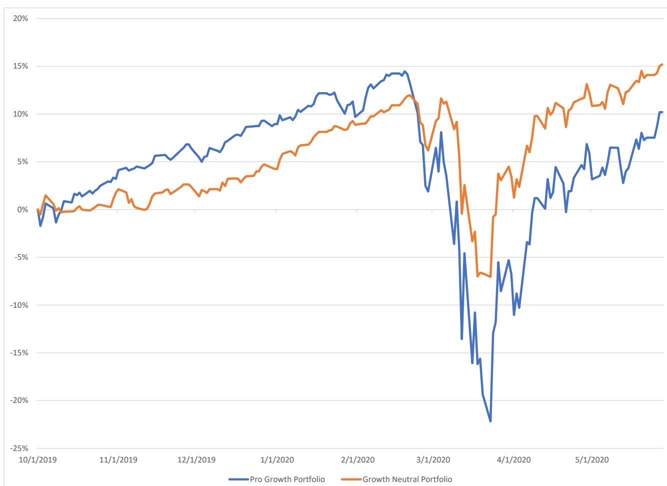
The Damped Spring Report

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

5/28/2020 Risk Premiums continue to contract despite tighter money

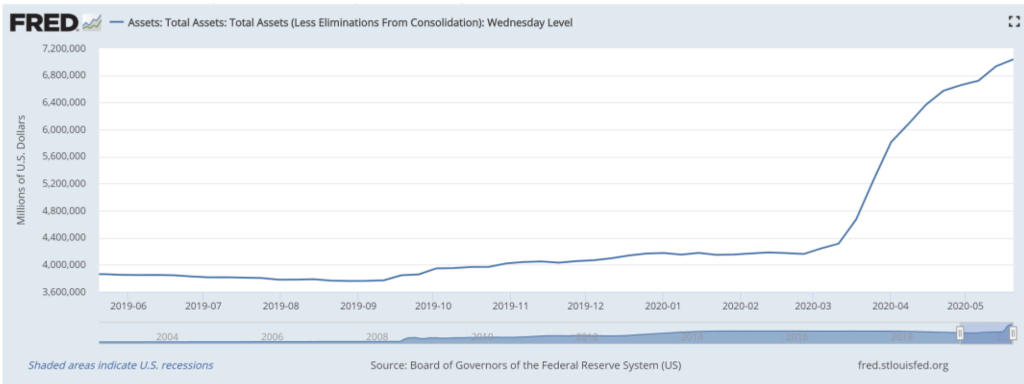
Over the last few weeks the Fed has tapered its asset purchases and the US Treasury and Corporations have massively increased issuance. We predicted this would stall the rally in financial assets and in particular equities as money and credit got tighter. **We were wrong. We return to our bullish stance on equities and expect the SPX to reach 3150 by July 1st.** The 3150 target is explained more thoroughly in past issues of the DSR.



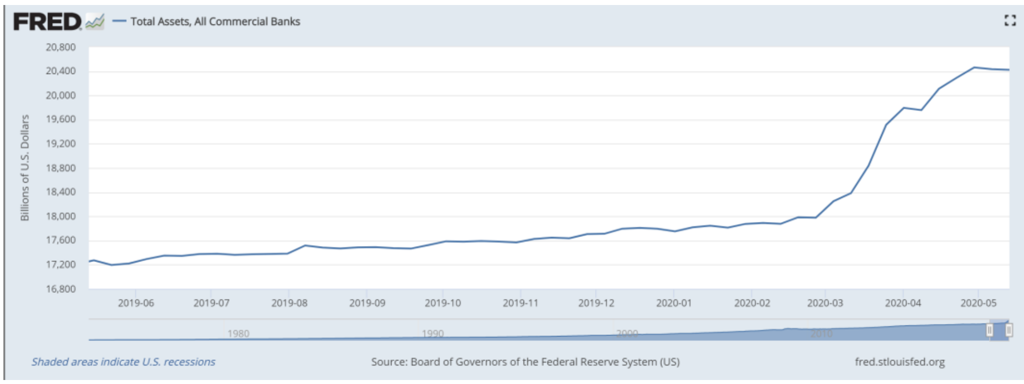
Growth neutral portfolios have continue to rally. In the last two days Positive Growth portfolios have outperformed which is less interesting to us but still relevant. Growth neutral portfolios are designed to reflect only risk premium expansion and contraction. Clearly risk premiums continue to contract. As you know we believe risk premiums are driven by:

- The supply of money and credit vs the demand for money to consume, invest in the real economy, and to purchase financial assets.
- The risk of holding specific finanancial assets vs cash
- The leverage of, and available diversification benefit in, portfolios of assets

Our call was the headwind coming from the first bullet. The supply of UST remains large and will be sold over the coming weeks. The Fed has indeed tapered.



The other sources of printing money out of thin air are commercial banks. They have actually reduced balance sheet holdings



So we were right that the supply of money is not growing while the demand for money is growing. That imbalance is a headwind for financial assets via the risk premium. However the other drivers have provided a tailwind that has overwhelmed the headwind of tightening money. Equity vol has fallend 10% in the past few weeks making a new post covid low

Junk spreads have fallen

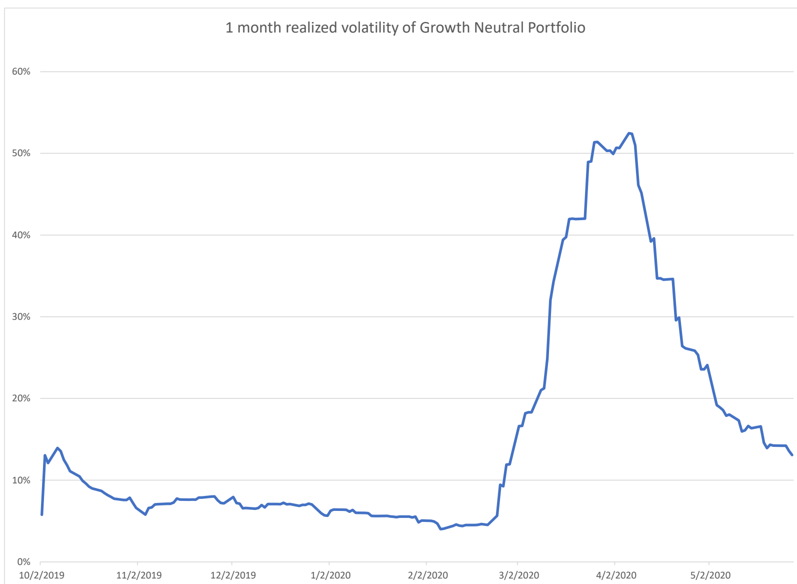
Tail risk as measured by IG credit spreads have made new lows

30 year treasury realized volatility has turned sharply lower

As has gold.

Oil, which was the poster child for volatility, is now flat across the entire curve suggesting little forward volatility.

Lastly portfolios are quite healty and given the deleveraging done over the past few months have ample room and we would suggest fairly significant need to relever. Realized volatility of the growth neutral portfolio has fallen significantly



This portfolio is also now up 11% for the year. There is ample room to lever up.

The combination of dropping asset volatilies and portfolio risk has overwelmed the temporary supply and demand imbalance for money and credit. We believe that the fall in asset and portfolio risk has a ways to go and as the money borrowed by issuers reaches the economy and the Fed steps up purchases the imbalance headwind will be eliminated and actually become a tailwind. The Tsunami of money will drive all assets higher. If the actual economy responds with growth or inflation treasury selloffs will be lessened but still occur due to the tailwind of the Money Tsunami. But gold and stocks will do great.

Current Model Portfolio performance and Recommendations

	Assumed Portfolio size	100,000,000					
	LTD P/L	11,549,071					
	Total Return	11.55%					
	Today's Date	5/28/2020		Portfolio Created		4/15/2019	

Date	Position	Entry Price	Amount	Worst case loss	MTM	P/L	Open/Closed
5/18/2020	SPX Sept 2800/2500 Put spread	67	149	1,000,000	50	(253,731)	Closed
5/18/2020	FV Sept 124/122 Put Spread	0.296875	3368	1,000,000	0.09375	(684,211)	Open
5/18/2020	FV Sept 124/122 Put Spread	0.234375	4267	1,000,000	0.09375	(600,000)	Open
5/14/2020	US Sept 175/170 Put Spread	1.015625	985	1,000,000	1.296875	276,923	Open
5/14/2020	US Sept 175/170 Put Spread	1.203125	831	1,000,000	1.296875	77,922	Open
4/13/2020	SPX Sept 3050/3250 call spread	100	200	2,000,000	100	-	New