



## 06/17/2021: FOMC Kabuki...

The FOMC surprised quite a few people yesterday by shifting its 2023 dot-plot 50bps higher.



To us, the dot-plot is nothing more than economic Kabuki theatre...

The FOMC has *no* idea what they'll be doing policy-wise 18+ months from now. Their dots shift according to the underlying fundamentals, as they should. And their long-term estimates tend to be wrong as often as they are right.

So we don't care about the dots... We can leave that for the punditry to fetishize over.

More importantly, the FOMC's growth and inflation forecast and policy signaling didn't change much — Powell's "you can think of this meeting as the talking-about-talking-about meeting" in regards to tapering, isn't exactly *uber* hawkish.

This tells us that the Fed has greater confidence in achieving its stated goals — there's less downside skew in the range of likely outcomes... This is the correct take in our view, seeing as how COVID cases continue to drop, the economy is improving, and 3-month annualized inflation growth is at [40-year highs](#).



There's been some interesting market reactions to this meeting. But we *shouldn't* read too much into these moves. Post-FOMC market reactions are more reflective of repositioning and reversion of the narrative pendulum than they are any kind of fruitful assessment of Fed policy.

These reactionary moves, like those we're seeing in rates and precious metals, tend to be good fades once the weak hands have been shaken out.

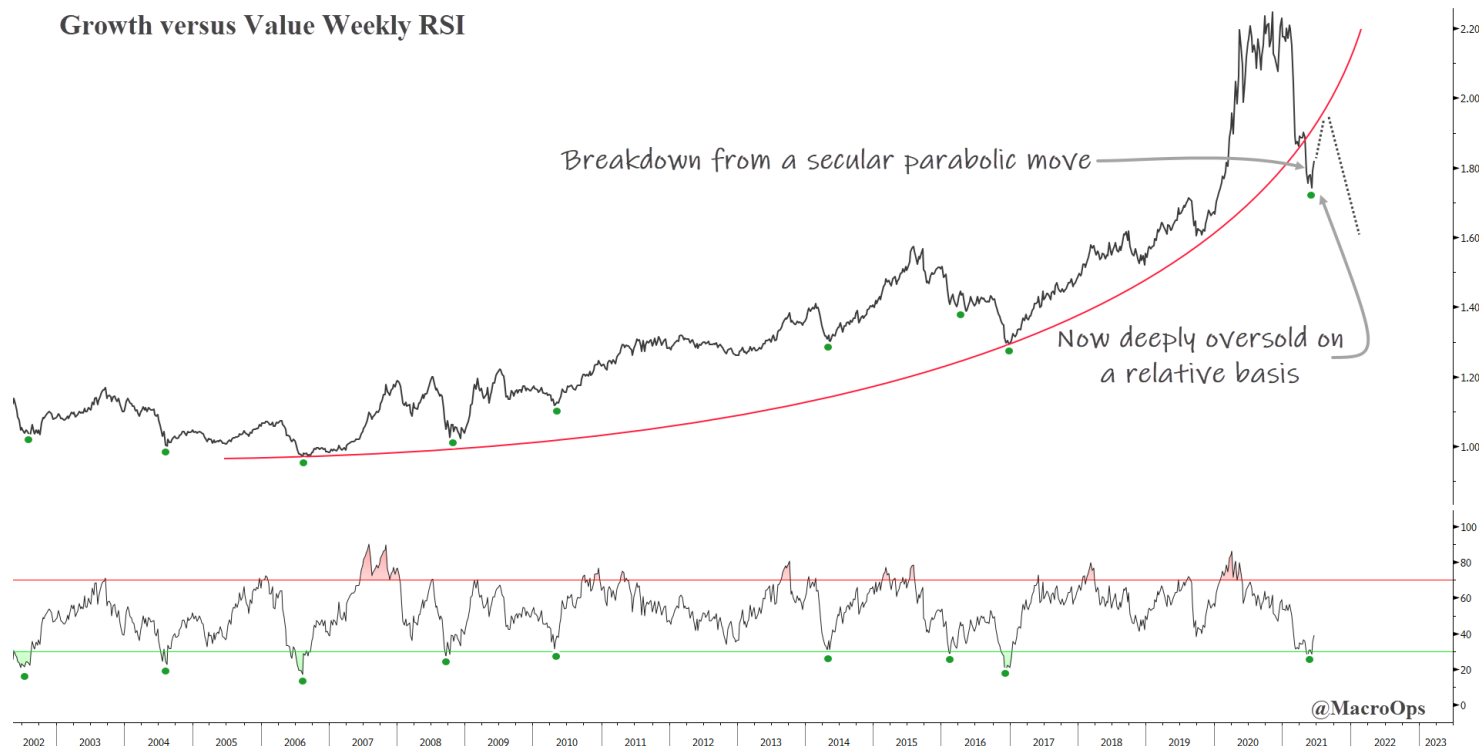
### Lots of noise and repositioning....

The USD retrace has kicked into gear, fueled by the crowded positioning we've been [pointing out](#). This along with the bear flattening in the curve — also being driven by a reset of crowded positioning — provides growth stocks with a constructive, albeit likely temporary, backdrop.

There's other evidence to believe we'll see a decent bounce in this relative factor trade.

Growth/value has been in a secular parabolic trend. That relative trend turned vertical late last year, fueled by speculative retail buying. It's since rolled over and has now collapsed below its parabolic trend, leaving it deeply oversold.

The chart below shows the weekly RSI of the Growth vs Value chart. The green dots mark each time it hit similar oversold conditions. Every single instance but one has marked a significant bottom.





The secular growth trade is likely over. The parabolic chart above I think reflects that. But... we should think of these secular turning points in investor flows similar to a large ocean liner. They don't turn on a dime. Major inflections like these happen in fits and starts and take a good while to play out.

Growth vs Value relative fund flows show the first significant positive spike in inflows to growth/value since last Fall. This tends to lead to a tradeable bottom, especially when it follows an extended period of relative growth/value outflows.



The relative trend is being helped along by a cooling in inflation expectations, which had run a bit too far too fast.





This gives us decent odds we see a period of growth led outperformance. The strength in credit and semis support this take.

But, we still expect to enter the [Summer Doldrums](#) soon, where we'll see a few months of sideways volatile chop. So we wouldn't be too aggressive in adding risk here.

Trend fragility is high and this eventually *needs* to be reset, if we want to see a sustainable bull leg.

There's lots of noise in this market. The relative price moves are noisy. The macro is noisy. And the internals are noisy.

Not much to do other than buy and hold quality names that trend in our favor, manage risk, and adjust fire until the noise dies down and we get a bit more clarity.

I'll be out with a write-up on the big selloff in precious metals this weekend. It strikes me as a shaking out of weak hands rather than a change in trend. But we'll dive into that more in my next letter.

Stay safe and keep your head on a swivel!

Your Macro Operator,

Alex

