MARKET BRIEF

Macro Ops Collective

The Setup Continues...

Summary:

- The market is still in a clear chop and vol range
  - But sentiment/positioning are setting the stage for a face-ripping rally later this year
- Keep an eye on small-caps. Need participation to confirm a bullish uptrend
- Global Economy continues to slow but things are as bad as everyone seems to think they are

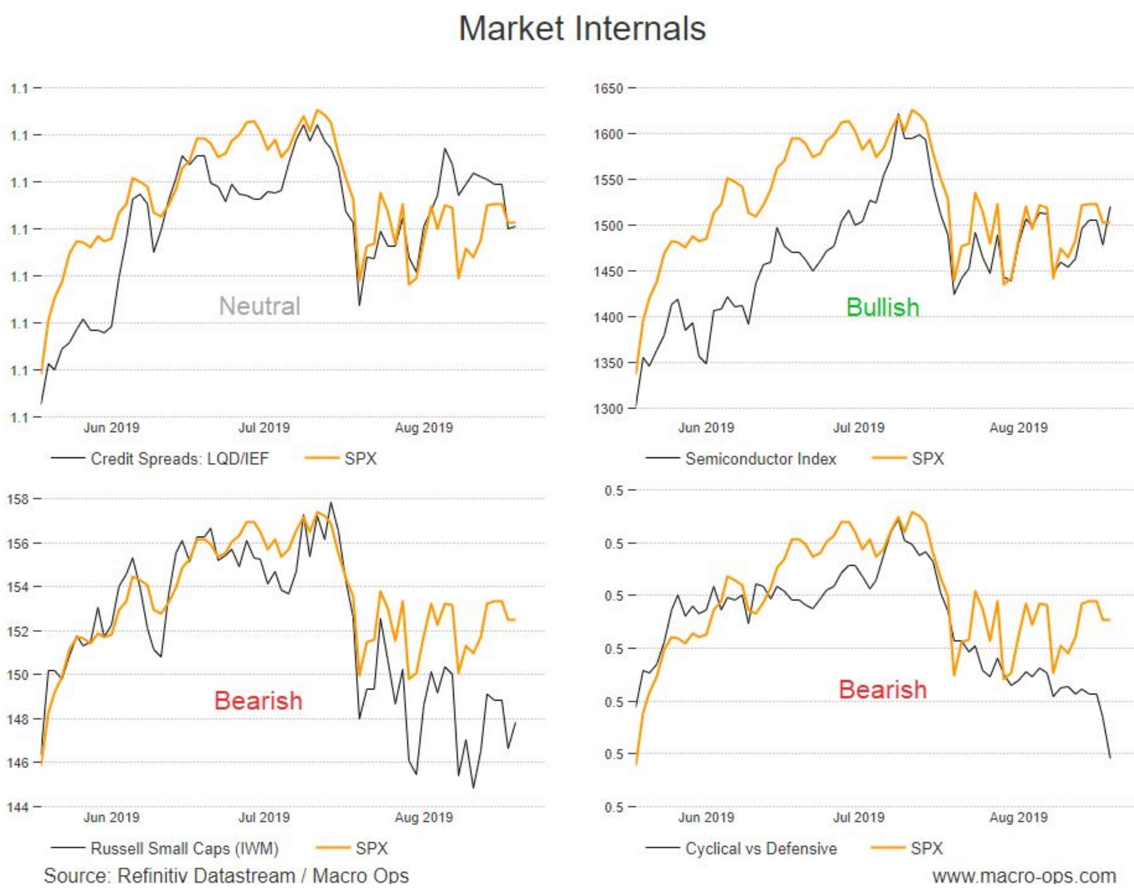
Stocks continue to chop sideways. Sentiment and positioning are at bearish extremes relative to the data. Global econ data should improve markedly over the coming months as we move into more favorable base effects going into the end of the year. Conditions are setting up for a face-ripping bullish rally beginning sometime before year-end.

Let's go through the charts.

The SPX is trying to break out of its month-long trading range but now has to battle with its 50dma (red line) which has repelled it a number of times over the last month.

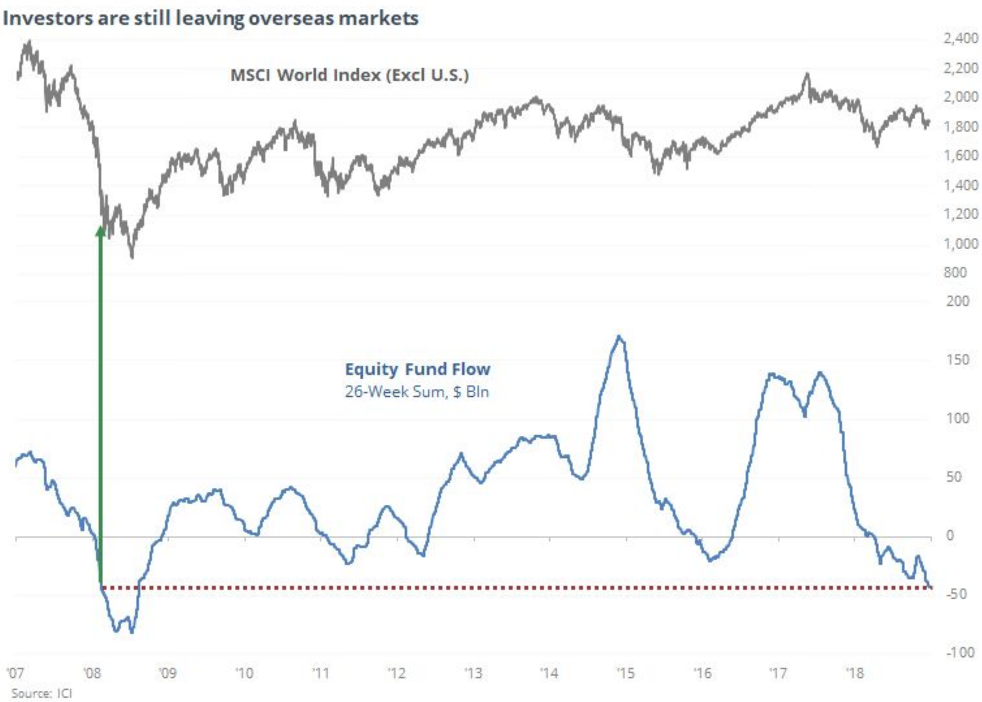
Small-caps continue to flounder near the bottom of an 8-month downward sloping channel. We need to see bullish participation from small-caps to signal a sustainable rally in the rest of the market. Until we see some confirmation from the Russell (IWM) that a bullish trend is kicking off, we don't want to get too excited about the long side.

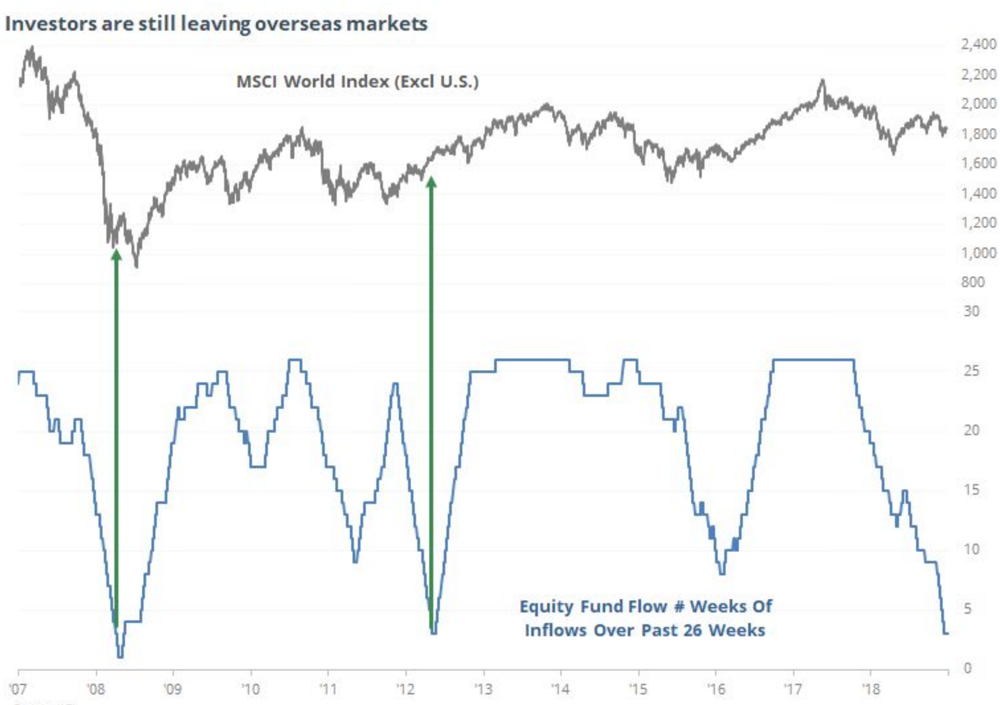
All in all the current Market Internals give a mixed message.



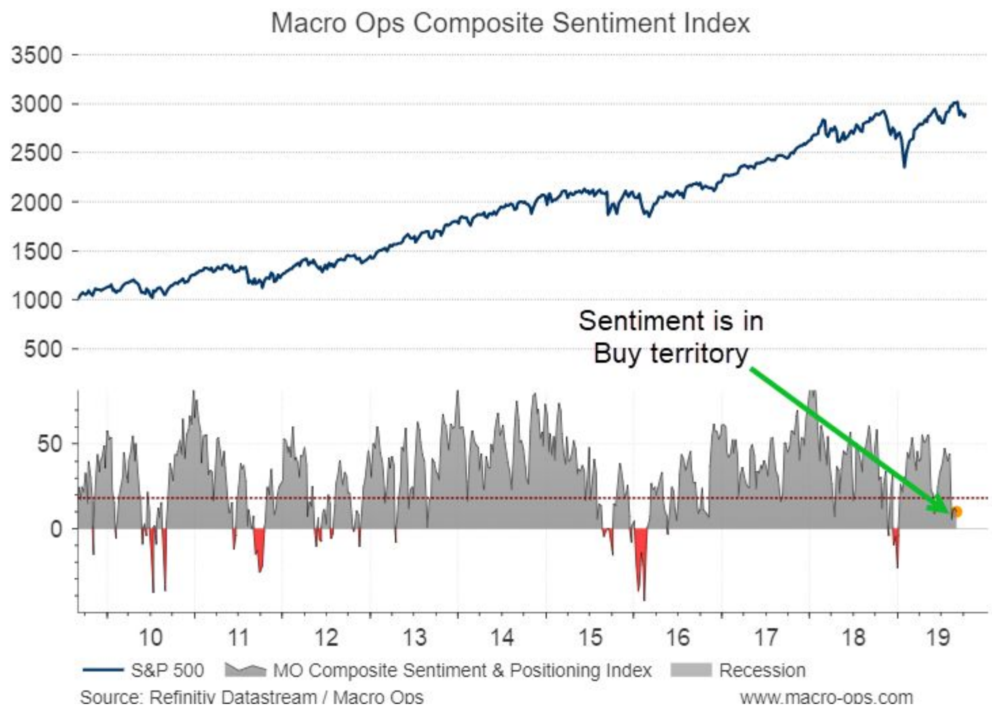
Market breadth remains strong which indicates that the underlying base on the equity market is firming, which is a positive.

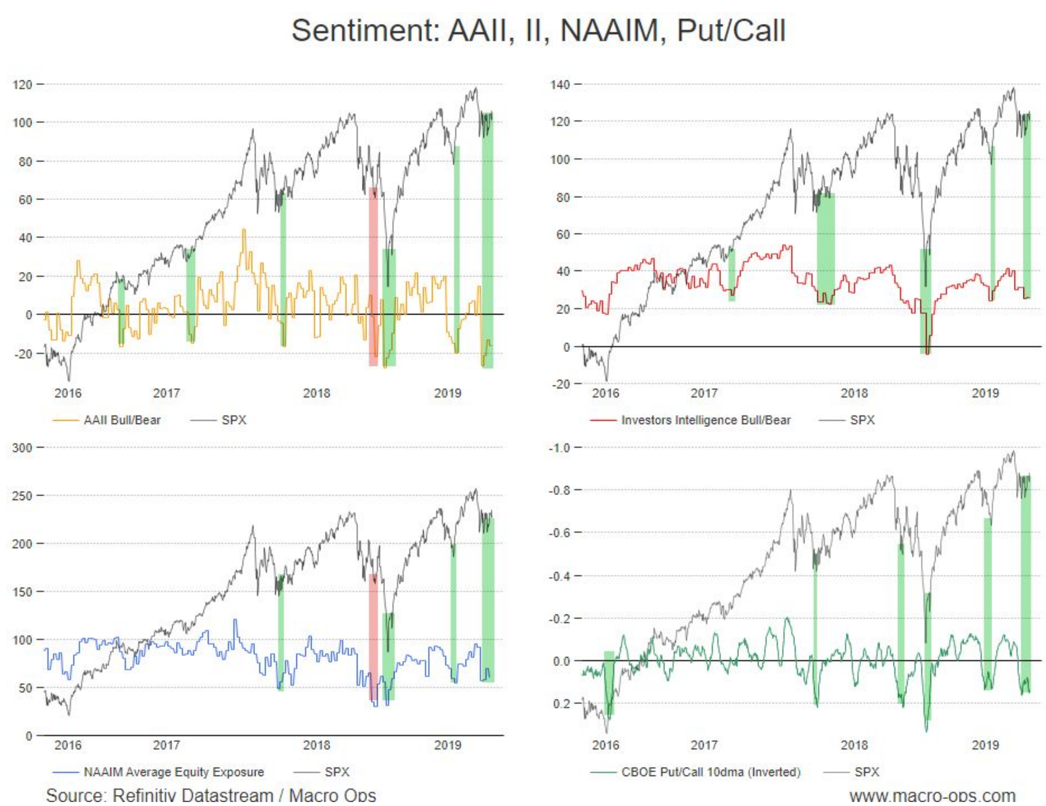
Equity outflows are hitting crisis level extremes. Here's two more charts from SentimentTrader, similar to the one I shared in this week's *Monday Dozen*. Investors have been pulling their money out of stocks nearly every week for the past six months, making for roughly $50bn in total outflows.



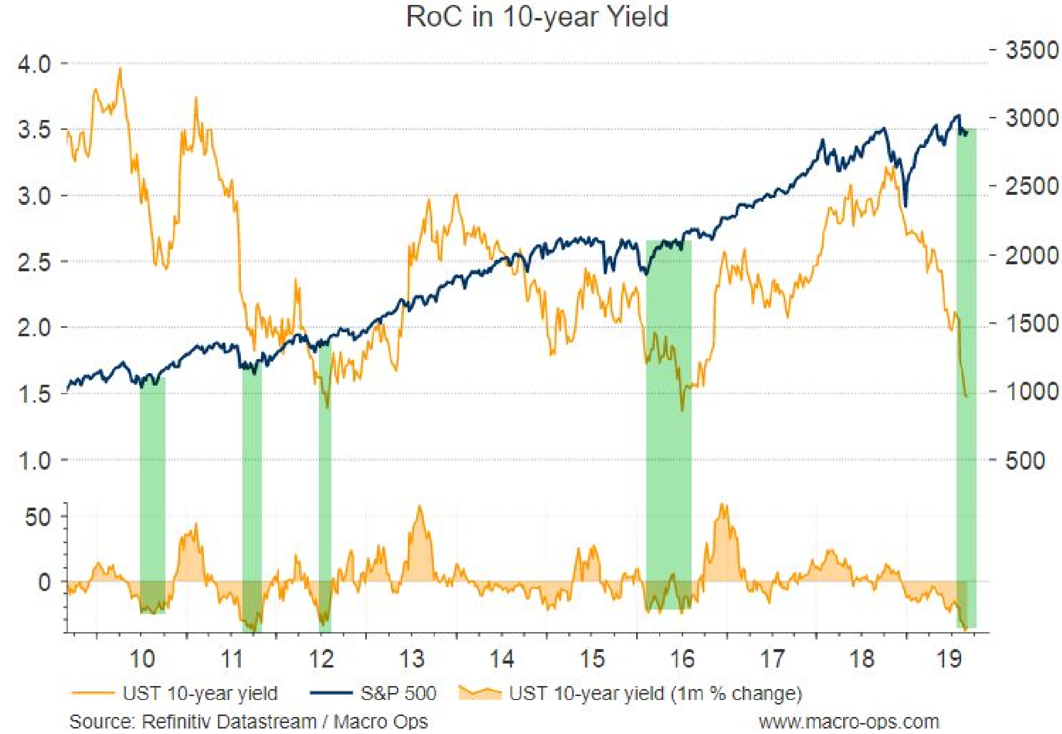


Sentiment and positioning are very bearish which at the least should keep the market from selling off too much from here.

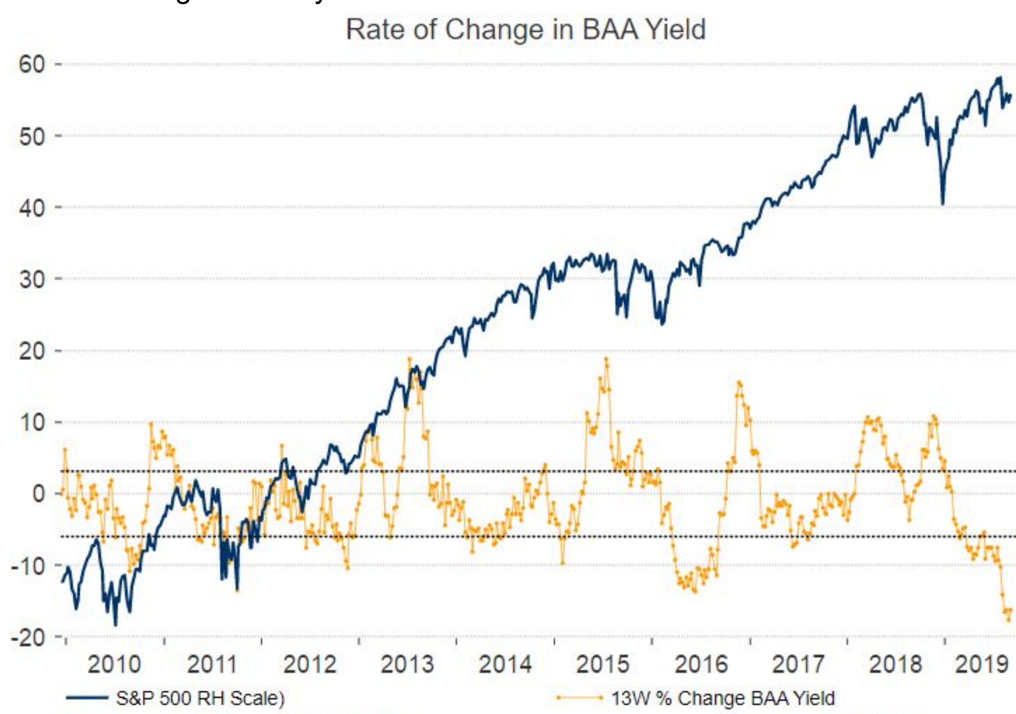




The fall in yields is at historic extremes. Stocks and bonds compete with each other for capital flows and lower yields make stocks more attractive to bonds on a relative basis. Dividend yields now exceed the yield offered on 30-year Treasuries for the first time since 2009.

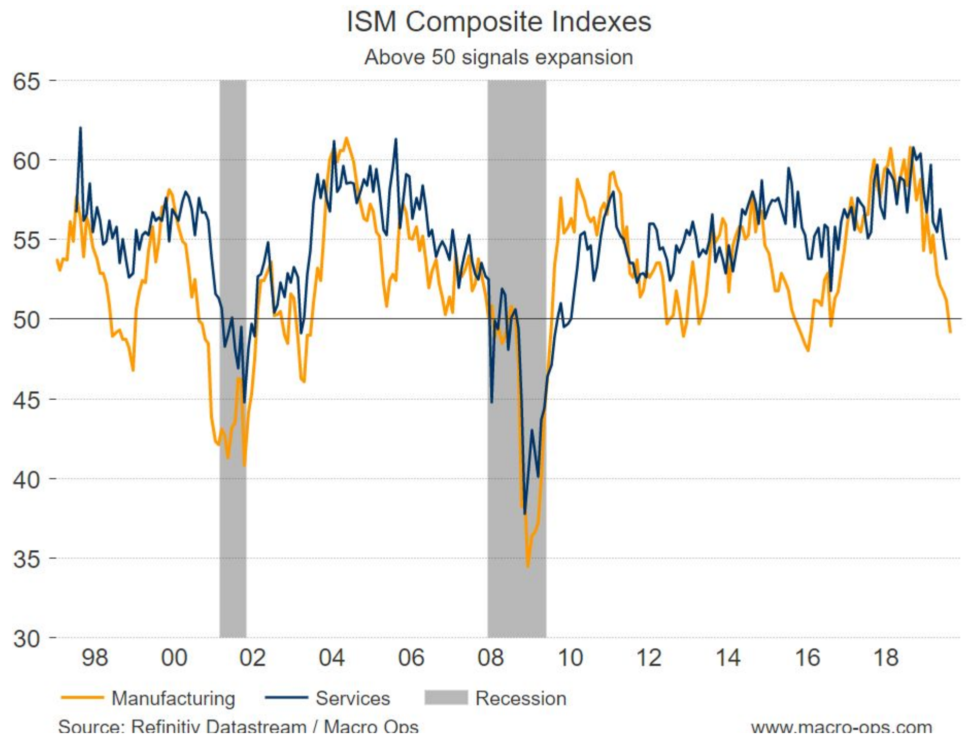


The 13w rate of change in BAA yields is at all-time lows. This is bullish.

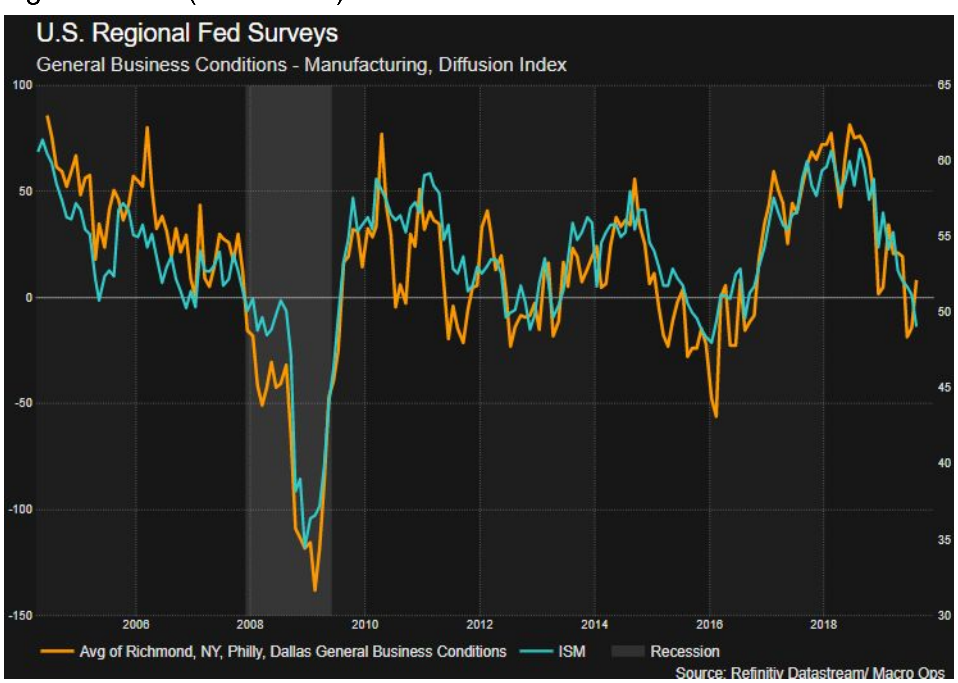


This graphic from Bloomberg on global shipping and trade pretty much sums up the current environment. The data is either not that bad and/or improving for the most part while sentiment is outright horrendous.

The recent negative print in the ISM manufacturing index isn't a great sign but it also doesn't mean a bear market is around the corner. Note that we've been here during this cycle a number of times before. And though services are also trending lower they are still strongly positive and are just returning to their pre-fiscal bump trend growth.

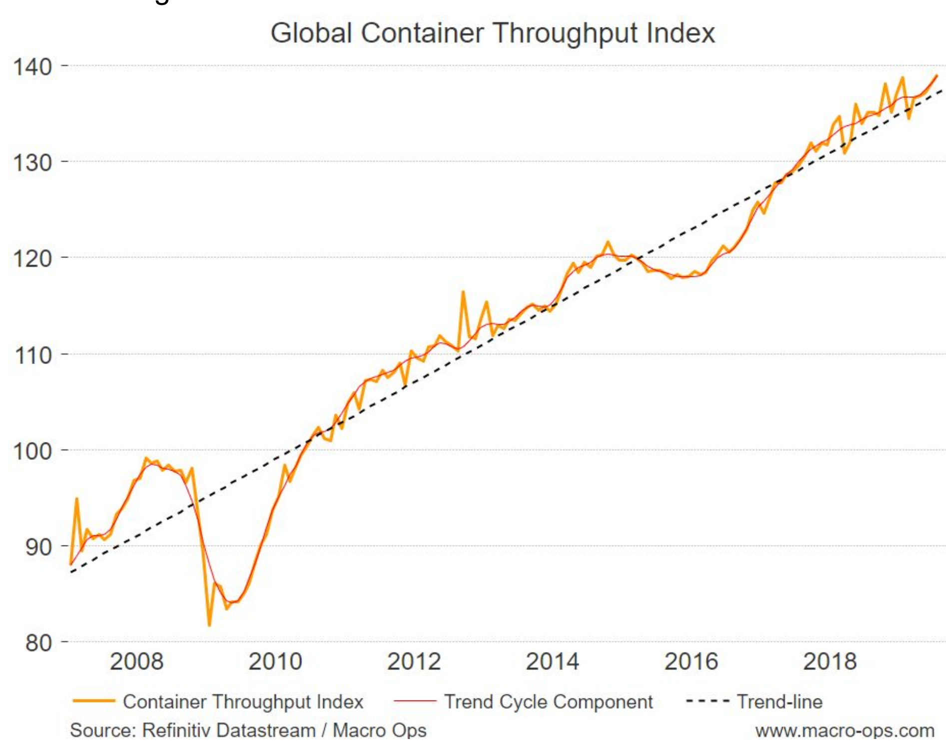


And our Regional Fed Diffusion Index (orange line) suggests the worst may be over in this manufacturing slowdown (ISM in teal).

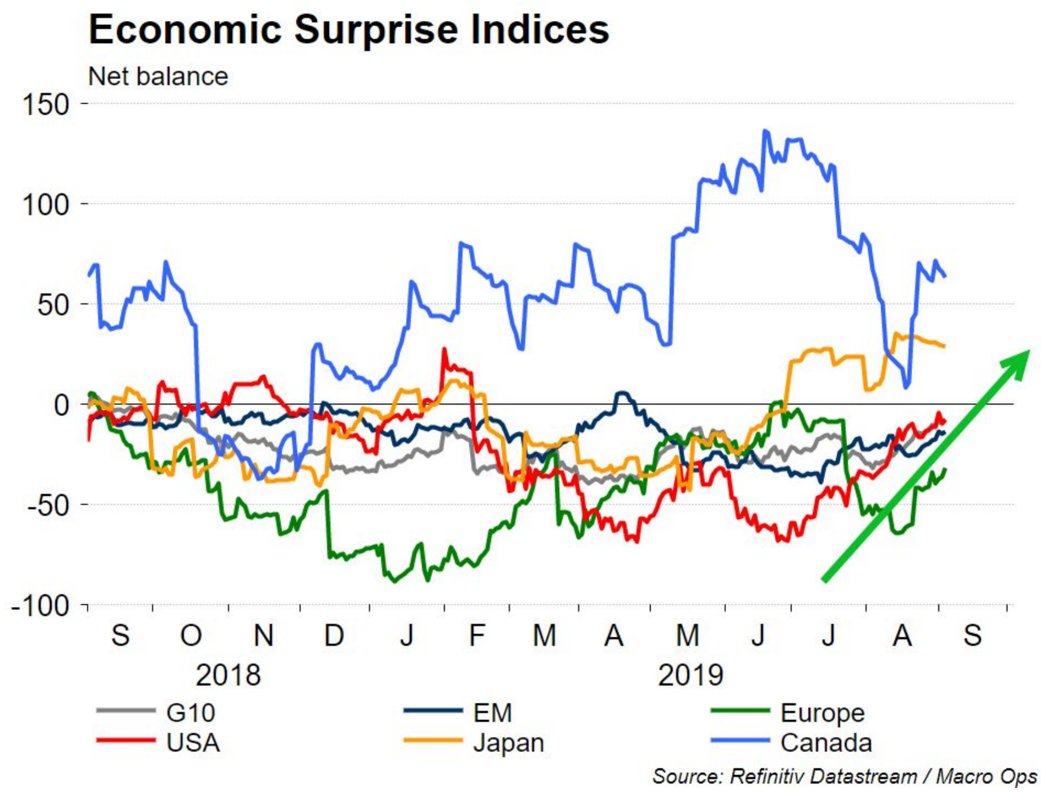


Exports out of Asia look like they may be bottoming and turning higher.

The Global Container Throughput Index (a broad measure of global trade) has rebounded to back above trend-line growth.

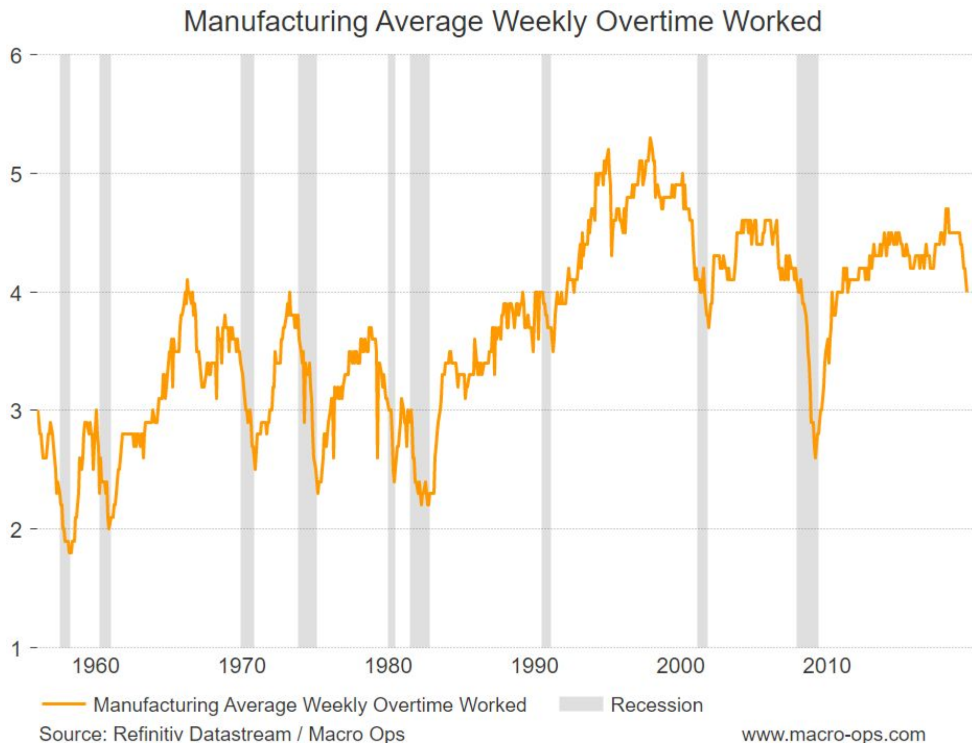


The Citi Economic Surprise Indices (CESI), which measures the incoming data relative to the consensus expectations for the major economies, seems to have bottomed over the last few months and has begun trending higher.



There are of course areas of concern. One of the biggest risks that I see currently is that the trade war intensifies and eventually kills business confidence to the point that companies begin laying off workers.

One of the leading indicators I like to track for that is the weekly average of overtime worked in the manufacturing sector as companies tend to reduce overtime before they begin laying off workers. This indicator has collapsed over the last few months and bears close watch.



The takeaway for equity markets is that we're still in a wait and see regime. Further sideways chop is the most likely outcome though extreme bearish sentiment and positioning limit the downside skew at the moment.

We need to see bullish trend confirmation in small-caps before we can get excited about plunging to the long side. We're also going to need some kind of catalyst to help flip the bearish narrative. That could come in the form of a 50bps cut this month from the Fed (possible), a concerted effort to move the US dollar lower (becoming more likely), greater stimulus out of China (possible but not likely until the very end of the year), or *actual* progress in trade talks (becoming less and less likely).

Bonds and precious metals are likely to continue their incredible runs higher until stocks can firmly begin an advance. We're now up over 100% on our long Anglogold Ashanti (AU) and 115% in our First Majestic Silver (AG) DOTM calls. We'll sit tight and continue to hold these as long as the trend stays intact.

When the next bull leg in equity markets does come, I expect EM to lead the away with Mexico (EWW) being one of my favorite plays. Mexico is going to benefit largely from the decoupling and regionalization of the old global trade order. I'm currently working on putting together a report that I hope to get out to the group soon. I think there's some amazing opportunities on the horizon. We just need to be patient and resist getting caught up in the chop until then.

That's all I've got for now. 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						
		11.00%						
Big Bet Macro								
Asset Class	Position	Position Size	Cost Basis	Notional %	Risk Point	Target	Last Price	P&L
Equity	Construction Partners (ROAD)	4,338	$12.25	6.09%	$10.80	$17.00	$15.58	27.18%
Equity	Disney DIS	709	$102.34	8.81%	$108.50	$150.00	$137.89	34.74%
Equity	Graftech (EAF)	9,855	$12.24	11.21%	$10.30	$25.00	$12.63	3.19%
Equity	Frontdoor (FTDR)	1,240	$34.10	5.75%	$28.00	$55.00	$51.51	51.06%
Equity	Anglogold (AU)	4,478	$11.02	9.25%	$14.00	$40.00	$22.93	108.08%
Equity	W&T Offshore (WTI)	4,710	$4.81	1.87%	$3.60	$8.00	$4.40	-8.52%
Equity	Ecopetrol (EC)	1,686	$18.78	2.45%	$15.40	$25.00	$16.13	-14.11%
Equity	Sandridge Energy (SD)	4,911	$6.41	2.11%	$5.80	$12.00	$4.78	-25.43%
Equity	BlueLinx (BXC)	725	$23.75	1.82%	$19.50	$35.00	$27.85	17.26%
Equity	Scorpio Tankers (STNG)	5,765	$25.75	14.08%	$21.00	$40.00	$27.11	5.28%
Equity	TSLA Sep '19 175 Put	11	$13.81	0.04%	$0.00	$85.00	$0.38	-97.25%
Equity	TSLA Jun '20 100 Put	14	$10.70	0.72%	$0.00	$85.00	$5.70	-46.73%
Equity	TSLA Jan '20 150 Put	5	$15.01	0.26%	$0.00	$60.00	$5.85	-61.03%
Equity	DIS Jan '20 165 Call	68	$1.11	0.49%	$0.00	$10.50	$0.80	-27.93%
Equity	AG Jan'20 15 Call	387	$0.35	2.61%	$0.00	$3.50	$0.75	114.29%
FX	Sep CAD Futures	5	$0.7587	33.81%	$0.7467	$0.8096	$0.7506	-1.07%
FX	Sep CHF Futures	7	$1.0301	80.13%	$1.0067	$1.0887	$1.0165	-1.32%
							**Updated 9/4	