05/05/2021: Crypto Killed The Equity Star...

Yesterday Yellen was quoted saying:

> *It may be that interest rates will have to rise somewhat to make sure that our economy doesn't overheat, even though the additional spending is relatively small relative to the size of the economy.*

Yellen is no longer at the Fed, she's the Treasury Sec. Not quite sure why she's opining on interest rate policy. Either way, the market wasn't having it and stocks went on sale for the day with the Qs falling over 2% at one point.

She later clarified her comment saying essentially that she doesn't expect inflation or a rise in interest rates anytime soon… the Fed's got everything under control… yada, yada, yada...

I'm guessing Powell wasn't too happy with the administration stepping into his lane. He wants to run this sucker hot and talk like that from a powerful official can kill this goose before it has time to lay the golden FAIT egg. All-in-all, a silly overreaction to an out-of-context soundbite from a non-FOMC member. We'll see similar reactions down the road until the market gets it in its noggin that we're in a new mon-pol paradigm now.

Two interesting points from yesterday (1) we got technical confirmation of trend fragility by the show of over-positioned weak hands liquidating on lame news and (2) when the time comes for the Fed to signal tightening… watch out.

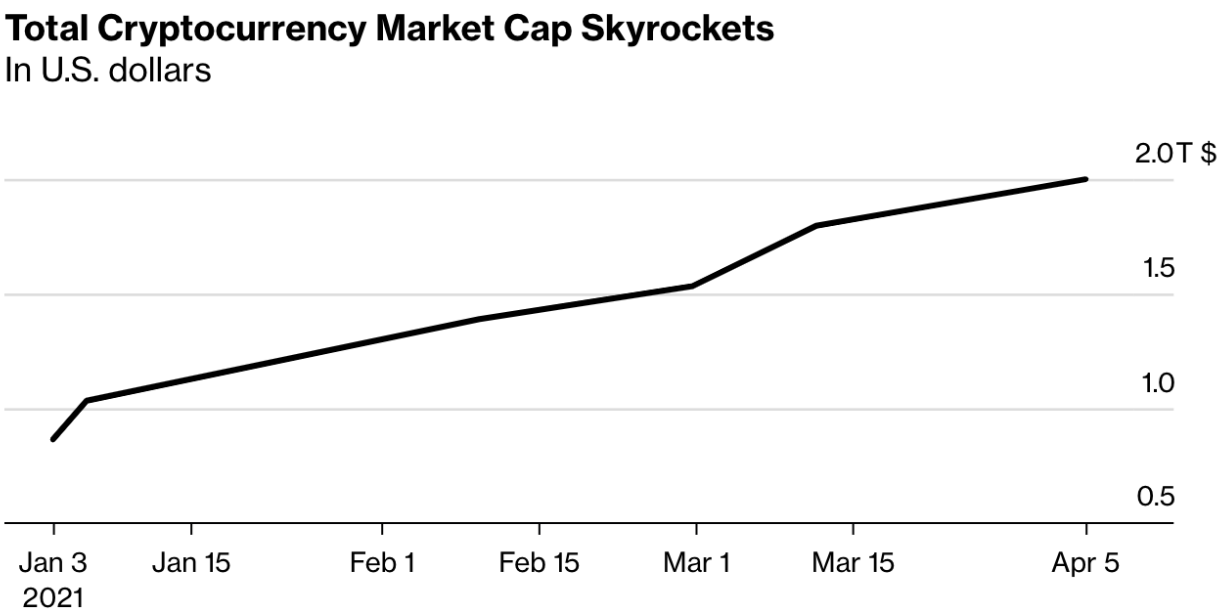
Here's the short and sweet of our current signposts.

- Bull Volatile action in the major indices
- Stretched sentiment/positioning marks high trend fragility
- Breadth is still positive but has weakened this week (need to watch this closely)
- Credit has also weakened but there's not much of a divergence yet (something else we need to keep an eye on)

In the latest *Trifecta Report,* I mentioned how the market gain of over 5% in April, following a positive month, is characteristic of a buy climax. And monthly returns like these often lead to poor performance over the following 2 to 3 months.

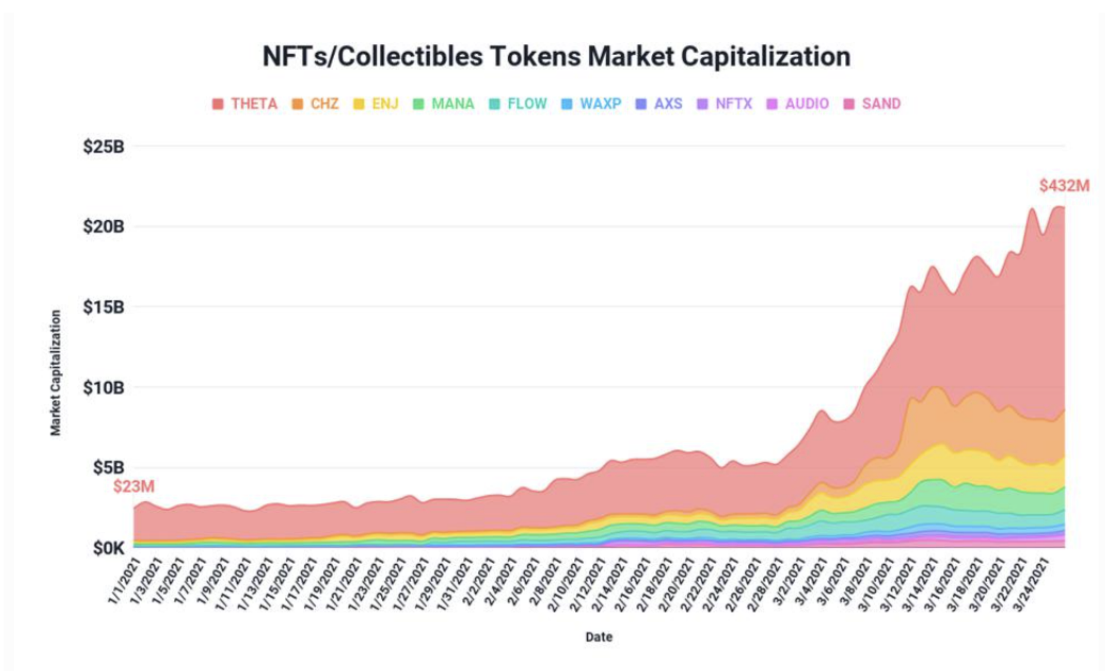
We haven't yet hit an SQN reading of over 2.25 - 2.5 that typifies a classic climax though we still may. Our signpost are showing deterioration but those could reverse or the price could diverge higher for a week or two as it often does in the final stage of a climax.

One possibility I'm mulling over though is whether crypto is *stealing* the equity market's thunder. The total crypto market cap has doubled to over $2trn since the start of the year (note: this data is from last month and with the rise in ETH and dog coin, amongst others, it's now a good deal higher).



Source: CoinGecko

The combined market cap for NFTs has risen 1,785% since Jan 1st, bringing its total market cap to $28bn (chart below is from last month).



NFT tokens market capitalization. BITDEALER

If we add up all of crypto ($2.1trn) with NFTs ($28bn) and Coinbase ($50bn) you get the equivalent of bringing a whole other Apple ($2.2trn) into the equity universe.

The total market cap for US equities currently sits at $49trn and $110trn globally. So, in effect, the crypto market as a whole has added an additional 4% in new supply relative to the US market or just under 2% globally.

Seeing as how total US buybacks for 2019 came in at $787bn and were a significant driver of demand and thus prices. We can see how bringing in over twice that much in new supply would be a headwind for equity.

It's important to remember that prices in markets are set at the margin. So an additional 4% in supply is material, especially when stock issuance across developed markets is at its highest point since the GFC, as I noted in this week's Dozen.

To recap how this all works, here's a summary of our equity supply and demand model.

Demand:

- The amount of savings available to invest is driven by the credit cycle and fiscal policy
- The allocation mix (% of cash, bonds, stocks investors hold) is driven by performance chasing and general risk appetite (both work on each other in a reflexive loop)

Supply:

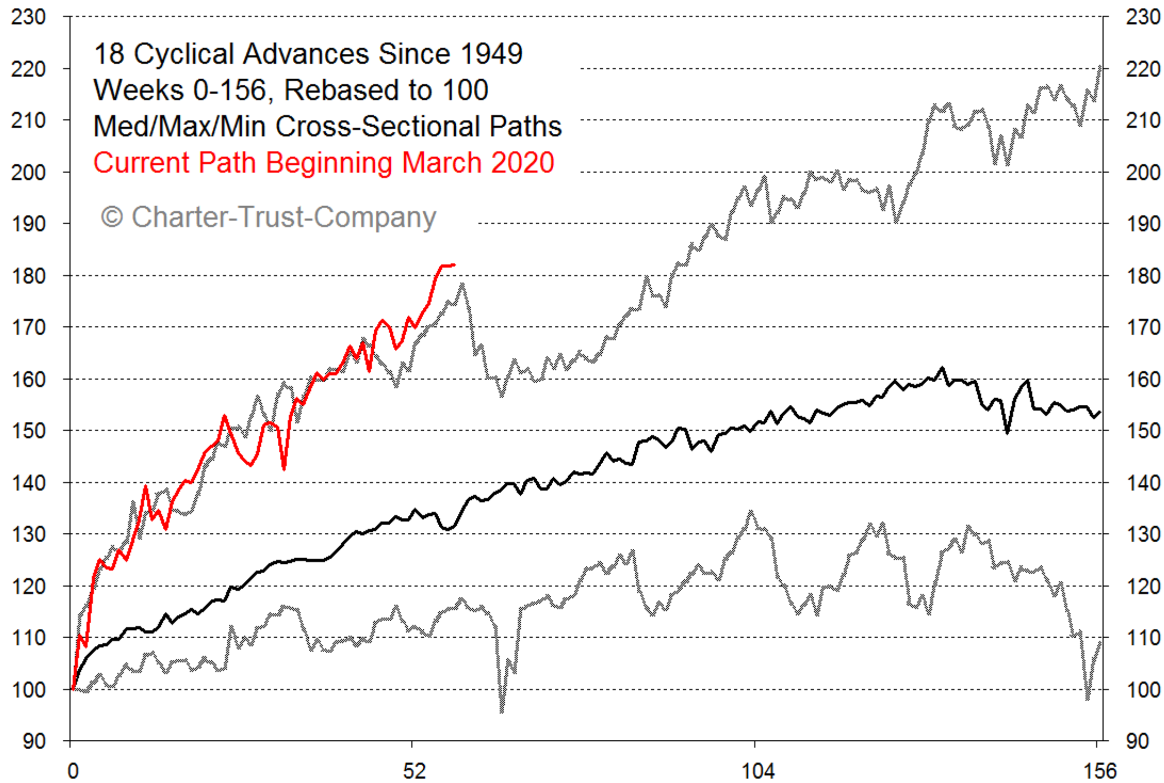
- The supply consists of the total market cap of the asset and this market cap is equal to the number of shares + the price at which they trade
- Stocks and crypto have a flexible supply in that greater demand leads to a higher market cap and more supply

Ethereum's market cap has gone up by one **Paypal** since the beginning of the year. Dog coin has appreciated by one **General Motors**. Trashcoins… the technical term for cryptos that were created overtly as a joke or covertly as a legal way to scam patsies out of their savings, now have a total market cap of over $500bn, or one **Visa**.

The point is these market caps represent serious flows. Flows that would otherwise have gone into traditional assets — I'm not complaining as GBTC and now ETHE have been big winners for us... But, this is certainly hindering the market's ability to climax in traditional fashion. Whether or not it's enough to cap it completely or not is anybody's guess. Though it's something worth keeping in mind as we navigate this late-stage trend.

The longer-term overbought levels in the broader market that we discussed in "Watch Your Six" still persist.

It'd be natural to see some profit-taking and an extended breather as the chart below shows.



The signposts tell us we likely head higher before this run ends. However, the evidence *isn't* strong for either direction, so we need to stay nimble and update our priors daily. Let the market and the data lead the way and not take aggressive action until we get a bit more clarity.

I'll be out with a follow-up note as soon as that happens. In the meantime, I'm working on two big reports at the moment. One on the US cannabis market which I believe will do exceptionally well in the coming months and years — we're putting on a position in the MSOS ETF today which gives us exposure to the best multi-state operators (MSOs) in the space.

I'm also working on a deep dive into inflation; what it is, what it isn't, how to measure it, and how we can incorporate it into our process so it's accretive rather than just some weird financial-religious belief like much of the financial community that seems to enjoy proselytizing to others of their ill-informed dogmas.

Some quick thoughts on nuclear

We're big uranium bulls for the reasons we outlined in "Total Energy Flux" and "A Hungry World".

We've been in Centrus Energy (LEU) a company focused on HALEU for small modular reactors (SMRs) — SMRs are the future for baseload energy and a topic we'll be covering in-depth in the coming months — with close ties to the Biden administration.

The stock has done well for us but there's good reason to believe the trend is only getting started. Some of this optimism is born from very positive headlines that have come out over the past week.

The big one being the news that Sprott, the global resource-focused asset manager, is taking over Uranium Participation Corp (U:TSX). U:TSX is an investment holding company that invests in physical uranium.

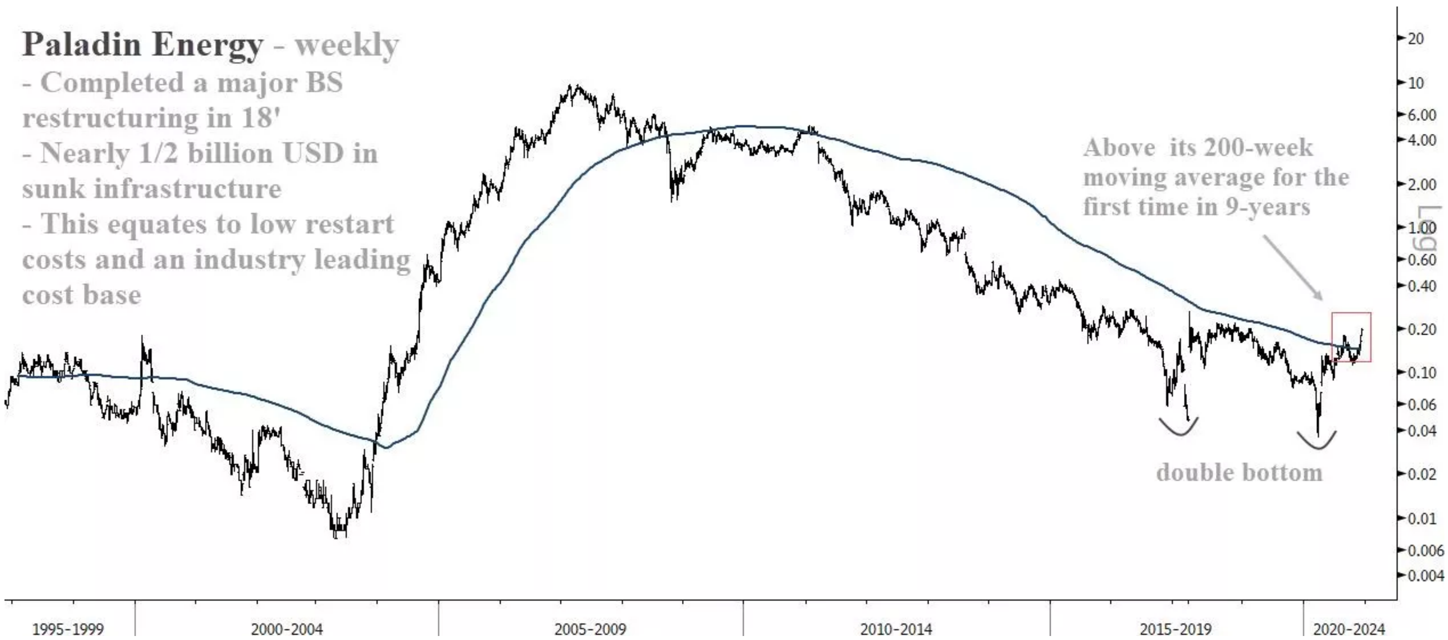
This matters for a few reasons:

1. This will create an NYSE traded closed-end fund opening the door to big money versus what was a pink-sheet TSX vehicle that *vastly* limited the potential pool of investors
2. U:TSX wasn't able to issue shares at the market (ATM) and had to trade at a premium to NAV before it would purchase more uranium
3. This meant that investors shied from buying at a premium, knowing they'd be diluted. Importantly, this lessened the feedback loop to the pricing of the uranium spot market
4. The new vehicle will issue shares at a slight premium and subsequent purchases of uranium in the spot market will be made close to real-time ATM. This will create a *direct* investor demand impact on spot market pricing for the first time ever
5. The spot market has long been set by the utilities whom after getting burned 14yrs ago, have stuck to long-term contracts with price ceilings
6. This created an illiquid buyer controlled market which helped lead the trend lower in spot and the ensuing collapse in miners, from over 500 a decade ago to less than 50 today
7. Essentially, this move brings liquidity to the market and active price discovery where investors will play an increasing role (think what GBTC has done for BTC)
8. This, in turn, will change how buying is done by utilities as it will give pricing power back to sellers and altering utility demand behavior

We're also, albeit somewhat begrudgingly, seeing the Green/renewable crowd come around to the fact that we cannot reach our climate objectives without aggressively utilizing nuclear as a baseload energy source. The Biden administration is getting in line, recently signaling to lawmakers that it plans to extend subsidies to the industry.

The conditions have been set for a renewed bull market in uranium for over 18-months now. These developments are just additional catalysts that will help kickstart this trend into high-gear over the coming months and years.

We plan to add to LEU on a break from its current range. We're also going to buy a position in the Australian producer Palladin Energy PDN:ASX. A uranium miner we've discussed a number of times over the last 18-months.



The stock has broken out from a bull flag and looks set to run higher.

Stay safe and keep your head on a swivel!

Your Macro Operator,

Alex