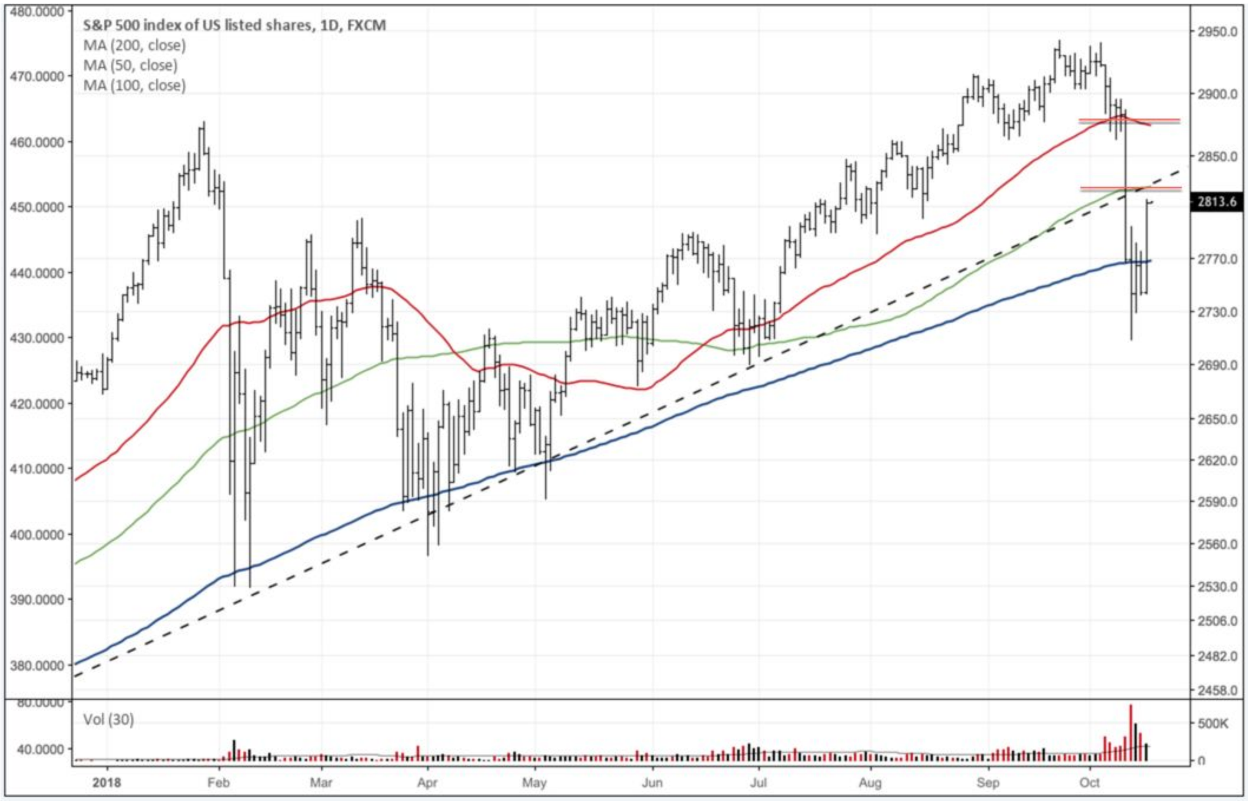
It’s All Good…

This last week I was pulled away from my screens as I moved out of my cabin in the hills of Virginia and made the drive out to my new home in Austin, Texas. And as always seems to be the case when I’m away from markets, volatility struck — my absence from markets is a highly reliable indicator of market volatility.

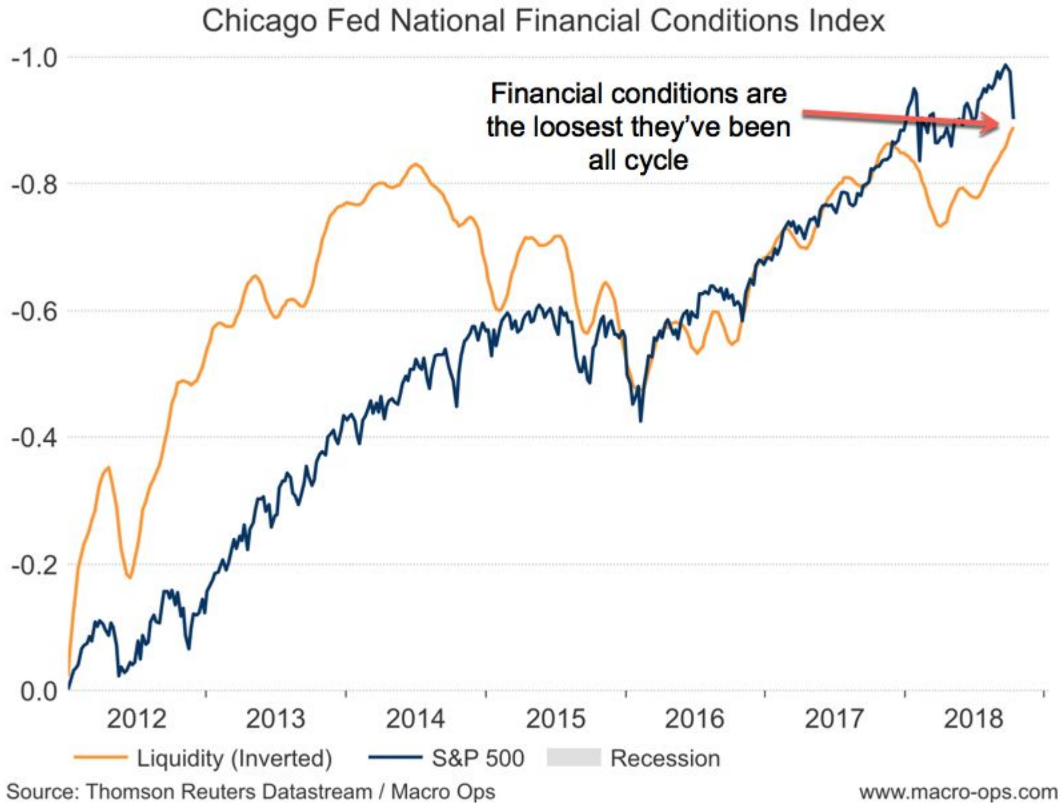
Anyways, I’m now back in the saddle and figure we’ll do a quick trifecta look at markets this week to see where the balance of odds lay going forward.

The selloff that we were expecting due to the jump higher in rates, came. Though the move was a bit stronger than what we were looking for.

The next significant resistance levels on the SPX are at the 2825 (100dma + trendline area) and 2875 (near the 50dma).



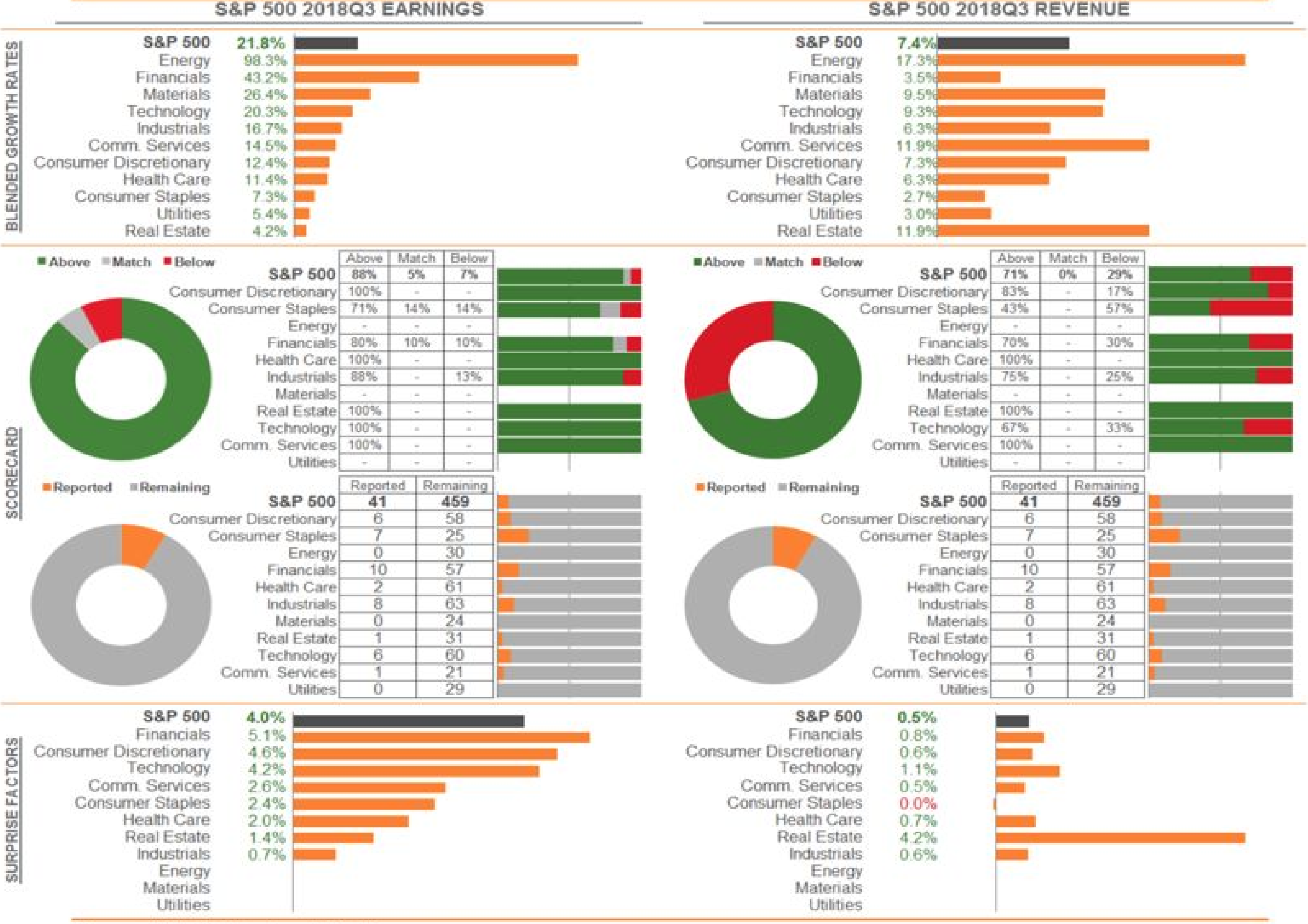
As we discussed in the latest MIR, the macro fundamentals remain supportive of the broader trend higher in stocks. Financial conditions are the loosest they've been all cycle.



And earnings here in the US continue to be strong. So far this quarter, 41 companies in the S&P have reported with 88% beating expectations on earnings and 71% on revenues.

EARNINGS DASHBOARD

Exhibit 1. 2018Q3 S&P 500 Earnings Dashboard



S&P 500 2018Q3 EARNINGS

	Above	Match	Below
S&P 500	**88%**	**5%**	**7%**
Consumer Discretionary	100%	-	-
Consumer Staples	71%	14%	14%
Energy	-	-	-
Financials	80%	10%	10%
Health Care	100%	-	-
Industrials	88%	-	13%
Materials	-	-	-
Real Estate	100%	-	-
Technology	100%	-	-
Comm. Services	100%	-	-
Utilities	-	-	-

	Reported	Remaining
S&P 500	**41**	**459**
Consumer Discretionary	6	58
Consumer Staples	7	25
Energy	0	30
Financials	10	57
Health Care	2	61
Industrials	8	63
Materials	0	24
Real Estate	1	31
Technology	6	60
Comm. Services	1	21
Utilities	0	29

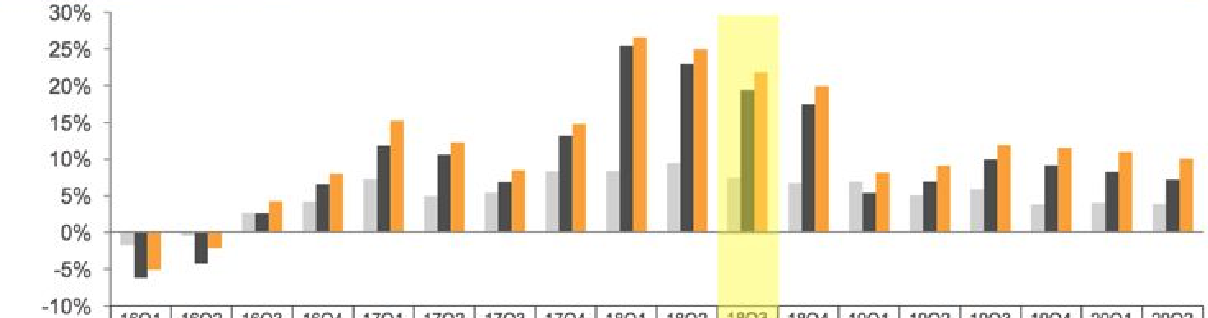
S&P 500 2018Q3 REVENUE

	Above	Match	Below
S&P 500	**71%**	**0%**	**29%**
Consumer Discretionary	83%	-	17%
Consumer Staples	43%	-	57%
Energy	-	-	-
Financials	70%	-	30%
Health Care	100%	-	-
Industrials	75%	-	25%
Materials	-	-	-
Real Estate	100%	-	-
Technology	67%	-	33%
Comm. Services	100%	-	-
Utilities	-	-	-

	Reported	Remaining
S&P 500	**41**	**459**
Consumer Discretionary	6	58
Consumer Staples	7	25
Energy	0	30
Financials	10	57
Health Care	2	61
Industrials	8	63
Materials	0	24
Real Estate	1	31
Technology	6	60
Comm. Services	1	21
Utilities	0	29

Source: I/B/E/S data from Refinitiv

Exhibit 5. S&P 500 YoY Growth Rates



	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2
▨ Revenue	-1.7%	-0.4%	2.6%	4.2%	7.3%	5.0%	5.5%	8.3%	8.4%	9.5%	7.4%	6.7%	7.0%	5.1%	5.9%	3.9%	4.1%	3.9%
■ Net Income	-6.2%	-4.2%	2.6%	6.6%	11.9%	10.6%	6.9%	13.1%	25.4%	23.0%	19.3%	17.5%	5.4%	7.0%	10.0%	9.1%	8.2%	7.2%
■ Earnings	-5.0%	-2.1%	4.3%	8.0%	15.3%	12.3%	8.5%	14.8%	26.6%	24.9%	21.8%	19.9%	8.1%	9.1%	11.9%	11.5%	11.0%	10.1%

Source: I/B/E/S data from Refinitiv

Indicators of sentiment and positioning are broadly supportive of a higher trend in stocks as well, with only a few minor exceptions.

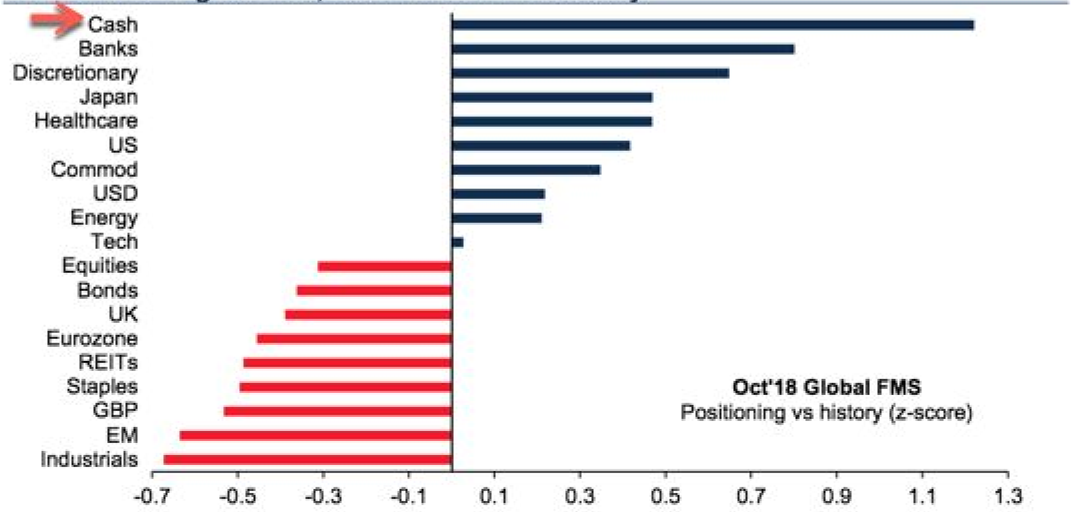
To gauge sentiment and positioning we like to look at the following:

- BofAML Fund Manager Survey
- Advisor Sentiment
- AAII Survey
- Total Put/Call ratio

The latest BofAML FMS survey for the month of October just came out. You can find the report in our Comm Center here.

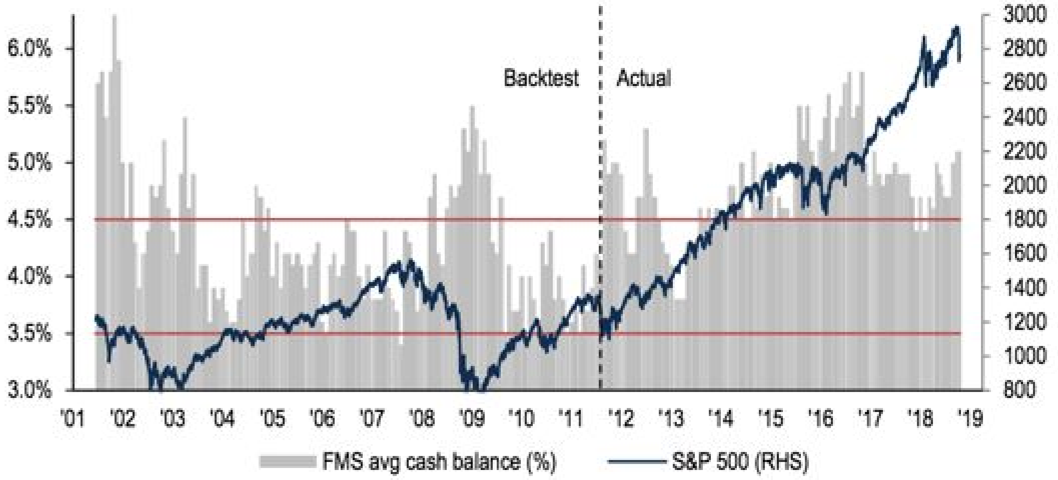
The report shows that fund managers continue to be bearish on the macro outlook for stocks and hold large amounts of cash.

Exhibit 1: The Longs & Shorts, relative to Global FMS history*



Source: BofA Merrill Lynch Global Fund Manager Survey. *data since 2006 for commodities & real estate; since 2001 for all others

Exhibit 4: Global FMS average cash balance (%) vs. S&P 500



Source: BofA Merrill Lynch Global Fund Manager Survey, Bloomberg. Disclaimer: The indicators identified above as BofAML Bull & Bear and BofAML Global FMS Cash Rule are intended to be indicative metrics only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Merrill Lynch Global Research. These indicators were not created to act as a benchmark.

Bull market tops are built on excessive bullishness and risk-taking. Leveraging risk assets is what sets the conditions for a prolonged bear market because of the forced sellers it creates. Investors continue to hate this bull market due to the disaster echo effects from the last crisis. This continues to be bullish for stocks.

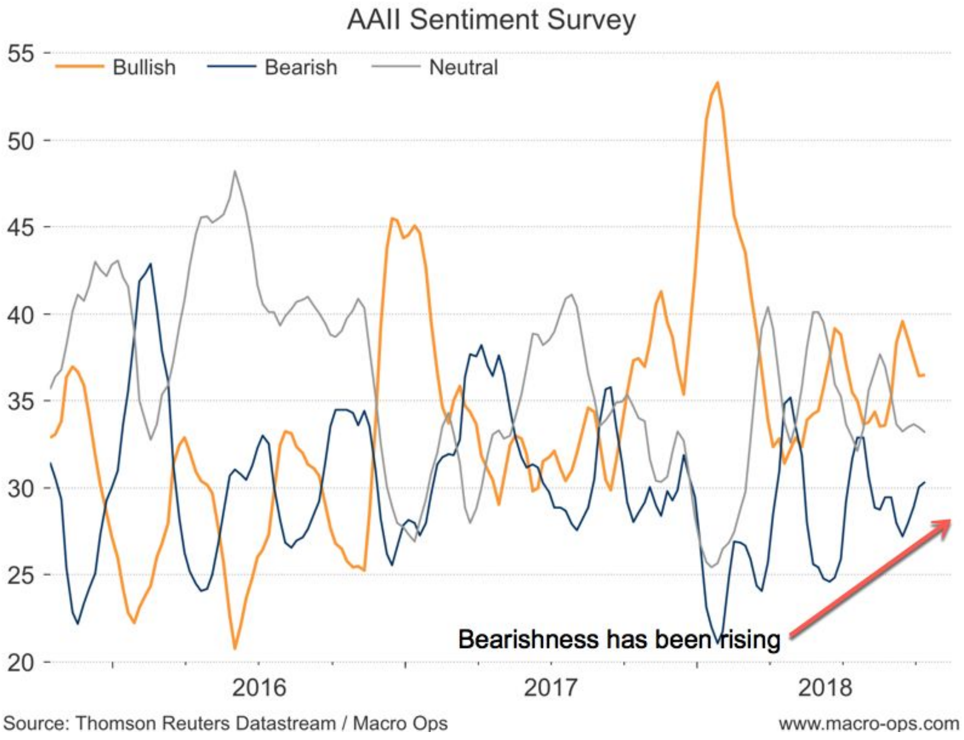
Advisor’s bullishness has fallen to 56 from its high of 61 last month. Any reading above 60 should be taken as a signal to be cautious. Ideally, I would have liked to see this indicator drop more in response to the recent selloff and the fact that it hasn’t, tells me that there’s a decent chance this bout of volatility isn’t quite over.

Advisor bullishness has fallen somewhat but remains elevated

Source: Thomson Reuters Datastream / Macro Ops

www.macro-ops.com

The latest results for AAII aren't out yet so the data we have is a week old. But the survey shows that bearish sentiment is rising while bullishness is neutral. This is supportive of risk assets.



Bearishness has been rising

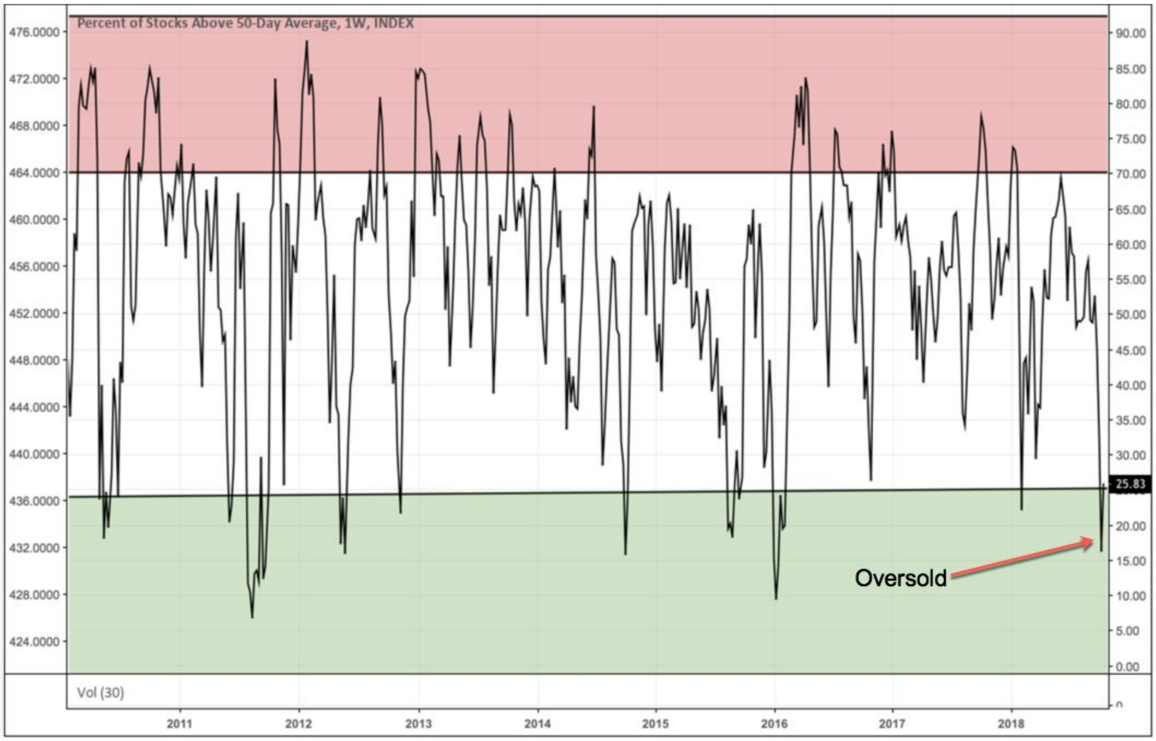
Source: Thomson Reuters Datastream / Macro Ops

www.macro-ops.com

The 10-day moving average for the total put/call ratio is now over 1 (marked by horizontal black line). This means investors are fearful and buying more downside protection. When the 10dma crosses above 1 it typically means a short-term bottom is close to being established.

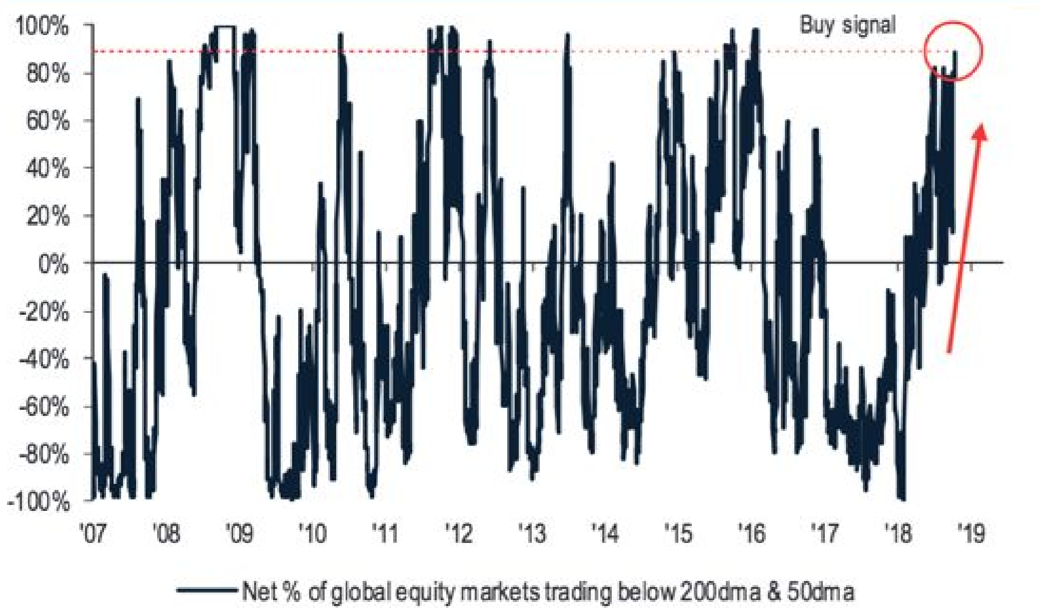
To summarize the sentiment and positioning picture: longer-term indicators of sentiment and positioning remain supportive of a higher trend in stocks. More intermediate indicators, like Advisor bullishness, suggests we may see another shakeout before a trend higher can be sustained.

On a technical basis, the market is oversold. This means that it’s unlikely to sell off much more below it’s most recent low without a significant push higher first. The chart below shows the percent of stocks trading above their 50-day moving averages.



Similarly, BofAML's Global Breadth indicator recently triggered a buy signal as global equities hit extremely oversold levels.

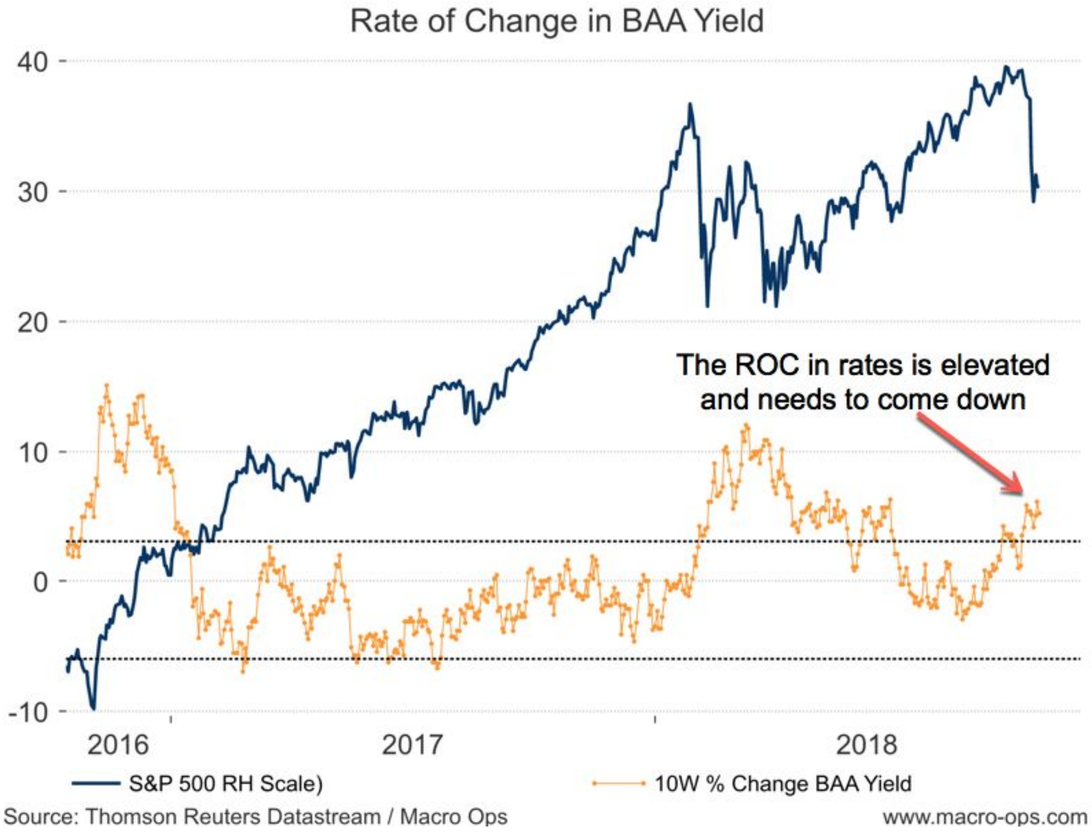
Chart 1: BofAML Global Breadth Rule "buy signal" triggered



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

Interest rates were the primary cause of this latest selloff and the ROC in yields is still high. Bonds and stocks compete for capital flows and fast-rising yields put the squeeze on equity valuations.

Bonds are now technically oversold and we should see a bounce soon. But this bounce (bonds up, yields down) will likely come in response to further short-term volatility in stocks.



Source: Thomson Reuters Datastream / Macro Ops www.macro-ops.com

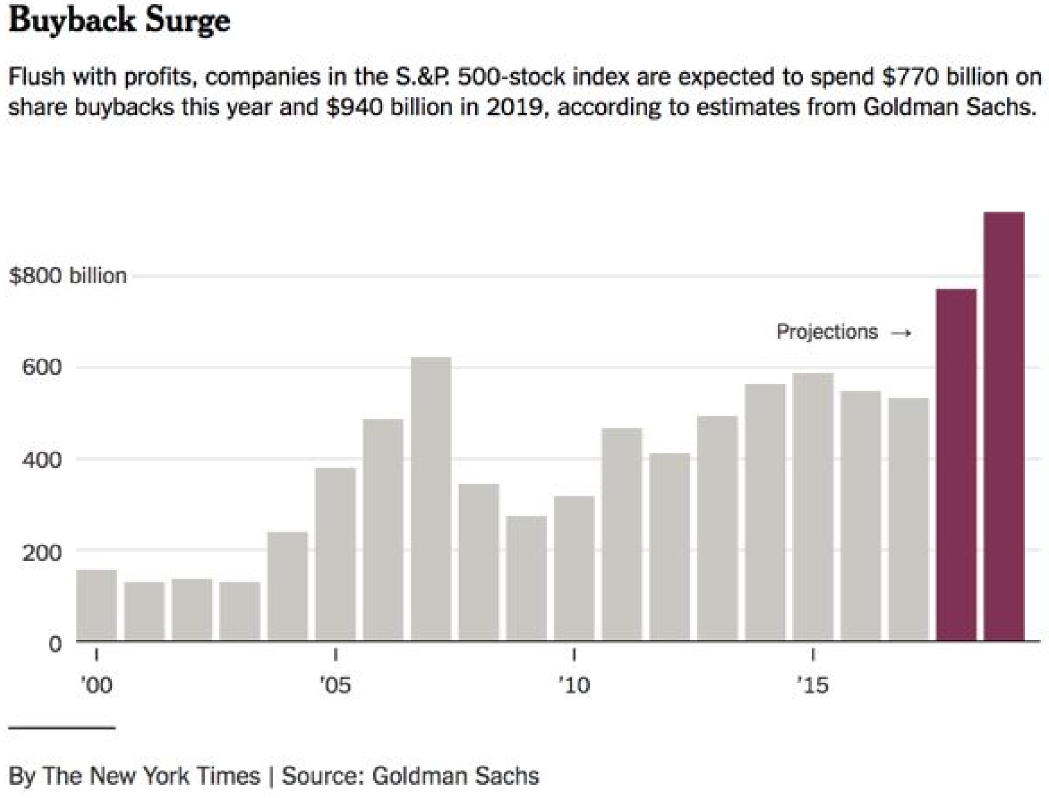
So overall, the broader outlook for stocks (at least here in the US), remains supportive of the bullish trend higher. But, the ROC in rates and indicators of short-term sentiment, suggest that we might see some more volatility in stocks over the next 1-3 weeks before the move higher can really get going.

And there are two other supporting factors that raise the odds we see a strong run-up in stocks into the end of the year. These being buybacks and seasonality.

Read the following from NYT (emphasis mine):

> *It may seem counterintuitive, but the largest single source of demand for American stocks is the American companies that issue them.* ***Companies are on track to***

> ***repurchase more than $770 billion in their own stock this year****, according to research from Goldman Sachs. That's more than twice the size of the next largest source of demand, exchange-traded funds, which last year bought $347 billion in shares.*
>
> *But those companies are getting ready to report earnings, an event that is preceded by a regular slowdown in buyback activity. Some large market dips in the past year have coincided with these quarterly slowdowns.*
>
> *Keith Parker, head of United States equity research at UBS Investment Research, said* ***the market has been weaker when buybacks have slowed. "When that dries up or slows significantly, you're having outsized market effects," he said****.*
>
> *But corporate buybacks regularly slow around the start of the earnings reporting season, because companies want to avoid any potential legal risks from buying stock ahead of publishing their financial results.*



Buyback Surge

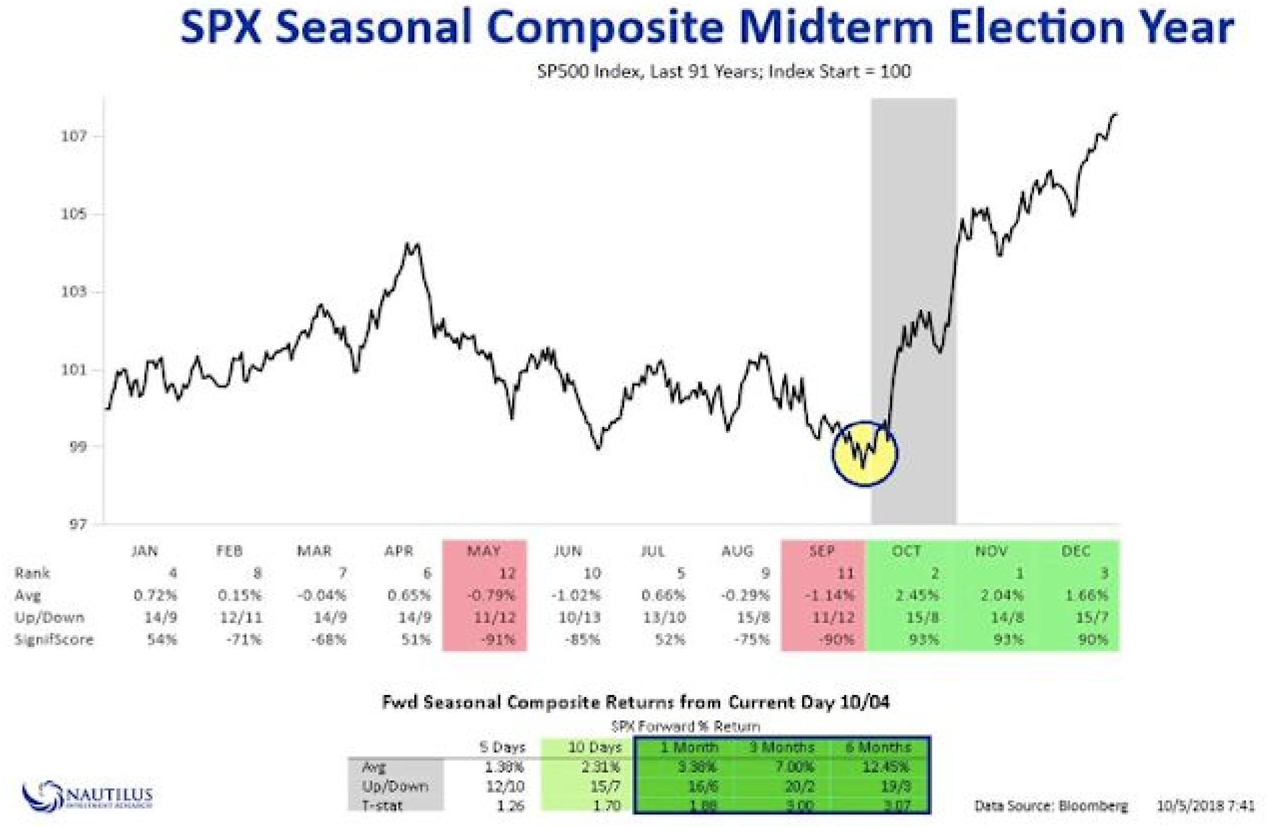
Flush with profits, companies in the S.&P. 500-stock index are expected to spend $770 billion on share buybacks this year and $940 billion in 2019, according to estimates from Goldman Sachs.

By The New York Times | Source: Goldman Sachs

There's a massive pool of recently repatriated corporate cash that's been parked in short-term rates, waiting for the buyback period to end and for a dip to buy. They'll get both over the next few weeks as the earnings season progresses. This is the fuel for the next leg up.

And then finally, we're entering a period of the political cycle (midterm election year) that when combined with regular seasonality, has historically provided a very strong tailwind for equities.

Nautilus notes that the SPX has risen 20 of the last 22 times during the final 3 months of the year during midterm elections; with 6-month gains averaging 12.45%/



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Rank	4	8	7	6	12	10	5	9	11	2	1	3
Avg	0.72%	0.15%	-0.04%	0.65%	-0.79%	-1.02%	0.66%	-0.29%	-1.14%	2.45%	2.04%	1.66%
Up/Down	14/9	12/11	14/9	14/9	11/12	10/13	13/10	15/8	11/12	15/8	14/8	15/7
SignifScore	54%	-71%	-68%	51%	-91%	-85%	52%	-75%	-90%	93%	93%	90%

Fwd Seasonal Composite Returns from Current Day 10/04

SPX Forward % Return

	5 Days	10 Days	1 Month	3 Months	6 Months
Avg	1.38%	2.31%	3.38%	7.00%	12.45%
Up/Down	12/10	15/7	16/6	20/2	19/3
T-stat	1.26	1.70	1.88	3.00	3.07

Data Source: Bloomberg 10/5/2018 7:41

Portfolio Update:

Disney (DIS) is already back up near its recent highs. This is our largest position and highest conviction holding in the portfolio (write up here). The chart setup is textbook with the stock recently breaking out of a 2+yr coiling triangle. Earnings come out in a couple of weeks and will likely provide the impetus for the next leg up.

Our second largest position is Google (GOOGL). The stock is currently trading around its 50-week moving average (red line below), a level which has acted as major support in the past.

Earnings come out next week and depending on how the stock reacts, we'll consider adding some DOTM calls to this position.

Yelp (YELP) makes up our third largest stock position (write up here). We want to add to this trade as soon as the latest round of market volatility has played itself out. We'll put out an update after earnings print in two weeks.

3-D printing company Stratasys (SSYS) continues to trade in its 3-year range (write up here). This is a long-term holding and the thesis will take some time to play out. If the stock trades much lower from current levels then we may reduce the position and redeploy some capital to more actionable trades.

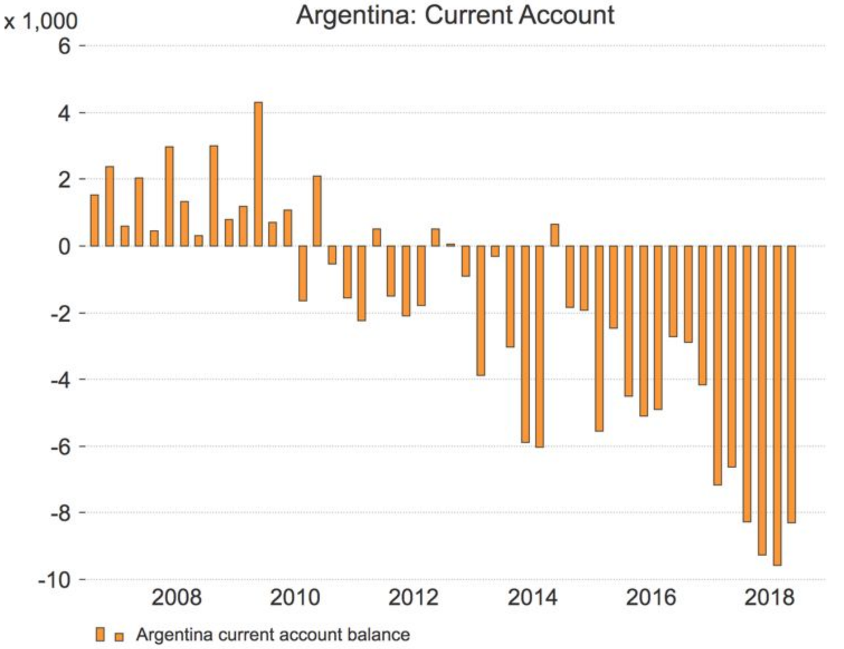
Our Alibaba (BABA) puts doubled at one point on the recent selloff and we took half profits for a quick 50% gain on the position. The puts have 16-months till expiry and we'll consider adding more following a retrace. We're starting to look for other potential short trades to help hedge out the long exposure in our book.

Our long platinum trade is in the green and our silver position is slightly below our entry. The dollar and precious metals are both at significant inflection points and we should see a break in one direction or another. We're keeping our stops on these trades tight and will look to reverse if the move breaks against us.

Trades we're considering:

Mark Dow put out a good piece on Argentinian banks (link here). I've been looking at these plays for a while as they've been absolutely destroyed (GGAL fell as much as 75% from its peak at the start of the year).

As Dow notes, the trade rests on the ability of the Argentinian peso to establish a bottom and rally against the dollar. Typically, an EM country will see its current account move back into surplus 6-12 months before the currency can launch a sustainable rally. Argentina is still running a large deficit.



Source: Thomson Reuters Datastream / Macro Ops
www.macro-ops.com

We're bearish on EM in the longer-term as we've written here and here, but Timing is Everything and it's very oversold against the US and due for a period of outperformance which could last a couple of months. And some of these Argentinian banks could be a good way to play this relative mean reversion.

The Gaia (GAIA) chart continues to set up nicely (write up here). We think this is a $60+ stock eventually and with the stock trading at a significant support level (50-week moving average), now may be a good time to start building a position.

And FitBit (FIT) recently bounced off its major long-term support level at $4.50. We pitched the long thesis for FIT here. Earnings come out in two weeks and with the success of the company's latest watch, the Versa, there's an increasing probability that the company surprises to the upside; which should be pretty easy since expectations for the company are so low.

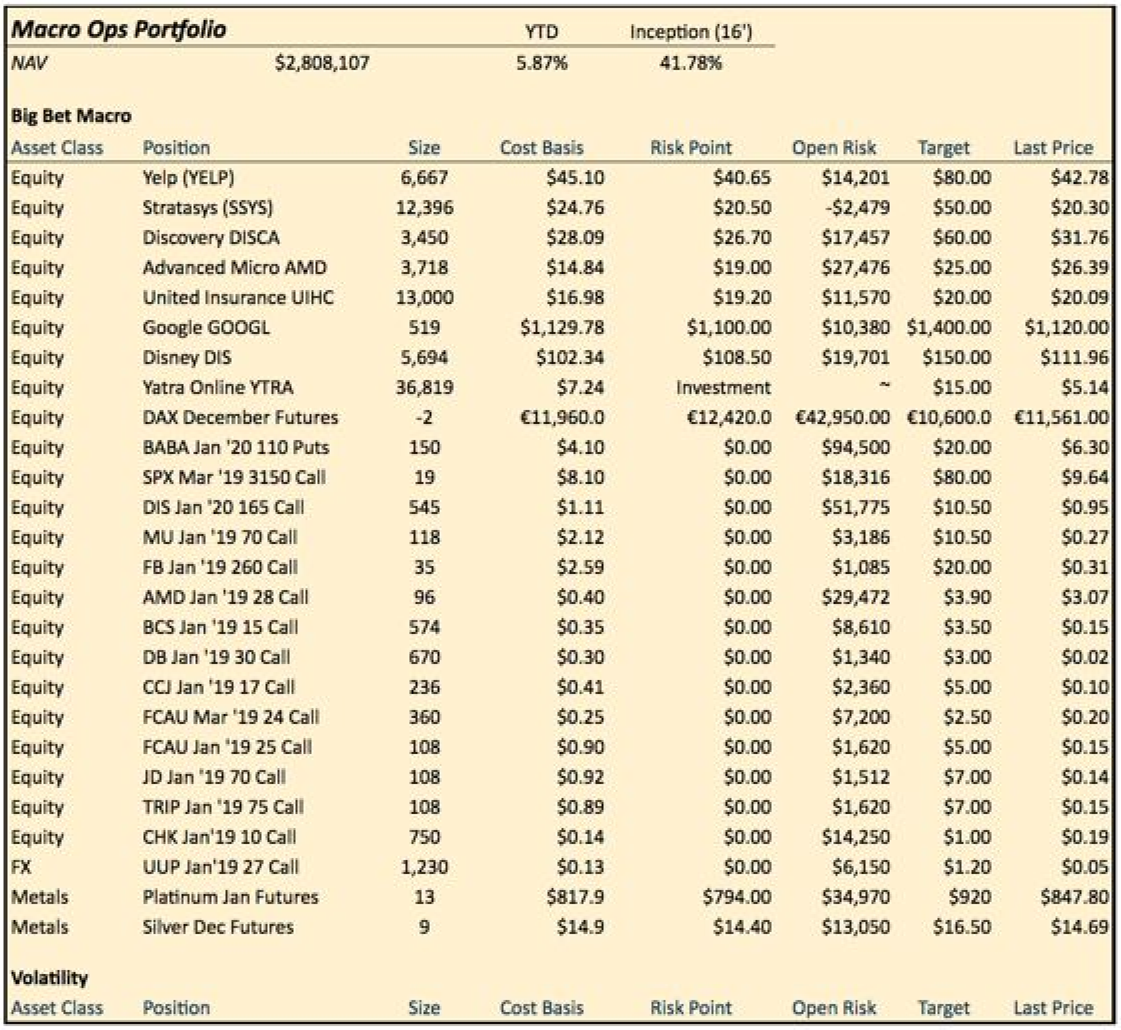
We may put on a small starter position soon.

That’s all I’ve got.

If you’ve got any questions for us in the meantime, let us know in the Comm Center.

Your Macro Operator,

Alex



Macro Ops Portfolio

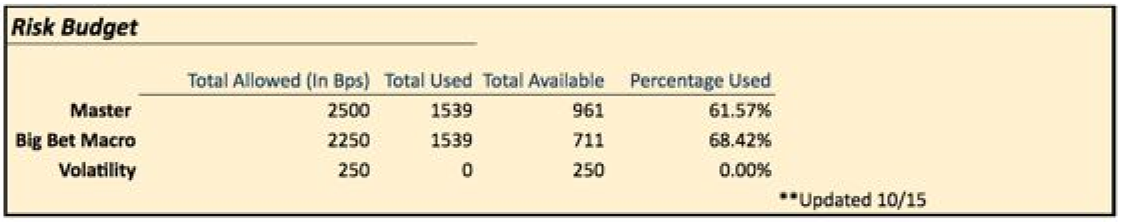
		YTD	Inception (16')
NAV	$2,808,107	5.87%	41.78%

Big Bet Macro

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Yelp (YELP)	6,667	$45.10	$40.65	$14,201	$80.00	$42.78
Equity	Stratasys (SSYS)	12,396	$24.76	$20.50	-$2,479	$50.00	$20.30
Equity	Discovery DISCA	3,450	$28.09	$26.70	$17,457	$60.00	$31.76
Equity	Advanced Micro AMD	3,718	$14.84	$19.00	$27,476	$25.00	$26.39
Equity	United Insurance UIHC	13,000	$16.98	$19.20	$11,570	$20.00	$20.09
Equity	Google GOOGL	519	$1,129.78	$1,100.00	$10,380	$1,400.00	$1,120.00
Equity	Disney DIS	5,694	$102.34	$108.50	$19,701	$150.00	$111.96
Equity	Yatra Online YTRA	36,819	$7.24	Investment	~	$15.00	$5.14
Equity	DAX December Futures	-2	€11,960.0	€12,420.0	€42,950.00	€10,600.0	€11,561.00
Equity	BABA Jan '20 110 Puts	150	$4.10	$0.00	$94,500	$20.00	$6.30
Equity	SPX Mar '19 3150 Call	19	$8.10	$0.00	$18,316	$80.00	$9.64
Equity	DIS Jan '20 165 Call	545	$1.11	$0.00	$51,775	$10.50	$0.95
Equity	MU Jan '19 70 Call	118	$2.12	$0.00	$3,186	$10.50	$0.27
Equity	FB Jan '19 260 Call	35	$2.59	$0.00	$1,085	$20.00	$0.31
Equity	AMD Jan '19 28 Call	96	$0.40	$0.00	$29,472	$3.90	$3.07
Equity	BCS Jan '19 15 Call	574	$0.35	$0.00	$8,610	$3.50	$0.15
Equity	DB Jan '19 30 Call	670	$0.30	$0.00	$1,340	$3.00	$0.02
Equity	CCJ Jan '19 17 Call	236	$0.41	$0.00	$2,360	$5.00	$0.10
Equity	FCAU Mar '19 24 Call	360	$0.25	$0.00	$7,200	$2.50	$0.20
Equity	FCAU Jan '19 25 Call	108	$0.90	$0.00	$1,620	$5.00	$0.15
Equity	JD Jan '19 70 Call	108	$0.92	$0.00	$1,512	$7.00	$0.14
Equity	TRIP Jan '19 75 Call	108	$0.89	$0.00	$1,620	$7.00	$0.15
Equity	CHK Jan'19 10 Call	750	$0.14	$0.00	$14,250	$1.00	$0.19
FX	UUP Jan'19 27 Call	1,230	$0.13	$0.00	$6,150	$1.20	$0.05
Metals	Platinum Jan Futures	13	$817.9	$794.00	$34,970	$920	$847.80
Metals	Silver Dec Futures	9	$14.9	$14.40	$13,050	$16.50	$14.69

Volatility

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price



Risk Budget

	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1539	961	61.57%
Big Bet Macro	2250	1539	711	68.42%
Volatility	250	0	250	0.00%

**Updated 10/15