
Un... Luckin Coffee

Summary:

- Monthly candles put odds for further downside ahead
- Earnings update: Better than expected
- Position updates
 - Square (SQ)
 - Luckin Coffee (LK)
 - Deutsche Bank (DB)
- Portfolio

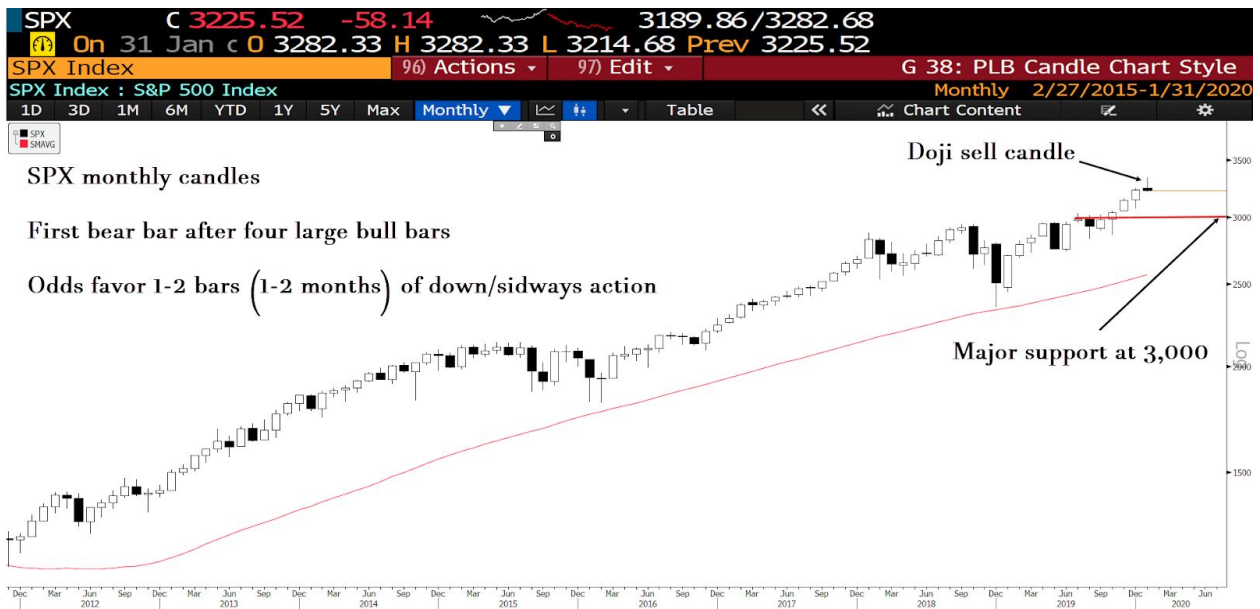
New month, new monthly candle prints.

The January SPX candle was a weak Doji sell signal which came after four large bull bars. What does this mean?

It means that upward momentum is strong and the path of least resistance for the primary trend is up.

But, January was a weak sell signal — a small-bodied candle that closed below its open. This means the odds favor a 1-2 bar (1-2 month) pullback or sideways trading range here.

There's a possibility we see a larger pullback down to test our breakout levels around the 3,000 level. This would equate to a selloff of around 10%.

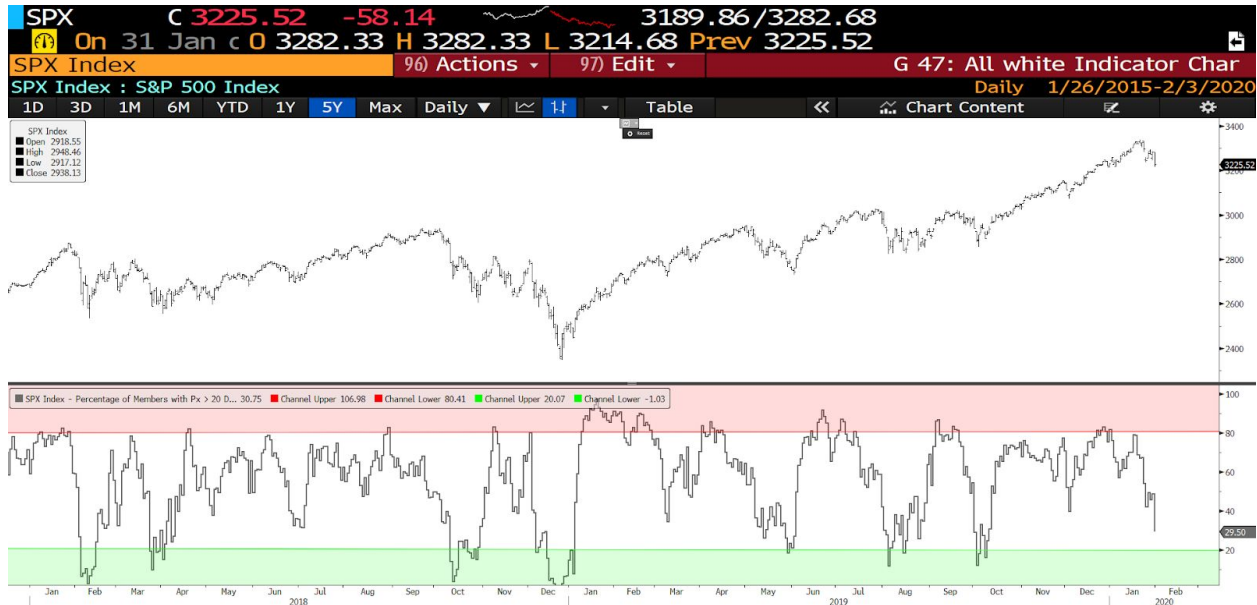


The weekly chart shows SPX breaking down below its 4-month tight bull channel. A breakdown from an extended bull channel typically resolves itself with a two-legged pullback. There's significant technical support around 3,100 which is a previous consolidation trendline, and the 50% Fib retracement level. This would equate to a selloff of roughly 7% from the highs.



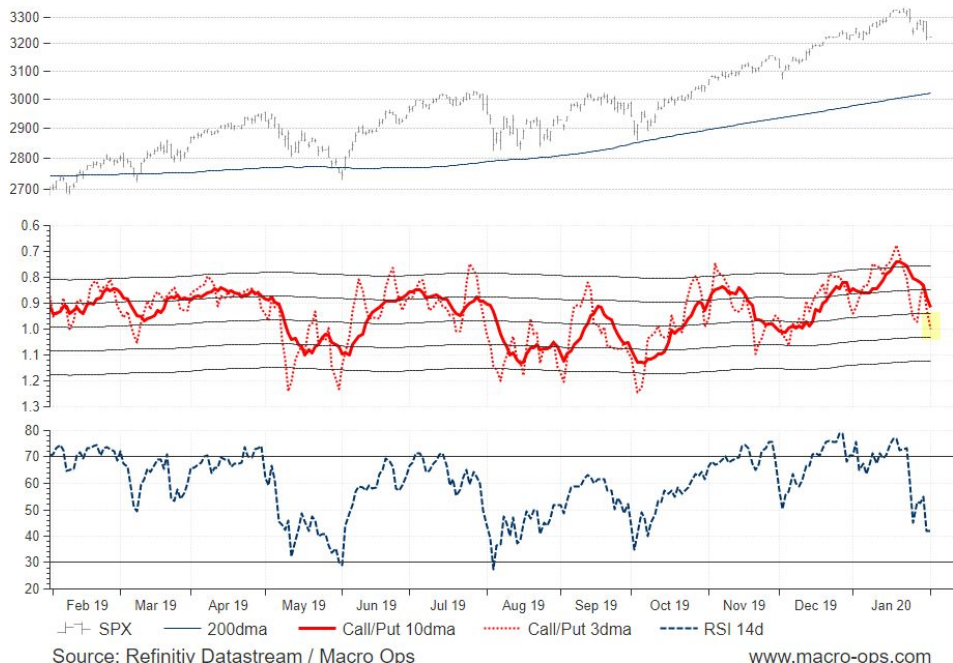
The SPX is bouncing off its lower Bollinger Band on a daily timeframe and we may see some follow-through to the upside but odds favor lower lows over the coming weeks.

Internally, the market still has a bit to go before it hits oversold levels. The percentage of stocks trading above their 20-day MAs remains above the 20% level that typically marks a bottom.



And I'd like to see some more of the length taken out of Put/Calls which are coming off of extreme readings. Usually, we need to see the 3-day moving average (dotted red line) hit 2std lows to signal that positioning has been reset.

SPX: Overbought/Oversold
Call/Puts MAs & RSI



Source: Refinitiv Datastream / Macro Ops

www.macro-ops.com

My bias this week is for a trading range followed by further downside later in the week / next week. Semis and the major stock indices are short-term oversold, which is why we're seeing a bounce here.

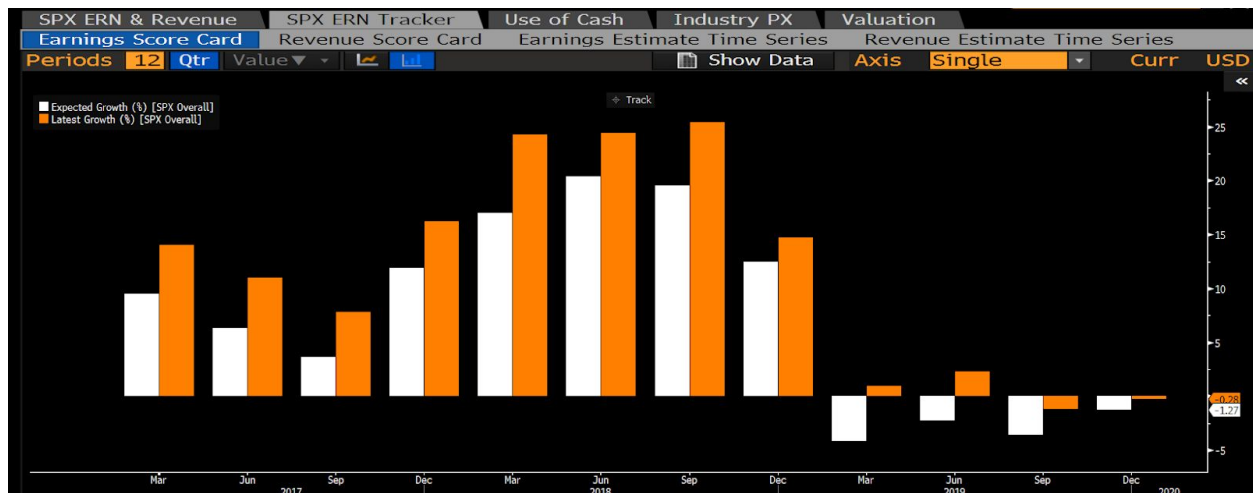
Of course, there's a chance the market just rips to new highs. Earnings, which I'll cover here in a sec, are coming in much better than expected. This is especially true for much of big tech (AAPL, AMZN, MSFT). And since these companies make up such a large weighting of the SPX index, it's possible that the bullish earnings narrative begins to outweigh coronavirus fears.

The important thing is that the primary trend is up. Don't try and overplay these shorter-term movements. Hedge your downside — our long bond trade is up quite a bit — and scope out names you want to pick up on a dip.

Q4 Earnings

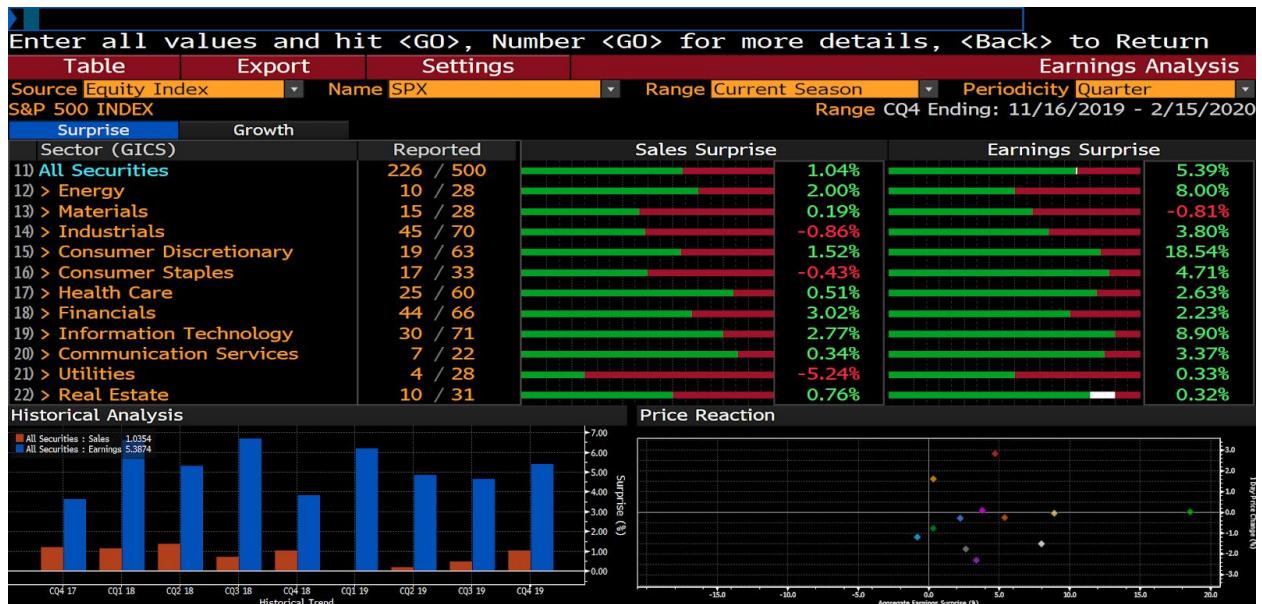
Low expectations = easy hurdle.

Q4 earnings expectations were for around -1.5% EPS growth coming into January. That's a low bar and we're easily clearing it (white bars = EPS expectations going into the quarter and orange bars are the reported growth rate).



Here are the quarter highlights so far:

- 19Q4 earnings are expected to increase 1.1%. Excluding the energy sector, the earnings growth estimate is 3.9%.
- Of the 226 companies in the S&P 500 that have reported earnings to date for 19Q4, 69.5% have reported earnings above analyst estimates.
- This compares to a long-term average of 64.9% and prior four-quarter average of 73.5%. 19Q4 revenue is expected to increase 4.7% from 18Q4. Excluding the energy sector, the growth estimate is 5.9%.
- 64% of companies have reported 19Q4 revenue above analyst expectations. This compares to a long-term average of 60.2% and an average over the past four quarters of 57.8%.

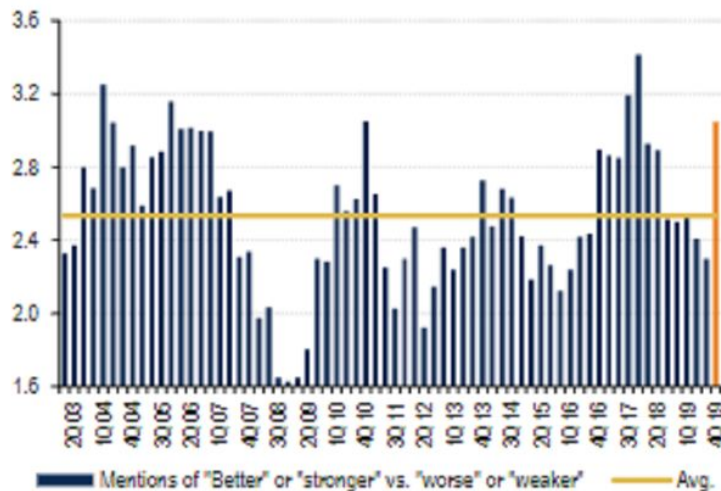


Companies also seem to be turning rosier on the future. See the following from Bloomberg.

Companies are getting more optimistic, according to Bank of America strategists led by Savita Subramanian who keeps track of conference calls. By their count of early weeks of reporting, management mentions of “better or “stronger” outnumbered “worse” or “weaker” by a ratio of about 3-to-1, the best showing in two years.

Check out the chart below. That’s a big shift from the last 3-years.

Chart 7: Mentions of "better" or "stronger" vs. "worse" or "weaker" on S&P 500 earnings calls, 1Q03-4Q19 to date



Source: FactSet, BofA US Equity & US Quant Strategy

Maybe the coronavirus changes this. But absent any world-destroying pandemic, we're seeing the beginnings of the global growth rebound that I've been writing about for the last 6-months.

Take Bloomberg's Economic Surprise Index of Leading Indicators. It shows that leading global indicators are starting to surprise to the upside as the chart breaks out of a long downtrend.



The [ISM Manufacturing print today](#) is another one. It expanded for the first time in 6-months in January.

The virus really throws a wrench in things though as it's a major unknown that I don't think anyone can properly discount. Otherwise, I'd be buying shipping stocks and Chinese tech hands over fist right now.

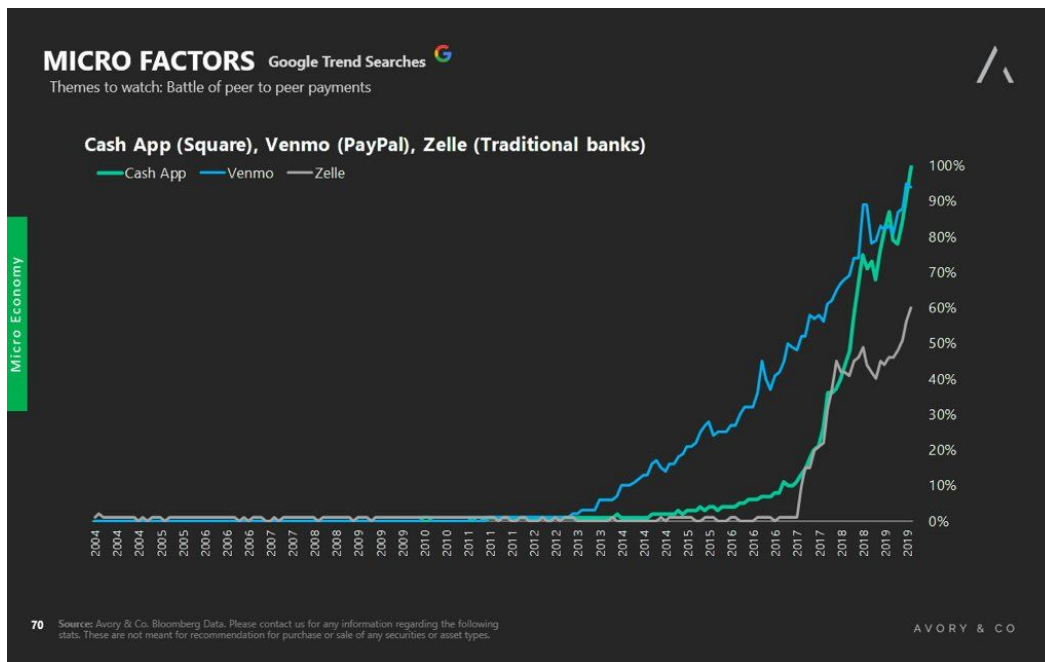
Square (SQ)

Square is up a little over 13% since we first bought two weeks ago. This is great, especially considering the market's action over the same period.

The company doesn't report until later in the month.



I think one of the most interesting things about SQ is the call option we get in their Cash app. It's growing bananas. Google Search Trends and downloads just surpassed Paypal's Venmo — [total downloads now exceed 33.5m](#).



I believe digital wallet tech is a grossly undervalued opportunity in general. And SQ's CashApp is pulling away to be a clear leader.

We'll have to see how earnings come in but so far this is a position I'd like to add to on pullbacks.

Luckin Coffee (LK)

We stopped out of the remainder of our long position in Luckin Coffee (LK) on Friday. We entered this trade back in Dec and took half profits after a quick 40%+ pop. The stock dipped last week on news that Muddy Waters had shared an "Anonymous Report" which accuses the company of fraud.



You can find the [89-page report here](#).

It's just a LOT of pages arguing that the company is cooking their books.

Here's what I think about it.

Investing in Chinese ADR's is different. I can't tell you one major Chinese ADR that hasn't been accused — by credible sources — of cooking their books. BABA, JD, TCEHY on and on... I've read numerous convincing reports on how they falsify their numbers.

Yet, people and institutions keep buying their stocks. And they keep going up.

So is LK cooking it books? Sure, maybe. I don't know. I do know from talking to people who live there that it's a loved and fast-growing brand. I'm also a big fan of their business model, which seems to me to be fairly original and has embedded operating leverage that can work magic at a larger and larger scale.

Meanwhile, I think people will forget about this report just like they have the others. The real concern, again, is the virus. I'd like to put a position back on in LK but won't until either the chart firms up or the virus plateaus.

Deutsche Bank (DB)

DB is moving nicely. It was up a little over 10% since we purchased two weeks ago.



The German bank reported earnings last week and the stock jumped on signs of them making considerable progress with their turn-around efforts.

The important thing to watch here is German data and rates. My indicators tell me that growth has bottomed in Europe and should begin to materially improve. This should lead to Lagarde entertaining the end of NIRP later this year which will raise bund yields and thus be good for DB.

This won't happen overnight but when it does DB will see a massive rerating.

Portfolio

We cut our long CAD position. Got out for a scratch. Canada is a major exporter of oil and China a major consumer of it. The coronavirus nullifies my long CAD thesis until it's resolved.

I'm still sitting in the peso but will be quick to get out if the tape deteriorates. Again, this virus really muddies the outlook, especially for EM in the short-term.

I'm working on putting together an update on Uranium. There's a confluence of factors that are coming together which makes me think we're nearing the time to start pressing some longs in that space. Look for that report in a few days!

The Four Pillars Portfolio		<u>2019</u>	<u>YTD</u>			
		27.04%	3.07%			
The Core	Fixed Allocation	Market-Timing	Net Position			
Large Cap Equities (/ES_H or VOO)	25%	0%	25%			
Short-term Bills (/ZT_H or VGSH)	25%	0%	25%			
Long-term Bonds (/ZB_H or TLT)	25%	150%	175%			
Gold (/GC_H or GLD)	25%	0%	25%			
Big Bets	Thematic	Cost Basis	At Risk	Notional %	Risk Point	Last Price
Disney (DIS)	Value	\$129.37	Above B/E	22%	\$136.00	\$145.00
Albemarle (ALB)	Renewable/value	\$69.71	Above B/E	13%	\$69.71	\$76.90
Centrus Energy (LEU)	Uranium Bull Cycle	\$6.69	100bps	7%	\$4.81	\$6.26
Deutsche Bank (DB)	Europe rebound/value	\$8.45	100bps	11%	\$7.55	\$8.50
Square (SQ)	Growth play	\$70.21	100bps	11%	\$65.00	\$69.73
MXNUSD (6M Mar' Futures)	FX relative value	0.0519	100 bps	70% %	0.0510	0.0524

Oh, and Disney (DIS) reports tomorrow. I'll send out an update after earnings.

Hit me up in the CC if with any comments/questions.

Your Macro Operator,

Alex