



Rosenberg
Research

Contrarian Vs. Consensus

May 2021

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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.

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

2

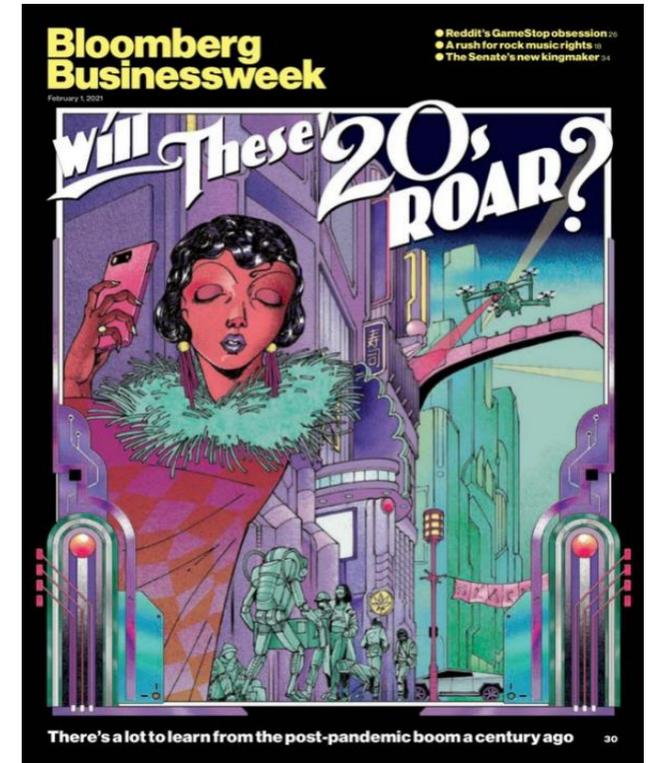
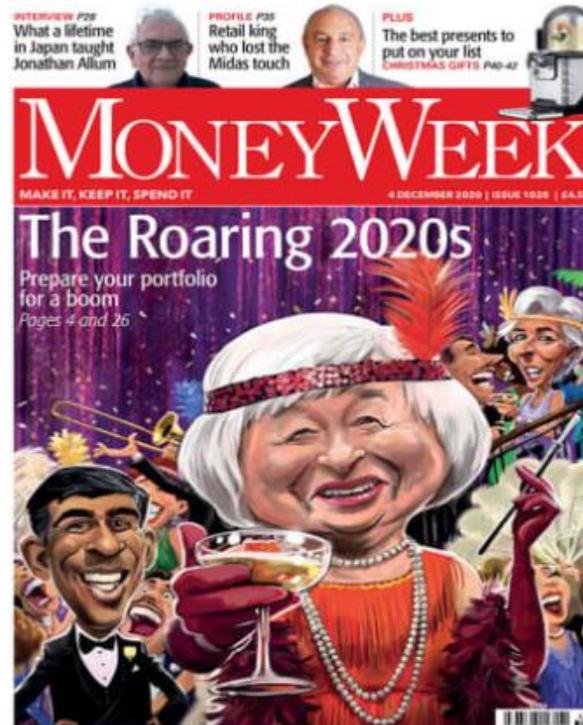


FADE THE FRONT COVER



JAN 16TH 2021

The roaring 20s? Towards a new era of innovation



Source: The Economist, MoneyWeek, Bloomberg Businessweek



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

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



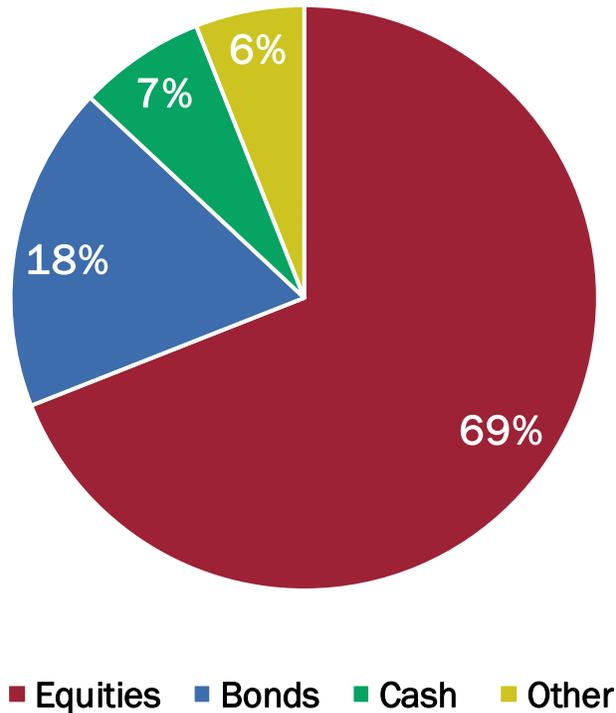
Source: Barron's

5

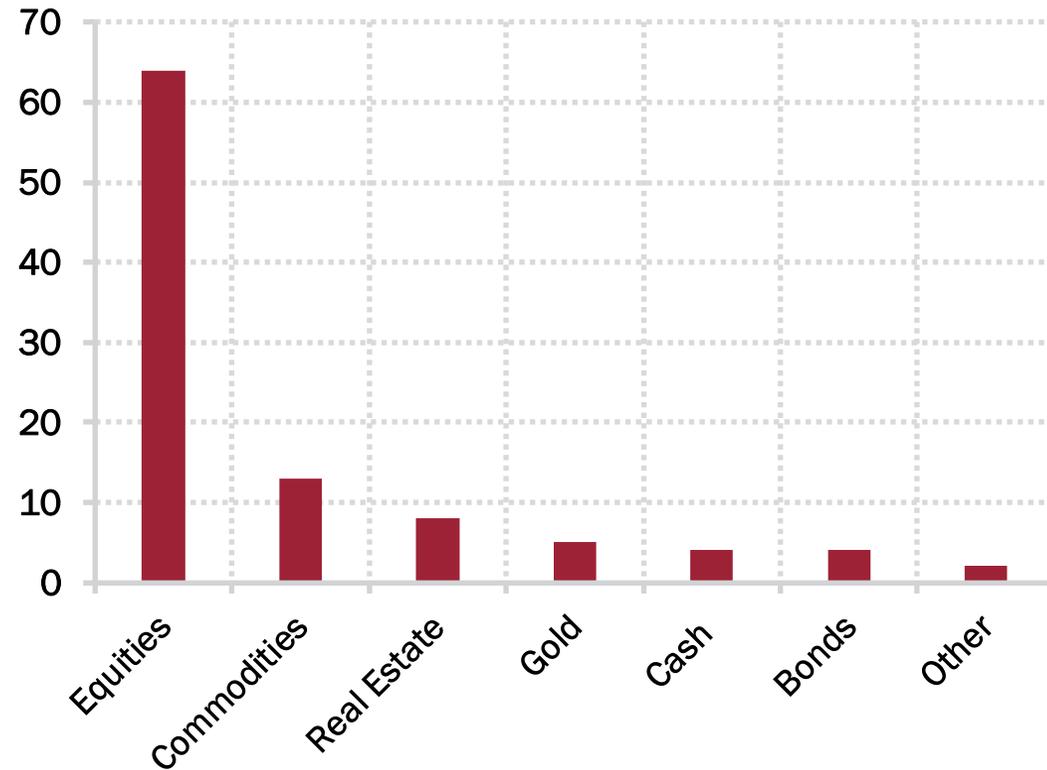


BARRON'S BIG MONEY POLL – APRIL 2021

United States: Describe Your Current Portfolio Allocation (percent)



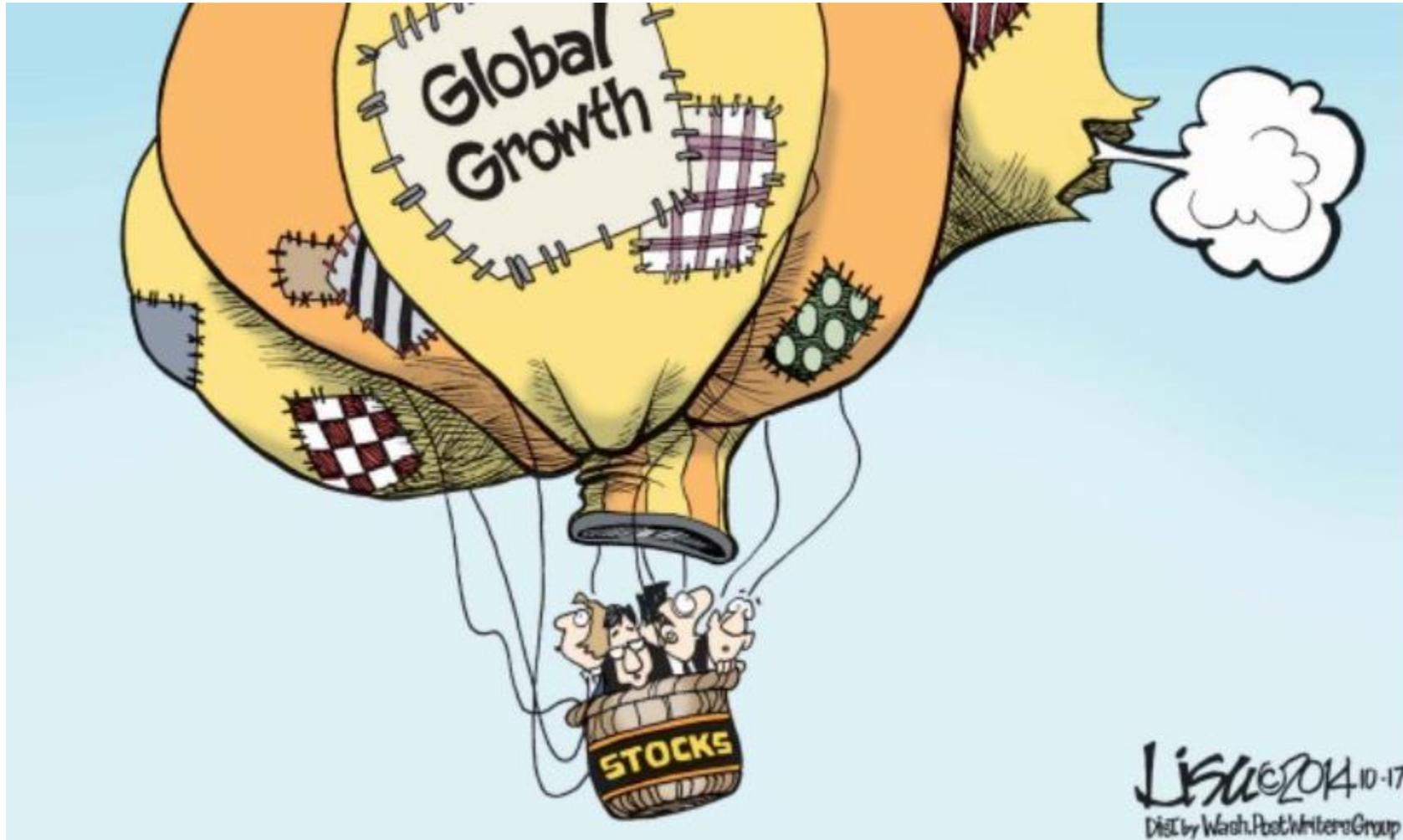
United States: Which Asset Class Do you Consider Most Attractive Today? (percent)



Source: Barron's, Rosenberg Research



THE MACRO STORY: LESS THAN MEETS THE EYE



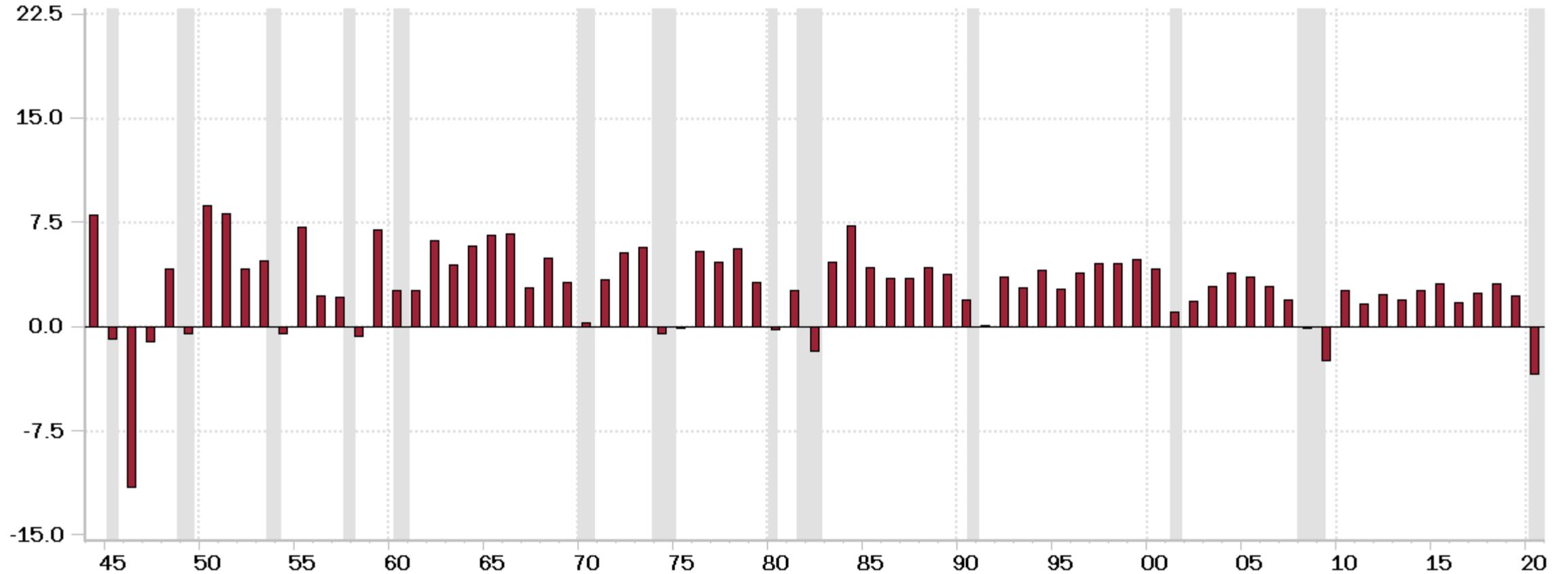
Source: cartoonistgroup.com

7

SHARPEST DECLINE IN REAL GDP SINCE 1946!

United States: Real GDP

(year-over-year percent change)

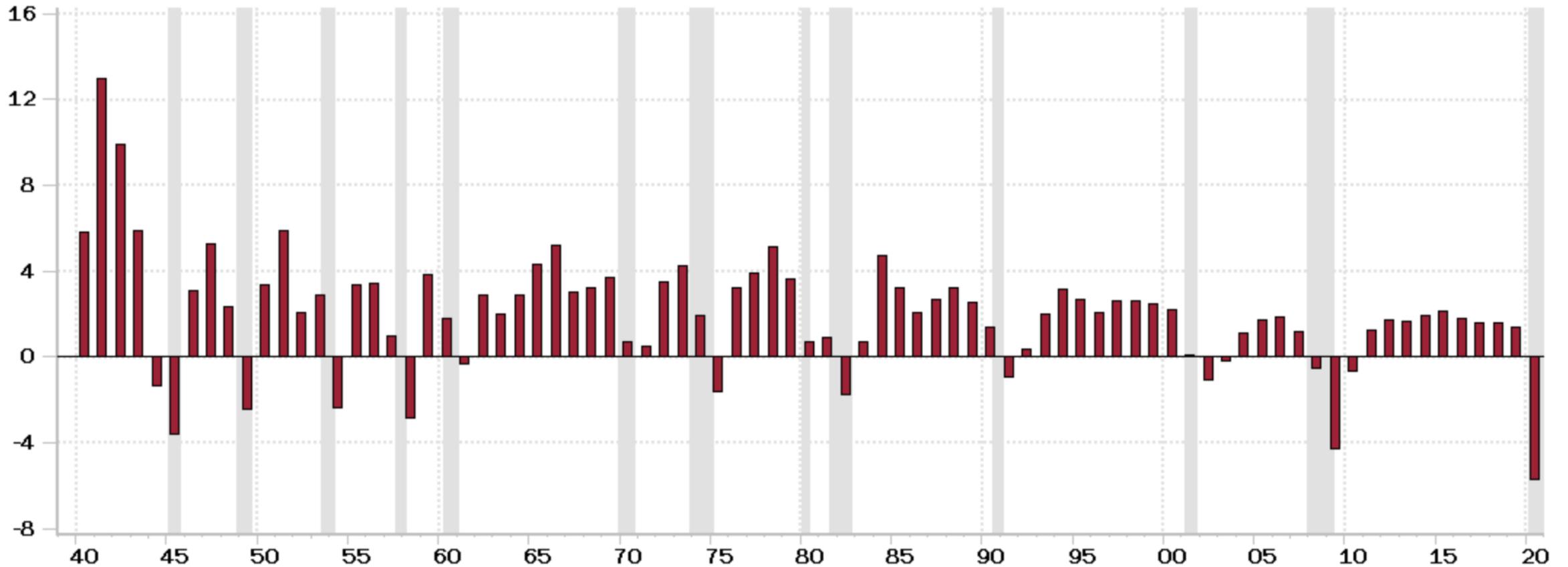


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

RECORD DECLINE IN EMPLOYMENT

United States: Total Non-Farm Employment
(year-over-year percent change)

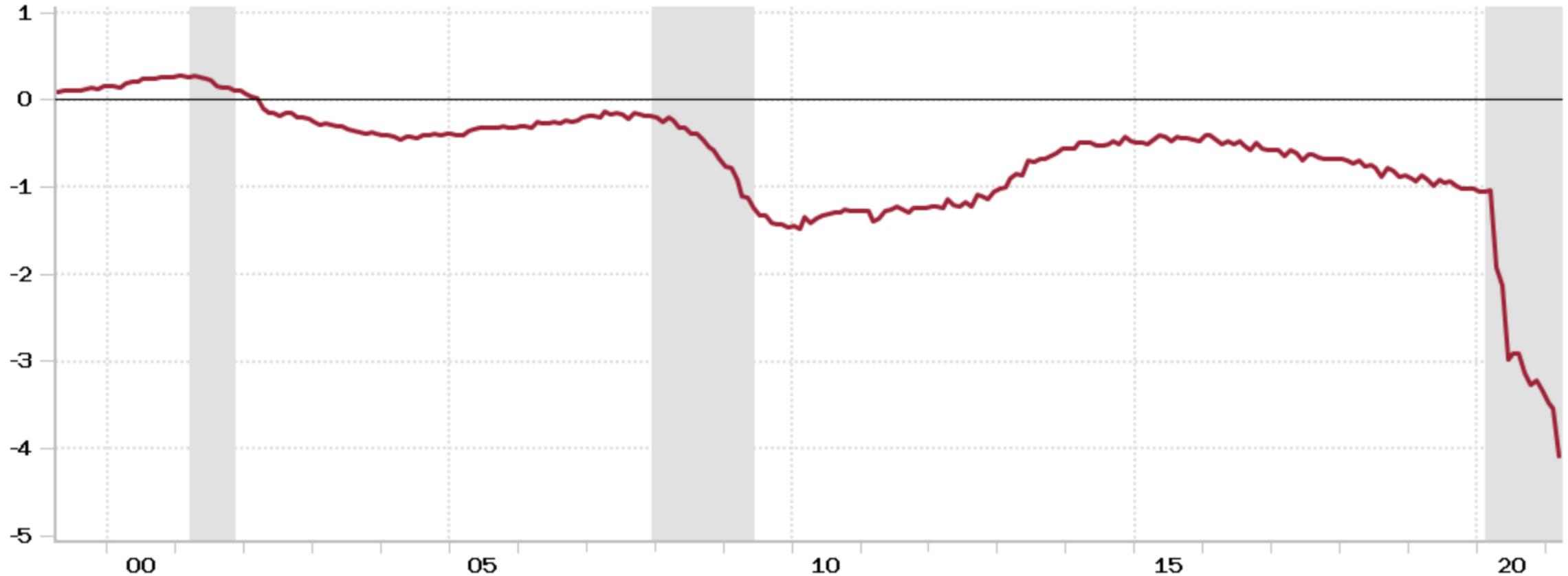


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

HOW CAN THE ECONOMY NOT BE BOOMING WITH THE DEFICIT SOARING 4X?

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

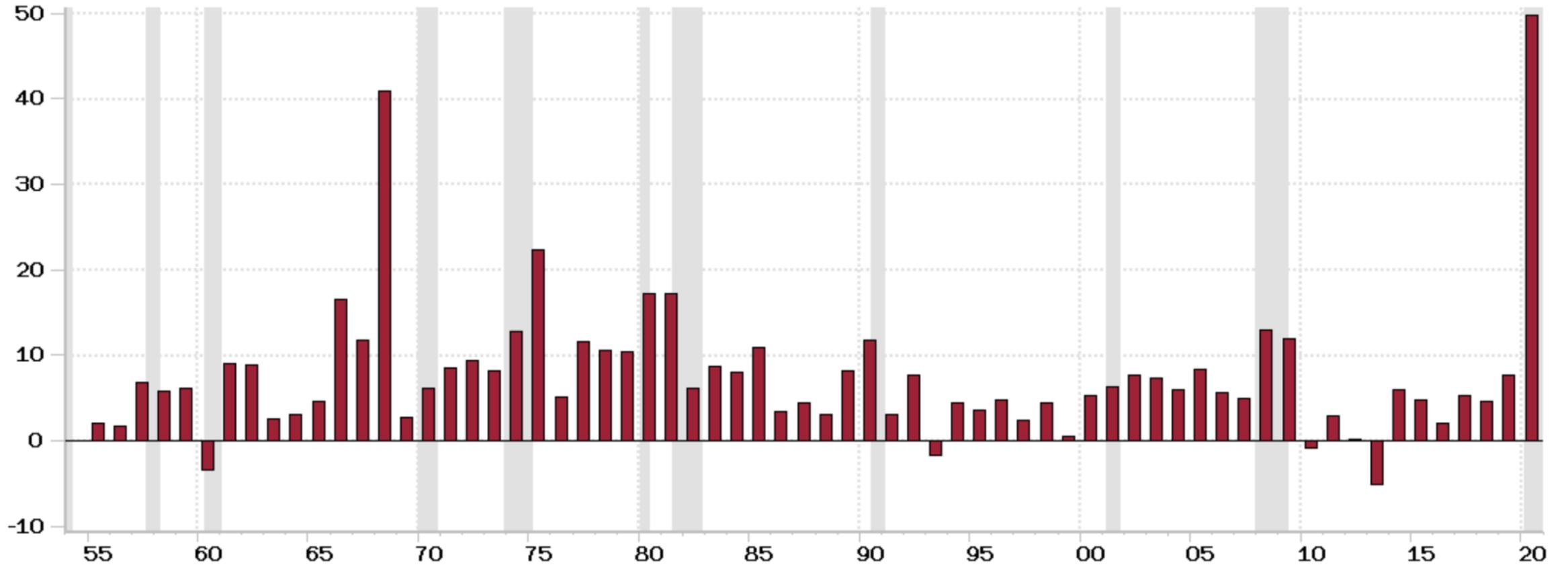


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

EVEN LBJ WOULD HAVE BLUSHED

United States: Federal Outlays
(year-over-year percent change)

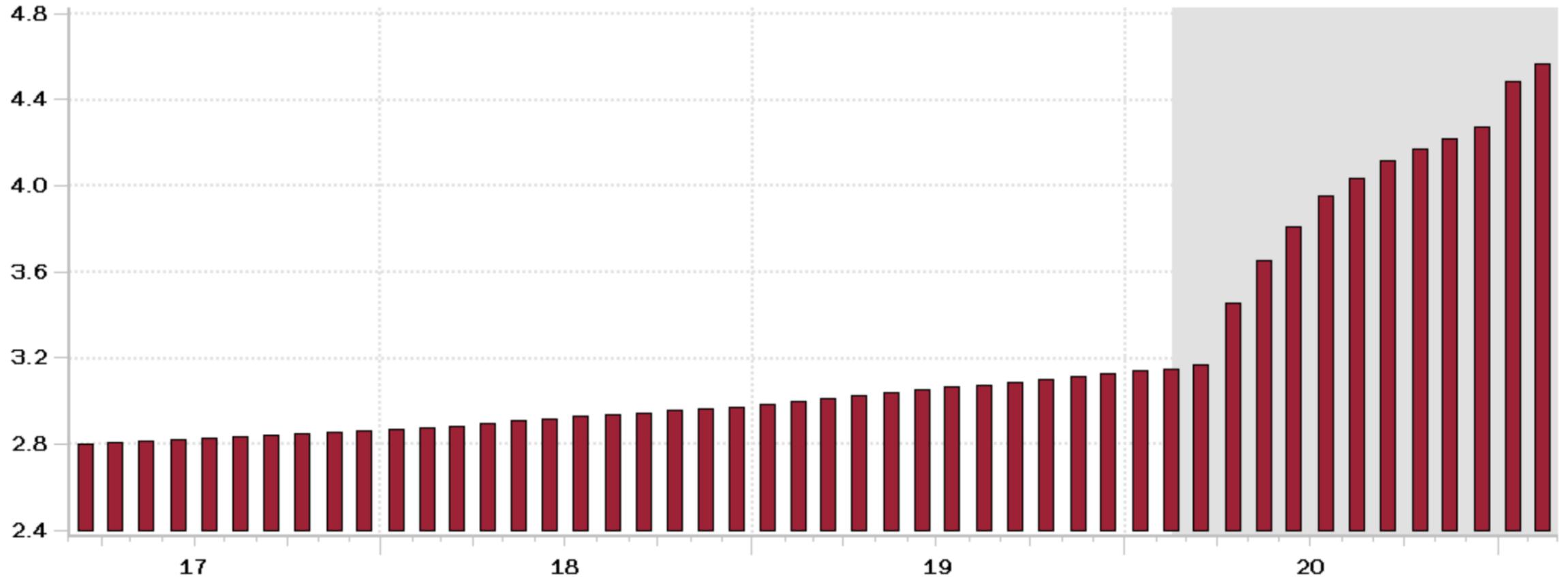


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

A BOOM IN GOVERNMENT HANDOUTS

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



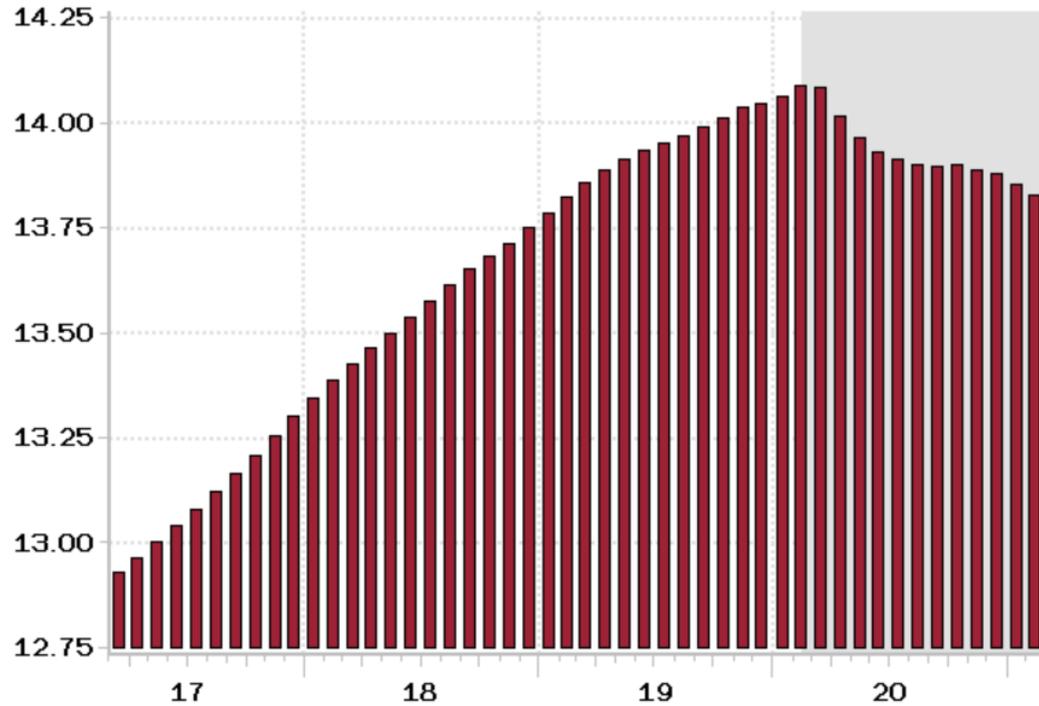
Shading indicates recession

Source: Haver Analytics, Rosenberg Research



ORGANIC REAL INCOMES ARE ACTUALLY STILL CONTRACTING

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)

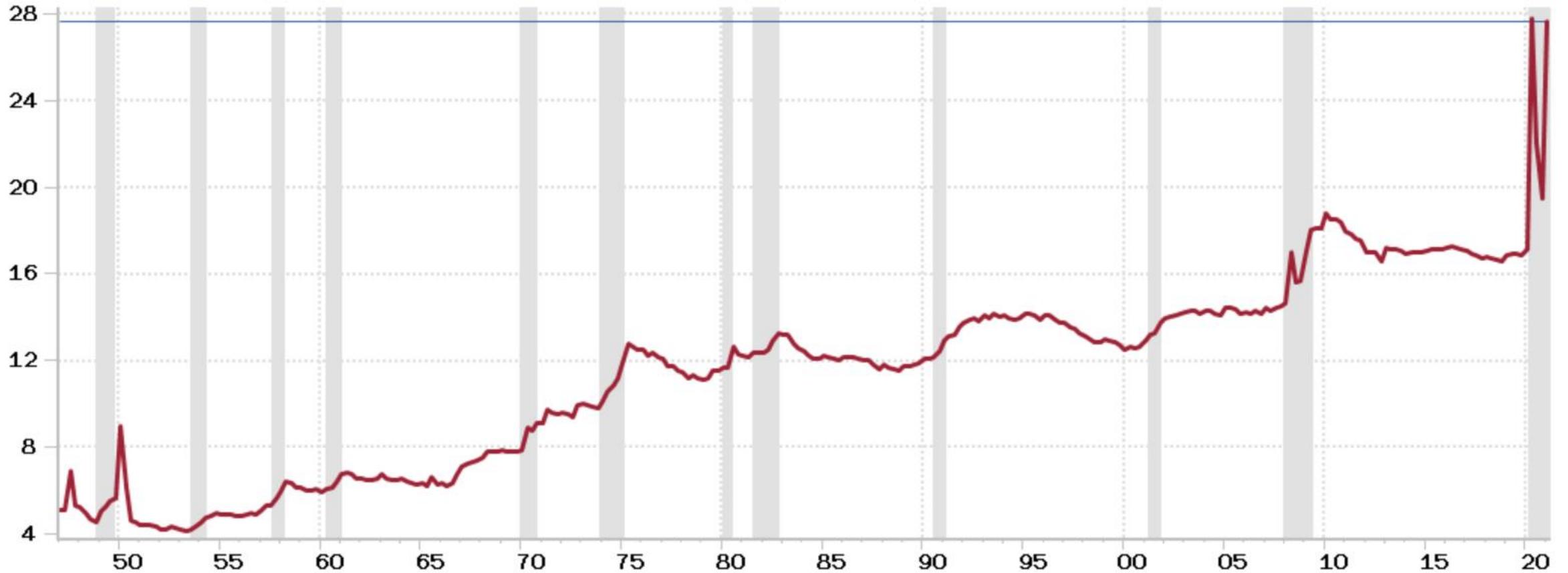


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

ALMOST 30% OF HOUSEHOLD INCOME COMES FROM UNCLE SAM'S WALLET

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

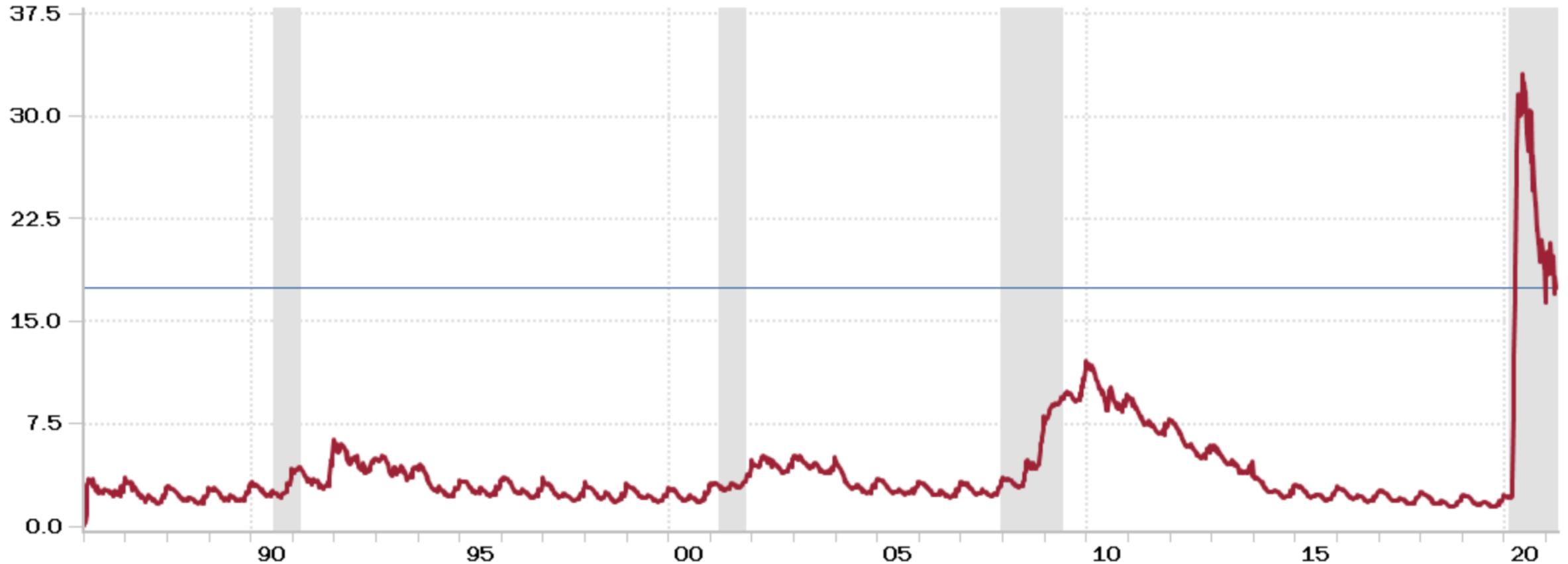


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

ALMOST 18 MILLION (OR 1-IN-8 AMERICANS) ON AT LEAST ONE BENEFIT PROGRAM

United States: UI Benefits in All Programs
(millions)



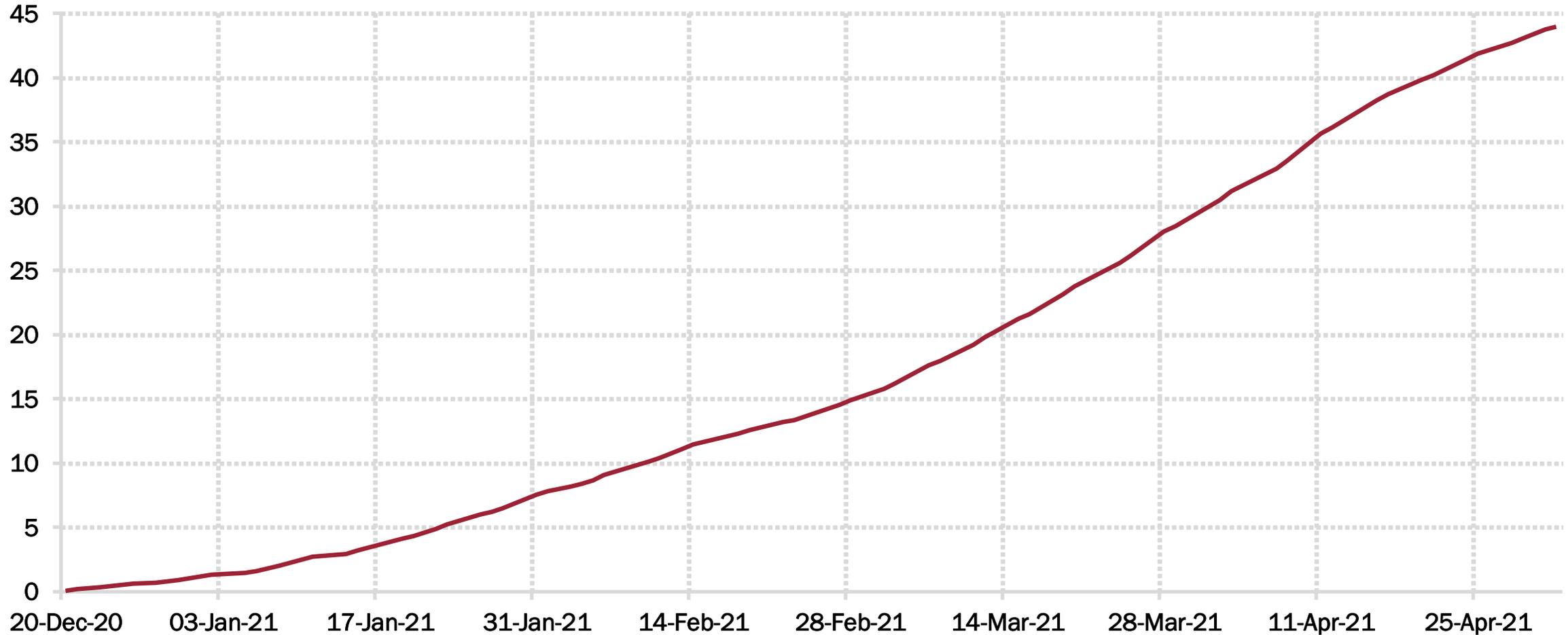
Shading indicates recession

Source: Haver Analytics, Rosenberg Research



OVER 40% OF THE U.S. POPULATION HAS RECEIVED AT LEAST ONE DOSE OF THE VACCINE

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

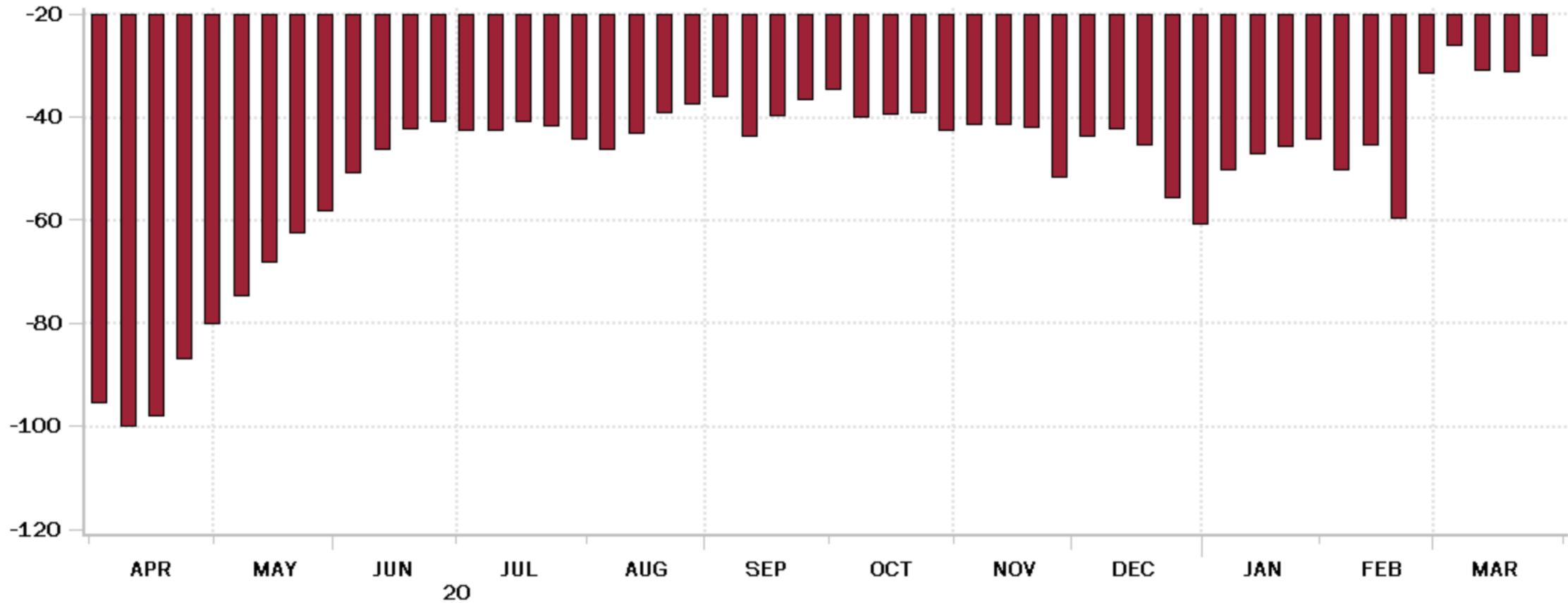


Source: Our World in Data, Rosenberg Research



THE ECONOMY HAS ALMOST FULLY RE-OPENED

United States: Mobility Engagement Index
(index)

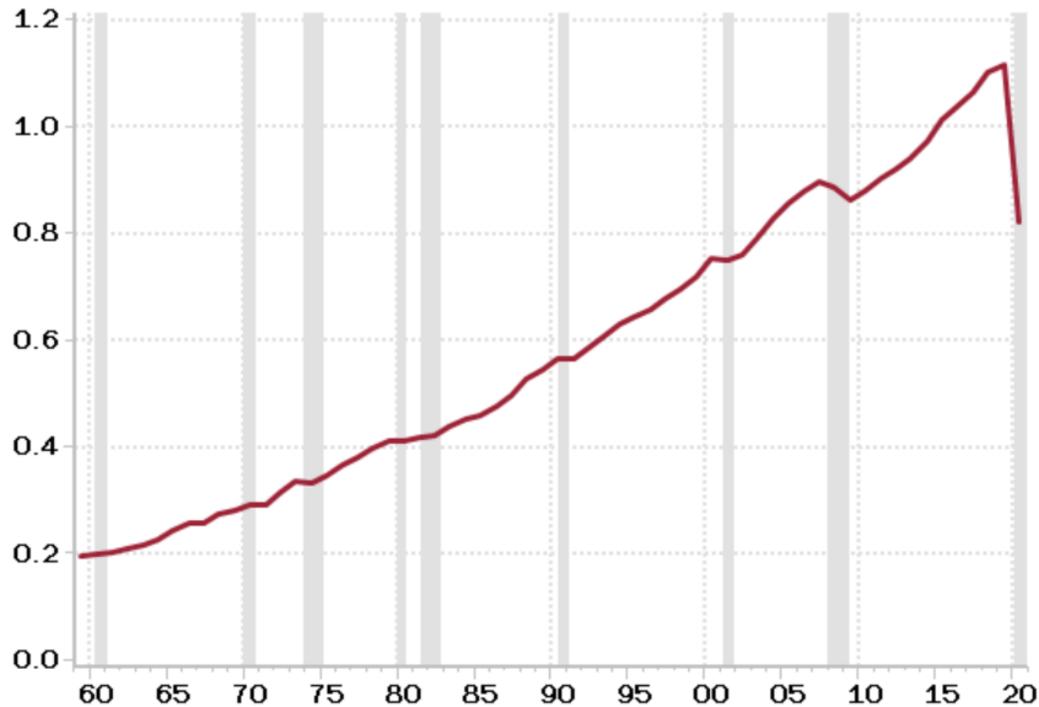


Source: Haver Analytics, Rosenberg Research

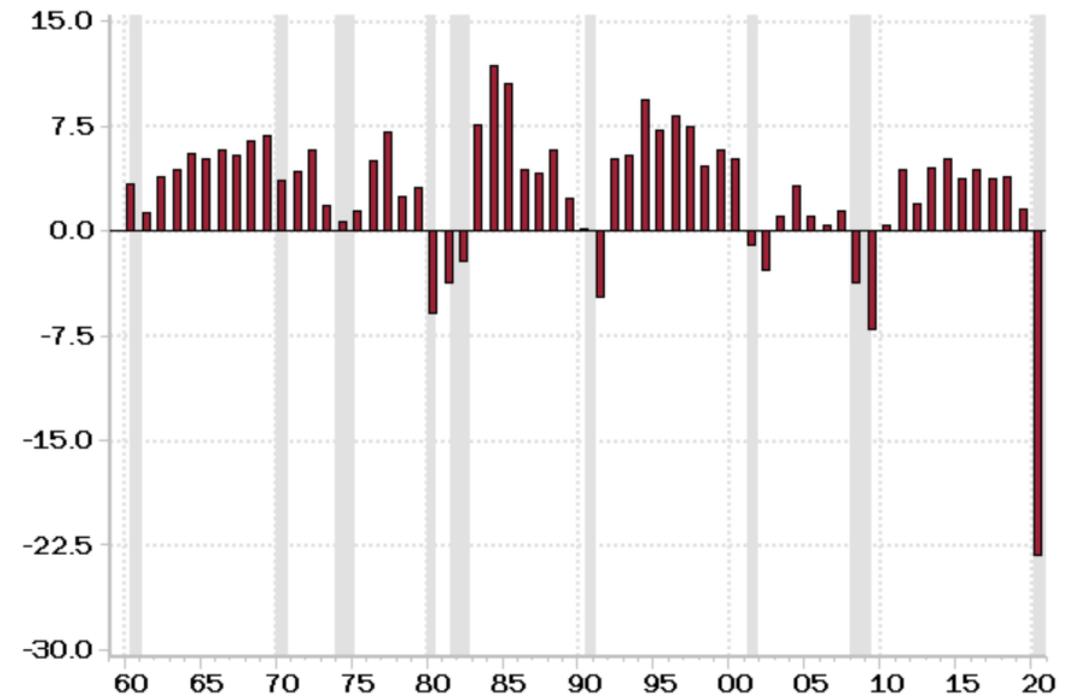


SPENDING ON HOTELS, RESTAURANTS, AIR TRAVEL, CASINOS AND THEME PARKS IS \$800 BILLION

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



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

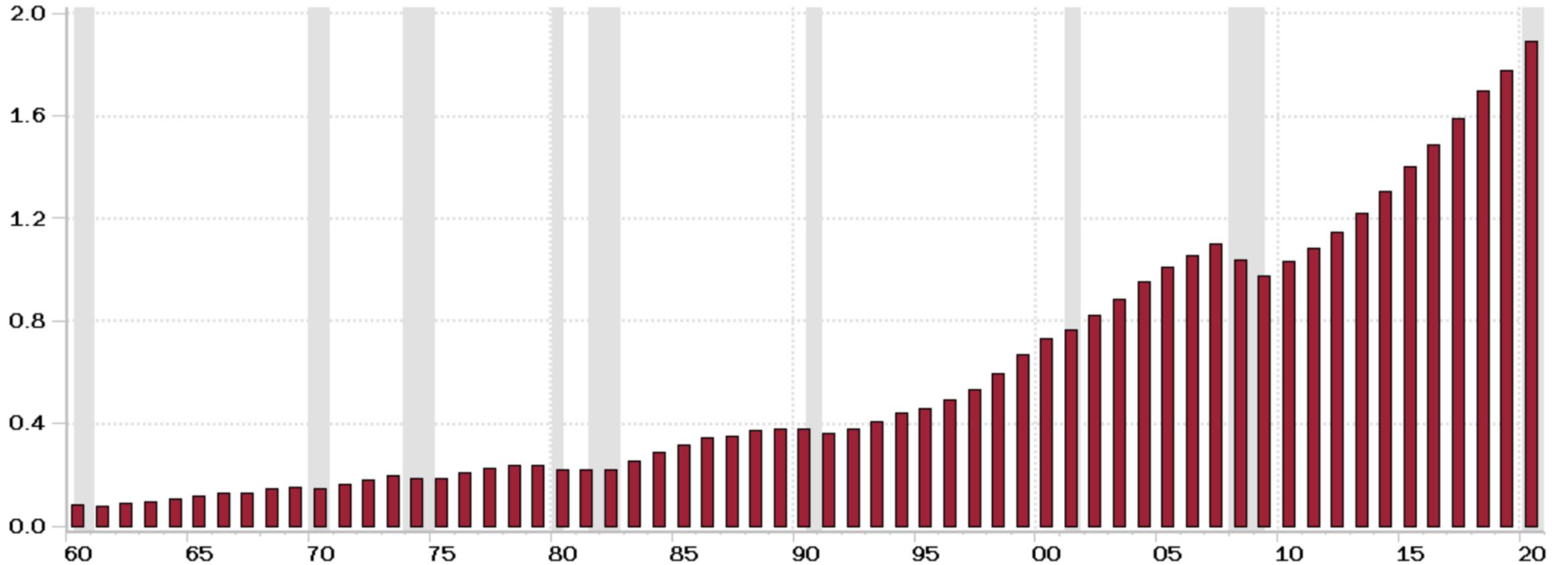


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

DURABLE GOODS SPENDING IS A NEAR \$2 TRILLION BUSINESS

United States: Real PCE: Durable Goods
(\$ trillions; SAAR)



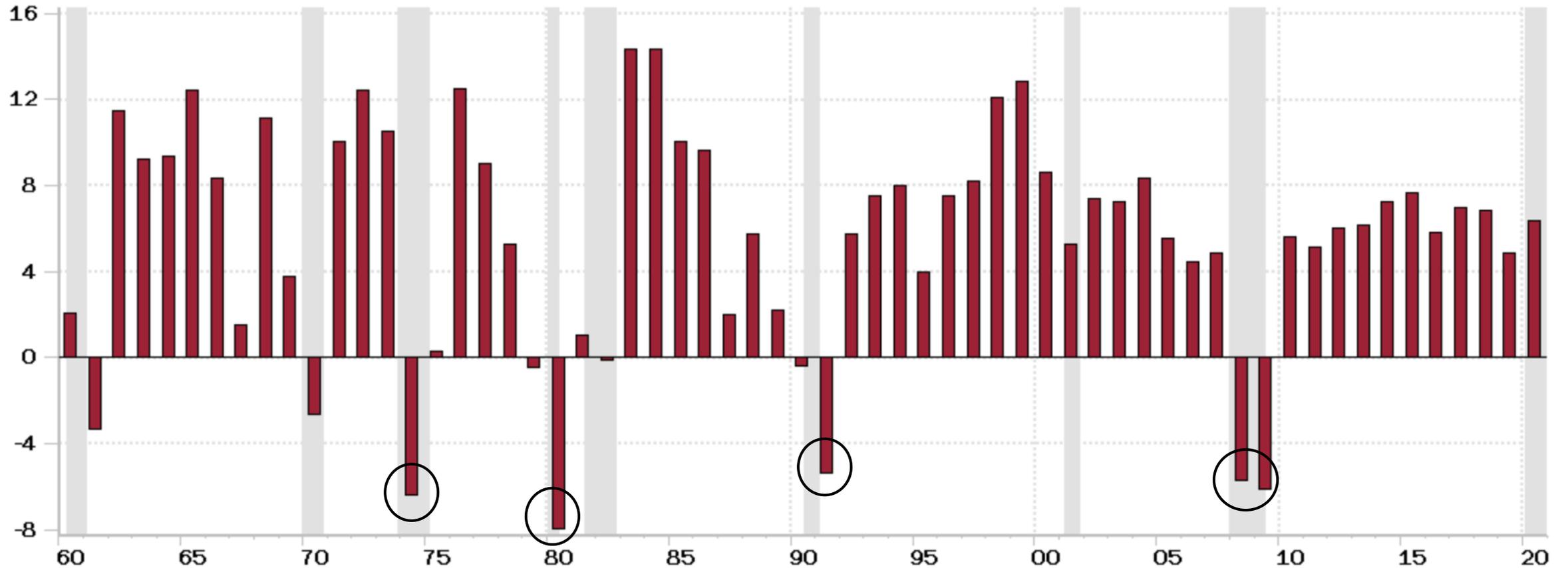
Shading indicates recession

Source: Haver Analytics, Rosenberg Research



A RECESSION WHERE DURABLE GOODS SPENDING ROSE

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



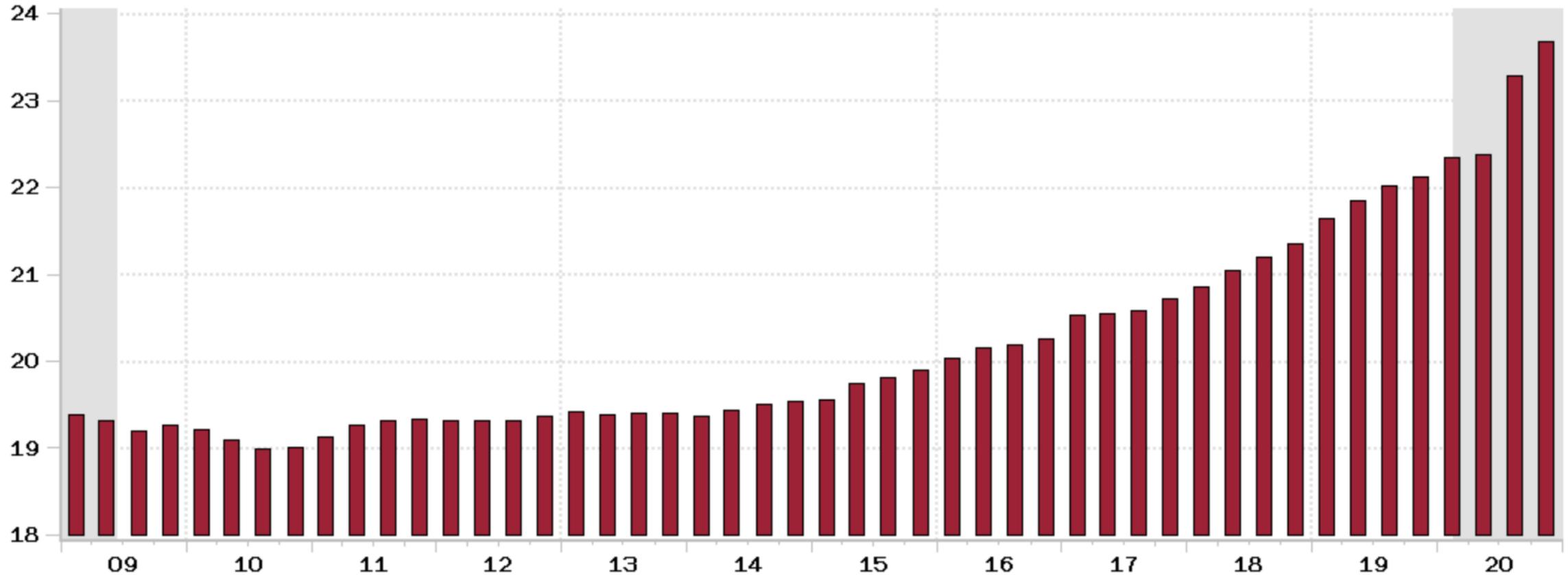
Shading indicates recession

Source: Haver Analytics, Rosenberg Research



CONSUMER DURABLE GOODS ASSETS PER CAPITA AT RECORD HIGH!

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

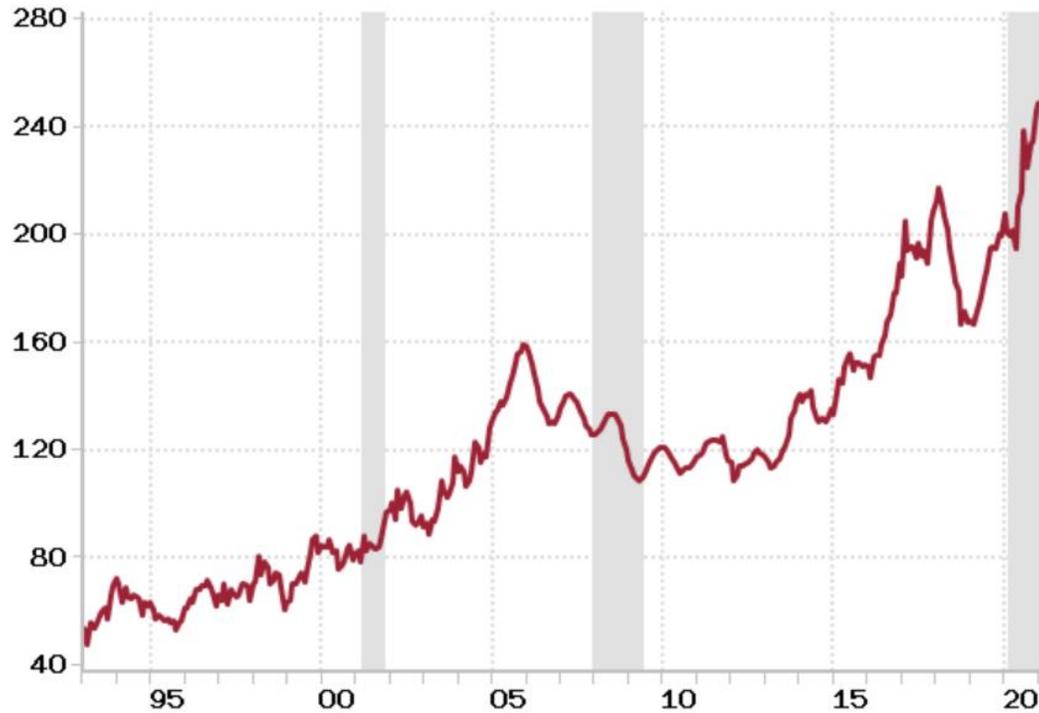


Shading indicates recession

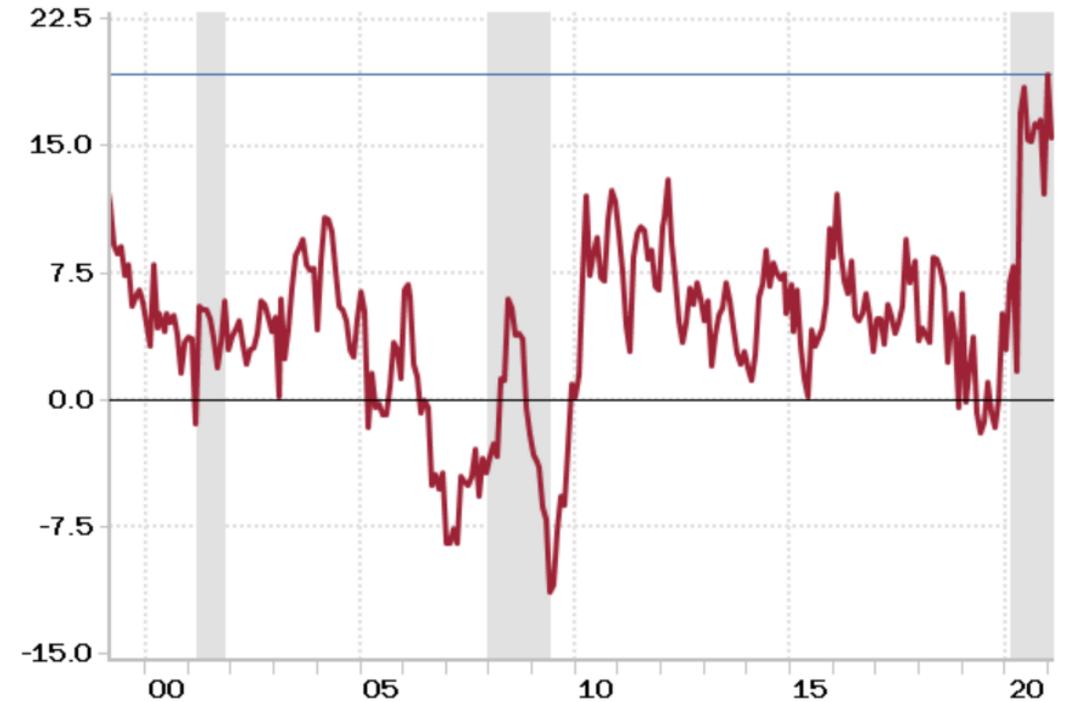
Source: Haver Analytics, Rosenberg Research

BUT HOW MANY TIMES CAN YOU REMODEL YOUR HOME?

United States: Construction: Residential Improvements
(\$ billions)



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

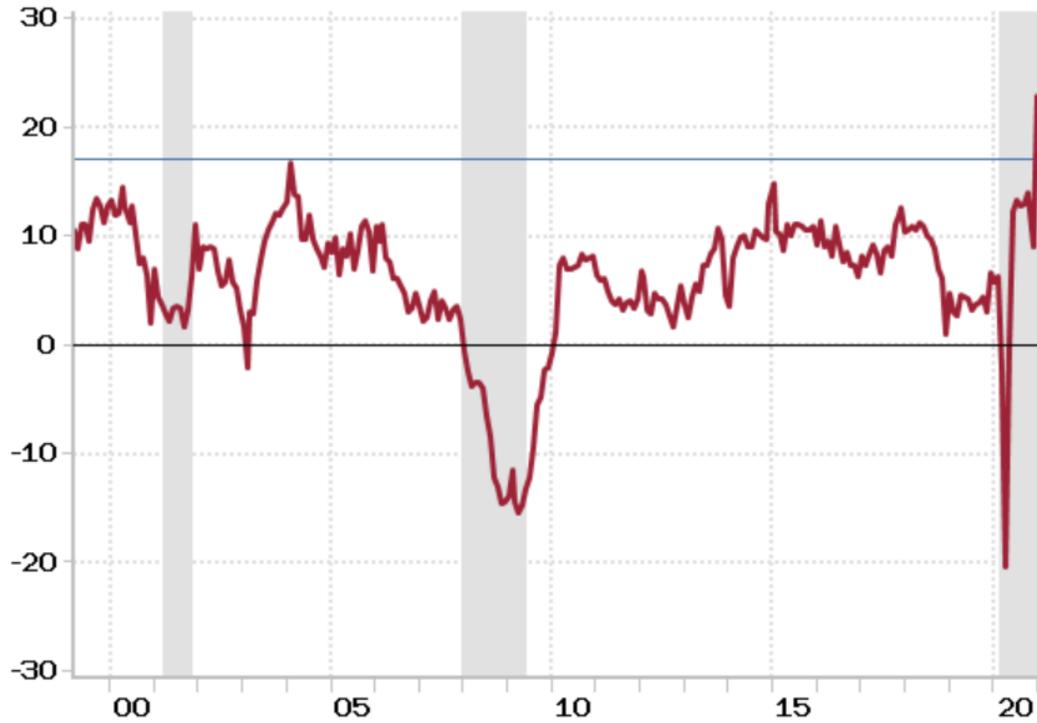


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

... OR REDECORATE?

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



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

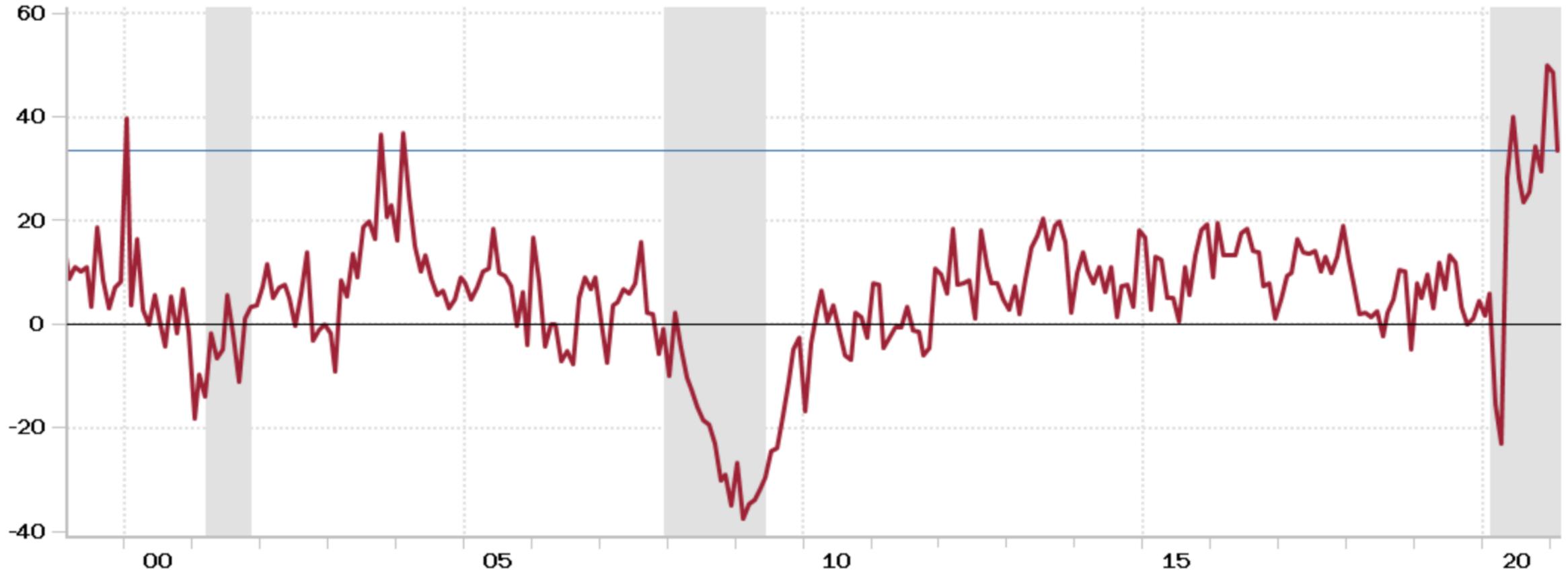


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

40% GROWTH IN LUXURY BOATS & PLANES? IN A PANDEMIC?

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

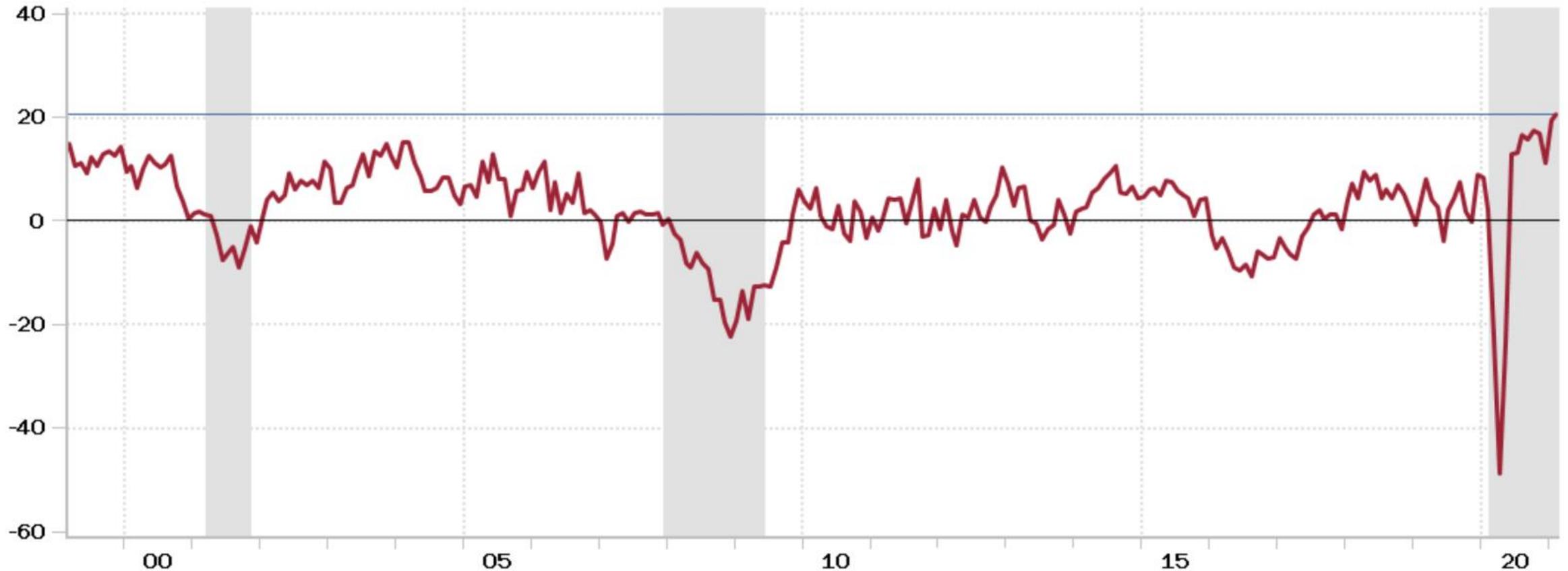


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

DIAMONDS ARE FOREVER, AFTER ALL

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

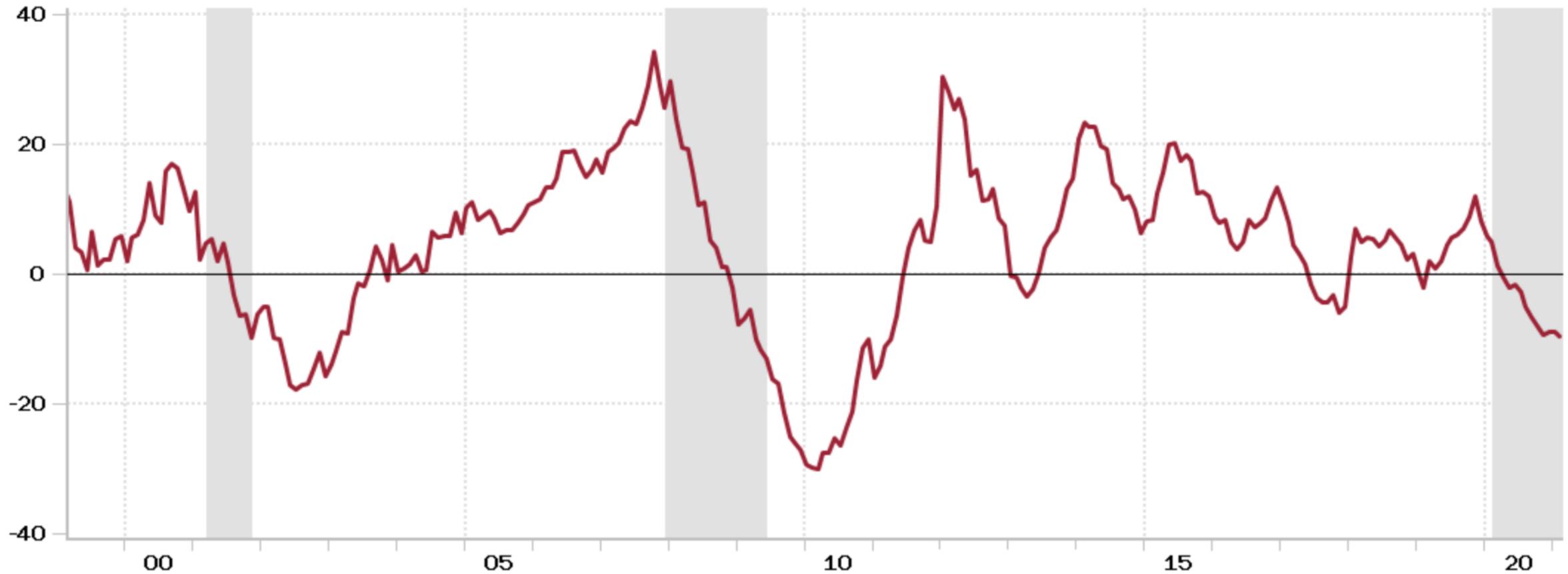


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

SOME THINGS ARE NOT COMING BACK THAT QUICKLY

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



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

EXPORTS ARE IN A BEAR MARKET

United States: Exports

(year-over-year percent change)

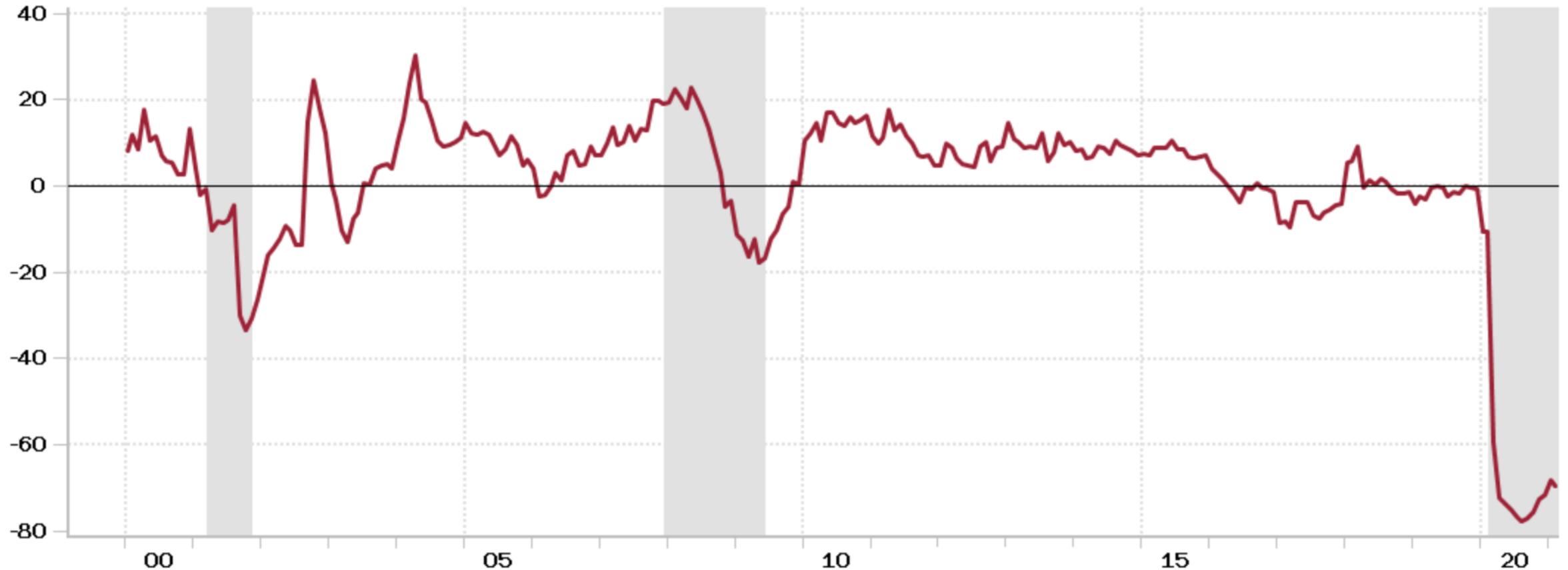


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

FOREIGN TRAVEL & TOURISM GROUNDED TO A HALT

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

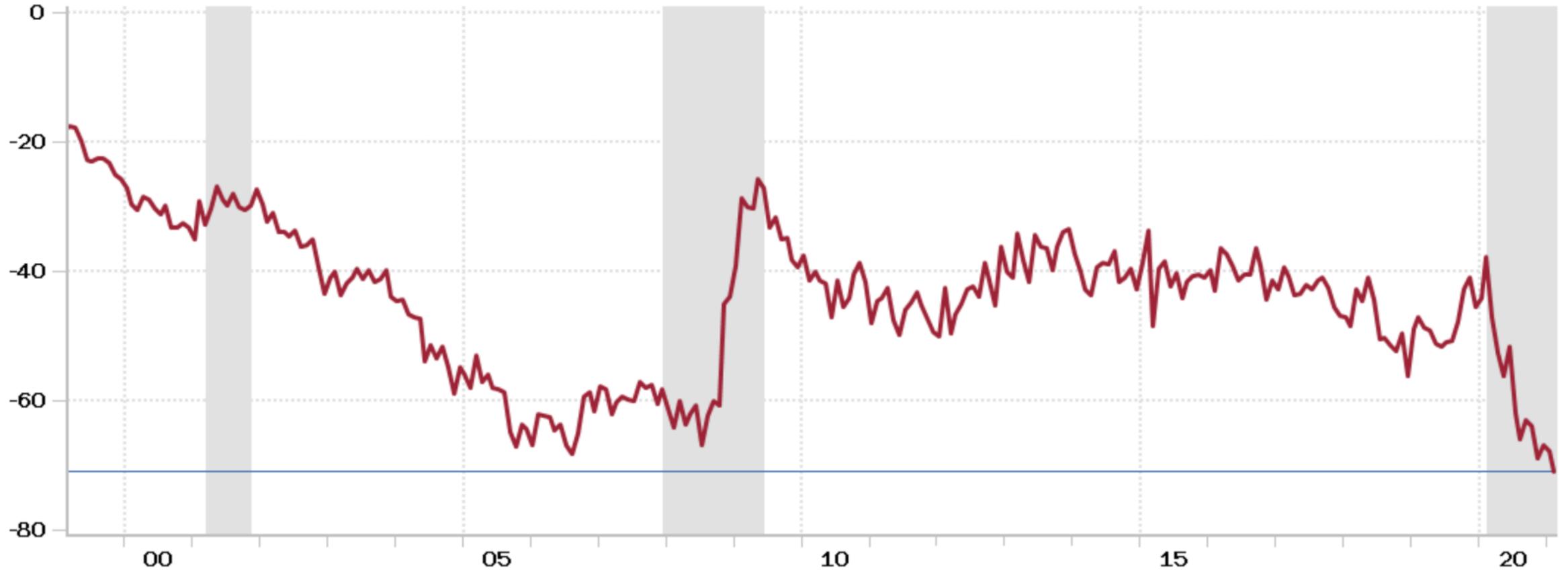


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

WIDENING TRADE DEFICIT IS A DRAG ON GROWTH

United States: Trade Balance
(\$ billions)

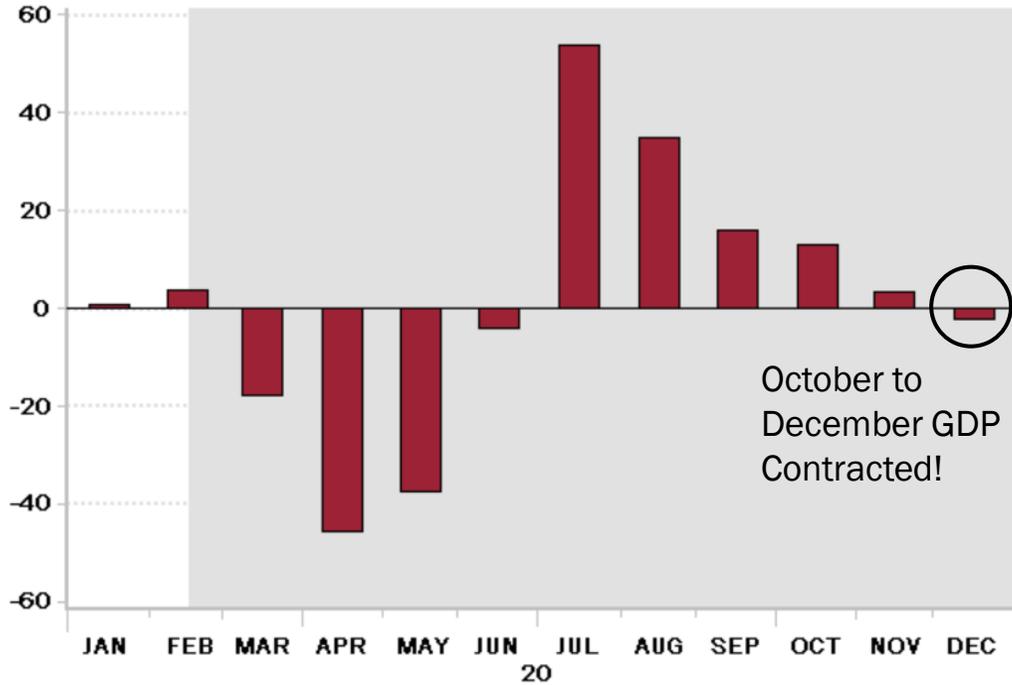


Shading indicates recession

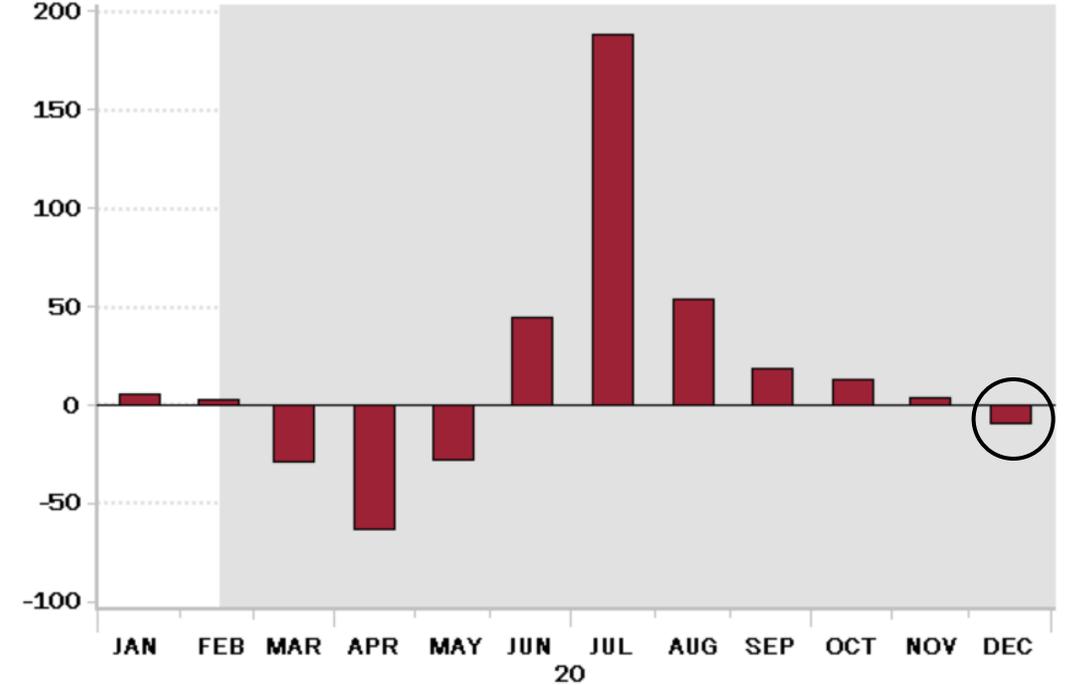
Source: Haver Analytics, Rosenberg Research

WE ALREADY KNOW WHAT HAPPENS WHEN THE STIMULUS CHECKS FADE

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



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



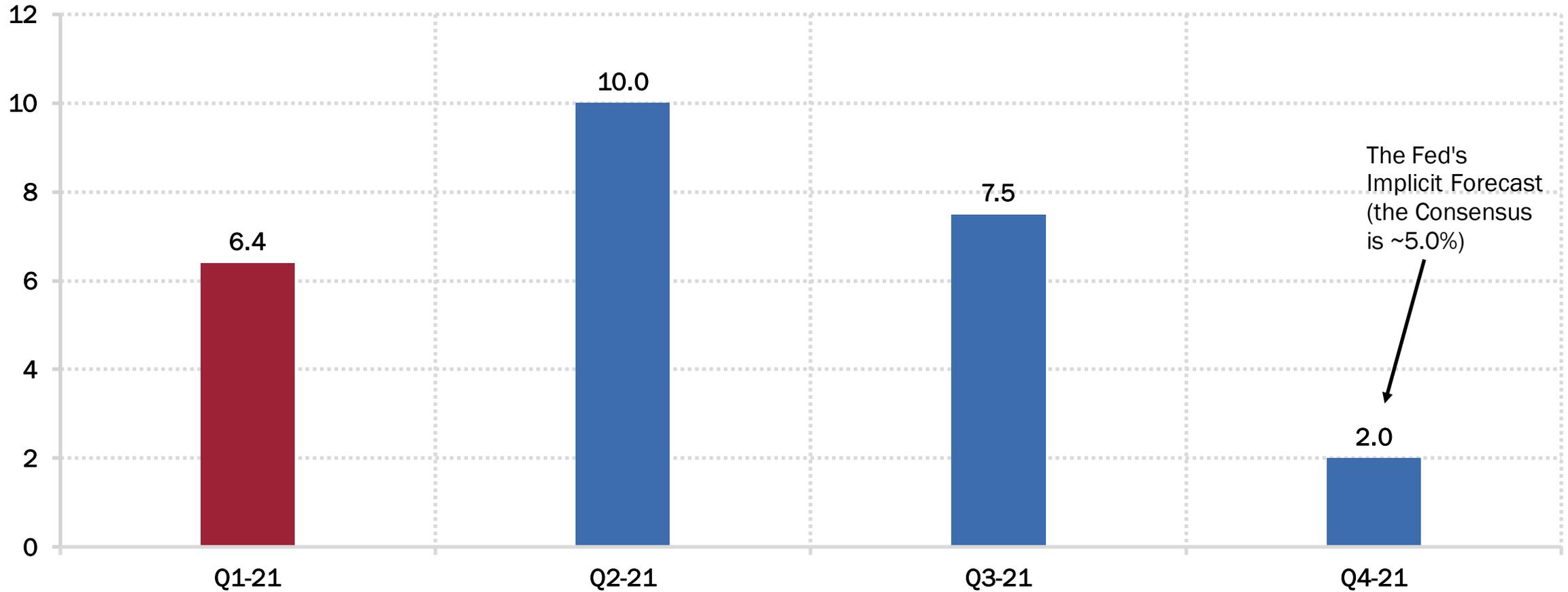
Shading indicates recession
Source: Haver Analytics, Rosenberg Research



LOOK OUT FOR A YEAR-END GROWTH RELAPSE

United States: Real GDP

(quarter-over-quarter percent change; annualized)



Note: values for 2021Q2 to 2021Q4 are forecasts

Source: Bloomberg, Rosenberg Research

INFLATION FEARS ARE WAY OVERDONE

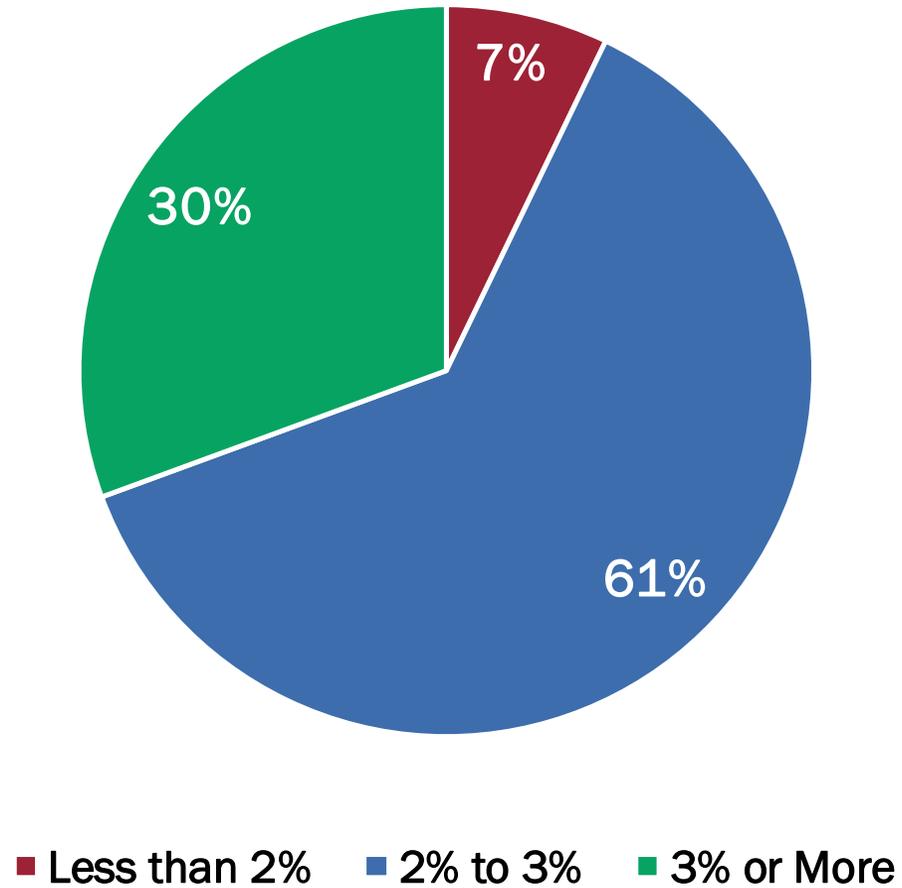


Source: cagle.com

32

BARRON'S BIG MONEY POLL – APRIL 2021

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



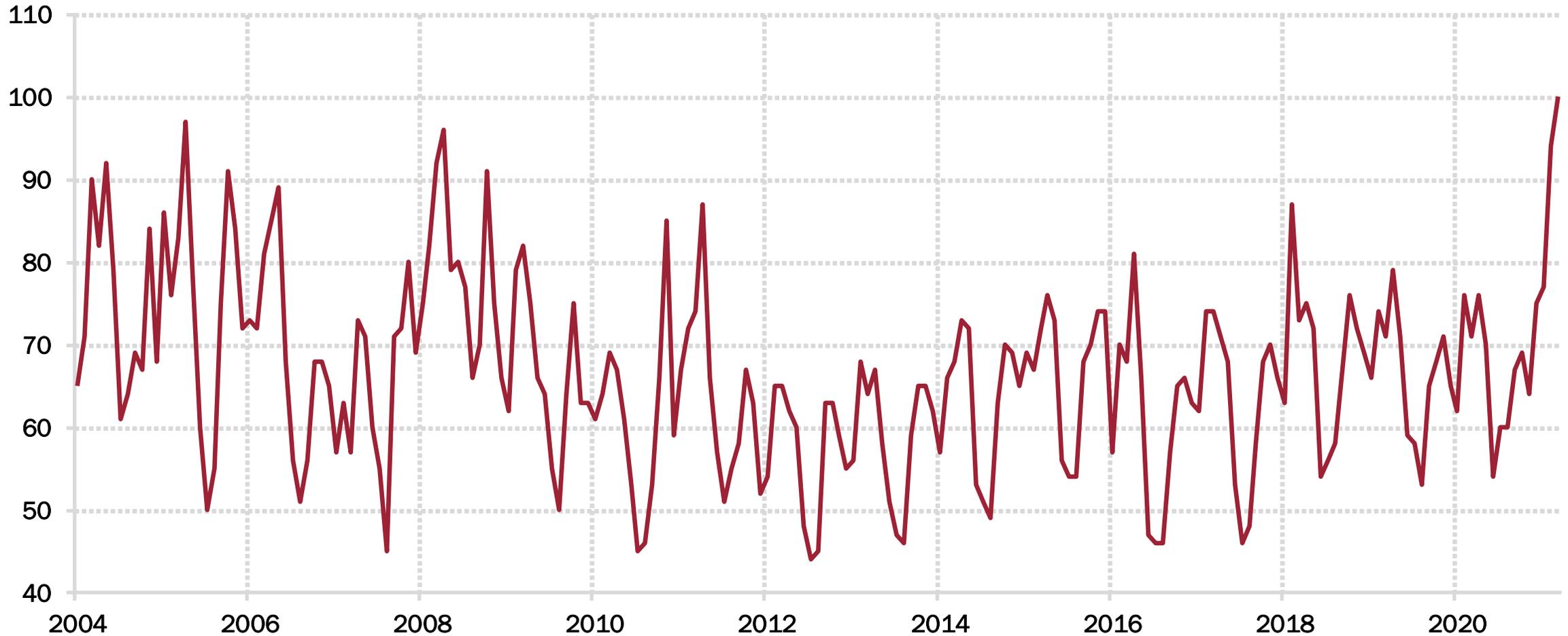
Source: Barron's, Rosenberg Research

33



GOOGLE SEARCHES FOR “INFLATION” AT RECORD HIGH!

United States: Google Searches for “Inflation”
(index)



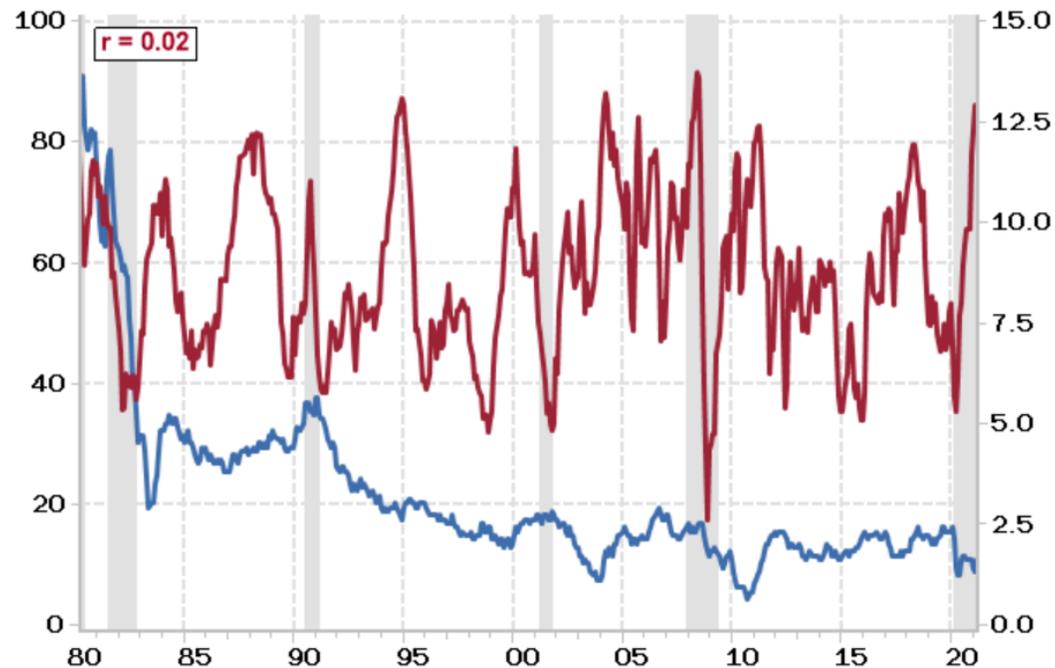
Source: Google Trends, Rosenberg Research



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

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

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

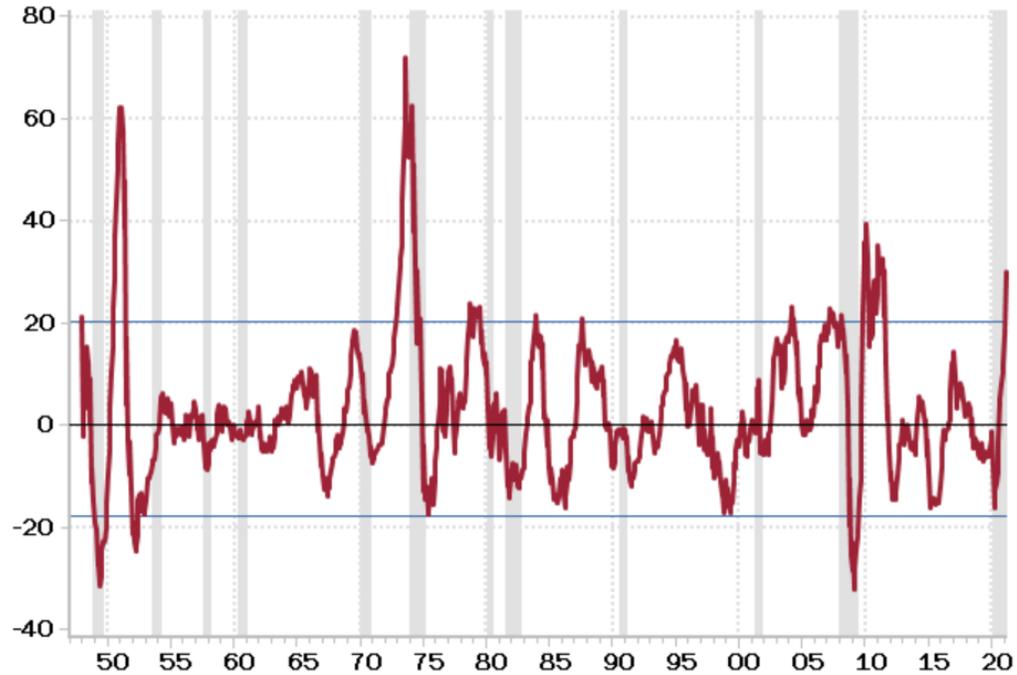


Shading indicates recession

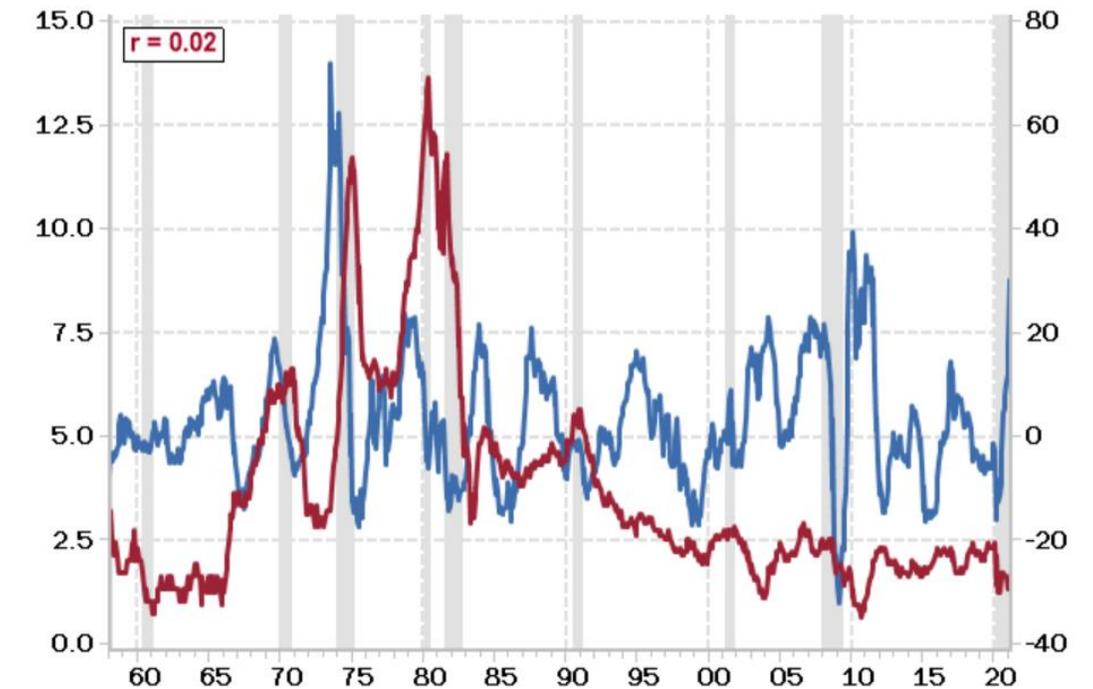
Source: Haver Analytics, Rosenberg Research

DON'T BE FOOLED – COMMODITIES ACTUALLY HAVE NO CORRELATION WITH INFLATION!

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)

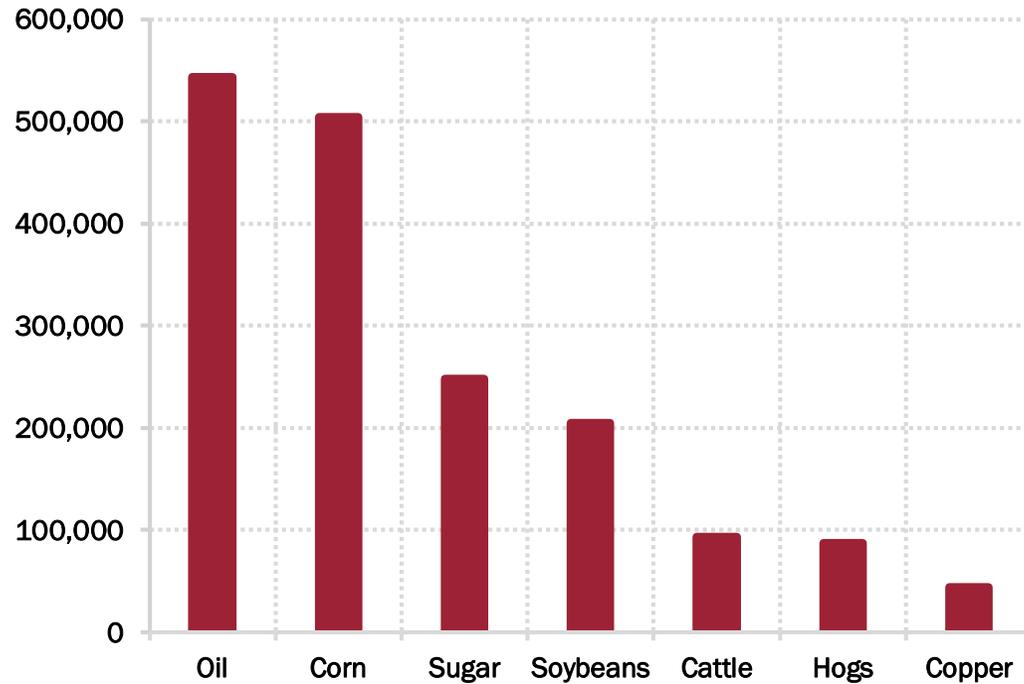


Shading indicates recession

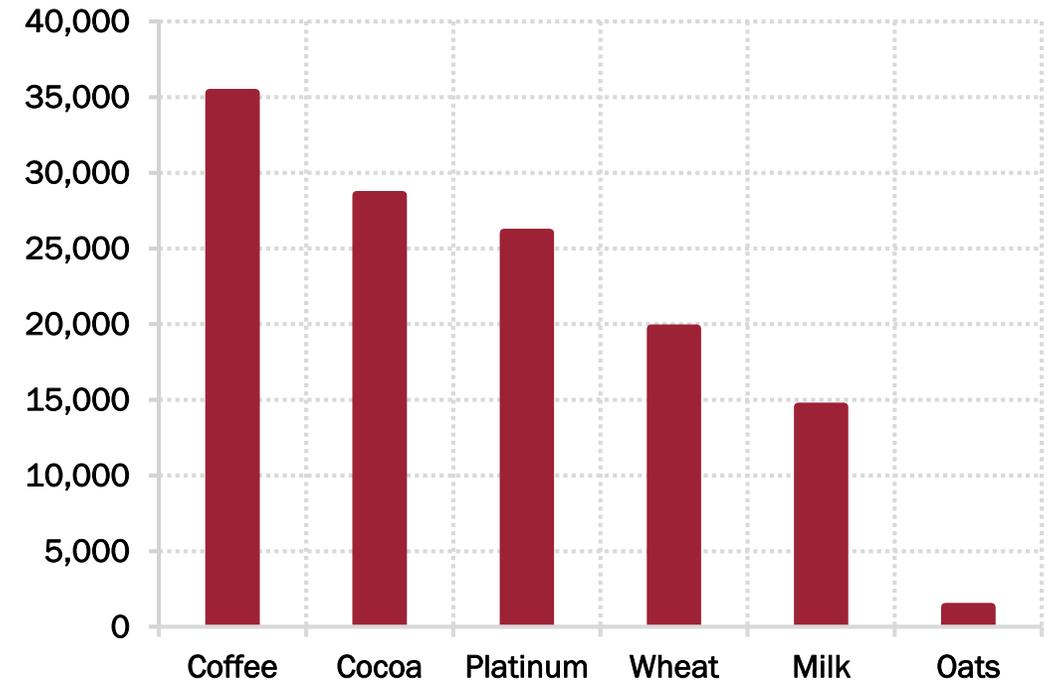
Source: Haver Analytics, Rosenberg Research

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

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



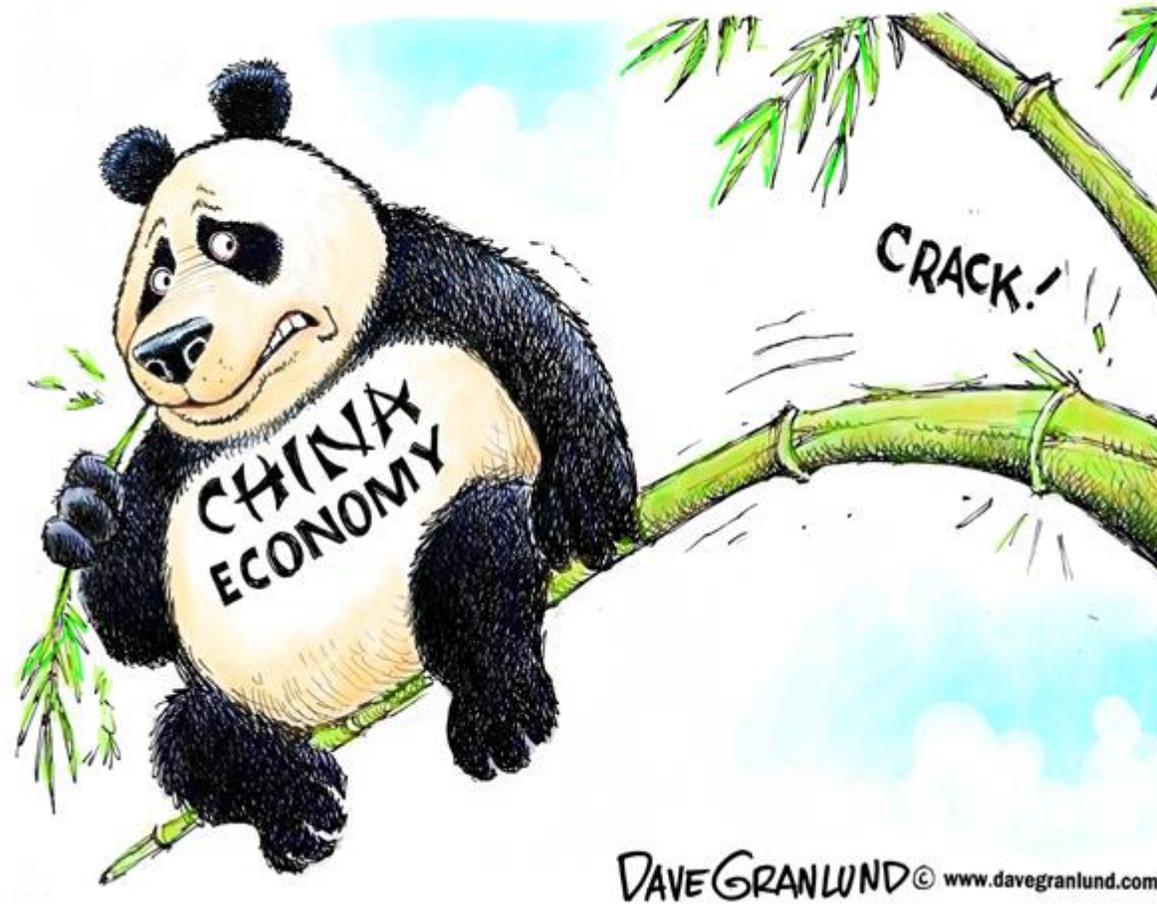
United States: Net Speculative Long Positions
(number of contracts)



Source: Haver Analytics, Rosenberg Research



CHINA CHILL

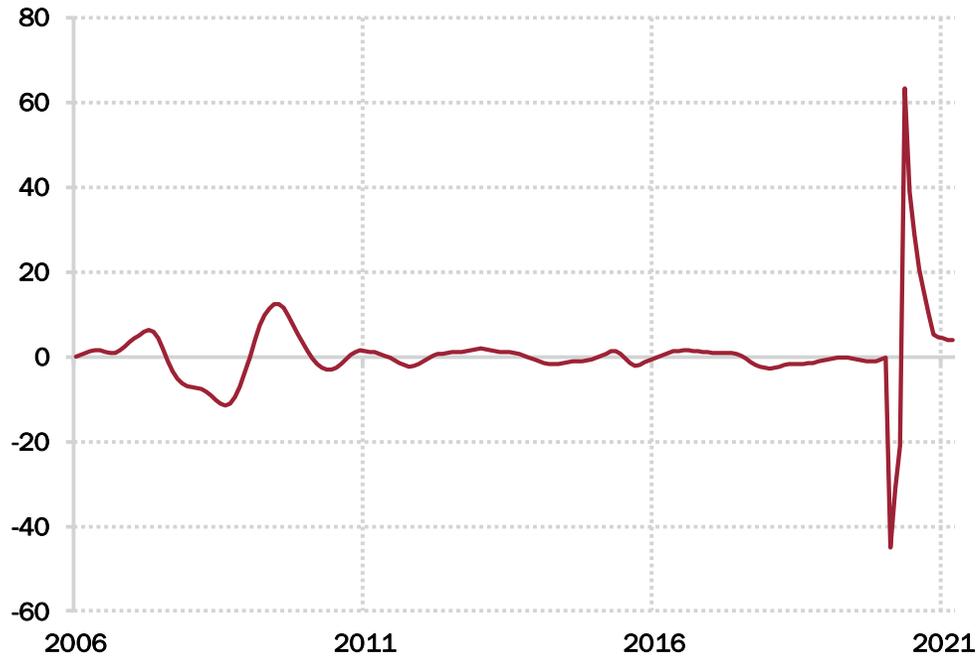


Source: Dave Granlund

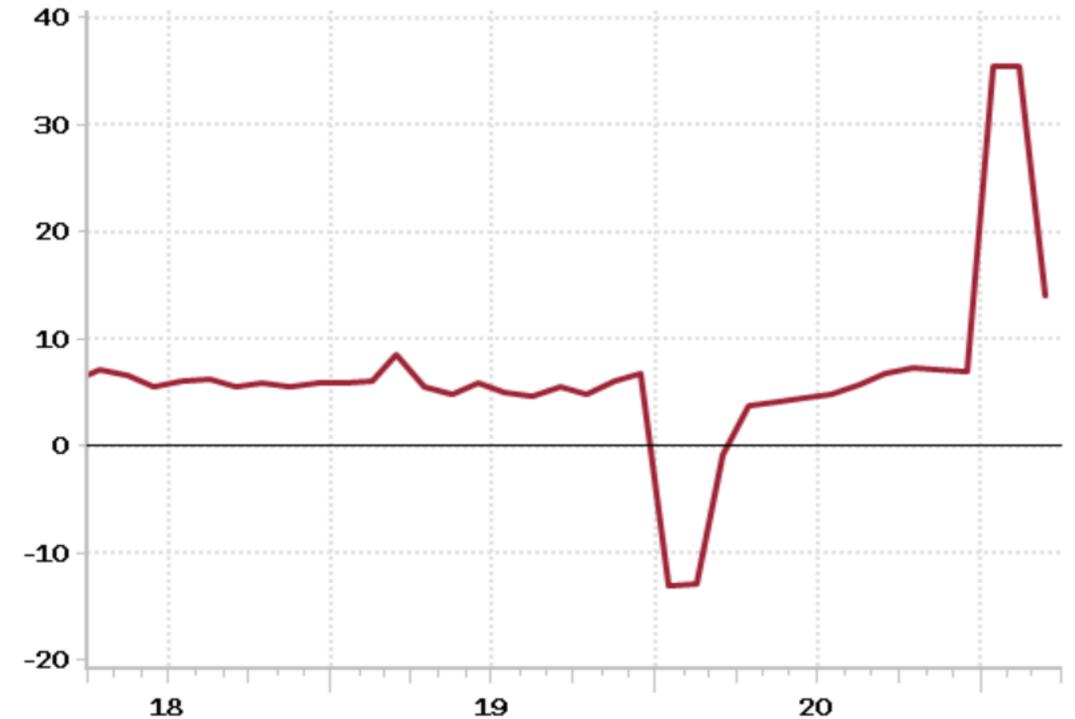
38

THERE IS NO “COMMODITY SUPER CYCLE” WITHOUT CHINA

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

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



China: Dow Jones China 88 (index)



Source: Haver Analytics, Rosenberg Research



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



Source: Press Telegram

41



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

United States: Labor Supply
(millions)

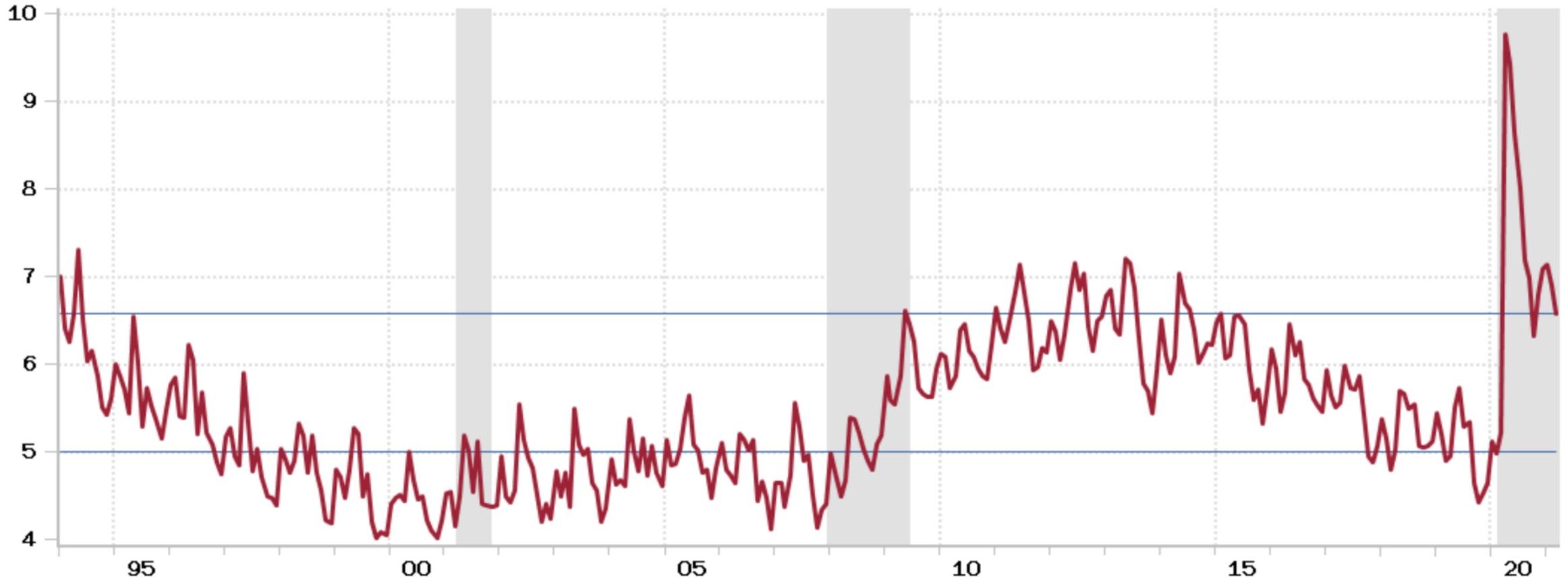


Shading indicates recession

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)

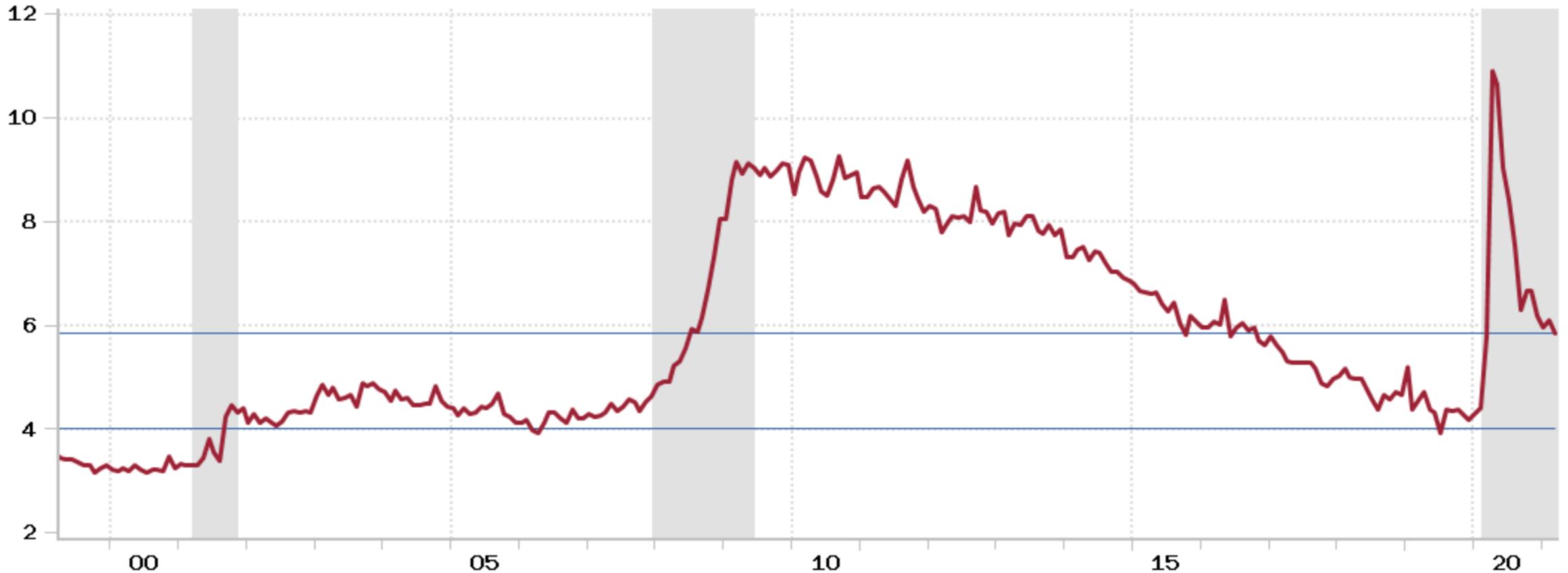


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

ABOUT 6 MILLION AMERICANS WORKING PART-TIME WHO WANT A FULL-TIME JOB

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

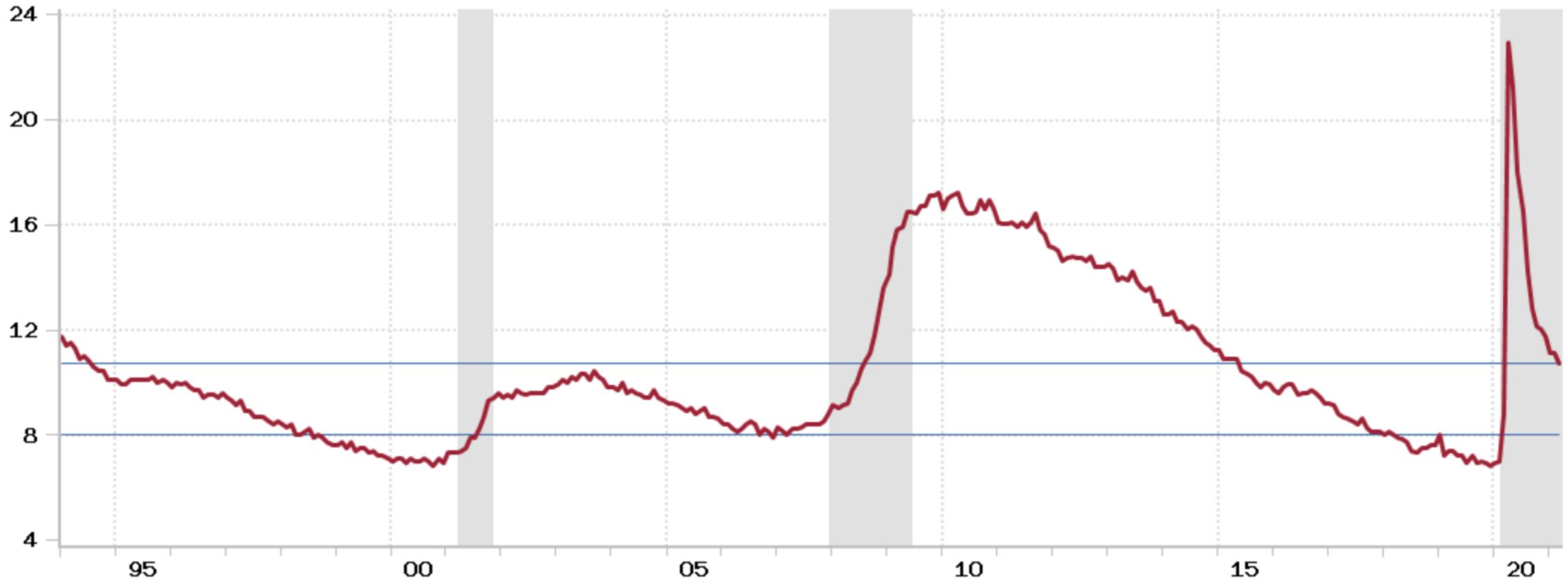


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

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

United States: U-6 Jobless Rate
(percent)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

NO EVIDENCE OF ACCELERATING WAGES FROM THE ATLANTA FED TRACKER

United States: FRB Atlanta Wage Growth Tracker

(3-month moving average; year-over-year percent change)

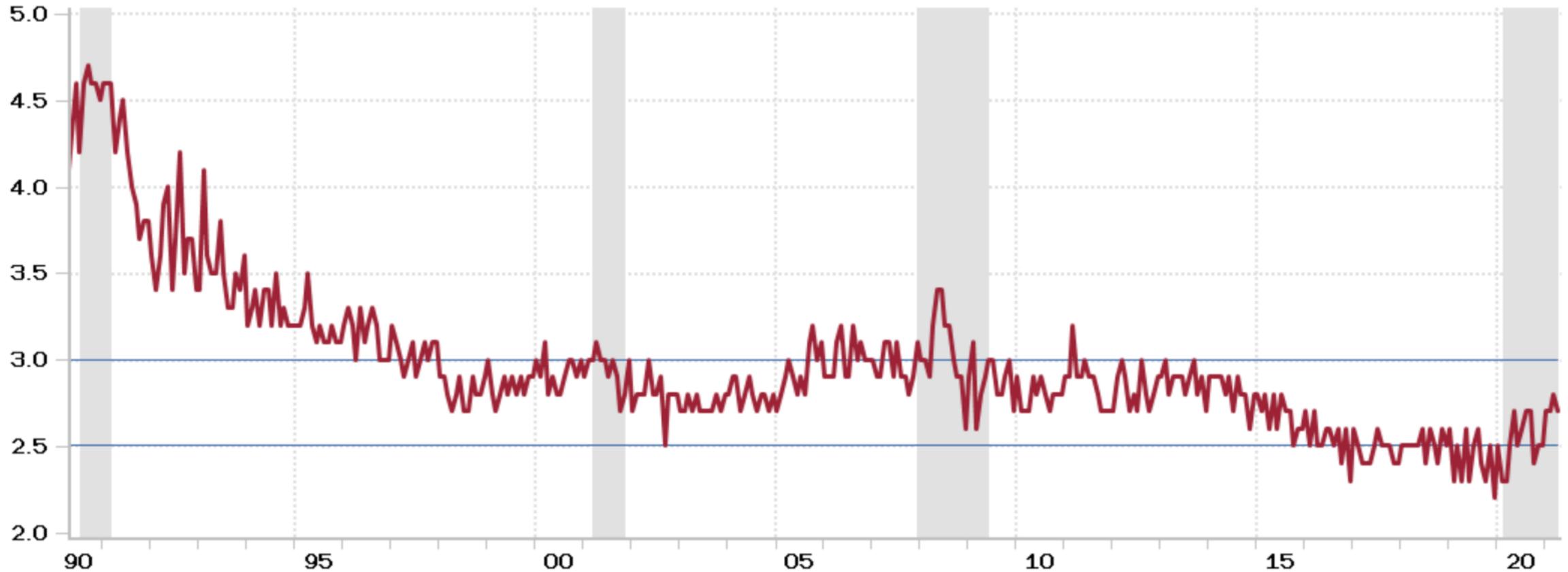


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

NO BREAKOUT AT ALL IN CONSUMER INFLATION VIEWS

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



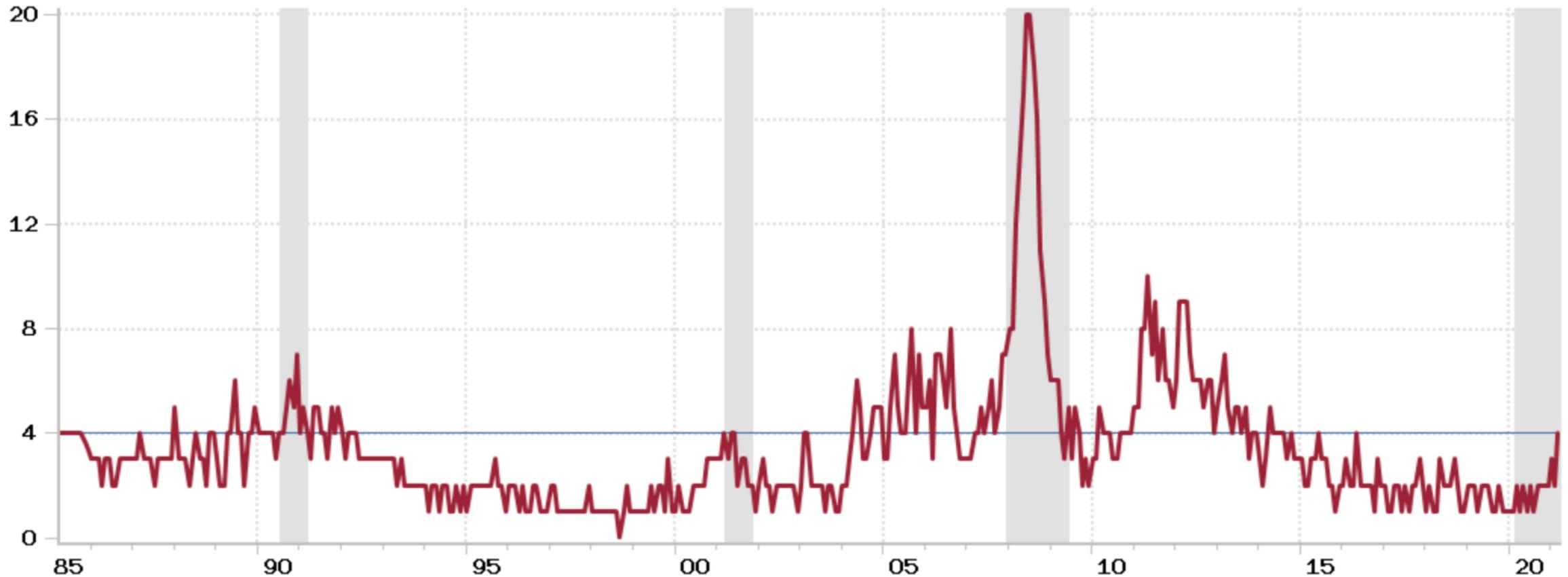
Shading indicates recession

Source: Haver Analytics, Rosenberg Research



ONLY 4% OF SMALL BUSINESSES CITE INFLATION AS TOP CONCERN

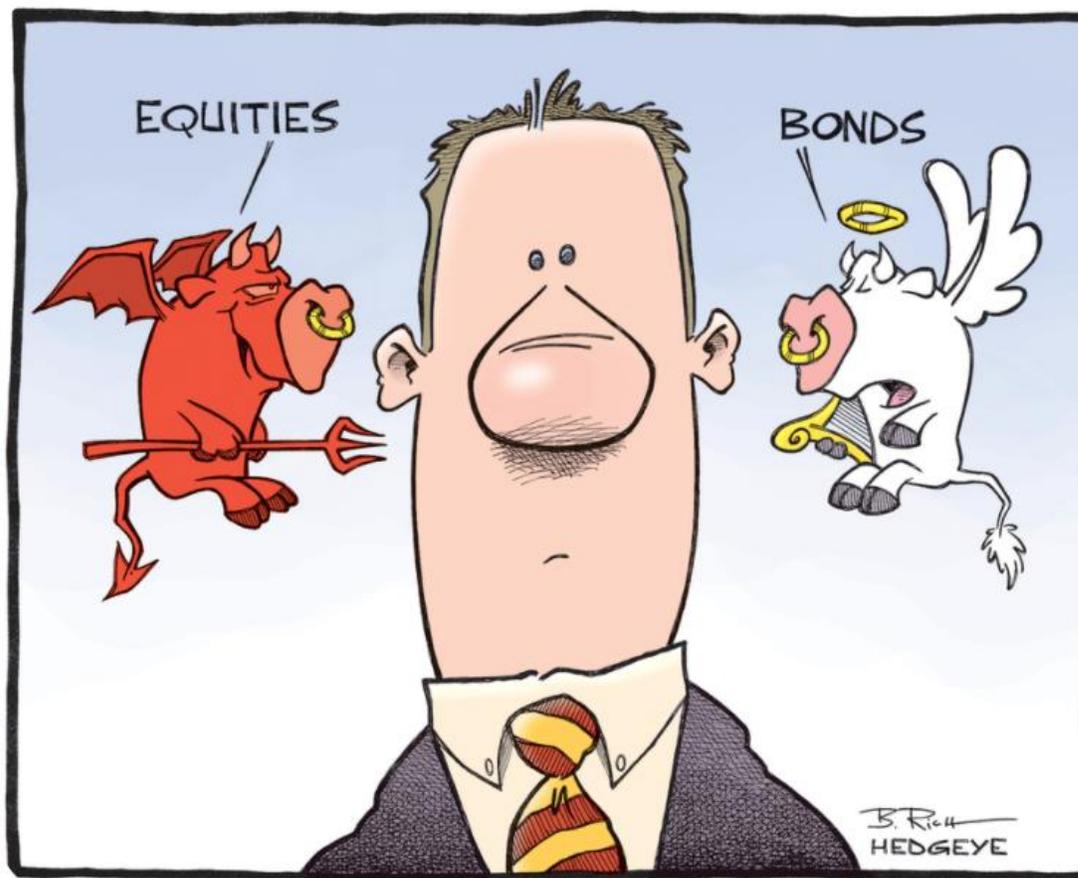
United States: NFIB: Share Reporting Inflation as Single Most Important Problem
(percent)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

THE BOND MARKET HAS ALREADY PRICED IN A LOT



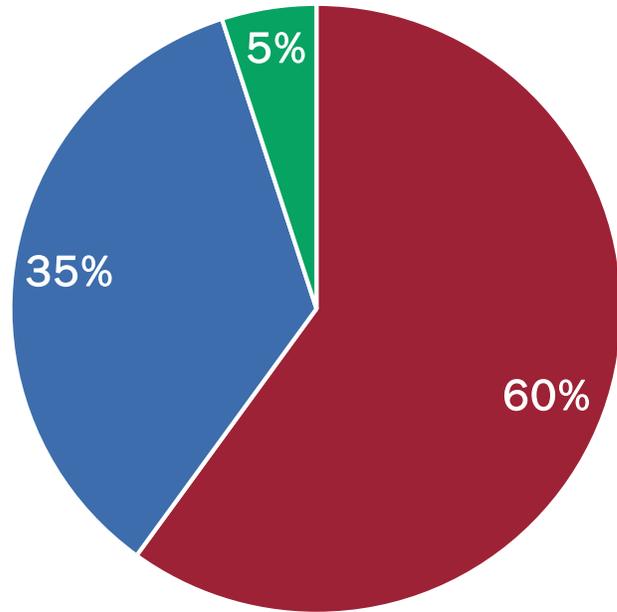
Source: Hedgeye

49



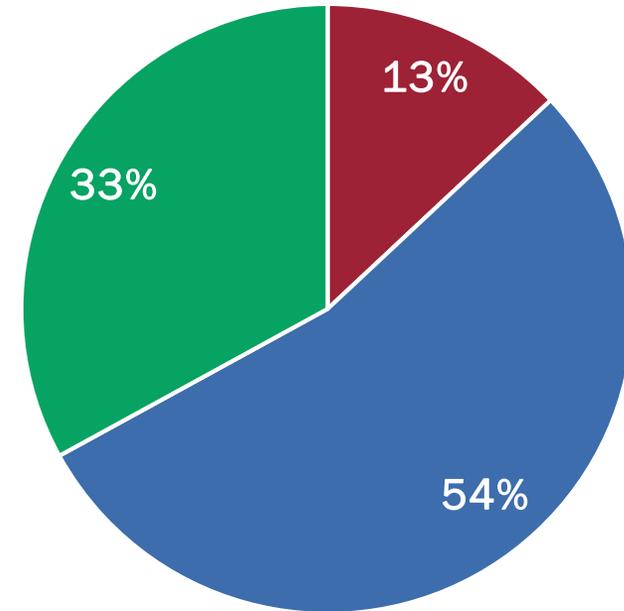
BARRON'S BIG MONEY POLL – APRIL 2021

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



■ Before End of 2022 ■ In 2023 ■ In 2024 (or Later)

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



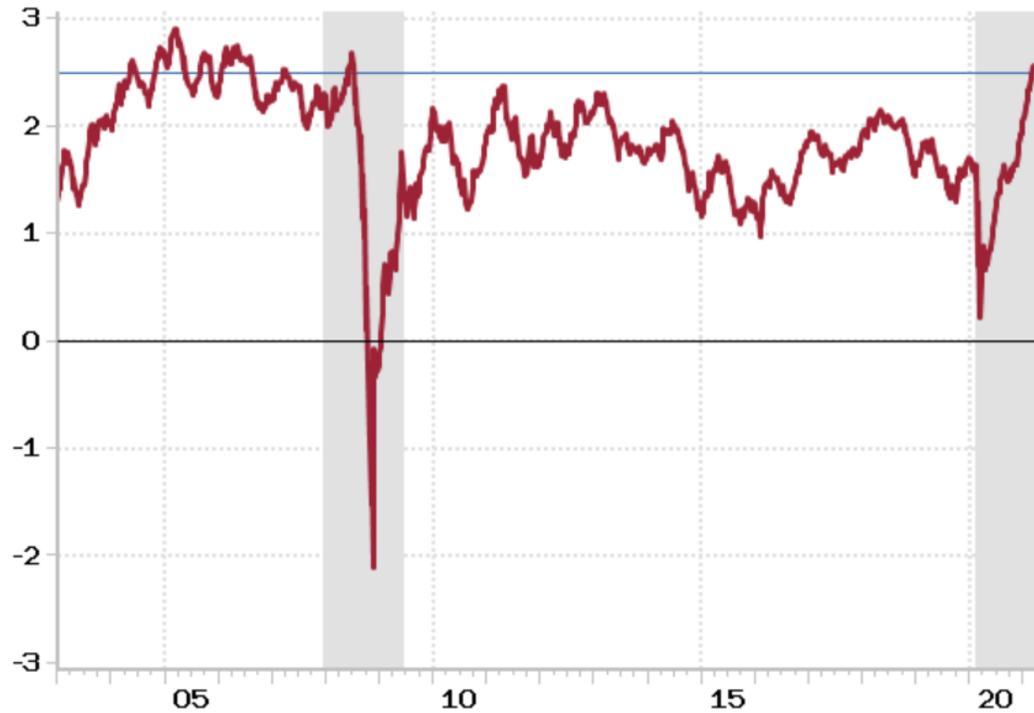
■ 1.75% or Lower ■ 2% to 2.5% ■ 2.5% or Higher

Source: Barron's, Rosenberg Research



10-YEAR TIPS BREAKEVEN LEVELS ARE BACK APPROACHING 2.5% FOR THE FIRST TIME SINCE 2013

United States: 5-Year TIPS Breakevens
(percent)



United States: 10-Year TIPS Breakevens
(percent)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

CLEVELAND FED INFLATION EXPECTATIONS REMAIN WELL BELOW MARKET-BASED ESTIMATES

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

THE FORWARD CURVE HAS ALREADY PRICED IN THE PEAK FED FUNDS RATE

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



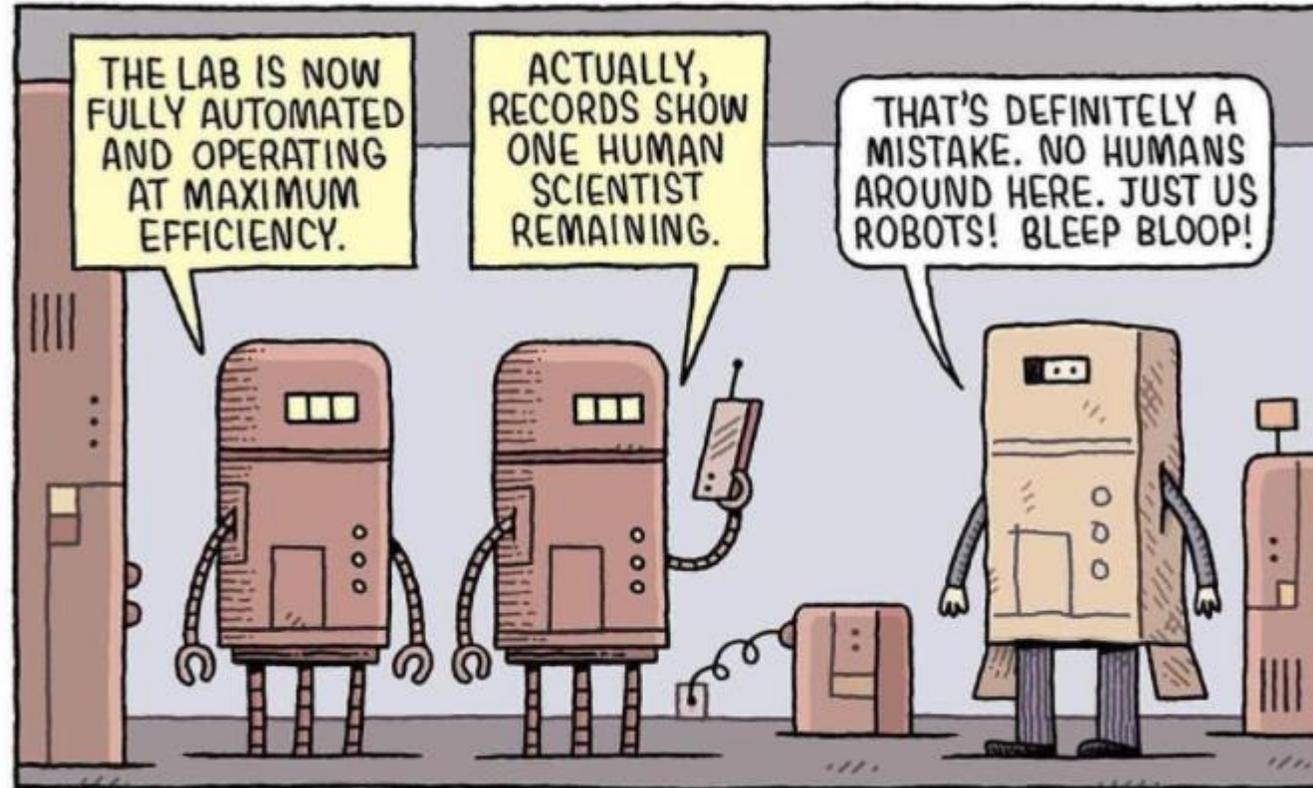
United States: Treasury Yield Compounded
Forward Rate in 9 Years: 1-Year
(percent)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research



PRODUCTIVITY IS AN INFLATION KILLER



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

WSJ | OPINION



The Fed in the Sand as Inflation Threatens

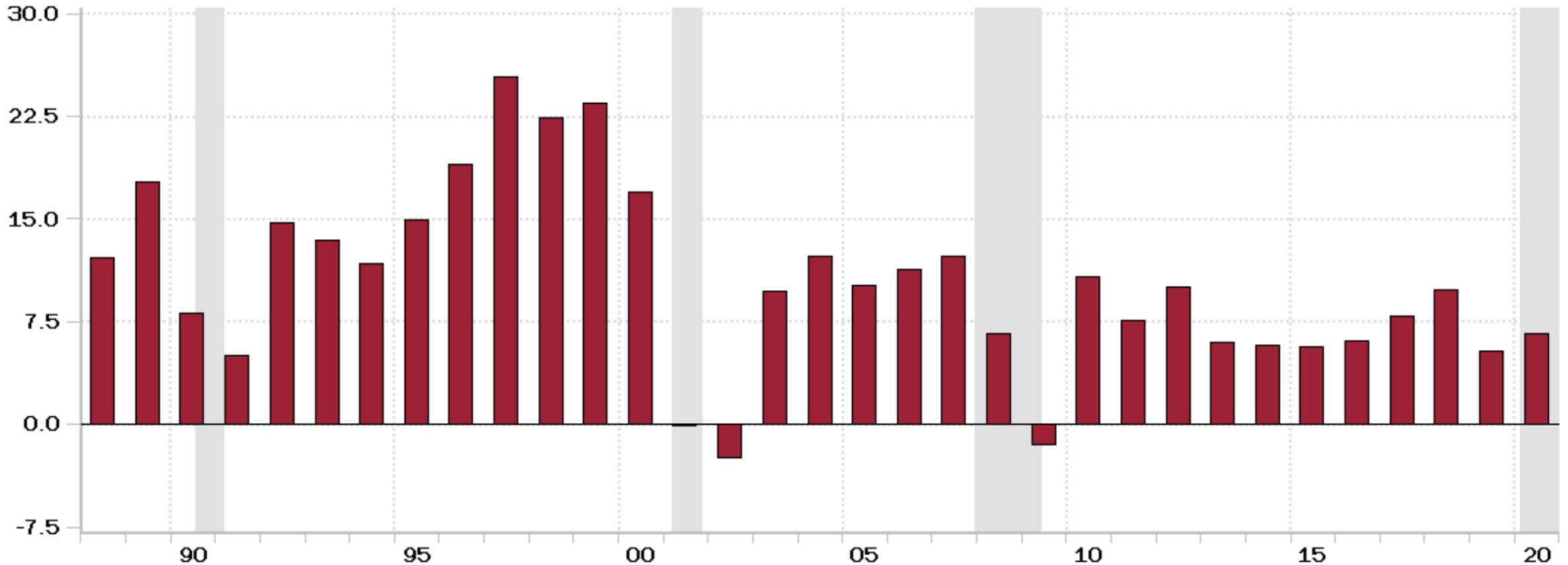
We aren't going back to the 1970s, but the central bank isn't being realistic about the risk of higher prices.

By Mickey D. Levy and Michael D. Bordo

April 26, 2021 12:46 pm ET

BUSINESS SPENDING ON AUTOMATION EXPANDED 7% IN 2020

United States: IT Equipment & Software Investment
(year-over-year percent change)

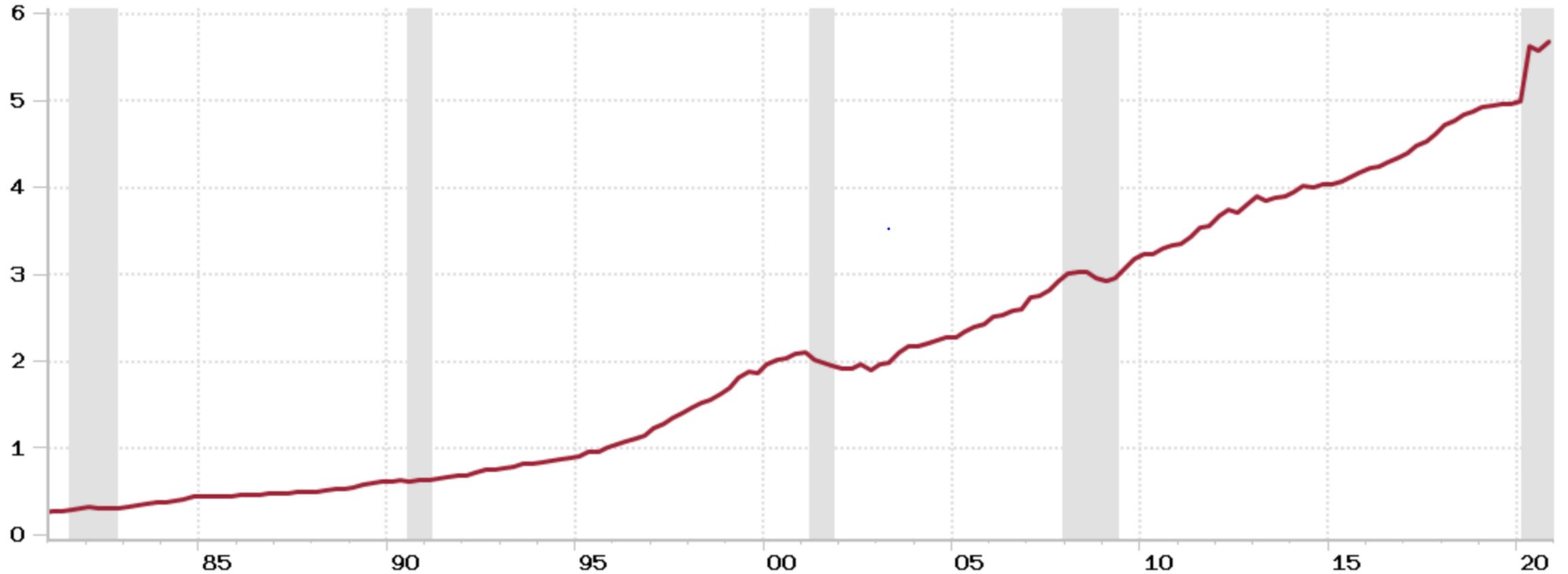


Shading indicates recession

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)

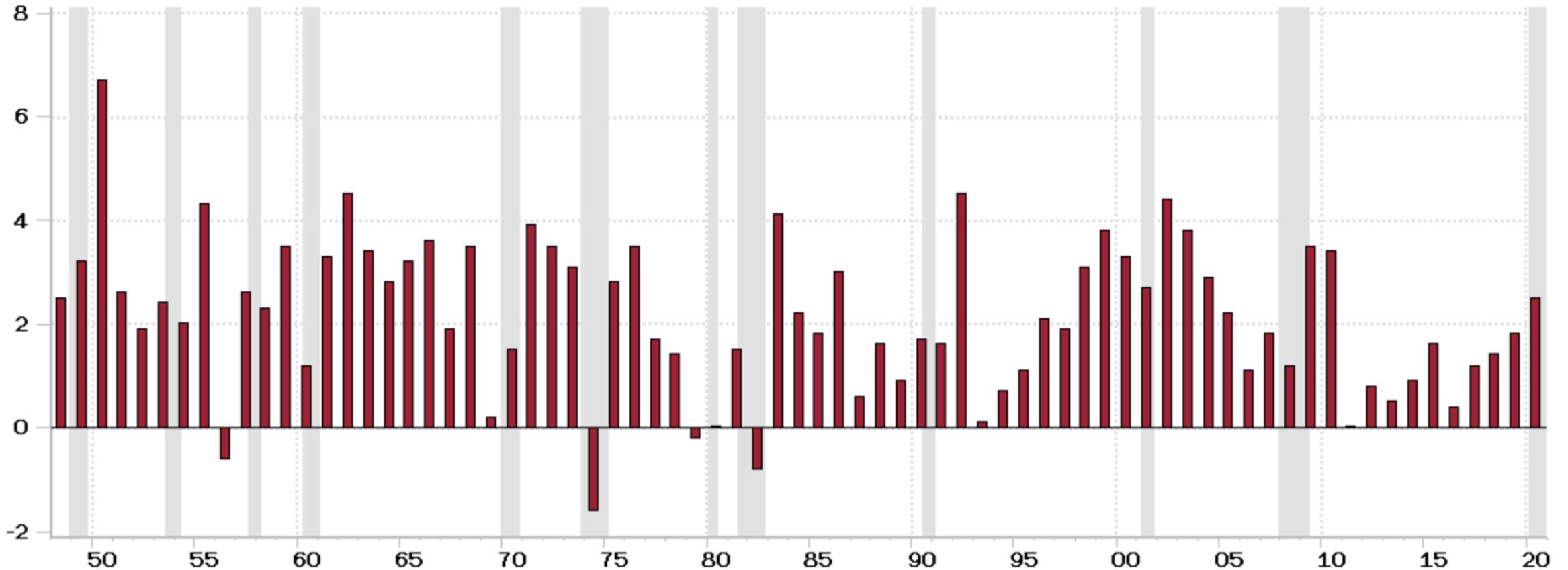


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

BEST YEAR FOR PRODUCTIVITY GROWTH IN A DECADE

United States: Real Output per Hour
(year-over-year percent change)



Shading indicates recession

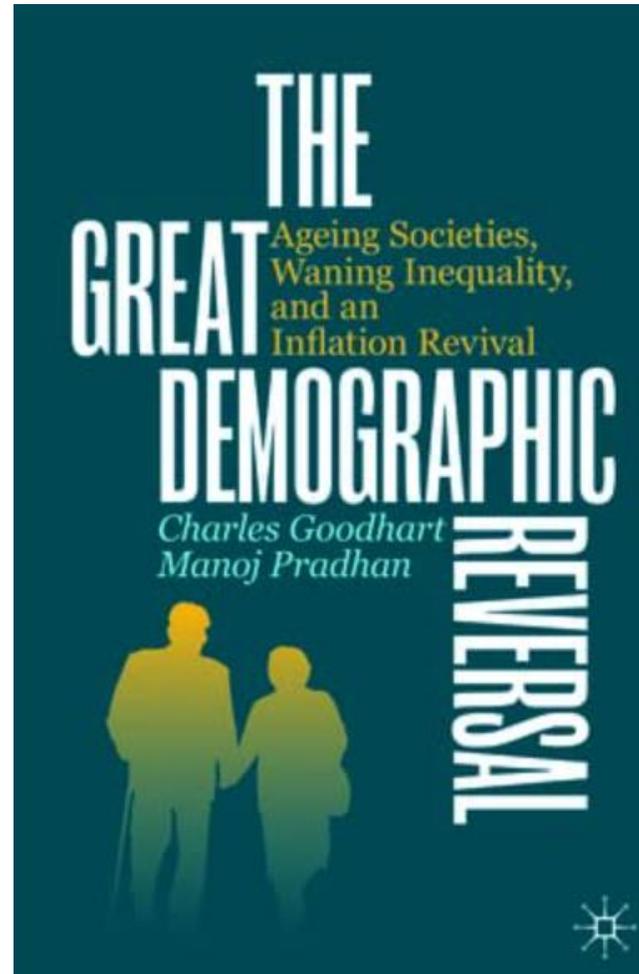
Source: Haver Analytics, Rosenberg Research



THE PANDEMIC DIDN'T STOP US FROM GETTING OLDER



THE GREAT DEMOGRAPHIC REVERSAL



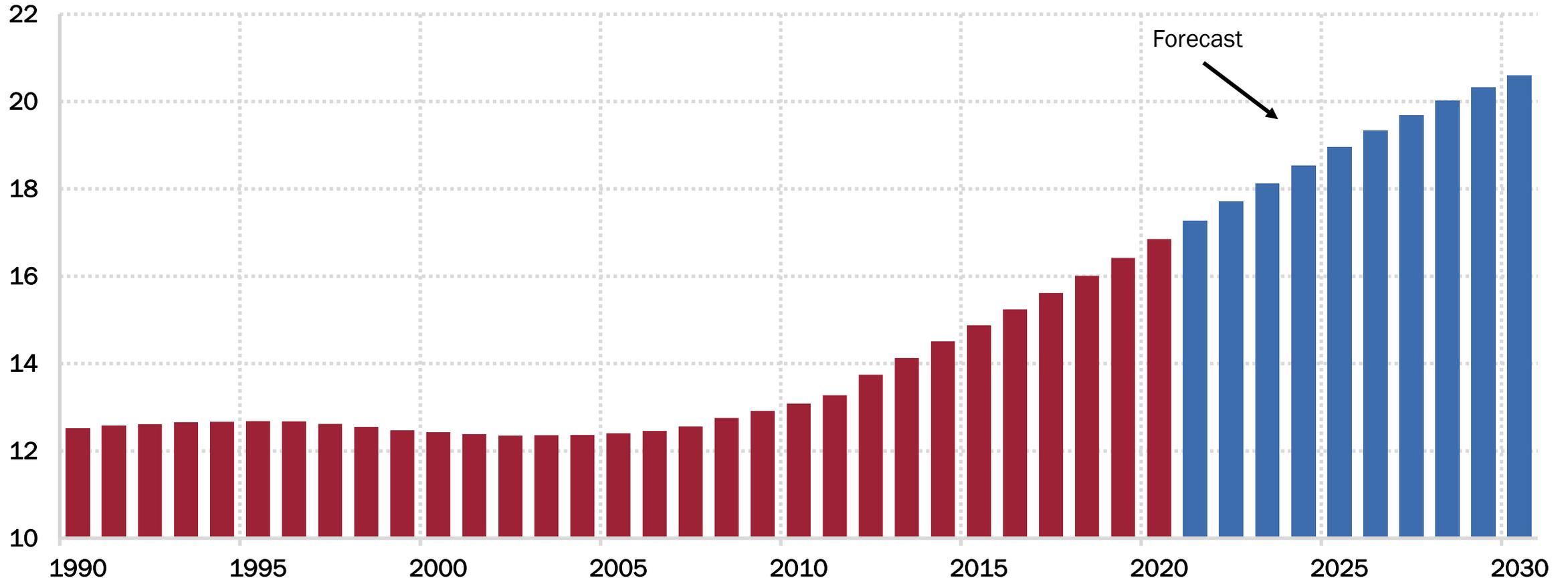
Source: Manoj Pradhan, Charles Goodhart

60



POPULATION SHARE AGED 65+

United States: Share of Population Aged 65+
(percent)

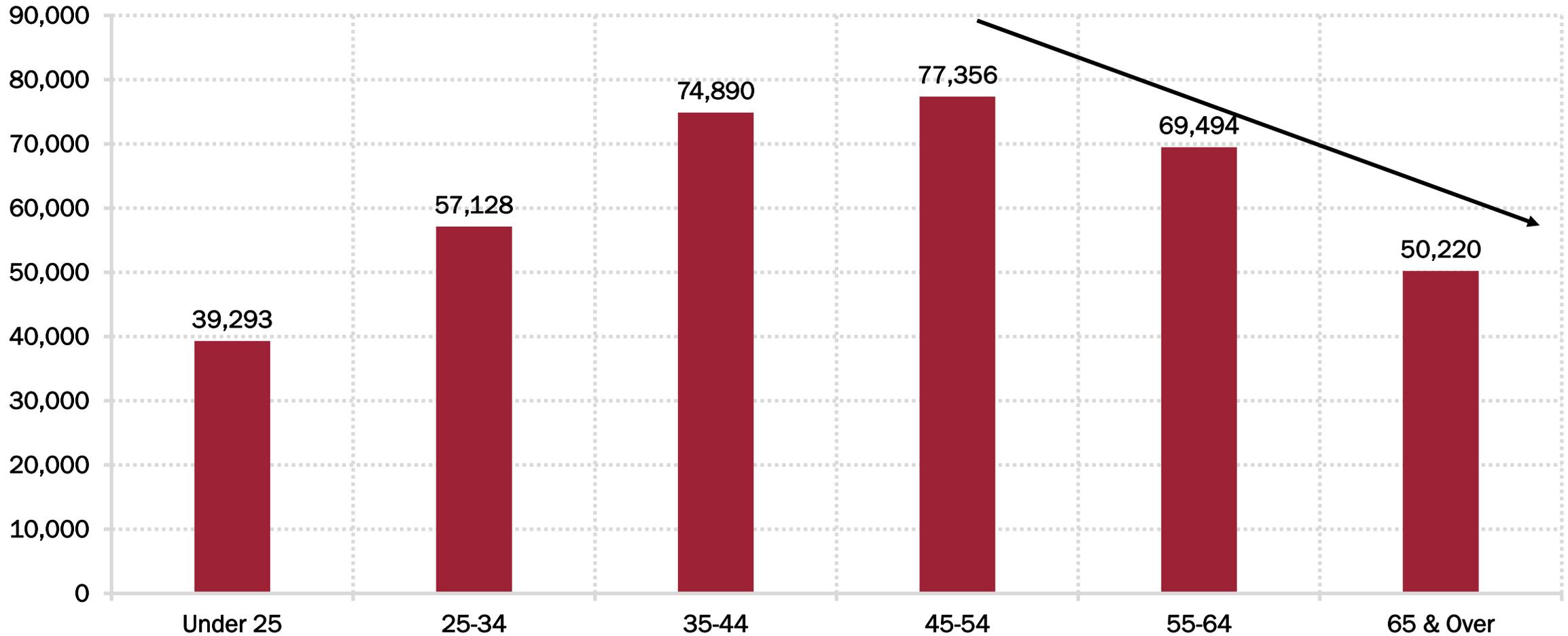


Note: values for 2021 to 2030 are forecasts
Source: Haver Analytics, Rosenberg Research

CONSUMER SPENDING THROUGH THE LIFE-CYCLE

United States: Total Consumer Expenditures

(\$)



Source: Haver Analytics, Rosenberg Research



DEBT ACTS AS A FUNDAMENTAL CONSTRAINT ON GROWTH & INFLATION



Source: Global Times

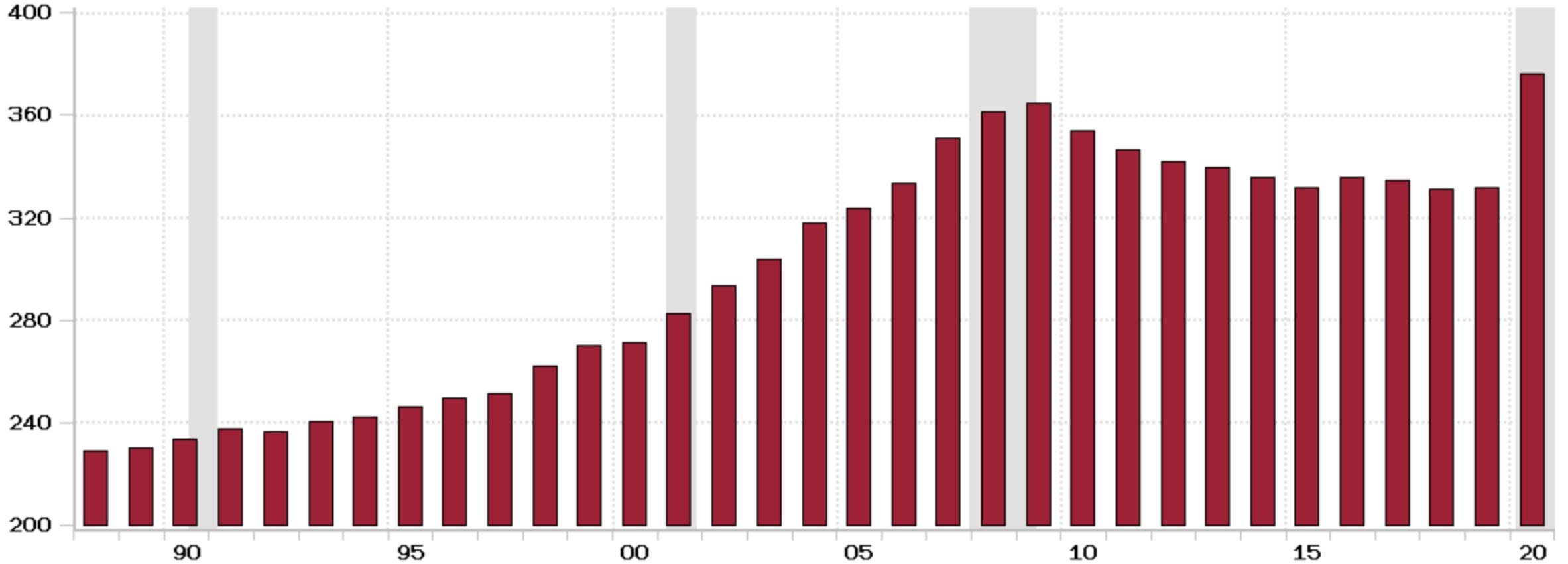
63



DEBT AS A SHARE OF GDP HAS SURPASSED THE 2008 RECESSION PEAK

United States: Debt Outstanding as a Share of GDP

(percent)



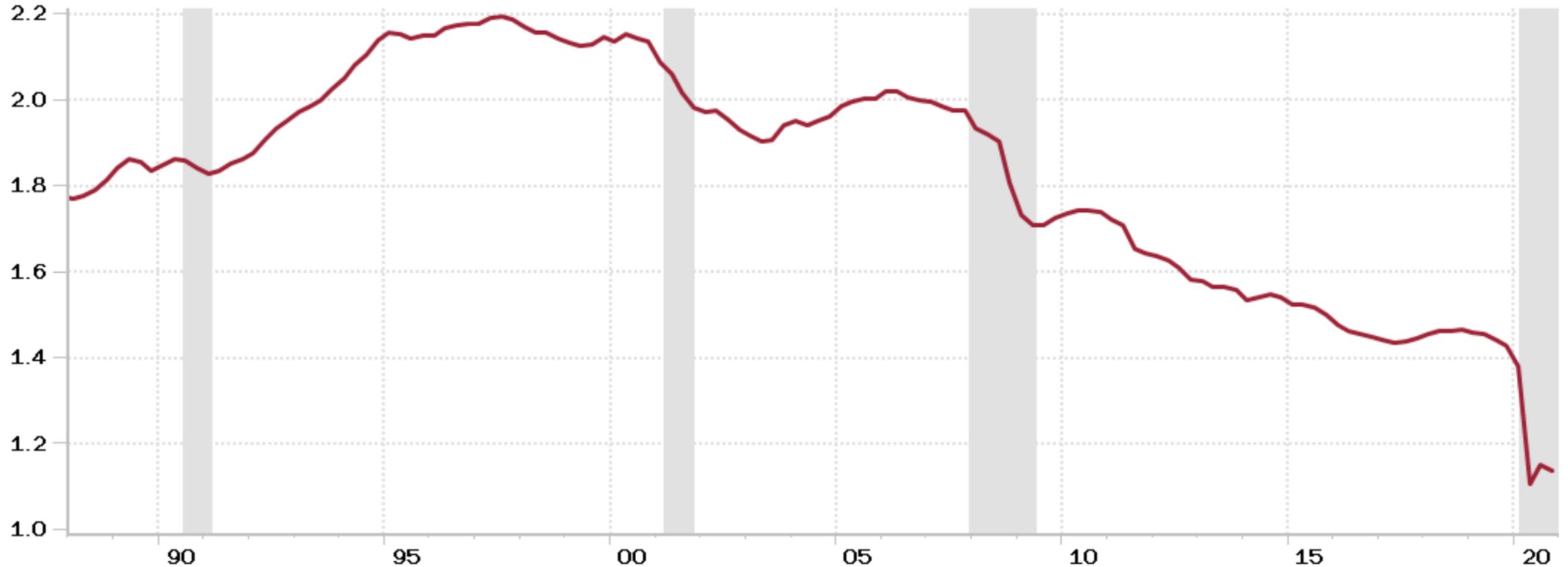
Shading indicates recession

Source: Haver Analytics, Rosenberg Research



M2 MONEY SUPPLY MAY HAVE SURGED, BUT MONEY VELOCITY HAS PLUMMETED!

United States: M2 Money Velocity
(ratio)



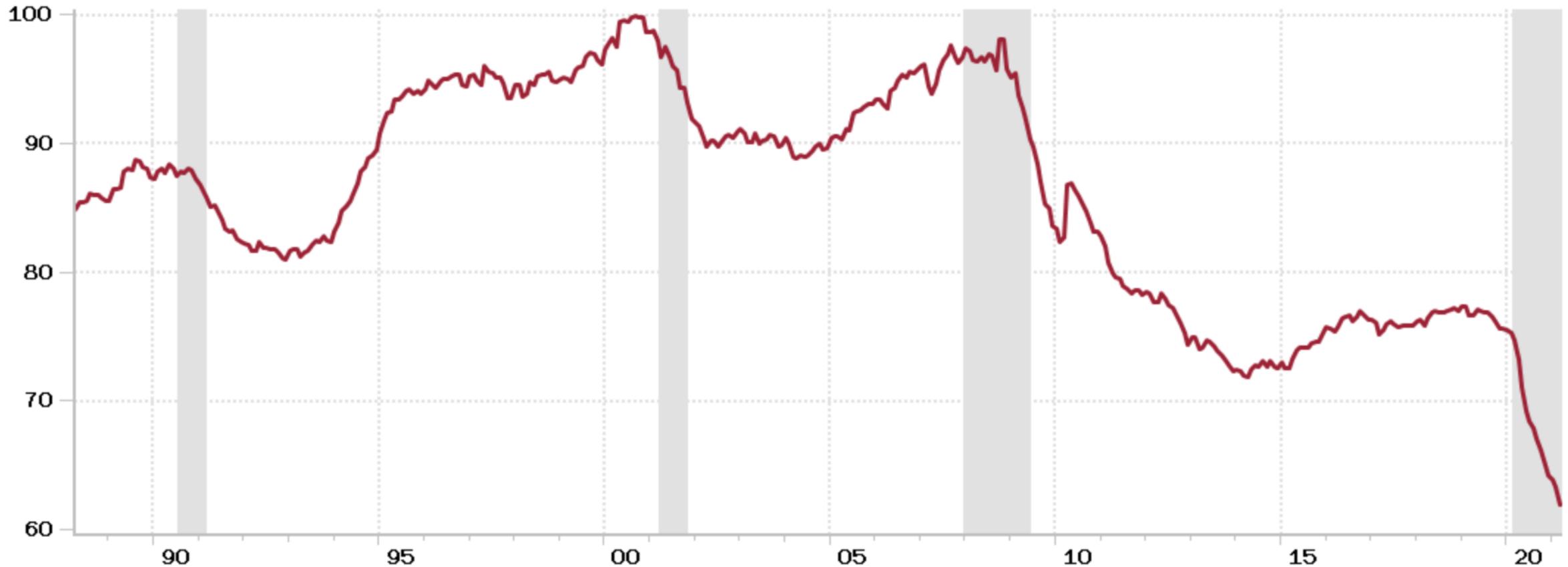
Shading indicates recession

Source: Haver Analytics, Rosenberg Research



AND SO HAS THE LOAN-TO-DEPOSIT RATIO

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



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

BANK LENDING REMAINS DEPRESSED

United States: Loans & Leases
(year-over-year percent change)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

BANK LENDING TO HOUSEHOLDS STILL CONTRACTING

United States: Consumer & Residential Real Estate Loans
(year-over-year percent change)

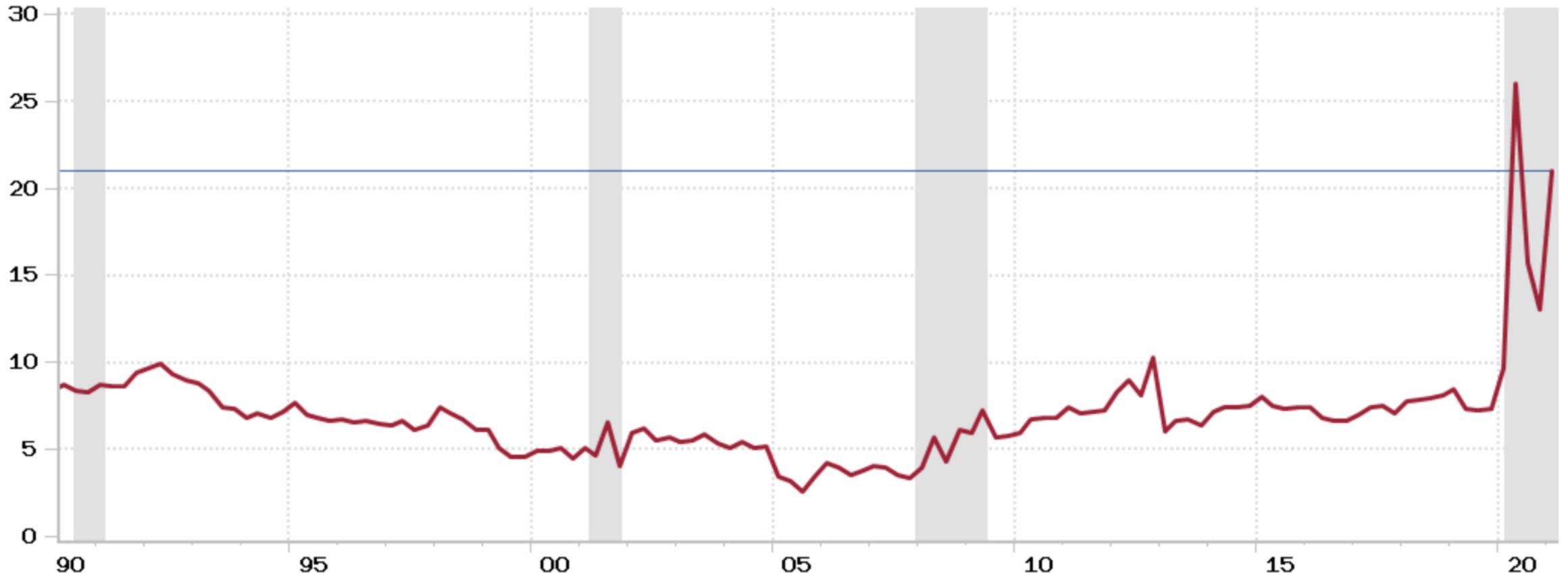


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

THE FUTURE IS FRUGAL – THE BULL MARKET WILL BE IN SAVINGS

United States: Personal Saving Rate (percent)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

HOW AMERICANS SPENT THEIR THREE STIMULUS CHECKS

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 Debt	34.5	37.4	33.7

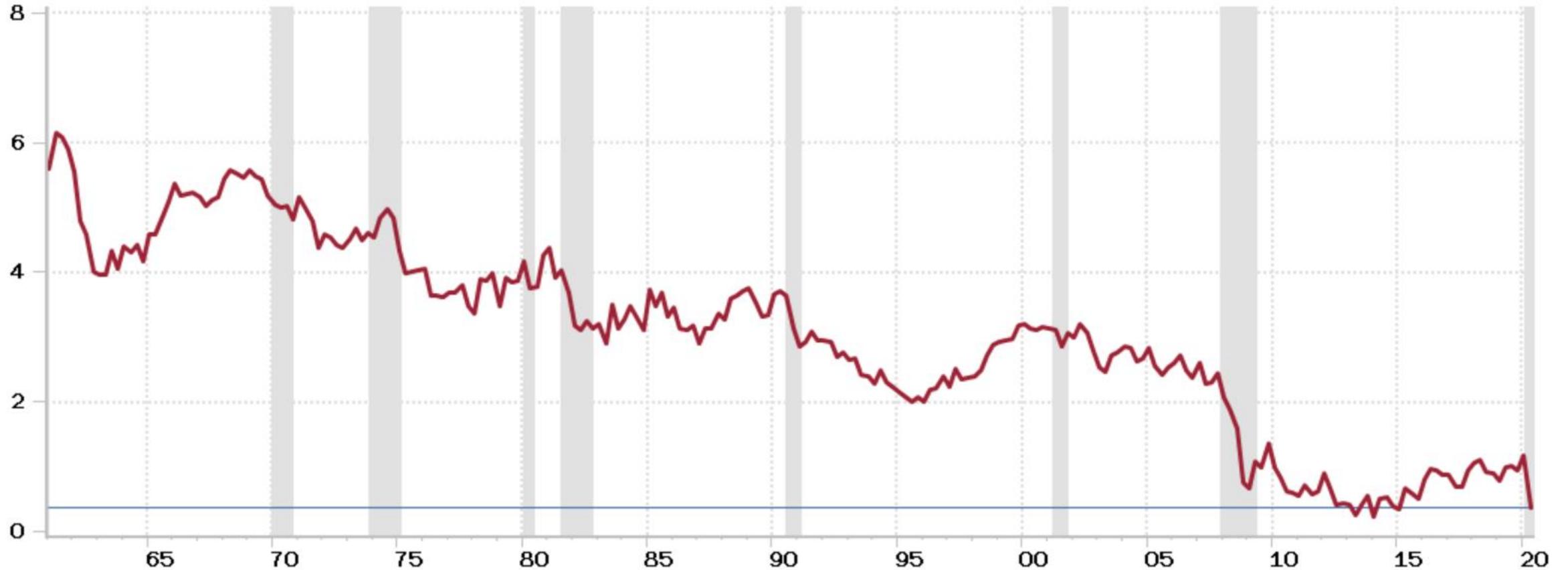
Source: Ny Fed Survey of Consumer Expectations; Rosenberg Research

70



AGING DEMOGRAPHICS + DEBT OVERHANG = EVER-LOWER NEUTRAL INTEREST RATE

United States: Natural Rate of Interest
(percent)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

GLOBALIZATION IS NOT DEAD



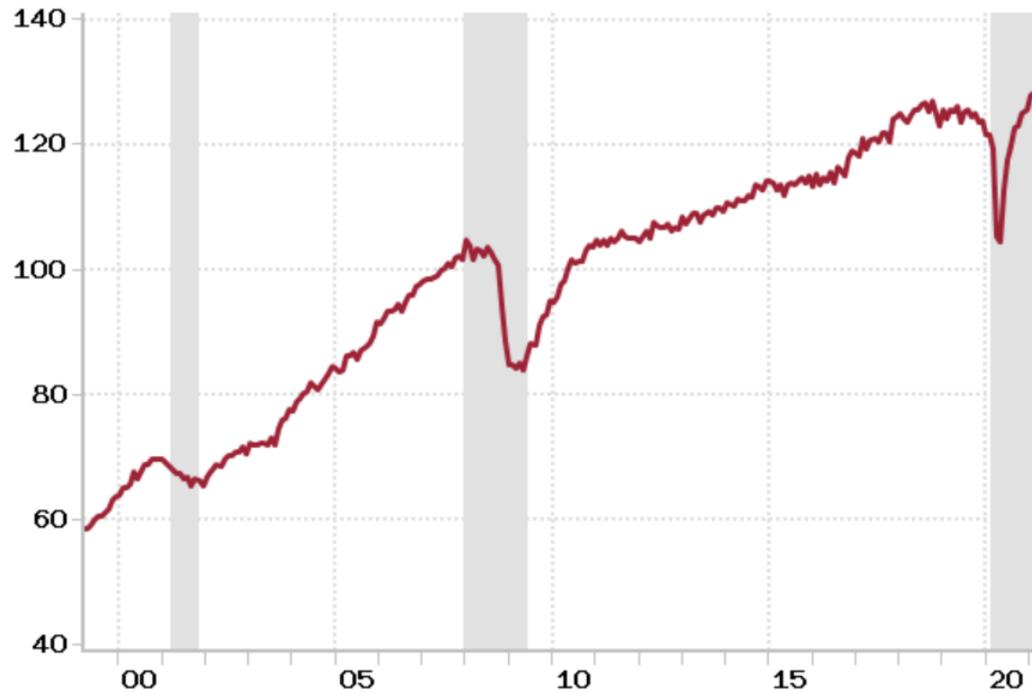
Source: Uncommon Thought

72

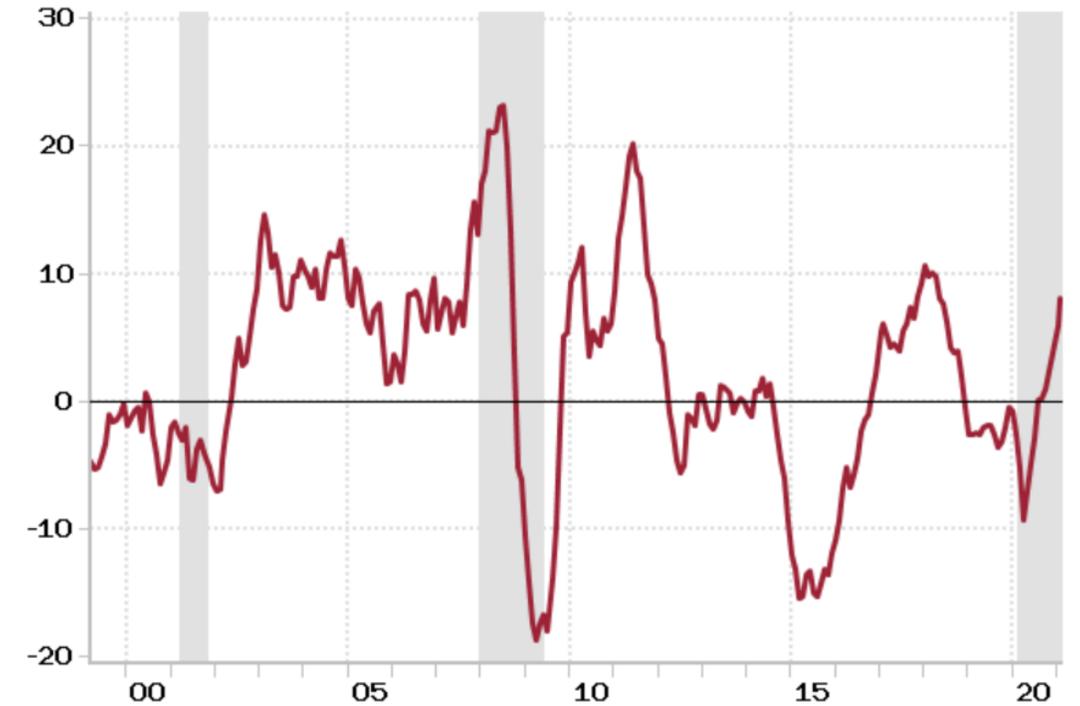


THE GLOBAL ECONOMY IS MORE INTERCONNECTED THAN EVER

Global: World Trade Volume
(index)



Global: World Trade Unit Value
(index)

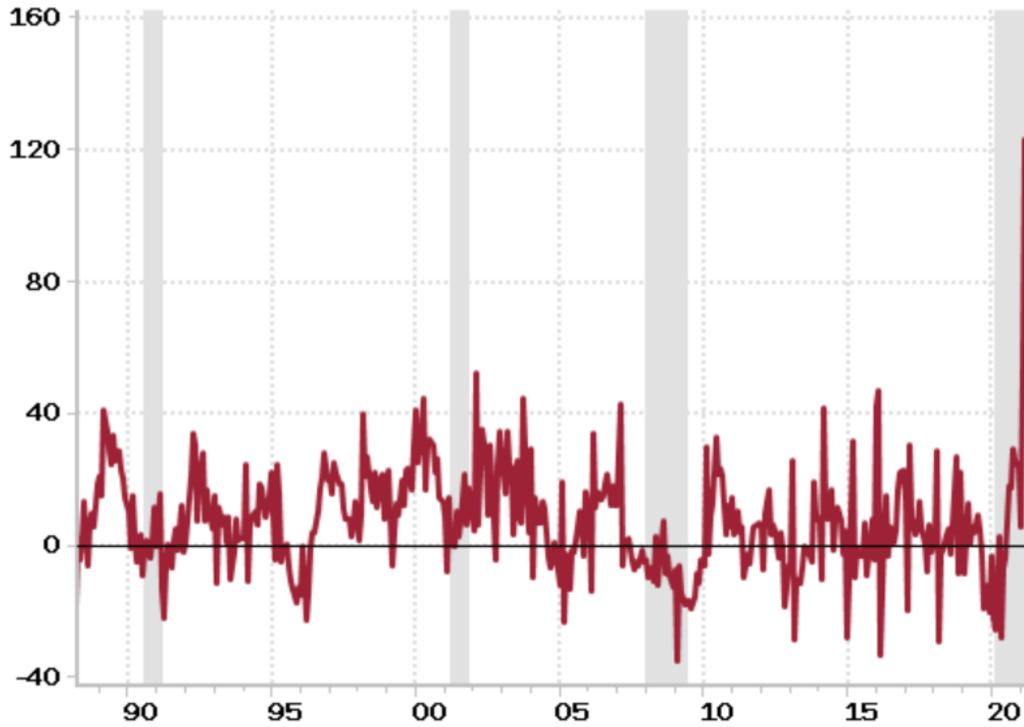


Shading indicates recession

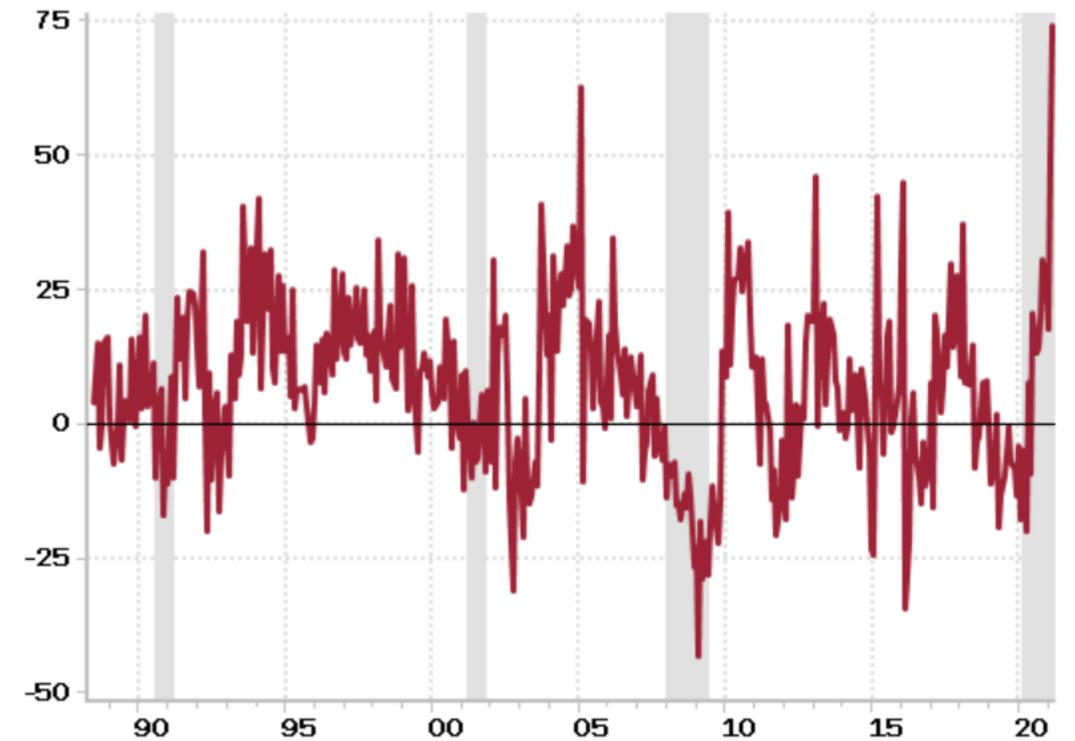
Source: Haver Analytics, Rosenberg Research

RECORD NUMBER OF CONTAINER SHIPS SITTING OUTSIDE PORTS OF LA AND LONG BEACH

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

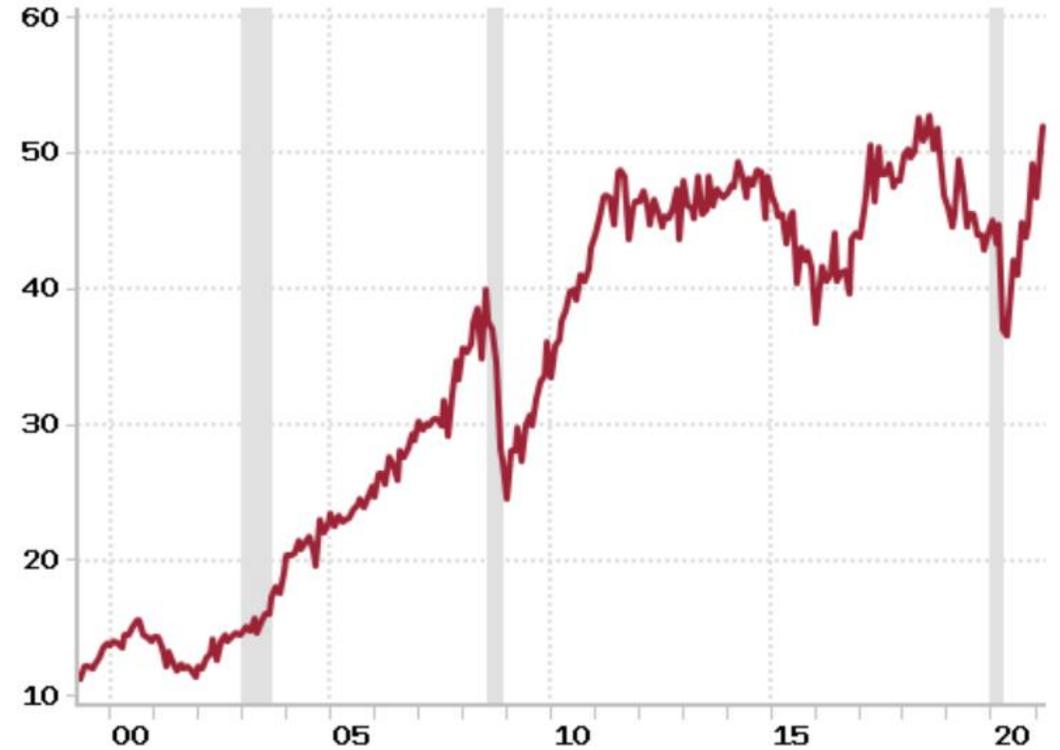


GUESS WHAT THESE TWO EXPORT? TRY SEMICONDUCTORS

Taiwan: Merchandise Exports
(\$ billions)



South Korea: Merchandise Exports
(\$ billions)

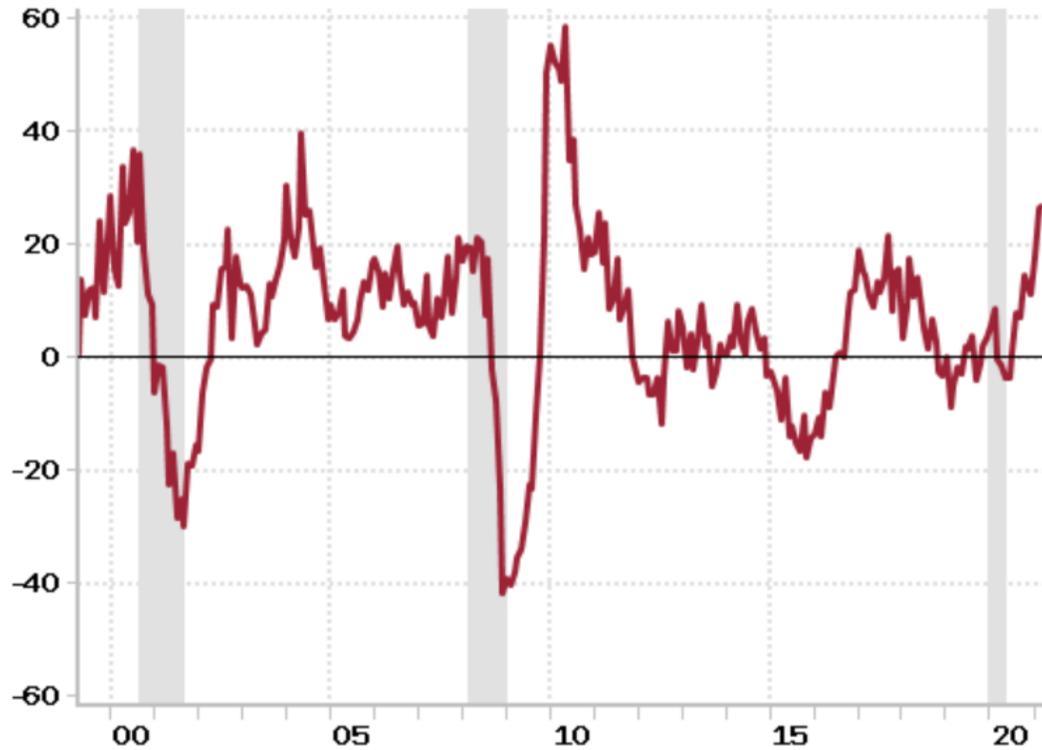


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

GUESS WHAT THESE TWO EXPORT? TRY SEMICONDUCTORS

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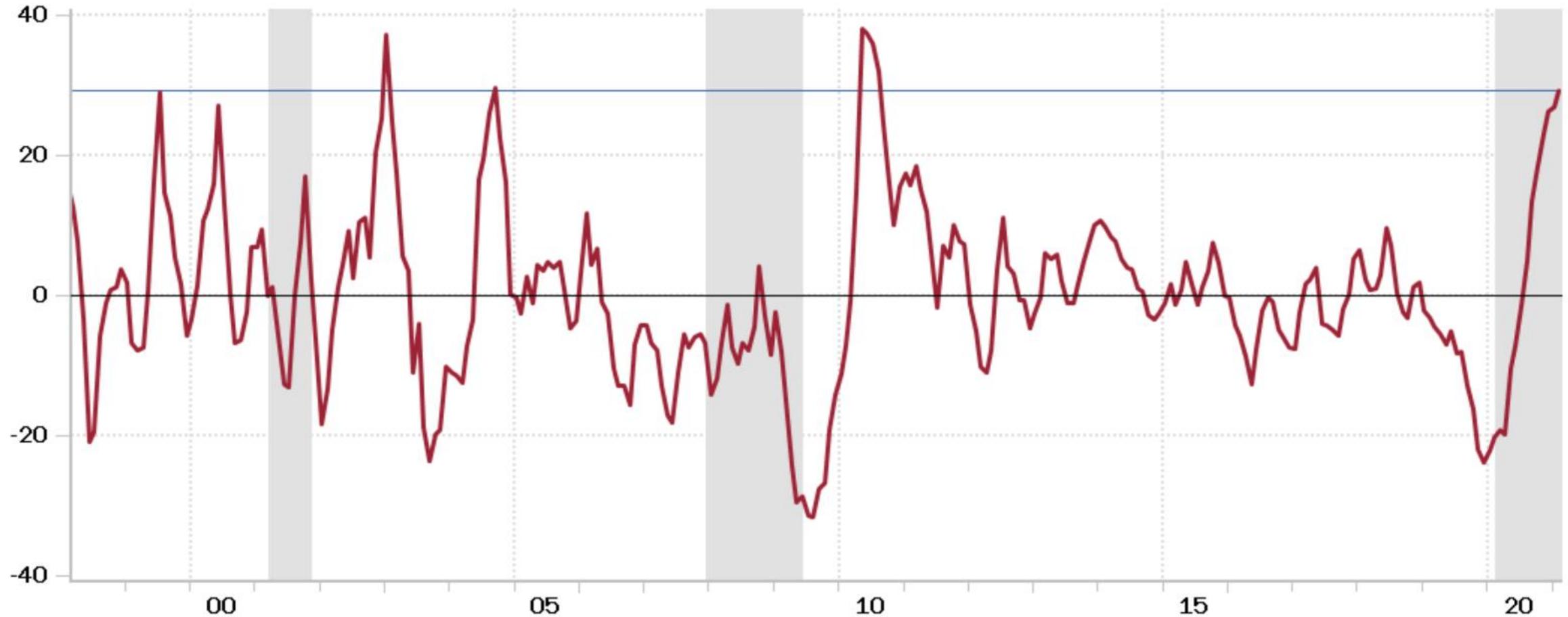


Shading indicates recession

Source: Haver Analytics, Rosenberg Research

CANADIAN LUMBER PRODUCTION IS RUNNING NORTH OF 20%!

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



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

GLOBAL INFLATION IS STILL BENIGN



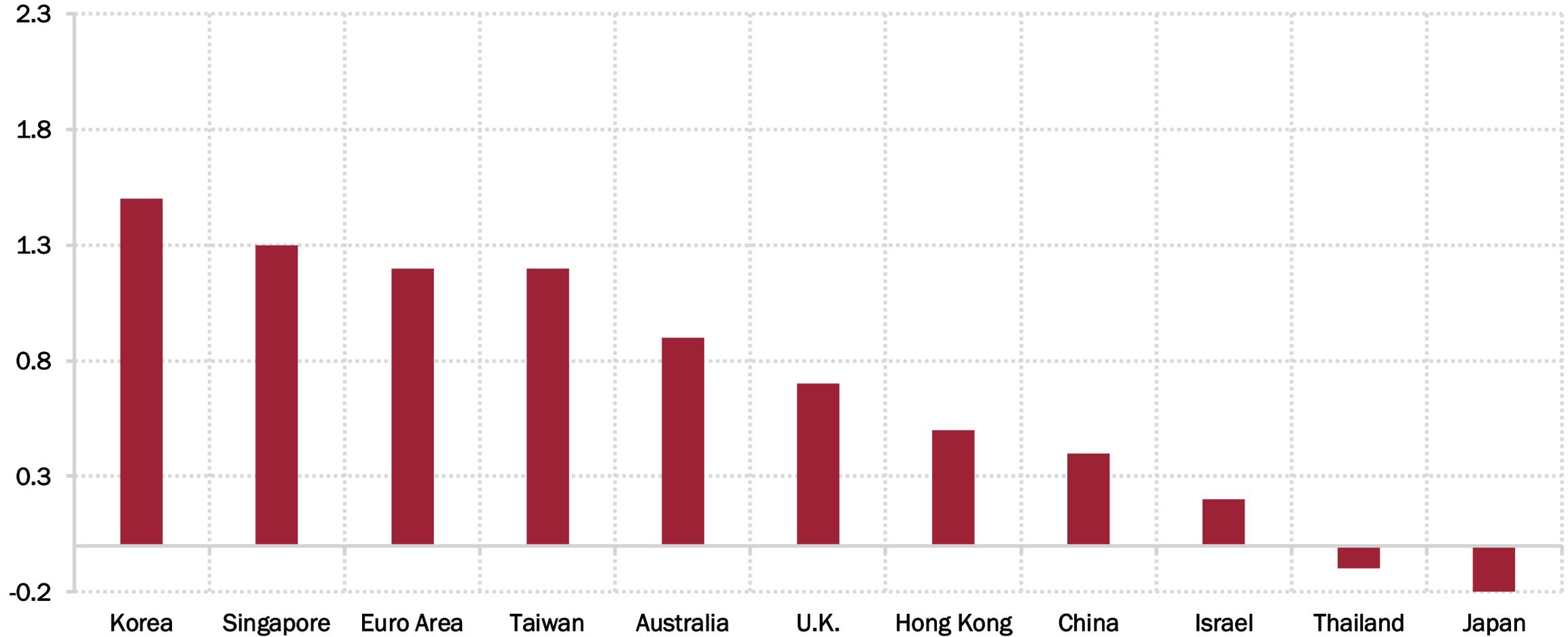
Source: Bendspace

78

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

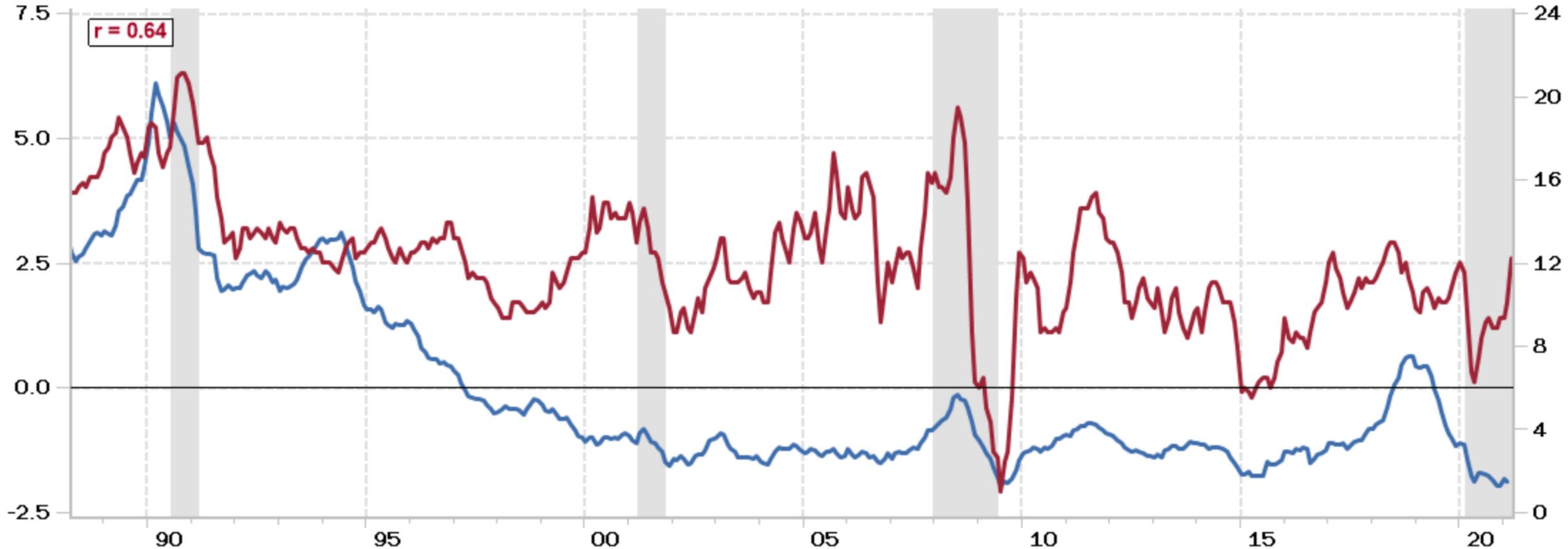
Source: Haver Analytics, Rosenberg Research

THERE IS A 64% CORRELATION BETWEEN U.S. INFLATION AND GLOBAL INFLATION

Global: CPI

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

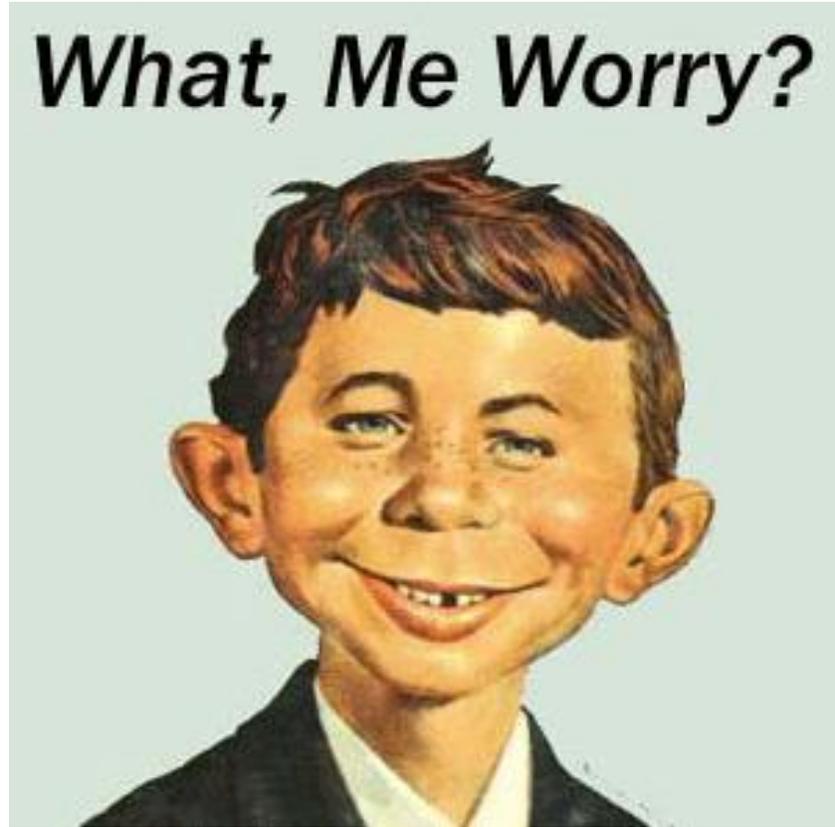
(blue line; world ex.-U.S. CPI; year-over-year percent change; RHS)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

WHAT, ME WORRY?

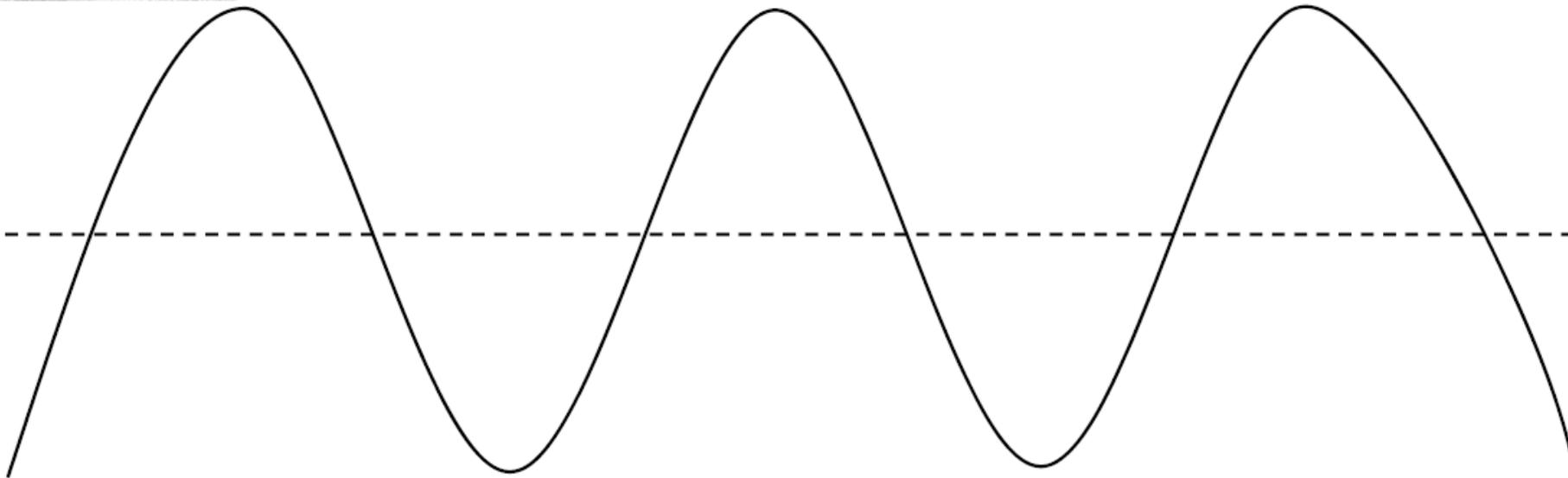


HERBERT STEIN'S LAW



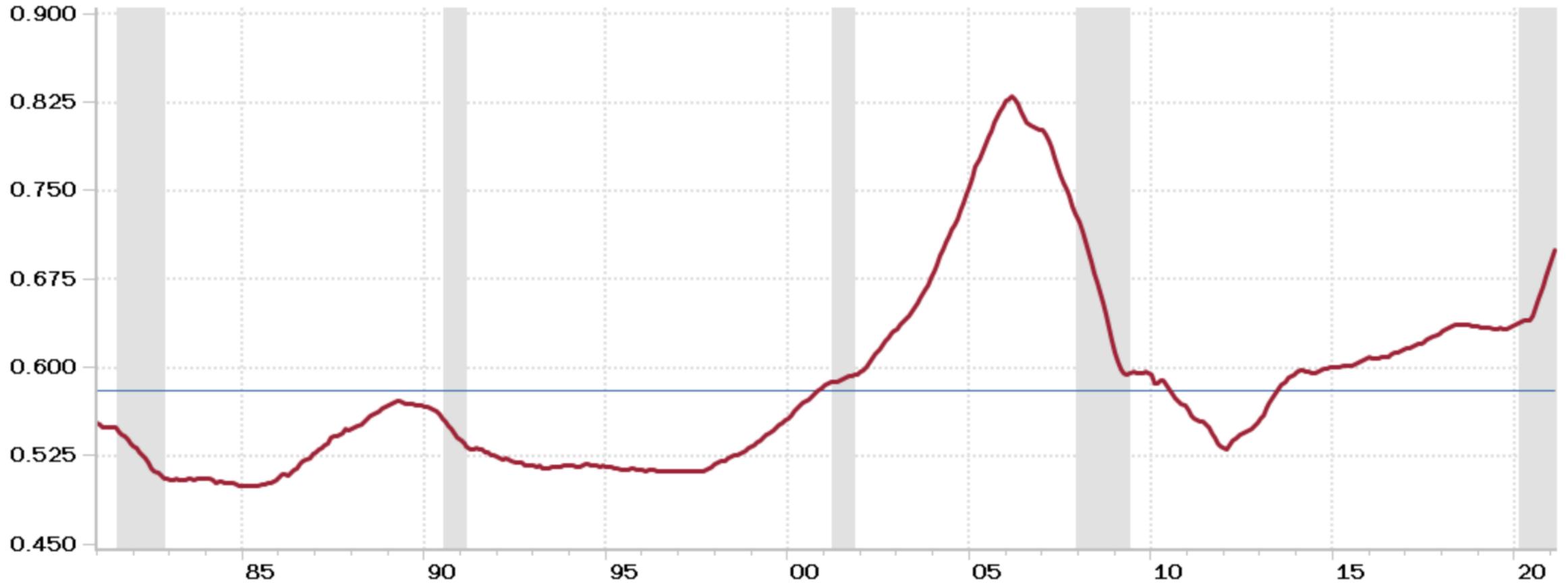
“If something cannot go on forever, it will stop.”

– Herbert Stein’s Law



HOME PRICE-TO-RENT RATIO 20% ABOVE THE LONG-RUN MEAN

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



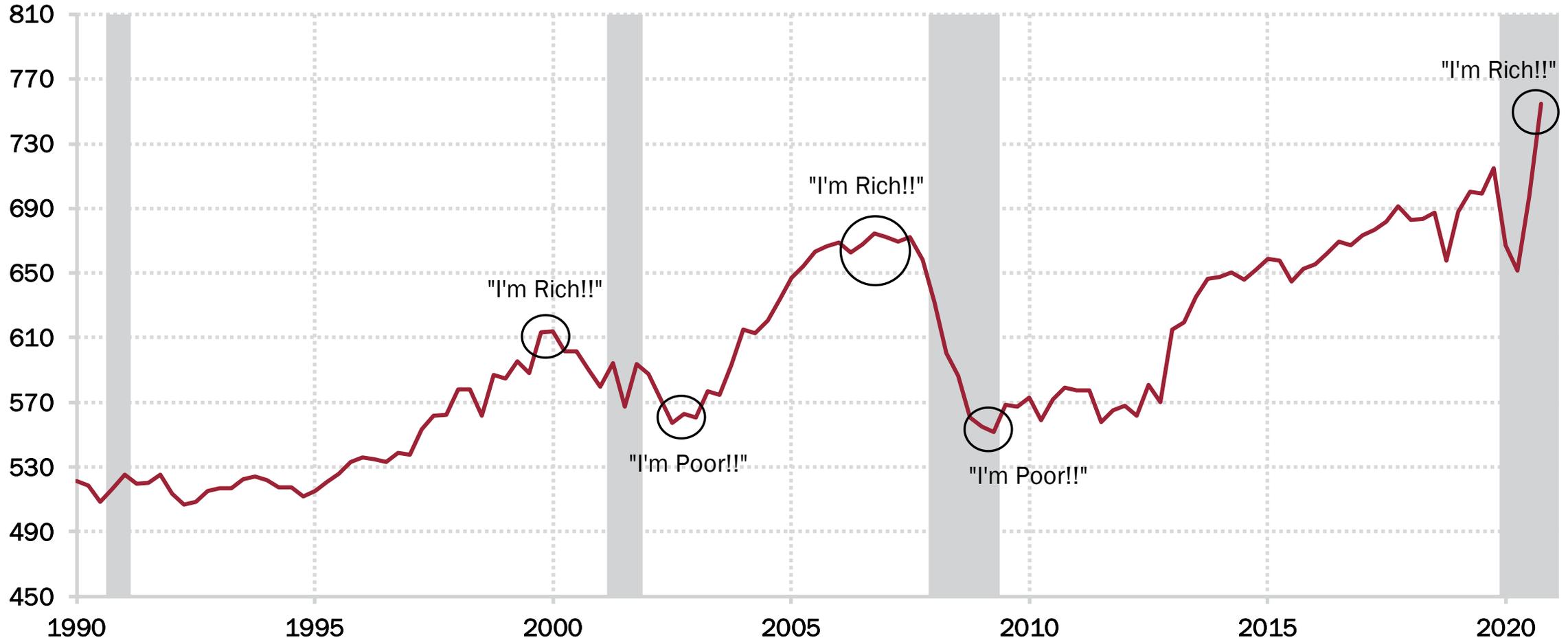
Shading indicates recession

Source: Haver Analytics, Rosenberg Research

WHAT'S EVERY PEAK TYPICALLY FOLLOWED BY?

United States: Household Net Worth Share of Disposable Personal Income

(percent)



Shading indicates recession

Source: Haver Analytics, Rosenberg Research

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.”



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