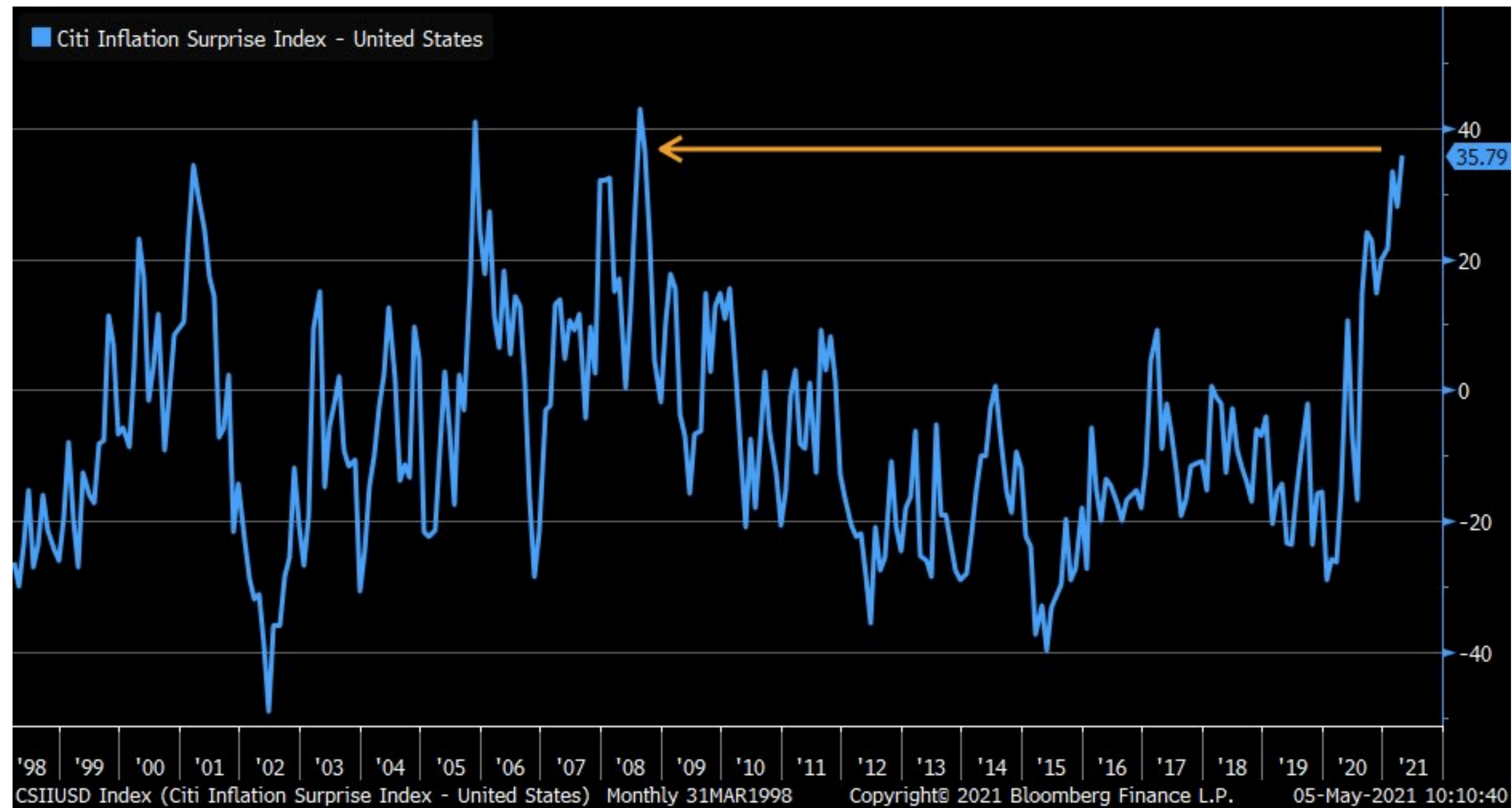
# Economics

**From staggered reopening to synchronized global recovery that will drive risk assets higher.**

- The great inflation debate will not be answered in the next few months – “testing time” remains late Summer, early Fall with clean data & thin markets. I see embedded inflation risk as low given large labor pool, rising productivity, easing bottlenecks and peak US growth already upon us.
- Net – net, expect a sustained and increasingly synchronized global recovery cycle that starts to look more normal as we exit 2021. Inflation fears may continue but much should be in the price given taper talk and positioning.

# Economics

Peak Inflation Worries?



# Politics

The Economist's Brazil Cover is a Classic Contrarian Indicator - absolutely classic!

- Europe and Asia take the lead here as Boring Joe Biden just gets the job done. Expect further Biden Admin legislative gains in the months ahead.
- Watch German and Japanese leadership contests for key state direction. China's CCP Centennial suggests stability there.
- Latin American politics remain depressing but it's all in the price as FX stabilizes and equities bottom.



# Policy

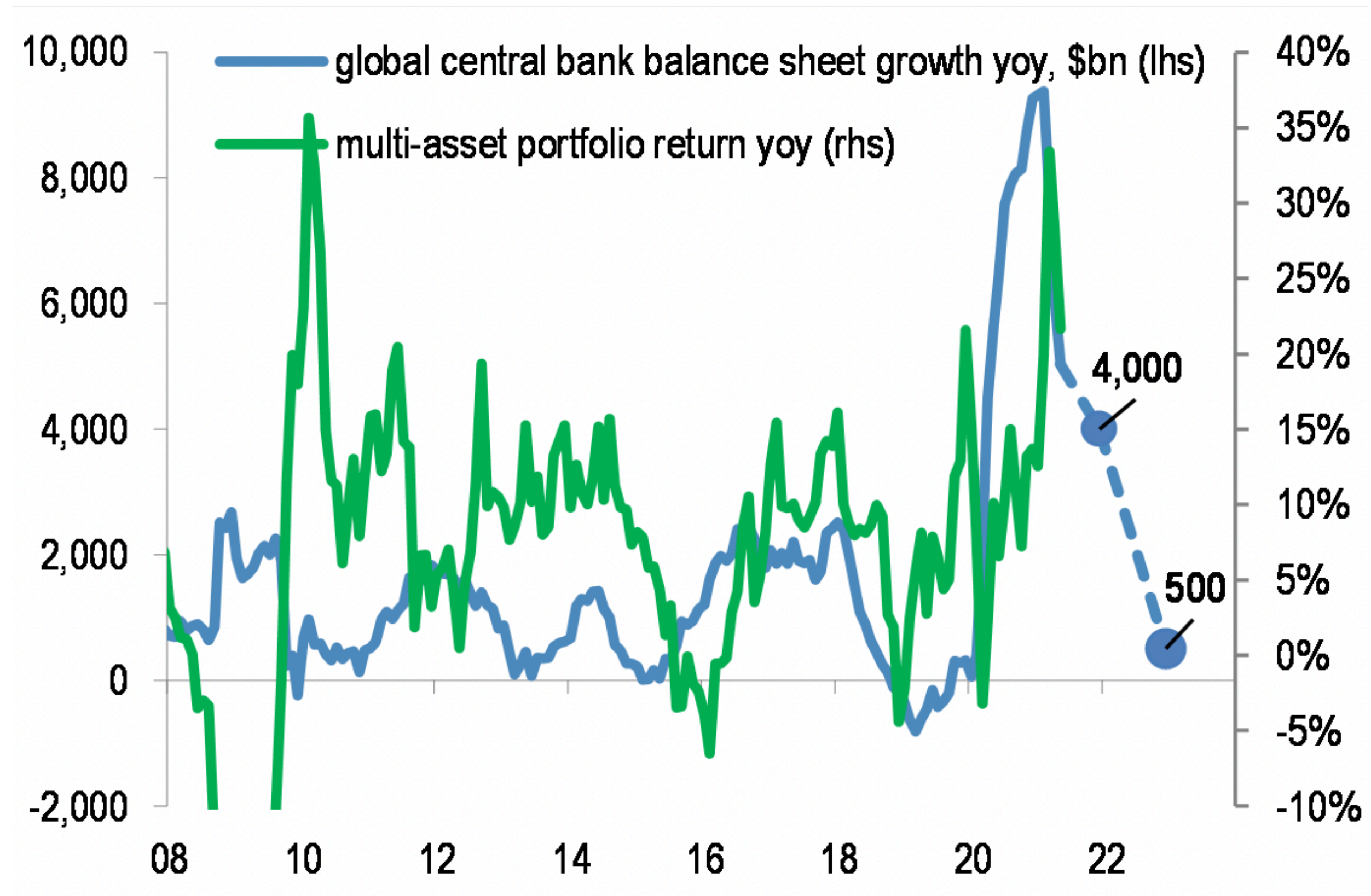
Against all odds, a quiet summer ahead?

- Notwithstanding all the ink spilled expect policy to be relatively quiet over the summer. Fall picks up with the Fed's Sept meeting, Europe's Joint Recovery Fund (JRF) disbursements and November's UN Climate Conf (COP 26).
- Fed can & will be patient given that peak US growth is already upon us & the bond market is not buying the embedded inflation story.
- While early its perhaps worth starting to consider what follows the mother of all fiscal stimulus – perhaps the mother of all fiscal contractions? Note EC has said EU fiscal rules relaxed thru 2022.



# Policy

Market Transition from Liquidity Driven to Earnings Driven Doesn't Have to Mean Negative Returns



Source: JP Morgan

# Markets

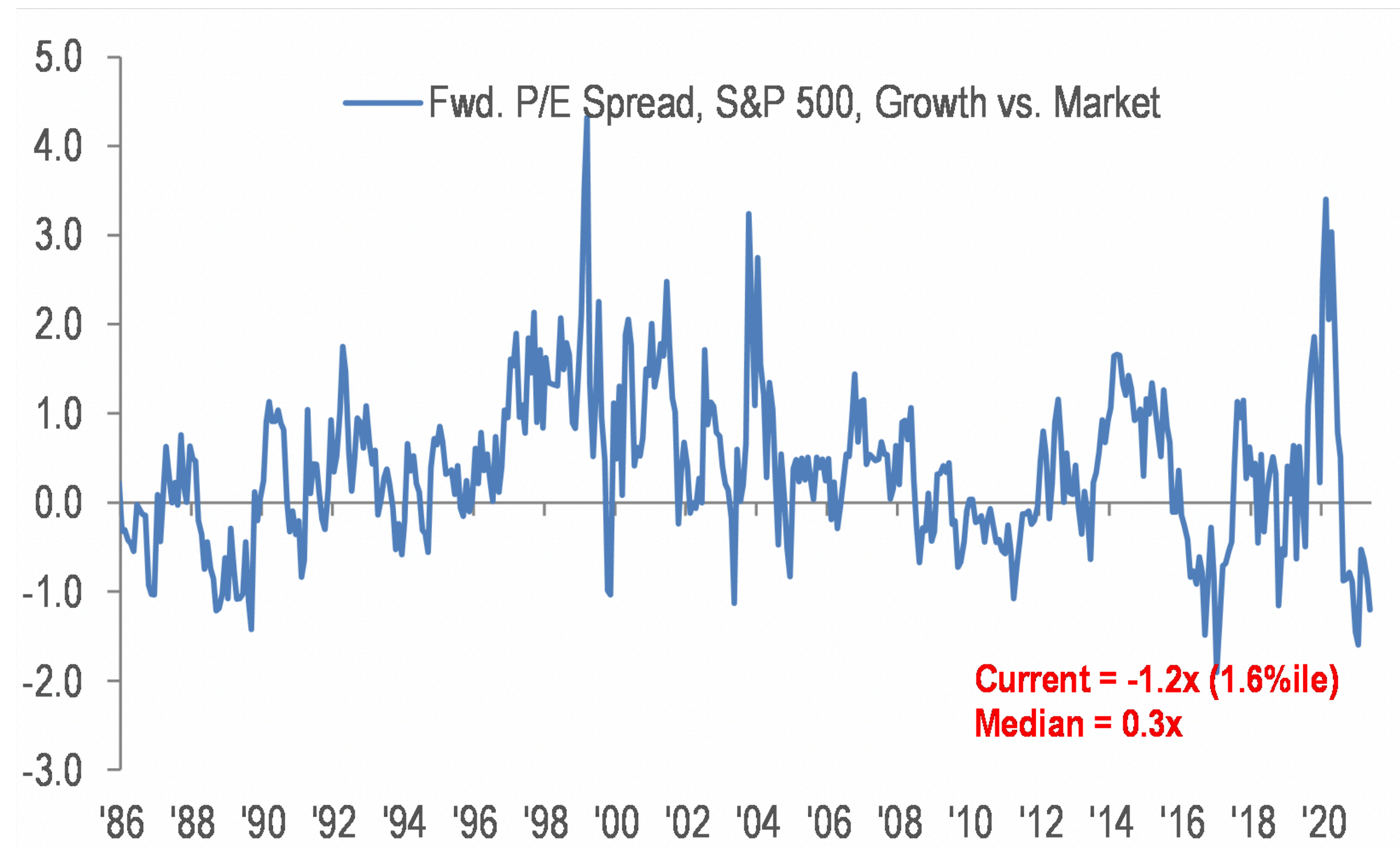
Next leg higher led by Laggards like Japan, Latin America?

- Staying invested & riding through the occasional “pothole” has been and remains the right investment approach. Public market bubble talk is misplaced. The cross asset pause that refreshes will likely lead to higher equity prices as the earnings supported, twin engine Growth and Value led markets move higher.
- ACWX has been in a 10% range since January, expect it to break higher led by European/Japan equity and EM laggards like Latin America.
- Be careful not to exit new leaders ( Value, Non US equity, Commodities) too soon - years of underperformance will not be made up in a quarter or two.
- Here’s a few stats from JPM to blow your mind: On a PE basis, US Growth has not been this cheap vs the SPY in 35 years while over the same 35 year time span US Growth & Value have never been as highly correlated.



# Markets

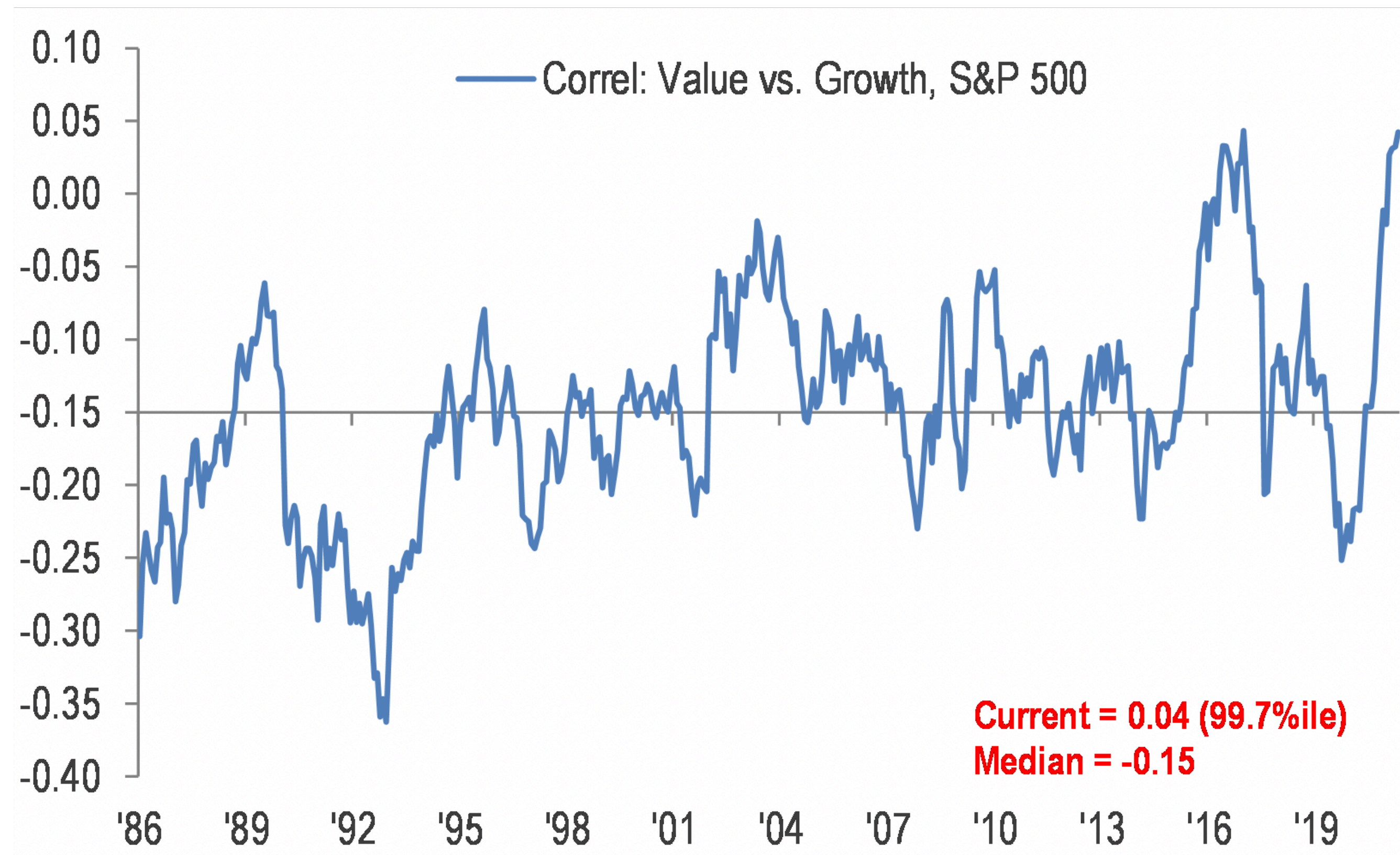
Growth At a Once in 35 Year Reasonable Price



Source: JP Morgan

# Markets

Value AND Growth = Twin Engine Equity Markets



Source: JP Morgan



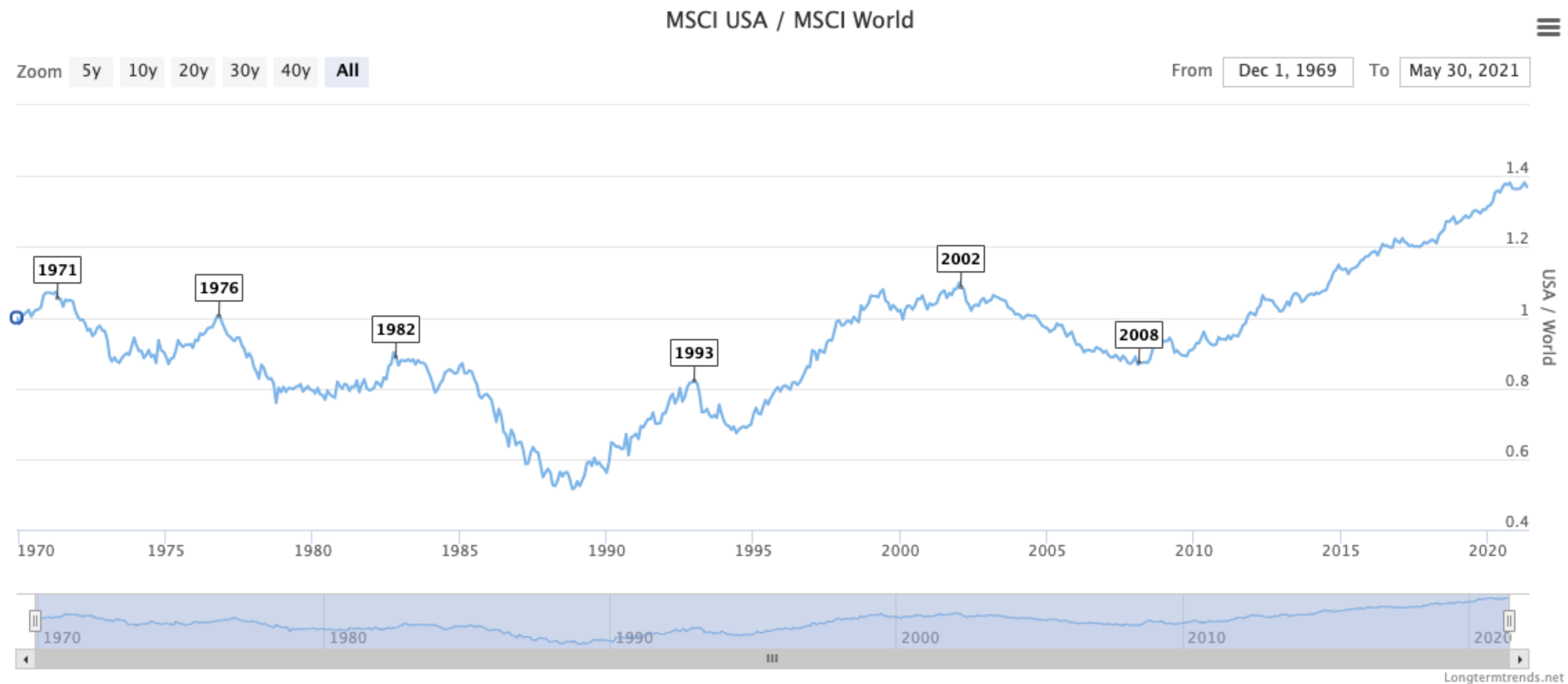
# Markets

- With selling exhausted in the high beta and thematic names, inflation fears overdone as signaled by UST break evens & softening commodity prices continued strong EPS growth could lead to further equity appreciation as the path of least resistance and maximum pain as inflation bears throw in the towel. Could the end of the inflation debate be BULLISH?
- Crypto Carnage likely to impede the institutional adoption of coins somewhat while perhaps setting up the digital pick & shovel opportunity.
- Synchronized global growth ensures Commodity price gains have only paused not reversed and same with the upward direction of DM Sov rates. Expect the UST 10 yr. to work towards 2% and the German BUND to reach zero by YE.
- FX is the last major asset class to have a big move in 2021. Expect just that in the 2nd H as the USD continues to weaken, especially against select EMFX like China's Yuan (3 yr. High vs USD) and Brazil's Real.

# Markets

Don't Sell New Leadership Too Early

## US Stocks vs. The World



# Markets

Laggards to Lead 2H





# Markets

## Negative Net Flows to Brazil YTD

**Table 3: Net fund flows to DM easily outpacing EM**

Global equity flows by region

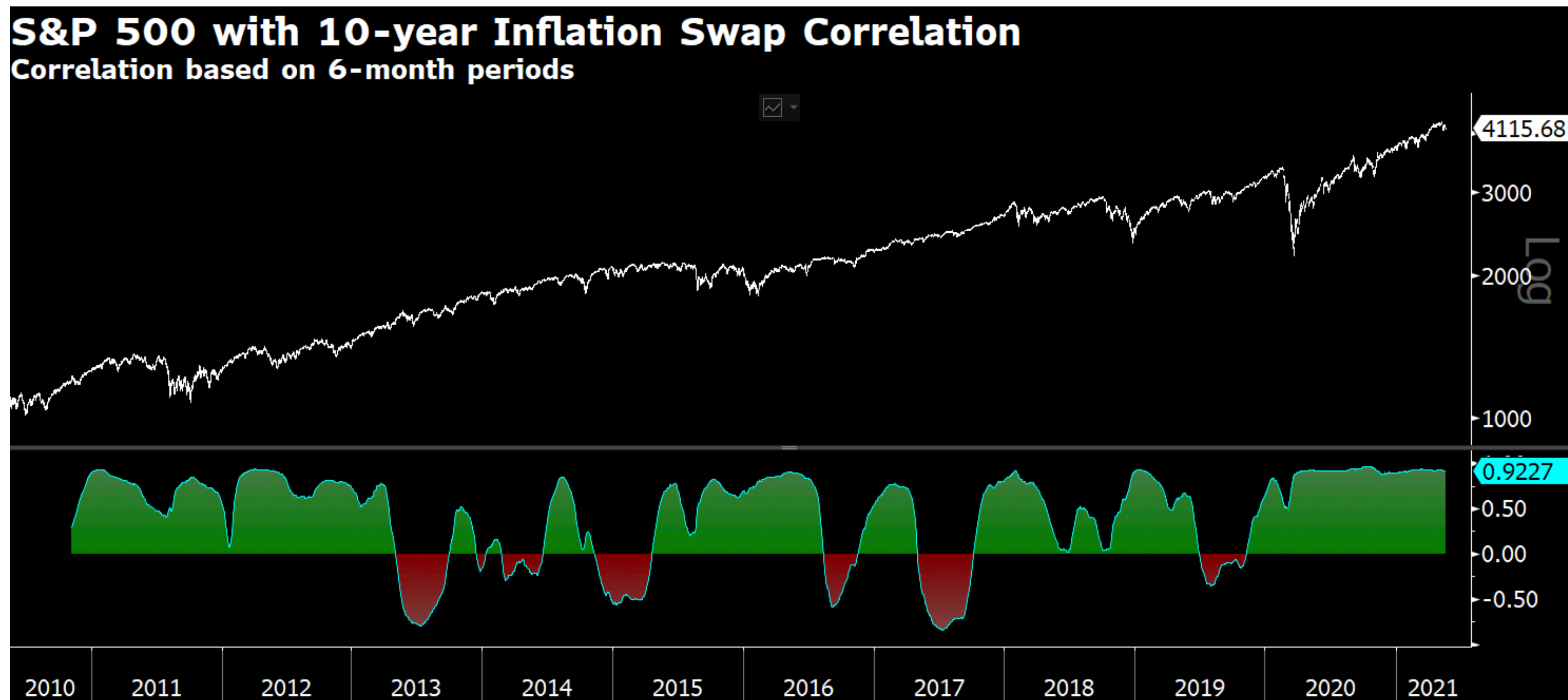
	Wk % AUM	YTD
<b>Total Equities</b>	<b>0.1%</b>	<b>512,421</b>
long-only funds	0.0%	109,214
ETFs	0.3%	403,095
<b>Total EM</b>	<b>0.0%</b>	<b>74,846</b>
Brazil	0.3%	-146
Russia	-0.7%	-30
India	-0.3%	-1,648
China	-0.1%	20,666
<b>Total DM</b>	<b>0.1%</b>	<b>437,576</b>
US	0.1%	188,590
Europe	0.2%	7,665
Japan	0.0%	18,556
International	0.2%	215,562

Total Equities = Total EM + Total DM

Source: EPFR Global

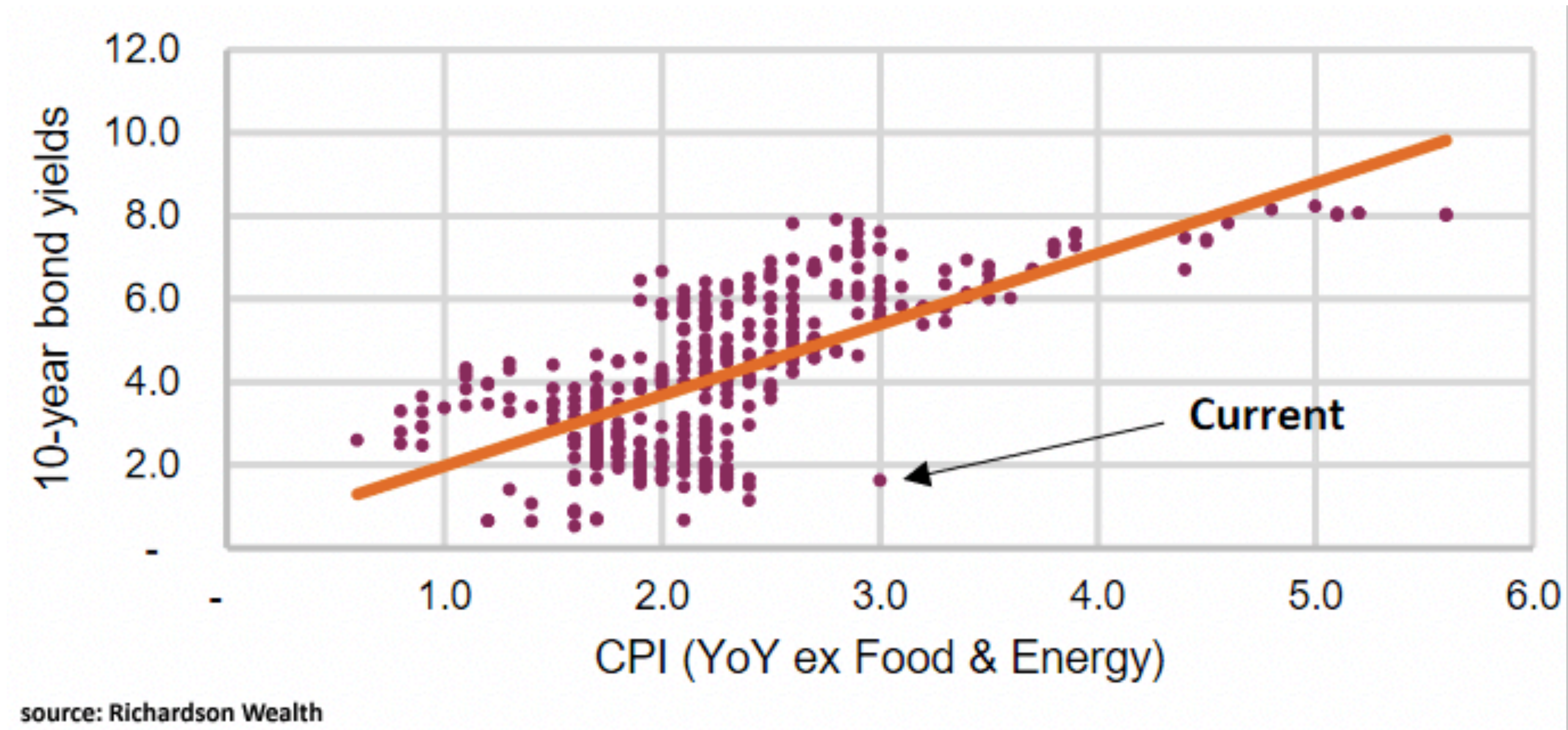
# Markets

EQUITY & FI: Equity Investors Focused on LT Inflation Risks



# Markets

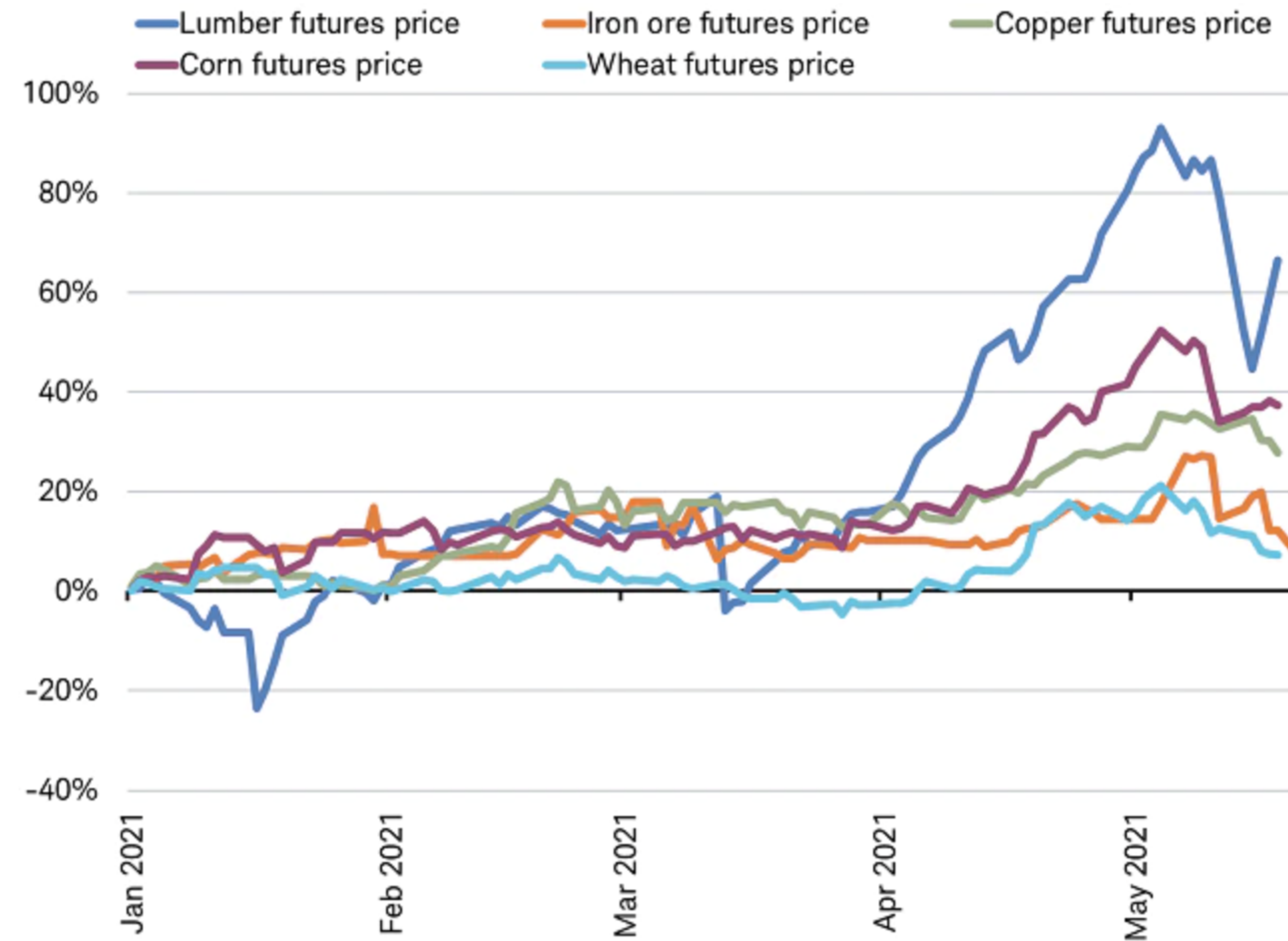
Bond Investors Aren't Buying the Embedded Inflation Story





# Markets

## COMMODITIES: The Pause That Refreshes



Source: Charles Schwab, Bloomberg data as of 5/21/2021

# Markets

## USD Weakness to Drive FX Volatility?



# Markets

BTC - Its All About the Attitude

