am FX

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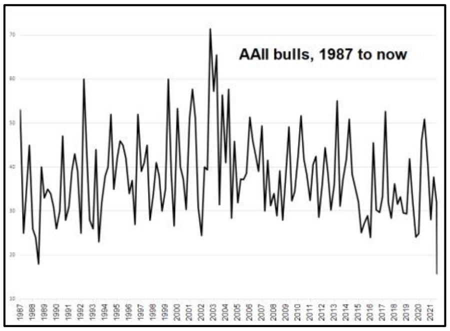
Japan has all
the coolest stuff

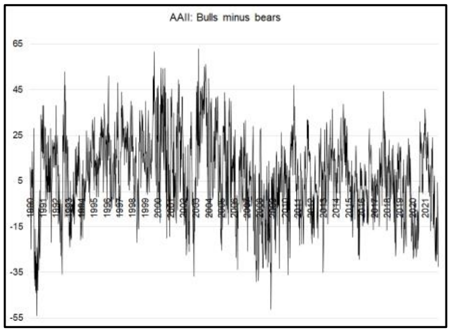
Current Views

Flat

Bulls, bears and micropigs

AAII bulls and AAII bulls minus bears are both at or near all-time lows.

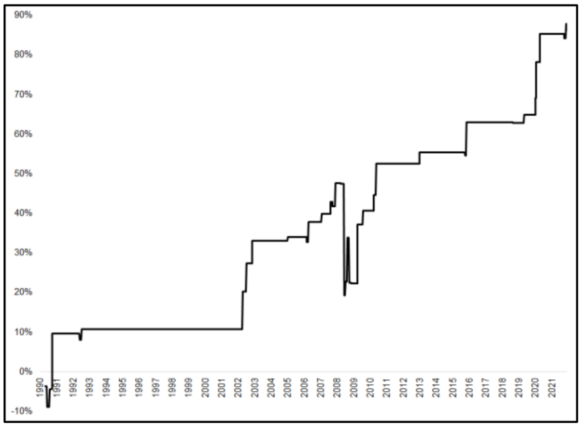




To be honest, I'm having trouble squaring this extreme bearish reading with what looks to me to be extreme complacency still. That is, I'm not sure positioning matches sentiment right now. Yes, hedge funds have derisked, but retail has not. Not at all.

QT starts soon and we have the 2018 experience to teach us what that might mean. Addition or subtraction of liquidity has been the most important variable for stocks since 2009. Therefore a 7% correction off the highs seems to me like a weak attempt to price in the still-recent, very aggressive turn in global central bank liquidity. As such, I cannot bring myself to get bullish equities, but for the sake of intellectual honesty, here is the performance of (long US equities when BULLS minus BEARS is below -25 (currently -33). Four week holding period.

P&L of long SPX if (AAII bulls minus bears < -25), four week holding period



The win rate is 66% vs. 62% in all other 4-week periods, the sample size is 38 non-overlapping 4-week periods, and the median return is +2.9% vs. +1.2% in all other 4-week periods. The effect is strong and hard to ignore. If you take out 2008, the effect is gigantic. Today is also tax day, and that can often be a low point for stocks in periods of heavy retail involvement as retail selling to fund tax payments dries up.

I thought maybe the lack of a spike in VIX would signal that this AAII result is less meaningful (because there is no fear), but surprisingly, low AAII readings along with stable / low VIX is even more bullish! Really, I should probably be getting long equities here, but with the FOMC in two weeks I cannot bring myself to do so.

At right are the highest correlations between FX and equities for 2022 so far.

With SPX correlation to GBPUSD high and rising, I will take profit on the short GBPUSD. It's the least I can do to recognize what is a raging bullish equity setup.

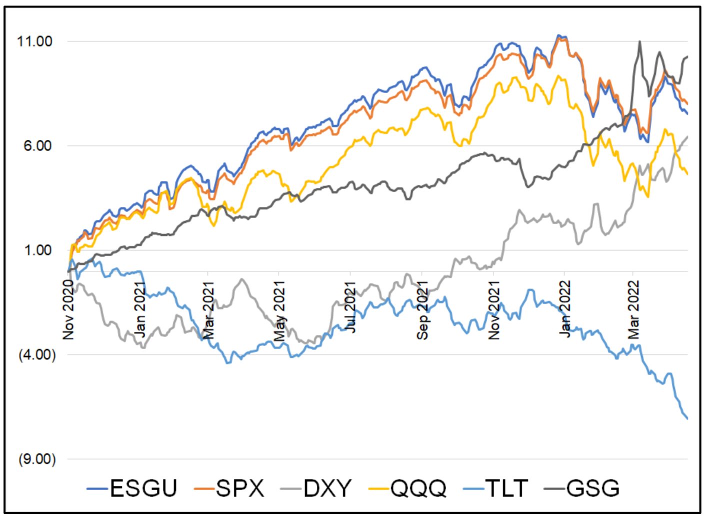
USDCAD BGN Curncy -0.73 H-0.10 L-0.76	GBPUSD BGN Curncy +0.64 H+0.71 L+0.02	USDSEK BGN Curncy -0.62 H-0.06 L-0.63	USDDKK BGN Curncy -0.61 H+0.03 L-0.65	EURUSD BGN Curncy +0.60 H+0.64 L-0.03
AUDUSD BGN Curncy +0.59 H+0.61 L+0.09	USDNOK BGN Curncy -0.56 H-0.07 L-0.61	AUDJPY BGN Curncy +0.50 H+0.66 L+0.10	EURJPY BGN Curncy +0.48 H+0.60 L-0.10	CADJPY BGN Curncy +0.45 H+0.63 L+0.10
GBPJPY BGN Curncy +0.43 H+0.64 L+0.07	NZDUSD BGN Curncy +0.42 H+0.52 L+0.00	NZDJPY BGN Curncy +0.39 H+0.64 L+0.05	USDCHF BGN Curncy -0.39 H+0.10 L-0.39	EURCHF BGN Curncy +0.38 H+0.47 L-0.22

Why not go long equities? I think this is a crosswinds situation where the sentiment setup is clearly raging bullish, but the macro setup remains bearish. Until the May 4 FOMC is out of the way, I think long risky assets will be bumpy and unfun and as such I'm willing to take a pass here. Equities are exactly mid-range (4102/4631 range in Feb/March = 4367 mid and current SPX level 4375). This mid-range location makes it much more difficult to risk manage a bullish SPX view.

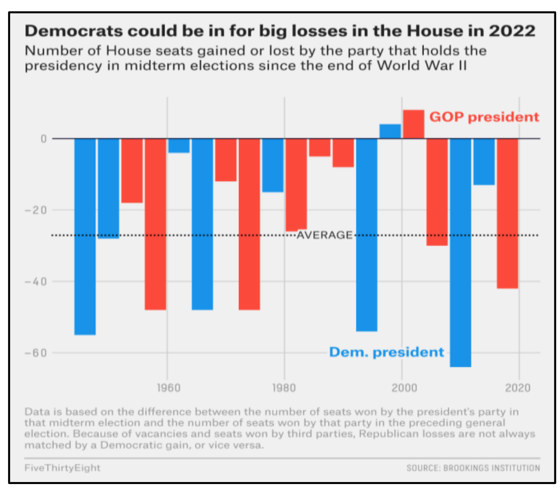
Checking in on the Blue Wave

The Blue Wave (Democrats win presidency, house, and senate) was expected to usher in a macro environment characterized by: Sell USD, sell bonds, buy commodities, buy ESG, and sell big tech. Economists are famous for their inability to predict the future, but in this case, three of five predictions came true, one was a push (ESG performed the same as the broad market) and one was wrong. Here is the performance of those trades, vol-adjusted, from November 3, 2020 to now.

The favorite Blue Wave trades, performance since 2020 election day



ESGU is an ESG ETF. It tracked the S&P perfectly. DXY sold off for a while but then ripped. QQQ underperformed as expected. TLT got smoked, as expected. GSG (a commodity ETF) ripped. Maybe economists are better at predicting the impact of fiscal stimulus than they are at predicting the impact of QE? Or maybe it was luck. Anyway, the Blue Wave is over. The Dems are going to get the usual mid-term drubbing that just about every incumbent experiences. See chart at right from FiveThirtyEight.



Closing thoughts

I follow quite a few pragmatic/agnostic real estate people on Twitter. Consensus seems to be that Canada housing has peaked. US might be peaking too. See here and here. PS, "peaked" does not mean "about to crash". Oinks for reading; have a boaring day.

good luck ⇅ be nimble

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