Alpha Trades Report:

Written: 3-17-2024

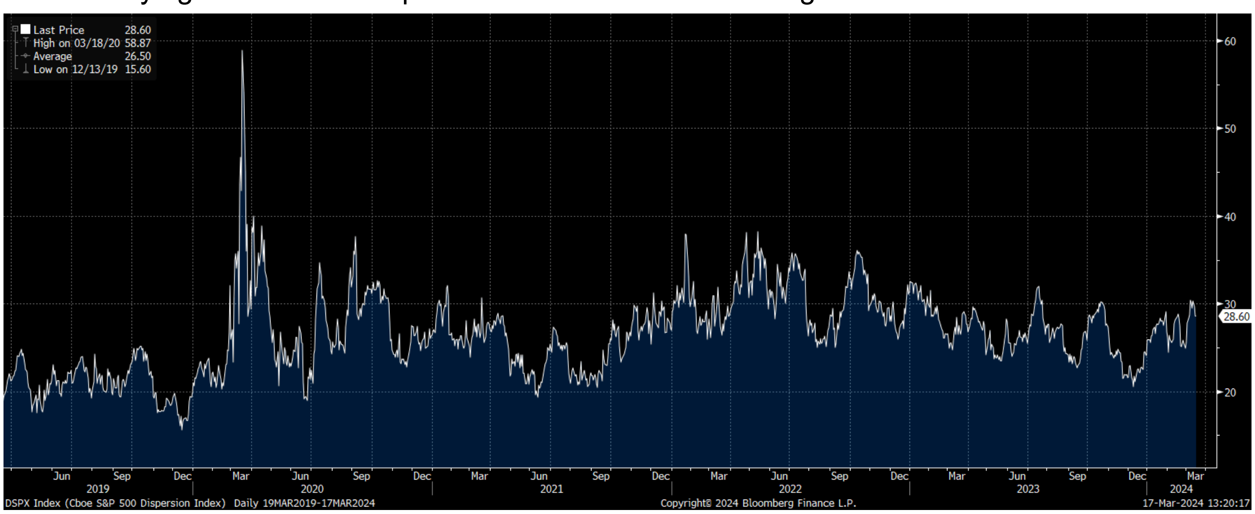
The tensions determining the short-term risk-reward in equities, bonds, FX, metals, and crypto remain the same on a cyclical basis. We are in a risk on environment with short term clearing events that cause positioning to marginally readjust. The primary catalyst this week that traders have positioned for is FOMC. This event will function as a short term inflection point given the most recent MoM acceleration in inflation.

Tension for flows: We continue to marginally shift between Goldilocks risk on flows and the risk of a marginal uptick in inflation.

Trades:

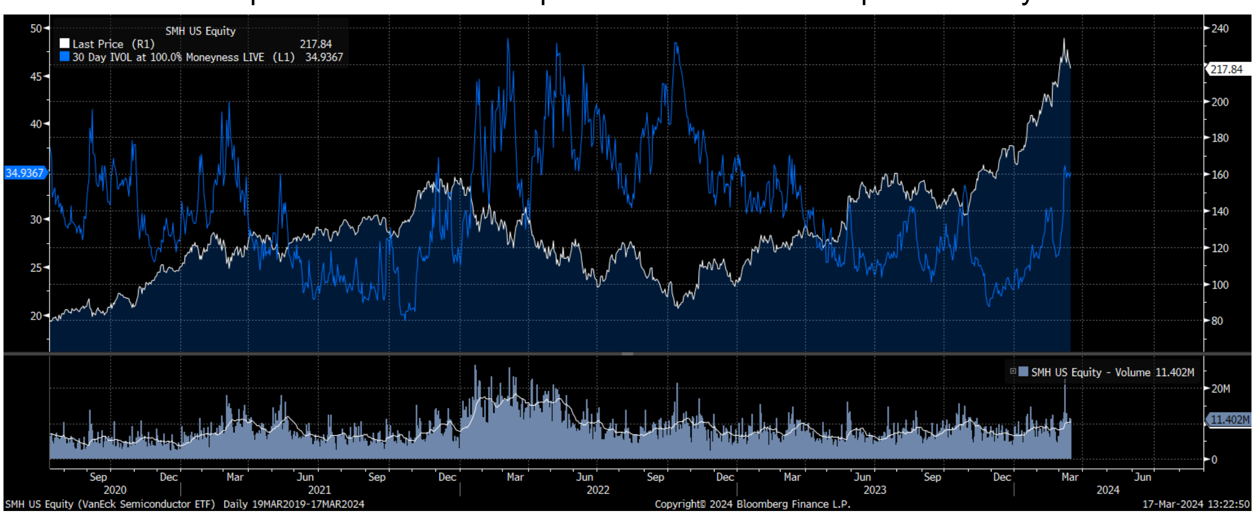
Stocks:

The underlying rotation and dispersion in the index remains high:

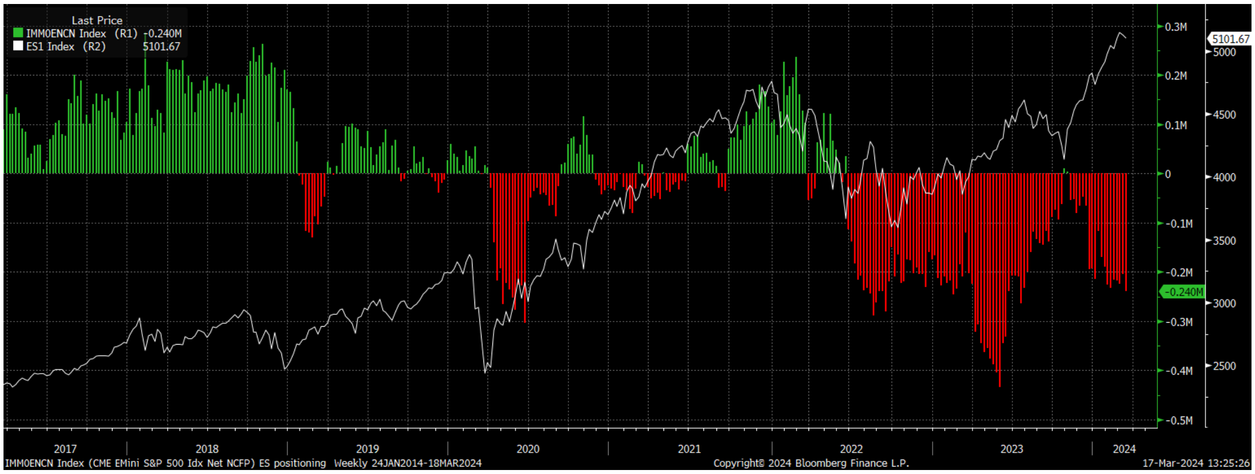


This is reflected in energy (XLE) and materials (XLB) outperforming QQQs. While this has primarily been neutral for the S&P500 index, the higher weighting toward tech can create some marginal weakness if inflation sensitive sectors pull capital at the expense of the QQQs.

This rotation is also occurring in Semi's which was noted in the previous alpha report. Given the valuation expansion after earnings catalysts with rising implied volatility, a short term top was highly likely. This was further amplified but the rotation into energy and materials. It will be difficult for further upside in semis to take place without a fall on implied volatility.



Downside in equities is limited here since growth remains positive, macro liquidity is expanding and active managers are incredibly well hedged. COT positioning continues to show active managers as hedged and market neutral (or outright short).

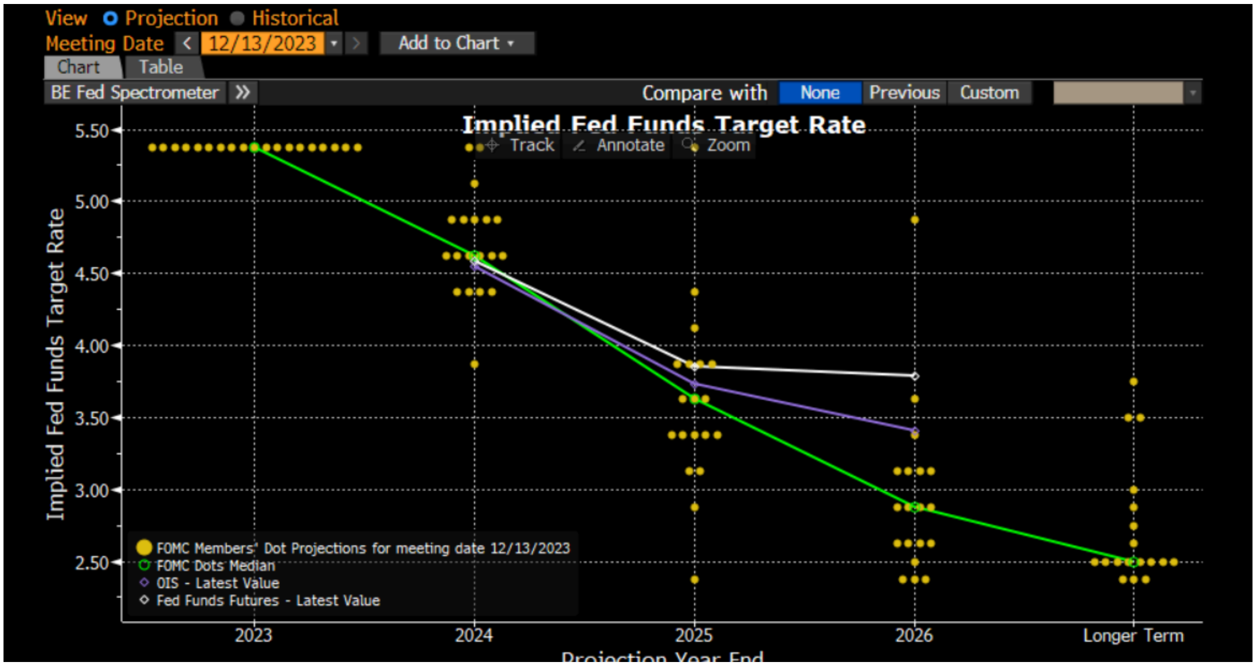


Sell off's in the index are likely to be bought aggressively as hedges are monetized. Marginal pull backs in ES this week during FOMC create an opportunity to open additional longs. If a stand alone trade, long ES with stops below 5100 offer highest expectancy.

Bonds:

The bond market is likely to make a short term bottom into FOMC this week and rally from here. There are several reasons that a rally is likely to take place post FOMC.

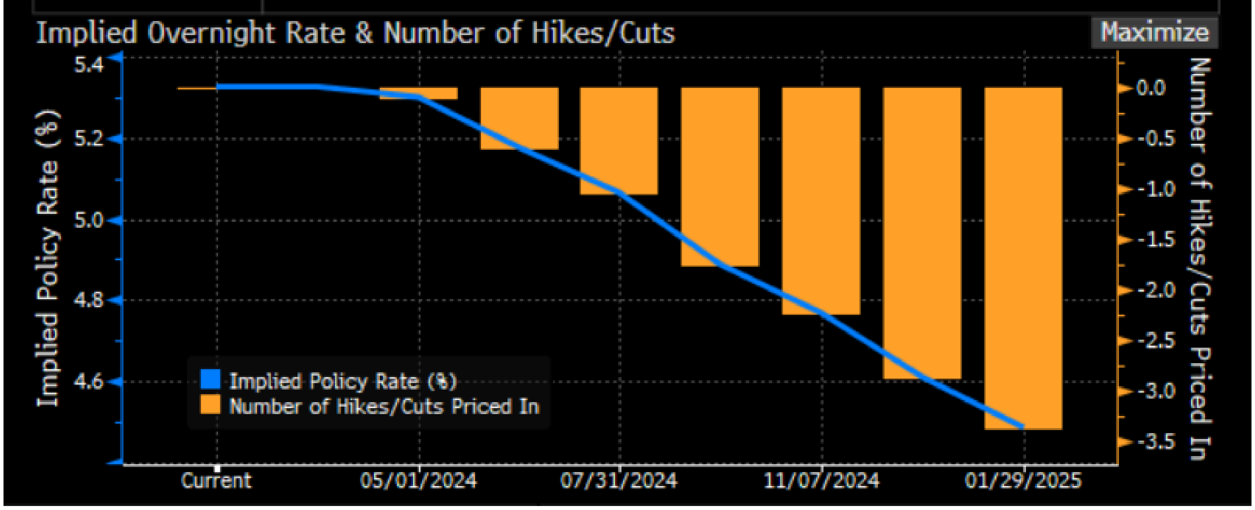
First, the Fed previously noted 3 rate cuts in their SEP projections.



The forward curve is now pricing 3 cuts. Even with the most recent MoM accelerations in CPI, we are unlikely to have significant downside in bonds since FF are already pricing in 3 cuts.

Region: United States » Instrument: Fed Funds Futures »
Target Rate 5.50 Pricing Date 03/15/2024
Effective Rate 5.33 Cur. Imp. O/N Rate 5.329

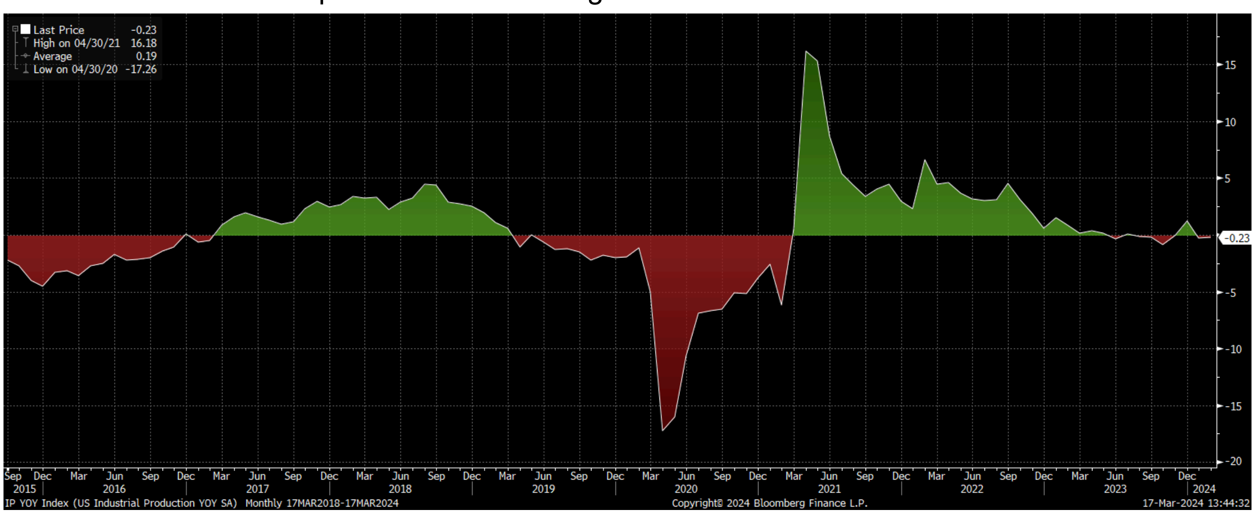
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/20/2024	-0.008	-0.8%	-0.002	5.327	0.250
05/01/2024	-0.111	-10.3%	-0.028	5.302	0.250
06/12/2024	-0.612	-50.1%	-0.153	5.177	0.250
07/31/2024	-1.048	-43.6%	-0.262	5.067	0.250
09/18/2024	-1.770	-72.3%	-0.443	4.887	0.250
11/07/2024	-2.237	-46.7%	-0.559	4.770	0.250
12/18/2024	-2.884	-64.7%	-0.721	4.608	0.250
01/29/2025	-3.378	-49.4%	-0.844	4.485	0.250



Second, growth has marginally weakened during this most recent sell off in bonds. While growth is showing resilience, the marginal weakening has a high probability of putting a floor in bonds and being a focus in Powell's speech.

- Key data points to take note of for growth:
    - Data has surprised expectations across industrial and cyclical sectors:

- Unemployment has risen from 3.8% to 3.9%
- Industrial production is now negative on a YoY basis:



- Personal consumption decelerated on a YoY basis but remains positive. Additionally, the wage data in the personal income and outlays data decelerated significantly in the last print:

These imply a lower spread between Fed funds and inflation metrics:
(Chart is FF minus headline inflation metrics with bottom 3 panels reflecting surprises to growth)

(Chart is FF minus core inflation metrics with bottom 3 panels reflecting surprises to growth)

The collocation of these variables create the preconditions for bonds to rally after FOMC as we move into the end of March.

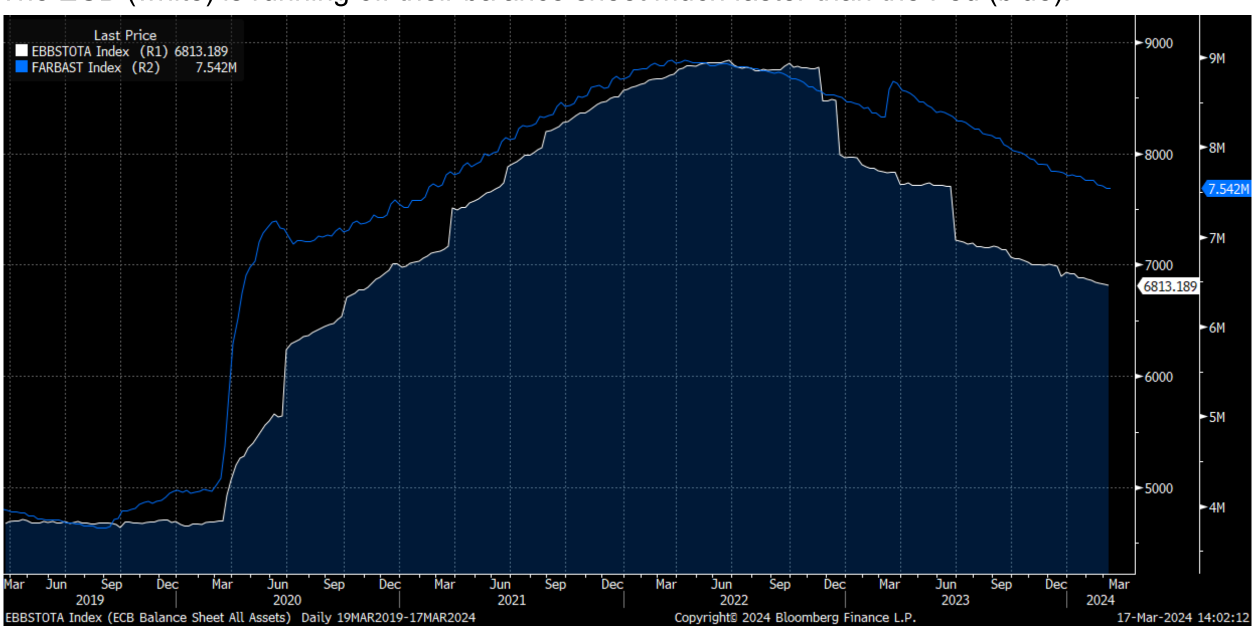
ZT is likely to make a bottom this week especially given the most recent steepening in 3m2y curve. This skews the R:R to the upside:

Since the 2s10s curve remains negative, being long a steepener has a better risk reward than being long ZN. While ZN will likely rally if the thesis above plays out, ZT is likely the best expression:

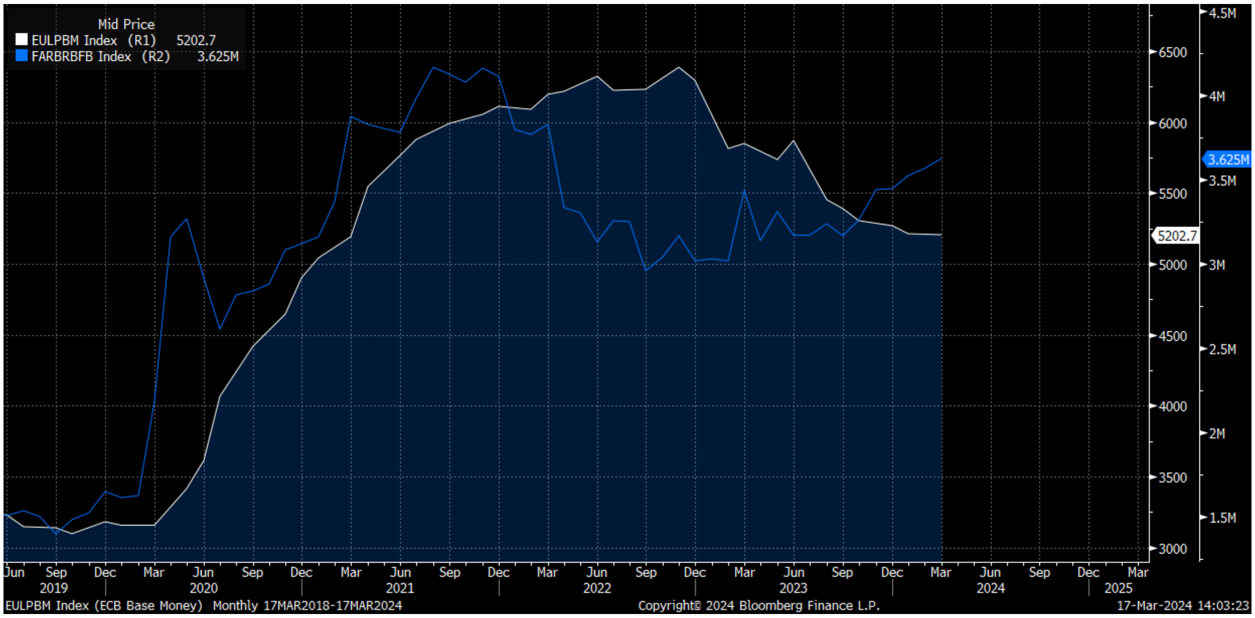
FX:

FX flows continue to move in lockstep with the fixed income complex but we have seen a marginal deviation that is due to the quantity of money in the system. The deviation from rates and the dollar illustrates this dynamic:

The ECB (white) is running off their balance sheet much faster than the Fed (blue):



And reserves at the Fed (blue) have accelerated significantly from the 2022 low while the monetary base for the ECB (white) is still decelerating:



The collocation of these variables continue to skew the dollar to the downside. There has been a short term rally in the DXY due to the repricing of the forward curve into FOMC. The DXY is likely to reverse after FOMC this week at the same time a potential bottom in bonds occur.

The DXY is likely to remain below 104 and fall as we move into the end of March.

Gold (inverted in chart below) is an explicit reflection of the quantity of money differential we have been seeing between the US and other major countries. This is likely why it has made such a strong breakout. The marginal pull back in gold over the past week is likely to find a short term bottom and begin to rally as a potential bottom in bonds and top in the DXY takes place.

Bitcoin falls squarely within these risk flows as a liquidity release valve. The parabolic rally in gold and Bitcoin is likely due to the quantity of money insights noted above. Bitcoin could have marginal downside but if we begin to have the macro thesis above play out then we are likely to see support.

Summary:

- While FOMC will be the ultimate determining factor, the current implied expectations embedded in markets is creating an opportunity to put on the collocation of multiple macro trades simlataniously. These trades are: Long equites, long bonds, long gold, and short the dollar. These trades are correlated but provide multifaceted exposure to the same macro thesis.

Additional catalyst to note for this week are as follows:

G8 | Browse | 14:12:14 | 03/17/24 - 03/24/24

Central Banks | All Central Banks | View Agenda Weekly

	Date Time	C	Event	Period	Surv(M)	Actual	Prior	Revised
21)	03/18 09:00	EC	ECB's Centeno Speaks at Awards Ceremony in Lisbon					
22)	03/18	JN	BOJ Policy Balance Rate	Mar 19	-0.100%	--	-0.100%	--
23)	03/18	JN	BOJ 10-Yr Yield Target	Mar 19	0.000%	--	0.000%	--
24)	03/19 01:30	EC	ECB's Guindos Speaks					
25)	03/19 01:40	EC	ECB's Hernandez de Cos speaks in Madrid					
26)	03/19 07:00	US	FOMC Begins Two-Day Meeting					
27)	03/20 01:45	EC	ECB's Lagarde Speaks in Frankfurt					
28)	03/20 02:30	EC	ECB's Lane Speaks in Frankfurt					
29)	03/20 05:00	EC	ECB's De Cos Speaks in Frankfurt					
30)	03/20 06:45	EC	ECB's Schnabel Speaks in Frankfurt					
31)	03/20 09:30	EC	ECB's Nagel, Villeroy Speak in Saarbruecken					
32)	03/20 10:30	CA	Bank of Canada Releases Summary of Deliberations					
33)	03/20 11:00	US	FOMC Ends Two-Day Meeting					
34)	03/20 11:00	US	FOMC Rate Decision (Upper Bound)	Mar 20	5.50%	--	5.50%	--
35)	03/20 11:00	US	FOMC Rate Decision (Lower Bound)	Mar 20	5.25%	--	5.25%	--
36)	03/20 11:30	US	Fed Chair Powell Holds Post-Meeting Press Conference					
37)	03/21 05:00	UK	Bank of England Bank Rate	Mar 21	5.250%	--	5.250%	--
38)	03/21 06:50	CA	Bank of Canada Deputy Governor Gravelle Speaks in Toronto					
39)	03/21 09:00	US	Fed's Barr Participates in Fireside Chat					
40)	03/21 18:10	JN	BOJ Outright Bond Purchase 1~3 Years					
41)	03/21 18:10	JN	BOJ Outright Bond Purchase 3~5 Years					
42)	03/21 18:10	JN	BOJ Outright Bond Purchase 5~10 Years					
43)	03/21 18:10	JN	BOJ Outright Bond Purchase 10~25 Years					
44)	03/22 02:00	EC	ECB's Nagel Speaks					
45)	03/22 03:00	EC	ECB's Holzmann Speaks in Vienna					
46)	03/22 03:30	RU	Key Rate	Mar 22	16.00%	--	16.00%	--
47)	03/22 04:00	PO	ECB's Centeno Speaks at Press Conference in Lisbon					
48)	03/22 06:00	EC	ECB's Nagel Speaks					
49)	03/22 06:00	US	Fed Listens Event, Opening Remarks from Powell					
50)	03/22 09:00	US	Fed's Barr Speaks on International Economic, Monetary Design					

Overview | Real GDP YoY | Unempl. Rate | CPI YoY | Central Bank Rate | Indust. Prod. YoY