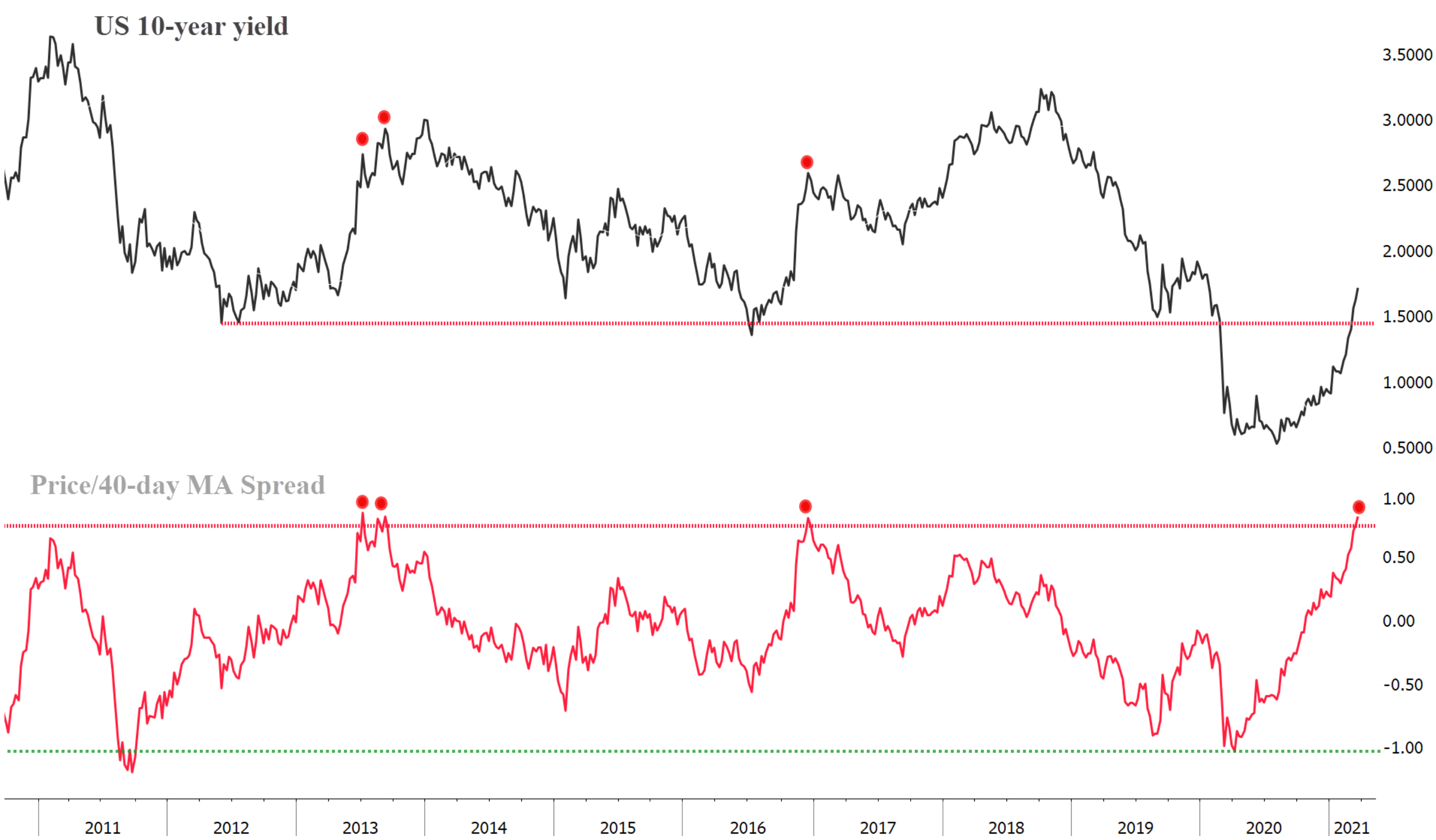
05/09/2021:Pulling Up The Yield Anchor...

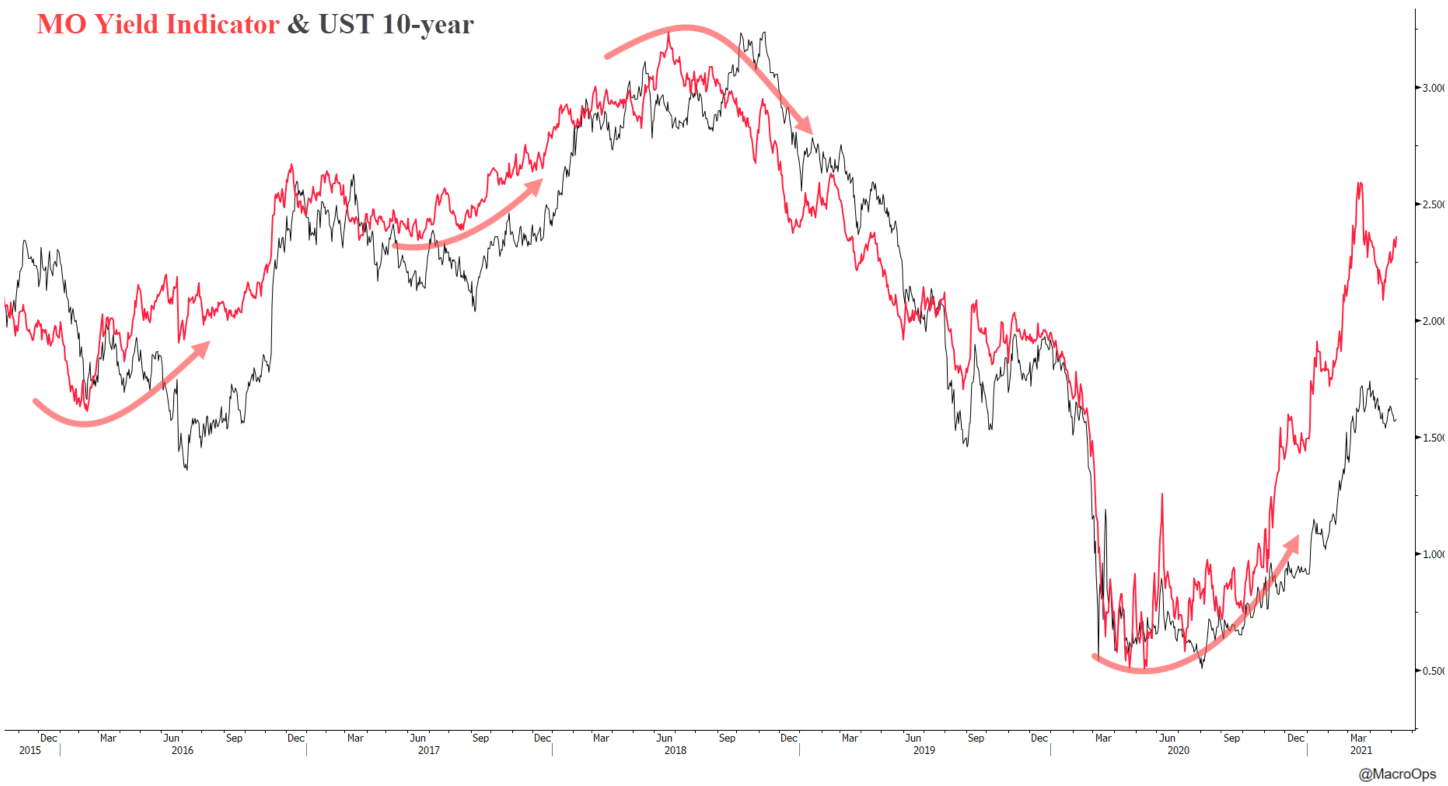
I've got a short note for y'all highlighting a few trade setups going into the week as well as some general updates on the market.

Some of you may remember this chart I shared back on March 22nd (link here), where I argued that yields were overbought and due for a bit of a breather. Yields have since traded lower-to-sideways but there are a number of signs suggesting we'll **see the long-end start climbing again** (bonds down).

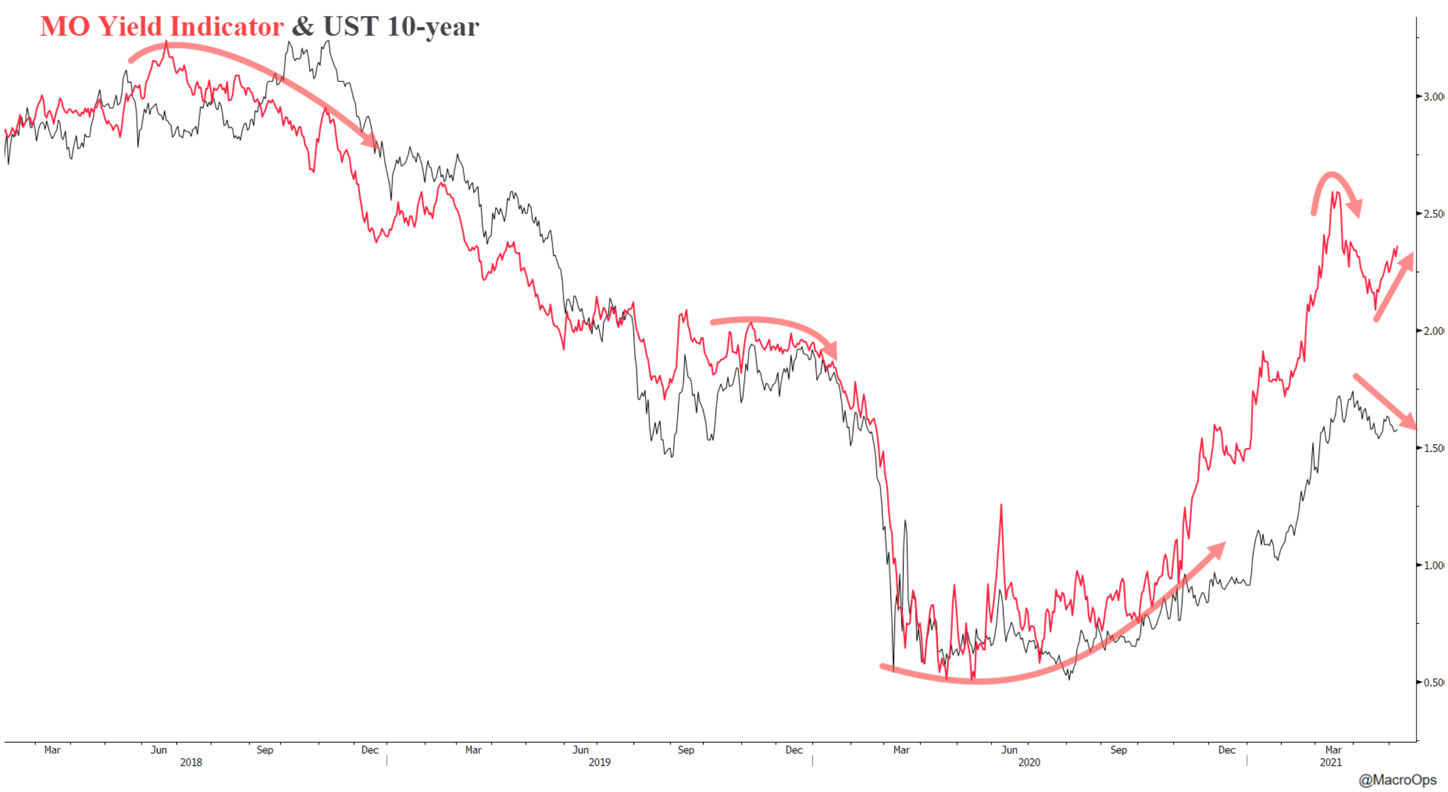


Whether it's copper/gold, cyclical/defensive, or regional banks/SPX, etc… they are all pointing *higher*.

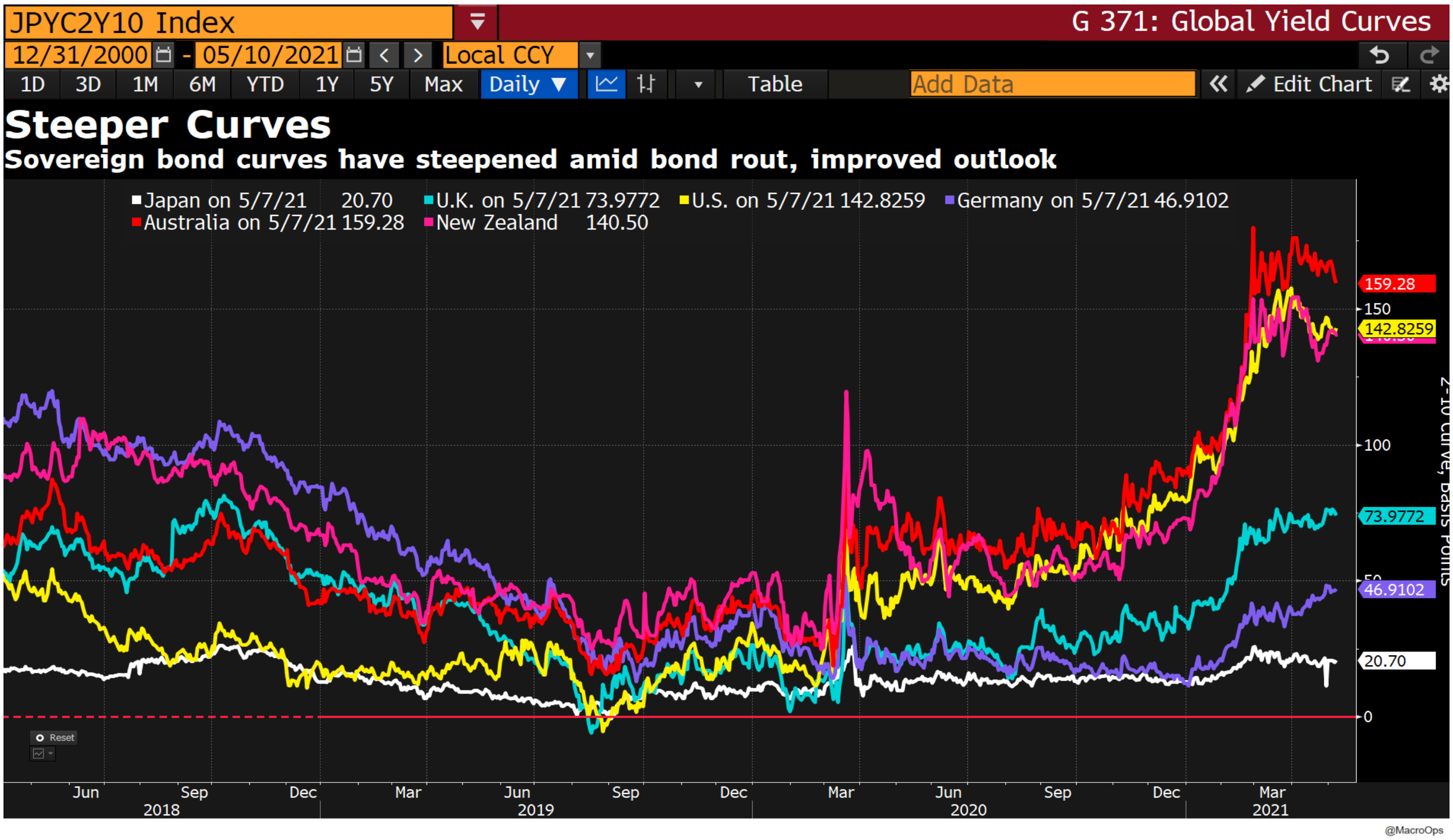
Take the chart below for example. The indicator is the performance of a sector-neutral basket of stocks with the highest sensitivity to the 10-year yield relative to the SPX. We can see that it often has a strong lead on yields (yield indicator is the red line, UST 10yr is black).



A close-up look shows the indicator rolled over mid-March and yields shortly turned down. Two weeks ago it began diverging upwards. I expect yields to soon follow suit.

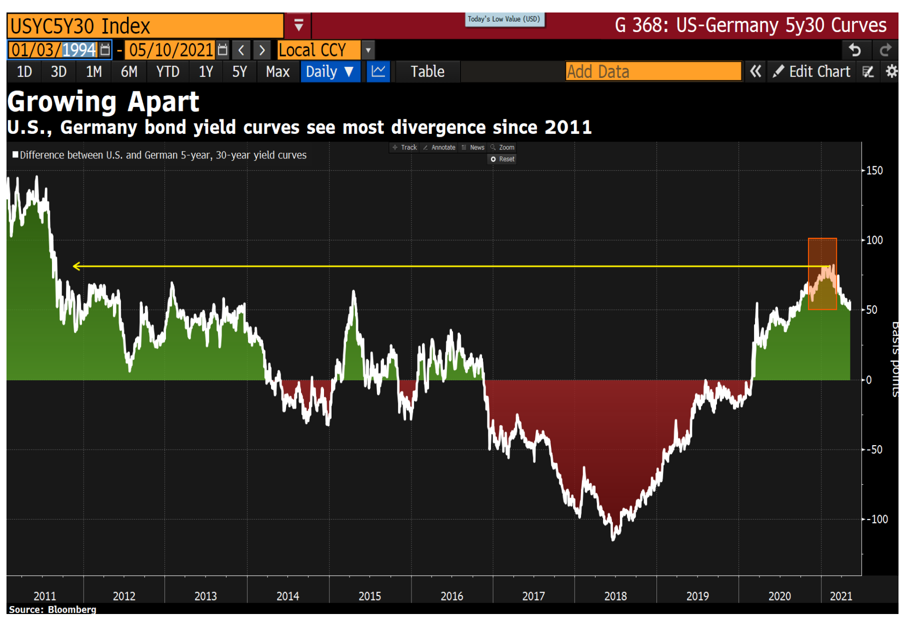


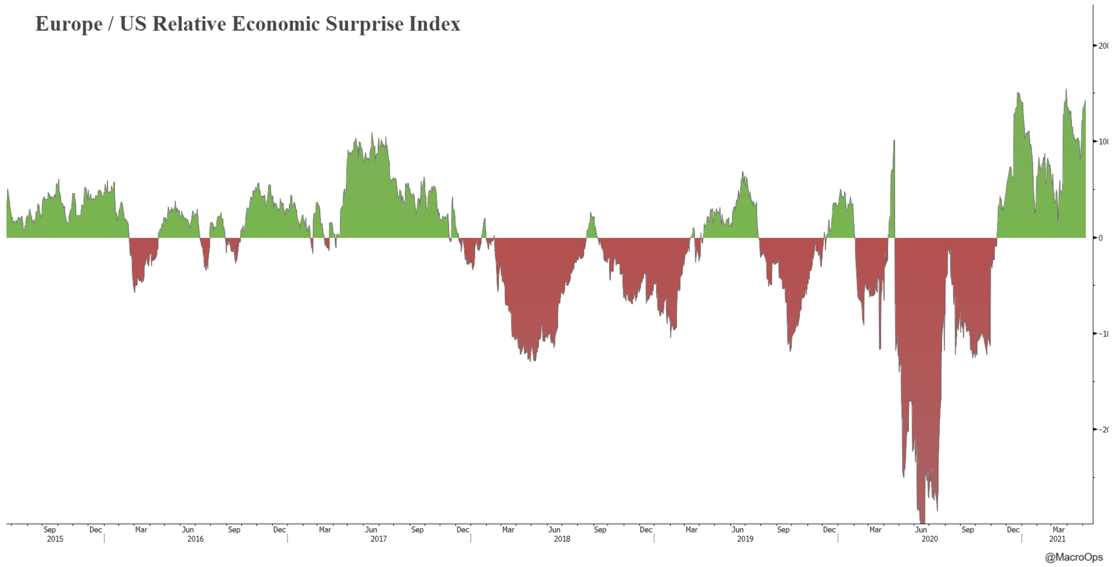
There's a number of reasons for this move **(1)** economic growth is still accelerating and inflationary pressures continue to build **(2)** other DM yields, which have long acted as an anchor, are starting to rise as well.



Europe's vaccination campaign is positively surprising what had become an overly negative consensus. We expect this to continue with European growth playing catch up.

This will lead to a *revising* of the narrative which had become too overweighted to the US relative to Europe. This narrative dynamic drove the US/German 5s30s yield curve to its highest divergence since 2011. As expectations are leveled more in Europe's favor, we should see this diversion revert. This narrative driver is also showing in the outperformance of Europe's Citi Economic Surprise Index (CESI) relative to the US's.

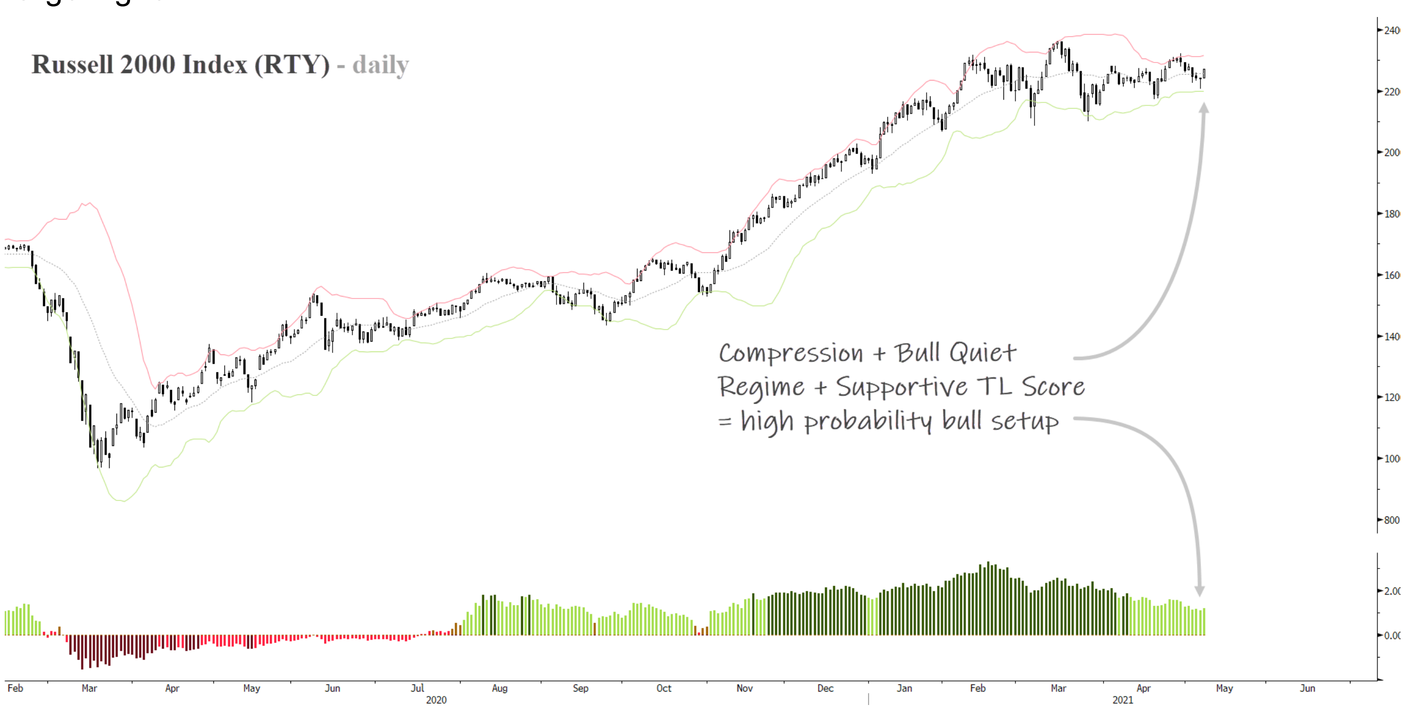




We expect growth to remain strong in the US until the end of summer, at which point it will stay elevated but its delta (rate of change) will slow. DM yields should have strong tailwinds till then and this will increasingly act as a drag on overvalued US growth/momentum names.

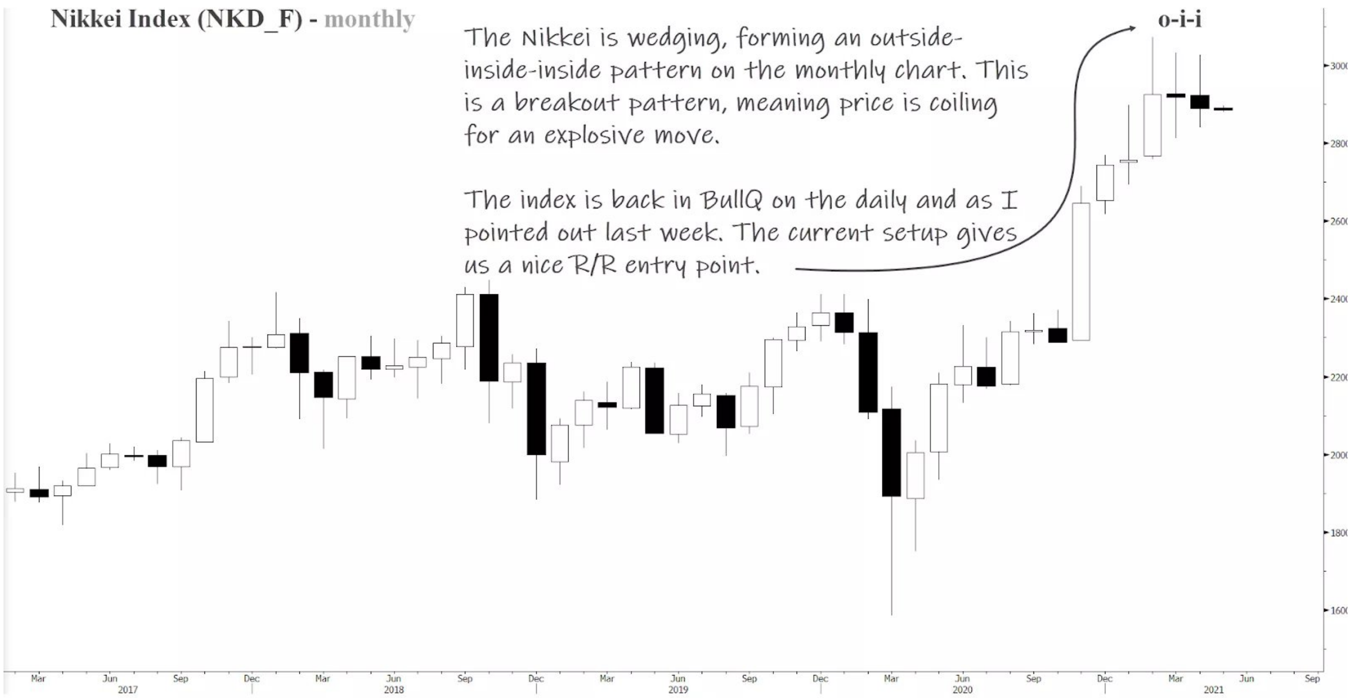
We'll likely **close out our hedge (long bond ZB_F) this week.** The position is in the green so tomorrow will be a good time to take profits. We'll look to move up the curve to the belly, which is showing more of a bid. We'll buy some 5s (ZF_F) once the equity market internals indicate this Buy Climax is nearing a wall

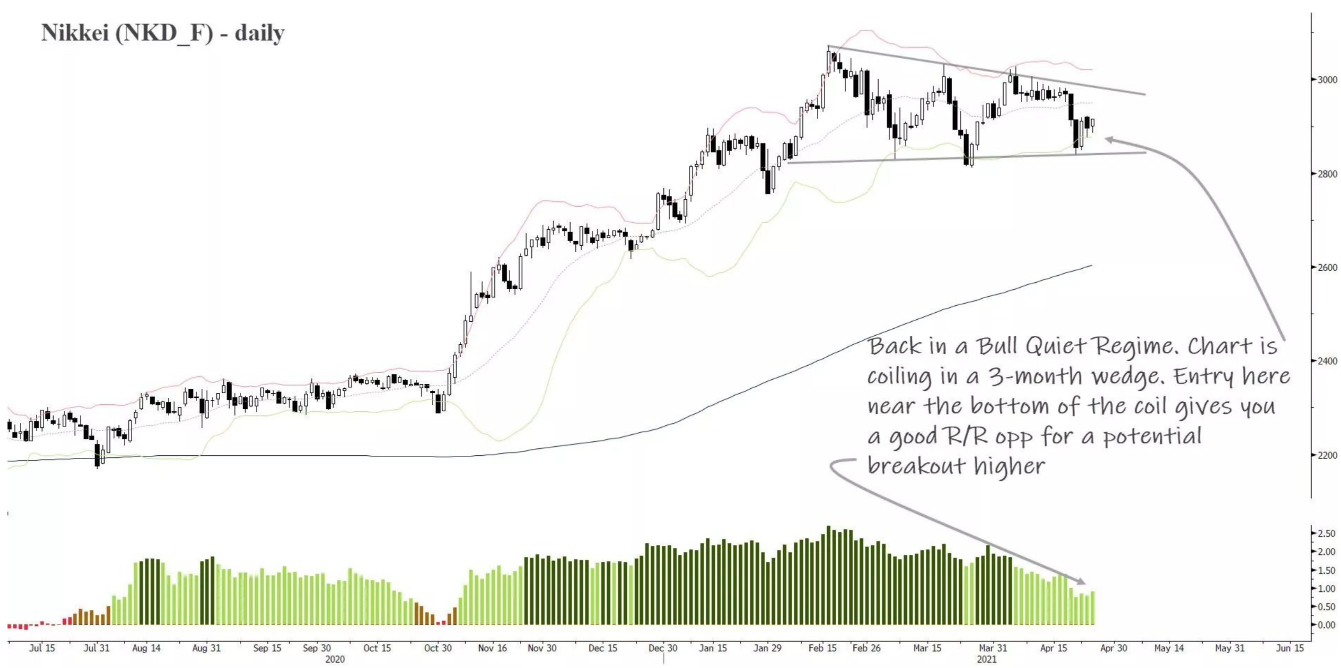
With rising yields, we should expect to see value/small-cap names outperform. Small-caps have been trading sideways for the better part of the year, while tech, growth, and large-cap names have led the charge higher.



RTY is in a multi-month compression regime, trading in a Bull Quiet regime, and our TL Score is still sitting at -2 (anything above -3 is supportive of stocks). I expect we'll see a bullish breakout this week or next. We'll consider getting long on a confirmed volatility breakout (VBO).

The Nikkei setup I've been talking about for the last two weeks looks like it's about to trigger soon.





Japan has some near-term headwinds with rising COVID cases as its vaccination rate is still quite low. But this is starting to change as the government ramps up its efforts and additional supplies become available out of Europe.

Implied vol (IV) is currently cheap on the i-Shares MSCI Japan ETF (EWJ). We're considering buying the Jan 23' $90 strike DOTMs (you can read our DOTM Guide here) this week. We'll shoot out an alert when we do.

Deutsche Bank (DB) will benefit from the steepening Bund curve and accelerating vaccination rollout. Our Jan 22' $20 DOTMs are in the green and we'll be adding to this position on Monday using a vertical call spread.

We'll be making moves in a number of our portfolio holdings this week… Antero Resources (AR), Murata Manufacturing (6981), Altria Group (MO), and potentially adding to our USDZAR short. Look for trade alerts over the coming days.

This week I'm working on finishing up our report on the US cannabis space, which is an industry I'm getting increasingly excited about. I hope to get that out to you guys in the next few days.

As always, hit me up in the CC if you have any questions/comments.

Stay safe and keep your head on a swivel!

Your Macro Operator,

Alex