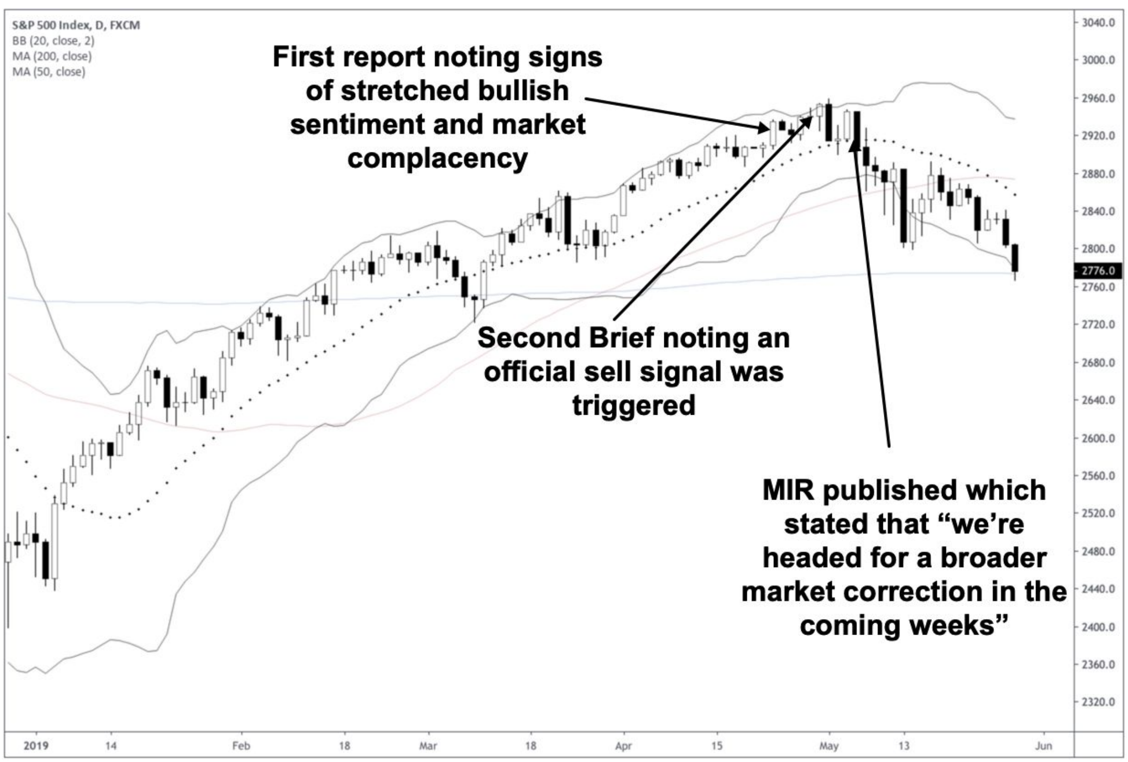
A Roadmap

Summary:

- Markets are still in the volatile sell-off regime we first noted in our April 23rd Brief "Japan Going on Leave" and again in the following April 28th Brief "Creeping Complacency"
- We'll likely see a short-term bounce soon followed by more downside
- Here's the data we need to watch that will signal when a bottom is in

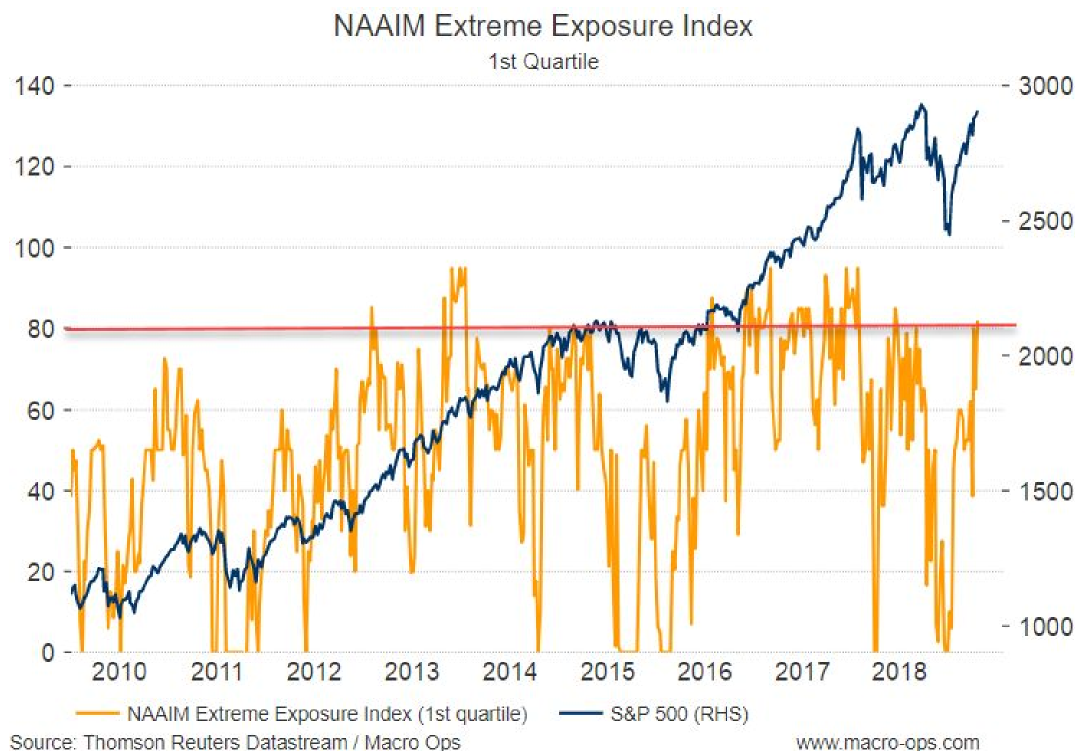
Let's quickly layout where we are and how we got here. And then we'll get to where we're headed in the weeks ahead.



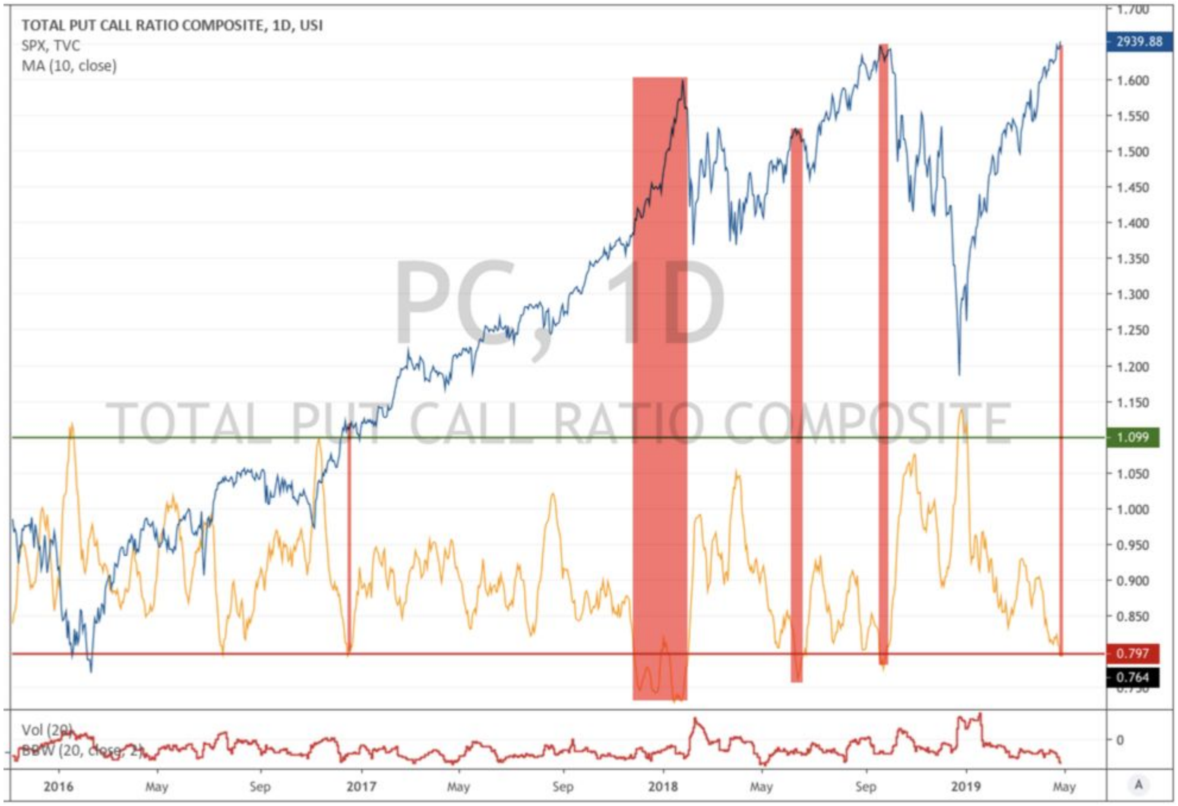
In our April 23rd Brief "Japan Going On Leave" we began noting how the rally had gotten "long in the tooth" and there were increasing "signs of growing complacency and technical divergence". We talked about how the Russell small-cap index had "failed to confirm the broader market rally" and that not only had credit and spreads "turned over a bit" but sentiment and positioning were becoming stretched, writing:

The majority of investors have been on the outside looking in at this rally since the start of the year. We've talked about how this move will persist until it finally creates enough FOMO (fear of missing out) to suck in these players who've been sitting on the sideline.

While we likely have a bit more to go before we get total capitulation from the bears. ***There's an increasing number of signs that we're getting close.*** *Take the NAAIM Extreme Exposure Index which measures the top quartile of investor's weighting to risky assets. It recently pierced the 80 level (horizontal red line). Readings above this point suggest a number of investors are getting over their skis a bit which makes the market more susceptible to a pullback.*



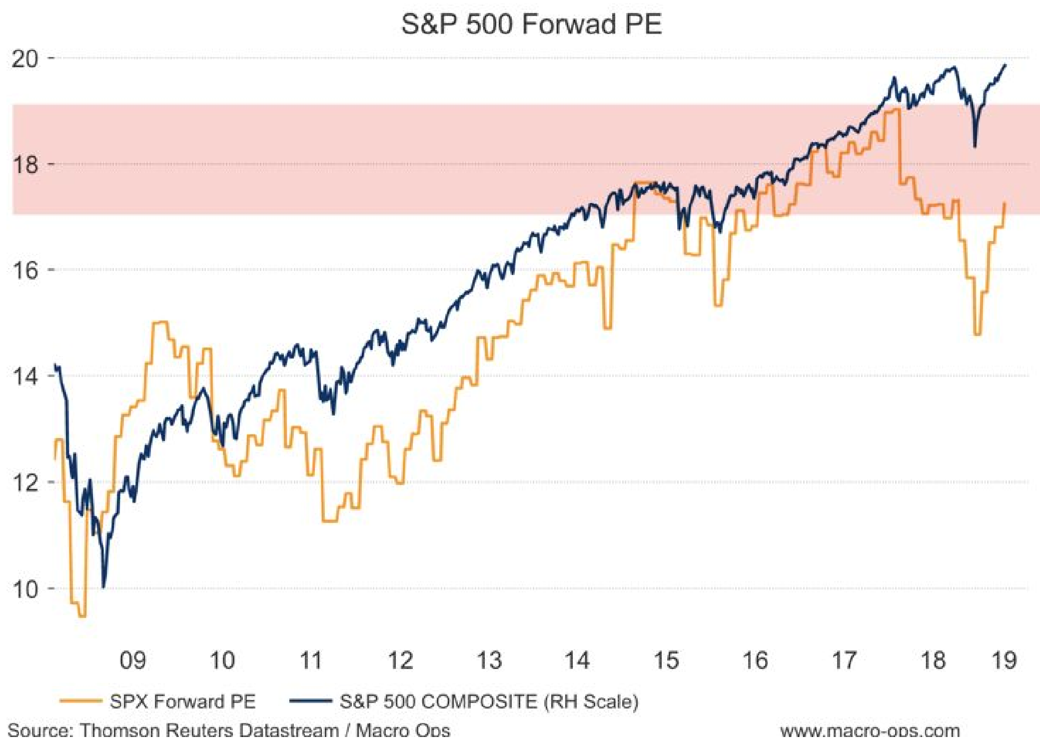
Then in our following Brief "[Creeping Complacency]" we pointed out that " Our 10-day moving average Total Put/Call indicator crossed below the 0.8 level (marked by the horizontal red line below) triggering an official sell signal on Friday. Investors are buying less downside protection and are becoming complacent. The lower this indicator moves the greater odds are that we'll see a sizable correction in the coming weeks."



We concluded with “My general market take remains the same**. The rally is getting long in the tooth and there are some increasing signs of FOMO** — note the resurgence of the “Melt-Up” narrative that last became popular in the runup to the Jan 18’ blow off. But momentum and technicals still favor more upside for the time being.

The move here is to stay long but begin to trim risk and take some profits off the table. **Once momentum fades and more technical cracks appear we’ll move to more aggressively reduce our equity exposure and put on some shorts.**”

The following week we wrote in the MIR that “The Forward PE ratio of the SPX is back up in the 17+ range. A level which has caused some instability for the market in the past.”



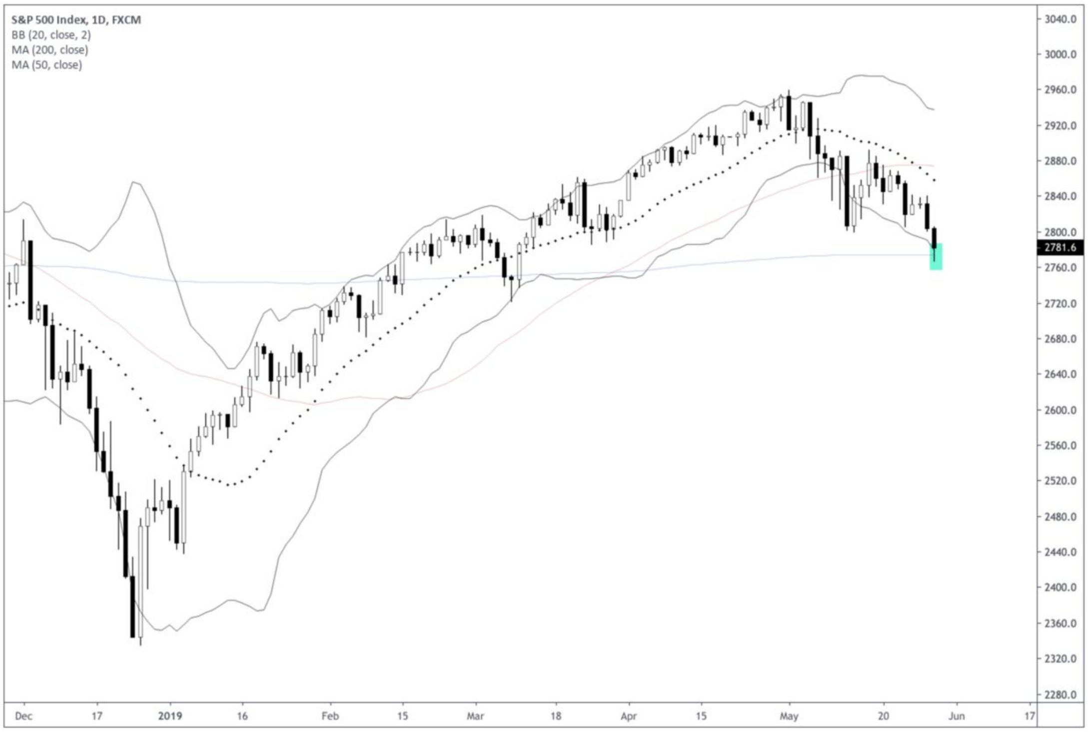
And ended with:

> *My indicators are telling me that we're headed for a broader market correction in the coming weeks. I'm not expecting this to be a big selloff like the one we experienced in Q4 of last year but it could be significant in some of the individual overstretched names.*
>
> *...We've been writing since last December that the majority of the market has been on the outside looking in at this rally and that the time to get defensive will be when those on the sidelines begin giving into FOMO and piling stocks. It looks like that is starting now. Momentum may carry us higher for a bit longer but we'll be taking this time to begin reducing our exposure to some of our more richly valued growth names and allocating more to our value names above.*

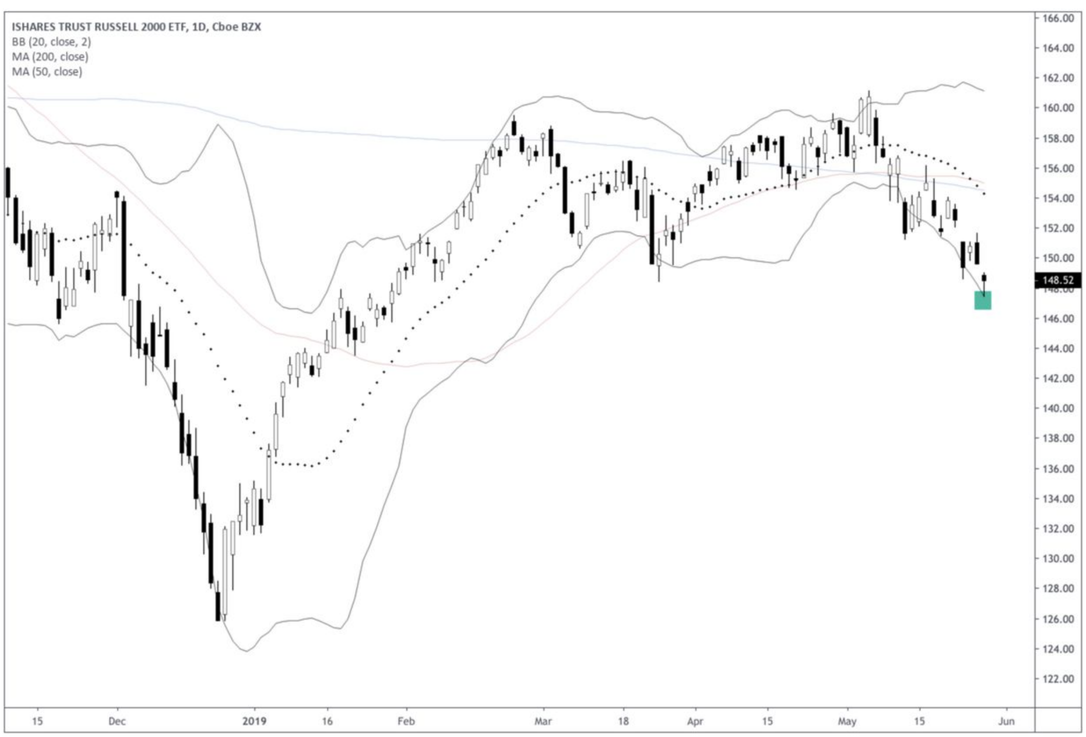
Sentiment, technicals, and macro… The "Marcus Trifecta" is a very useful approach for hitting broader market turning points. The signs for this current selloff were there for all to see who knew where to look.

Now let's talk about where we're at.

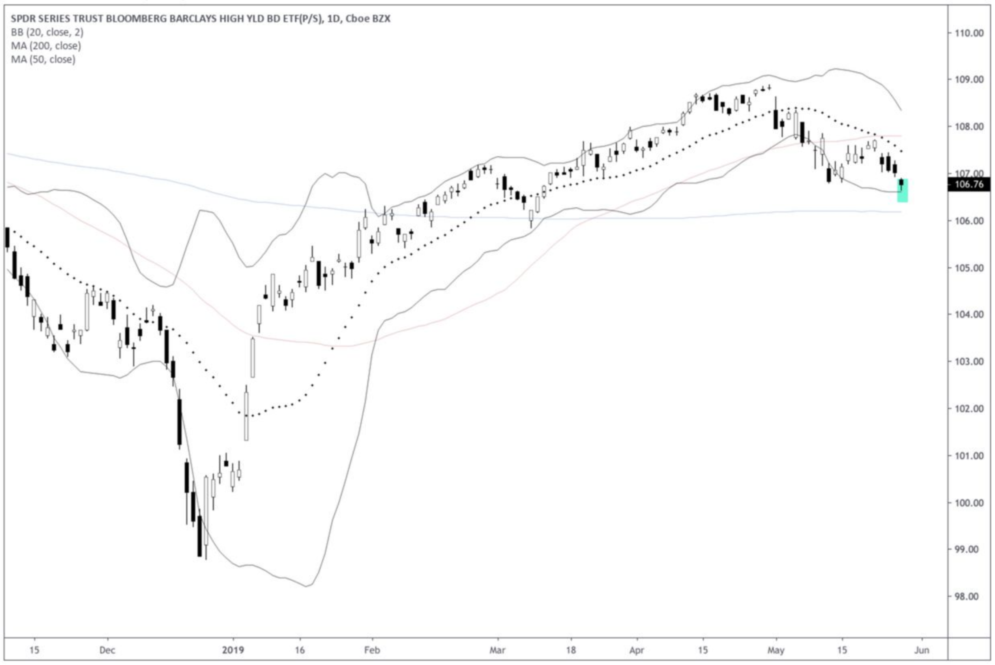
Multiple markets are now oversold on a short-term basis and knocking up against some strong support levels. The SPX, for example, is bouncing off its lower daily Bollinger Band as well as its 200-day moving average (blue line).



Small-caps (IWM) are also bouncing off their lower daily Bolling Band.

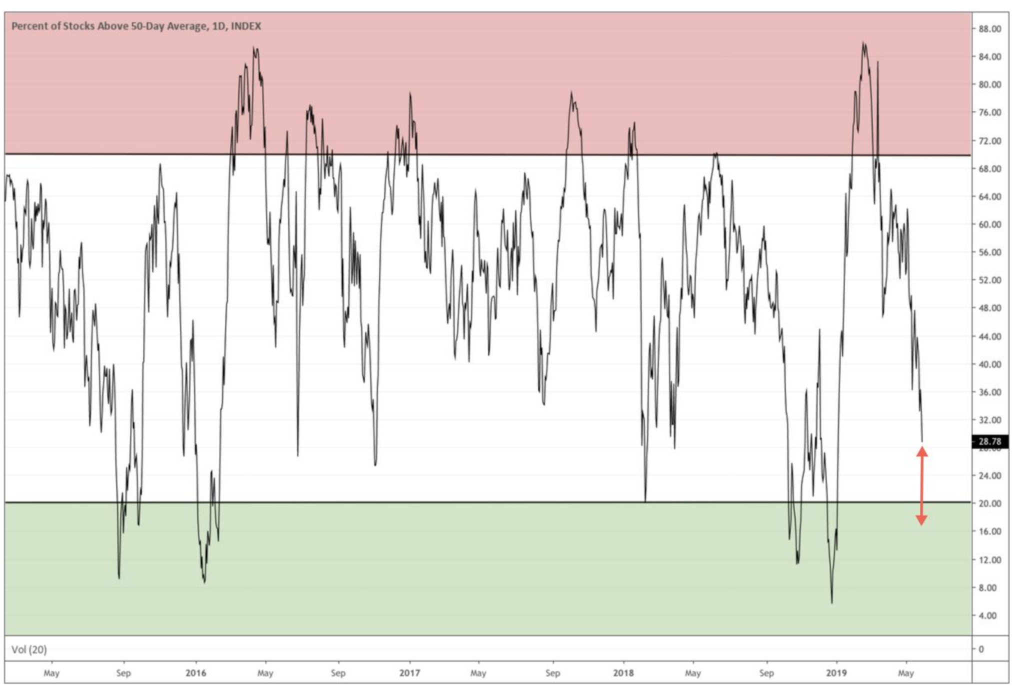


As well as high-yield credit (JNK).

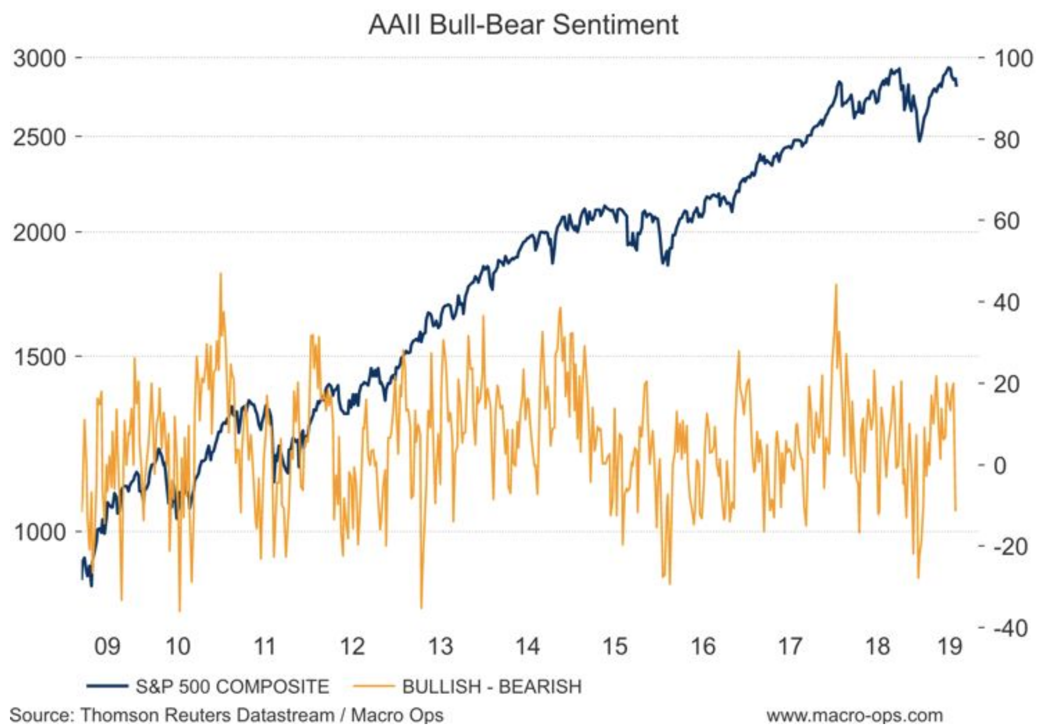


This means we'll likely see a small bounce over the coming days. But this bounce should be sold into and not bought. Here's why.

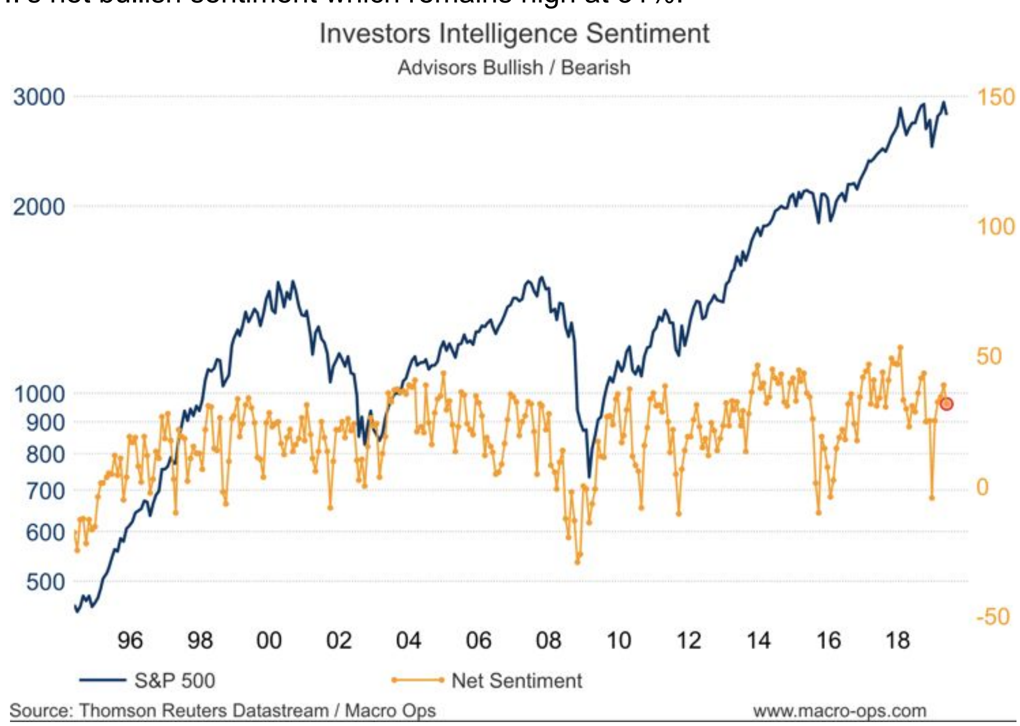
A couple of weeks ago I pointed out that this selloff would likely continue until the market hit more significant oversold levels, with the percent of stocks trading above their 50-day moving average falling near the 20% level. We still have some room to go on that front.



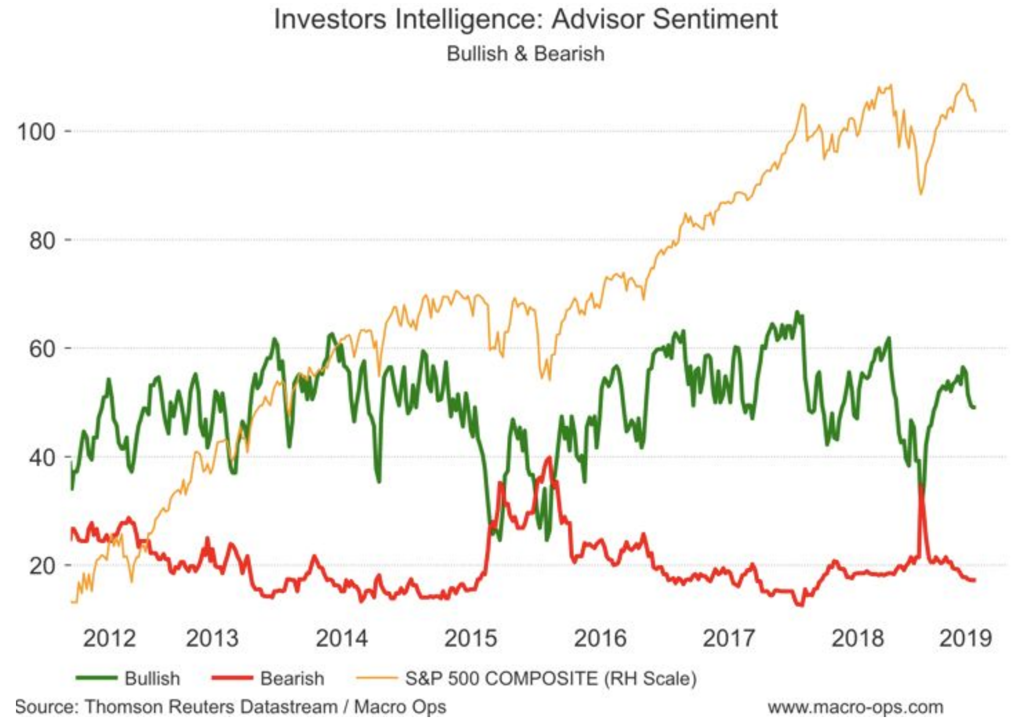
Quite a few people have been pointing out the reversal in sentiment, such as the AAII survey below, suggesting a major bottom is near. Unfortunately, higher fidelity longer-term indicators of sentiment are still elevated.



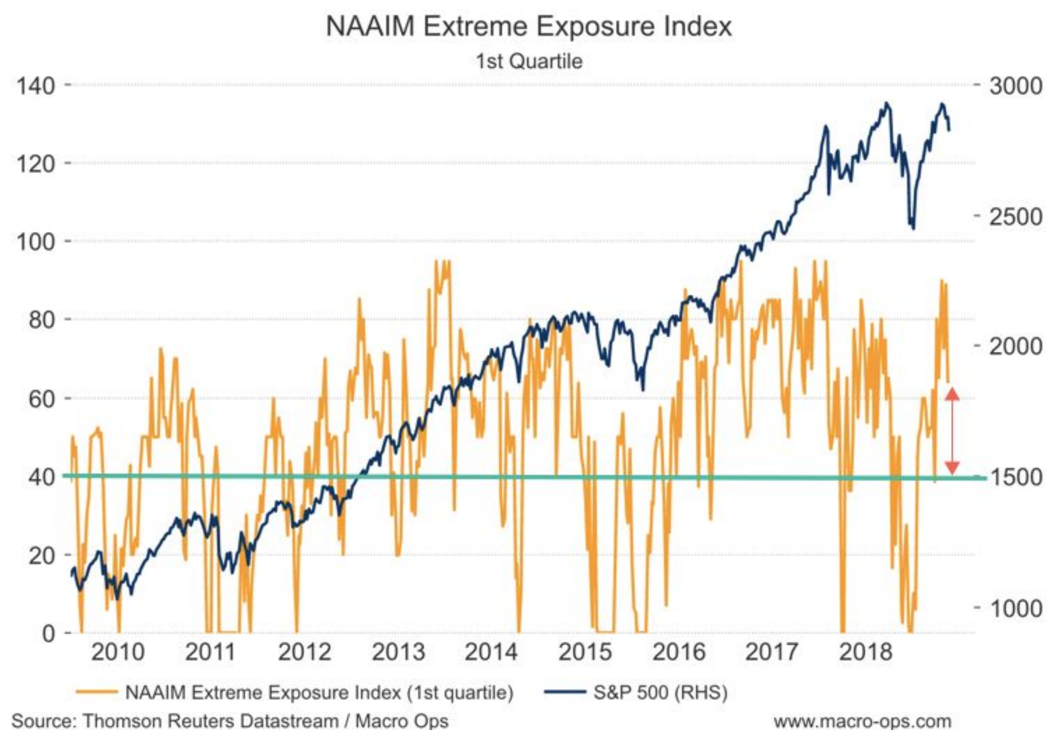
Such as II's net bullish sentiment which remains high at 31%.



Here's a look at the same data but in a different format. You can see that the level of bears is still muted while bulls are elevated. I'd like to see a spike in bearishness before I started adding significant risk again.

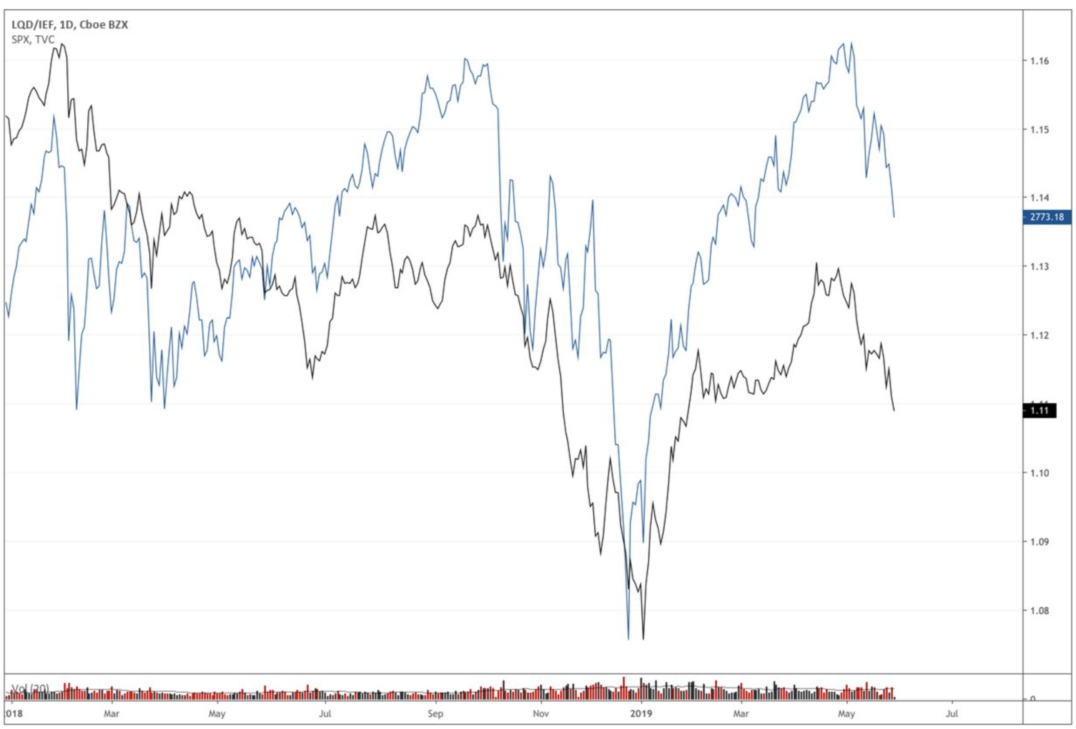


The NAAIM Extreme Exposure Index has pulled back from stretched levels but is still too bullish. We need to see it cross below the 40 level (green line) for a more permanent bottom to be in.

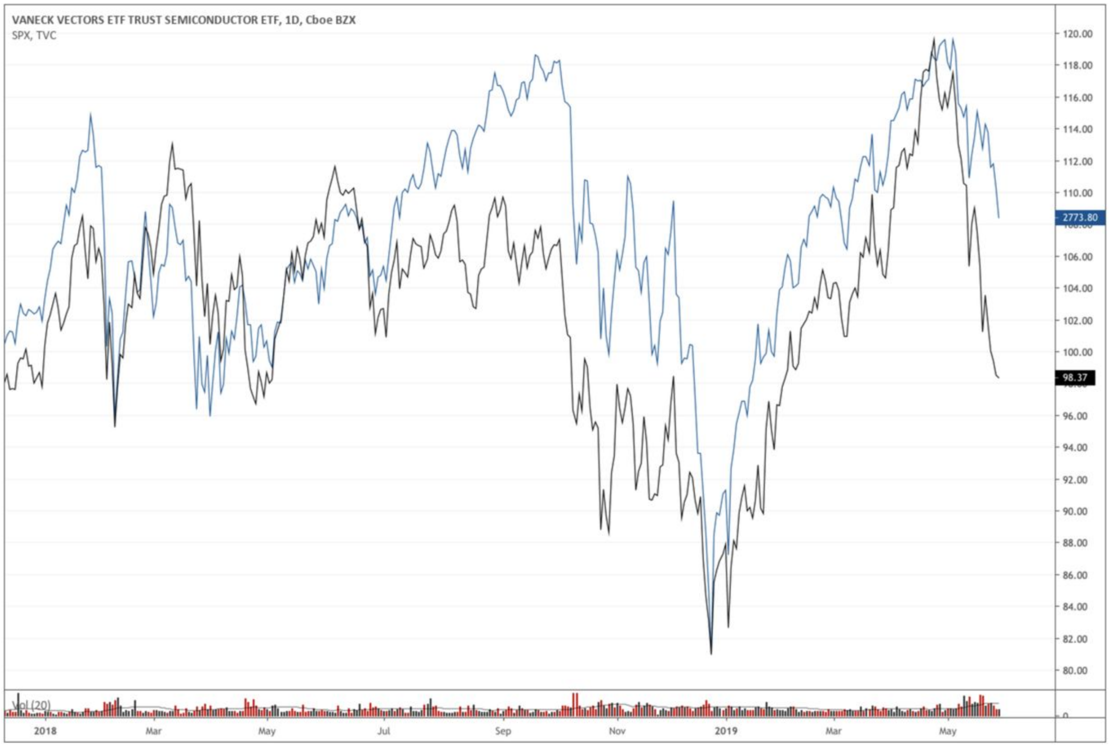


Our 10-dma Total Put/Call indicator has reversed from its sell signal but is not yet at extremes (green line) that have marked major bottoms in the past.

Credit spreads (LQD/IEF) marked by the black line are trending lower. We'll need to see this turn upwards to confirm a significant market bottom is in (SPX = blue line).



Semiconductors (SMH), marked by the black line, have been leading the move lower. Like credit, we'll want to see these turn higher to confirm a bottom is in.



And the Nasdaq McClellan Summation Index ($NASI) remains clearly in a downtrend. We need to see this turn-up and stay in the black for at least 3-days for a buy signal to be given.

Summary

Technicals suggest the market should see a bounce over the short-term. But long-term indicators point to more downside and volatility in the weeks ahead. Sentiment and positioning are still too bullish and valuations too high considering the slower growth regime we're transitioning too. I've been writing over the last couple of months that consensus earnings estimates are too optimistic going into the second half of this year. Market volatility should help reset these expectations lower in the coming weeks.

This selloff is likely to play out until the popular narrative reaches bearish extremes similar to those we experienced at the beginning of the year. Until we reach that point, we want to keep our risk light and look for good R/R opportunities to get short the market.

My downside technical target on the S&P is 2,600 - 2,650, near its lower weekly Bollinger Band and significant support.

It's a good time to hold a large cash position and wait patiently for greater clarity.

That's all I've got!

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						
		11.09%						
Big Bet Macro								
Asset Class	Position	Position Size	Cost Basis	Notional %	Risk Point	Target	Last Price	P&L
Equity	Construction Partners (ROAD)	8,438	$12.25	10.05%	$10.80	$17.00	$13.23	8.00%
Equity	Fiat (FCAU)	2,666	$15.20	3.26%	$13.70	$28.00	$13.57	-10.72%
Equity	Garrett Motion (GTX)	5,630	$15.11	8.26%	$13.80	$25.00	$16.30	7.88%
Equity	Discovery DISCA	1,300	$28.09	3.20%	$26.70	$60.00	$27.34	-2.67%
Equity	Disney DIS	2,146	$102.34	25.37%	$108.50	$150.00	$131.35	28.35%
Equity	Yatra Online YTRA	13,877	$7.24	5.27%	Investment	$15.00	$4.22	-41.71%
Equity	Graftech (EAF)	2,205	$13.59	1.99%	$10.00	$25.00	$10.01	-26.34%
Equity	Frontdoor (FTDR)	1,240	$34.10	4.56%	$28.00	$55.00	$40.81	19.68%
Equity	Anglogold (AU)	5,500	$11.79	5.64%	$10.75	$18.00	$11.40	-3.31%
Equity	TSLA Sep '19 175 Put	11	$13.81	2.08%	$0.00	$85.00	$21.00	52.06%
Equity	TSLA Jun '20 100 Put	14	$10.70	1.62%	$0.00	$85.00	$12.85	20.09%
Equity	TSLA Jan '20 150 Put	5	$15.01	0.90%	$0.00	$60.00	$20.10	33.91%
Equity	TSLA Jun '19 220 Put	4	$18.01	1.26%	$0.00	$60.00	$35.00	94.34%
Equity	DIS Jan '20 165 Call	205	$1.11	2.77%	$0.00	$10.50	$1.50	35.14%
FX	June Dollar Futures	5	$98.03	43.87%	$96.95	$102.00	$97.47	-0.57%
							**Updated 5/28	