MARKET BRIEF

Globalist Cuck

This guy… Jared Kushner, Donald Trump's son-in-law, is the new face of America's Global War on Terror. Cool...

Some important news this week.

We had:

- Fed minutes indicating growing hawkishness and plans to run off the $4.5T balance sheet
- We fired missiles into Syria hitting one of Assad's airbases in response to their chemical attack
- Putin, who is backing Assad, is not happy and US-Russia relations are looking rocky

- Trump has booted Steven Bannon, his chief strategist, off the national security council and the internal White House power-struggle between the Bannon Nationalists and Kushner Liberals is heating up
- Non-farm payroll numbers continue their slow steady trend downward with another disappointing number this month

Let's start with the Fed minutes, here are the highlights, underlined and bolded. Provided that the economy continued to perform about as expected, most participants anticipated that gradual increases in the federal funds rate would continue and judged that **<u>a change to the Committee's reinvestment policy would likely be appropriate later this year</u>**.

> In their discussion of recent developments in financial markets, participants noted that financial conditions remained accommodative despite the rise in longer-term interest rates in recent months and continued to support the expansion of economic activity. **Many participants discussed the implications of the rise in equity prices over the past few months, with <u>several of them citing it as contributing to an easing of financial conditions</u>.** A few participants attributed the recent equity price appreciation to expectations for corporate tax cuts or to increased risk tolerance among investors rather than to expectations of stronger economic growth. **Some participants viewed equity prices as <u>quite high</u> relative to standard valuation measures.** It was observed that prices of other risk assets, such as emerging market stocks, high-yield corporate bonds, and commercial real estate, had also risen **<u>significantly</u>** in recent months. In contrast, prices of farmland reportedly had edged lower, in part because low commodity prices continued to weigh on farm income. Still, farmland valuations were said to remain **<u>quite high</u>** as gauged by standard benchmarks such as rent-to-price ratios.

There's been a visible shift in the Fed since the March hike and this will have big implications for markets moving forward.

Here's some thoughts from Fed whisperer, Tim Duy. "Fed officials aren't growing nervous about just equities. They are seeing high prices across a wide range of risky assets. If it was just one asset class, they might conclude that it doesn't pose systemic risk for the US economy. Or they might conclude that macro prudential policies were sufficient to maintain financial stability. But a wide range of assets might require a more blunt tool — like higher rates."

The Fed is currently on path to raise rates each quarter for the remainder of the year. This would put the next hike in June followed by another in September. They're then planning to put hikes on hold while they start to run down their balance sheet. The Fed holds $4.5T in government bonds and agency backed mortgages (MBS). That's a big balance sheet and $426B of these assets are set to mature next year.

The plan is to "gradually" let securities roll off so as not to roil the markets too much — and they'll probably start with mostly mortgages. I'm skeptical they succeed in shrinking their balance sheet significantly. The closer we get to the possibility of this happening, it's likely we start to see some "interesting" things occur in the bond and MBS markets (we'll definitely be covering this in detail in the coming months). I don't believe the market will be able to stomach it but we shall see.

The bottom line is that if inflation runs hotter) and/or the stock market keeps its complacent climb up, then we should expect the Fed to tighten further and faster. The risks are now of a more hawkish Fed, not a dovish one.

Moving onto Syria. Trump had our great Navy rain 59 Tomahawk missiles (or approximately $60 million dollars worth of hell fire) down onto the airbase from which Assad's (Assad is the evil dictator of war torn Syria) military carried off its horrific chemical attack.

The missile strike is mostly symbolic. The damage done was limited as missiles are pretty ineffective against reinforced military targets (I know, I've nearly been hit by a few of our own). But the signaling here is what matters and in that sense, this was a big deal.

Trump is telling the world, and our adversaries especially, that he's not hesitant to use force — something his predecessor was often criticized of. This also makes the US-Russia relationship a bit awkward since the Ruskies are fighting alongside Assad.

The US-Russia relationship which looked like it was becoming all warm and fuzzy up until just a few weeks ago — with both Putin and Trump publicly fawning over one another — is now in the process of carrying out a big U-turn.

In response to the missile attack Russia has warned of "serious consequences". This could mean anything, but with Putin feeling increasing heat at home, in the form of nationwide anti-corruption protests, it would not be surprising to see him start stirring up conflict in Eastern Europe (watch out Baltic states!) to divert attention and rally nationalism, which is his MO.

This matters for markets in a number of ways.

First, this is a major headwind to the Russia rebound trade that has become popular since Trump was elected. With the US-Russia romance souring and it looking more likely that one of the many intelligence investigations into Russia meddling into our elections turning up more damning evidence, Russia is on the fast track to join North Korea in the ranks of international pariahs. That means there's little likelihood of sanctions being lifted anytime soon, in fact, quite the opposite, as we'll probably turn the screws tighter on the Red Bear in retaliation.

And second, this makes the long uranium narrative more interesting. We wrote about the yellow cake a few months ago and took a crack at the long side but were whipped out of the trade. It hasn't done much since but with US-Russia tensions flaring this trade becomes a lot more compelling.

This is because Russia directly or indirectly (through Kazakhstan, a quasi-satellite state) controls over 60% of the world's uranium productions and a large chunk of its refining capacity. Any disruption to that supply would send the price of uranium mushrooming to the sky from its currently depressed prices — it has been trading below production costs for some time now.

Look at the chart below of URA, the global uranium ETF, on the weekly timeframe. It looks like it's setting up in a nice coiling bullish wedge after coming out of a textbook triangle base. We're going to track this and may consider putting a position on should price make a strong move out of this consolidation.

In other news, Trump has booted former Breitbart News CEO, Steven Bannon, from his posting on the National Security Council (NSC). Bannon is still serving as Trump's chief strategist but even his hold on that position is looking shaky.

This is because the internal grappling within the White House for the President's ear looks to be peaking, having reached an untenable level.

The war consists of Bannon and his self-proclaimed fellow White House nationalists versus Jared Kushner (the J-Crew model above) and Gary Cohn, who was the former number two man at Goldman.

Kushner and Cohn are much more centrist to liberal — both are registered democrats — in their ideologies and this has led to a heated internal war between the two groups. Things have reached such a level that Bannon has resorted to calling Kushner a "globalist cuck" — an insult I have never heard before but it apparently means someone who is pro-globalization AND whose wife is cheating on him (cuck is short for cuckold). So that's a new one you can add to you put-down toolkit.

Anyways, after such a rocky start and with the President's approval ratings at record lows, there's growing talk of the President doing a major shakeup (ie, booting Bannon) and promoting Kushner and his crew to higher profiles… possibly giving Cohn Bannon's job of chief strategist.

Whether this is good or bad depends on your political coloring. What I'm interested in is how, if at all, it'll affect markets.

There are two important takeaways, here. One is that I think we might have reached a temporary top in the "Trump is failing" narrative. The negative sentiment has hit a fever pitch over the last few weeks.

Newspaper and magazine covers (like the one from The Economist on the right) are all railing hard about what a disaster his first two months in office have been. And it's tough to argue otherwise, with his missteps on the Muslim ban and failure on healthcare. But… like all things in this world, there'll be an inevitable swing in sentiment back — at least temporarily — and I think we could see that soon.

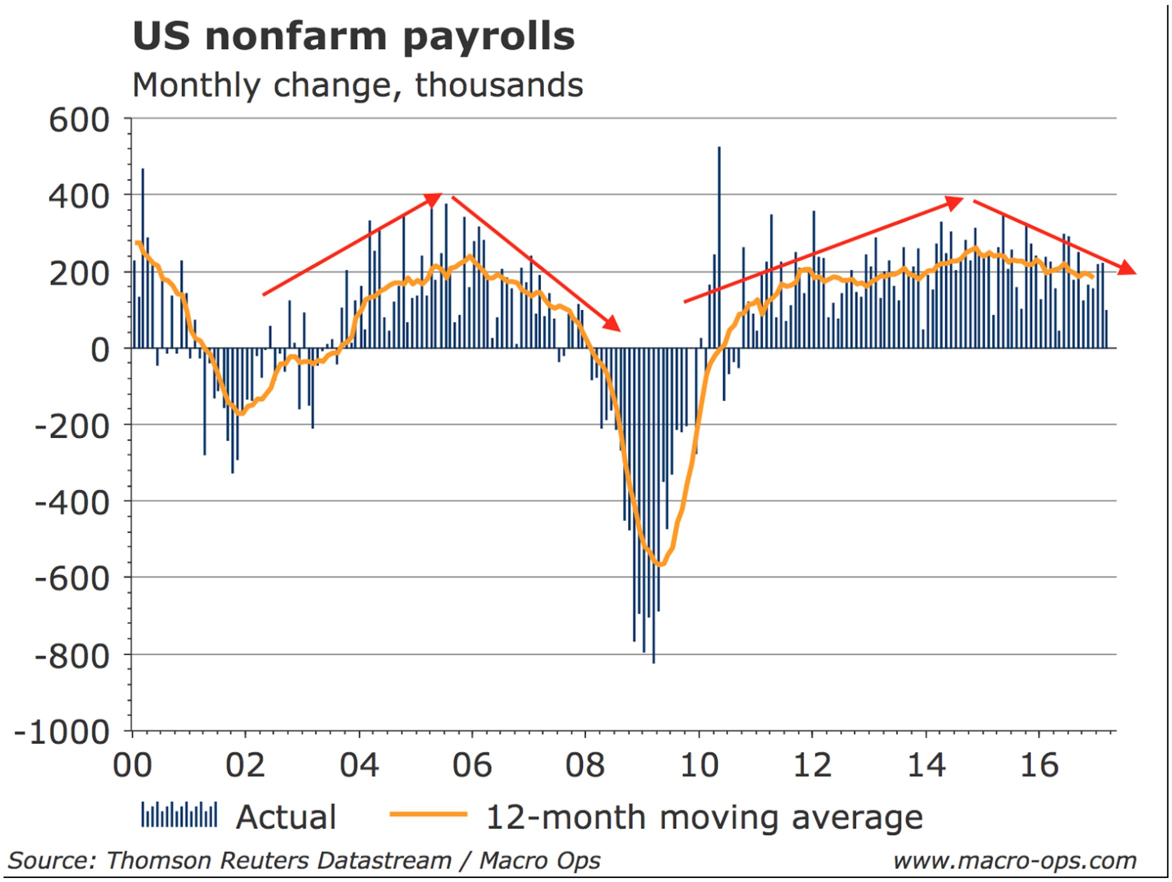
Striking Syria was a strangely bipartisan move and will give him some points and a bit of breathing room. And by empowering Kushner and Cohn over the more divisive Bannon nationalists, he'll take some wind out of the anti-Trump sail. Of course, Trump is unpredictable and he could tweet next week about nuking California or banning golden retriever puppies from entering the US and I'll quickly eat these words.

But if I'm right, then this could put the Trumpflation narrative back on track and maybe power the stock market higher. We'll see.

The jobs numbers came out this Friday and pissed in everybody's cheerios.

There were 98,000 jobs added in March well below the 180K consensus estimate and the weakest reading since May of last year.

Now non-farm payroll (NFP) numbers are spastic so one shouldn't pay too much attention to any one month's reading. It's the trend in job growth that matters and for that we need to chart the change in growth — take a look at the chart below.



The blue bars show the month-over-month change and the yellow the 12-month trend in growth. You can see that the rate of jobs growth peaked around the start of 15' and has been steadily trending lower since. We should see growth swing up and down over the coming months but I expect the trend to accelerate downward into the end of the year as this cycle ages.

I've created a safety plan for trading currencies to keep me from repeatedly burning myself. This plan is shown on the two charts below. Feel free to also follow these safety rules if you'd like.

Currencies have been a masochist trader's fantasy these last two years with nothing going on but a lot of enticing yet neck breaking false moves. Even right now, I really want to buy the dollar — I know just a few weeks ago I really wanted to short (glad I didn't) — but according to my new rules, I can't.

Currencies are driven by over 80% speculative flows. The fundamentals of currencies can take years to impact a speculative driven trend that's headed in an un-fundamental direction. The dollar is overvalued by nearly every metric but it probably has one more leg left to its broader move. Currency volatility is near record lows as we noted in the most recent MIR. Low vol periods always precede explosive moves and this time won't be any different.

As soon as, and no sooner, the dollar is out of the red zone, we'll jump on and ride the bull (or bear).

Also, until there's a clear continuation or reversal of the dollar trend, I suggest staying away from commodities that are largely driven by dollar pricing (ie, gold and oil). I have fundamental biases on both but I refuse to touch them until the dollar signals where it's headed.

Finally, here's my favorite stock that I'm digging into at the moment. I'm talking to management this week and we'll be shooting out a more in depth writeup on my findings soon. The company is Health Insurance Innovations (HIIQ) and they're an "invisible" insurance technology company that has strong growth, solid management, and is trading at under 1x its next year sales, according to my estimates.

Also, I really like the chart and a break out of the bull flag (shown below on the weekly chart) would offer a great entry point into a stock that has long-term multi-bagger potential. I'll fill everybody in on what I find once I'm done with the dig.

Next week we have PPI numbers come out on Thursday and then CPI and retail sales numbers on Friday.

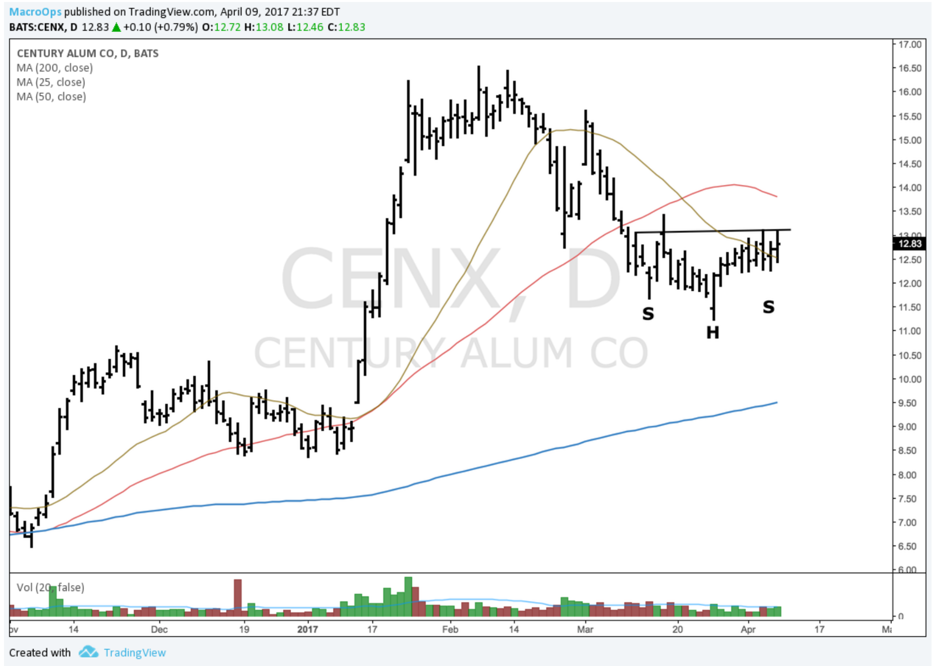
Other than that, all of my short-term market indicators are neutral to bearish. I don't have an opinion on where the broader market may go this week. I'll mostly be watching the dollar and bonds to see if either makes a significant move.

Strat Ops Portfolio Review

Goldfield (GV)
Original Entry Date/Price: **11/15/16 — $3.10**
P&L: **$34,750.10 (includes previous partial exits)**
Tear Sheets
Trade Updates

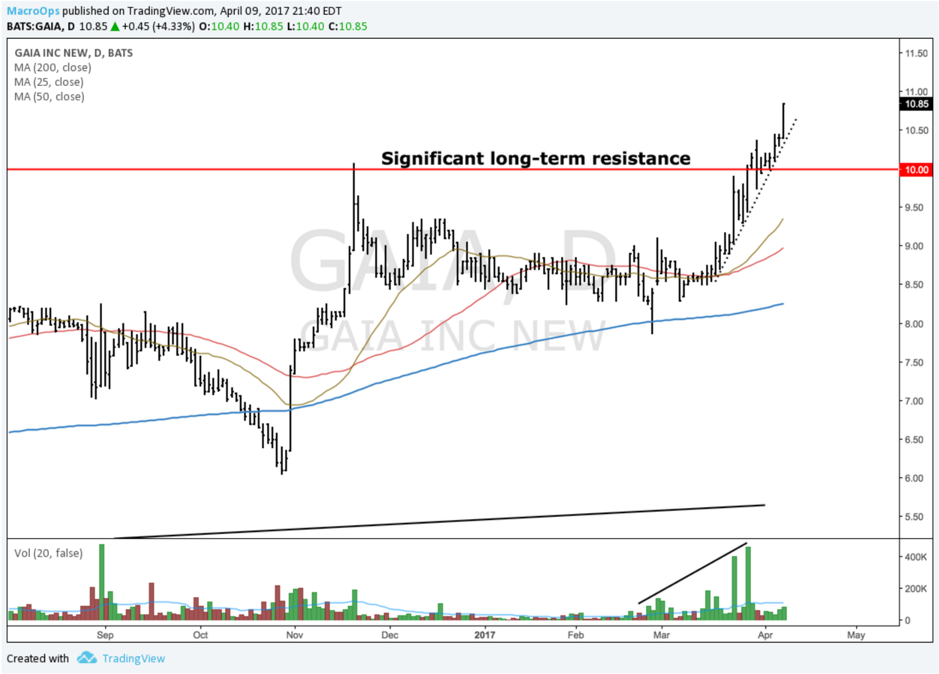
GV has broken its 100 DMA (20 WMA) as expected. We're waiting for capitulation before adding more to our position. We'd like to see a sharper sell off and high volume reversal before we do.

Century Aluminum (CENX)
Original Entry Date/Price: **1/13/17 — $11.11**
P&L: **$5,046.93 (includes previous partial exits)**
Tear Sheets
Trade Updates



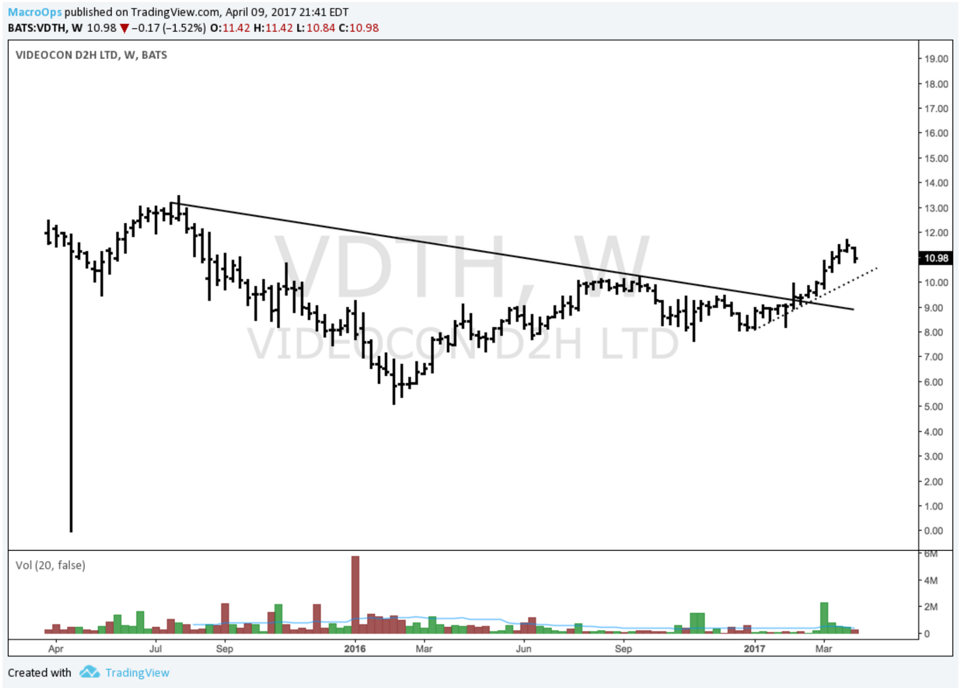
We were looking to cut our small position in CENX if price fell below our original entry point. But over the last two weeks price has rebounded somewhat. If it looks like there'll be follow through then we'll add to our position.

Gaia (GAIA)
Original Entry Date/Price: **3/23/17 — $9.74**
P&L: **$7,142.00**
[*Tear Sheets*]
[*Trade Updates*]



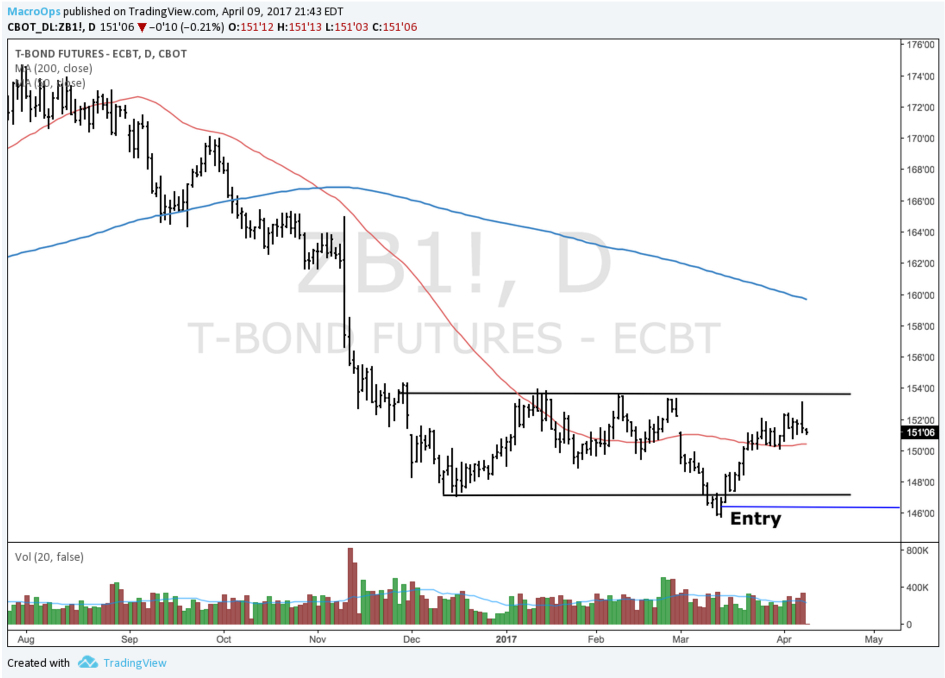
Adding to our position on a break of the larger resistance level has worked in our favor so far. With a strong weekly close GAIA looks like it may be about to take off for the races. We'll patiently add to our position at favorable setups.

Videocon (VDTH)
Original Entry Date/Price: **3/23/17 — $11.27**
P&L: **($829.00)**
Tear Sheets
Trade Updates



VDTH is currently going through a pull back, erasing our initial gains. We're not looking to exit our position unless it makes a significant break below its 10 WMA (blue line).

30 Yr-Bond Futures (ZBM7)
Original Entry Date/Price: **3/23/17 — 146'22**
P&L: **$27,431.00**
Trade Updates



Our bonds position hit our first target and then pulled back a bit. We'll continue to hold, but we'll likely pull our stops up this week to protect our gains.

<u>New Media Investment Group (NEWM)</u>
No Position
[Tear Sheets]

NEWM made a significant break below the lower support of its descending triangle. We like this company more and more and hope the stock falls further offering us even better prices down the road for when we decide to buy. The market is pricing it as a dying newspaper publisher and not seeing the opportunity available with its customer relationship management (CRM) software under its Propel business, which continues to grow.

<u>Fiat Chrysler Automobiles (FCAU)</u>
No Position
[Tear Sheets](#)

Similar to NEWM, FCAU is a great company that's undervalued and is being mispriced by a mistaken narrative.

<u>GasLog Partners (GLOP)</u>
No Position
[Tear Sheets](#)

Price is still fighting with the $24.80 level. We're content watching from the sidelines and waiting for more constructive price action.

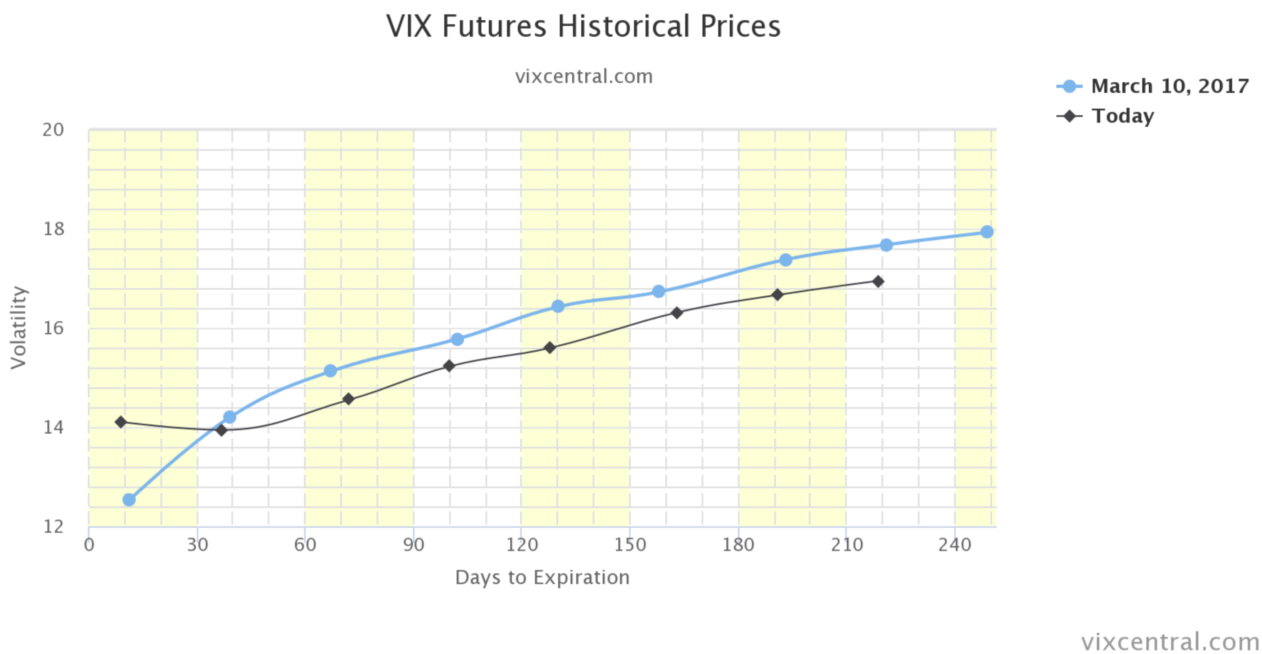
Advanced Accelerator Applications (AAAP)
No Position
Tear Sheets

As with the others we're watching from the sidelines and waiting for price action to offer a favorable entry.

Vol Ops Portfolio Review

UVXY
*Entry Date: **4/6/2017***
*Entry Price: **$16.50***
*P&L: **$7,500***

This trade is playing out perfectly so far. The graph below shows the shape of the term structure one month ago (blue line) and today (black line).



You can see how the front month contract is not sloping below the second month contract anymore. This is because U.S. markets are in the process of pricing in the binary risk of the French elections. We got on the long vol train ahead of time to benefit from this tailwind. If the SPX pulls back at all between now and the end of April we will realize some huge gains. If the SPX continues to chug along sideways the backwardation in the front of the curve will support our UVXY position and keep losses contained.

CL 48.5 April Puts
*Entry Date: **3/8/2017***
*Entry Price: **$1.06***
*P&L: **($11,155)***

The crude puts we bought are about worthless now. Crude continued it's retrace and has now nullified the bear trend.

In hindsight, we don't regret taking trade. The setup looked great.

- Oil specs were super crowded to the long side as indicated by the COT report
- Oil had just broken out of a quiet consolidation with some serious range expansion
- Implied volatility had started to break out from a low level

The trade started out fine, Oil *did* trade down to its implied target of the smaller timeframe consolidation. But it failed to break through the larger timeframe consolidation.

Looking back, our trade management could've been better.

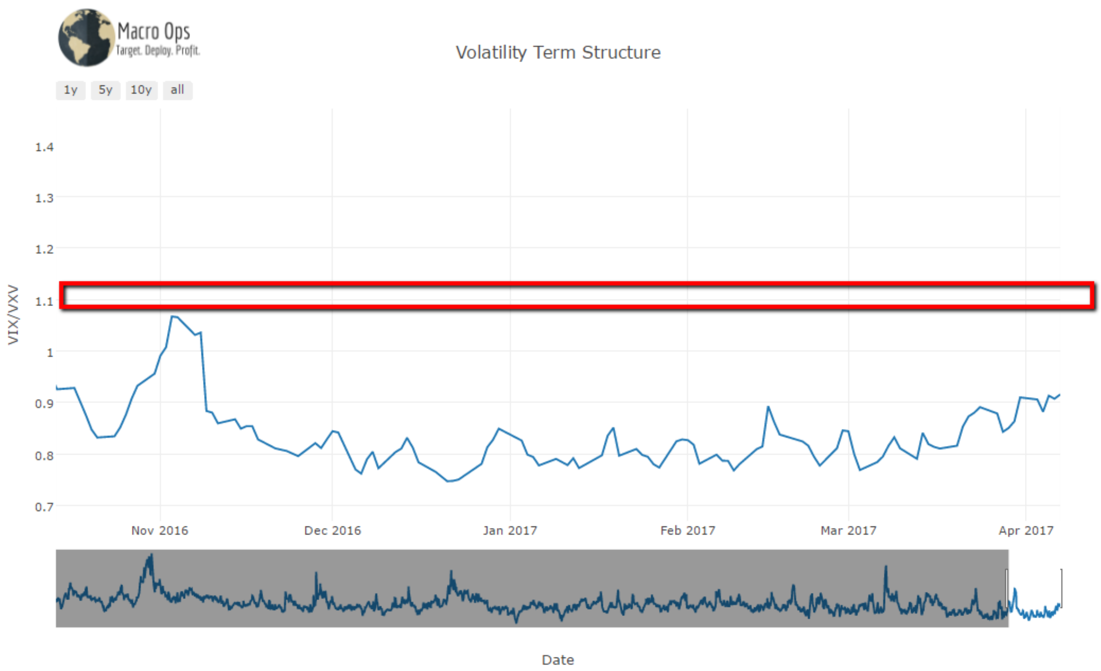
When crude oil breached the prior swing high that was a signal to exit. We ignored it instead hoping for a turn around and continuation of the downtrend.

Stopping out there would've meant taking a small loss instead of a full R stop out that we are likely to get once the puts expire worthless a few weeks from now.

At this point it doesn't make sense to exit the trade. The puts have defined risk and there is only upside from here in the event that crude has a surprise negative shock in the next two weeks.

June VIX Futures
Entry Date: ***3/20/2017***
Entry Price: ***$15.00***
P&L: ***$15,911***

The long-dated VIX futures have continued to perform on the short side. Our indicator is creeping up, but nowhere near the stop out point (the red box below).



Have a great week!

- Alex

Portfolio Snapshot

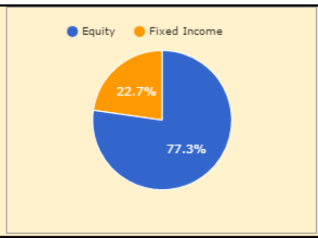
Strategic Ops

NAV $1,152,208

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Notional
Equity	Goldfield GV	1,000	$3.89	$2.52	$1,370.00	$4.50	$5,250
Equity	Century Aluminum CENX	400	$11.11	$7.55	$1,424.00	$16.55	$5,092
Equity	GAIA	7,600	$9.88	$8.50	$10,488.00	$13.75	$79,040
Equity	Videocon VDTH	2,900	$11.27	$9.26	$5,829.00	$17.45	$32,335
Fixed Income	30 Yr-Bond Futures (ZBM7)	6	$146.69	$145.75	$5,625.00	$153.00	$907,000

Metrics

Exposure Breakdown	
Equity	$19,111.00
Commodity	$0.00
Fixed Income	$5,625.00
Forex	$0.00



Total Open Risk
$24,736.00
2.15%

**Updated 4/9

Volatility Ops

NAV $1,221,406

Asset Class	Position	Size	Cost Basis	Notional
Volatility	June 21st VIX Future	-36	$15.00	-$543,600
Volatility	UVXY	7500	$16.50	$122,250
Commodity	Crude Oil May 2017 48.5 P	11	$1.06	~

Scenario Analysis/Stress Tests

Max Loss	-$350,000

**Updated on 4/9