Investors Love Cash

Good afternoon Operators,

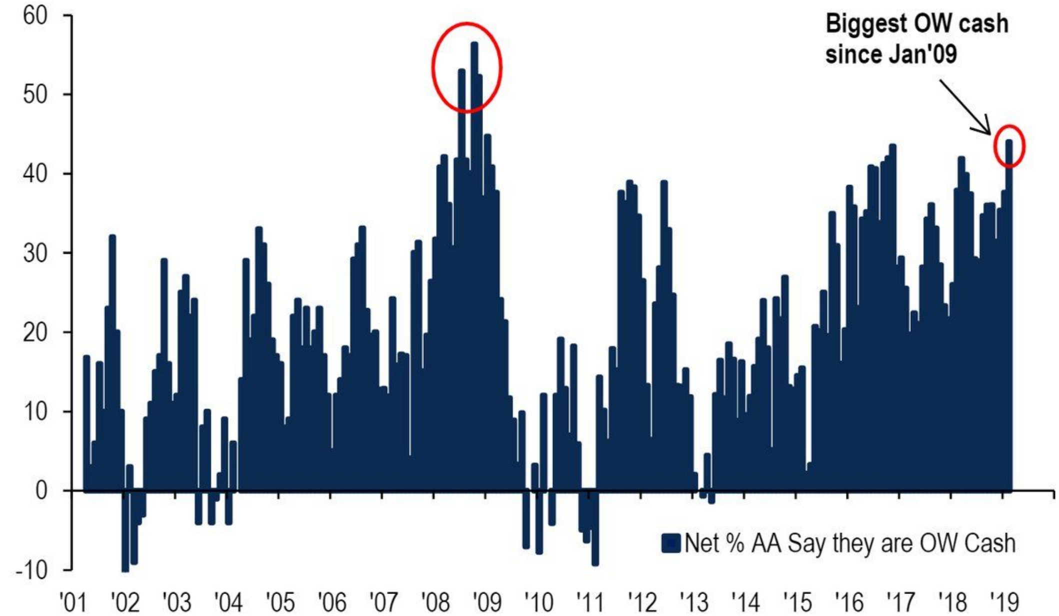
The latest BofAML Fund Manager Survey is out and provides an interesting look into just pessimistic asset managers remain. The summary points of the report are below.

- Number of FMS investors "overweight cash" at the highest level since Jan'09; Feb FMS cash level dips to 4.8% from 4.9%, but still above 10-year average of 4.6%.
- FMS allocation to "secular stagnation" theme hardens: big Feb "longs" are cash, pharma, discretionary, EM, REITs; big "shorts" are cyclical sectors, e.g. energy & industrials.
- FMS global growth expectations rose in Feb, but modestly, from extremely low levels; 2/3 still expect slower growth in the next 12-months.
- Feb FMS shows a new high in the number of FMS investors demanding companies reduce leverage; this contrasts with an all-time low in investor desire for stock buybacks & dividends.
- 34% of FMS respondents believe the S&P500 index has peaked (at 2931), up from 11% Sept'18.
- BofAML FMS proprietary indicators say long US Treasuries, EPS growth to slow further, VIX to fall; BofAML Bull & Bear Indicator remains at 4.4.
- Tail risks: #1 trade war, #2 China slowdown, #3 corporate credit crunch; note US politics now #4.
- Crowded trades: #1 "long Emerging Markets", #2 "long US $", #3 "long FAANG+BAT".
- Contrarian FMS trades: long stocks-short cash, long energy-short healthcare, long EAFE-short EM, all contingent on appearance of global "green shoots".

The most important takeaways in my opinion are the strong overweighting to cash and now crowded positioning in emerging markets.

The allocation to cash is now at its highest level since Jan 09'. I keep saying this but again this is not how long-term market tops are formed. **For a significant bear market and/or market crash you need to have excessive risk taking and over-positioning (ie, use of leverage) leading to investors getting over their skis.**

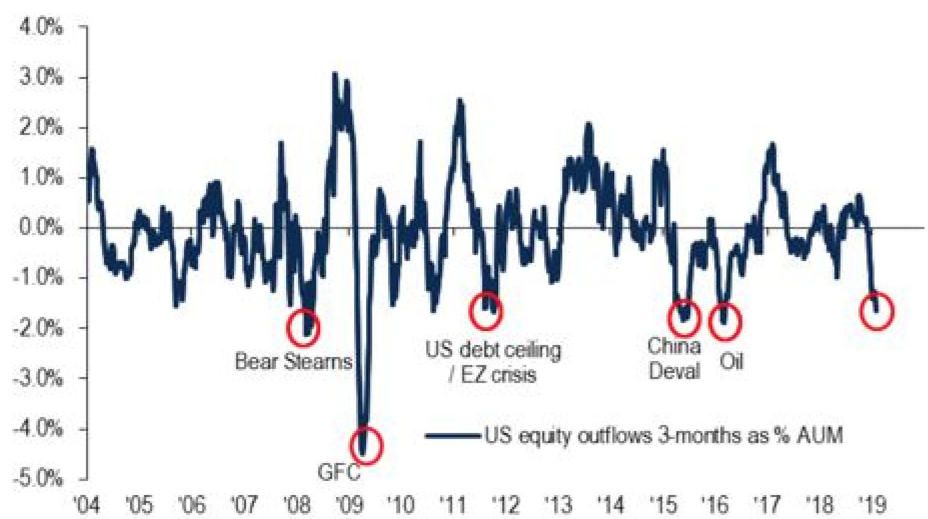
Exhibit 3:Rotation into cash takes allocation to highest since Jan'09



Source: BofA Merrill Lynch Global Fund Manager Survey

According to BoFAML, the US saw record equity outflows over the past 3-months totalling $82bn, equivalent to 2% of AUM. This is consistent with "US equity bearishness at 'events' & 'big lows' of past decade".

Chart 4: US equity redemptions in line with prior market "events"



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

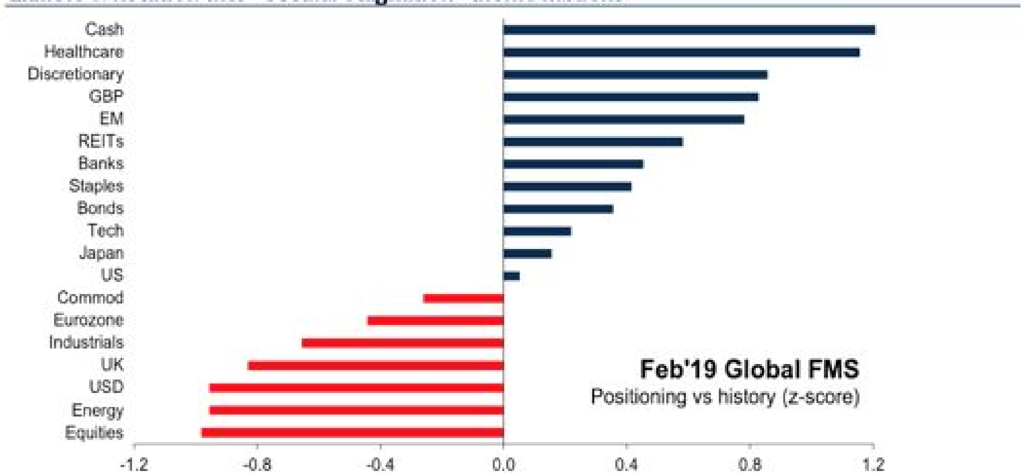
That capital has rotated out of the US and into emerging markets. **Cumulative EM bond and equity inflows are now just $2bn from all-time highs (**see chart to the right).

This sets us up with rather strange positioning amongst fund managers. They're defensive, holding lots of cash and little equities (see chart below), yet they're holding large relative amounts of EM debt and equities (presumably because they believe them to be cheap).

Chart 3: EM inflows just $2bn from all-time highs

Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

Exhibit 1: Rotation into "secular stagnation" theme hardens

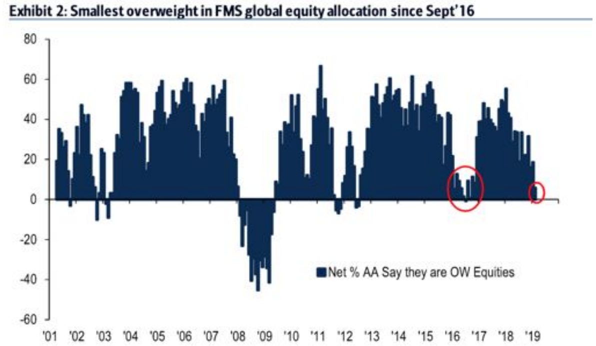


Source: BofA Merrill Lynch Global Fund Manager Survey. *data since 2006 for commodities & real estate; since 2001 for all others

Exhibit 40: Net % AA Say they are overweight GEM Equities

Source: BofA Merrill Lynch Global Fund Manager Survey

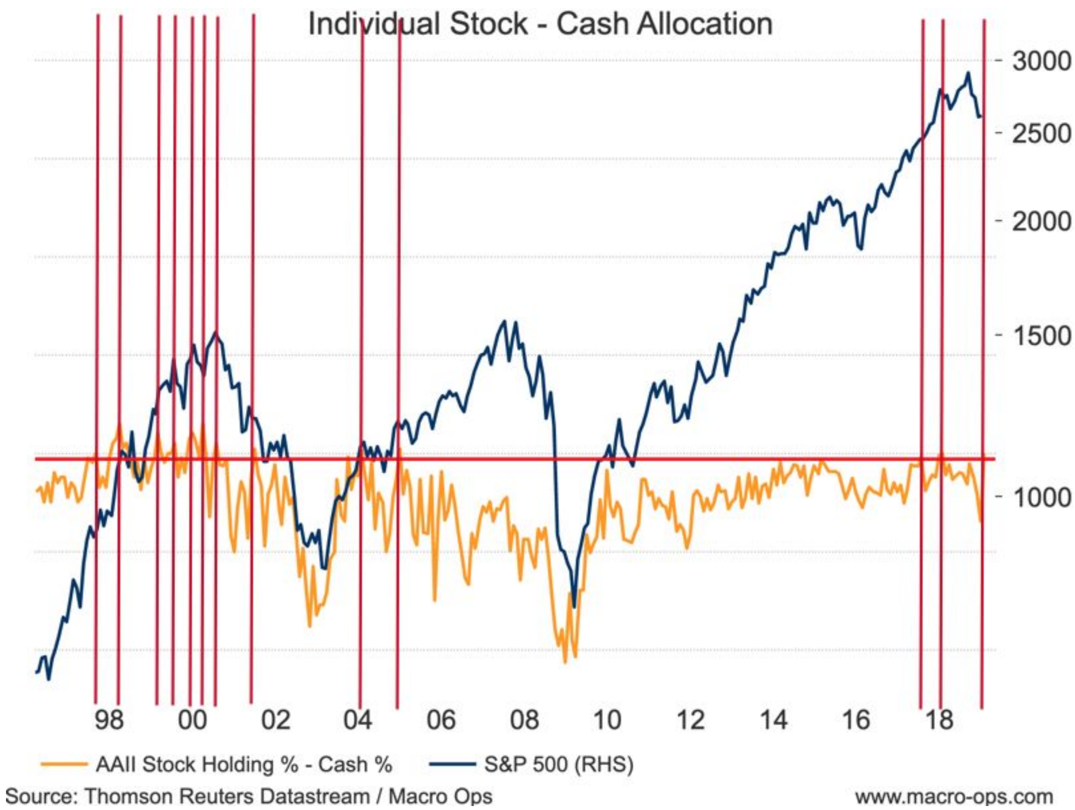
Exhibit 2: Smallest overweight in FMS global equity allocation since Sept'16



Source: BofA Merrill Lynch Global Fund Manager Survey

Despite this dissonance in risk-off high cash levels and risk-on large EM positioning the survey shows that investors are nearing significant overweight levels in EM relative to US positioning (where holdings are at 9-month lows). This means that fund manager positioning is now a headwind for EM and a tailwind for US markets. The full report is hung up in the CC, along with the other regional surveys. Here's the link to the US report.

It's interesting to compare fund manager positioning with that of retail investors. The AAII survey shows that individual stock positioning as a percentage of total holdings minus cash has exceeded a net exposure of 55% (marked by horizontal red line below). The vertical red lines mark each instance in the past 20-years this has occurred.



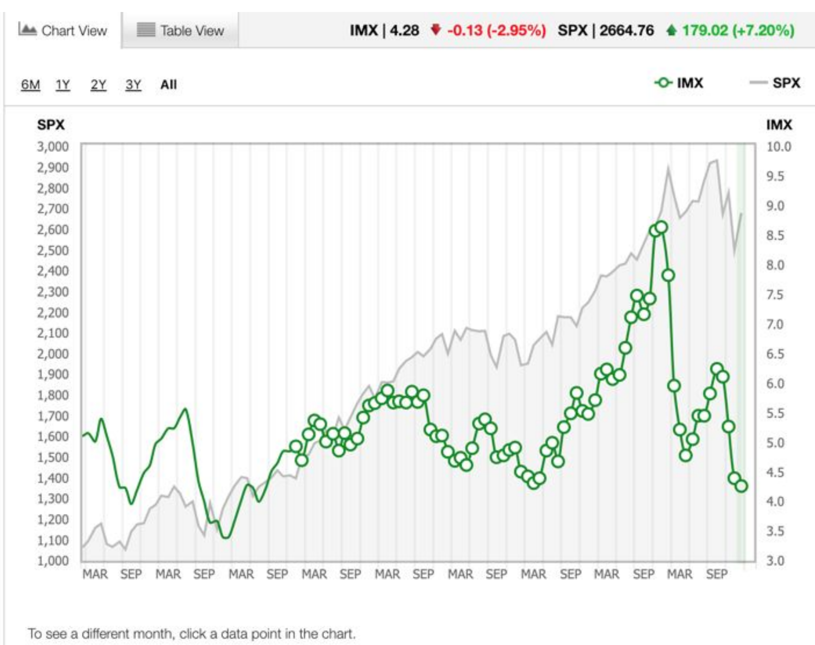
Retail investors piled back into stocks during January's rebound, upping their equity allocation to over 71% while drawing down their cash levels. The current spread between retail stock cash allocations is near the top of their exposure over the past 30-years.

Sentiment Trader notes that "Once net exposure exceeded 55% (it's at 57.5% now), stocks started running into trouble. Above that level, the S&P's annualized return was -1.6% compared to 9.3% below that threshold."

The following table shows that after a month of high stock exposure like this, the S&P 500's returns have been consistently weak though not significantly so.

Signals	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
1998-02-27	0.6	1.8	4.2	4.3	4.0	-0.6	17.8
1998-03-31	0.7	1.6	0.9	-1.0	2.9	-4.8	16.8
1998-04-30	-1.5	0.5	-1.9	2.0	2.8	-3.9	20.1
1998-05-29	2.1	0.7	4.4	3.2	-4.4	8.8	19.3
1999-06-30	1.6	2.7	-3.2	-3.5	-7.6	6.6	6.0
1999-08-30	2.0	0.9	-4.2	1.4	6.3	3.2	14.4
1999-12-31	-1.9	-0.3	-4.1	-6.0	2.0	-1.0	-10.1
2000-01-31	2.1	-0.3	-1.1	6.7	5.3	2.6	-1.5
2000-02-28	3.2	2.6	11.8	8.7	2.2	11.8	-6.7
2000-03-31	1.2	-9.5	-3.5	-3.3	-2.9	-4.1	-23.5
2000-04-28	-1.4	-2.2	-2.1	0.2	-2.2	-6.1	-14.0
2017-12-29	2.8	3.8	5.6	0.7	-2.2	2.0	-6.1
2018-01-31	-5.0	-4.4	-4.7	-7.4	-6.7	-0.4	-4.2
2018-02-28	0.5	1.3	-2.7	-2.4	0.4	6.8	
2019-01-31	0.1						
Median	**0.7**	**0.8**	**-2.0**	**0.4**	**1.2**	**0.8**	**-1.5**
% Positive	**73%**	**64%**	**36%**	**57%**	**57%**	**50%**	**46%**
Risk	-0.7	-1.0	-3.7	-4.6	-4.6	-8.5	-12.2
Reward	1.2	2.2	2.6	2.6	5.4	7.1	11.3
Z-Score	0.9	0.5	-2.1	-0.8	-0.8	-2.5	-2.7

This is interesting because it just doesn't square with the other sentiment and positioning data out there. Consider [TD Ameritrade's Investor Movement Index](IMX) which has fallen to multi-year lows. And the IMX tracks actual positioning (not survey based) in over 11 million retail trading accounts.



No one indicator ever tells the whole story. That's why we have to look at a number of various data points in which to build our "best guestimate" and work from there. And it seems to me that the market as a whole remains overly bearish on the US market relative to likely future macro outcomes.

The technical picture is overall very supportive of the broader trend higher in US stocks. All our breadth indicators continue to show incredible strength.

The following study from Sentiment Trader shows the subsequent historical market returns over the last 50-years every time the McClellan Summation Index has reversed from below -500 to over 500 within 10 days. The median returns are 9.9% 6-months later with an 82% positive rate and 16.1% 1-year later with a 73% positive rate.

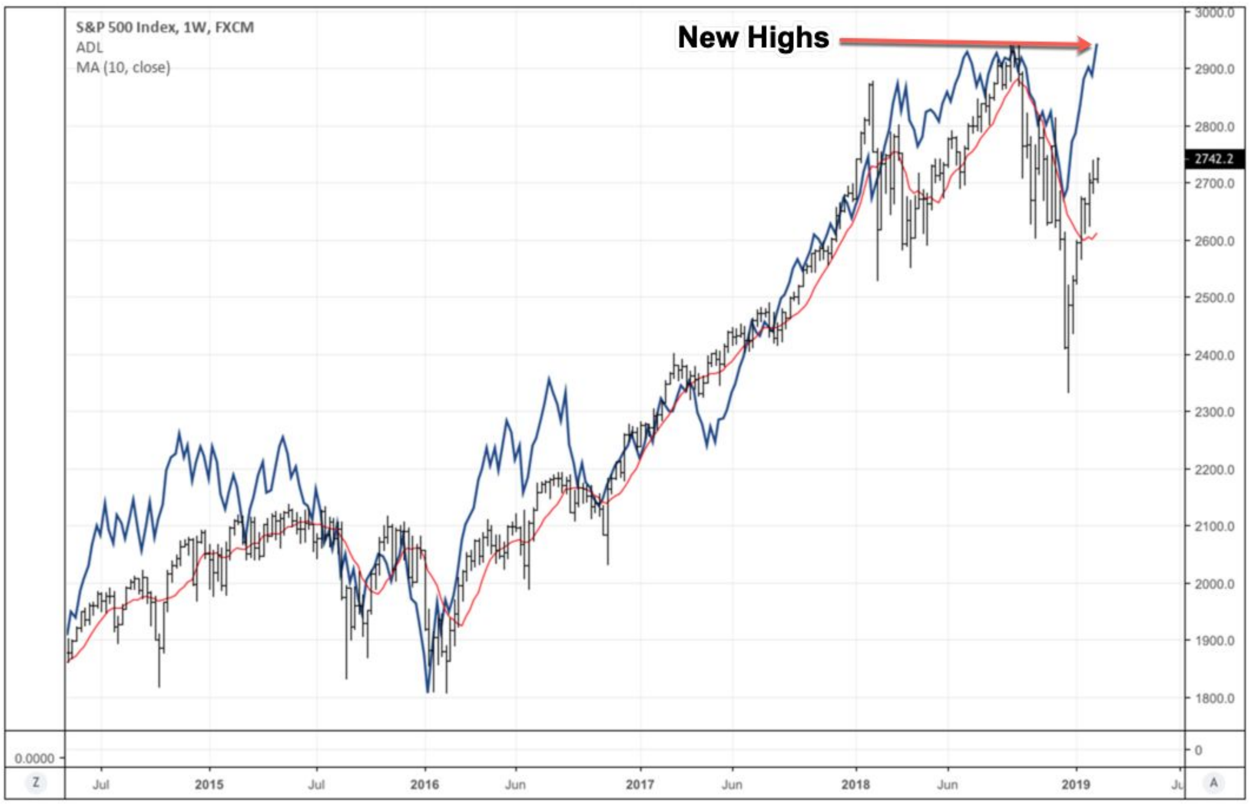
S&P 500 after McClellan Summation < -500 then > 500 for 10 days (1962-2019)

Signals	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
1962-12-07	-0.8	-0.7	2.4	4.9	3.9	10.9	17.3
1968-05-15	-0.9	-0.2	2.1	-0.1	0.8	9.1	-0.8
1972-01-17	-1.1	0.2	1.3	3.7	5.6	2.1	14.4
1972-12-07	-0.3	-2.9	0.7	-3.3	-3.5	-8.7	-17.4
1973-10-12	-1.1	-0.1	-6.3	-16.0	-16.2	-17.4	-36.2
1975-02-06	3.1	5.2	8.1	5.4	14.0	9.9	27.8
1980-06-09	2.1	0.7	3.8	8.4	8.4	14.9	16.1
1982-09-17	0.6	-0.5	11.6	10.5	10.4	22.1	34.1
2009-04-30	4.0	2.3	8.0	5.3	13.1	19.5	36.0
2012-07-23	2.6	3.2	4.6	8.1	6.1	10.7	25.2
2016-03-22	0.7	0.8	2.0	0.1	1.9	4.4	14.6
2019-02-12							
Median	**0.6**	**0.2**	**2.4**	**4.9**	**5.6**	**9.9**	**16.1**
% Positive	**55%**	**55%**	**91%**	**73%**	**82%**	**82%**	**73%**
Risk	-0.7	-1.2	-1.2	-1.2	-1.2	-1.6	-1.6
Reward	0.7	1.1	3.7	5.3	6.2	10.7	18.1
Z-Score	0.9	-0.1	1.3	1.7	1.4	1.7	1.2

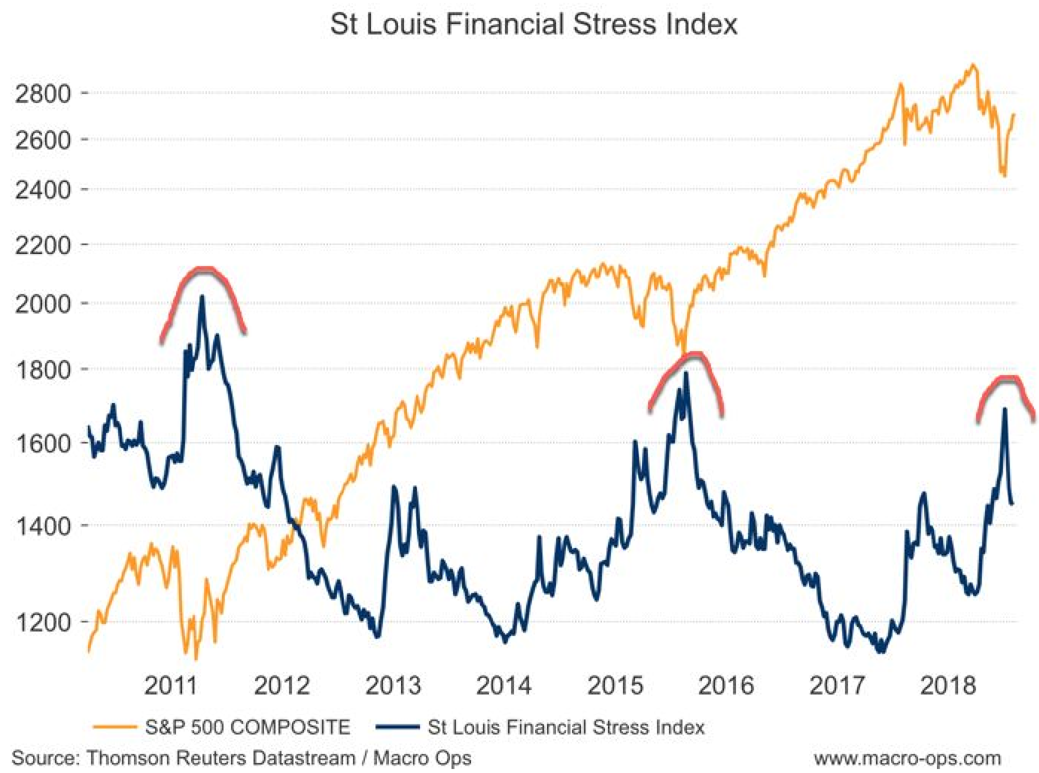
Our take on the Marty Zweig Breadth Thrust Indicator, which I wrote about back in December noting the market's extremely oversold state, is close to triggering a long-term buy signal.

This indicator is based on the 10-week moving average of all NYSE advancing issues divided by advancing plus declining issues: ADVN/(ADVN+DECN). A signal is given when the indicator (red line) dips below 0.4 (lower horizontal black line) and then quickly thrusts above the 0.60 level (upper horizontal black line). The vertical red lines mark each time this indicator has triggered over the past cycle.

We also have the straight advance/decline line making new highs. Another bullish sign for stocks.



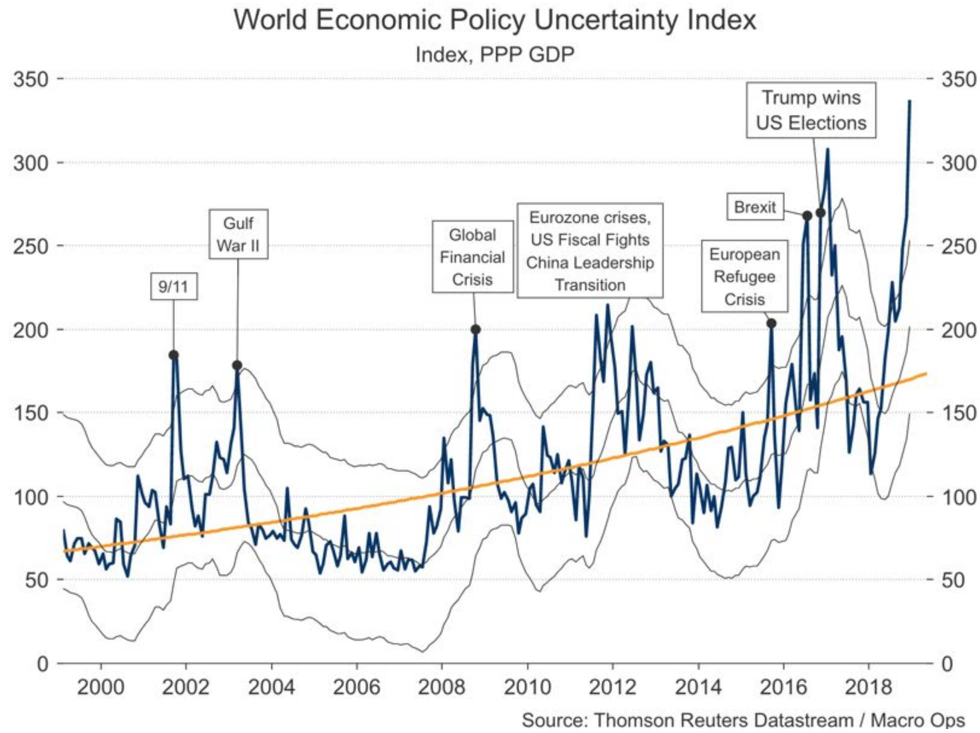
And financial conditions have rolled over and are once again loosening, following the same pattern as the last three major bottoms.



So we have fund managers holding near record levels of cash, overweight EM stocks/bonds and underweight US stocks. IMX data showing retail investors at multi-year low levels of positioning in equities. Multiple technical indicators showing extremely strong market breadth which in the past has typically led to a sustained rally higher. And we have financial conditions easing.

This tells me that the path of least resistance remains higher in US stocks. And we're likely to see EM's outperformance against US stocks come to an end soon.

One thing that's keeping this old bull market in US stocks alive is the constant worry over politics and economic policy (ie, trade war, Brexit, populism etc…). The World Economic Policy Uncertainty Index is at new all-time highs.



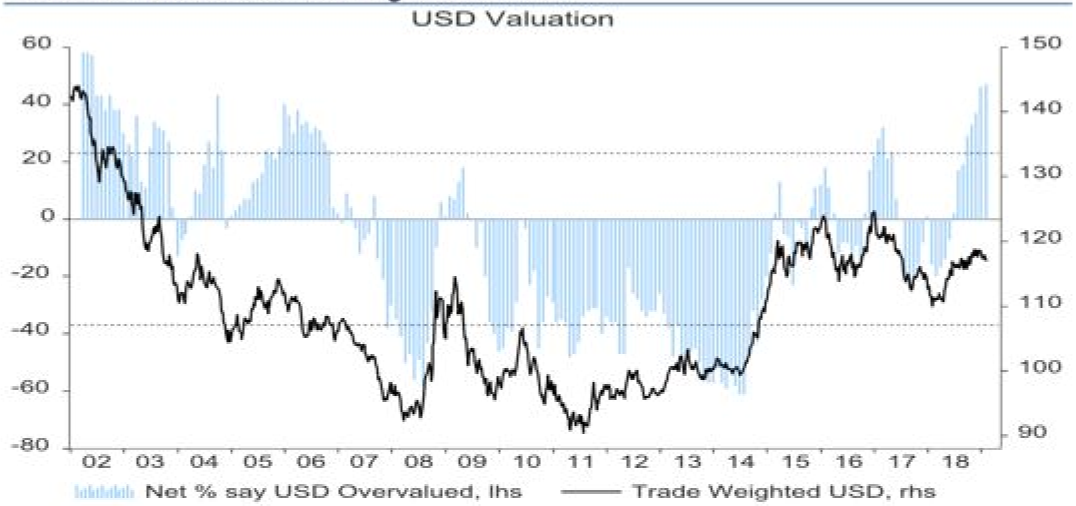
This underlying concern is keeping investors from getting over their skis which has kept these mini bear market selloffs, like the one we just experienced, from turning into larger self-reinforcing cyclical bears.

If we are transitioning into a sustainable US led bull market rally then we should see the dollar (DXY) show continued strength in the coming months. I'd like to see the dollar fully shakeout its crowded positioning though. CoT data is delayed due to the government shutdown but other positioning metrics like Morgan Stanley's FX Matrix show that the dollar remains the most crowded long in the currency market (CoT data makes up a portion of this matrix too though, so it'll be interesting to see how much it has changed when the new data hits).

	This Week ●	Last Week ○	Short -10 -9 -8 -7 -6 -5 -4 -3 Neutral -2 -1 0 1 2 Long 3 4 5 6 7 8 9 10	Component Scores CFTC	Toshin	TFX	Beta	ETF	Senti-ment	
USD	3	2		10		3	7	-4	1	USD
EUR	-5	-3		-10		-4	-7	-1	-4	EUR
JPY	1	1		-5	3	0	10	-2	2	JPY
GBP	-2	-1		-8		3	-4	0	0	GBP
CHF	-3	-4		-3				-1	-6	CHF
CAD	-3	-2		0				-7	-2	CAD
AUD	-2	-1		-5		1		-4	-2	AUD
NZD	1	1		6		1		-4	-1	NZD

The BofAML survey also shows fund managers believe USD is the most overvalued its been since the early 2000s. I wouldn't trade off this data point alone but it's something to keep in mind.

Exhibit 36: US dollar valuations at highest since 2002



Source: BofA Merrill Lynch Global Fund Manager Survey

We're still in our small short dollar / long euro trade. It's been trading around our risk point and if we see another daily close below our RP then we'll exit the trade and even consider reversing our position.

There's a possibility we see a long dollar shakeout in the coming weeks following a trade deal announcement. The deadline for trade negotiations are March 1st and both President Xi and Trump are eager to get a deal done.

Here's my two cents on the trade war and possible deal. The trade war and likely announcement of a "deal" are a red herring. That's not what's been moving the market. What's vastly more important is the fact that China is slowing (it's real GDP growth is likely negative or close to it) and the Fed has been tightening.

A significant escalation of the trade war would be bearish and a temporary truce (ie, trade deal) wouldn't structurally change anything; China would still continue to see slowing growth.

But, Trump has the election season coming up and wants a strong market to campaign off of and Xi wants to buy time until Trump gets voted out of office. This means we're likely to see a deal in the coming weeks. But this deal will be big on promises and low on substance and won't meaningfully change the structural trade issues between the two countries.

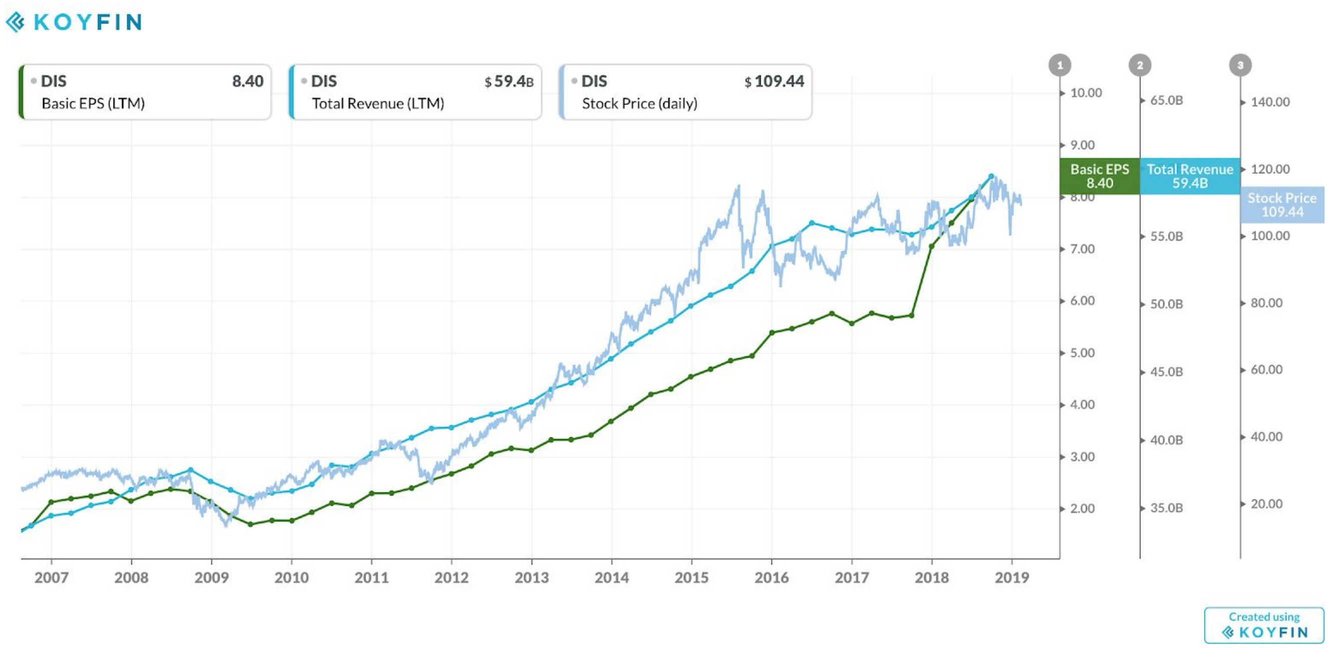
The market will likely rally on the news though and the USD will selloff. These moves should be faded, in my opinion. Though I'm happy to stay short the dollar until this happens.

Equity Update

Disney (DIS)

Disney, our largest holding, reported earnings last week and put up some good numbers; beating analysts estimates on both revenue and earnings.

Earnings came in at $1.84 per share vs. analyst estimates of $1.55 and revenues came in at $15.3bn vs. estimates of $15.14. The LTM trend in both revenues and EPS are headed in the right direction: up and to the right.

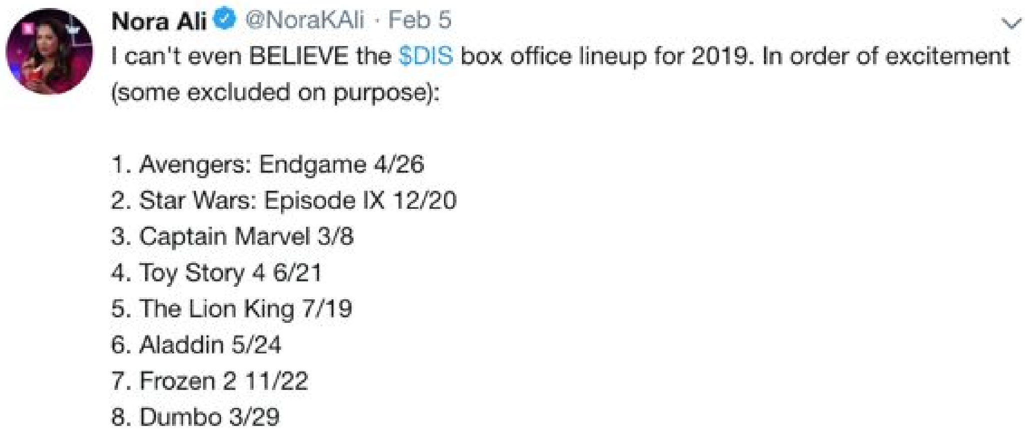


Disney has one of the most iconic and globally recognized brands in the world. Its moat is as wide as they come. You can read our original write up on the company [here.]

CEO Bob Iger has the company focused entirely on its transition to a direct-to-consumer model with the coming rollout of Disney+ later this year, growing ESPN+ (which doubled subscribers to 2m over the last 5-months), and further integrating Hulu in which it'll own a 60% stake once the Fox deal closes.

With the planned international rollout of Hulu and the coming must-have Disney+ VSOD service, Disney has a number of avenues to rapidly increase revenue growth over the coming years. With the company trading at 10x EV/EBITDA the market is not pricing any of this growth potential at all. I expect we'll see the narrative around this stock begin to change in the coming quarters.

Oh, and take a look at their upcoming box office lineup. It's absolutely insane.


Nora Ali @NoraKAli · Feb 5

I can't even BELIEVE the $DIS box office lineup for 2019. In order of excitement (some excluded on purpose):

1. Avengers: Endgame 4/26
2. Star Wars: Episode IX 12/20
3. Captain Marvel 3/8
4. Toy Story 4 6/21
5. The Lion King 7/19
6. Aladdin 5/24
7. Frozen 2 11/22
8. Dumbo 3/29

Fiat Chrysler (FCAU)

Fiat (FCAU) sold off following its earnings. It reported good numbers for the quarter. Net profit came in at €1.29 billion ($1.46 billion) on revenue of €30.6 billion, a 6% increase year over year. But the company lowered its forward guidance for 2019, saying it expects to earn €6.7 billion ($7.6 billion) in 2019 vs. consensus estimates of €7.3 billion ($8.3 billion).

This lowered guidance is immaterial to our long thesis. Fiat trades at a significant discount to its peers and the broader market (it trades at less than 2x EBIT net cash) despite its strong balance sheet and growing top and bottom line.

This recent selloff is just a case of market myopia. Value investor, Scott Miller, noted in his latest letter that (emphasis mine):

> *Despite all of the negative headlines, the U.S. auto market actually grew in 2018. There has been a prolonged pause in the share price of FCAU, but there has been robust growth in earnings power and net cash on the balance sheet. Fundamentals will matter again. The Agnelli family controls this business. They have a generational timeline, not a quarterly one.* ***Eventually, the gap will close between price and value, and when it does, we are not playing for a 5% move.***

I agree with Scott. FCAU will soon get its day in the sun and it's going to be a bright one. But to get there will likely require some more patience on our part.

Grupo Financiero (GGAL)

GGAL continues to move nicely. It's up over 35%+ since our entry a few months ago. The chart above is a weekly and we'll consider adding to this position on a close above its 50wma (red line).

Box Inc (BOX)

BOX is up over 25% since our entry last month. There's still lots of upside to this stock and we want to add to this position but the stock is technically stretched and we should see a sizable pullback in the short-term. See the stock is trading above its upper Bollinger Band (BB). We'll look to add on the pullback. You can find the original write-up here.

SharpSpring (SHSP)

SHSP has completed a textbook ascending wedge. This is a very bullish look and the stock looks set to breakout on another leg higher. We plan to add to this position this week but due to the low liquidity of the stock, we'll be doing so in small size. Here's the link to the write-up on SHSP.

Garrett Motion (GTX)

GTX looks to be forming a large cup-and-handle. We wrote up the long case for GTX in our November MIR ([link here]()). From a fundamental standpoint this company is misunderstood by the market and as a result, grossly undervalued. There remains tons of positive asymmetry to this trade. We're going to establish a position this week.

Another bullish point worth noting is the strength in semis since the start of the year. The semi ETF (SMH) has largely invalidated its bearish technical pattern and now looks set to run higher. There's reason to believe that the dip in the semi cycle will be short-lived and not as deep as cycles past. If that ends up being the case, stocks like Micron (MU) are trading for just 3x earnings. MU was David Tepper's largest position, making up roughly 30% of his fund as of September. It'll be interesting to see if he's still in it. I'm considering putting on a small position this week.

That's all I've got for now.

I'm working on the MIR all week which I hope to get out to you all by the weekend. Look for trade alerts in the next few days as we make some moves to up our risk exposure.

If you've got any questions for us in the meantime, let us know in the Comm Center. Have a great week!

Your Macro Operator,

Alex

Macro Ops Portfolio		YTD					
		6.11%					
Big Bet Macro							
Asset Class	Position	Position Size	Cost Basis	Risk Point	Target	Last Price	P&L
Equity	Facebook (FB)	216	$138.00	$119.50	$144.19	$167.33	21.25%
Equity	Fiat (FCAU)	2666	$15.20	$13.70	$28.00	$14.93	-1.78%
Equity	Box Inc (BOX)	1095	$19.25	$15.60	$35.00	$23.51	22.13%
Equity	Sharpspring (SHSP)	859	$13.71	$10.80	$10.80	$13.67	-0.29%
Equity	Criteo CRTO	3333	$25.47	$23.00	$45	$26.41	3.69%
Equity	Grupo Financiero (GGAL)	1536	$26.13	$21.00	$44.00	$35.99	37.73%
Equity	Stratasys (SSYS)	2335	$24.76	$20.50	$50.00	$25.94	4.77%
Equity	Discovery DISCA	1300	$28.09	$26.70	$60.00	$19.19	-31.68%
Equity	Google GOOGL	195	$1,129.78	$1,100.00	$1,400.00	$1,102.38	-2.43%
Equity	Disney DIS	2146	$102.34	$108.50	$150.00	$111.51	8.96%
Equity	Yatra Online YTRA	13877	$7.24	Investment	$15.00	$4.31	-40.47%
Equity	TSLA Jan '20 150 Put	13	$15.01	$0.00	$60.00	$14.70	-2.07%
Equity	TSLA Jun '19 220 Put	11	$18.01	$0.00	$60.00	$17.40	-3.39%
Equity	FCAU Mar '19 24 Call	360	$0.25	$0.25	$2.50	$0.00	-100.00%
Equity	SPX Mar '19 3150 Call	19	$8.10	$0.00	$80.00	$0.00	-100.00%
Equity	DIS Jan '20 165 Call	545	$1.11	$0.00	$10.50	$0.25	-77.48%
Metals	Short Copper March Futures	-1	$2.6594	$2.8100	$2.4375	$2.799	-5.25%
FX	Long Euro March Futures	2	$1.1538	$1.1390	$1.1875	$1.1358	-1.56%
						**Updated 2/10	