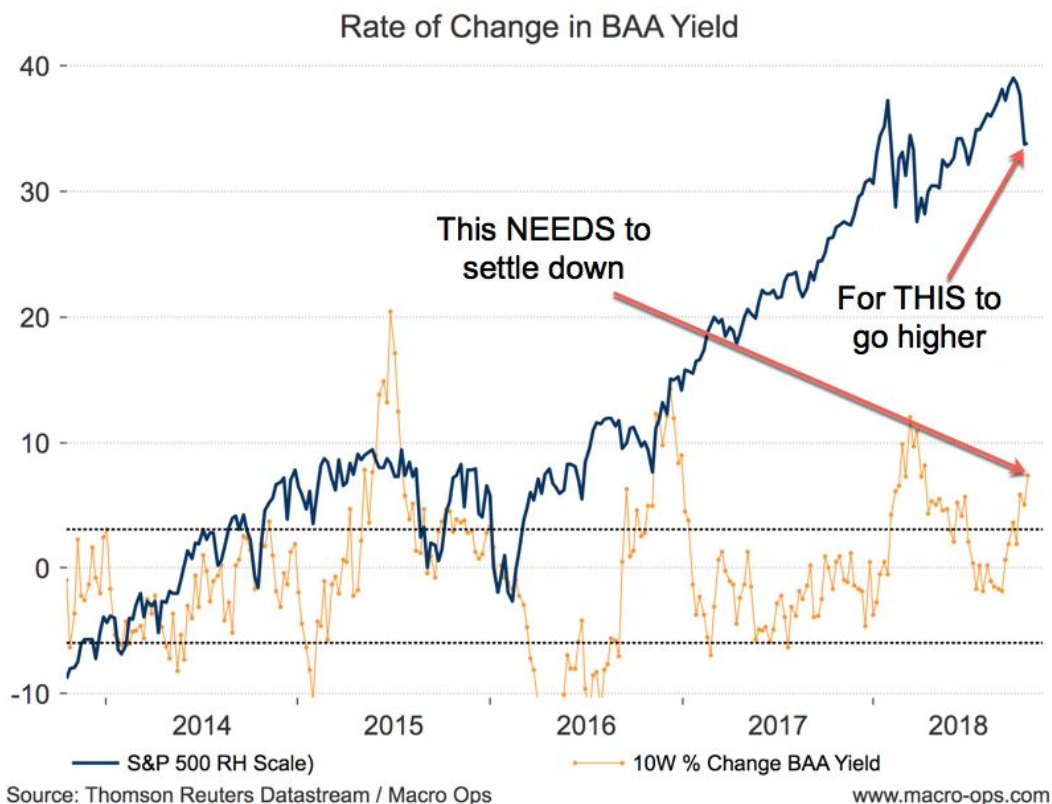


Make Yields Low Again!

Jesse Stine just put out a note ([link here](#)). He's one of the best people I know at [playing the player](#) and getting a read on market sentiment. Check it out, it's worth a read.

Stine echoes much of what we've been talking about these last few weeks; which is that markets are hitting technically oversold levels, sentiment has become overly bearish (it's become nearly unanimous on Twitter that we've entered a bear market), and we're about to enter a period with many positive tailwinds (strong seasonals and earnings + end to buyback blackout).

The one major hurdle for equities is still interest rates. Even after this week's round-trip market action (stocks went up, sold off, and closed unch on the week), bonds still failed to get a bid; the 10yr yield rose from 3.16% to 3.19% on the week.

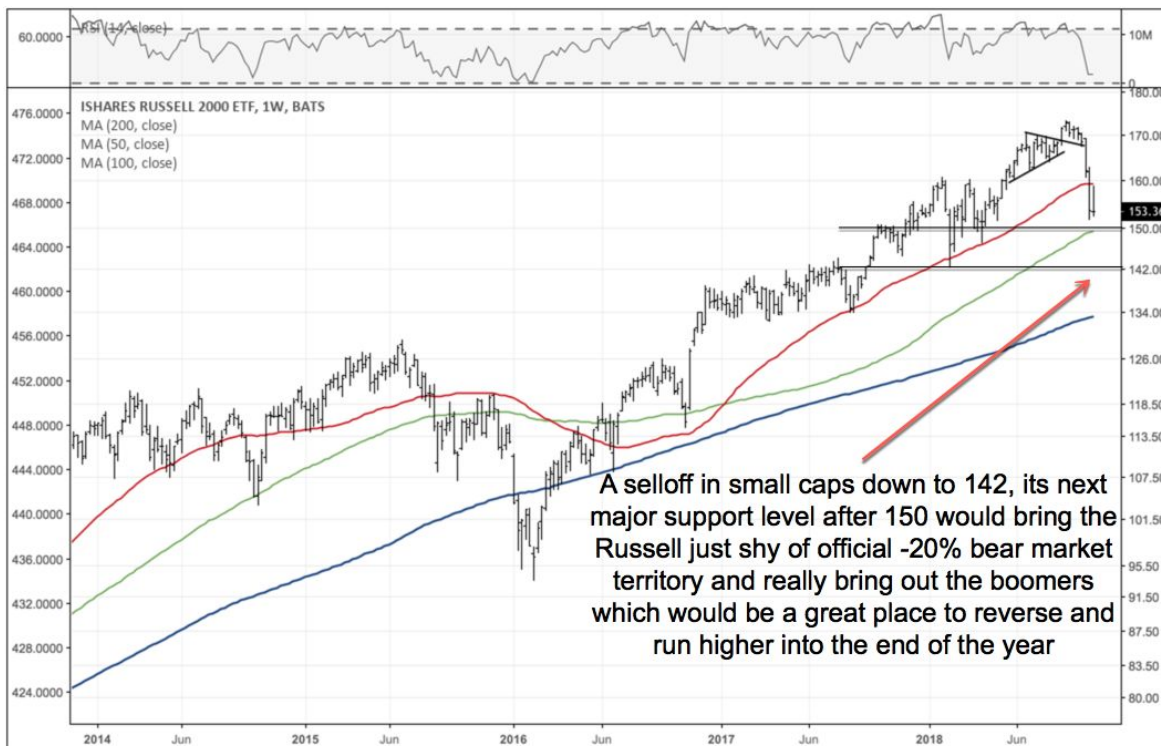


I wrote about what it's going to take to bring the ROC in rates down in last week's [Brief](#).

And that's a further selloff in stocks...

The tape is telling me that a selloff next week is now odds-on. Let's run through some charts to get a feel for the technical picture (all charts are weeklies unless otherwise stated).

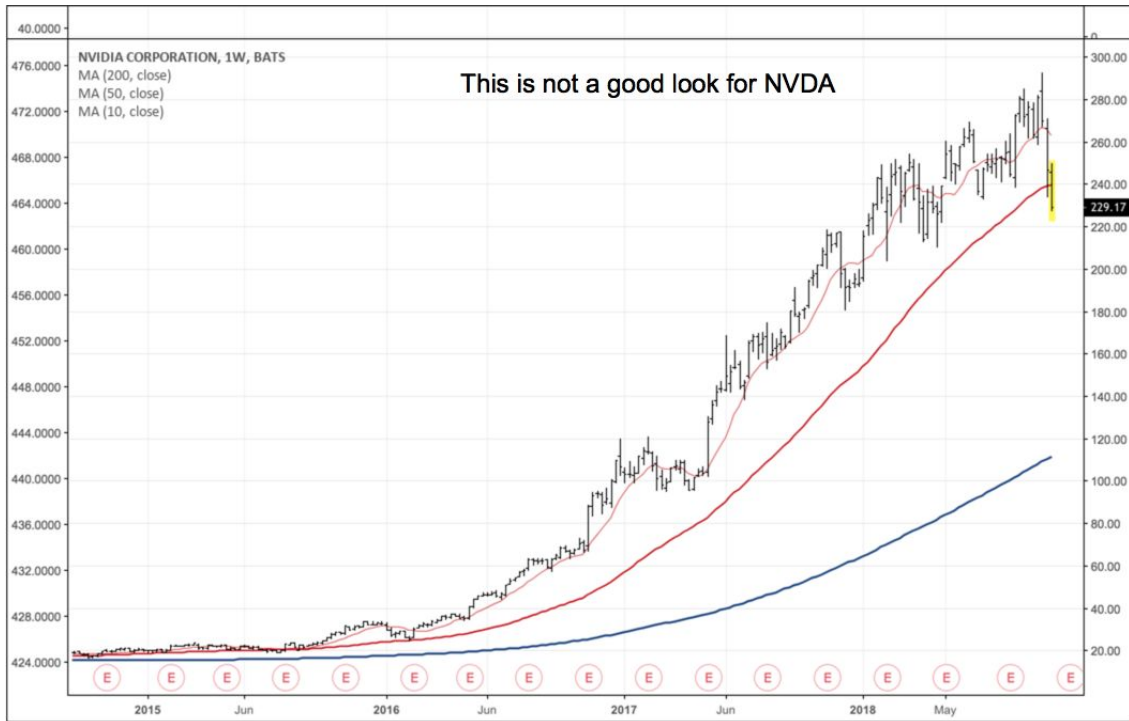
US small caps (IWM) closed the week on its open and continues to trade below its 50-week MA (red line). The next major support levels for IWM are at 150 and then 142 after that. I'd love to see it break below its 100-week MA (green line) and run down near 142.



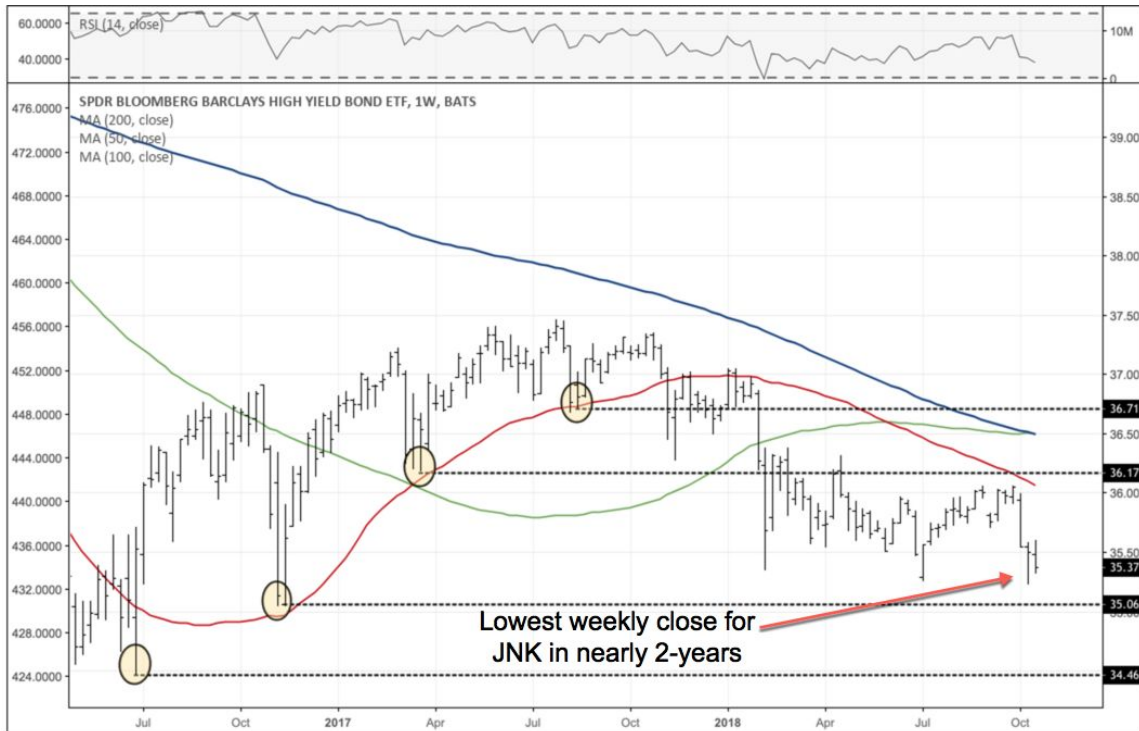
This would bring the Russell near official bear market territory, which would set a perfect bear trap for the market to then run hard into the end of the year — remember when Bruce Kovner said that “One of the traders I know does very well in the stock index markets by trying to figure out how the stock market can hurt the most traders.”

I can't think of a possible market path that could hurt more than a hard selloff over the next week (or few weeks) followed by a face ripping rally into the end of the year — that would put everybody on tilt.

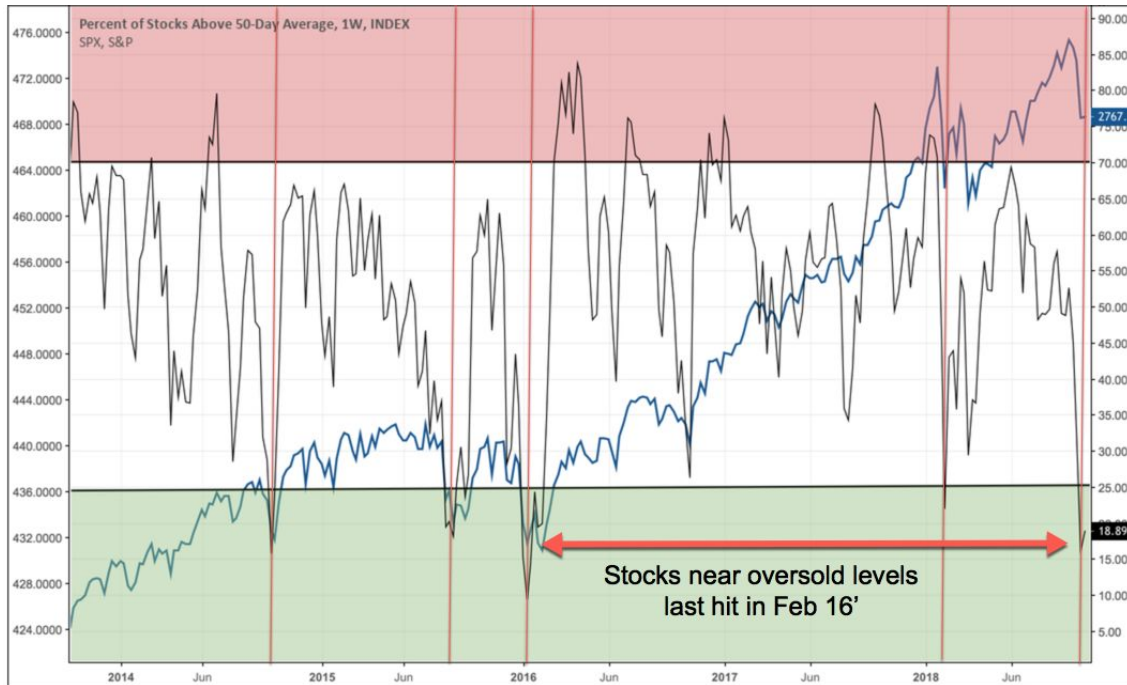
I sent everybody the chart showing the breakdown in semis (SMH) on Friday. Semis are always an important industry to follow, as they often lead the broader market. Well, check out this chart of NVDA, which has been a market leader all cycle. It's doing the classic Peruvian Cliff Diver pattern made famous by Edwards and Magee...



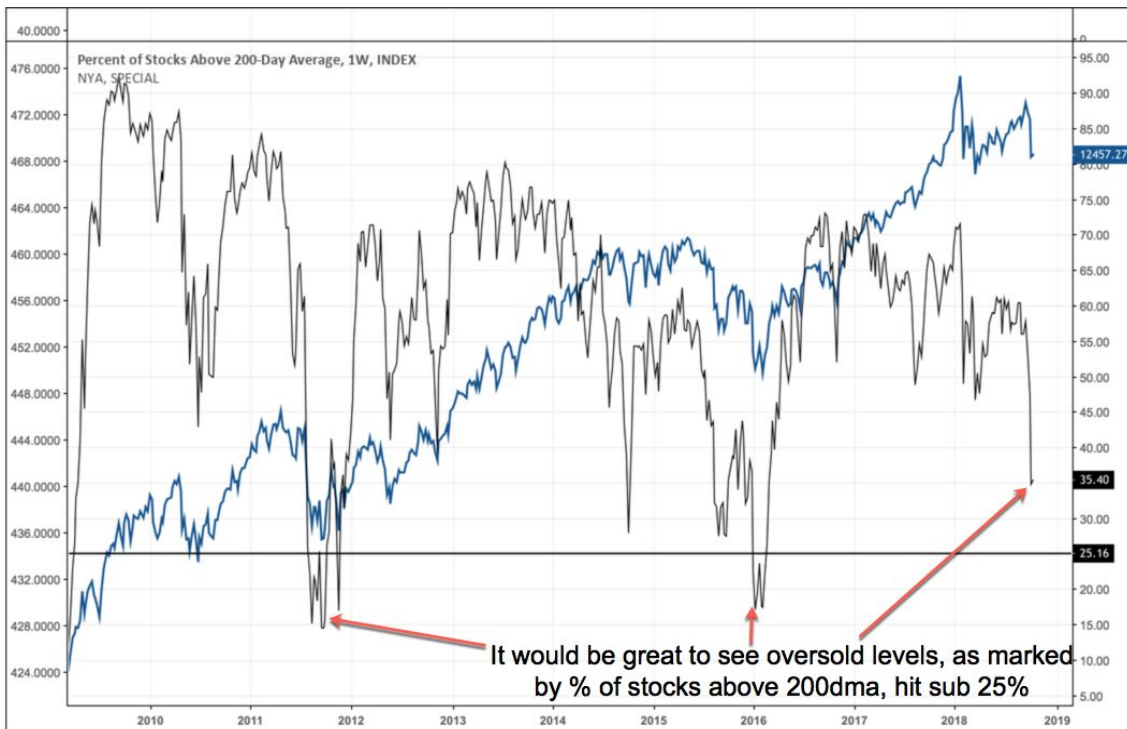
High-yield debt ETF (JNK) had its lowest weekly close in nearly 2-years.



The percentage of stocks trading above their 50-day moving averages is at levels last seen in early 2016, which preceded the market's latest 2yr+ rally higher.



The percentage of stocks trading above their 50dma is a great short-term indicator of overbought/sold levels. But the percentage of stocks trading above their 200dma is a better one for long-term readings. It'd be great if we saw this indicator dip below the 25% level that marked the major bottoms of the last two big market selloffs in 11' and 16'.

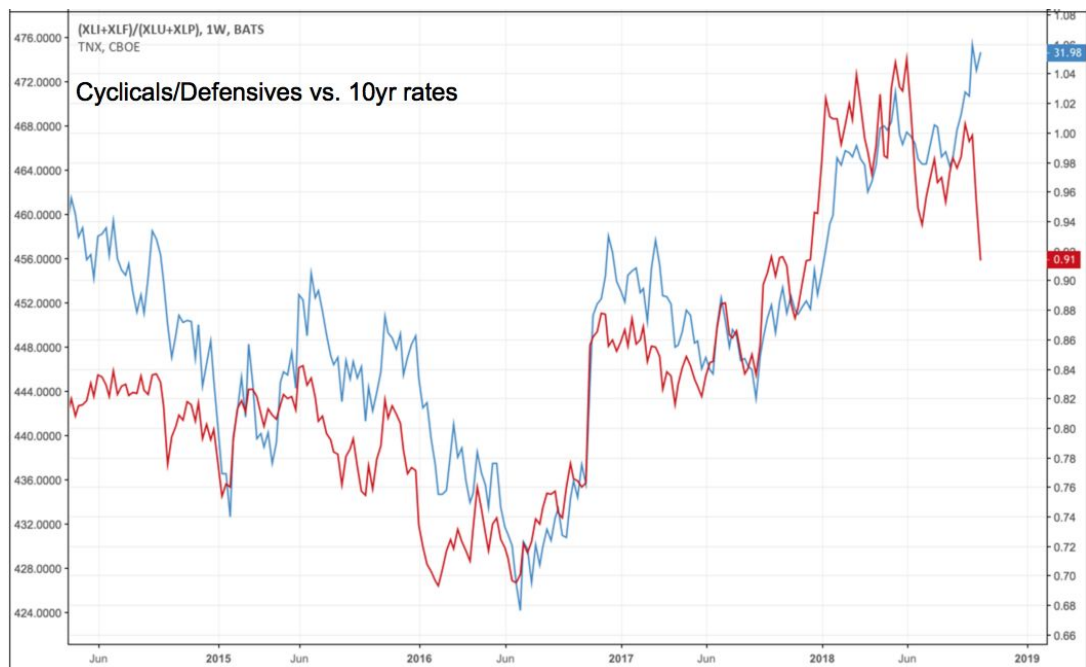


If we see this kind of vol it will definitely bring some buyers back into the bond market and put a ceiling on yields for a while, which would be great for stocks.

With that in mind, check out this two-year descending wedge in bond futures. This is a bullish looking chart if you ask me.



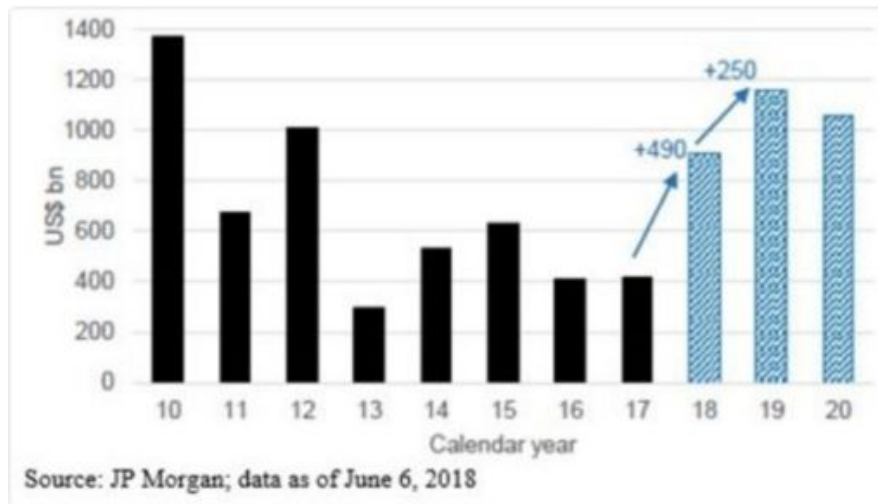
Now, look at the performance of cyclical relative to defensive stocks (red line) vs the 10yr yield (in blue).



Both tend to track each other over the long haul as investors pile into defensive stocks over cyclical ones when their perception of risk rises. The same is usually true for bonds.

But what I think we're seeing in this latest divergence is the market trying to find the clearing price for the increasing supply of treasuries hitting the market; which as we discussed in last [month's MIR](#), is a lot.

So this latest rise in yields likely reflects the rise in supply more than it does a fall in demand (chart below shows net Treasury issuance).

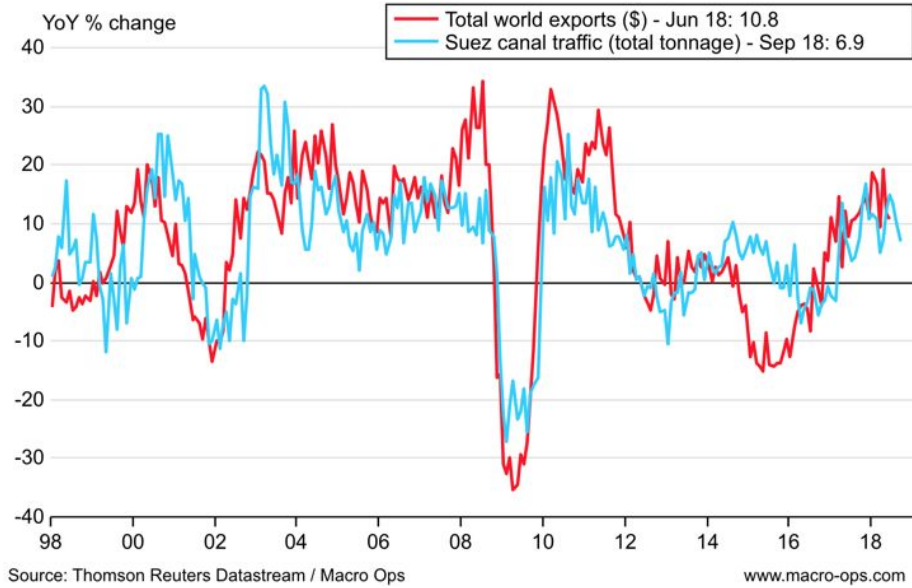


The good news though, for US equities and Treasury demand at least, is that global conditions are deteriorating which should help increase demand for safe-haven assets like Treasuries. BofAML's Global FMS Macro Indicator recently dropped to its lowest reading since mid-2016.



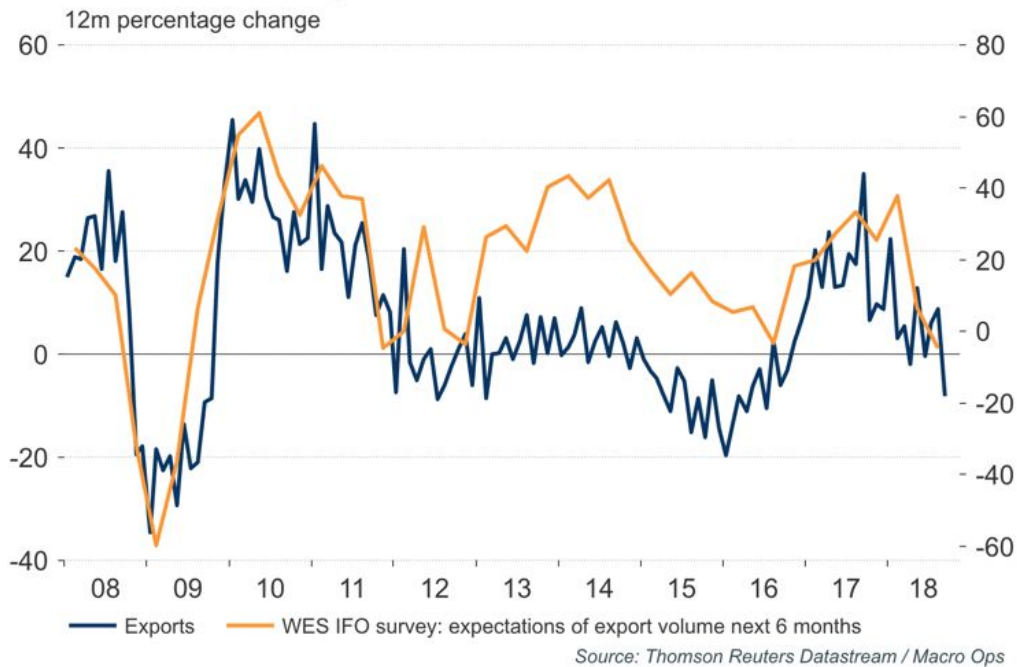
Global bellhethers indicate slowing global growth ex. US. Data indicates global exports have likely peaked out.

Suez canal traffic & world exports

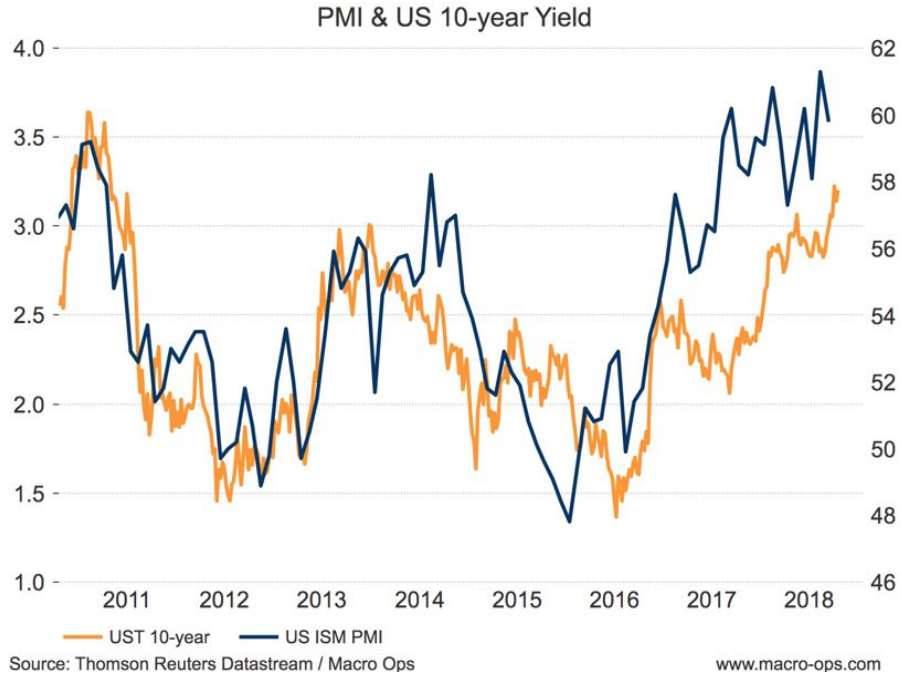


South Korean export growth has turned negative on a y/y basis.

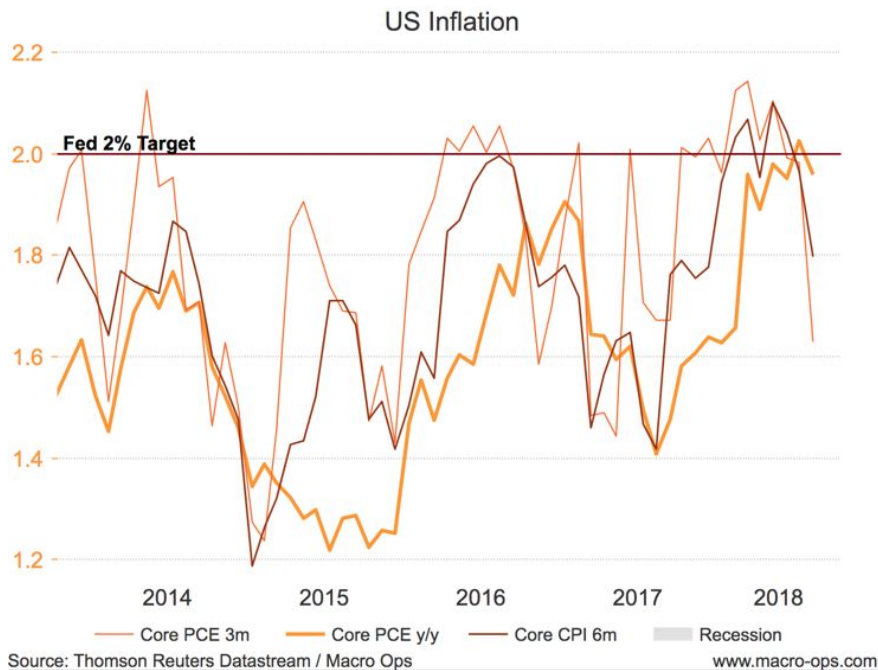
South Korea exports



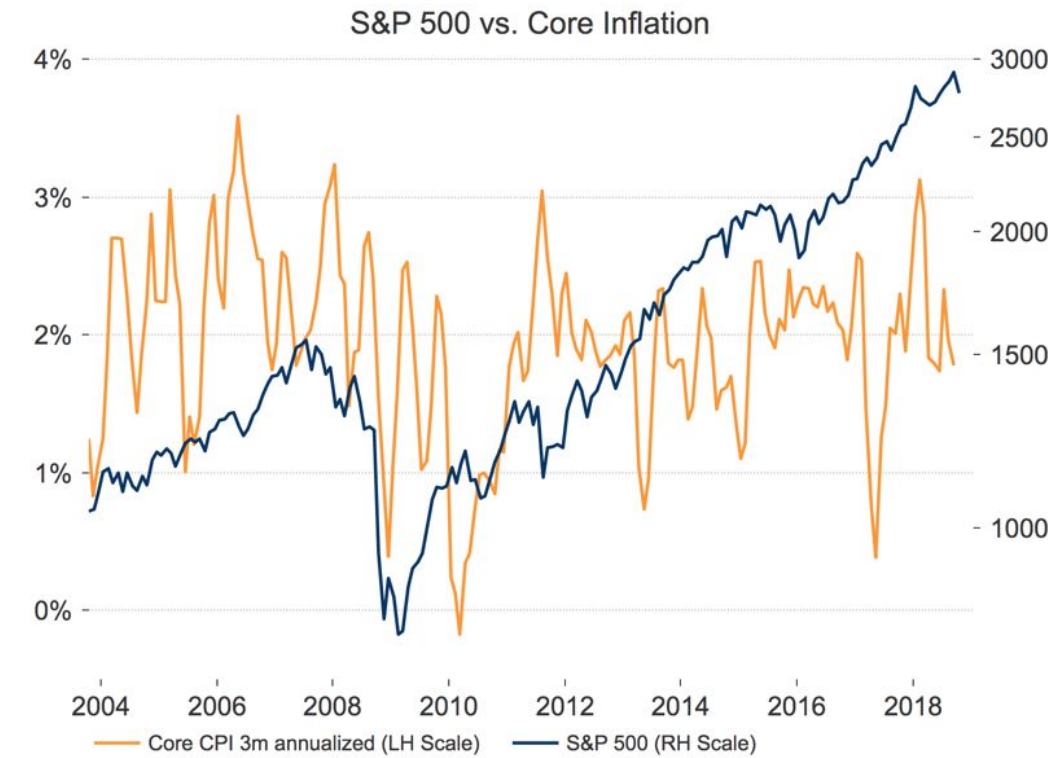
And we're likely at peak growth in the US as well, though things should remain strong here in the US for the next few quarters at least. The US ISM PMI has a high correlation to the 10yr yield (chart below). If the ISM is peaking out then this should ease pressure somewhat on yields going forward.



And while the structural drivers of inflation are increasing here in the US (ie, tight labor market kindling wage growth) we're going to see higher base effects for inflation going forward. This along with more tepid global growth should feed into lower inflation prints in the quarter(s) ahead.



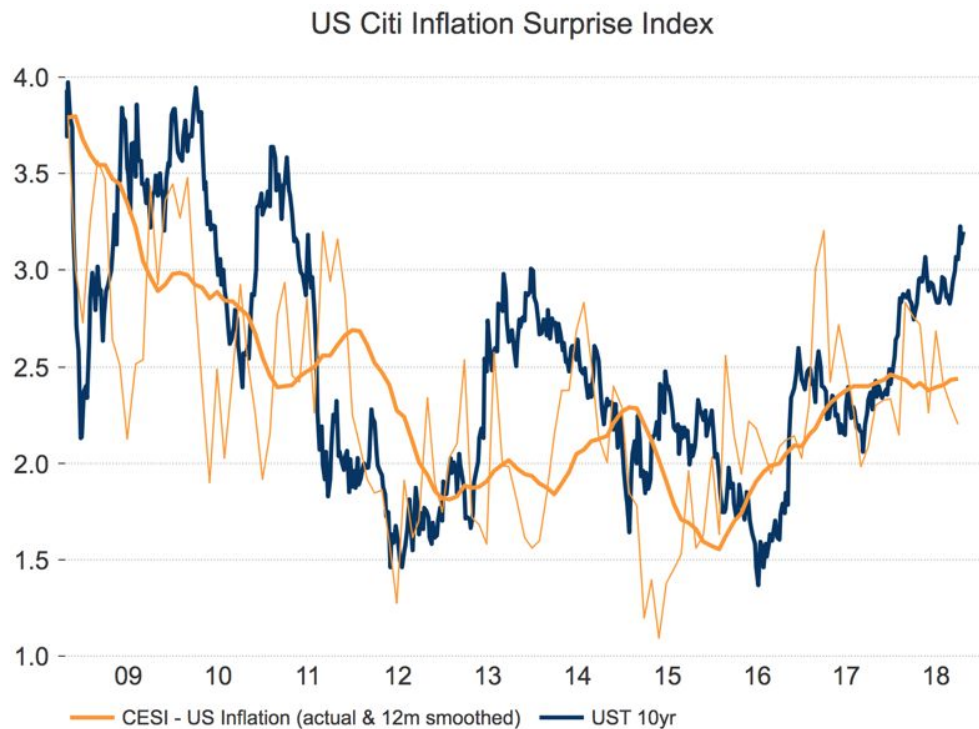
Which will help with the ROC in yields and provide a more stable ground for stocks to launch their next leg up.



Source: Thomson Reuters Datastream / Macro Ops

www.macro-ops.com

Here's another chart that shows US inflation surprises might be topping out.



Source: Thomson Reuters Datastream / Macro Ops

www.macro-ops.com

Slowing global growth combined with increased market volatility over the near-term would help re-anchor inflation expectations lower and potentially move the Fed to bring back the “Fed Put” and lower rate expectations.



This is just a quick riff on what I’m thinking. Not much has changed since last week. It’s all about yields. They need to come down. This could happen this week or we could see a few weeks of market vol, which would really help set the stage for the next extended market rally.

We’ll have to stay nimble and act when the market gives a signal.

We’ve got some big earnings this week. Here are the US companies reporting via Earnings Whispers.



Earnings Whispers @eWhispers · Oct 20

#earnings for the week

\$AMD \$AMZN \$MSFT \$GE \$SNAP \$TWTR \$GOOGL \$T \$INTC \$BA \$CAT \$V
 \$HAL \$SHOP \$F \$MCD \$LMT \$HAS \$CELG \$VZ \$AAL \$UPS \$MMM \$NOK
 \$KMB \$LAGN \$CMG \$PETS \$FCX \$CY \$GRUB \$GILD \$WDC \$BIIB \$PII \$STM
 \$RTN \$NOW \$IRBT \$AMTD \$\$SALT \$TXN \$UTX \$\$SIRI

eps.sh/cal



A big tell as to where things are headed in the near-term will be how the market reacts to earnings from the big guys like GOOGL, AMZN, MSFT, BA, and INTC.

If we see strong numbers but weak action, as we did in NFLX recently, then that'll be a good indication that we're in for a wild ride in the weeks ahead.

GOOGL is likely to hit our risk point on the most recent add but we'll probably hold through this vol and use additional long vol positioning or puts on the stock to hedge out further downside. Since I'm still bullish over the long-term, I don't want to lose my positioning in GOOGL.

Going forward, a great starting point for idea generation in looking for stocks to buy once this selloff has exhausted itself is to look at the strong companies whose stocks help up well.

Disney (DIS), our largest holding, is a great example of this. It made new 52-week closing highs this last Friday. This means strong hands are holding and buying more of the stock. That's great price action and if we didn't already have such a large position I'd be buying more.



Look at the 1-month performance in the LOTs tab on Koyfin ([link here](#)) to easily filter for stocks that have held up well over the last month.

Expect some trade alerts and updates throughout the week as I'm expecting a LOT of action.

That's all I've got. I hope everybody had a good weekend!

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	\$2,851,745	5.48%	41.95%				
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	\$11,334	\$80.00	\$42.35
Equity	Stratasys (SSYS)	12,396	\$24.76	\$20.50	-\$5,330	\$50.00	\$20.07
Equity	Discovery DISCA	3,450	\$28.09	\$26.70	\$23,115	\$60.00	\$33.40
Equity	United Insurance UIHC	13,000	\$16.98	\$19.20	\$12,480	\$20.00	\$20.16
Equity	Google GOOGL	519	\$1,129.78	\$1,100.00	\$1,557	\$1,400.00	\$1,103.00
Equity	Disney DIS	5,694	\$102.34	\$108.50	\$59,502	\$150.00	\$118.95
Equity	Yatra Online YTRA	36,819	\$7.24	Investment	~	\$15.00	\$4.76
Equity	DAX December Futures	-2	€11,960.0	€12,420.0	€44,050.00	€10,600.0	€11,539.00
Equity	BABA Jan '20 110 Puts	75	\$4.10	\$0.00	\$48,975	\$20.00	\$6.53
Equity	SPX Mar '19 3150 Call	19	\$8.10	\$0.00	\$8,740	\$80.00	\$4.60
Equity	DIS Jan '20 165 Call	545	\$1.11	\$0.00	\$64,310	\$10.50	\$1.18
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	\$16,704	\$3.90	\$1.74
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	\$25,285	\$920	\$832.90
Metals	Silver Dec Futures	9	\$14.9	\$14.40	\$11,250	\$16.50	\$14.65
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Volatility	Nov VIX Futures	16	\$17.95	~	~	~	~

Risk Budget				
	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1301	1199	52.02%
Big Bet Macro	2250	1301	949	57.81%
Volatility	250	0	250	0.00%

**Updated 10/21