Market Update

- Market update: This Bull refuses to lie down
- Coronavirus: Dismissed by the market, but growth still trending up
- Oil: Some energy plays might be in for a reversal (HAL, EGY)
- Bonds: Took profits on bonds and reduced position to neutral Core holdings
- Disney: Taking full profits
- Albermarle: On a run and maybe getting caught up TSLA hysteria

SPX saw strong buying pressure yesterday that drove it to close above the important 3,300 level. This number was resistance but is now support. Odds are back to favoring higher prices in the short-term.

There's still plenty of length in positioning that will need to eventually be unwound. The put/call 3-day moving average is back near its recent lows. But buy climaxes such as this tend to go on longer than anybody expects them to and are comprised of a number of good looking "short setups" that inevitably fail, trapping bears as prices grind higher.

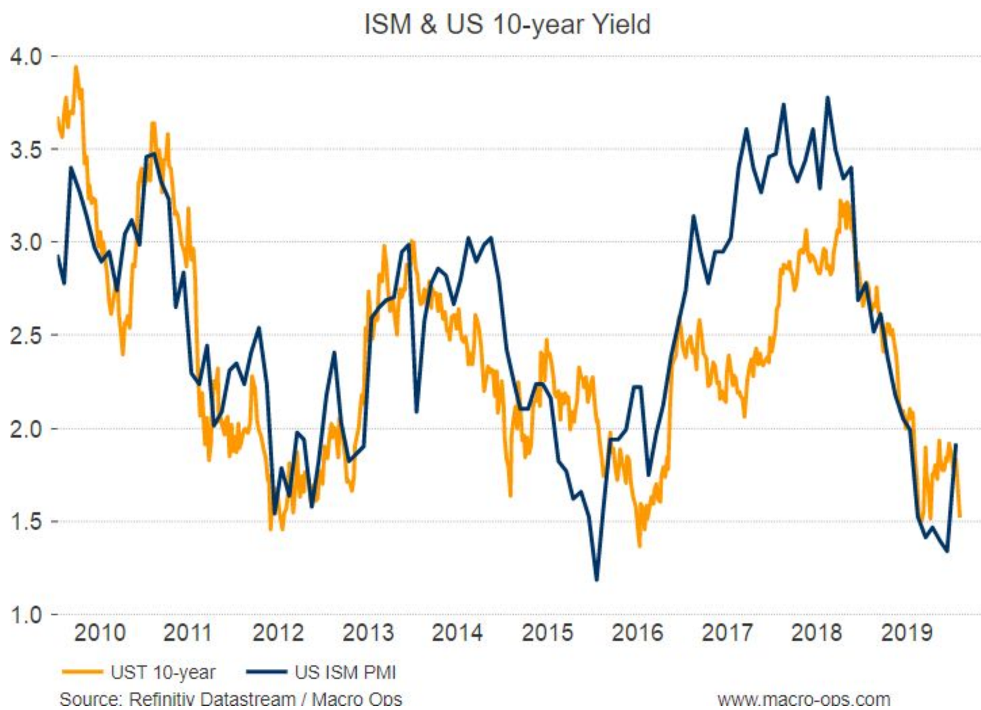
As I said in Monday's note, it's important to not "overplay these shorter-term movements" while momentum is strong and the primary trend is up.

We took profits on our long bond position last night and are back to holding a neutral Core position.

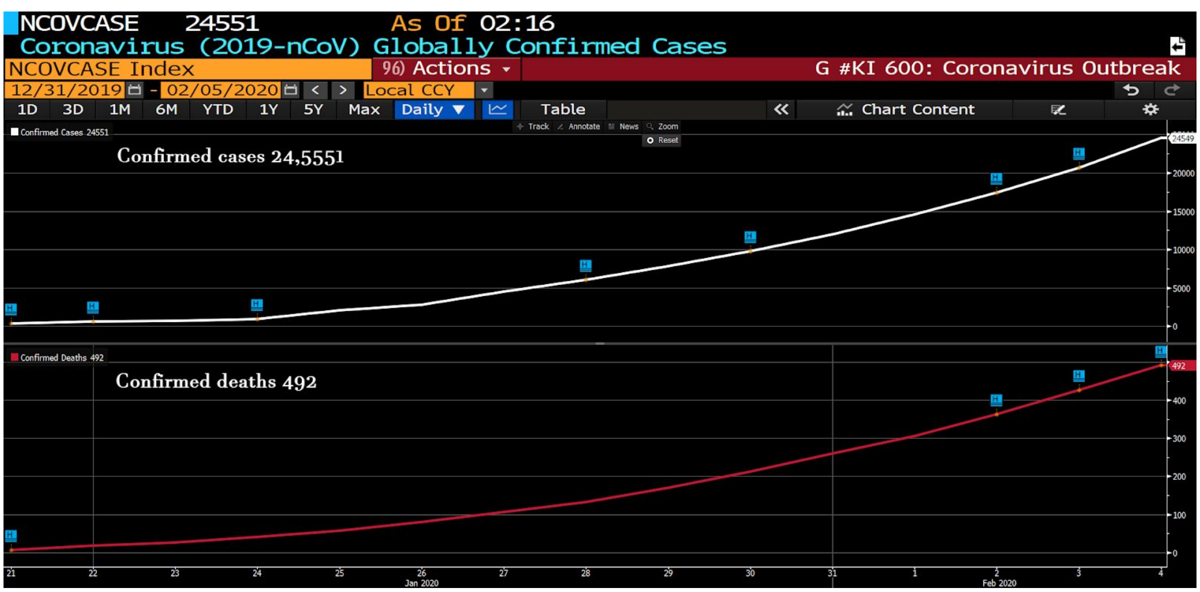
The market seems to be dismissing Coronavirus fears right now. If the market is right, then US bonds are terribly overpriced. We've passed through the difficult period for global comps and going forward the hurdles are much lower for the data to clear. In addition, we're seeing the beginnings of the rebound in global growth that we've been writing about for the last 6-months.

If the coronavirus ends up stalling out soon then we should see markets begin to look past its short-term economic impact. In which case: yields, metals, energy, will ALL rerate significantly higher while precious metals will get hammered.

See the chart below showing the US ISM and 10yr yield. Our indicators have the ISM trending significantly higher throughout the year.



I should point out though that there's still no sign of the coronavirus' growth rate slowing. The "official" numbers show 24,551 confirmed cases and 491 deaths.



Dr. Borio, a vice president at the CIA's In-Q-Tel and a former director for medical and biodefence on the NSC, wrote in the *WSJ* this morning that:

> *"The Wuhan coronavirus continues to spread at an alarming rate. More than 20,000 cases have been confirmed in China, with another 23,000 suspected. Many in China aren't even being tested due to a shortage of diagnostic supplies. The true number infected is likely much higher than reported. The virus has turned up in 28 other countries, including the U.S. A pandemic seems inevitable."*

The informed consensus seems to be that China is drastically underreporting the infection numbers, which wouldn't at all be surprising. Without actual numbers then it's nearly impossible to discount this event. So we just do what we always do and follow the market and hedge when it's cheap to hedge.

With that said, it looks like oil may be putting in an intermediate bottom. The chart below is a weekly. Crude dipped below its year + long support line and lower BB before reversing up. If the virus ends up being short-lived then there are some incredible deals in energy right now.

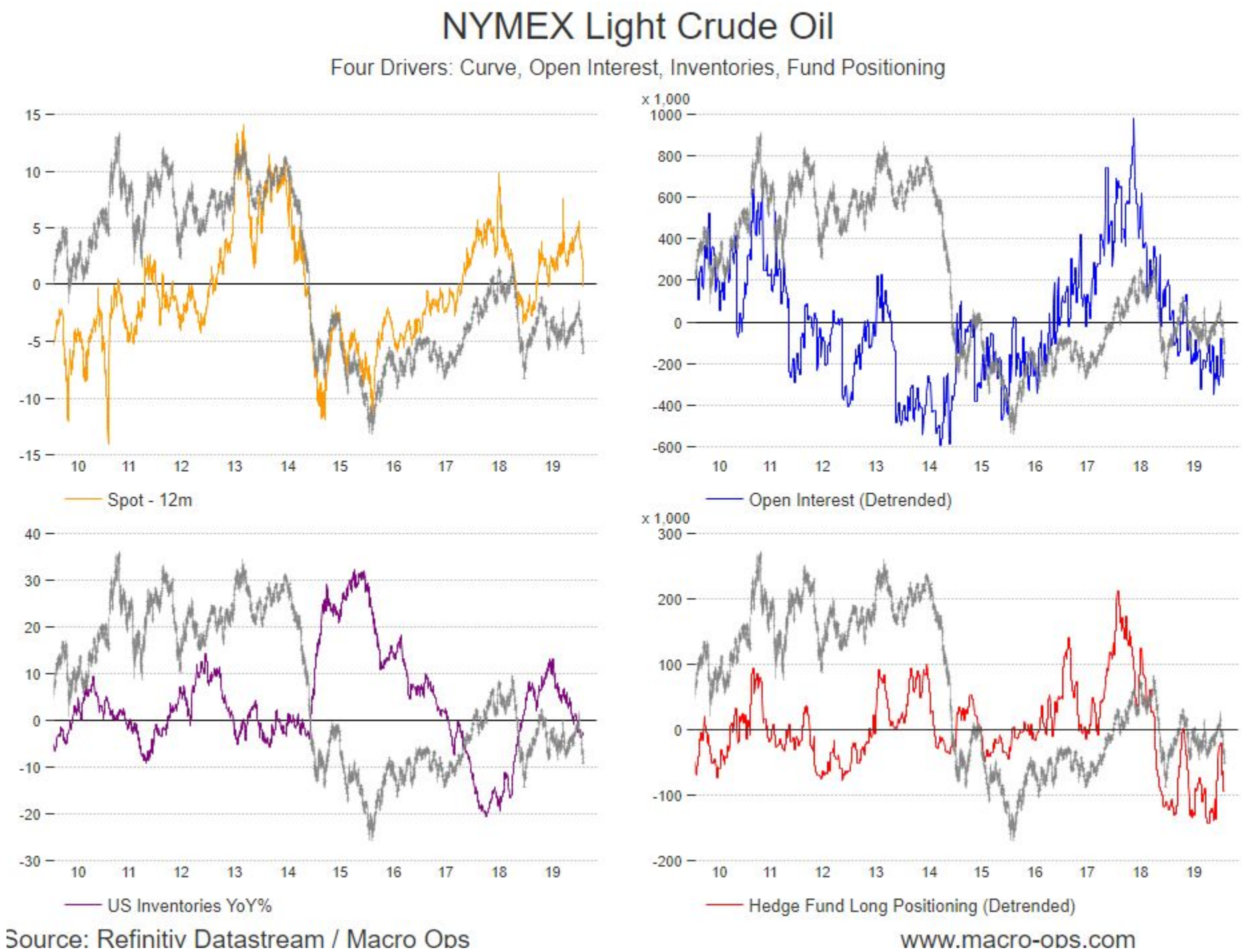
There are a number of ways to play a bounce. You can play the outright in the futures, buy the energy sector ETF (XLE), or play some single names.

I'm leaning towards putting on some starter positions in a number of single stocks. One of the names I like is Haliburton (HAL). Energy servicing stocks are trading at all-time lows relative to producers. HAL recently broke out of a 2-year downtrend, regained its 200-day moving average, and is selling below 8x FCF (well below its long-term average).

And then there's Vaalco Energy (EGY) — I wrote about it in Musings back in Nov. It's a small E&P with assets around the world. The stock has held up well despite the rout in oil and looks to be breaking out of its 2-year coiling wedge. The company has no debt and trades for 2.6x EV/Ebitda.

Oil is currently trading around US fracker's breakeven price. Again, if the virus caps out soon then oil will reprice much higher. That's a big if but the technical setup here is good enough for a trade, in my opinion.

Positioning and sentiment have been reset and US inventory growth is coming down.



We're waiting till near the close before putting these positions on. We want to make sure crude can hold strong into the close before we buy. This is a tactical trade so we'll be quick to cut these names if they don't move quickly in our favor.

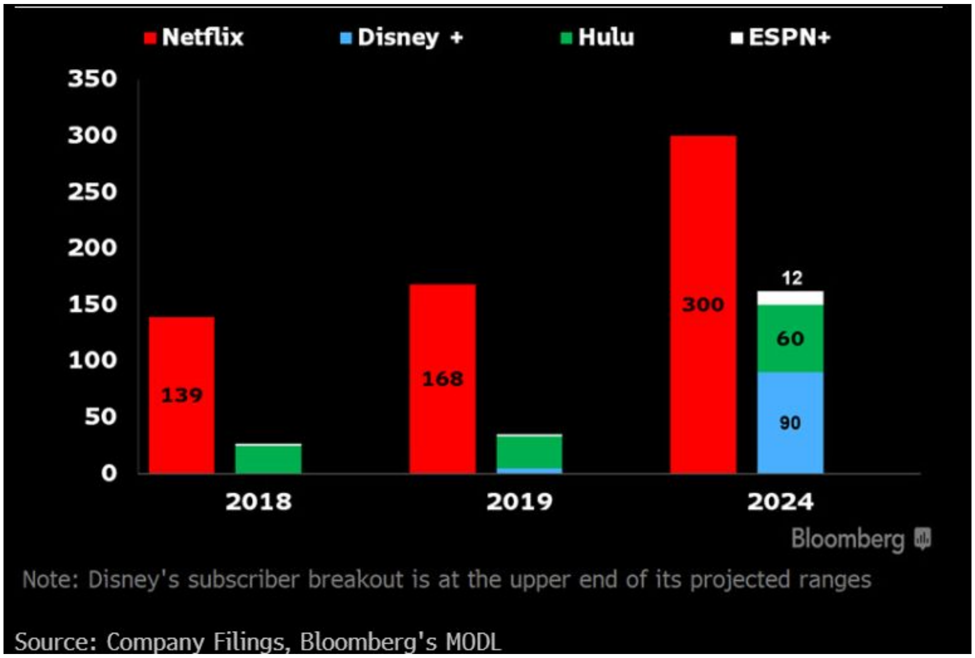
Disney (DIS)

Disney reported earnings yesterday and the company beat both on revenues and earnings.

4) Consensus Overview | EEO » 21) Current Period Overview (Q2/20) 22) Prior Period Analysis (Q1/20)

Measure	Actual	Estimate	Surprise	Comps Scorecard (1 of 4)	Past Surprise
11) EPS, Adj+	1.530	1.459	4.86%	Beat:1 Met:0 Missed:0	Beat 6 of 8
12) EPS, GAAP	1.170	1.459	-19.81%	Beat:1 Met:0 Missed:0	Beat 5 of 8
13) Revenue	20.858B	20.809B	0.23%	Beat:1 Met:0 Missed:0	Beat 6 of 8
14) Net Income, Adj+	2.826B	2.472B	14.32%	Beat:1 Met:0 Missed:0	Beat 7 of 8
15) Operating Profit	--	3.844B	--	--	--
16) EBITDA	4.964B	4.503B	10.25%	Beat:0 Met:0 Missed:1	Beat 6 of 8

The big news from the release was Disney+'s numbers. The new streaming service had 26.5m subs at the end of the year. That's ridiculous growth for an SVOD service that launched only a few months ago.



Despite this growth, we're taking full profits on our position. The company's outlook is still bright but the asymmetry of the trade has shifted dramatically since we first bought the stock in May 18', when it was nearly 50% cheaper.

The optics around the company have shifted and consensus sentiment has swung from total bearishness to ebullience. We're going to take that cash and deploy it elsewhere, to some more asymmetric opportunities.

Albemarle Corp (ALB)

Our long position in the lithium producer is off to a good start. ALB is up roughly 30% since we bought it in December. I'm a little concerned that this stock is getting caught up in the TSLA mania which would make it susceptible to a big reversal once TSLA's parabolic move finally pops.

The long-term fundamentals of the trade are excellent though and I'm sitting on the full position for now — though I may look to take partial profits soon.

Your Macro Operator,

Alex