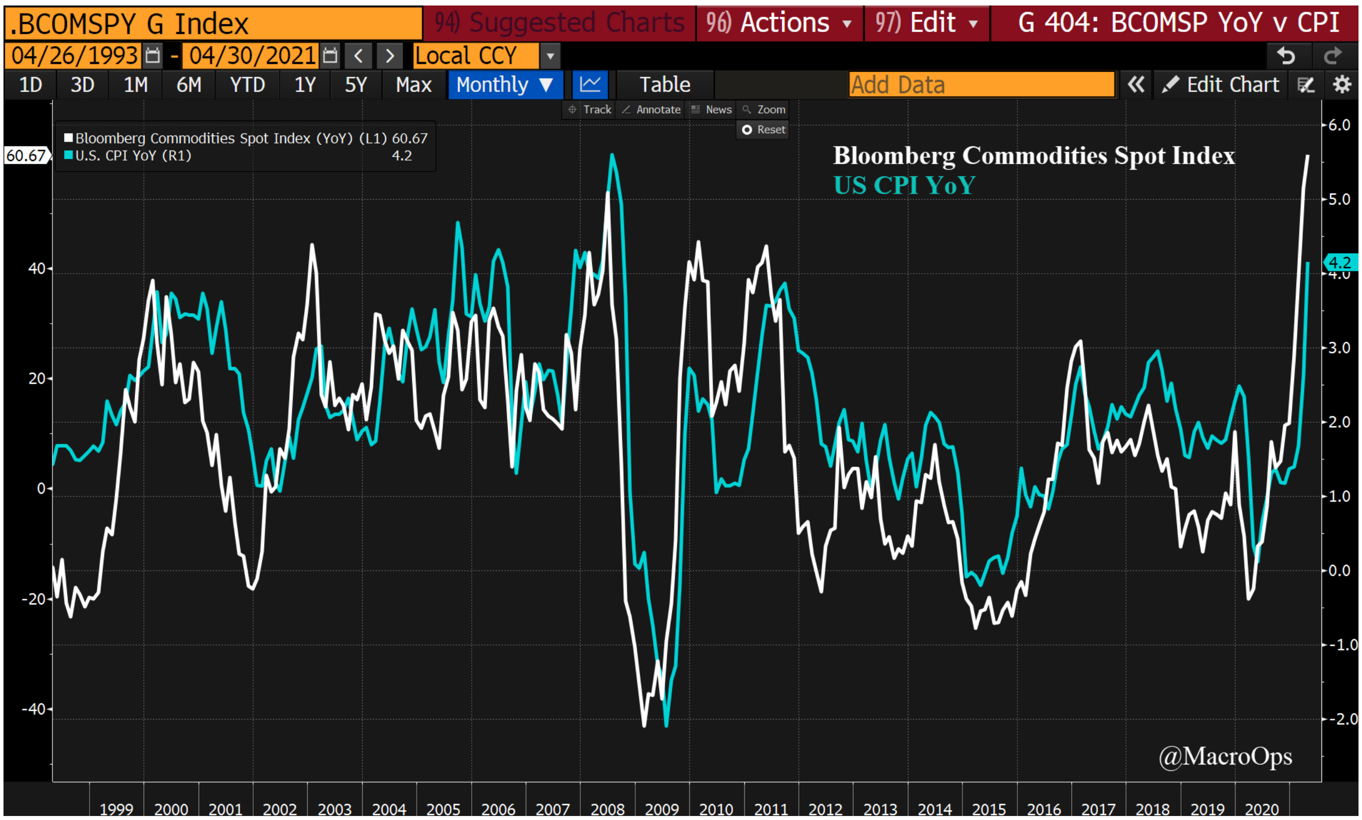
05/12/2021: Anti-Climatic…

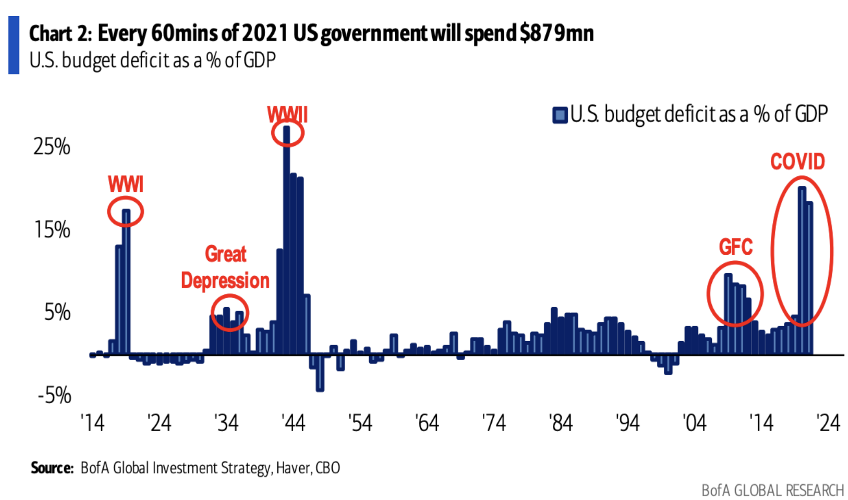
We're seeing the breakdown in bonds (yields up) that I highlighted as likely in Sunday's note "Pulling Up The Yield Anchor". The trade is being helped along by this morning's **blowout headline CPI print of 4.2%**.

For those of us who've glanced at any commodities chart over the last few months, today's number doesn't come as a surprise.



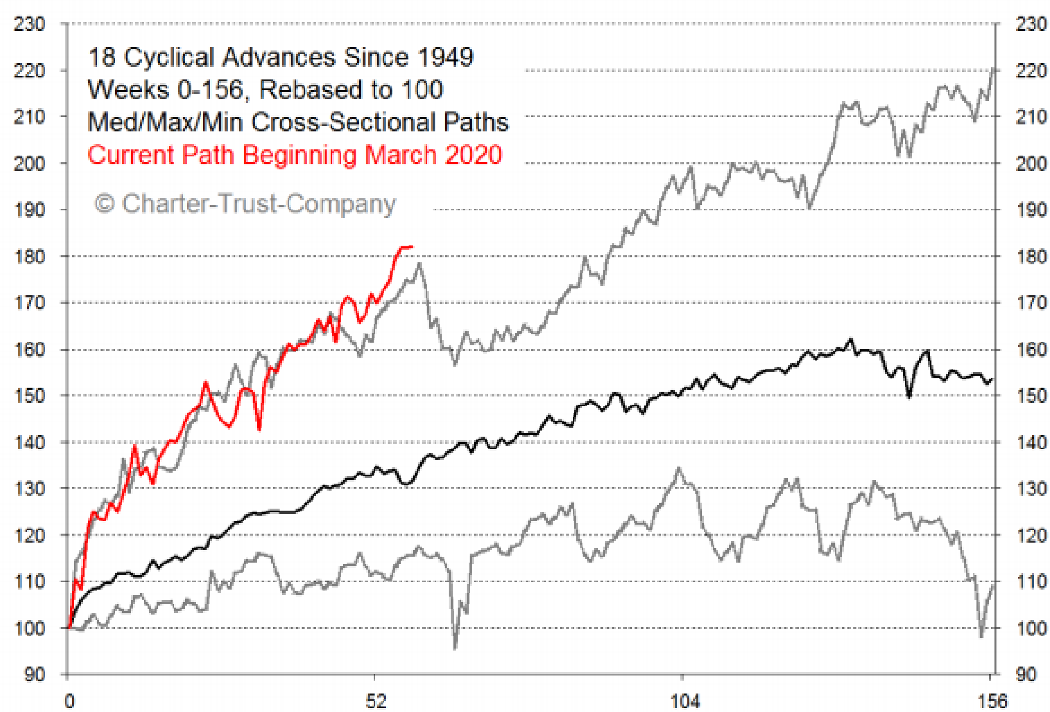
Rising rates are now putting the squeeze on overvalued and overextended equities, *killing* the bullish setups we were tracking coming into the week.

The tape is now trading tired and heavy. And while anything can happen when the government is spending $879mn every 60-minutes, the weight of the evidence is shifting in favor of our "Crypto Killed The Equity Star" theory… meaning **this Buy Climax may be a bit anti-climatic.**

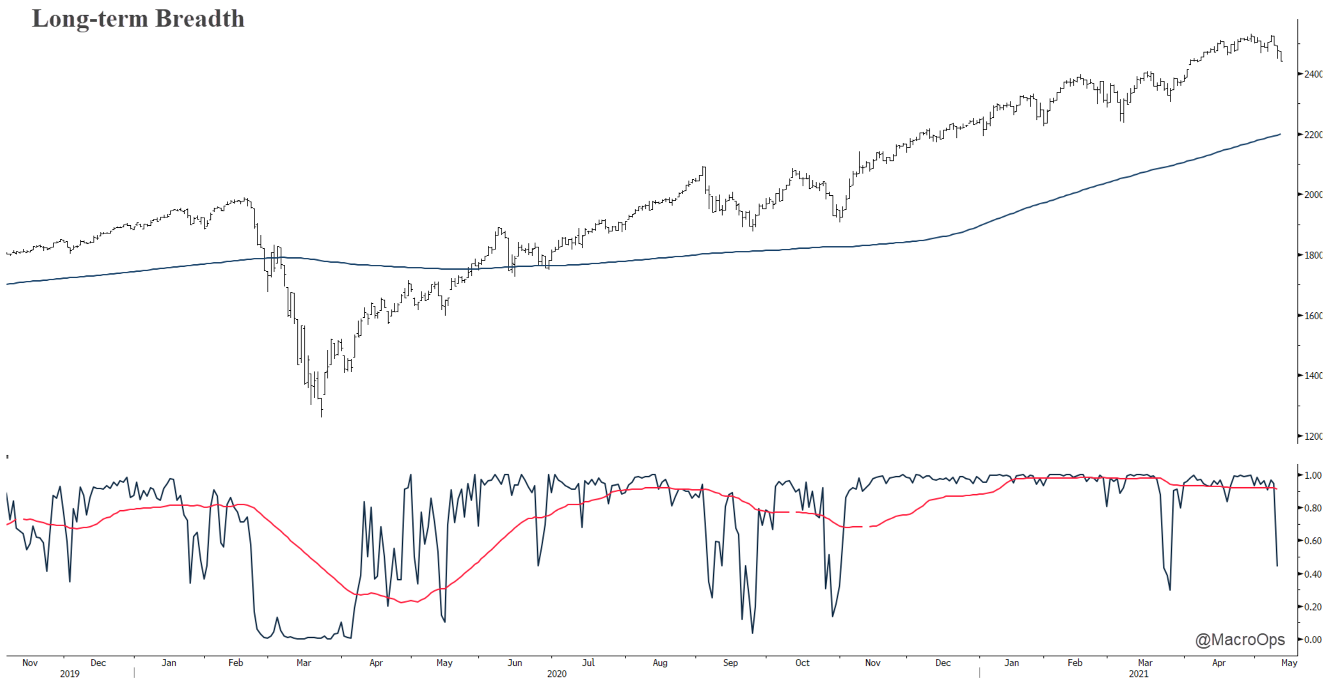


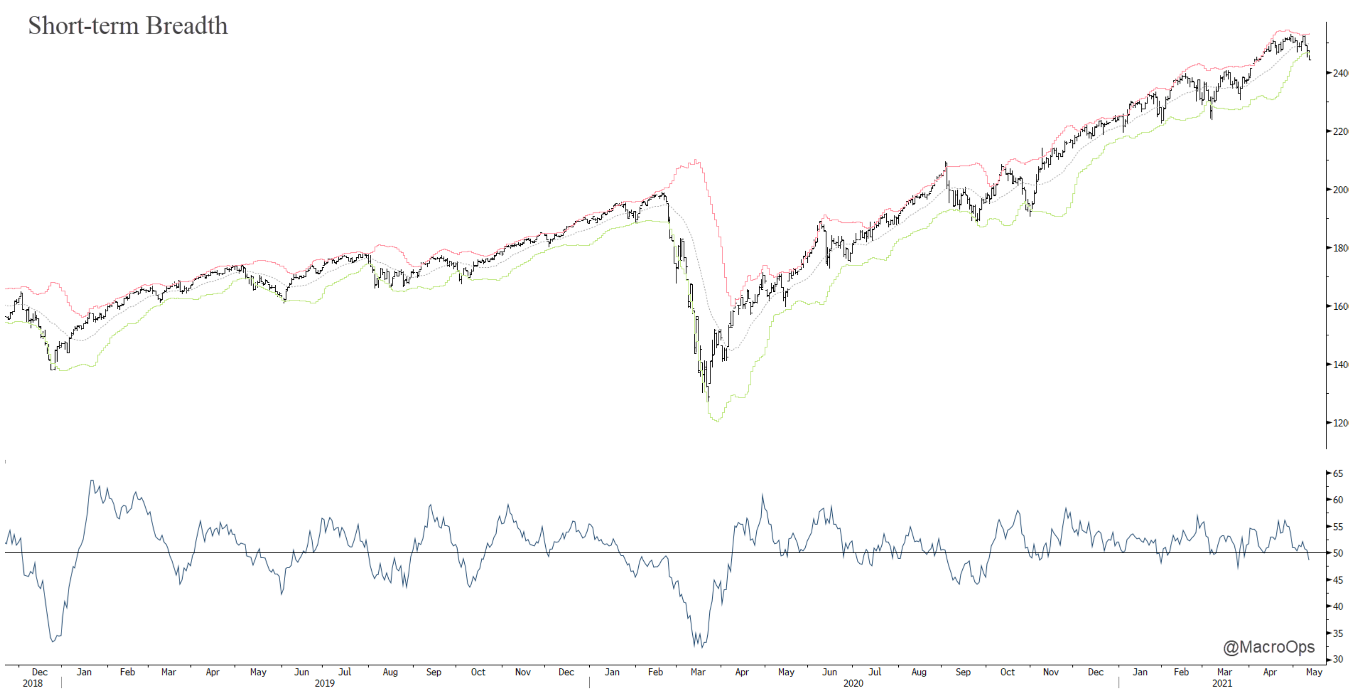
This tilts the odds in favor of an extended breather… one that will be characterized by chop and vol and likely further rotation out of growth and into value as the market adjusts for higher inflation and a steepening curve… Which may look something like the analogs I alluded to in "Watch Your Six":

> There'd be some symmetry to things if we see the market slow its roll for a bit… The SPX is up 77% off its late March lows. This is also the exact percentage gain that the market saw off its 09' lows before it experienced its first significant congestion zone/pullback.



Our breadth indicators took a big hit yesterday, sending our **TL Score to -5** (anything below -3 is bearish and calls for increased hedges). You can read up on our TL Score here.





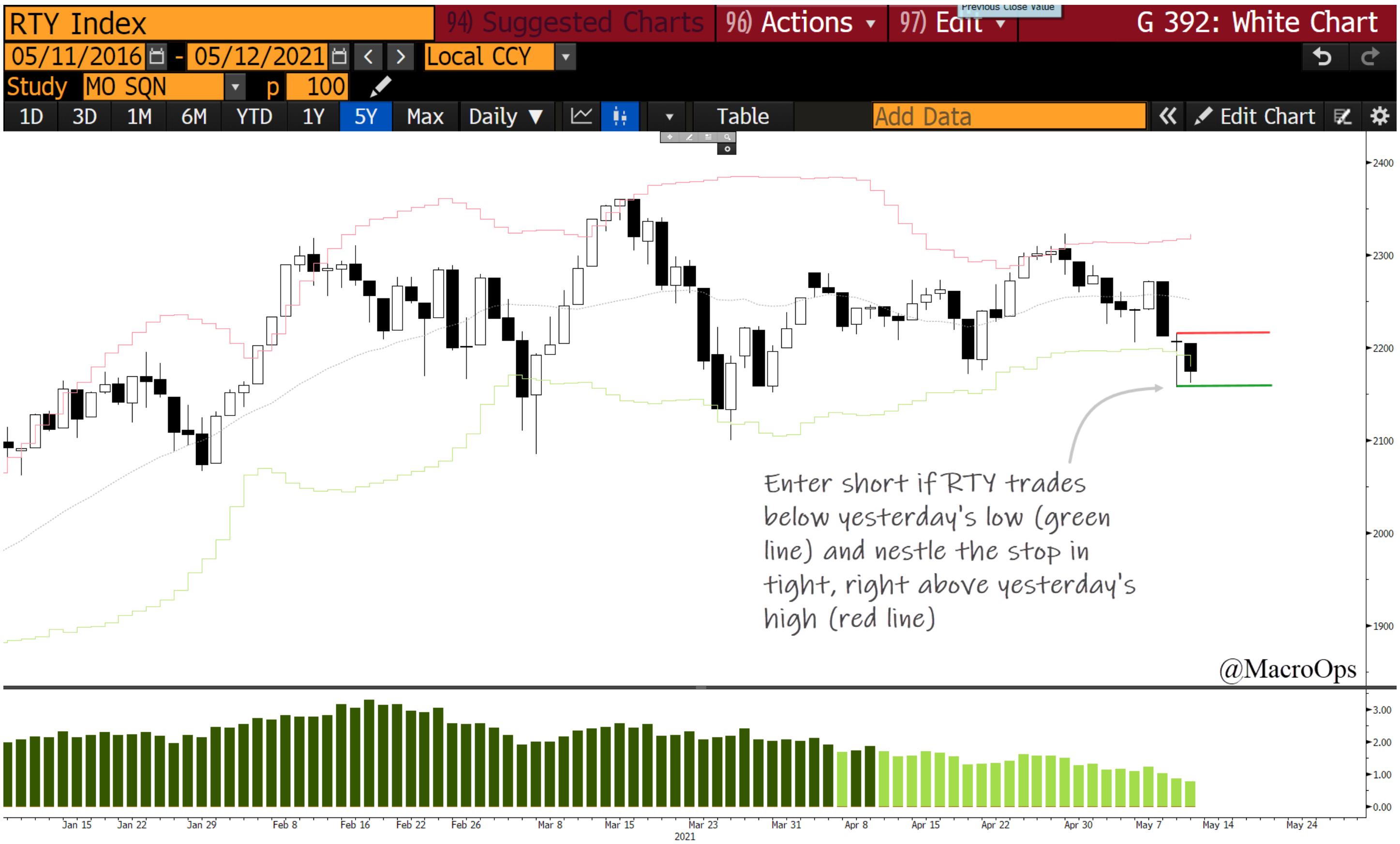
We're in an extremely dynamic and unique environment so staying nimble and **positioned for multiple potential outcomes is key**…. But as we've been discussing for the past month, Trend Fragility is high (read: *Very Dangerous…*) and we want to protect the gains (40% ytd) we've made. So we'll tighten up some stops, take partial profits, and look for additional areas to hedge our book.

Here's what we're going to do... We already have short positions in two ARK holdings, TSLA and PLTR. We'll continue to sit on these as long as the data says to lean bearish/cautious but we'll be quick to reverse if anything changes.

We're taking half-profits on our long Ethererеum trade (ETHE) where **we're up approximately 120ish% since our initial entry on April 1st**. The position has grown a good deal due to accrued profits, so we'll still be left with meaningful exposure (8.5% of NAV).

We're going to go **short Russell 200 futures** (RTY_F) on a *confirmed* volatility breakout (VBO). We'll get a VBO confirmation if/when RTY trades below Tuesday's low (marked by the green line on the chart). We'll nestle the stop in tight, right above the red line (Tuesday's high) so we can get the trade on in *size*, which will help hedge our long book.

The total risk for this trade will be 150bps (TZA and RWM are inverse ETF alternatives).



Depending on the action, we'll make more moves in the coming days. This is turning into quite a busy week for our portfolio, so just an FYI to those of you who recently joined us, we're not typically this active.

We remain bullish on the overall cycle and will continue to look for idiosyncratic plays with high positive convexity, such as the starter position we put on today in Mexico's leading retail pharmacy business, Corporative Fragua (FRAGUA/B).

Stay safe and keep your head on a swivel!

Your Macro Operator,

Alex