We have 5 trading days left in the month of March. And as I pointed out in the Brief over the weekend, the bulls are trying to close the month above the 2018 lows (roughly 2,350 on the SPX) and reclaim the bull market trendline (2,350) if possible. If they succeed it would lead to a sizable tail on the monthly candle and raise the odds that we see a couple of weeks-to-months of up to sideways action in the US indices.


A 60 min chart shows the SPX has been in a month-long sell climax forming a sharp descending triangle. These setups often lead to sharp and powerful retracements higher.


Extremes have been reached across the board in technical, sentiment, and positioning data.

BofA's Bull & Bear Indicator recently triggered a strong buy signal.

## BofA Bull & Bear Indicator (B&B)

Our BofA Bull & Bear Indicator is at 0.4, signal is Buy.

**Chart 21: BofA B&B Indicator (scale 0 to 10)**

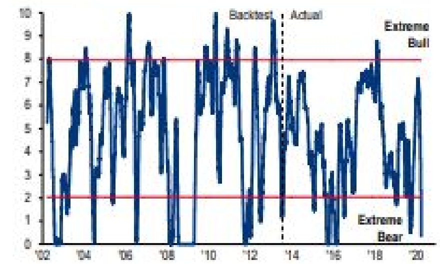

Source: BofA Global Investment Strategy

**Table 5: Components of BofA B&B Indicator**

| Components | Percentile | Sentiment |
|---|---|---|
| HF positioning | 43% | Neutral |
| Credit mkt technicals | 4% | V bearish |
| Equity market breadth | 25% | Bearish |
| Equity flows | 24% | Bearish |
| Bond flows | 1% | V. Bearish |
| LO positioning | 47% | Neutral |

Source: BofA Global Investment Strategy, Bloomberg, EPFR Global, Lipper FMI, Global FMS, CFTC, MSCI

**Chart 22: BofA Bull & Bear Indicator history**




Source: BofA Global Investment Strategy, EPFR Global, FMS, CFTC, MSCI

Their Flow data show a number of extremes were hit last week, indicating a potential short-term selling exhaustion event.

**Flows to know**:

a. record $55.3bn out of IG (Chart 5), Monday was largest daily outflows ever ($17.8bn).

b. record $18.8bn out of EM debt, Monday was largest daily outflows ever ($4.7bn).

c. record $5.2bn out of MBS this week.

d. record $11.1bn out of municipal bonds this week (Chart 6).

e. record $3.6bn out of TIPs this week.

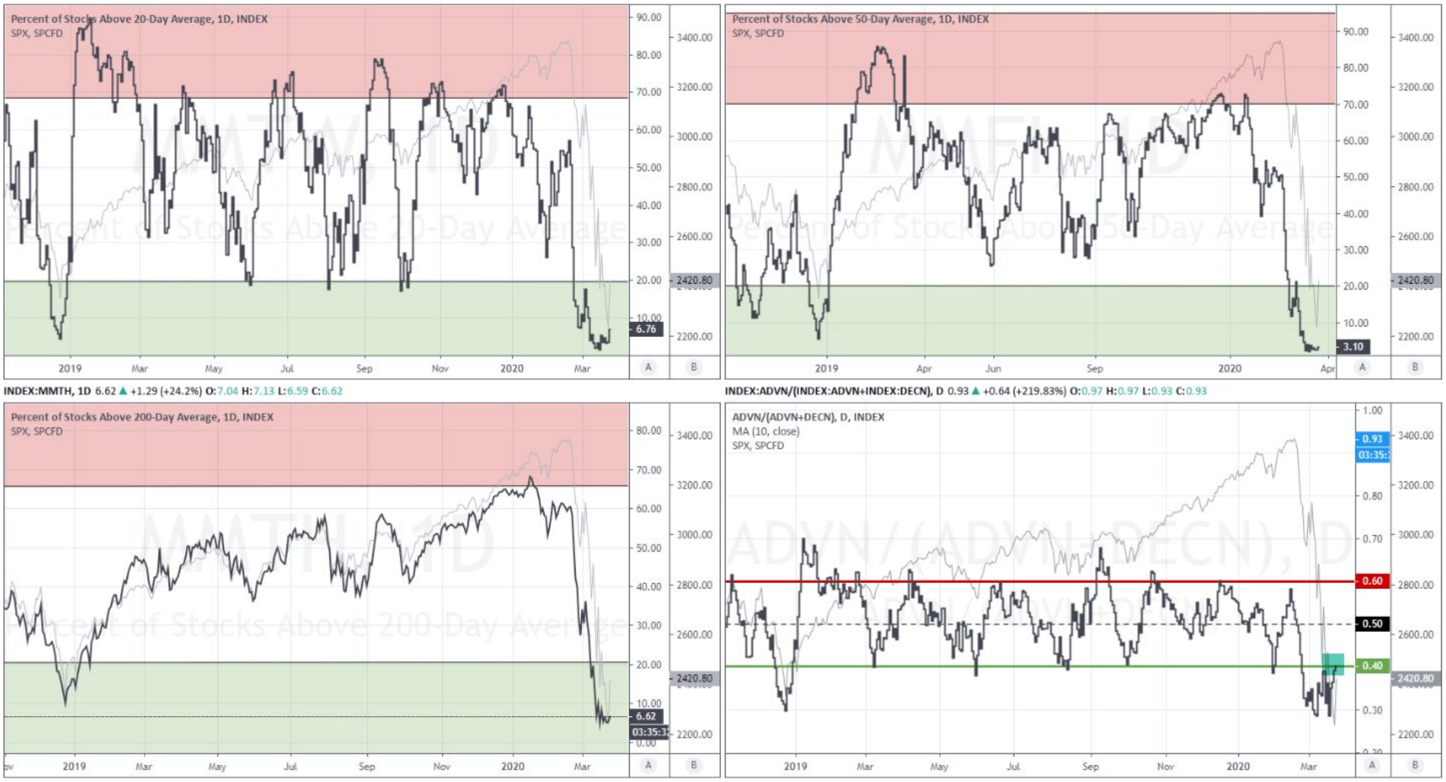
f. biggest 4-weeks outflow from financial ($8.6bn) ever.

g. 5th largest outflow from gold ever ($2.5bn).

h. 4th largest inflow to cash ever ($95.7bn).

i. 12th consecutive week of INFLOWS to Tech finds ($0.7bn – Chart 7), annualizing record $59bn (vs. $18bn in '17).

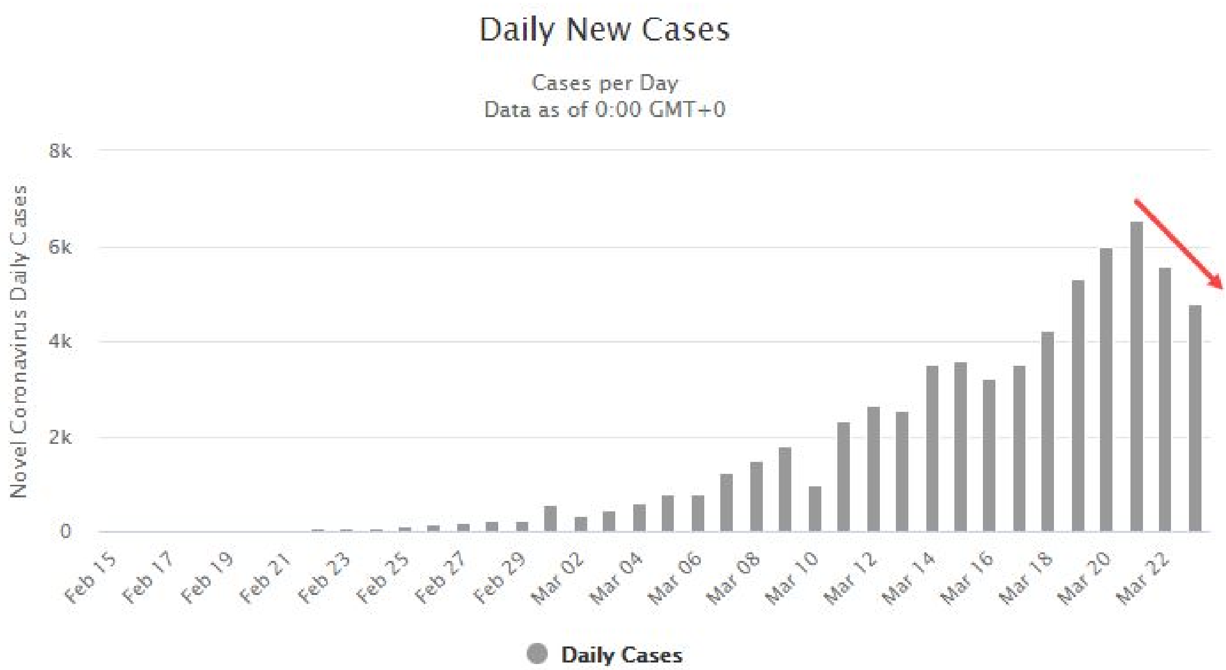
Indicators of market breadth are hooking up from near-record oversold levels. Our Zweig Breadth Thrust Indicator (bottom right) is triggering its first buy signal in over 45+ days.




Credit markets are confirming the bullish action with Markit's CDX IG index on track for its first multi-day rally in 5+ weeks (chart via Bloomberg).


There are two potential catalysts to drive an extended bear market rally here (1) is the likelihood the US senate soon passes a major fiscal stimulus bill and (2) Italy is finally seeing a consecutive decline in new daily cases.

## Daily New Cases in Italy




A few quick thoughts before I get into how to play this.

- Odds strongly suggests that we're in the early innings of a cyclical bear market which will be accompanied by a recession starting within the next quarter.
- Bear markets last an average of 18-months and a second major low (double bottom/complex double bottom) is usually put in 12-months after the first major low.
- The most explosive short-term bull rallies occur in bear markets, as crowded shorts are forced to cover as eager bulls buy thinking the bottom is in.
- Newton's First Law reigns supreme as momentum begets momentum and sideways chop begets sideways chop. This is fractal and true across all timeframes.
- Bear markets tend to spend more time trading sideways to up than they do going down as the selloffs occur much faster than the up/ranging action.

These are all just odds and probabilities. Today's buy setup could very well fail, as they have over the last two weeks.

This market has EXTREME tape bomb and overnight gap risk. Due to the uniqueness of the exogenous shock (virus and government-mandated shutdowns), there are no good historical parallels. Everybody is flying blind. Due to the above, along with the rise in daily volatility, it's important to size positions small and maintain plenty of dry powder.

Watch the close today. If we're able to close near the highs, that'll raise the odds we see further follow-through. We'll probably need to see at least a few consecutive up days for the bulls to aggressively step back in and drive the rally significantly higher.

Conversely, if the market sells off towards the end of the day — which is exactly what it's done the last few "Turnaround Tuesdays". Then we go right back into wait and watch mode.

Here are the trades we're looking to make if the market holds strong into the close...

Tankers remain my favored equity play, with Teekay Tankers (TNK) having the strongest tape of the bunch. The deep contango of the Brent curve along with the building supply glut due to the Saud's flooding the market with their product (which I talked about a couple weeks ago here) is driving tanker rates higher.

If the market looks like it'll hold into the close then I'm willing to take another swing here at TNK.

Semis (SMH) are another potential trade. They've maintained impressive relative strength these last couple of weeks versus the market. They popped today and if this rally holds then I expect them to lead to the upside.

With that said, I much prefer to express long trades in the futures market right now if I can because it'll allow me to get out quickly should the market turn overnight — help protect against some of that tape/gap risk.

I'll put out a follow-up note later today if I end up making any of these moves along with alerting these trades in Slack.

I'm including a short writeup of a potential VIX play from Tyler for those of you who may be interested.

Stay safe and keep your head on a swivel.

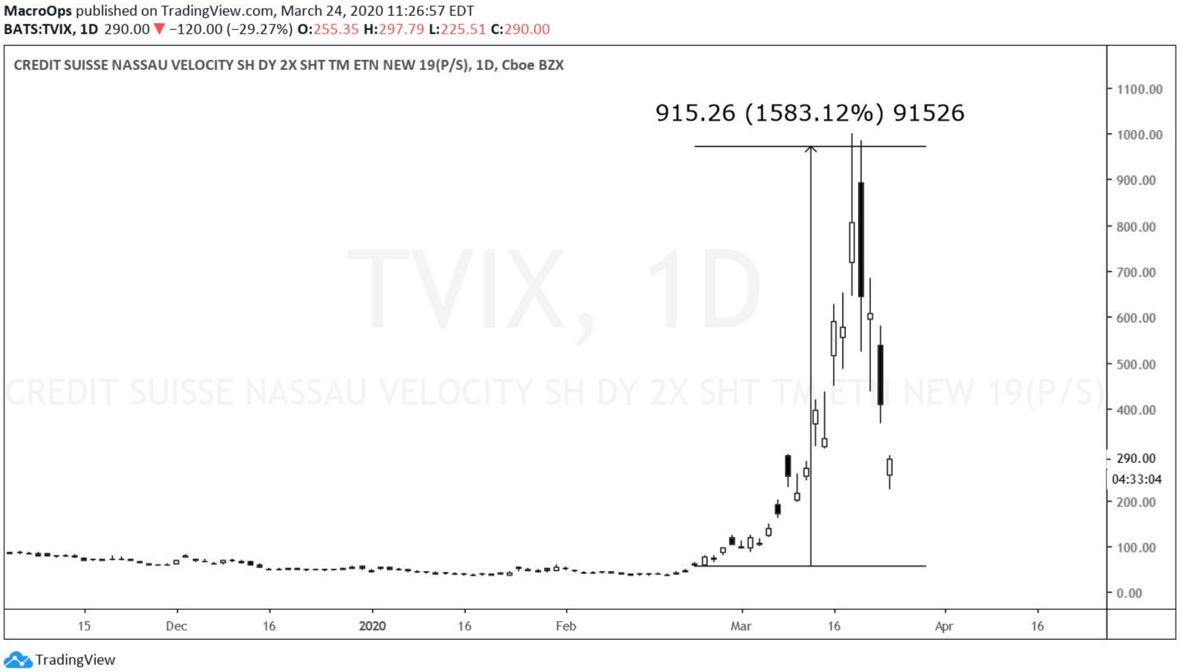
Your Macro Operator,

Alex

Here's Tyler.

**If you missed buying volatility the first time, here's your chance.**

On the back of the sharpest 30% drop EVER in markets volatility funds had an epic move higher. TVIX the 2x levered vol ETF went up about 1500% during this down move!




If you thought you missed the first move — how's your chance to reload for the next leg down in the market.

We at MO have always had the assumption that this market will be in a long drawn out bottoming process with at least a retest of new lows.

But you can't just buy vol when VIX is in the 80s and 90s. That's a losing trade. You're basically buying insurance when max fear is being priced in.

Rather, you need to wait for a bear market rally and VIX compression to "sell into" at much better prices.

That volatility compression has finally come. The volatility funds (and the underlying VIX futures) have already made their 50% pullback giving us a buying opportunity.


This buying opportunity is especially attractive because the VIX futures curve is in backwardation. That means the current VIX price (56.39 of this writing) is higher than where the backdated futures are trading.


For example, the June contracts are trading at $33.95 with VIX at $56.39.

Why does this matter? Because the VIX futures always expire at the spot VIX price. And as long as the spot VIX price is higher than the future the future will slowly “roll-up” to spot earning you positive carry.

This is a unique time in volatility markets where you essentially get paid for having long volatility protection.

The only way this will change is if some sort of cure for the virus emerges and the market rallies hard with VIX plummeting back down into the 20s.

But as per Alex’s writings, that is unlikely to happen in the near future. The probable scenario is that we see high volatility chop in the lower part of this range. In that case, VIX will stay elevated and our VIX futures will slowly “roll-up” to spot increasing the value of the position.

And then if we see a second leg down on SPX to test the 2016 lows, these vol funds and underlying futures contracts will spike big — as they did in the last freakout when VIX ran to 90.

If you can trade the futures we like the June expiry. They move a bit slower than the front months but the position is easier to manage.

If you’re an equity-only guy stick with VXX as it does not have added leverage and thus not subject to crazy termination events like TVIX.

Hit me up in the CC if you have any comments or questions,

Tyler