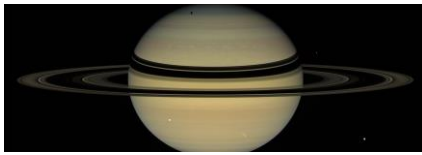


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FX

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Saturn's rings and the shadows they cast



Saturn's rings, a series of translucent arcs

Current Views

Sell ES one hour after Fed chair nominated. Risk 1% to make 3%.

Speaking of Brainard

Another brick in the wall

On both Friday and Monday, the S&P 500 and the VIX closed higher in tandem. This tends to be a bearish setup as it shows overexuberant bullish activity (call buying) in the same way overbought sentiment is measured by the put/call ratio.

Here are SPX forward returns after the VIX is up 1.0 or more and the SPX is up 0.3% or more (exactly what happened Friday).

Vix up >1, stocks up >0.3%					
	5d	10d	20d	30d	60d
count	19	19	19	19	19
average	-1.0%	-0.6%	-0.4%	1.2%	1.7%
median	-0.4%	0.8%	0.7%	0.8%	3.1%
win%	42.1%	52.6%	57.9%	57.9%	68.4%
FULL SAMPLE					
	5d	10d	20d	30d	60d
count	5,266	5,266	5,266	5,266	5,202
average	0.1%	0.3%	0.6%	0.8%	1.7%
median	0.3%	0.6%	1.2%	1.5%	2.9%
win%	57.3%	60.2%	63.6%	64.1%	67.2%

Full sample = 2000 to now

Important note if you care about data mining and stuff like that: The filter looks somewhat arbitrary but it's not, I used Friday's move as the filter. Parameters are NOT fitted or gamed to optimize the result. If you use simply "VIX up, stocks up", the result is less bearish but still bearish. I put the outcomes grid for "VIX UP, STOCKS UP" in the Appendix.

Simple expressions of the bearish view here would be to sell call spreads in S&P futures or sell call spreads in TSLA. Linear (cash) positions are risky because a Fed nomination announcement will probably lead to a (possibly final) surge higher in stocks, regardless of the person chosen.

To be clear, I think we are near a micro peak in stocks as: the DSI is mega overbought, everyone I know is bullish, and the "VIX UP, STOCKS UP" pattern is bearish. The half-life on these tactical bearish views is 10 to 20 days.

BUT! I don't really know how to manage the risk of a final bull melt surge on Fed nomination, so tactics don't quite align with strategy yet. Perhaps the dream trade is to wait for a Fed nomination (doesn't matter who), wait one hour, and sell ES. Risk 1% to make 3%. I put that in the sidebar.

Speaking of Brainard

Here is where we stand on the Fed nomination, and here are my views.

1. **Where we stand on Fed nomination.** If you believe the media reports, it's down to Brainard and Powell and it's a legitimate horse race. Whether Brainard's visit, which the media is now calling a job interview, was a polite nod to the progressives, or a true job interview is not known. A surprising number of job interviews have a purpose other than a legit interest in hiring the candidate. They can be to keep someone else happy by demonstrating the candidate had a shot, they can be for information gathering, or they can be genuine. Hard to say here, but the media is always going to frame it in the sexiest way possible to maximize clicks.
2. **Consensus view.** Powell is still 70% on PredictIt. Brainard's odds have drifted higher but not much. By the way, I have started using [Kalshi](#) more than PredictIt. It's a nicer interface and looks to me like the future of trading for event contracts. Clients I talk to are very strongly against the idea that Brainard has a shot, even after all this media coverage. The dominant thesis out there is:
 - a. Brainard probably can't clear nomination.
 - b. Biden has too much on his plate, and status quo is path of least resistance.
 - c. Anything but Powell will be too disruptive for the markets.

My retorts:


- a. Maybe, maybe not. What is not clear to me is: What if she gets nominated and rejected? It will be almost February. Does anyone know what would happen next? If you do, please email me.
- b. My belief is that politicians on both sides of the aisle have a stronger-than-ever desire to control major US institutions like the Fed and Supreme Court. This is an epic opportunity to do a D for R switch. Biden might think that's worth fighting for. Also, if you were going to go path of least resistance, would you still be waffling on November 9? Each day that passes makes the Powell situation more sus.
- c. I am not sure SPX 4700 or 4200 registers in Biden's list of Top 100 things he cares most about.
3. **Market reaction.** Given Powell remains consensus, I don't see much reaction if he is nominated. 24 handles or so higher in spoos and then back to your regularly scheduled programming. My view on the market reaction to Brainard is kind of confusing and hard to trade but here it is:
 - a. Kneejerk reaction is a standard dovish playbook. Buy front end, buy stocks, sell dollars.
 - b. Next phase is: Dovish is the wrong policy for the current macro. Stocks reverse, back end sells off, USD keeps selling off.
 - c. The persistent trade that holds post-kneejerk is probably that the USD remains heavy.
 - d. The wise guy trade is my "sell the pop in ES" trade.

EURCHF

Sight deposits the last two weeks were 1.8 billion and 1.2 billion. Given the suddenly-resilient price action in EURCHF, I bet next Monday's release will be around 2 billion. If you think the SNB wins again, you can sell a 6-month 1.0419 one touch for more than 50%. Risk X to make X kinda thing. It's a carry trade that will work if the SNB continues to use EURCHF as their primary monetary policy instrument. Limited downside if wrong.

Remember how excited we all were about infrastructure?

damp squib noun

 Save Word

Definition of damp squib

British

: something that is disappointing because it is not as exciting or effective as expected

// The company's stock turned out to be something of a damp squib.

When they break up Alphabet, it's bullish

Bloomberg: GE Will Split Into Three Units, Ending Conglomerate for good ...
Up 17% in premarket.

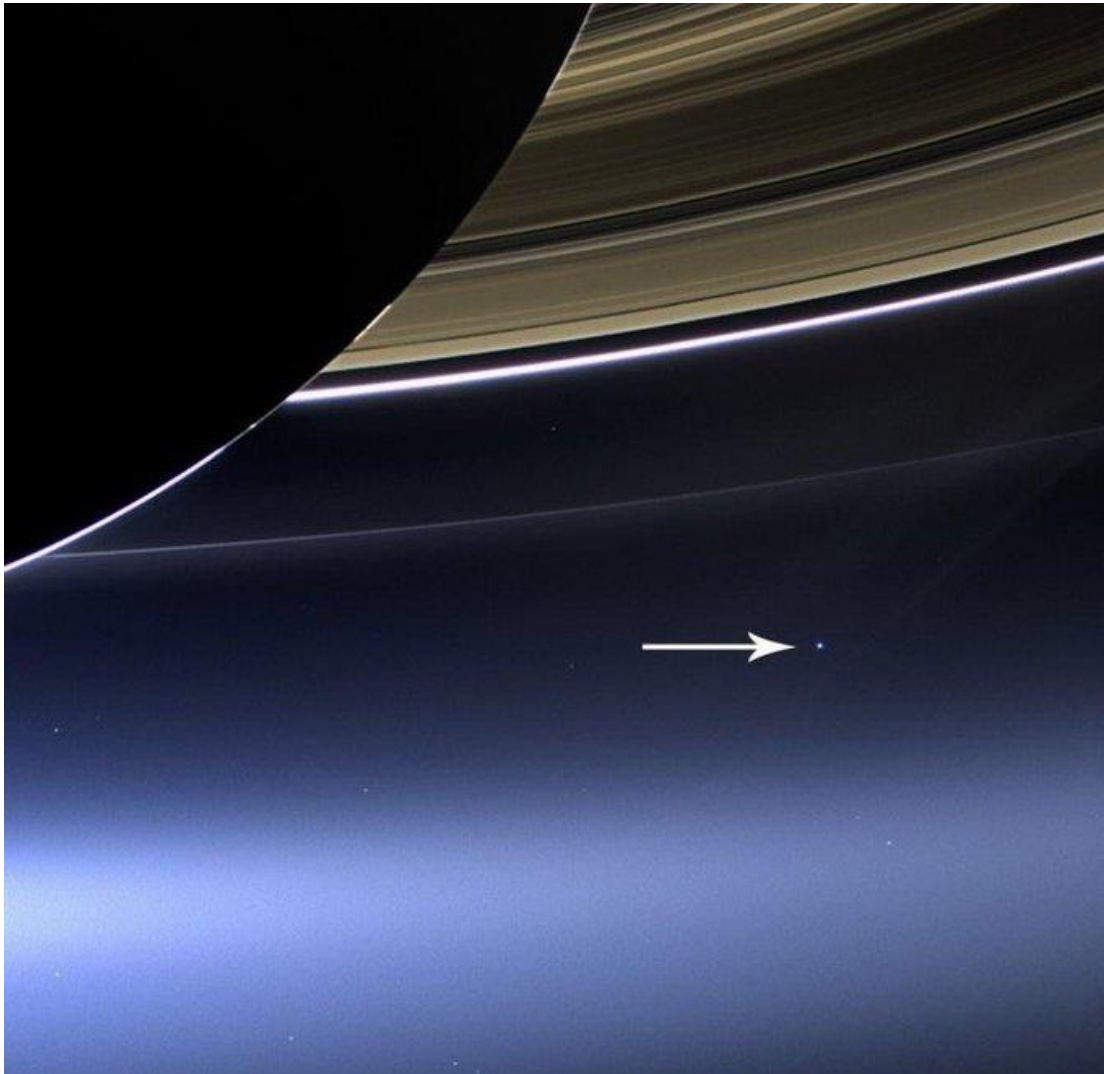
good luck ↑↓ be nimble

APPENDIX

Same grid as page 1, but parameters changed to STOCKS UP, VIX UP from VIX up 1, stocks up >0.3%.

	Vix up, stocks up				
	5d	10d	20d	30d	60d
count	357	357	357	357	351
average	-0.2%	0.0%	0.2%	0.6%	1.4%
median	0.1%	0.4%	0.8%	1.2%	2.8%
win%	51.8%	57.1%	62.7%	64.1%	66.7%
	FULL SAMPLE				
	5d	10d	20d	30d	60d
count	5,266	5,266	5,266	5,266	5,202
average	0.1%	0.3%	0.6%	0.8%	1.7%
median	0.3%	0.6%	1.2%	1.5%	2.9%
win%	57.3%	60.2%	63.6%	64.1%	67.2%

Somewhere on that tiny dot, you are sitting in a chair,
staring at a computer screen.



A picture of earth taken from Saturn, by Cassini

<https://solarsystem.nasa.gov/missions/cassini/overview/>

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