Market Brief – Discounting The Cash Flows Of "Now"

The privilege of absurdity; to which no living creature is subject, but man only.
~ Thoman Hobbes

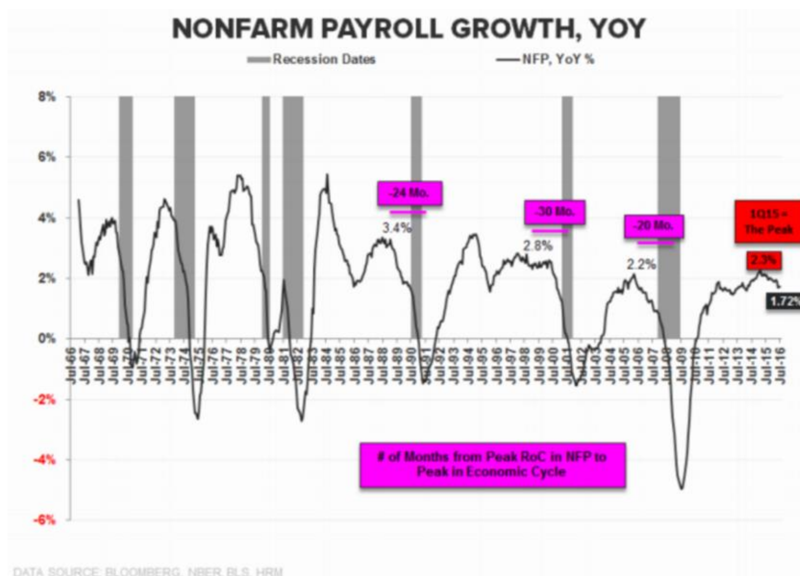
Last week's headline jobs number beat expectations by a wide margin; giving bulls further "evidence" that the US economy is doing just fine…

Payrolls climbed by 255k against a consensus expectation of just 180K. Both prior months were revised higher by a total of 18k, and the jobless rate held steady at 4.9%.

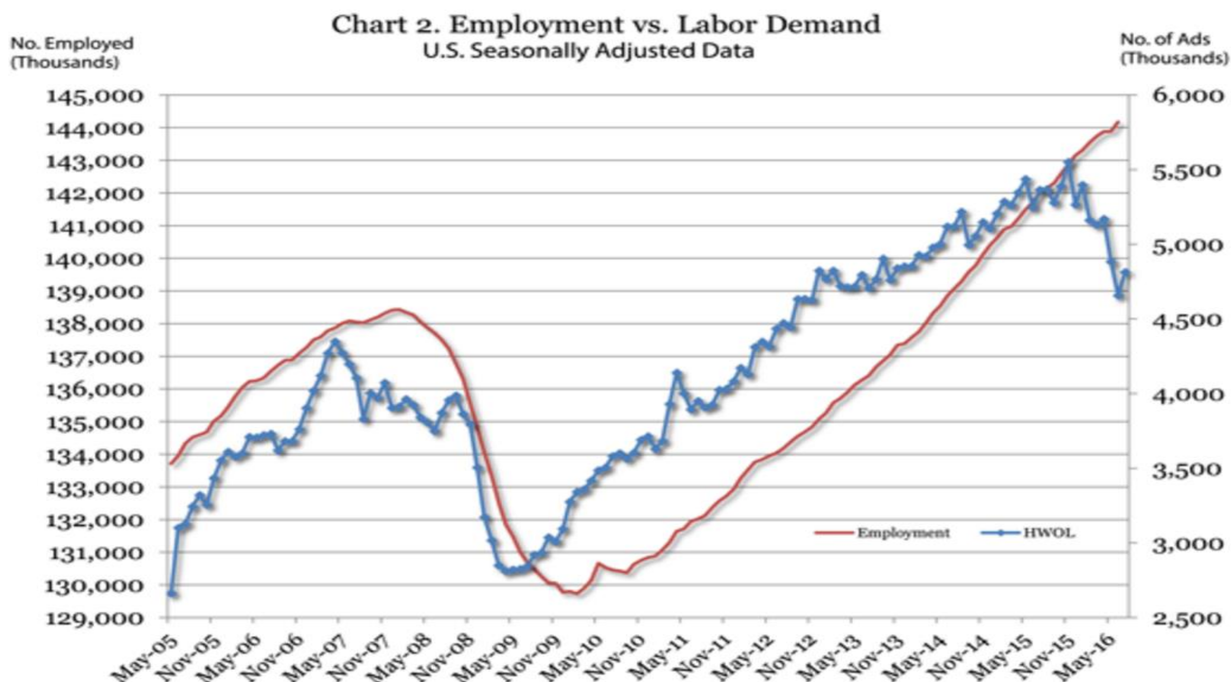
Here's a chart showing the change in jobs growth since the Great Recession. It has been impressively steady. In fact, the US has now seen 70 straight months of payroll growth — the longest in US history.

But like most economic data, it's not the absolute numbers that concern us, but rather the trend in the rate-of-change (ROC) of growth. And on that front, the employment numbers are less impressive. The "longest payroll growth in US history", looks like it may be coming to an end. Take a gander at the chart below:

We've experienced jobs growth, but that growth has been slowing. Last month's rate of change for payroll came in at just 1.72% versus what is likely this cycle's peak of 2.3% in February of 2015.



Looking at one of my favorite leading labor market indicators, the slowing payrolls growth is not surprising.

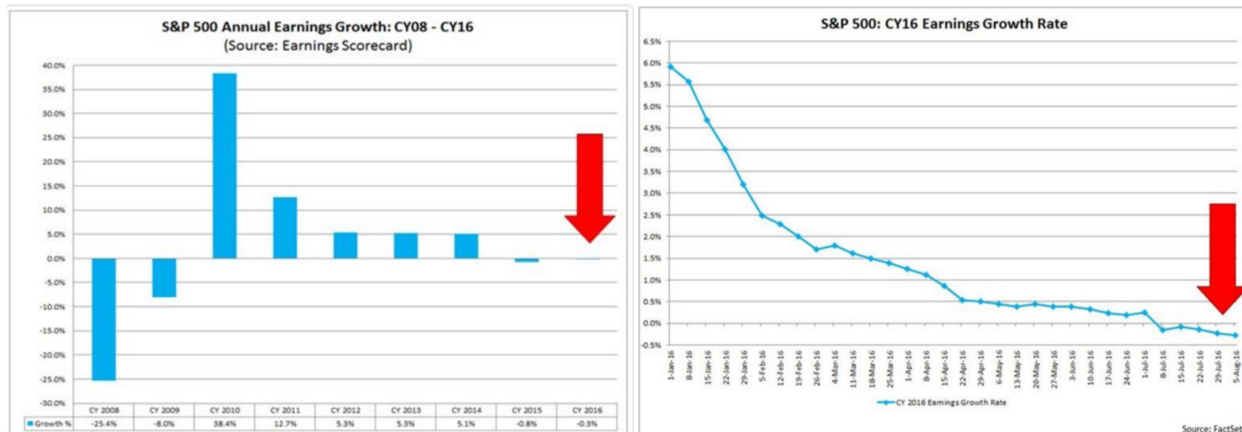


The above chart shows the total employment number along with labor demand. The labor demand is comprised of the number of job re-postings. Essentially, it tracks the number of "Help Wanted Ads" that have been reposted (you can find the data here).

It was created by AIG's Head of Business Cycle Research, Jonathan Basile. Here's his thoughts on it:

> *"When companies stop reposting help wanted ads, it means they've given up on adding additional headcount… It's a more cautious signal about the outlook. It means their balance sheets can't handle the additional labor costs. This is what happens when revenue and earnings headwinds bleed into the labor-intensive parts of the economy, like construction and services."*

Since we've been in an earnings recession — going on two years now — the slowdown in the labor market is not at all surprising, as labor is the largest cost for most businesses.



Both the payroll and help wanted indicators tend to lead the market by about 18-24 months on average. So I don't expect to see any meaningful impact on the market until after the end of the year.

The Fed and Expectations

The market is again pricing in a rate hike before the end of the year. We believe a hike prior to the elections is unlikely — barring a surprise jump in inflation, which is also unlikely.

The economic data is still mixed enough that we remain in a kind of goldilocks holding pattern — where things are good enough to expect a rate hike in the *future*, but not good enough enough to expect one anytime *soon*. On top of that, Yellen is an uber liberal (at least so I've been told by an economist who knows her on a professional basis). And it's unlikely that she's willing to rock the boat before elections... especially when Trump is the Republican nominee.

Also, central banks around the world are continuing to cut. Both the BoE and RBA announced renewed easing just this last last week. So Yellen and the FOMC have plenty of cover to keep the dove train going. And here's an interesting (ominous?) fact from the Financial Times:

> 666: BoE & RBA easing this week...**global central banks have now cut rates 666 times since Lehman**; extreme monetary policy more positive for bonds ($1.0tn inflows since LEH) than stocks ($375bn inflows).

Remember what number marked the absolute low on the S&P in 09'... what if these were the last rate cuts of this cycle and 666 marks the top here… that'd give the tinfoil conspirist something to yabber out. I digress...

The increased market expectations for a Fed rate hike against the likelihood that the Fed doesn't budge, means there may be some (possibly strong) market reactions to the coming Fed meetings. We still believe there's potential for a shaking out of weak hands in the dollar, before its next leg higher.

If this happens, expect to see a quick pop in oil and some select commodities, especially gold and silver.

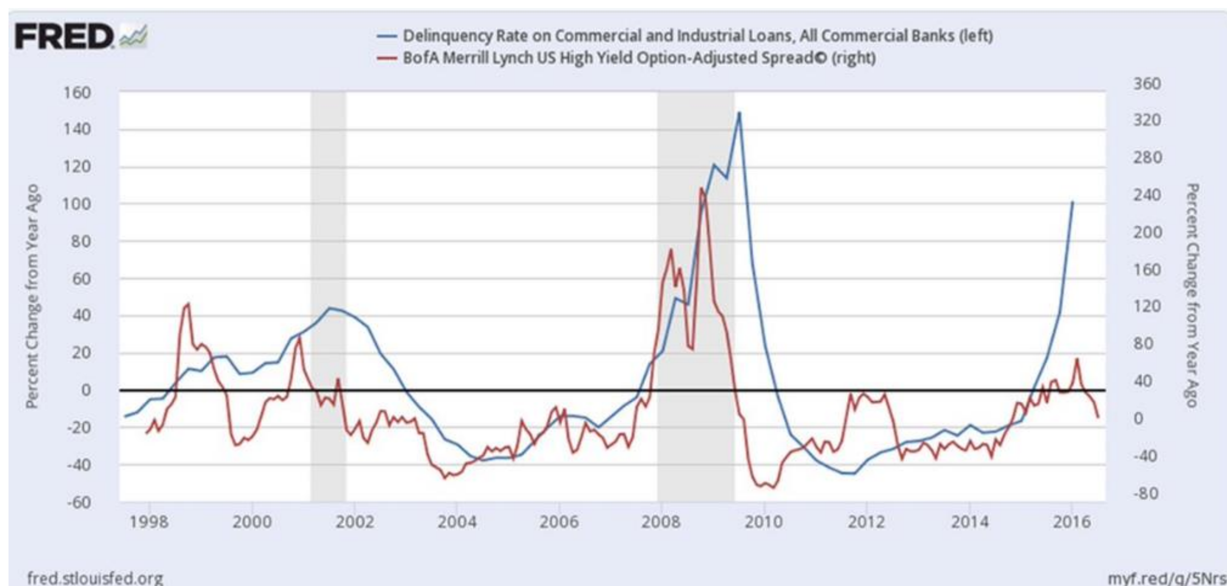
Takeaway

We continue to see data confirming that the economy is slowly turning over; that both the credit and business cycle likely peaked in late 2015.

With that said, we are still constructively bullish going into the next few months. The markets and economy can, and often do, diverge from each other for long periods of time — especially towards the end of a cycle. The late 90's is a prime example of this, where the disparity began three years prior to the market crash.

Price action in the major indexes is strong. Breadth is very strong. And all grades of credit continue to be bid up.

This chart showing the delinquency rate on commercial and industrial loans overlaid with high-yield credit showcases the current market/economic divergence perfectly.



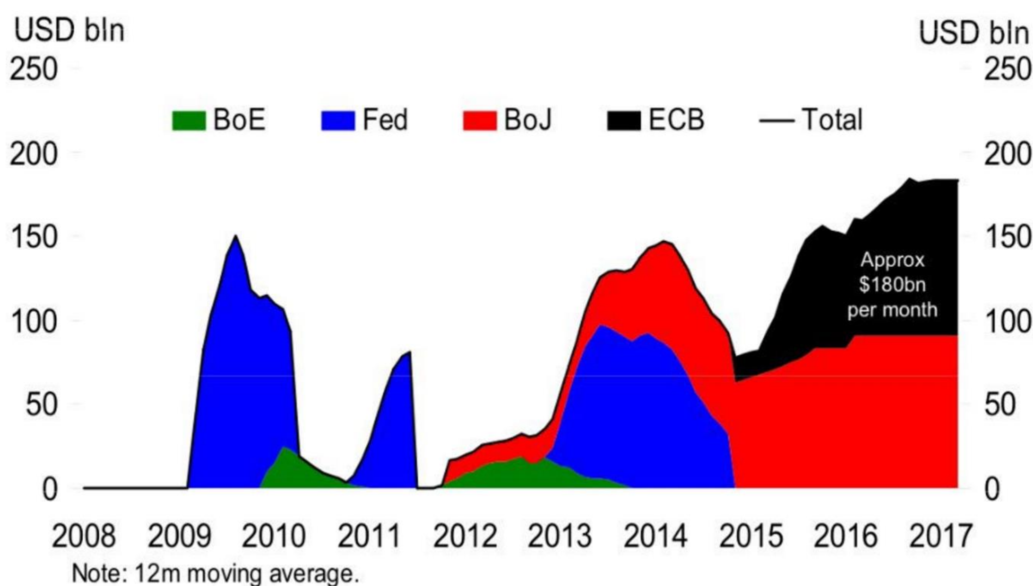
For possible reasons as to why this is happening, read the following via Bloomberg (emphasis added by me):

> *The amount of money in the world that is demanding income is extraordinary," Rieder, chief investment officer of global fixed income at BlackRock, said Friday on* Bloomberg

TV. He said the average over-subscription rate on investment-grade credits is 4.5 times. ***"We've never seen anything like that."***

There simply isn't enough debt out there to satisfy yield-hungry investors, and the phenomenon is global in origin*, Rieder said. Foreign buyers now constitute 40 percent of the U.S. corporate-bond market as central bankers in Japan and Europe move further into the uncharted territory of negative interest rate policy, according to Wells Fargo & Co.* ***"I am blown away every day when we come in every morning and we see how much buying came in from overseas,"*** *said Rieder.*

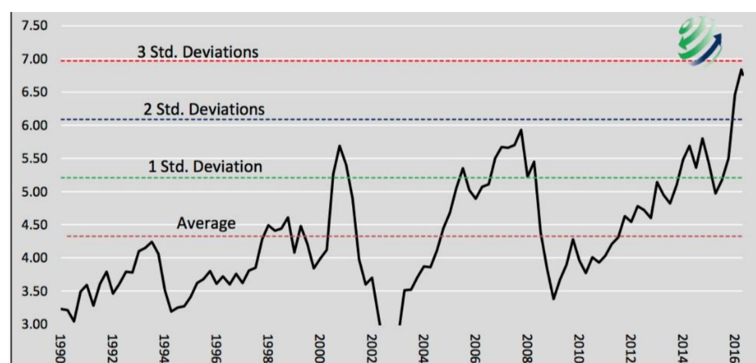
The world is still awash in credit and nothing huge has broken… yet. Here's a central bank QE chart that explains why we're getting all this foreign demand (and why we're still bullish over the short-term and very very very bearish longer term).



That's a lot of quantitative easing. It's more than the world has ever seen… and guess what?

This chart doesn't even come close to telling the whole story. It's missing the PBoC (People's Bank of China), which has been purchasing assets through the repo market at a larger scale than both the ECB and BOJ… combined! Oh, and the Bank of England increased its QE an additional $70B+ this last week.

This is why we have things like Utes (Utilities) now trading near 3 sigmas (standard deviations) above their historical averages. Who in God's name is buying and "holding" Utes at these valuations for income? I'm sure that will work out just great for them…



But that's the thing; the central banks have turned everything into a game of time. A "Greater Fools" of epic proportions. People buy because of career risk that makes them need to perform "now". People buy, and leverage up, because they need income to live off of "now". People buy because they believe if the market dips the central banks will bid it up, so it's okay to buy "now".

Investing is supposed to be based on the discounting of the future. But because of zirp, nirp, and quantitative easing… we're only focusing on discounting the "right now".

Yields are negative around the world. People are buying stocks for income and bonds for capital gains… the foundations of capitalism have been steamrolled, set ablaze, and shot off into fucking space.

There is no possible way that the trillions of negatively yielding debt around the world unwinds in an "orderly" manner. The global economy is headed for a cliff of ball busting epic proportions and we (global market participants) are slamming on the gas, blindly buying any P.OS. with yield, while becoming more and more myopic by the day!

As traders and not long-term investors, we have no problem shortening our horizon to the "right now". We can stay nimble and ride this sucker to the cliff's edge — which may be 6 months out, or two years… who the fudge-monkey knows?

So buy now… trade now… and don't start investing in anything long-term right now.

See you in the Hub,

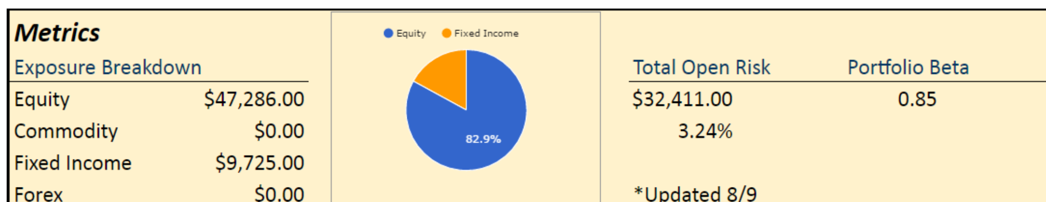
- Alex

Portfolio Snapshot

Macro Ops Strategic Portfolio

NAV $1,000,770.00

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target 1	Beta (1yr)	Notional
Fixed Income	TLT	2500	132.87	128.98	$9,725.00	146.00	-0.32	$332,175
Equity	Cliffs (CLF)	6450	6.13	4.55	$10,191.00	14.66	2.44	$39,345
Equity	Chesapeake (CHK)	14700	5.15	4.30	$12,495.00	8.66	4.7	$78,654
Equity	Vale-SA (VALE)	19000	6.04	5.39	$12,350.00	8.58	2.91	$115,330
Equity	Novatel (MIFI)	35000	2.10	1.75	$12,250.00	3.00	1.84	$84,000



Metrics

Exposure Breakdown	
Equity	$47,286.00
Commodity	$0.00
Fixed Income	$9,725.00
Forex	$0.00

Total Open Risk	Portfolio Beta
$32,411.00	0.85
3.24%	

*Updated 8/9

Macro Ops Income Portfolio

NAV $1,049,203.00

Asset Class	Position	Size	Cost Basis	Max Profit
Option	Aug 18 1960 Put	-10	$19.08	$19,080.00
Option	Aug 18 2016 2175 Call	-10	$9.18	$9,180.00
Option	Aug 18 2016 1465 Put	10	$1.56	(Hedge)

Scenario Analysis/Stress Tests

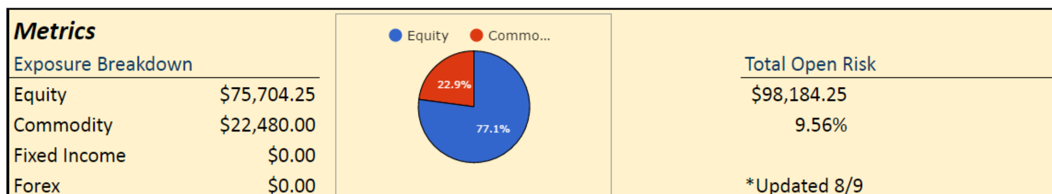
Worst Case	Worst Drawdown
SPX-10%	-$100,000
SPX-20%	-$250,000

**Updated on 8/9

Macro Ops Tactical Portfolio

NAV $1,027,480.00

Asset Class	Position	Size	Cost Basis	Risk Point	Market Price	Open Risk	Target 1	Notional
Equity	Pampa Energia (PAM)	3,400	24.40	23.31	27.69	$14,892.00	27.76	$174,896
Equity	Cliffs (CLF)	6,780	6.12	5.00	7.96	$20,068.80	10.02	$41,358
Equity	Peru (EPU)	3,035	32.09	30.80	34.47	$11,138.45	36.14	$190,454
Equity	Sientra (SIEN)	9,700	8.12	7.32	8.14	$7,954.00	12.07	$78,085
Equity	Vale-SA (VALE)	11,900	6.04	5.39	6.08	$8,211.00	8.58	$72,233
Equity	Novatel (MIFI)	21,000	2.12	1.75	2.39	$13,440.00	3.00	$50,411
Commodity	Cotton (CTZ16)	4	67.84	65.88	73.92	$16,080.00	77.00	$247,730
Commodity	Silver (SIN6)	1	17.05	19.38	20.66	$6,400.00	18.47	$173,300



Metrics

Exposure Breakdown	
Equity	$75,704.25
Commodity	$22,480.00
Fixed Income	$0.00
Forex	$0.00

Total Open Risk
$98,184.25
9.56%

*Updated 8/9