A Market Note

Alex Barrow

alex@macro-ops.com

Trades Mentioned

- Reduce all equity positions by half
- Exit RSKD
- Buy Stop to add to USDMXN long
- Sell Stop to short NQ_H

Quote

The elements of good trading are: (1) cutting losses, (2) cutting losses, and (3) cutting losses. If you can follow these three rules, you may have a chance ~ Ed Seykota

A Big Deal…

"It is appropriate, I think, for us to discuss at our next meeting, which is in a couple of weeks, whether it will be appropriate to wrap up our purchases a few months earlier…"

"We tend to use [the word transitory] to mean that it won't leave a permanent mark in the form of higher inflation...I think it's probably a good time to retire that word and try to explain more clearly what we mean."

J Pow has confirmed what we wrote about back in early October. He's lost his FAIT… The Fed's been spooked by the inflation boogeyman. This is a big deal.

Jon Turek, one of my favorite Fed watchers, hit the pinata square in the coccyx in saying:

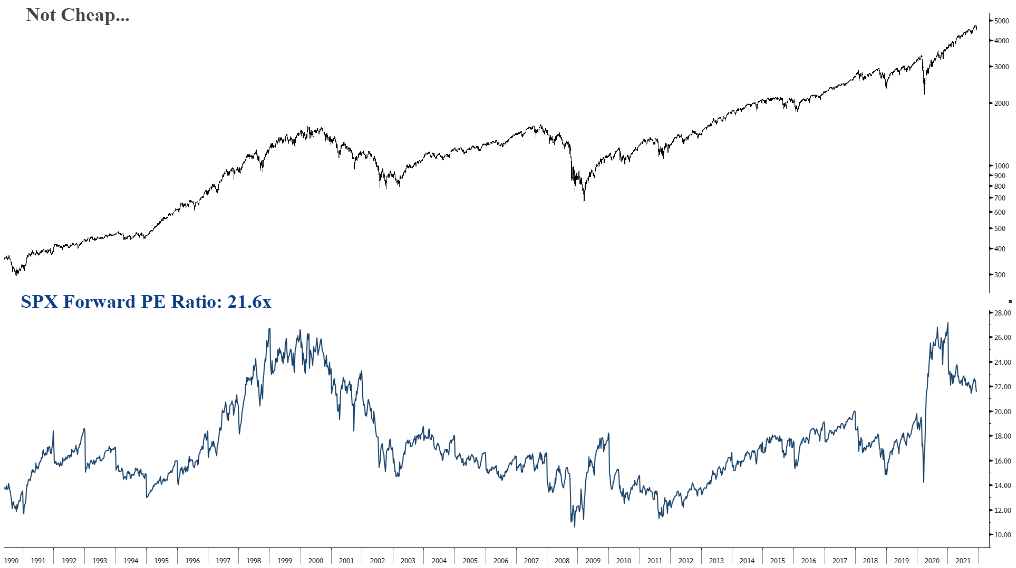
> *An implicit theme from Powell today is, the Fed is now preemptively going to fight any further deterioration in its price stability mandate as opposed to being preemptive on the growth side.*
>
> *In reaction function terms, upside risks to prices > downside risks to employment.*
>
> *This is big.*

Powell is saying the Fed's inflation goals have been met. And as long as the job recovery continues, he's prepared to move more aggressively on rate hikes in order to bring that inflation down. This is what an acceleration in tapering means. It means bringing forward the first-rate hike.

This is a significant shift in Fed messaging. And it comes at a time when markets are at **3-year highs in Trend Fragility, valuations are at or near record highs, credit spreads are**

coming off of record tights, and the SPX is trading like a wet rag in a very extended parabolic Buy Climax.

I know I'm starting to sound like a ZeroHedge copywriter here but I do on occasion turn cautiously bearish, if not outright run for my bomb shelter. The thing is... we were *already* rolling over into a significant deficit in the global credit impulse. And this bearish turn from the most important central bank is only going to accelerate that squeeze.



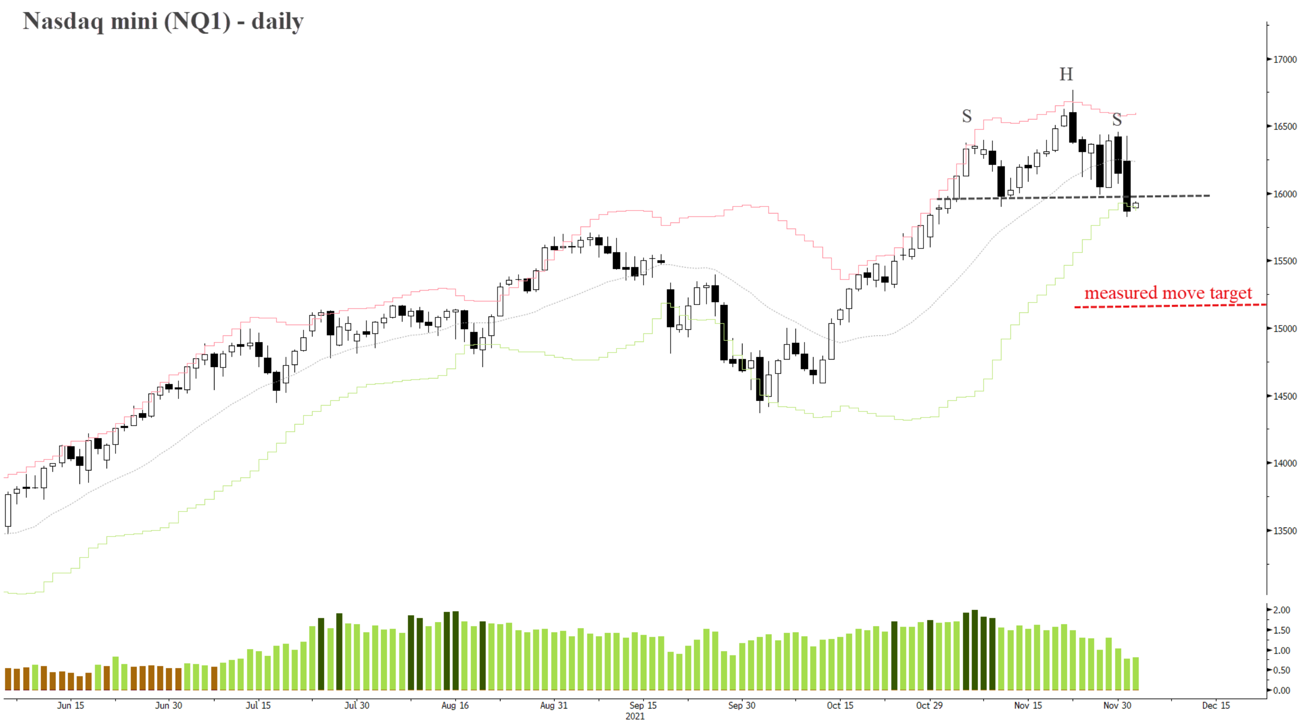
I wrote over the weekend about how the market was at risk of putting in a Bull Trap Failed Breakout if it didn't see a strong reversal Mon/Tues. Well, the Bull's showing was fickle and November gave us a bearish bar setup.

This is the second bear bar within three months, and it comes at the tail end of an extended parabolic Buy Climax. This raises the odds that the market corrects for 1-2 months.

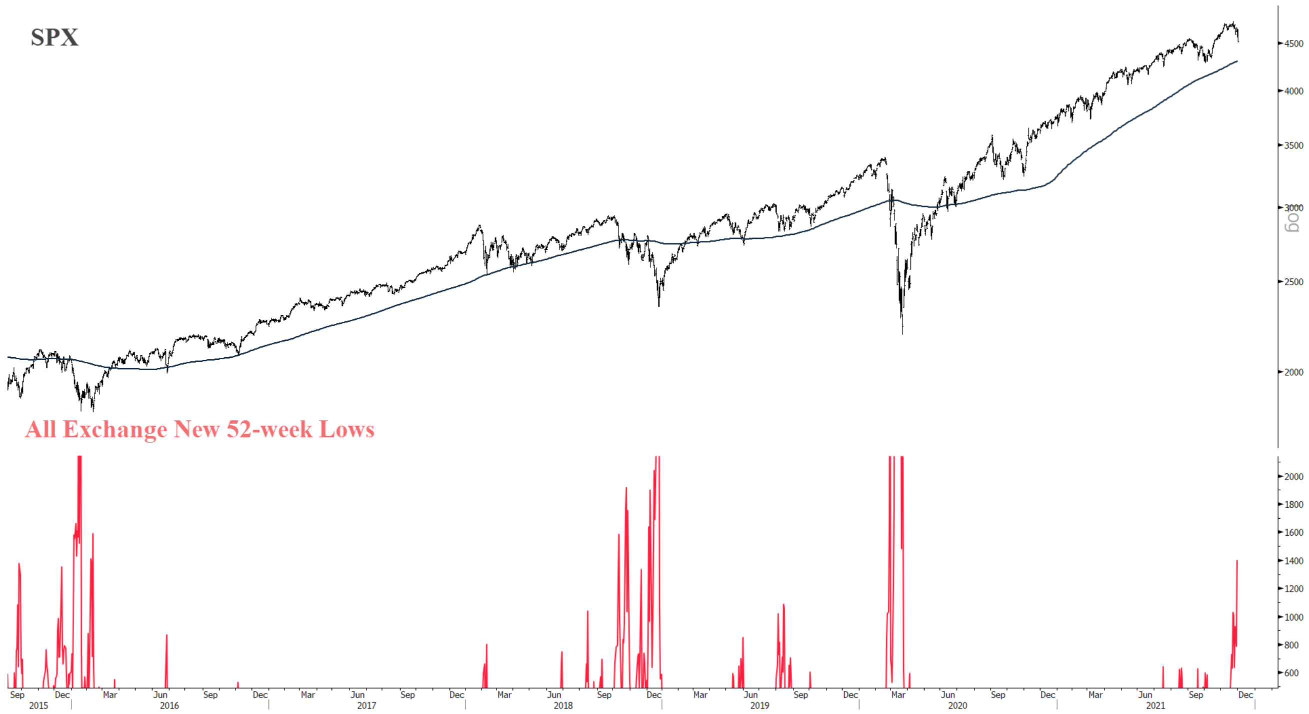
The first obvious technical target is the bottom of its channel, which is also near the lower range of its previous sideways consolidation which started in June. This would be around the 4,300 level, and that's just the *first* technical target.

The Fed's meeting is coming up in 2-weeks and they could potentially announce a doubling of their tapering efforts. If so, then I have no doubt the market will ultimately move much lower.

Here's a look at the Qs… It completed an H&S top today. But it's also up against its lower band. Not to mention, a host of names are now in deeply oversold territory, which makes positioning for a bear move difficult. We're interested in initiating a short if there's a move below yesterday's low, confirming the breakout.

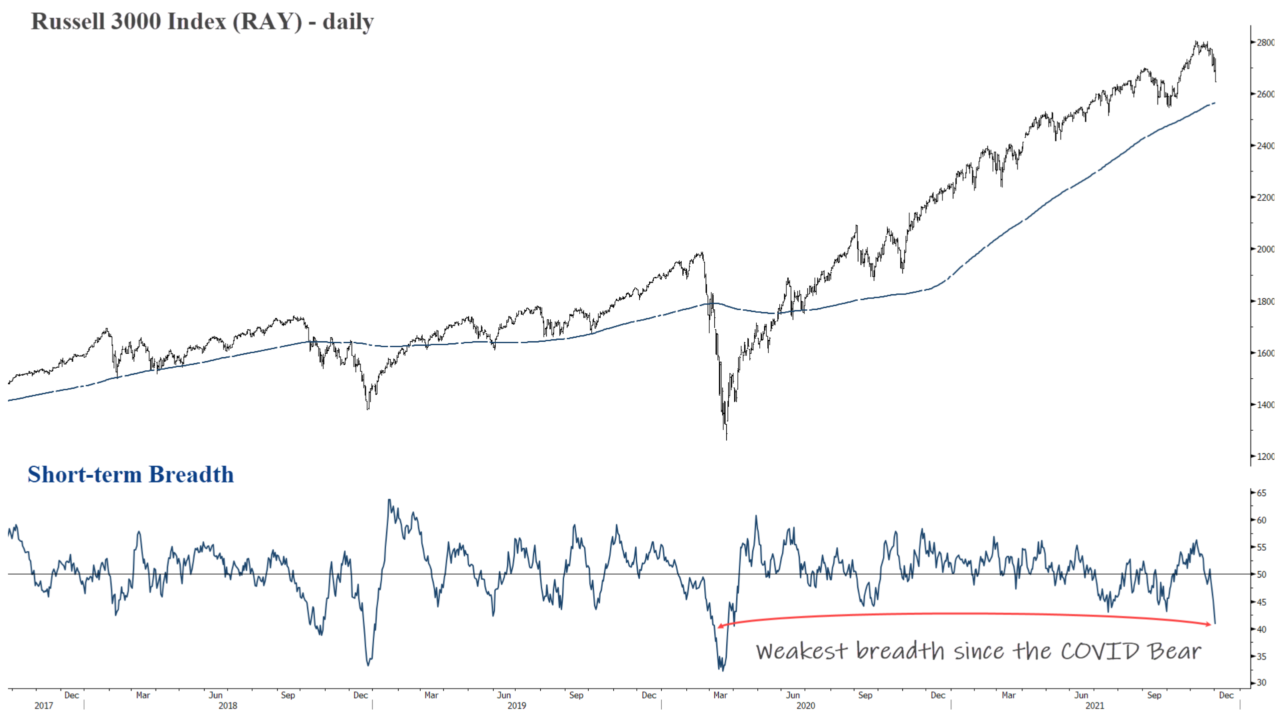


Here's an update to the chart I shared last week showing total new lows. This is just one of many signs that we're entering a new regime.

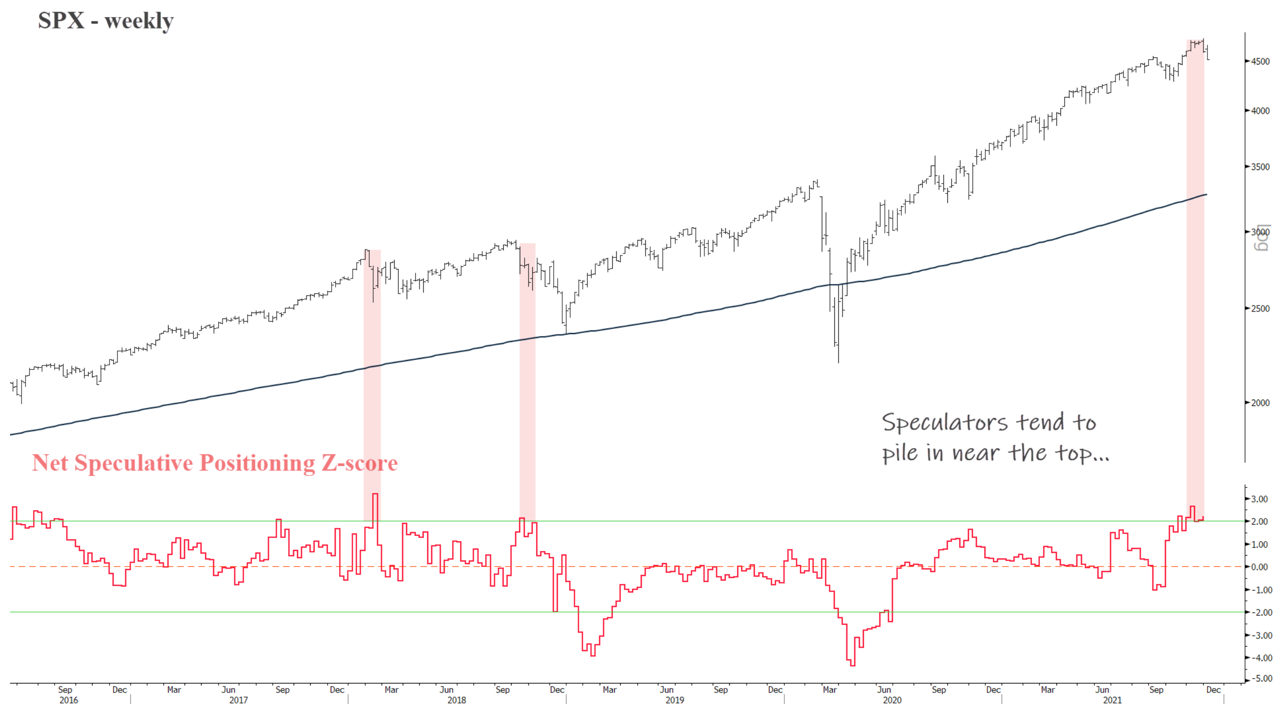


The rate of change in junk spreads accelerating higher is another.

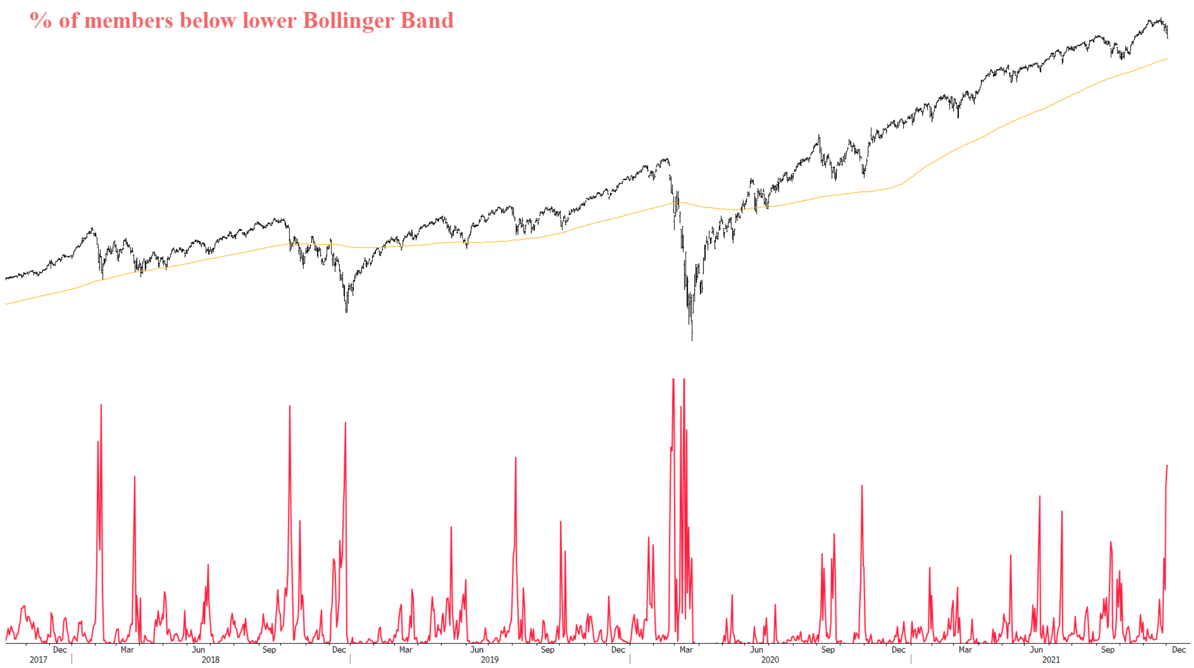
Our breadth indicator taking a dive to the <u>lowest</u> levels since the COVID bear is another.



And despite the clear shift in Fed tone, Specs are holding their <u>largest</u> net long position since September 18'.



Over half of the S&P 500 is trading below their daily Bollinger Bands. That's *extreme* oversold conditions. This tells us two things (1) there's a decent probability we see a snapback multi-day rally soon and (2) the tone of this trend/market regime has changed for the worse.



This all tells me that there are high odds we're in the transition phase of a major trend change. A change that will likely lead to a 1-2 month correction at the very least. And a much more significant correction if the Fed continues with its more hawkish tone.

I want to insert an important caveat here... I'm just reading the tea leaves as they fall. I'm concerned with not losing money, first and foremost. So we're going to be cautious and reduce risk/hedge more of our book. But, as always, we value flexibility above all else. I'll have no problem flipping back to the bull side should our inputs say to do so.

So, here's what we're going to do.

We cut our risk back in early October and have been running a lighter risk book since. We're going to reduce that risk even further by cutting our equity positions by half across the board. We're cutting RSKD completely as it's in a technical downtrend.

We're putting in a buy stop order right above today's high in USDMXN. We'll let the market pull us in here, as the pair should do well if risk-off persists. This will be an add to our existing position. We're sizing this trade at 100bps with a stop right below today's low.

We're putting a Sell Stop order in the Nasdaq-mini right below today's lows. We're sizing this at 100bps with a stop right above today's opening price.

We're also eyeing long bonds as we think there are high odds of the Fed making a serious policy mistake here and aggressively tightening into a disinflationary environment (more on that in a follow-up note).

Our yield indicator is strongly diverging lower from yields and this indicator has been on point for the last 18-months or so.

We'll send out an alert if and when we put this trade on.

We'll be out with more soon. Until then, stay safe and keep your head on a swivel!

Your Macro Operator,

Alex