



05/25/2021: Summer Doldrums...

China's A-shares (ASHR) is breaking out to the upside today. This tends to be a reliable risk-on signal, as positive net flows into the index show investors are feeling comfortable moving out the risk curve.



This gives with my current thinking which is that we see a bit of a short-term run in the indices. But one that lasts no more than a couple of weeks, tops.

Short-term liquidity is so far supporting this push higher.

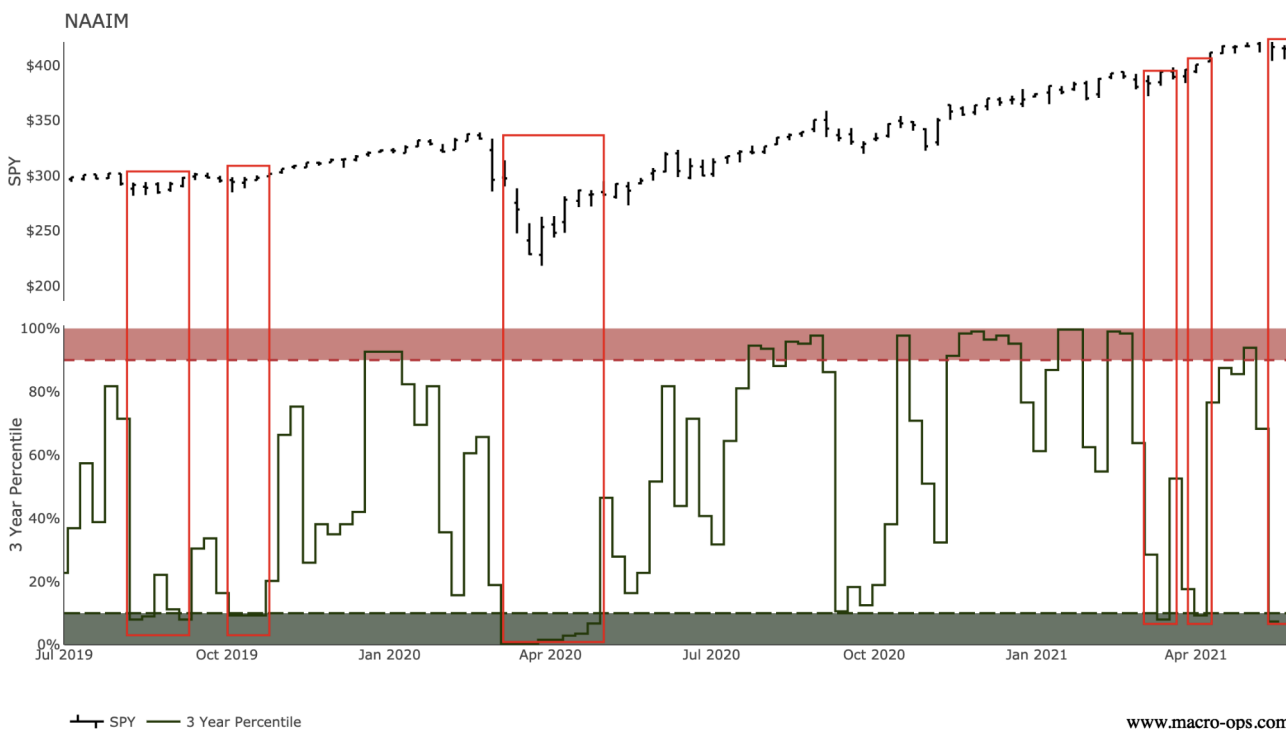




Plus, the market is currently benefitting from the double tailwinds of bonds up (yields down) and US dollar down. It's difficult for large dislocations to occur when this is the backdrop. We'll go long for a swing and a hedge if we get a confirmed breakout.



The shakeout in crypto seems to have bled over into general market sentiment which helped send the **NAAIM Average Exposure Index below the 10th percentile of its 3-year average**. This is a short-term level of bearishness that tends to act as a springboard for moves higher in risk assets.

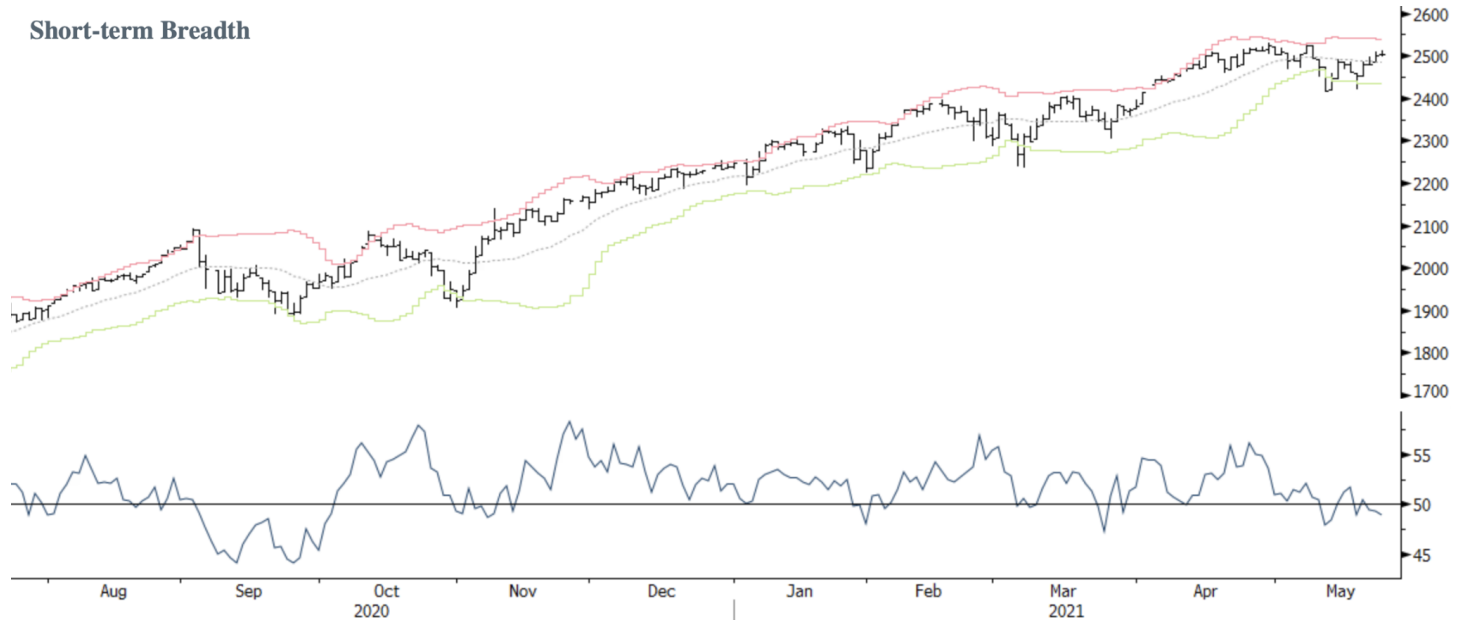




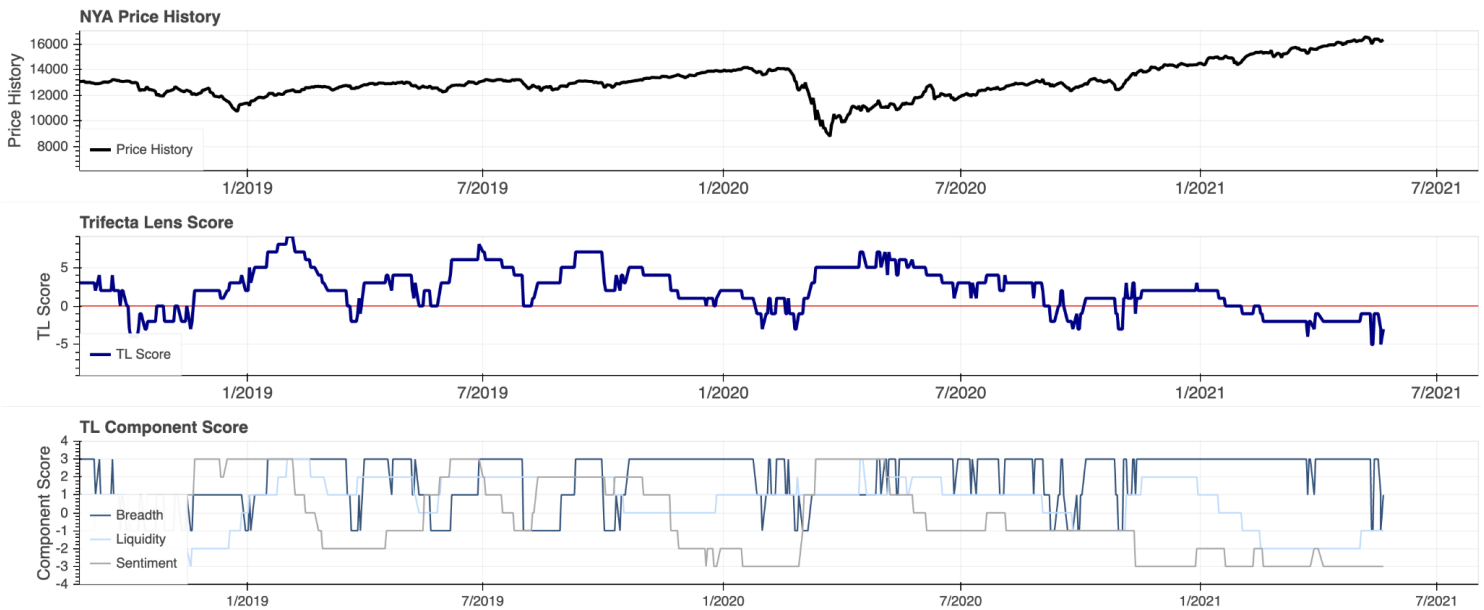
Despite the positive developments above, we continue to see signs of heaviness under the broader market.

Things like breadth are showing weakness.

Short-term Breadth

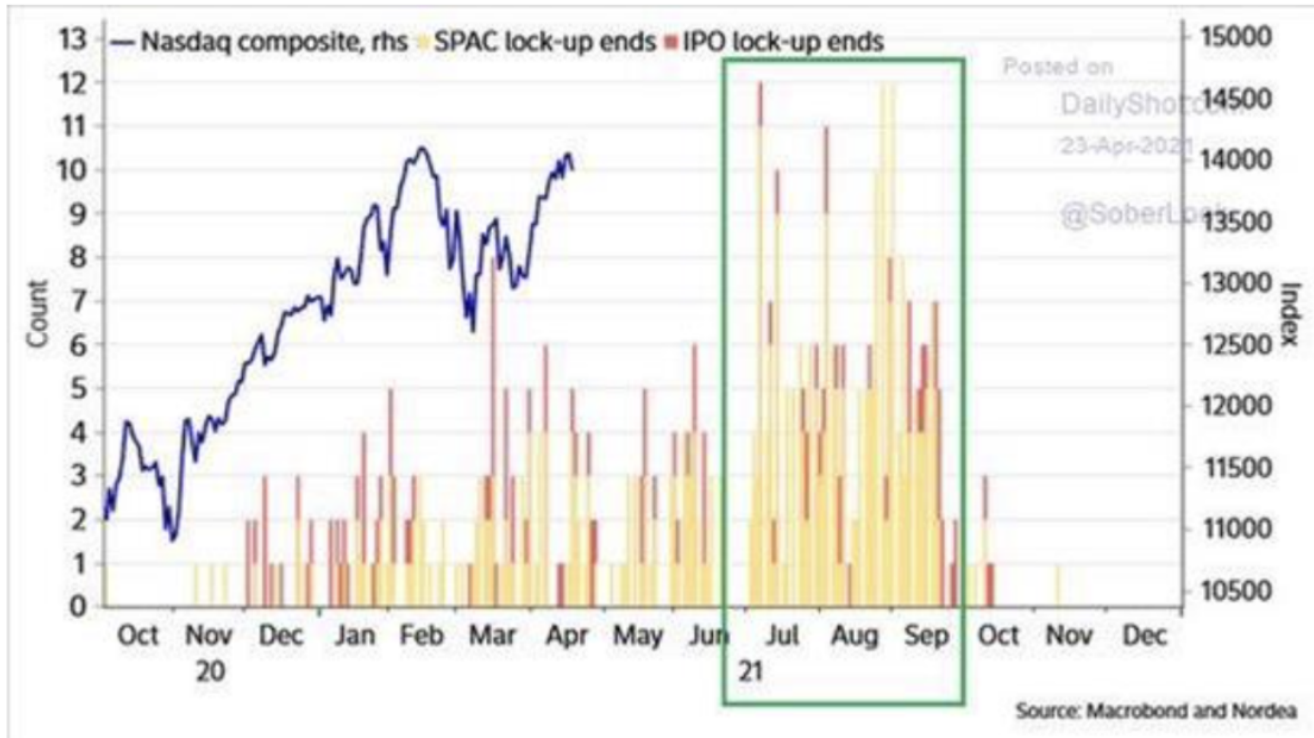


Our Trifecta Lens Score is still well below where you'd want to see it if you're expecting a major and sustainable advance in the market.





We're also seeing the highest level of [global equity issuance](#) since the GFC... not to mention, we're about to run into a wall of SPAC & IPO lock-up expirations in the coming months. This is effectively a wave of supply that will be hitting a heavy market, which is not great for our [most important fundamental](#).



And all this is set to occur during the market's weakest four-month stretch of seasonality.

S&P 500 INDEX Index | SEAG | Related Functions Menu

SPX 4192.78 -4.27 4192.23 / 4193.56

At 13:08 d 0 4205.94 H 4213.42 L 4186.52 Prev 4197.05

SPX Index | Spread Builder | View | Edit | Seasonality Chart

Last Price Local CCY Spread <Type security> Last Price

20 Years Ending 2021 Percent Change Net Change

Calendar Year	Trailing 12M	01-Jan	31-Dec	Monthly	Line	Heat Map	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-05	-58	46	2.53	.38		-62	1.19	-15	-77	1.07	2.19	.72
2020	-1.11	2.61	4.24	5.24	.28								
2019	-16	-8.41	-12.51	12.68	4.53		1.84	5.51	7.01	-3.92	-2.77	10.75	3.71
2018	7.87	2.97	1.79	3.93	6.89		6.89	1.31	-1.81	1.72	2.04	3.40	2.86
2017	5.62	-3.89	-2.69	.27	2.16		.48	3.60	3.03	.43	-6.94	1.79	-9.18
2016	1.79	3.72	-.04	.91	1.16		.48	1.93	.05	1.93	2.22	2.81	.98
2015	-5.07	-.41	6.60	.27	1.53		.09	3.56	-.12	-.12	-1.94	3.42	1.82
2014	-3.10	5.49	-1.74	.85	1.05		-2.10	1.97	-6.26	-2.64	8.30	.05	-1.75
2013	-3.56	4.31	.69	.62	2.10		1.91	-1.51	3.77	-1.55	2.32	2.45	-.42
2012	5.04	1.11	3.60	1.81	2.08		-1.50	4.95	-3.13	2.97	4.46	2.80	2.36
2011	4.36	4.06	3.13	-.75	-6.27		3.96	1.26	1.98	2.42	-1.98	.28	.71
2010	2.26	3.20	-.10	2.85	-1.35		-1.83	-2.15	-5.68	-7.18	10.77	-.51	.85
2009	-3.70	2.85	5.88	1.48	-8.20		-5.39	6.88	-4.74	8.76	3.69	-.23	6.53
2008	-8.57	-10.99	8.54	9.39	5.31		.02	7.41	3.36	3.57	-1.98	5.74	1.78
2007	-6.12	-3.48	-.60	4.75	1.07		-8.60	-.99	1.22	-9.08	-16.94	-7.48	-.78
2006	1.41	-2.18	1.00	4.33	3.25		4.33	-3.20	1.29	3.58	1.48	-4.40	-.86
2005	2.55	.04	1.11	1.22	-3.09		.01	.51	2.13	2.46	3.15	1.65	1.26
2004	-2.53	1.89	-1.91	-2.01	3.00		-.01	3.60	-1.12	.69	-1.77	3.52	-.10
2003	1.73	1.22	-1.64	-1.68	1.21		1.80	-3.43	.23	.94	1.40	3.86	3.25
2002	-2.74	-1.70	.84	8.10	5.09		1.13	1.62	1.79	-1.19	5.50	.71	5.08
2001	-1.56	-2.08	3.67	-6.14	-.91		-7.25	-7.90	.49	-11.00	8.64	5.71	-6.03
2000	3.46	-9.23	-6.42	7.68	.51		-2.50	-1.08	-6.41	-8.17	1.81	7.52	.76

-16.94 | 12.68

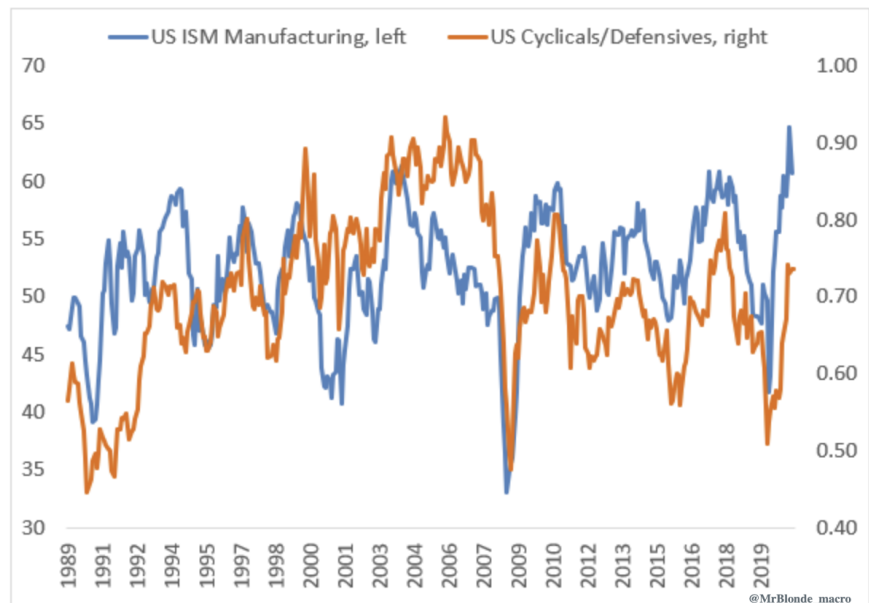


So it's all a bit of a mixed bag... As things currently stand, the odds favor [our call for sideways volatile chop](#) through the summer. But we'll have to track the data closely and adjust fire accordingly.

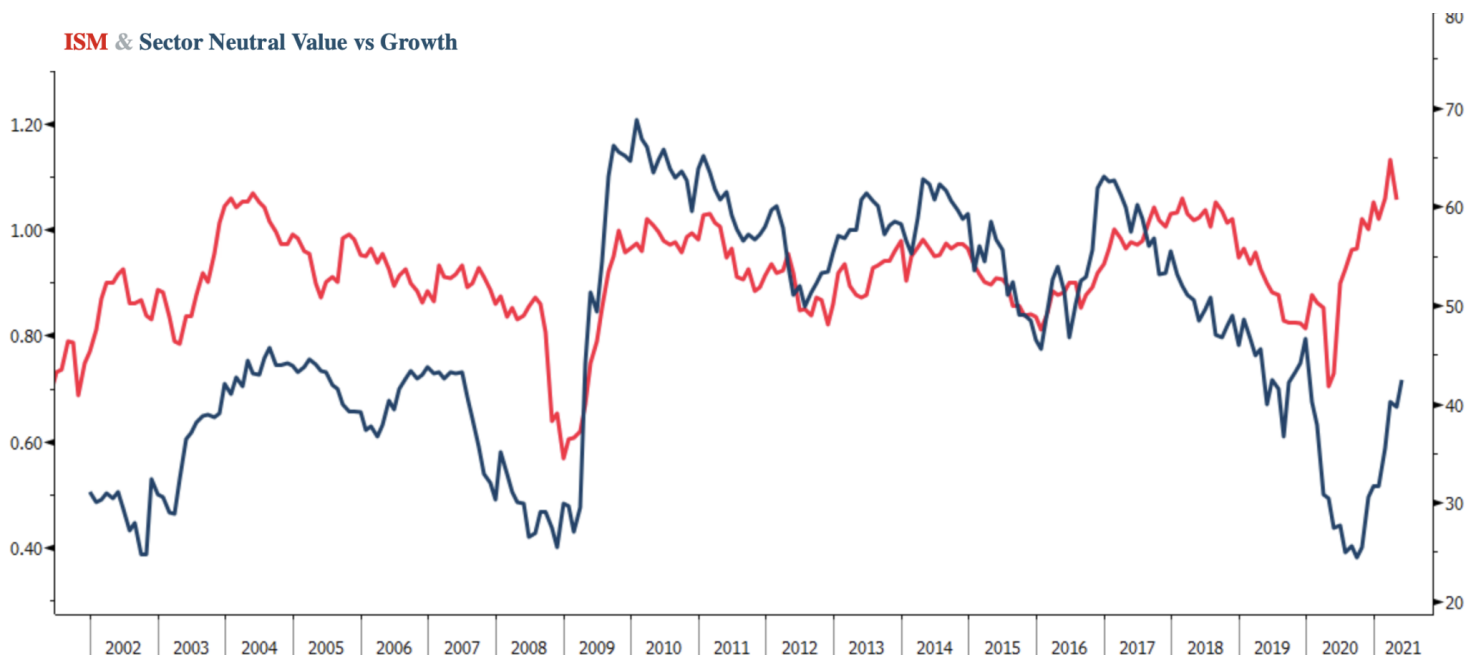
If we get some summer doldrums, the chop and vol will hopefully frustrate market participants to the point that we see a *significant* reset in crowded overleveraged positioning. This in turn would set the stage for a strong rally into year's end.

Despite the prospects for the major indices, this should continue to be a great stock-pickers market. With popular crowded names underperforming and dismissed/overlooked value plays — our specialty — continuing to run strong.

When looking at cyclical vs defensive or value's relative prospects, you're really looking at the business cycle. The chart below shows the ISM (red) and sector-neutral value versus growth's relative performance (blue).



The ISM essentially represents the rate of growth in the economy. When that growth is high, value wins out. When it's low and/or falling, we typically see declining yields and easy liquidity conditions, where the growth factor beats value.

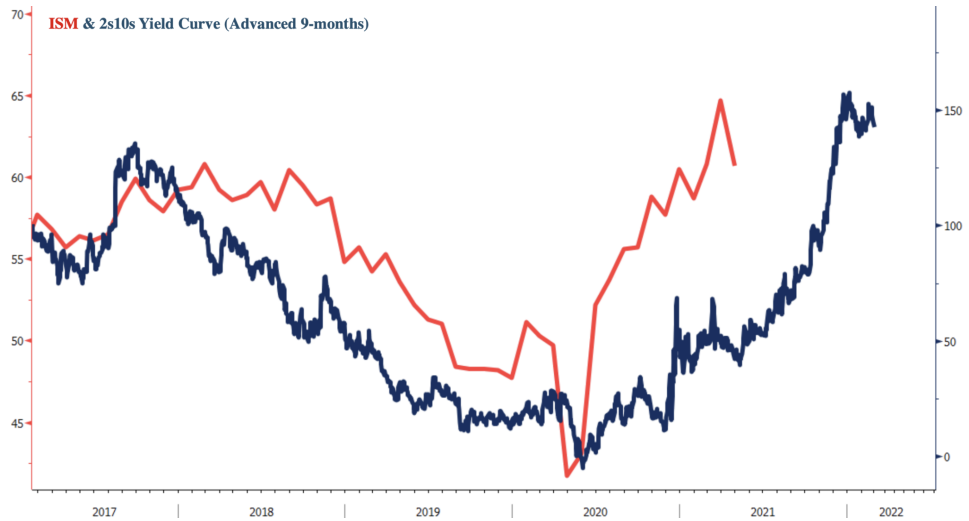




If you're looking to get an idea of which factor will outperform going forward, you want to know what economic growth is going to look like.

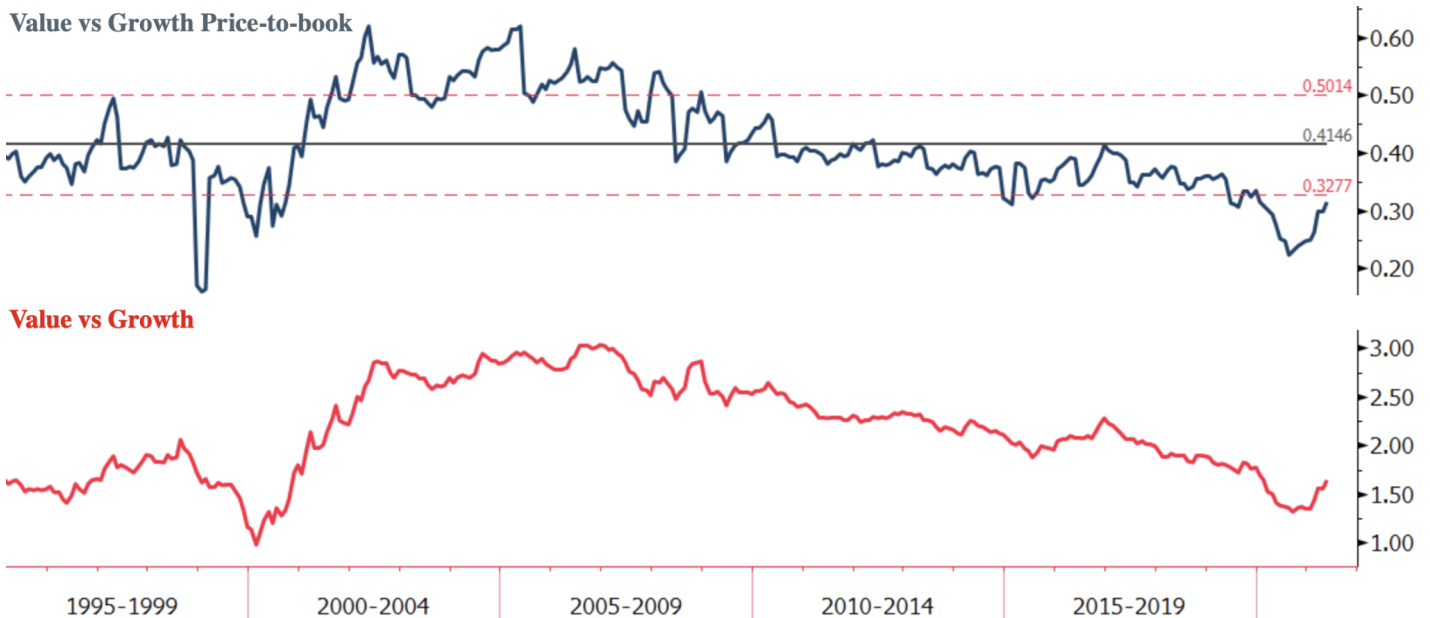
To do that, we can turn to the market and let the yield curve tell us where it [anticipates growth](#) will trend.

Excuse the minor chart-crime but the broader point is valid. The yield curve is one of the best predictors we have of growth (bond traders sit near the top of the [hierarchy of markets](#)). The chart to the right shows the 2s10s yield curve advanced 9-months along with the ISM.



This suggests the ISM will remain elevated over the next few months and thus value will continue to outperform growth.

And looking at long-term relative valuations, there's still plenty of room for this trend to revert closer to its historical average.



Our book is already heavily tilted towards value. Specifically, value plays that [also](#) have strong fundamental growth. Brandon and I are continuing to dig for new companies to add to the book.



One of the names we have on our shortlist is The St Joe Company (JOE). I wrote about this one back in early October of last year ([link here](#)) when it was trading for \$23 a share. It's had a nice run, rising as much as 140% over just 5-months at one point. It's since pulled back into a healthy consolidation.

Our friend Kuppy has been all over this one from the start and you can find some great writeups on the company over at his blog [Adventures in Capitalism](#).

The skinny of the thesis is that JOE is a Florida real-estate play with 175,000 acres of pristine Florida coastal lands available to develop. The company benefits from both [the secular housing bull](#) as well as the secular blue to red-state migration cycles underway. This should allow JOE to grow top and bottom lines north of 40% well into the foreseeable future.

The St Joe Company (JOE) - weekly



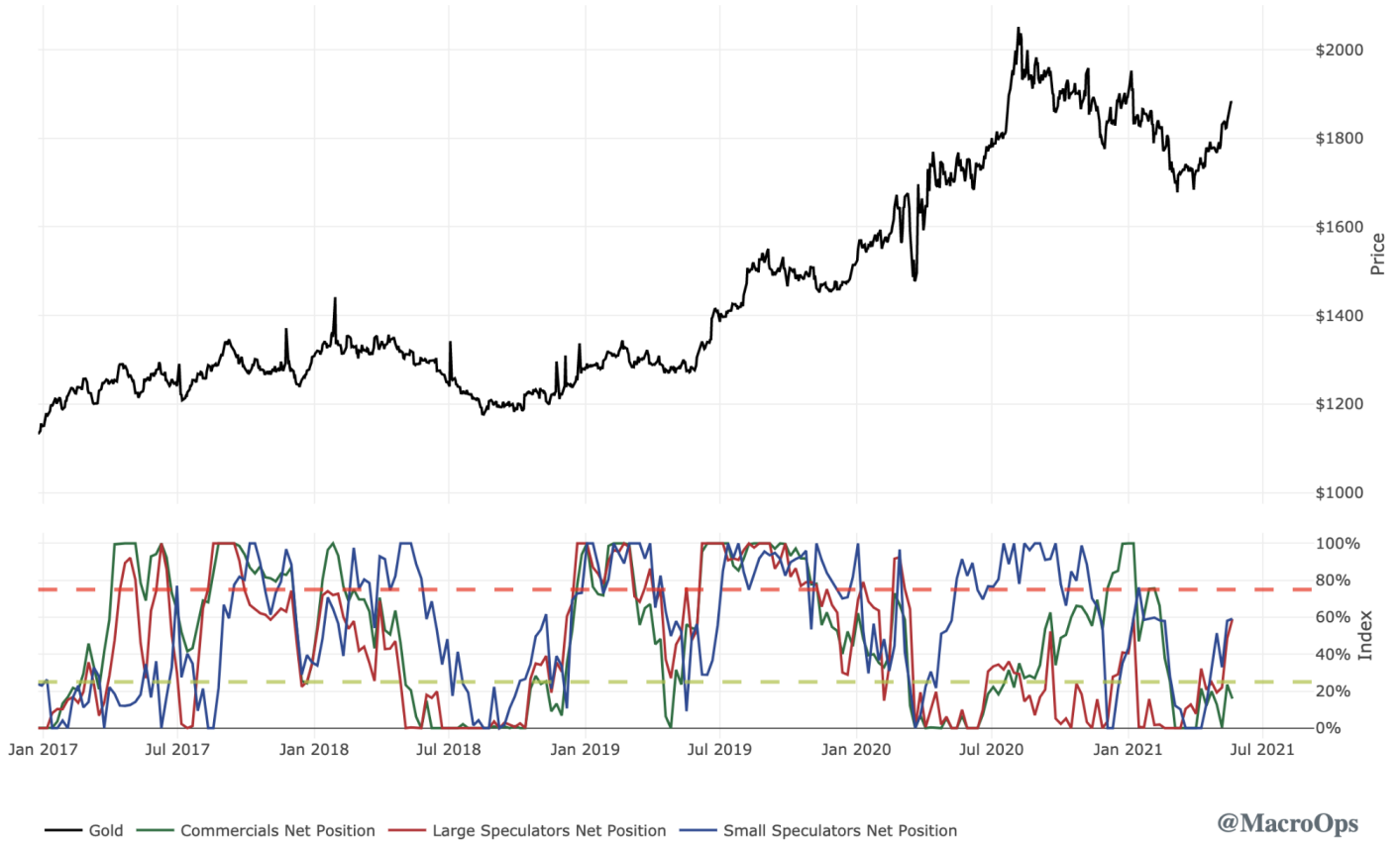
We'll be out with more soon on JOE, should we decide to make a move.

With the recent addition of GLDG to our book, our total precious metal exposure is now fairly large (HL, GLDG, & GC_F). We've already 6x'd our initial risk on our gold (GC_F) position and the trend is *only* getting started.

Our CoT Oscillator indicator shows that positioning is trending in the right direction and has plenty of room to run before it reaches contra territory.

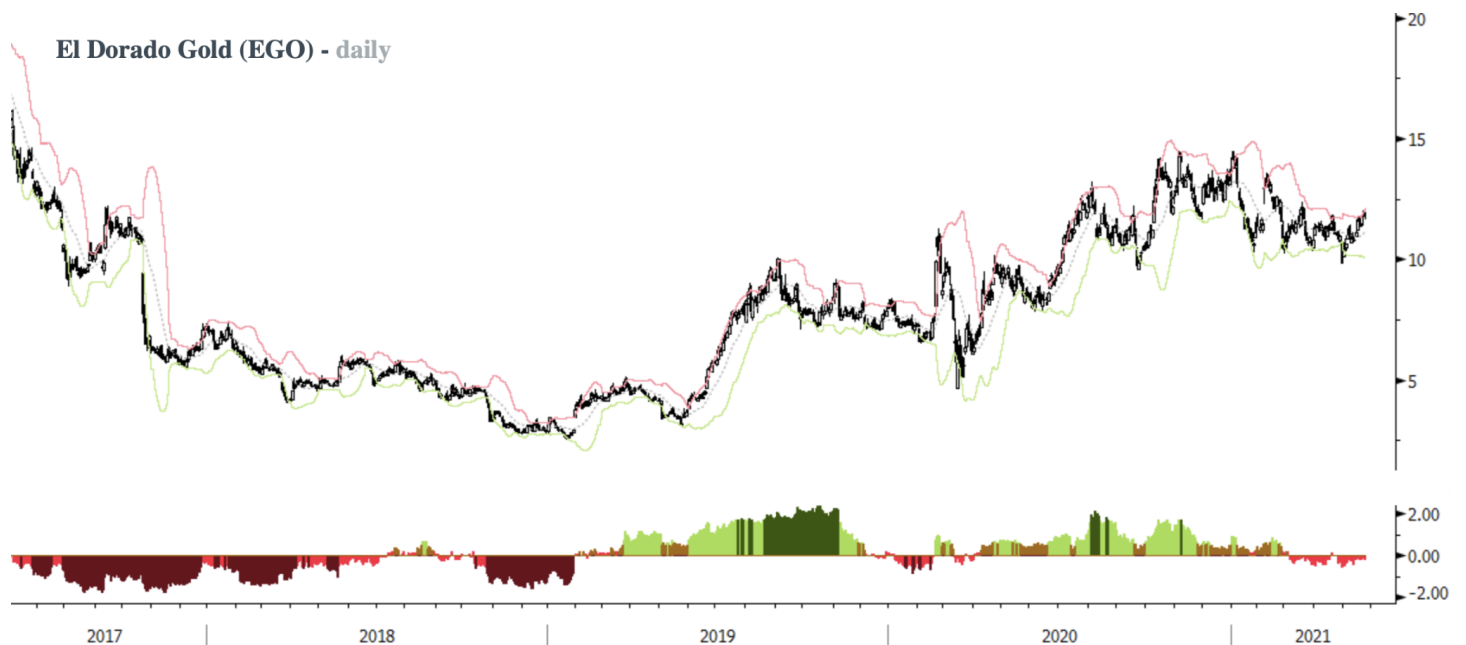


Gold



@MacroOps

For those of you swinging bigger lines and unable to follow us into the GLDG trade, I'd suggest giving EGO a look. The stock popped up on our long-term extreme compression screen recently. It's got a \$2bn+ market cap and the tape is coiled for a run.





Outside of precious metals, the market we're the most excited about is LatAm, and Brazil specifically. The country is trading at a steep technical and fundamental discount to its peers after a number of self-owns by Brazilian leaders over the past year. But the situation is finally starting to turn around for the better amidst horrendous public perception and market sentiment... which usually equates to a good fishing hole for trades.

Stay safe and keep your head on a swivel!

Your Macro Operator,

Alex