

Macro Hive: Our Favourite ETF Sector Trades – 25 October 2021 Update

The S & P 500 has climbed 4.5% from the early October low, on the elixir of good earnings that (so far) more than offset the negative message of the Atlanta Fed GDPNow projection of a meagre 0.53% 3q GDP print. Other consensus forecasts from the Conference Board and Blue Chip Economic Indicators are in the 3.5% range. [Given ongoing signs that the US and global economy are slowing](#) even as the Fed signals that it is on track to starting tapering its bond purchase program consensus forecasts may well fall further.

In normal times a slowing economy should not bode well for equities – but these are hardly normal times. If many companies are able to up productivity due to labour shortages and manage to gain some pricing power due to ongoing supply constraints earnings in coming quarters could be surprisingly robust. Over the next week there will be a heavy load of earnings coming, which could do much to show whether a broad swathe of companies can indeed perform even as the supply lines and the broader economy struggle.

There is also a reasonable prospect that Congressional democrats may finally move ahead on the \$1 trillion infrastructure bill and President Biden's infrastructure and social bill, price tag still to be determined. Steady progress should bolster equity markets; but should differences among Democrats again stymie efforts to reach consensus markets could well falter.

All our positions remain unchanged:

- In the S&P 500, we stay constructive on growth versus value. We see little prospect of value outperforming while the labour market remains weak.
- Financials and banks have rallied as the 10Y Treasury yield moved above 1.6% but maintain our underweight, particularly in banks versus SPY due to moribund loan growth.
- Homebuilders have struggled against the broader market, but underlying fundamentals remain robust due to low rates and tight housing supply.
- We stay negative on retail. It is losing a key source of support as extraordinary unemployment benefits expire and spending slowly returns to services.
- We are temporarily negative on our clean energy ETF trades. The upcoming climate change meetings in Glasgow may well be long on paper commitments to cut emissions but we doubt many countries will actually do much to make good on those commitments for now. Any selloff should be a buy opportunity. We stress this is a longer-term and patient trade.

Table 1 shows the performance of our sector trades since inception.

We summarise our latest thinking on each sector view in the remaining sections.

Table 1: Macro Equity Sector Trades

Long	Short	Initiated	Status	Gain/Loss (%)	Other
IVW	IVE	26/04/2021	Open	5.9%	S&P 500 Growth vs S&P 500 Value
SPY	XLF	20/05/2021	Open	0.0%	S&P 500 vs Broad Financials
SPY	KRE	20/05/2021	Open	4.3%	S&P 500 vs Regional Banks
SPY	KBWB	20/05/2021	Open	0.0%	S&P 500 vs Major Banks
XLF	KRE	20/05/2021	Open	4.4%	Broad Financials vs Regional Banks
XHB	SPY	28/05/2021	Open	-4.5%	Homebuilders vs S&P 500
SPY	XRT	10/06/2021	Open	7.4%	S&P 500 vs Retail
BATT	SPY	11/08/2021	Open	-1.6%	Battery vs S&P 500
FAN	SPY	11/08/2021	Open	-1.8%	Wind Power vs S&P 500
HDRO	SPY	11/08/2021	Open	0.1%	Hydrogen vs S&P 500
HJEN	SPY	11/08/2021	Open	1.0%	Hydrogen vs S&P 500
LIT	SPY	11/08/2021	Open	-0.5%	Lithium Battery vs S&P 500
TAN	SPY	11/08/2021	Open	0.9%	Solar vs S&P 500
GRID	SPY	02/09/2021	Open	-1.8%	Smart Grid vs S&P 500
PBW	SPY	02/09/2021	Open	-1.4%	Clean Power vs S&P 500
SOXX	SPY	06/10/2021	Open	0.1%	Semiconductor vs S&P 500
SOXX	QQQ	06/10/2021	Open	0.3%	Semiconductor vs Nasdaq 100

All Trades equally weighted

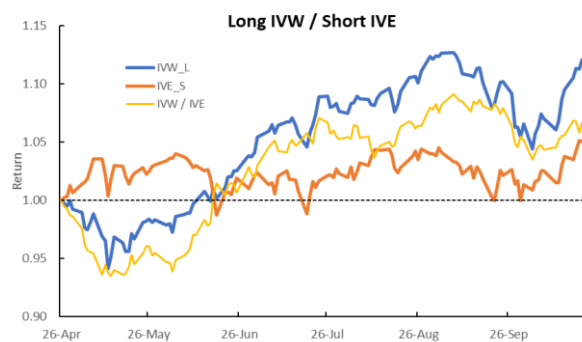
Source: Macro Hive



S&P 500 Growth (L) vs Value (S)

Initiated 26 April 2021

After initially struggling, growth has outperformed value by 5.9%. We do not see growth running away from here, but value will continue to underperform while businesses cannot hire enough workers. For smaller companies to thrive, we need sustained improvement in labour force participation.



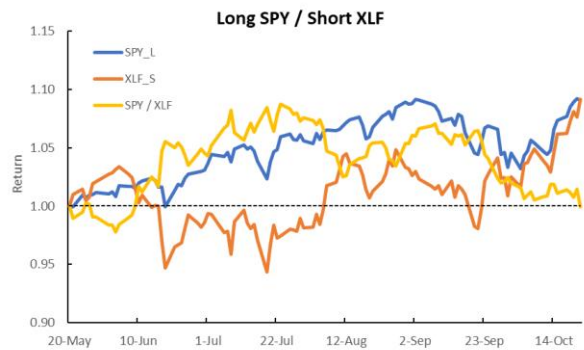
Source: Yahoo Finance, Macro Hive



Long SPY / Short XLF

[Initiated 20 May 2021](#)

We remain bearish on financials due to the low interest rate environment and ongoing Fed QE program. The broad XLF ETF is about flat to SPY now given rising rates and possibly signals from the Fed that it may soon start tapering its QE program.



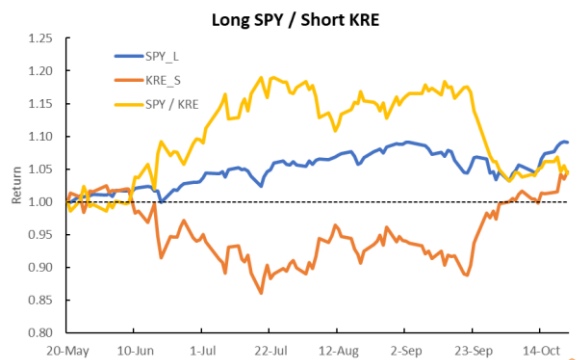
Source: Yahoo Finance, Macro Hive



Long SPY / Short KRE (Regional Banks)

[Initiated 20 May 2021](#)

We are particularly bearish on banks, as they bear the brunt of the Fed's QE policy. Regional banks have performed particularly poorly, down 17.4% so far, as they struggle to grow their loan portfolios in the face of weak demand.



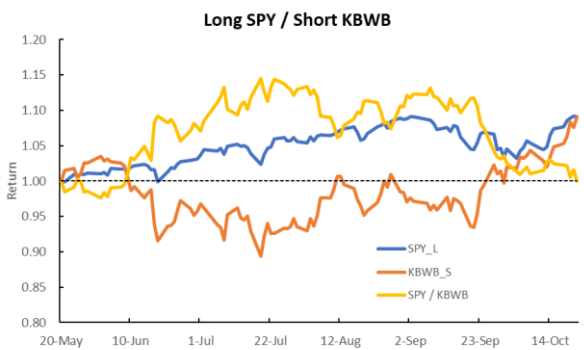
Source: Yahoo Finance, Macro Hive



Long SPY / Short KBWB

[Initiated 20 May 2021](#)

Major banks have performed somewhat better than regionals due to a strong earnings season and more diversified revenue streams, particularly investment banking and trading. Still, they remain at risk of underperforming due to weak loan growth. Also, banks cannot benefit much from rising rates until the short end rises, and there is little prospect of that happening any time soon.



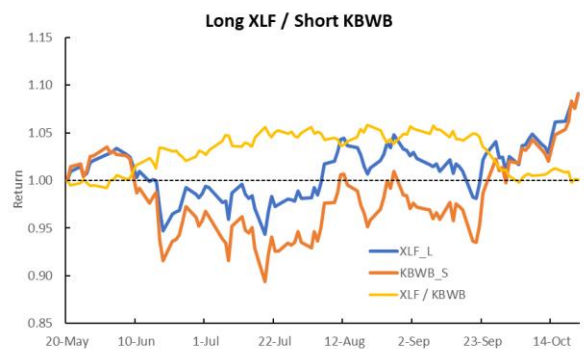
Source: Yahoo Finance, Macro Hive



Long XLF / Short KBWB

[Initiated 20 May 2021](#)

For investors interested in a long/short trade within the financial sector, we suggest being long broad financials, which includes banks, insurers, asset managers and payment companies, and short banks, whether majors or regionals.



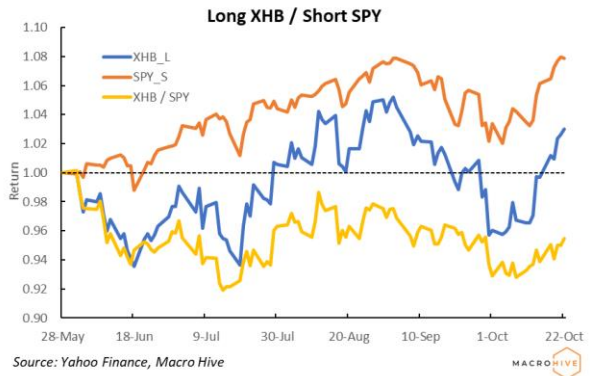
Source: Yahoo Finance, Macro Hive



Long XHB / Short SPY

Initiated 28 May 2021

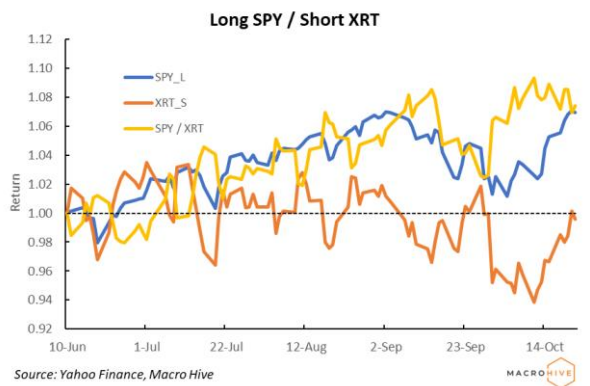
We recommended going long homebuilders on the strength of the housing recovery, low rates, and a housing inventory shortage. We view the softness in homebuilders as an opportunity to add to positions. There is some risk of rising mortgage rates when the Fed slows purchases of MBS, but underlying fundamentals are still attractive.



Long SPY / Short XRT

Initiated 10 June 2021

Retail sales received a huge boost during the pandemic because people needed stuff, generous unemployment benefits gave them money to spend, and spending on services collapsed. Those benefits are expiring, which should hurt retail sales especially as employment is rising too slowly to offset the loss of income. Consumption spending is also slowly returning to services.



Clean Energy

Initiated 11 November 2021

After the IPCC report on climate change came out, we proposed several trades in the clean energy sector. They performed poorly during the market selloff of late September and early October, but have rallied strongly since.

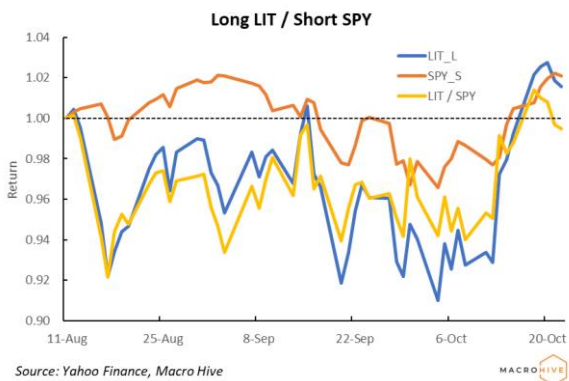
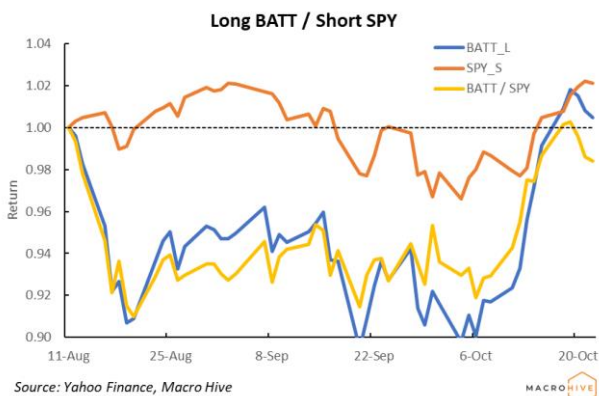
We expect many countries will be slow to start honouring their commitments, which could put downward pressure on clean energy equities.

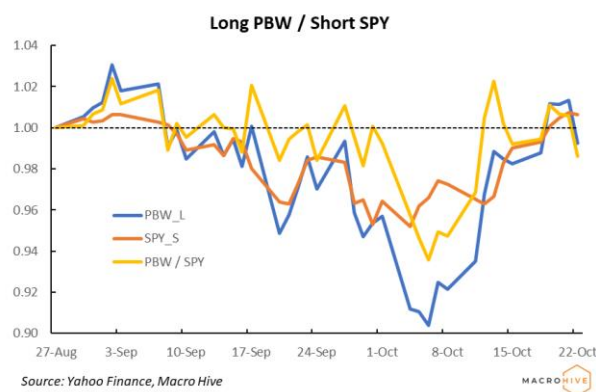
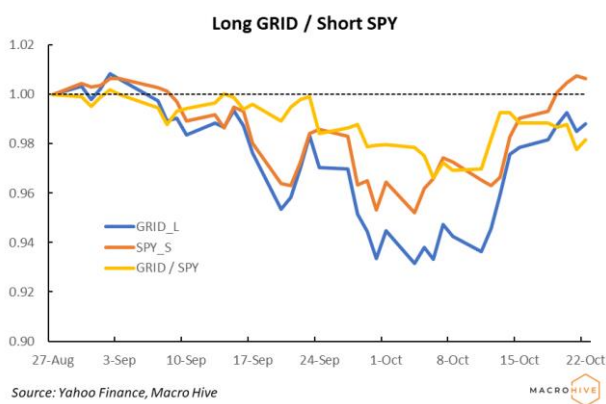
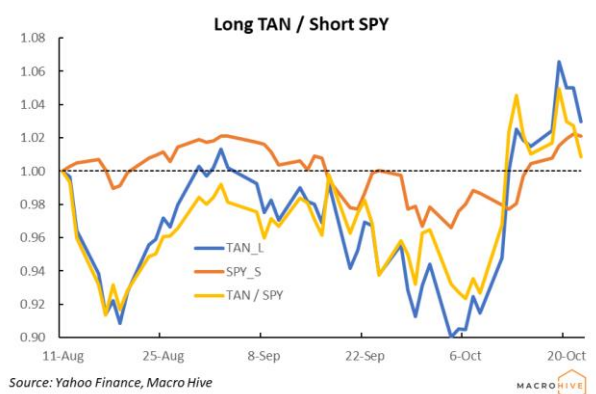
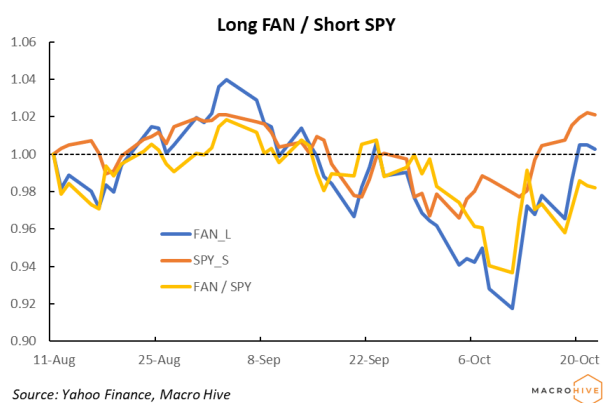
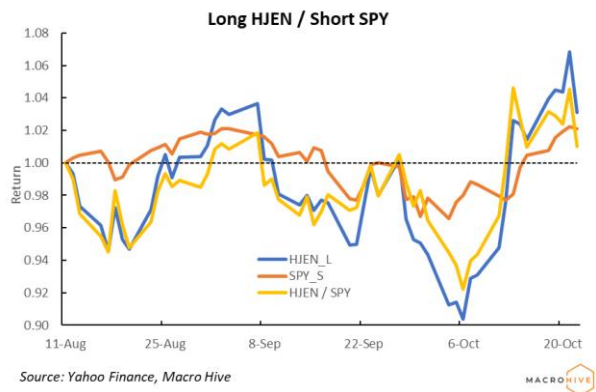
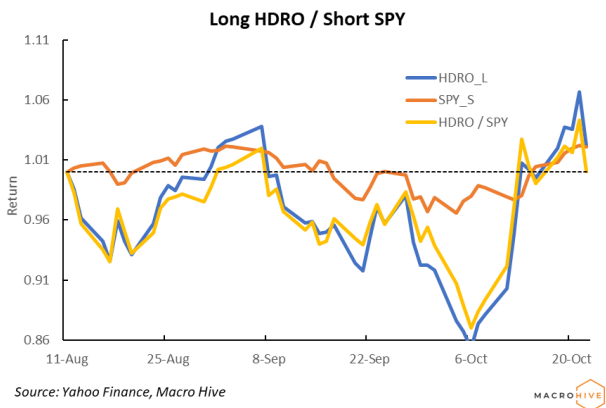
But as ongoing evidence of climate change mounts we expect the money will start to flow.

Clean energy ETFs may continue to find support as the global climate change conference starts in Glasgow. There will doubtless be positive spin coming out of the meetings but the big question is whether and when more serious money starts to flow into the clean energy sector.

We recommend investors start accumulating positions in clean energy ETFs.

We stress this is a patient trade but over the coming decade, we see significant upside in this sector.



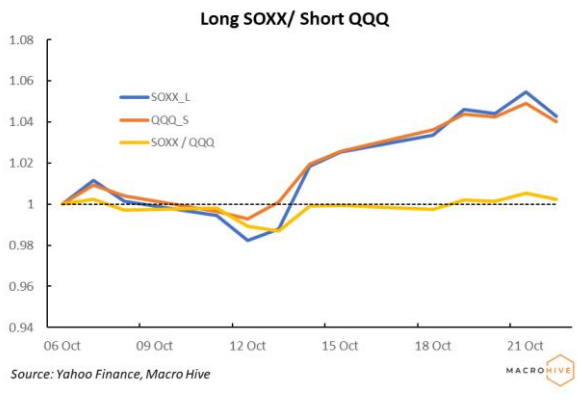
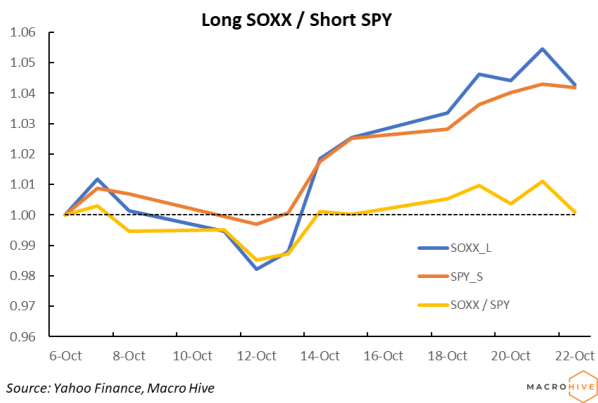


Long SOXX / Short SPY or QQQ
[Initiated 6 October 6, 2021](#)

The semiconductor industry has been in the news frequently in 2021 due to tight supplies that have hamstrung the auto industry in particularly. This stems from a surge in demand for digital consumer products since the pandemic hit in March 2020

The industry is enjoying pricing power for the first time in 30 years. Further, demand is likely to remain strong in coming years as electric vehicles and other clean energy technology comes online.

We think semiconductors can outperform the broad equity (SPY) and tech (QQQ) markets over the medium term



Source: Yahoo Finance, Macro Hive