

The Damped Spring Report

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

3/16/2020

Position Update

As promised, we add positions to our shadow portfolio. See reprint of yesterday's note. We admit to being somewhat surprised that the bad news virus wave made Powell's Tsunami look bad for today. But it's a good time to sell put spreads on stocks and gold and sell iron condors on ten-year notes. For our predictions to hold the fiscal spend must come on the back of the monetary wave but we are confident that a large spend is coming

Here's the current portfolio

Assumed Portfolio size	100,000,000						
LTD P/L	9,334,162						
Total Return	9.33%						
Today's Date	3/16/2020	Portfolio Created	4/15/2019				
Date	Position	Entry Price	Amount	Worst case loss	MTM	P/L	Open/Closed
2/26/2020	TY Apr 132.5/133.5 Call Spread	0.484375	-1939	1,000,000	1	(1,000,000)	Open
1/15/2020	GBP 131/129 Put Spread 4/15/20209	0.5	(66,666,667)	1,000,000	1.75	(833,333)	Open
3/10/2020	SPX April 2500/2400 Put Spread	25.5	-67	500,000	43	(117,450)	Open
3/10/2020	SPX April 2900/3000 Call Spread	44	-134	750,000	25	254,464	Open
2/26/2020	GCI April 1625/1575 Put Spread	13.7	-275	1,000,000	30	(449,036)	Open
3/10/2020	GCI April 1700/1750 Call Spread	8	-119	500,000	3	59,524	Open
3/10/2020	TY June 136/135 Put Spread	0.390625	-821	500,000	0.4375	(38,462)	Open
3/10/2020	TY June 140/141 Call Spread	0.390625	-821	500,000	0.203125	153,846	Open
3/16/2020	SPX April 2500/2400 Put Spread	43	-88	500,000	43	-	New
3/16/2020	GCI April 1500/1450 Put Spread	20	-333	1,000,000	20	-	New
3/16/2020	TY June 140/141 Call Spread	0.203125	-627	500,000	0.203125	-	New
3/16/2020	TY June 136/135 Put Spread	0.4375	-889	500,000	0.4375	-	New

3/15/2020

A Money Tsunami arrives Fed cuts 100Bp and adds 500BN of QE

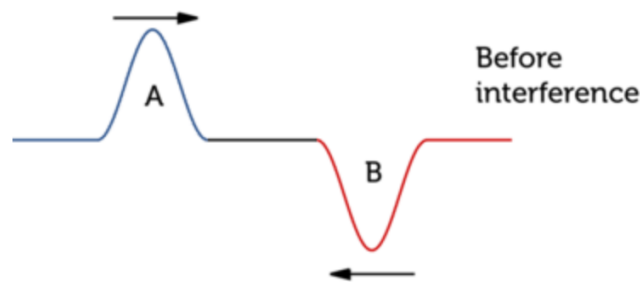
First the headline: In early January Damped Spring Report predicted that the US equity market would make its 2020 high in January. We were a few weeks off. Today we make the following predictions.

- The SPX has made its high and low for the year.
- The 10 Year note yield has made its low and high for the year.

- Gold has made its low and high for the year.
- Given the extraordinary level of implied volatility present in markets options strategies that benefit from the 2020 ranges already having been set are extremely attractive.

Back to the Money Tsunami

The massive wave of money that just arrived and will support the global markets and allow for portfolio deleveraging over the coming weeks. The first wave, a large fiscal stimulus was passed in the US house of representatives this weekend. That wave just grew, in size, and intensity, as the Fed made its moves and as other countries add to its amplitude in the days to come. It will crest and smash down on the illiquid global markets. Will this wave fix the economy? It depends. The fiscal wave and monetary earthquake are designed to support those most impacted by the Covid19 Virus, troubled financial markets and the real economy. The Virus is a massive force as well. Up until this weekend the virus has propagated both literally as people get sick and in markets without much fiscal or monetary interference. But now the waves are about to collide.



What happens when two waves of similar amplitude and opposite frequency hit at the same time?



We believe that the coming weeks through March month end will be significantly calmer than the weeks in the recent past. That calmness will be certain to result in some contraction of global risk premiums as the monetary and fiscal money wall allows over-leveraged portfolios to rebalance. In aggregate we predict there will be strong performance for all assets and in particular, the month end re-balance and the strong counter influence on growth expectations of the Money Tsunami will result in the 60/40 portfolio recovering more quickly than the growth neutral portfolio. Stocks will outperform gold which will outperform long dated bonds.

Last week we flattened our directional exposure taking profits on our short equity bets and Initiated short volatility bets on all assets. Today we recommend adding

to those short volatility bets and diversifying across even more markets. Markets are not open. We will send specific position recommendations as markets open. But the basic point is to sell put and call spreads that profit if markets have made their highs and lows for the year already.

Our conceptual model of two offsetting massive forces cancelling each other out is obviously simplistic. We do not know the actual forces of each. We do not know the duration of the virus impact. We are counting on the virus to subside in 2020. If it does not the markets are not pricing in a long quarantine. But we have no other insight on such an unlikely outcome, and neither will financial markets. We do expect, that now that the world is focused, further necessary fiscal effort will happen if the first wave fails or its impact fades. Further monetary response in such a failure will now almost certainly be direct deficit spending and debt monetization which though untried will likely have near term powerful impact. Other non-traditional asset purchase are also an option if necessary.

More in the morning.