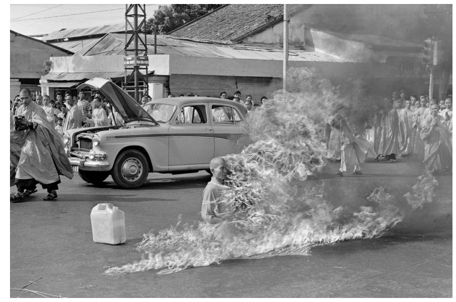
7/15/2020: Self-Immolation

> *Self-immolation is the act of killing oneself, typically for political or religious reasons, particularly by burning. It is often used as an extreme form of protest or in acts of martyrdom.*
> ~ Wikipedia



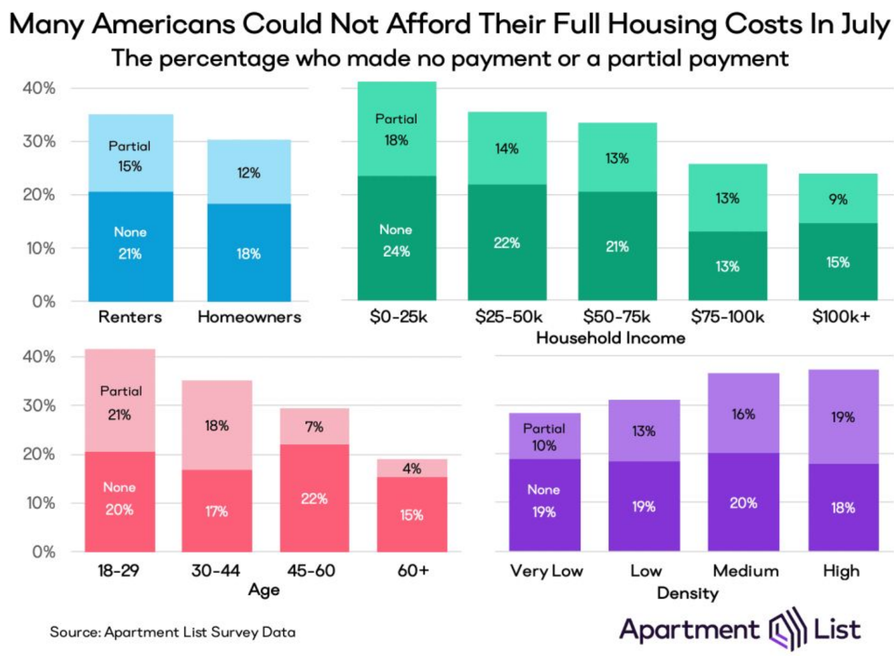
According to *Politico*, Congress is "likely to allow the $600-a-week boost in unemployment benefits to expire at the end of this month if lawmakers follow Senate Majority Leader Mitch McConnell's proposed timeline for the next round of pandemic aid… 'Because state unemployment benefits need to be extended by July 25 in order to be processed by states administering their programs, McConnell's announcement that the Senate will not even begin drafting or negotiating legislation until next week effectively makes a lapse in those expanded payments unavoidable,' Rep. Don Beyer (D-Va) vice-chair of Congress' Joint Economic Committee."

Over 30 million Americans are currently dependent on jobless benefits. That's five times the level hit during the Great Recession. If the expanded unemployment aid is allowed to lapse — which it looks like it will be — those who are unemployed will see their benefits cut "by anywhere from 50 to 85 percent according to Century Foundation Fellow Andrew Stettner."

Eviction moratoriums are about to expire across the country. More than 20 million Americans are at risk of getting kicked to the curb before the end of the year if these moratoriums are extended (read this from Bloomberg).

Nathan Tankus looked at the latest housing/rent payment data in this piece where he does a good job outlining the barrel we're staring down if Congress fails to act quickly. He writes, with emphasis by me:

> *According to an online survey by the company Apartment List, a **devastating 32% of households in their survey reported missing their housing payment in the first week of July**. 13% made a partial payment, while 19% made no payment at all. 30% of households in their survey missed their June payment but 19% of those households had made their June payment in full by the first week of July. A similar pattern will likely recur this month (but won't if supplementary unemployment benefits aren't extended as is).*
>
> *...If accurate, this would be potentially **more than one in ten households being behind in their household payments** for an extended period of time and vulnerable to foreclosure and eviction… The implications are a wave of foreclosures and evictions across the country.*



Meanwhile, businesses are shuttering their doors at record rates. And many are doing so, [permanently](). This of course means that millions more Americans are about to lose their employer-based health insurance smack-dab in the middle of a global health pandemic.

This is f*cking nuts…

It's not as if any of this hasn't been known for months. We could have — and still can! — change our ways and follow what other developed countries have done and tie the end of these benefits to the end of the health pandemic — you know, the one where we're seeing government-mandated lockdowns and forced closures of businesses.

That would mean giving Americans enough money to not work and businesses enough cash to not go bankrupt for the duration of the crisis until we can resume some type of normalcy.

But, I suppose that's just too much to ask of this government, whose ineptitude in handling this economic crisis is only surpassed by its bumbling response to the virus to date.

This isn't a political thing… It's not a Republican or Democrat thing (though the R's are currently at the top and that's where the buck stops, or at least it used to…). Crises like the ones we're now facing used to bring us closer together as a nation. Not today… Now, everything is politicized… Now, nothing is neither true nor untrue but rather dependent on what one's Party gives blessing to before they spoon-feed it to us through their contemporary version of Pravda.

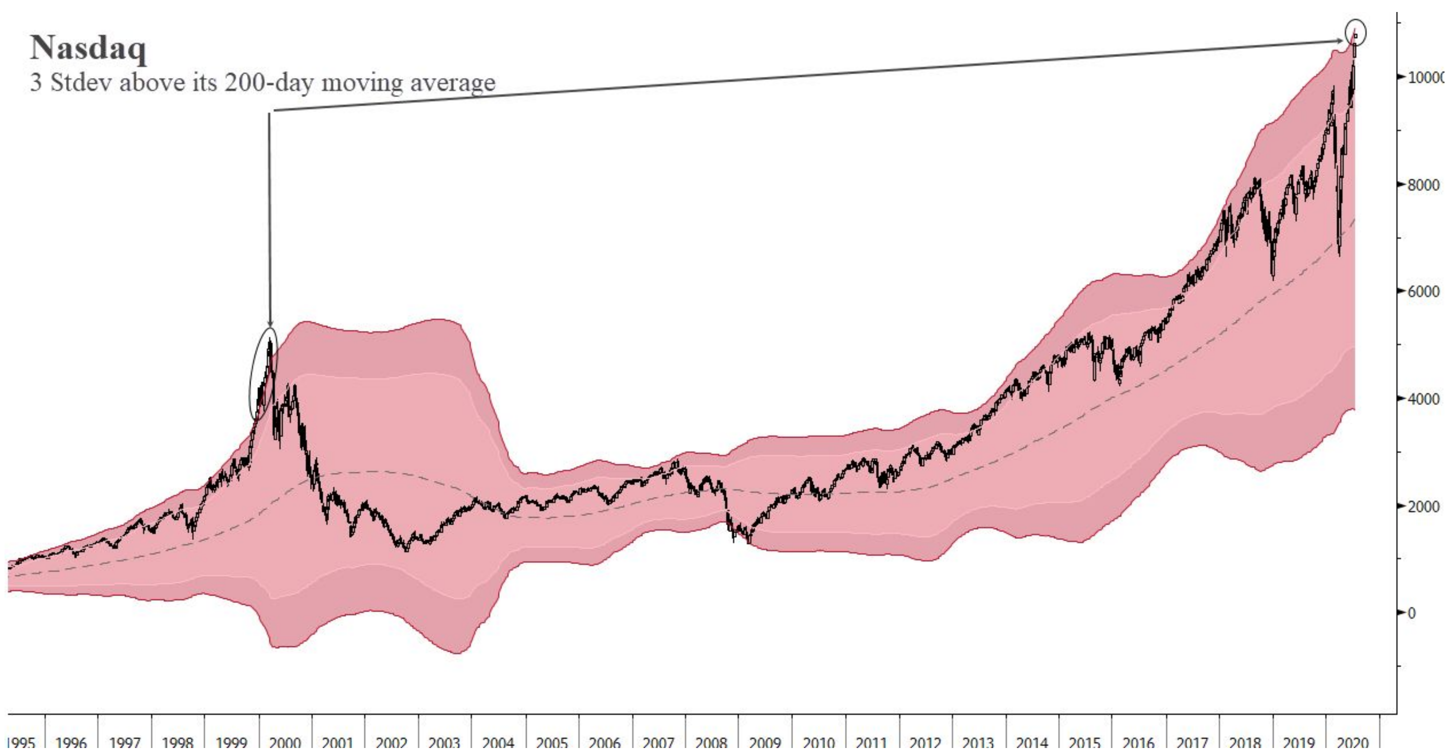
From the outside looking in, any free-thinking human could only surmise that this is all a national act of self-immolation; for reasons that I'm not sure can be known.

From a market perspective, this is critical. The rally off the March lows has all been about the duel-pillar expectations over continuing large scale fiscal stimulus and virus news that was less bad. Now, the latter pillar is cracking and the former is at risk of being bludgeoned to bits by our own dumb hands.

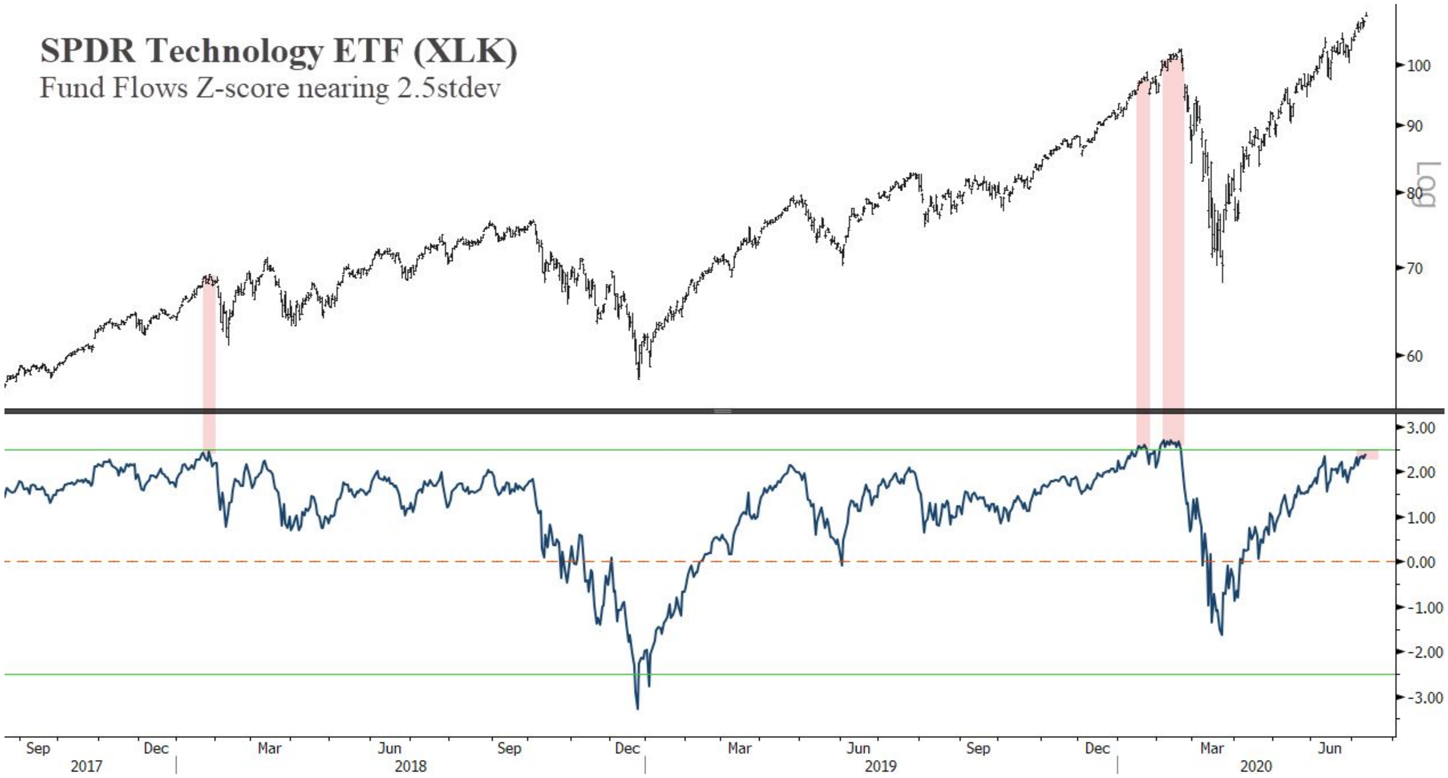
This being an election year, I'd have to imagine that the Republicans are just putting on an act to signal to their tribe that they *really* do care about large deficits and ballooning government debt — both of which were accelerating at near-record rates before the crisis hit. So hopefully they come through at the last minute and plug the widening dike. If not, those most vulnerable will be most hurt and the risk of a [cascading balance sheet] recession becomes not just real, but guaranteed…

Momentum and Mean Reversion

The Nasdaq is 3 standard deviations above its 200-week moving average. The trend has only been this stretched a few other times over the last 30-years.



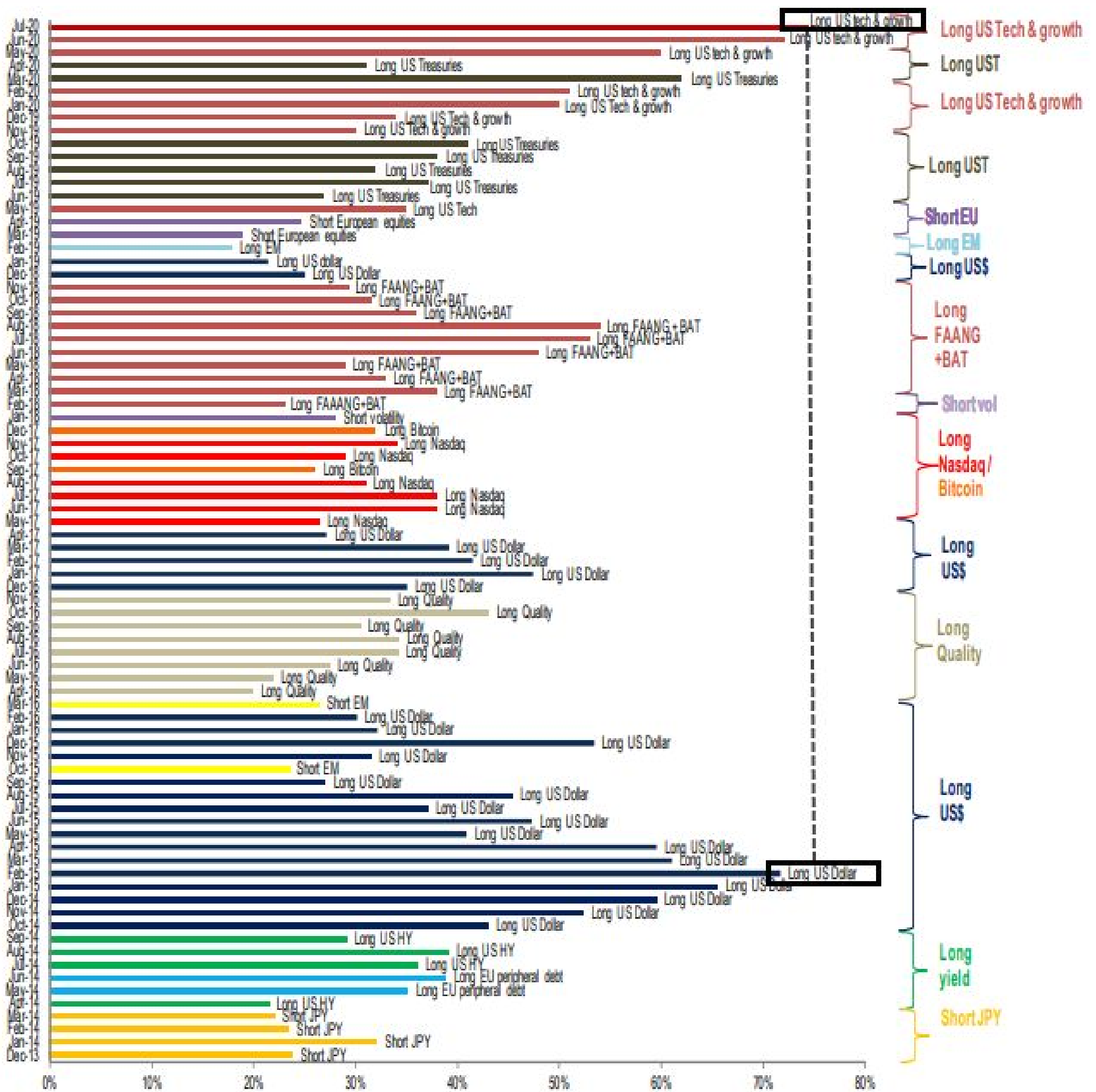
Fund flows into tech are nearly 2.5 standard deviations above their 12-month average. A point at which has marked intermediate tops over the past 3-years (red highlights below).



Breadth in the tech sector has been narrowing but is still not at levels that typically precede large-scale weakness. Though that could quickly change.

The latest BofA Global Fund Manager Survey (you can find the report hung up in the Comm Center #Research channel) had the largest percentage of respondents call Long US Tech & Growth the "most crowded trade" in the survey's history.

Exhibit 15: Evolution of Global FMS "most crowded trade"



Source: BofA Global Fund Manager Survey

The only other instance that comes close is "Long US Dollar" in February of 2015, which happened to precede a top and 5-years of sideways chop.

With that said… while the trend is stretched, the trade crowded, valuations high, and short-interest at record lows, the path of least resistance is still up — at least for now.

The Nasdaq is in a buy climax and buy climaxes last longer than anybody expects them too (see 99'-00', the last time Nasdaq was this far above its 200wma.

The bullish thrust off of the March lows has been incredibly strong and is dominated by large bullish candles. The tape reflects a large imbalance between demand and supply, which the bullish trend is working to correct.

Strong thrusts such as these tend to go through a distribution phase (a topping process) that plays out over a couple of weeks before we see a change in trend. It's during these times that we see breadth materially deteriorate and the tape chop sideways. The Nasdaq made new all-time highs this week and though breadth has weakened it's not yet giving a sell signal.

In an old research paper (link here), Michael Mauboussin recalled a study titled "Crowd Synchrony on the Millennium Bridge" that was published in Nature. Michael wrote:

> *On June 10, 2000, the Millennium Bridge opened to the public with great fanfare. London's first bridge across the Thames in over a century, it had a sleek design—the architect wanted it to look like a "blade of light." However, when thousands of people stepped on the bridge that day, it started to sway from side to side so much that people had to stop or hold on to the rails. Fearing for the public's safety, officials closed the bridge two days later and, following a retrofitting, it reopened in February 2002.*
>
> *What led to this high-profile failure? People exert a small amount of lateral excitation when they walk. Normally, these excitations cancel out when a group crosses a bridge. However, the Millennium Bridge initially had insufficient lateral dampeners, which allowed a little swaying when a sufficient number of people were on the bridge. That swaying forced people to change their gait by widening their steps, leading to greater lateral excitation and more swaying. The wobbling and crowd synchrony emerged simultaneously.*
>
> *The crucial insight is the existence of a critical point. Simulations show that roughly 165 people can walk on the bridge with little impact on the wobble amplitude (see Exhibit 1). But adding just a few more pedestrians causes the amplitude to change dramatically, especially as the feedback between gait adjustment and wobble amplitude kicks in (see the dashed line in Exhibit 1). For the first 165 bridge crossers, there's little wobble and no sense of any potential*

Exhibit 1: Simulated Outbreak of Wobbling on the Mil

hazard even though the bridge is on the cusp of a state change.

The study helps illustrate how critical tipping points are reached in complex non-linear systems, of which the market is one.

Recursive action drives feedback loops which leads to amplification and eventually tipping points from critical states.

The current trend in the Nasdaq can be looked at through this lens. The stretched trend and the increasing absence of sizable dips show that the primary rule “buy dips, buy highs” is becoming more widely adopted. More agents (traders and investors) are adopting it because it’s been profitable to do so.

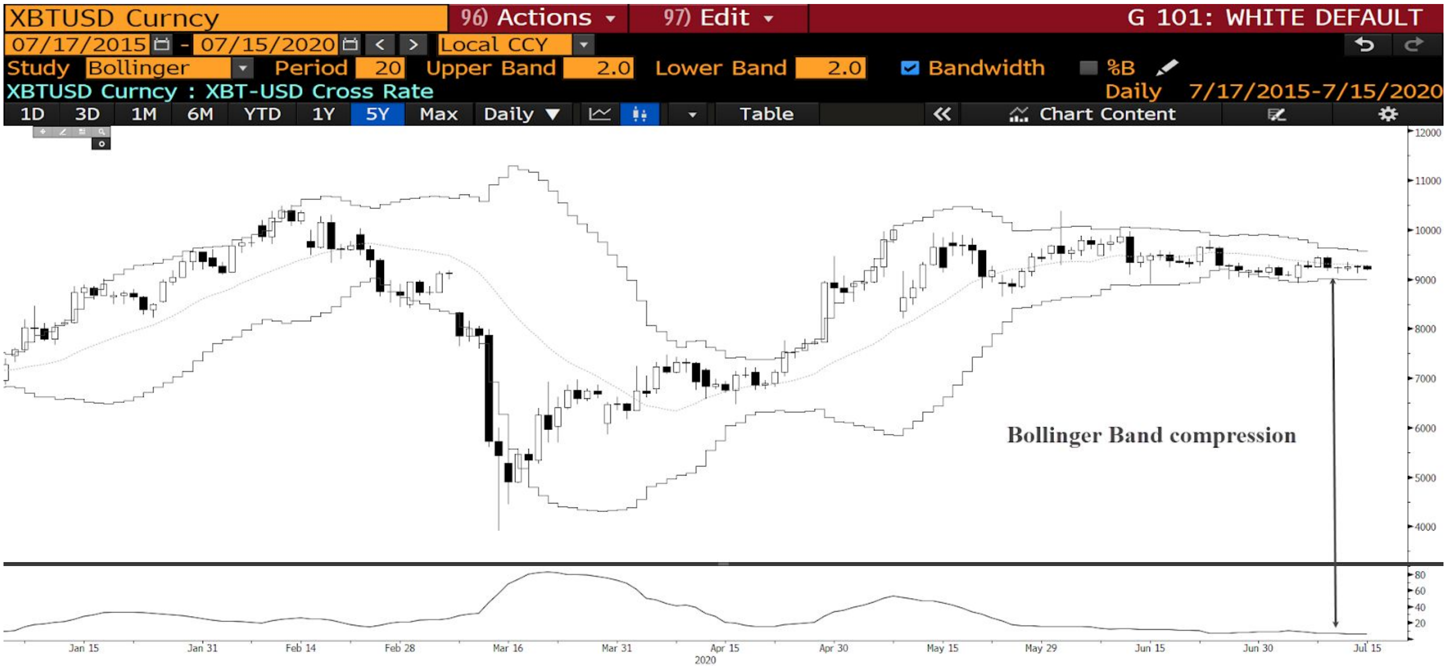
At some point, adoption of this rule will reach a critical mass and the lack of rule diversification will set the stage for the feedback loops to run in the other direction.

We’re not there yet but we’re getting closer with each passing day. Until then, play the trend until it bends.

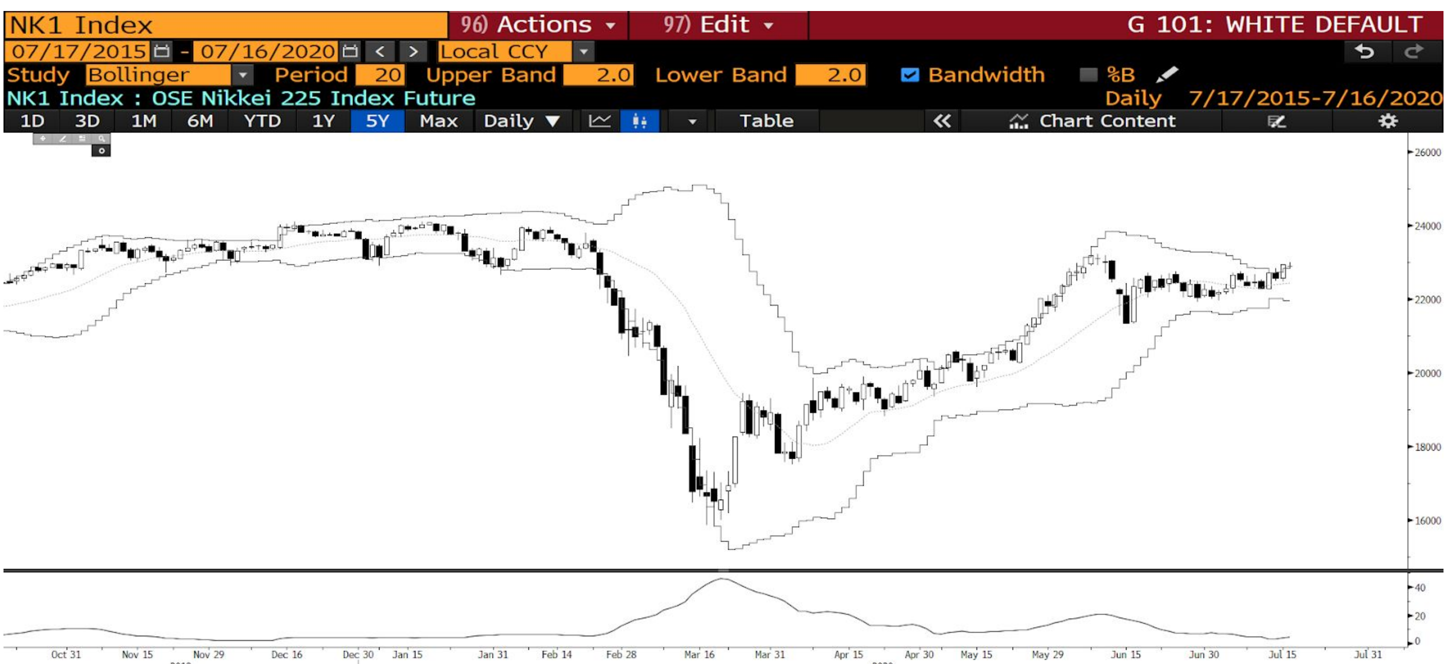
Portfolio Update and Trades on Deck

There’s a number of highly compressed charts right now. This is important because compression tends to lead to expansionary regimes (big trends). Let’s look at a number of these charts.

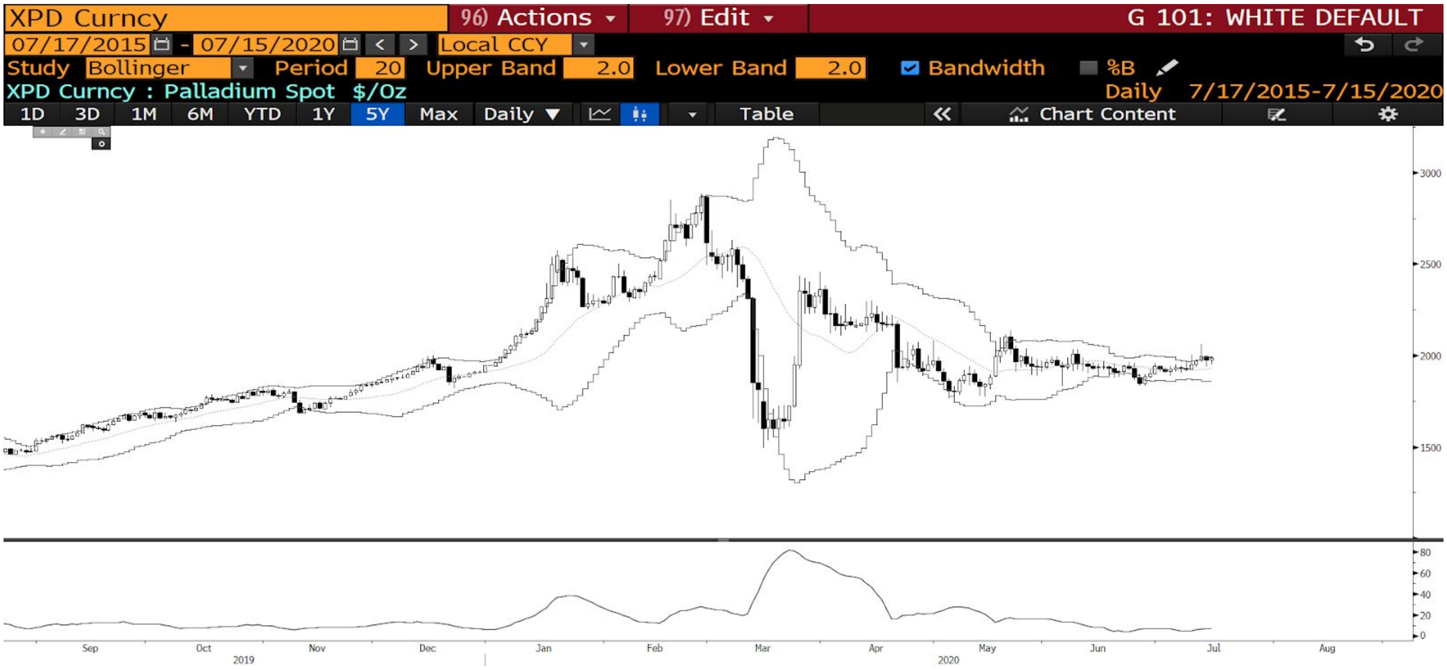
Bitcoin is a prime example. It has been trading sideways for over three months in a very tight low vol range; Bollinger Band width is near all-time lows. It’s high odds that it breaks out to the upside. If so, we will be eager to get long.



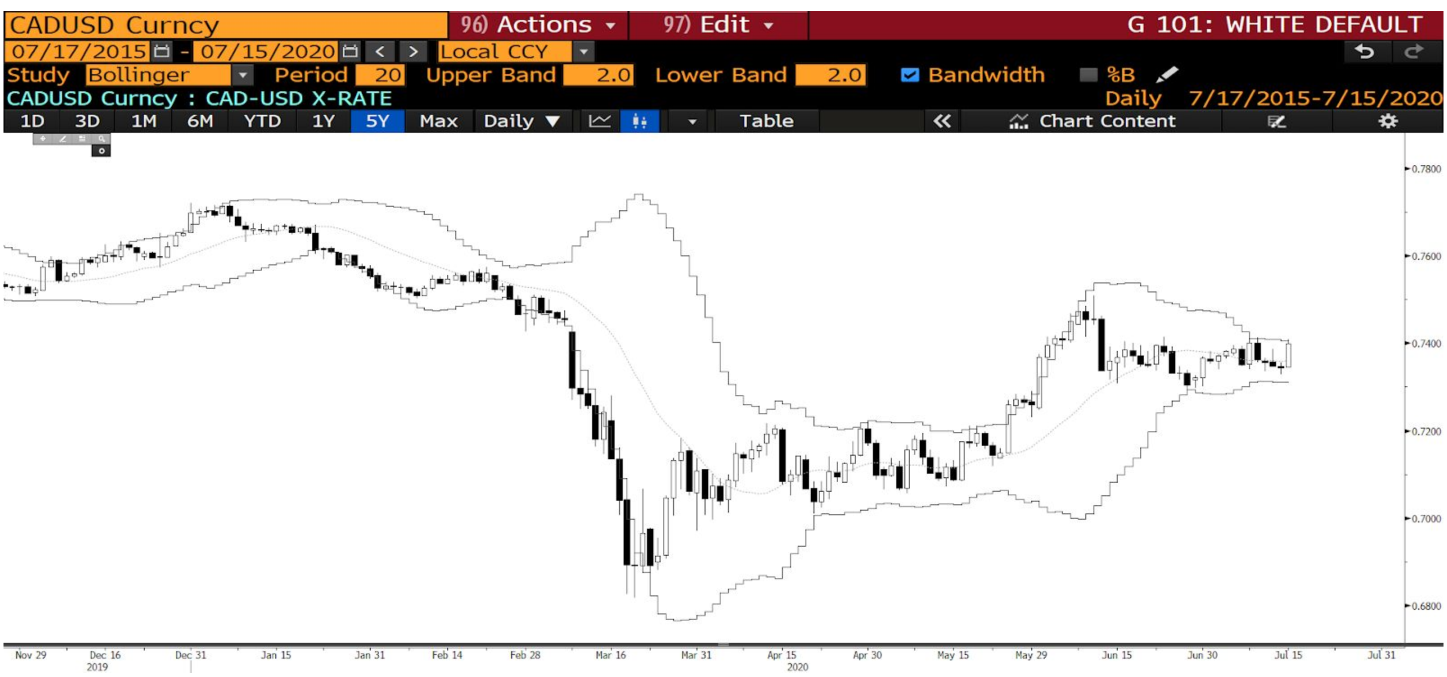
Japan's Nikkei Index is attempting to break out of its tight bullish coiling wedge. I'm putting in a buy limit order above today's high in the hopes we get pulled into the trade on a confirmed breakout tomorrow. I'll post the alert to the CC trade alert channel when that happens.



Like Bitcoin, Palladium is coiled tight and looks like it wants to breakout higher.



Then we have our FX pairs. The CADUSD cross, which typically moves off oil pricing expectations being that Canada is a large exporter of the black gold, has put in a major double-bottom and is now attempting to break out of its wedge.



The trend in the CADUSD 10-year yield spread (blue line below) has been moving in CAD's favor. I like the outlook for oil here as well as the Canadian dollar. We'll get long on a confirmed break out of its current congestion zone.

We still have a partial long position on in the Mexican peso, after taking half profits when it fell below our trailing stop. The peso has been consolidating and looks like it's getting ready to make another move higher. We'll look to add and get back to a full position on confirmation of a bullish breakout.

Our position in uranium producer Cameco Inc (CCJ) is now up over 55% since we entered a couple of months ago. While it's seen a great run, there are good reasons to believe that this trend is just getting started.

The bullish case for uranium is a standard [Capital Cycle](#) one. Low uneconomic prices have led to shuttered production and a dearth of CAPEX. COVID has accelerated this trend with large producers such as Kazatomprom drastically reducing their operational activity and taking mines offline.

This is inevitably going to lead to a large deficit that is going to become painfully apparent around the start of next year.

CCJ is breaking out of its long consolidation. This is a good place to add or enter a position if you don't have one on.

I'm also going to re-enter Centrus Energy (LEU). A uranium stock that we got knocked out of during the March washout.

The chart has more than recovered and recently hit its highest level in more than 6-years. The stock has coiled into a tight bull flag and looks ready to break higher.

Here's some quick background summary for those of you not familiar with the company.

LEU is a US-based supplier of nuclear fuel and services to the nuclear power industry, both in the US and internationally.

The company has an $88m market cap, only 9.6m shares outstanding with just 5.6m floated (high insider ownership). The company just saw its first year of positive top-line growth in 7-years, bringing in total revenues of $209.7mn in 19'. Management has been aggressively deleveraging its balance sheet and before COVID hit, was giving guidance of a return to profitability this year.

Lastly, LEU recently signed a contract with the DOE to demonstrate production of high-assay low-enriched uranium or HALEU. If successful, this would mark the first-ever commercial production of this advanced nuclear fuel which one day could be used in advanced next-gen nuclear reactors.

Dan Poneman, LEU's chief executive, was the deputy of the DOE from 09'-14', so he's well connected to get these types of things done.

The current technical level provides a low-risk / high-reward entry into the stock. We'll be putting on a position this week and will alert it in the Comm Center when we do.

Other than that, I'm watching silver for opportunities to add; preferably on dips back to near the 20-day moving average. And we're considering adding back to our position in ASPS.

The path of least resistance for the broader market is up. And until breadth and the tape say otherwise, the play here is to buy dips and buy strength.

Hit me up in the CC if you have any Qs!

Your Macro Operator,

Alex

The Four Pillars Portfolio		YTD Return			
		17.90%			
The Core	Allocation				
Large Cap Equities (/ES_F or VOO)	25%				
Short-term Bills (/ZT_F or VGSH)	25%				
Long-term Bonds (/ZB_F or TLT)	25%				
Gold (/GC_F or GLD)	25%				
Big Bets	Thematic	Cost Basis	At Risk	Risk Point	Last Price
Cameco (CCJ)	Deep Value/Cyclical	$7.25	Above B/E	$8.50	$10.85
Altisource Portfolio Solutions (ASPS)	Deep Value/Swing	$10.16	B/E	$10.16	$12.40
Bollore (BOL)	Hidden Deep Value	$2.46	B/E	$2.46	$2.82
Interactive Brokers (IBKR)	Value/Technical	$47.39	100bps	$41.14	$49.23
Silver (SI_U20)	Trend	18.88	100bps	17.78	19.06
MXNUSD (6MU2020)	Swing	0.04191	B/E	0.04045	0.04415