

The Damped Spring Report

"Shifts in growth, inflation, risk premium and positioning all lead to opportunities in markets"

12/30/2019

Synthesis

Its been longer than normal since we have published due to shoulder surgery. TMI? Ok back to the DSR.

The month/quarter/year end rebalancing flows are particularly worthy of review today and we will make this fairly brief as typing remains difficult for a few more weeks. We will also send out a year ahead (cliché we know) report later this week.

Headlines only this report.

Today or tomorrow is an excellent time to get max short global equities due to heavy rebalance flows selling of equities to balance passive portfolios of all sorts. 60/40 is over long equities in particular while risk parity is over long but less so. We expect that portfolios have already levered up due to lower future expected volatility and now are offside global equities by at least 60BN which will need to be worked down over the next 3-5 trading days.

We expect a combination of the rebalance sell equities/buy bonds for month end and the end of the Santa Claus flows of catch up buying and deferring tax gain selling, along with the closing of the corporate share repurchase window to result in meaningful pressure on stocks in the very short term particularly at the close of trading on 12/31 but also today and the beginning days of the new year

We are NOT concerned at all about the repo market over year end.

Our current recommend portfolio is short US equities and Bonds with a leveraged position toward downside of both. We add shorts in European stocks and bonds today to get max short assets in general and overweight stocks due to a continued (and so far wrong) view that growth will not live up to what is priced into markets.

We will be more specific in the year ahead piece later this week but we leave you with the title. The next decade will be the decade of the "Zombies".

Happy New Year and feel free to contact us if you need more details on above. Talking easier than typing.

Current Model Portfolio performance and recommendations

We will be adding short call spreads on RX and SX5E one hour before the close on 12/31 and will update the portfolio for the next report

Assumed Portfolio size	100,000,000						
LTD P/L	5,580,121						
Total Return	5.58%						
Today's Date	12/30/2019	Portfolio Created	4/15/2019				
Date	Position	Entry Price	Amount	Worst case loss	MTM	P/L	Open/Closed
9/3/2019	SX5E Dec 3200/3000 Put Spread	31	3226	1,000,000	0	(1,000,000)	Closed
9/3/2019	SPX Ded 2700/2500 Put Spread	29.2	342	1,000,000	0	(1,000,000)	Closed
12/2/2019	SPX Mar 3150/3200 Call Spread	30	-500	1,000,000	37	-350000	Open
12/2/2019	SPX Mar 3050/2950 Put Spread	18	556	1,000,000	11.4	-366667	Open
12/2/2019	TY Mar 130/131 Call Spread	0.21875	-1280	1,000,000	0.125	120000	Open
12/2/2019	TY Mar 127/126 Put Spread	0.140625	7111	1,000,000	0.203125	444444	Open