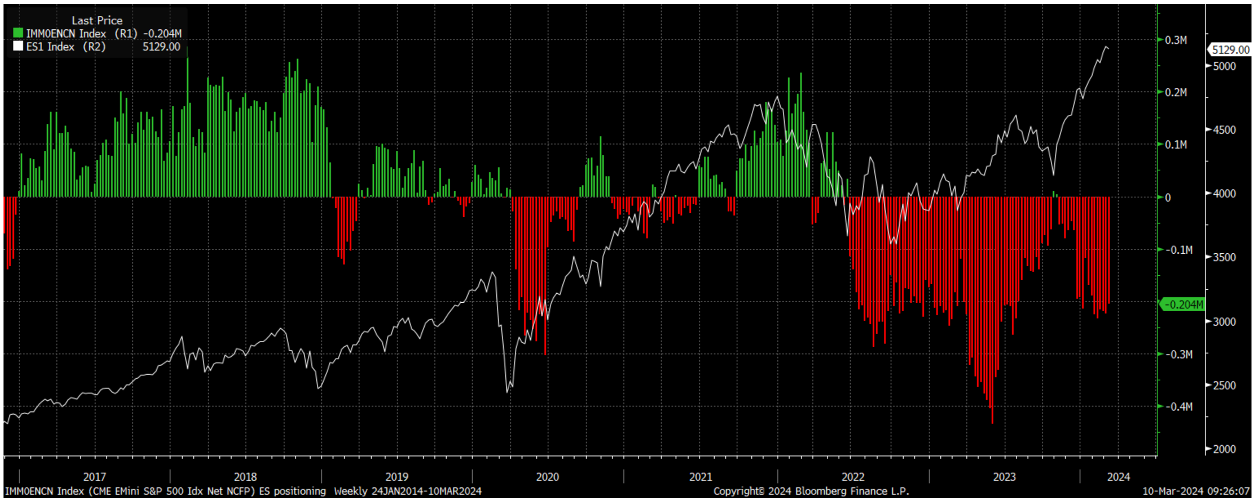
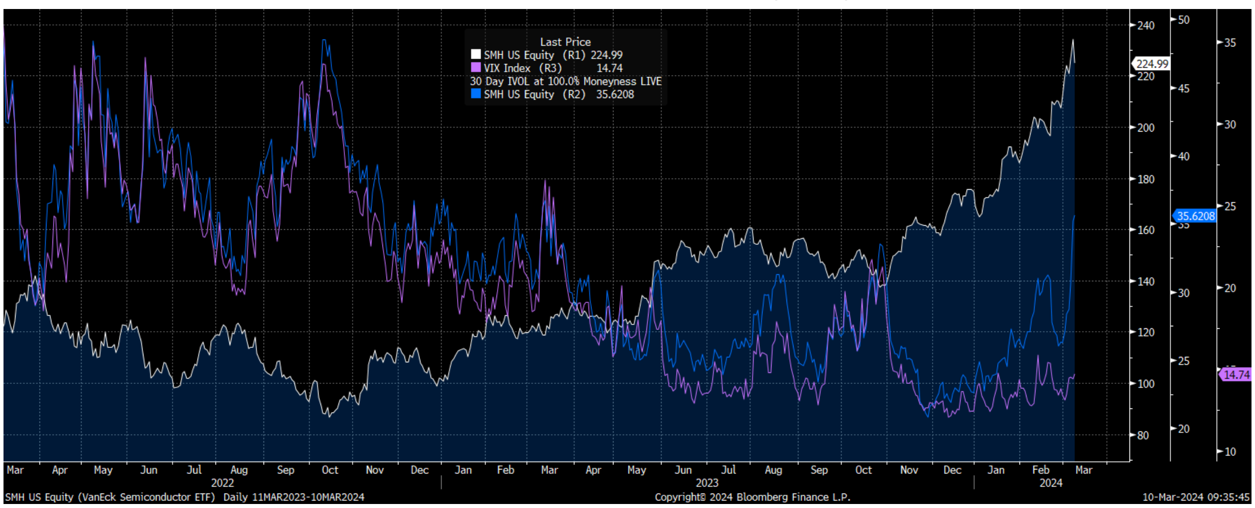
Alpha Trades Report:

The S&P500 remains bullish due to the positive liquidity and growth impulse in markets. However, there is a tension in positioning that is critical to take note of for managing beta and generating alpha.

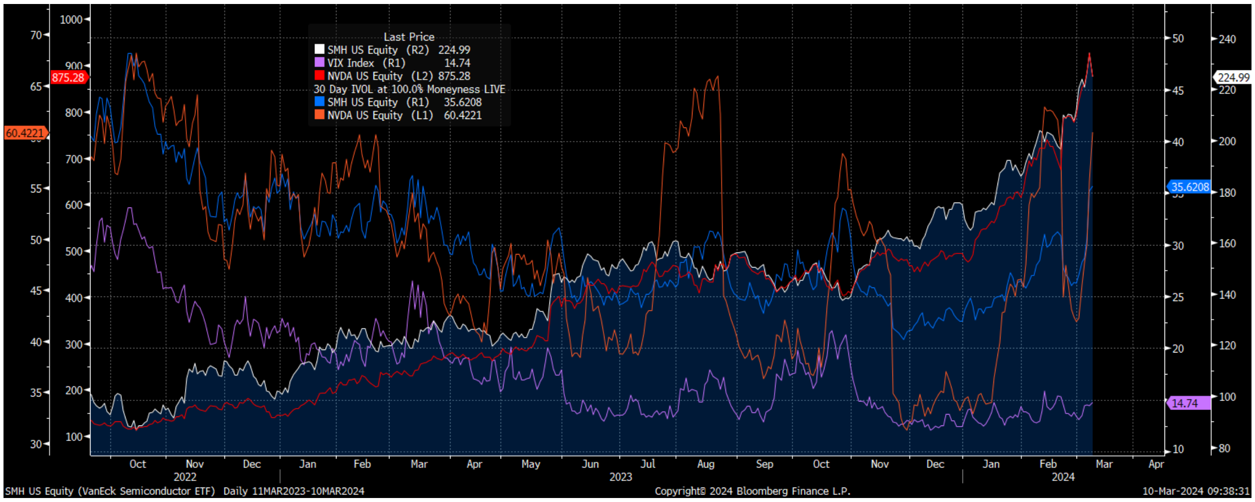
Positioning via COT data continues to show active managers positioned net short.



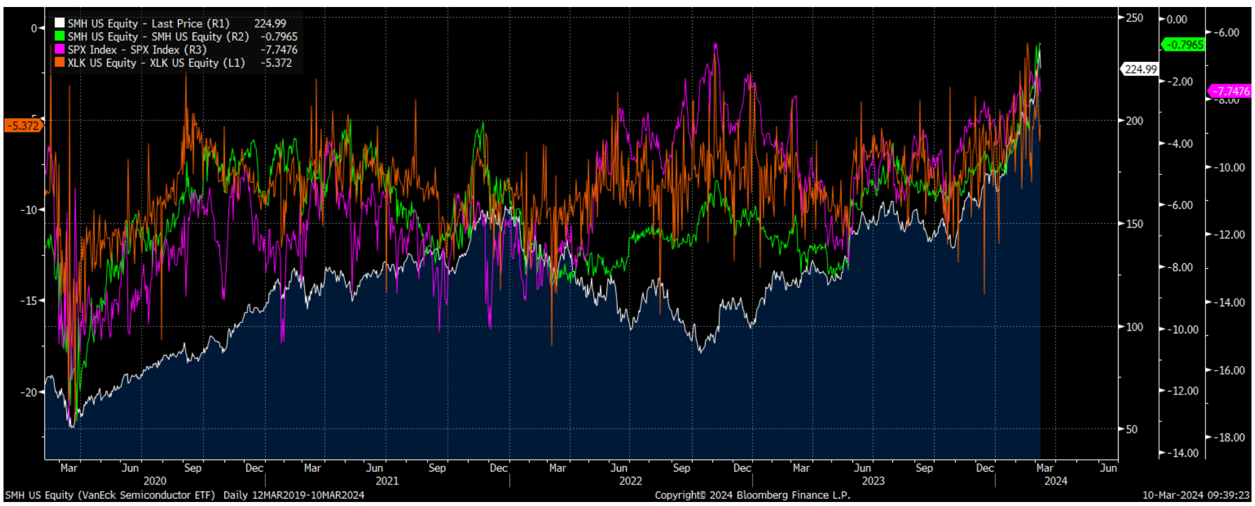
However, call skew has functionally blown out across the semiconductor sector and NVDA. Here is a chart of the implied vol in the semiconductor ETF (SMH) and the VIX.



Here is a chart with NVDA added. NVDA implied vol (orange) and Semis implied vol (blue) have deviated significantly from the VIX:



While skew has been rising across XLK (orange) and SPX (purple), the majority of the positioning squeeze is concentrated in the semiconductors sector with NVDA being the leader:



NVDA is clearly taking capital away from the other large caps. AAPL and GOOGL remain at the low end of their range as AMZN and MSFT slow in their upward momentum. This is occurring as NVDA is making a parabolic move on rising call skew.

This squeeze in skew began to reflect itself in Friday's price action as significant selling came in just after the open. However, this wasn't just in NVDA. It was also across the entire semi-space which indicates the blowout in call skew is likely going to mean revert:

While the skew is likely to mean revert, the implication for price action could be a bearish move or consolidation as we move into CPI and OPEX this week. While this can have an impact on the index, it is more likely that we see a rotation into other sectors. COT positioning shows active incredibly well hedged and the macro impulse is skewing equities to the upside.

While having an outright short on the semi-space or NVDA is unwise given the broader positioning and macro factors, trading the rotation on a tactical basis presents an opportunity to generate alpha. Long DIA / Short SMH pair is likely to reverse marginally from here. If we remain above Friday's reversal point in the ratio and skew begins to mean revert, this trade is likely to be a source of alpha if we see a sector rotation or outright pullback in the index.

Bonds:

The elevated nominal GDP conditions, positioning on the forward curve and inverted yield curve are skewing the risk-reward in bonds to be neutral over the next 2 months. The most recent PCE and NFP data releases caused marginal buying pressure.

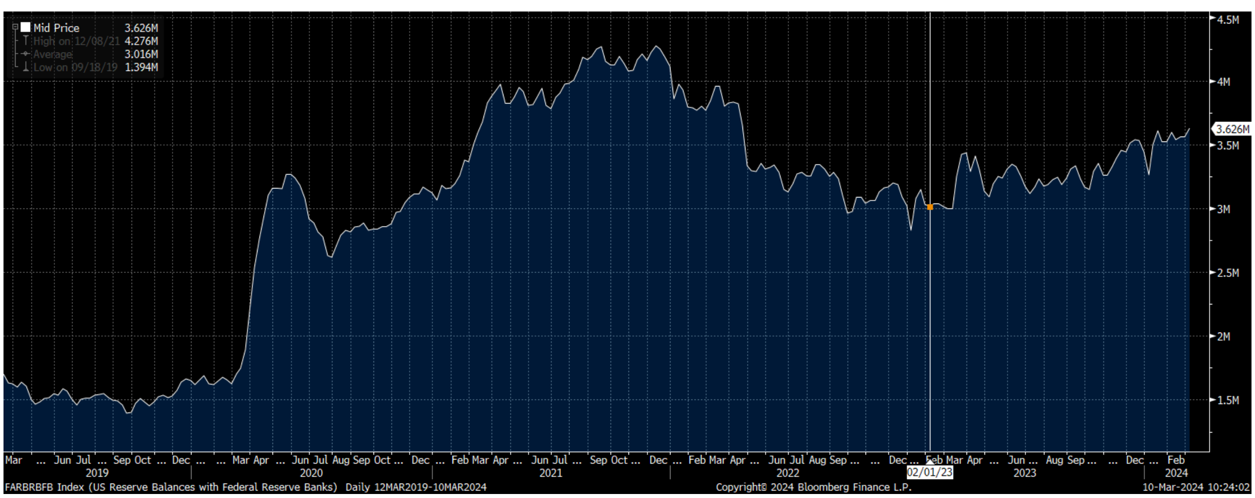
Short-term trades can be run on the short side of ZT if we spike up to the 102’30 level. However, these are likely to be short-term in nature since the forward curve isn’t as offsides as it was in January:

UB and ZN are at resistance here given the macro forces noted above.

There is downside on a short-term basis but fundamentally bonds are likely to trade in a neutral range over the next 2 months. This is why the steepener has greater risk-reward than an outright position from here because it is likely to payout in multiple scenarios:

A clearer expression of the macro environment continues to be long gold and short the dollar. While the price of money (via rates) remains in a range on a short-term basis, the quantity of money is expanding:

Bank reserves continue to accelerate:



While real rates remain elevated (inverted in orange), cross-currency basis swaps continue to rally indicating a surplus of dollar liquidity in the system. This is why we have seen the DXY and gold diverge from bonds:

Conclusion:

The macro environment is one of elevated nominal growth and accommodative liquidity which sets a clear skew to major assets on an outright basis. Within this environment, the dispersions and underlying rotations are the primary dynamics to capitalize on.