No Man's Land

Jerome Powell gave a speech yesterday which the market decided to interpret as dovish, and therefore bullish, even though not much new was said. Thus, the jump in stocks yesterday is more a reflection of the market's desire to be bullish than it is of a meaningful change in the Fed's messaging.

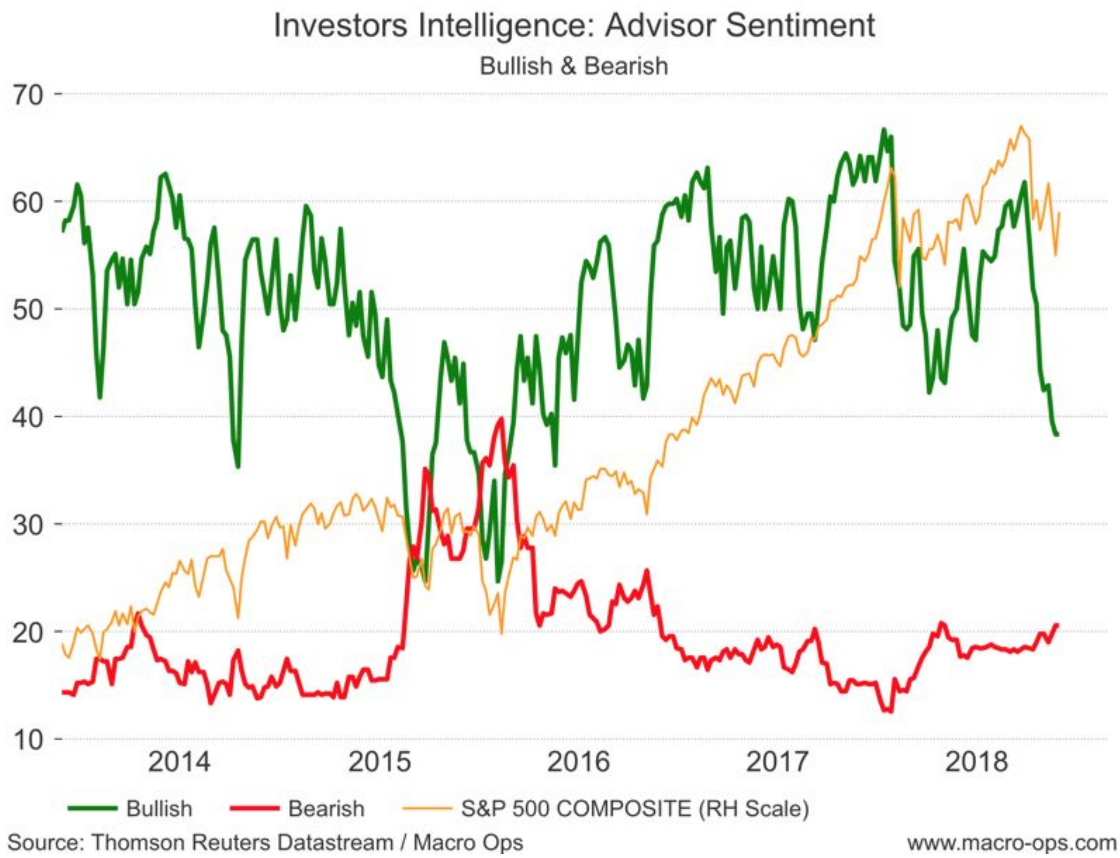
Powell's Fed is a pragmatic one and will adjust fire as the economic data evolves. I expect them to hike in December while offering little in the ways of forward guidance.

What this means for Fed policy going forward is anybody's guess. US economic data shows a tightening labor market with increasing wage pressures (which is inflationary). But globally, the rest of the world is slowing, led by China, which should, in the long run, continue to put upward pressure on the dollar and downward pressure on commodities (which is deflationary).

We'll just have to track the data and see how things shake out.

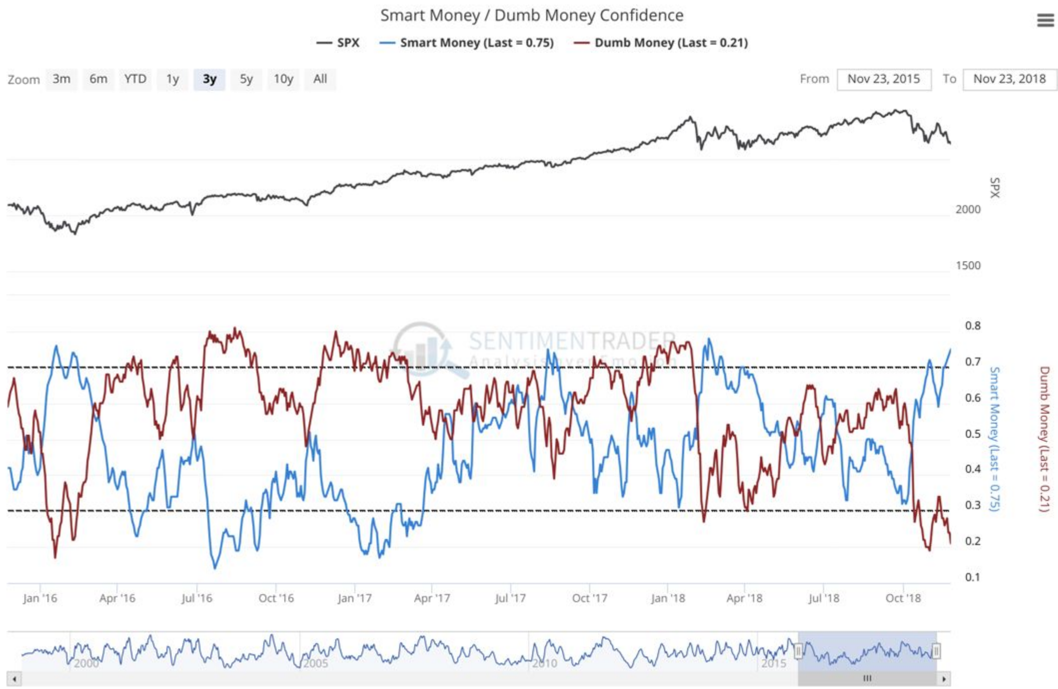
US equities remain in No Man's land, with the SPX stuck between its 50 and 100-weekly moving averages (red and green line below).

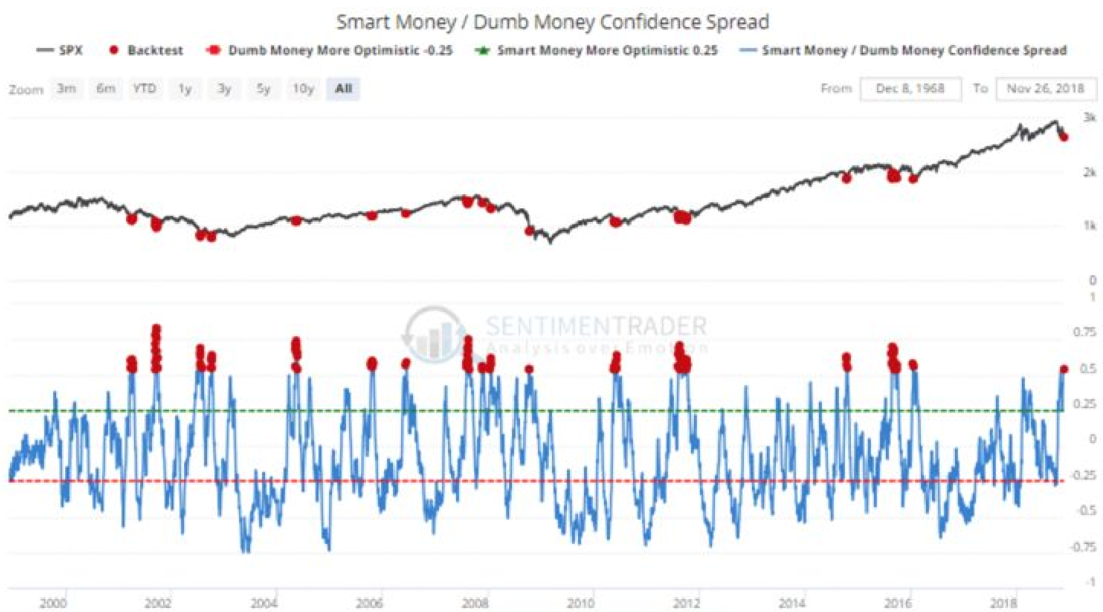
Sentiment has largely reset, with bullish sentiment falling to 2+yr lows (green line below). But we still haven't seen a capitulation washout and spike in bearishness (red line) similar to 2015. This isn't a necessity for a resumption of the bullish trend but it's something I'd like to see before I start getting more aggressively long.



But according to Sentiment Trader, current sentiment has reached a point that typically drives strong returns over the short-term.

> *The decline last week was enough to push some of our indicators into an extreme position again. The spread between Smart Money and Dumb Money Confidence moved to 54%, which has preceded consistently strong returns over the next 1-2 months, even including bear market environments.*
>
> *Seasonally we're in a very strong period, especially when there has been some weakness, as we saw above. Sentiment is also showing signs of extreme pessimism, which is another tailwind. The big gap on a Monday is often the kind of behavior we see during bear markets, but that's not necessarily a negative, especially over the next week or so.*

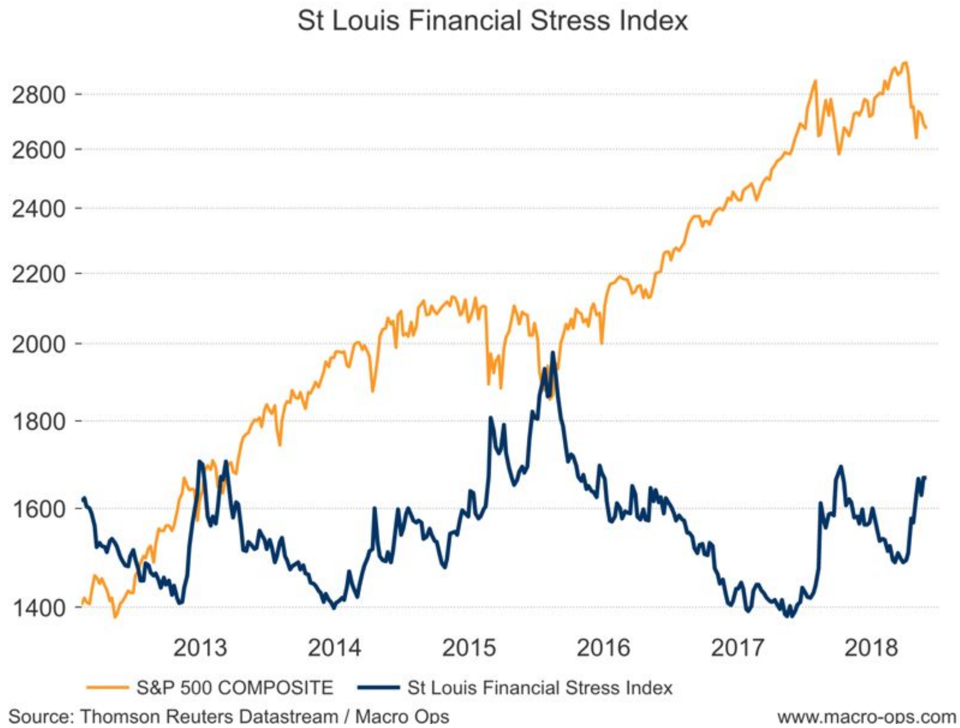




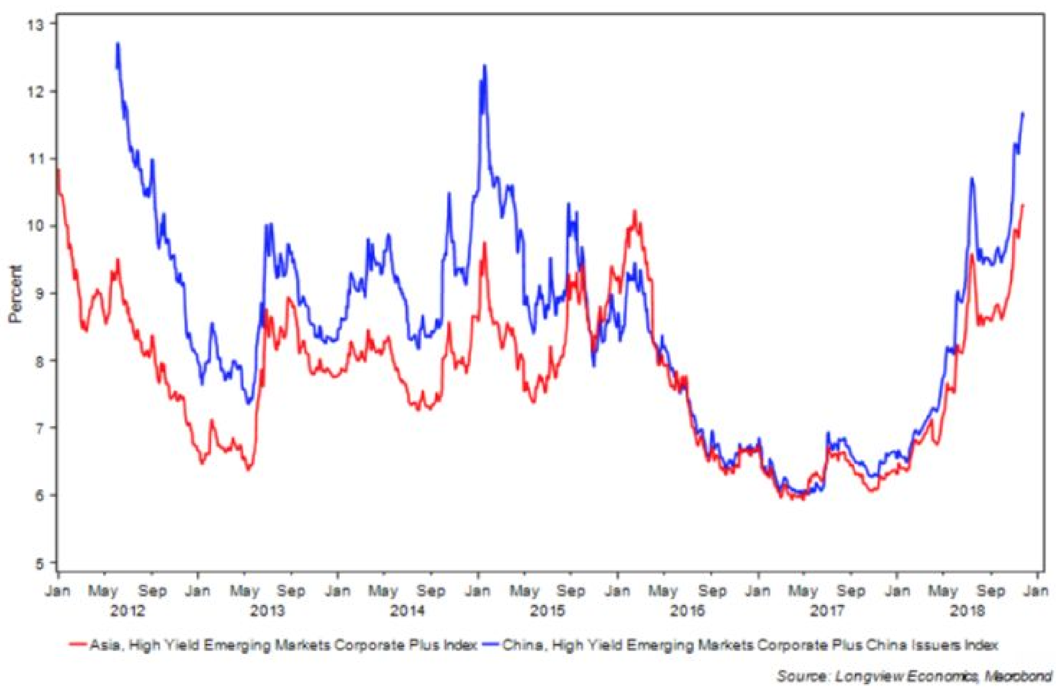
	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	1 Year Later (%)
Average Returns	1.98%	2.79%	4.51%	5.95%	5.96%	8.55%	9.49%
Win Rate	72%	76%	86%	89%	85%	80%	78%

Meanwhile, financial conditions continue to tighten globally.

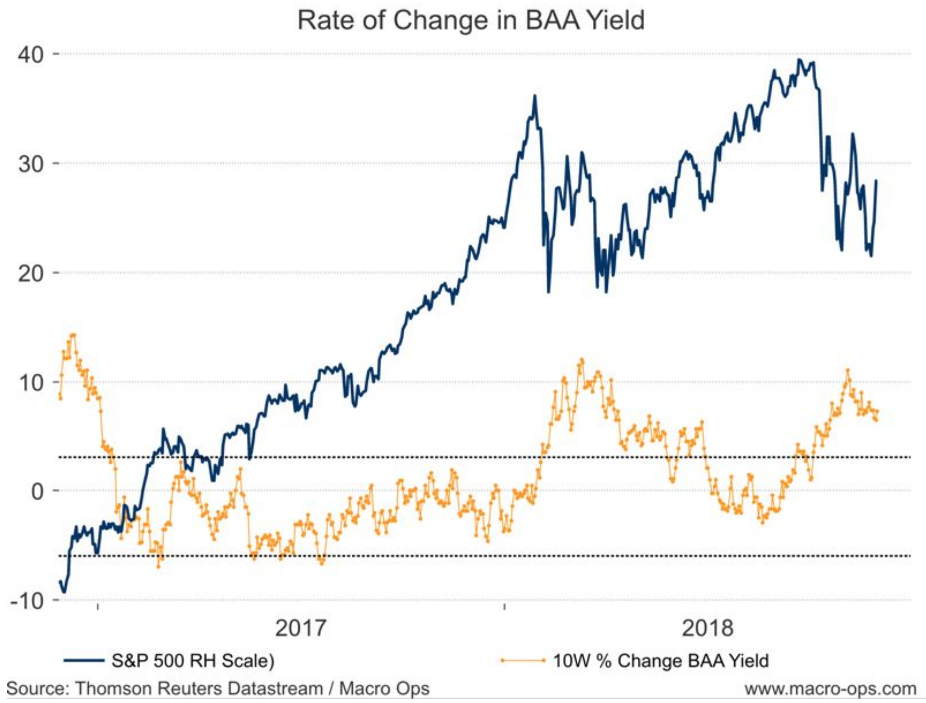
The St. Louis Financial Stress Index is close to taking out its April highs.



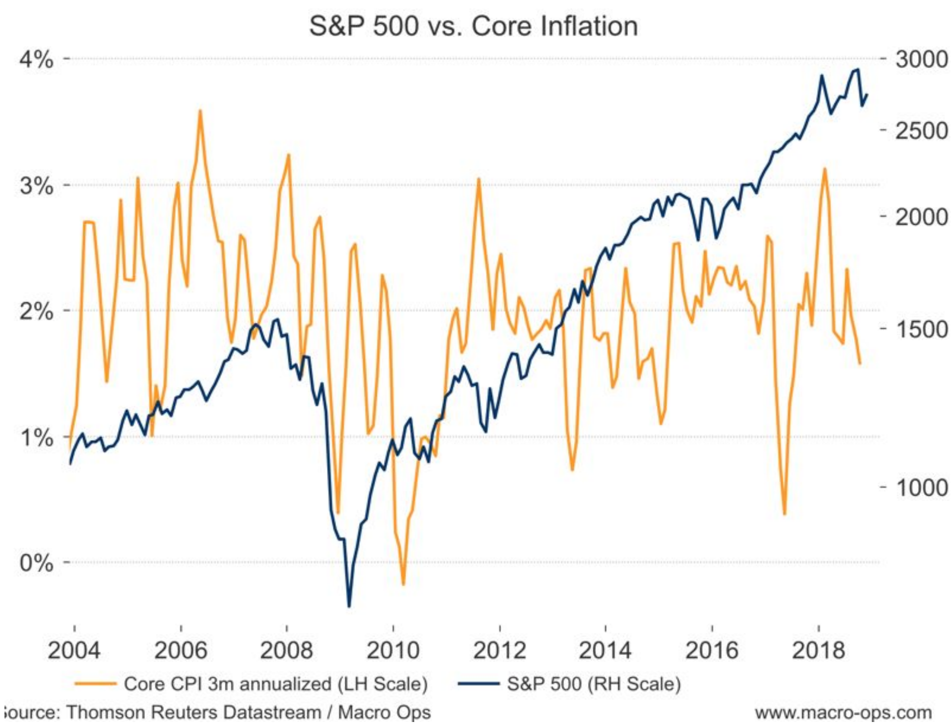
And Asia/China high yield debt is selling off, with yields spiking to their highest levels since 2014 — a trend that is unlikely to meaningfully reverse anytime soon.



The RoC in US yields remains elevated and a headwind for stocks. Another reason why one more sharp selloff would be good for this market, as it would help reset rates.



A positive for the near-term is the declining RoC in core inflation. This should help settle rates some in the months ahead.



The G20 meeting and Trump/Xi talks will conclude this weekend. I think there's a good chance we see the announcement of a "deal" between the two leaders, as that would benefit both men politically. But any deal will likely just be a framework for further discussions between the two countries.

I don't think we can have conviction one way or another on how things will unfold nor especially how the market will react. This is why we've been sitting tight, doing research, and not trading much these last two weeks.

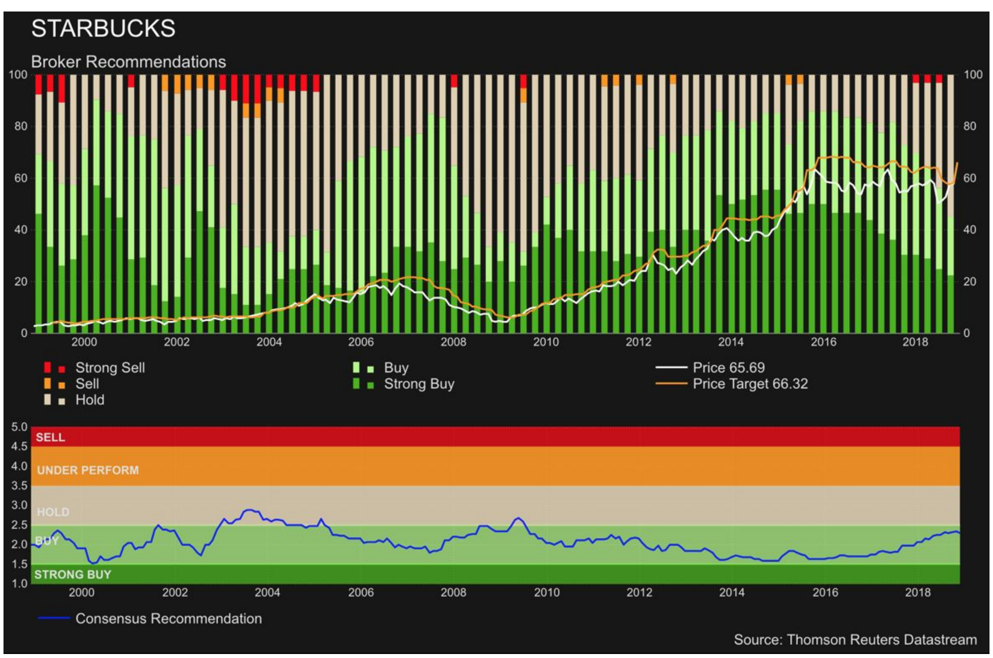
Either way, I think there's a high chance we see a lot of whipsaw action and false moves in the week(s) ahead.

There's a number of stocks I like on an individual basis that have nice technical setups forming. I'm considering putting on small starter positions soon, which we can add to or cut depending on how the broader market shakes out.

IBKR's weekly chart has completed a 10-month falling wedge and has a nice support level at its 100-week MA (green line). The stock now trades at 19x next year's earnings, which seems cheap for a company run by one of the best operators (Thomas Peterffy) — who has tons of skin in the game — and which should continue to grow 15-20% annually for the foreseeable future.

I’m also looking at Starbucks (SBUX). Despite the broader market sell off, the stock is trading near all-time highs after putting in a massive bear trap from a 2+yr consolidation.

Plus, sentiment has soured on the stock. The median broker recommendation is now a hold. The last time broker sentiment was this negative for SBUX was in early 2010, right around the time the stock started on a monstrous run.



SBUX has an increasing amount of exposure to China, so that's a risk. But the technicals and sentiment alone make me think its worth a small trade here

I'm also still keeping a close eye on Fiat (FCAU), Micron (MU), Tripadvisor (TRIP), as well as a few solar stocks, like SEDG and RUN, which are selling for cheap and have nice technicals.

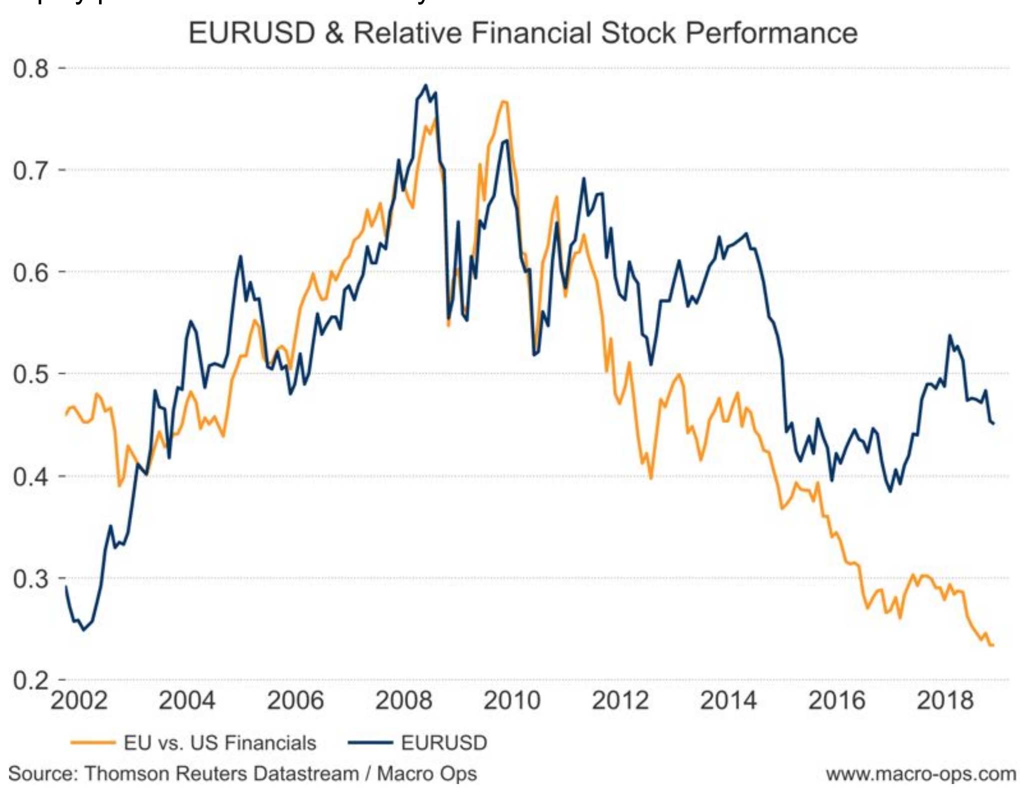
Copper (weekly chart below) continues to form a tight coil. I think it likely breaks below (China consumes over half the world's copper) but I don't want to put on a position until after the G20 as successful trade talks could drive a temporary spike higher.

Platinum just completed a bear flag after breaking below its 2-year triangle and then retracing back to kiss the support line goodbye. Platinum often leads gold and silver so this could be an important signal.

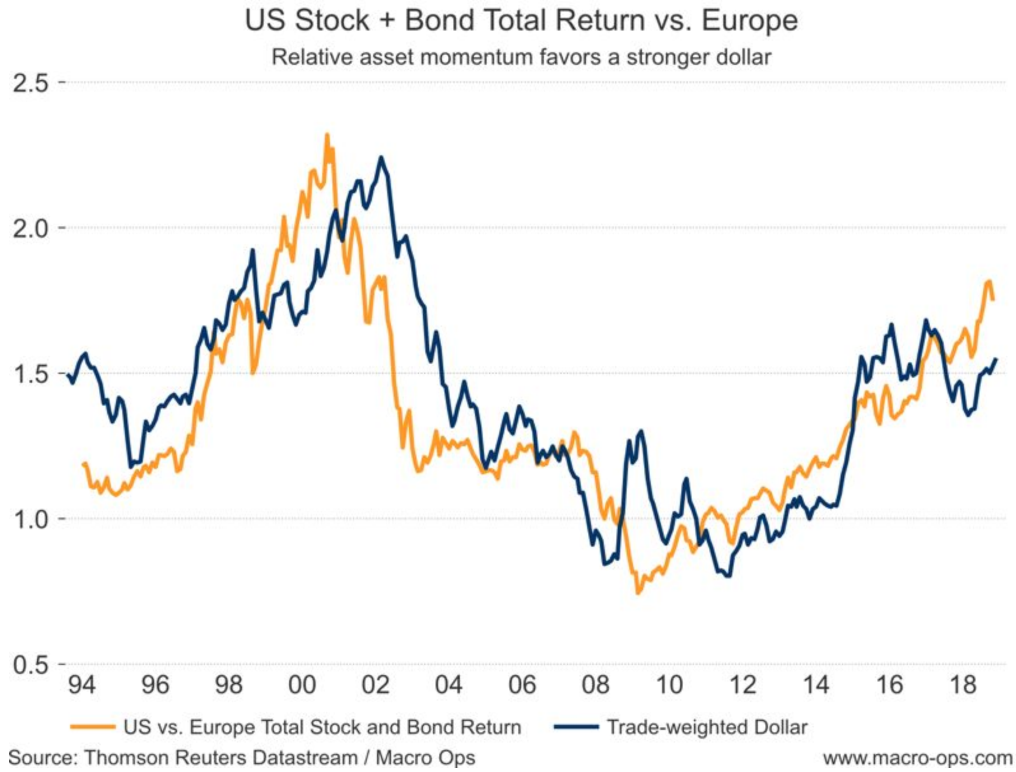
Gold continues to chop around in its bear flag, unable to close above its 200-week MA (blue line). I'm watching this closely for an opportunity to initiate another short position.

EURUSD is still hugging its 200-week MA (blue line). This is the line of demarcation for the dollar. If EURUSD can close on a weekly basis below this line, then that'll likely be the start of the next USD bull leg and bear for gold/silver.

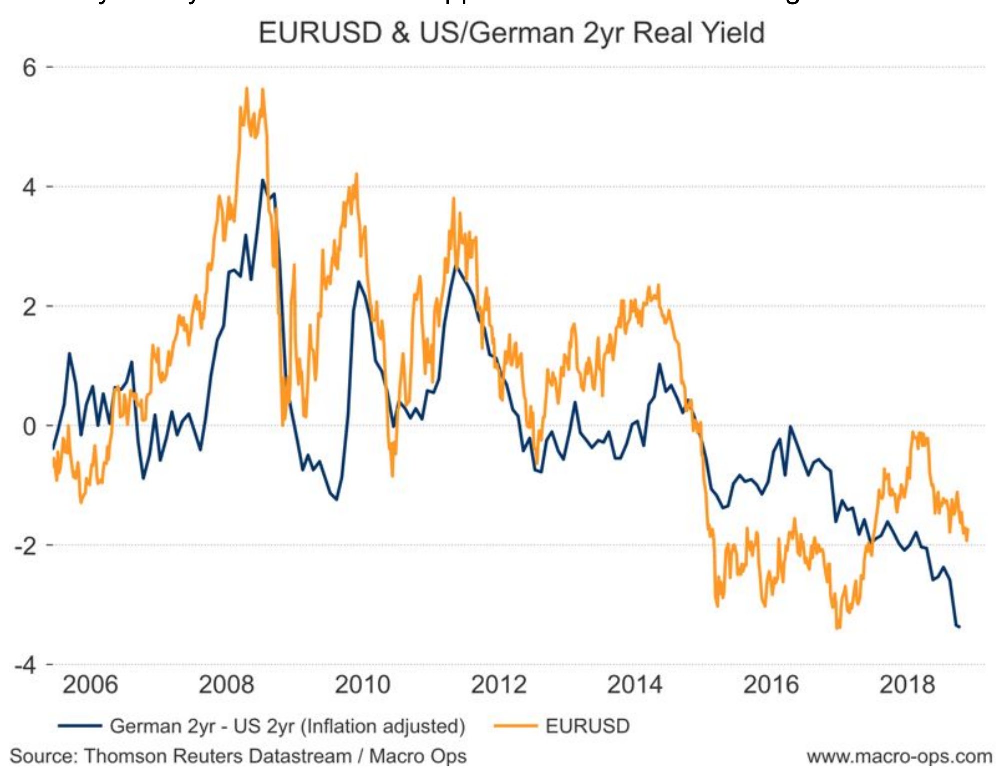
The broader fundamentals nearly guarantee a lower EURUSD in the long run. Relative EU/US financial equity performance is absolutely horrendous.



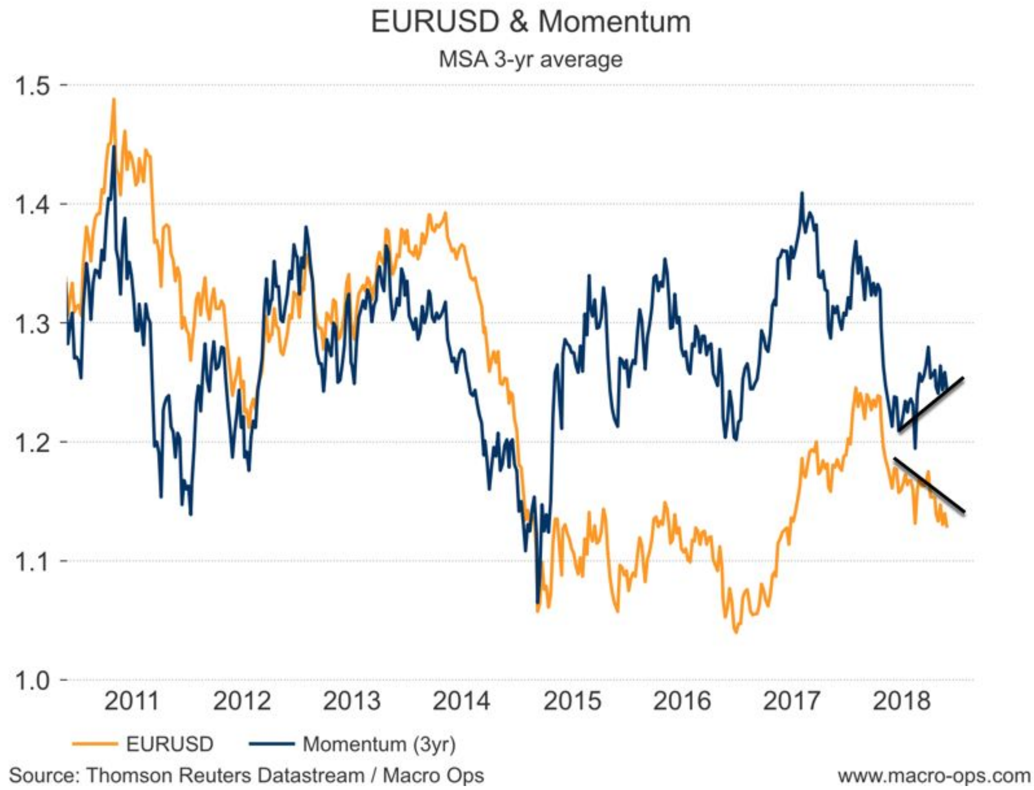
Total stock/bond relative returns point to a higher dollar.



And both 2 & 10yr real yield differentials support a much lower euro against the dollar.

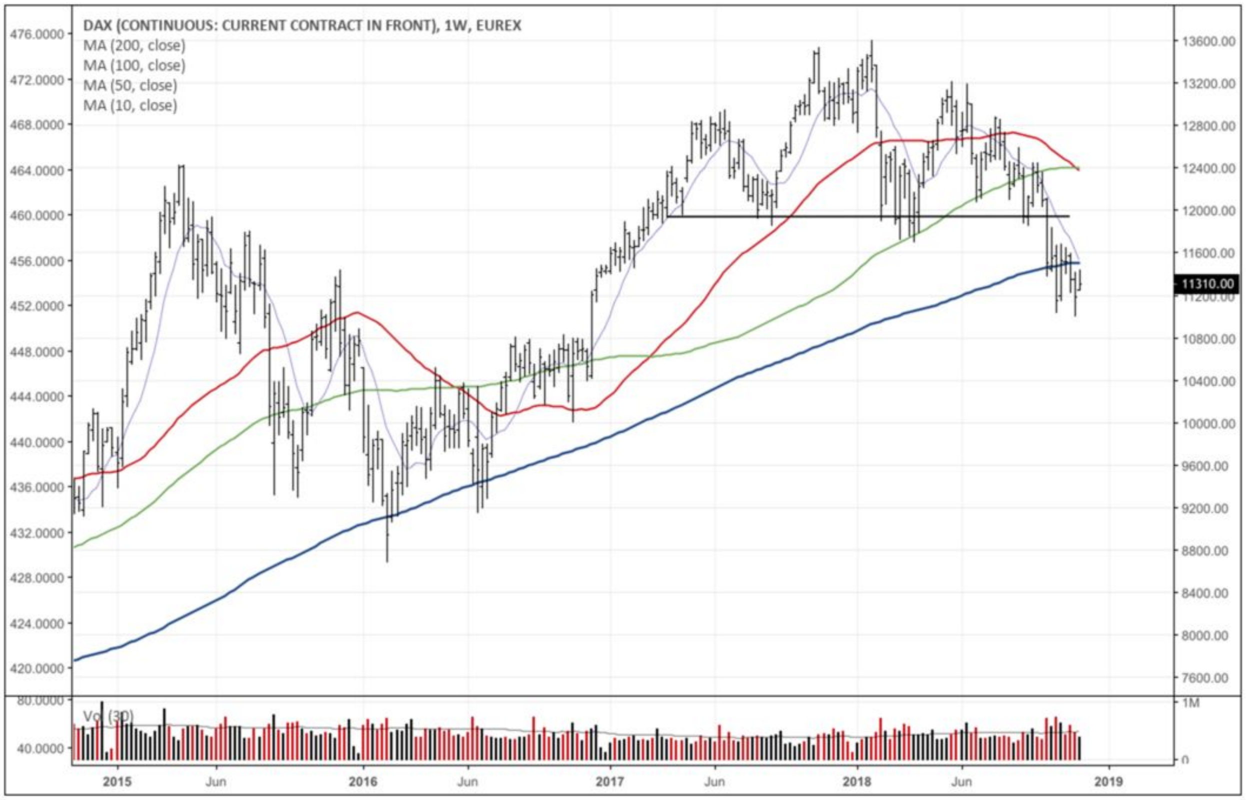


But over the short term, the euro does have some technicals and positioning/sentiment that favor a potential spike higher before it finally rolls over.



The dollar (DXY) has been unable to hold a weekly close above $97. And positioning is still slightly crowded long. Maybe we see one more selloff lower to around the 95.5-96 before heading higher?

The German DAX is still chopping sideways. If it has a weekly close above its 200wma and the 11600 level then I'll consider closing our short. If it can close for the week below the 11200 level then I'll look to add.



All in all, I don't see any real clear direction from any of the markets over the short-term. Because of this, we're just trying to be patient, focus on protecting our capital, and wait for setups to be confirmed.

Hopefully, the conclusion of the G20 brings a little more clarity. I'll be putting out a note this weekend with my thoughts on the announcement.

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	$2,628,417		-1.78%	30.83%			
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Grupo Financiero (GGAL)	4,076	$26.13	$21.00	$22,581	$44.00	$26.54
Equity	Stratasys (SSYS)	6,196	$24.76	$20.50	$4,895	$50.00	$21.29
Equity	Discovery DISCA	3,450	$28.09	$26.70	$12,869	$60.00	$30.43
Equity	Google GOOGL	519	$1,129.78	$1,100.00	-$36,278	$1,400.00	$1,030.10
Equity	Disney DIS	5,694	$102.34	$108.50	$20,271	$150.00	$112.06
Equity	Yatra Online YTRA	36,819	$7.24	Investment	~	$15.00	$4.90
Equity	DAX December Futures	-2	€11,333.0	€12,120.0	€47,075.00	€10,600.0	€11,178.50
Equity	TSLA Jan '20 150 Put	13	$15.01	$0.00	$20,540	$60.00	$15.80
Equity	TSLA Jun '19 220 Put	11	$18.01	$0.00	$22,440	$60.00	$20.40
Equity	NVDA Mar '19 150 Puts	43	$6.60	$0.00	$87,677	$22.00	$20.39
Equity	BABA Jan '20 110 Puts	111	$5.17	$0.00	$72,150	$20.00	$6.50
Equity	SPX Mar '19 3150 Call	19	$8.10	$0.00	$2,280	$80.00	$1.20
Equity	DIS Jan '20 165 Call	545	$1.11	$0.00	$56,680	$10.50	$1.04
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	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	$8,100	$7.00	$0.75
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
Fixed Income	ZB December Futures	6	$138.44	$136.31	$22,320	$145.00	$140.03
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	1563	937	62.53%
Big Bet Macro	2250	1563	687	69.48%
Volatility	250	0	250	0.00%

**Updated 11/25