

# The Damped Spring Report

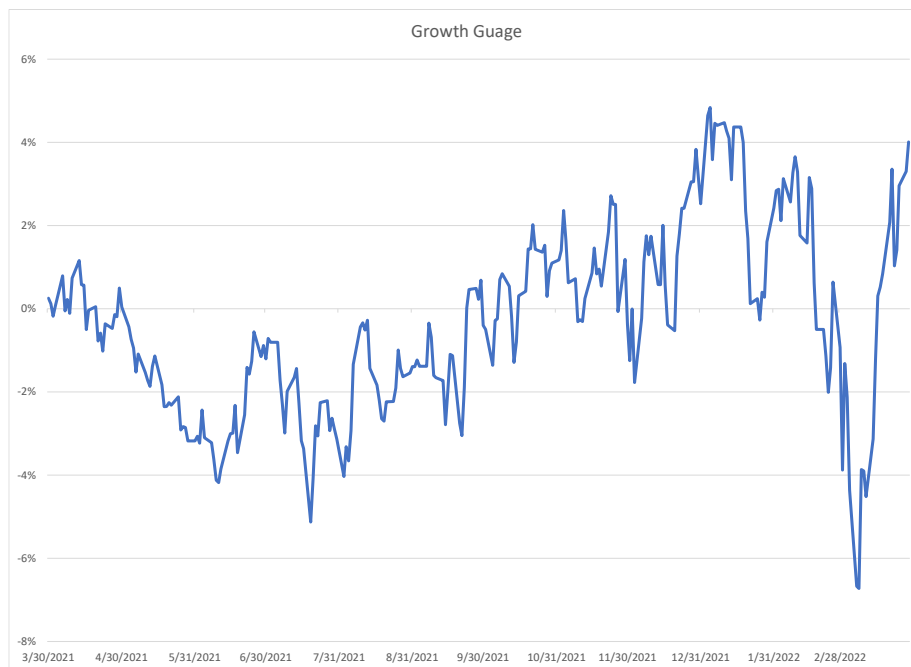
“Shifts in growth, inflation, risk premium and positioning all lead to opportunities in markets”

3/29/2022

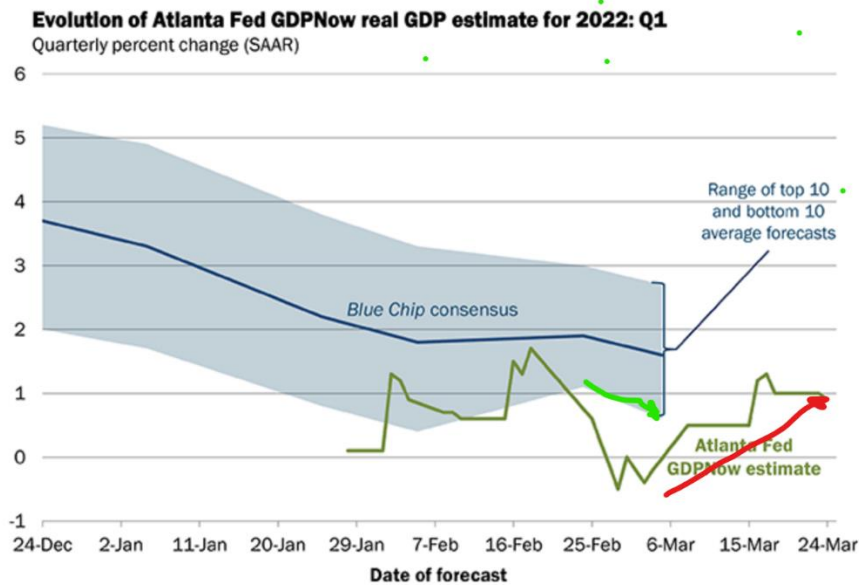
**Headline: Since our last DSR extremely pessimistic growth expectations have bounced. Long term bond yields have jumped 23 basis points, the S&P500 has rallied 10% and the NDX 100 has soared 15%. Our max long equity positions have paid off handsomely. At the same time the Fed raised interest rates 25 bp and the Fed is guiding rate increase higher at every opportunity such that in two weeks 68 basis points of hike in 2022 alone were added into expectations. Hawkishness should have had the opposite effect on equities. It was a clear headwind to asset prices. Yet equities rallied spectacularly. There is only one fundamental driver that could overcome the hawkishness. Growth expectations must have shifted from imminent recession toward soft landing. As you know we are looking to the first week of May as a major pivot point for our outlook depending on policy makers decisions. However, all of our indicators suggest strong performance for equities and stabilization for bonds throughout April.**

## Growth

Our high frequency growth gauge spiked.

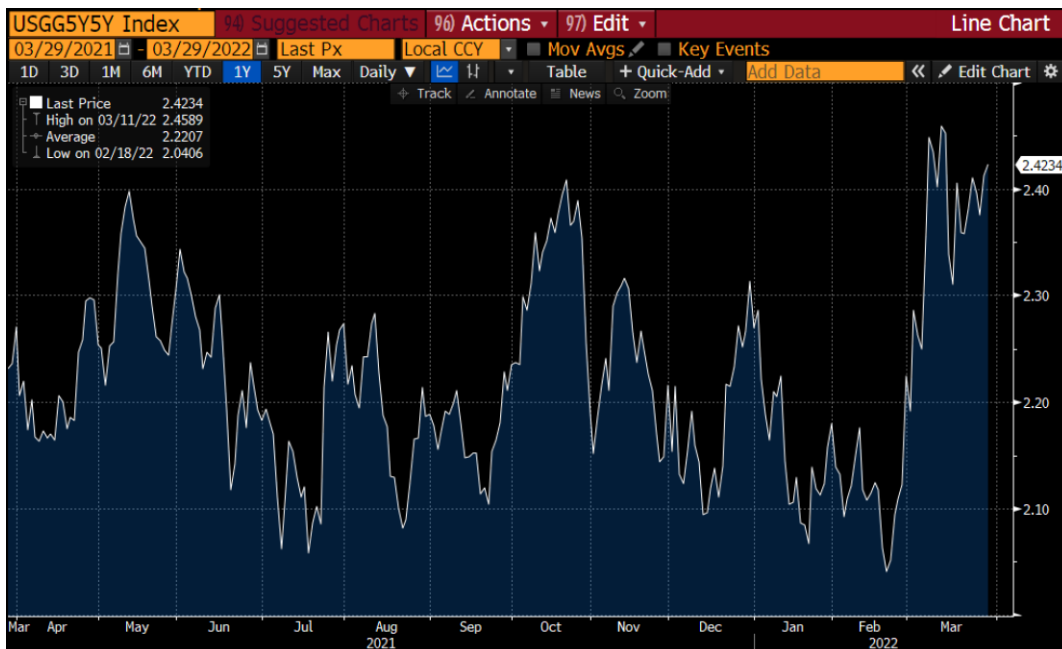


Analyst's expectations for GDP have been falling all quarter and are lagging what is turning out to be a robust March despite higher fuel prices and the war in Ukraine. GDPNow has bounced off of a 0% GDP growth estimate in the middle of Q1 but also lags our fast-moving signals. **We expect continued upside for growth expectations**



## Inflation

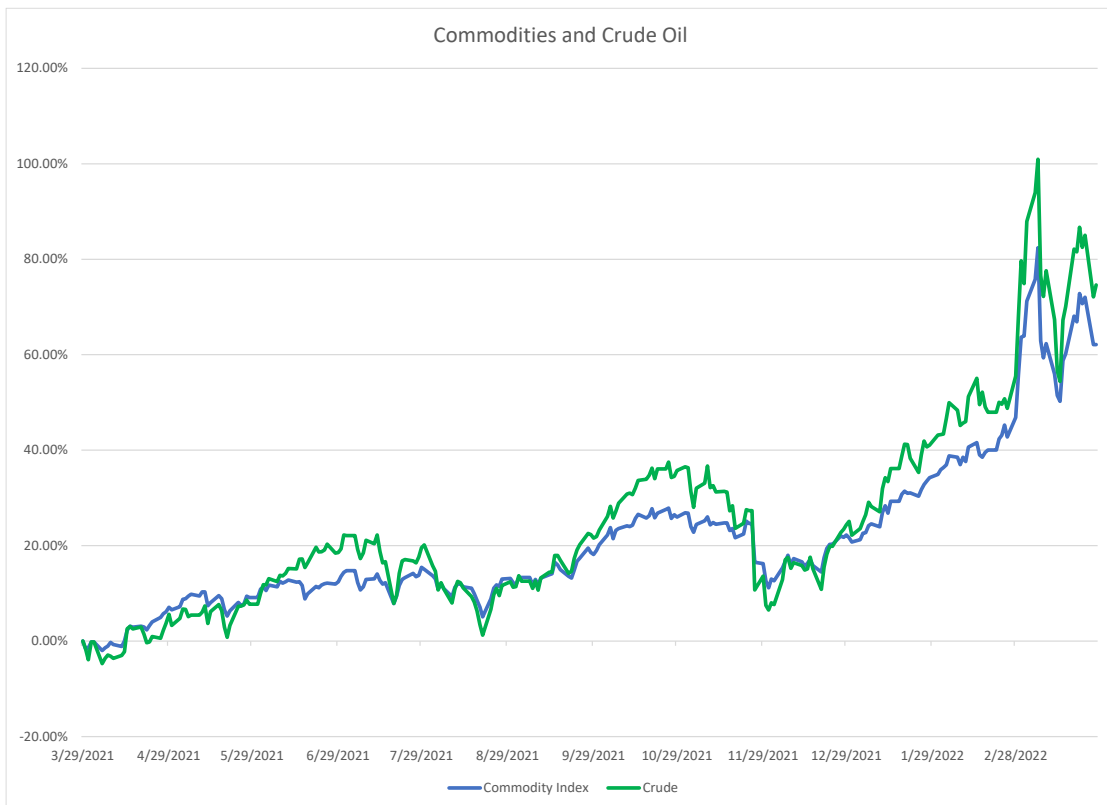
Inflation expectations have been less volatile with 5 years forward inflation expectations in a range in March and off the highs



Without getting carried away, even 1 year inflation expectations are down 25 bp



Part of the stability in inflation expectations has been commodity prices which, again without making too much of it, seemed to have peaked earlier this month. We expect potentially significant downward moves in inflation expectations after the almost certain blazing hot number for March is reported



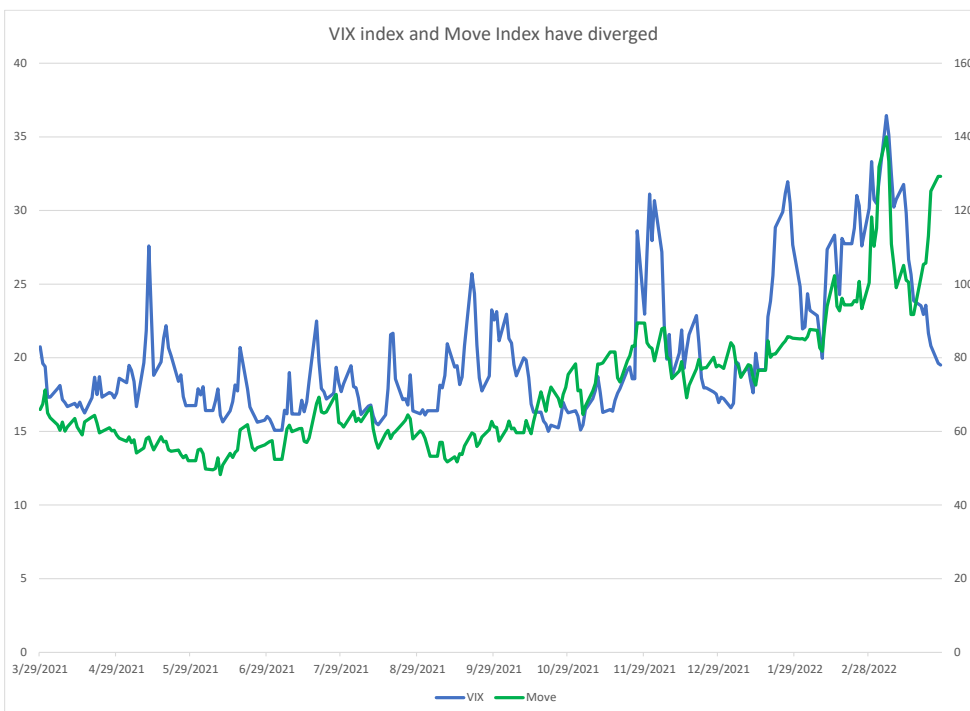
## Risk Premium

Risk premiums have been stable this month, which is interesting in the context of the 68 bp of additional hiking priced in over the past two weeks for 2022.

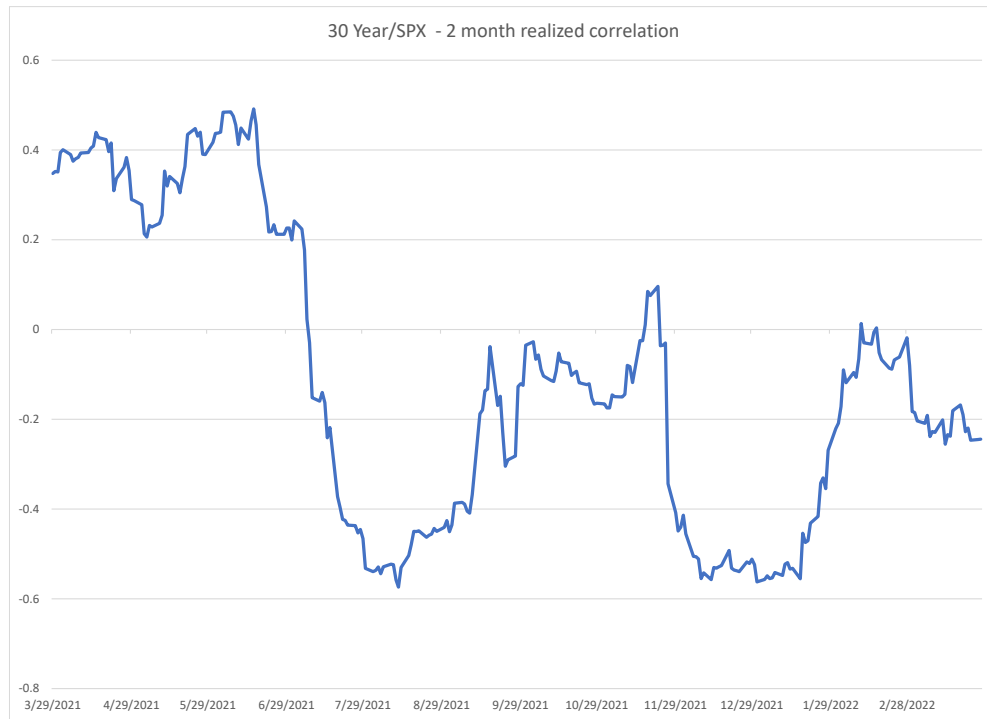


The stable performance given the clear tightening of the money and credit driver makes us look deeper into the volatility driver

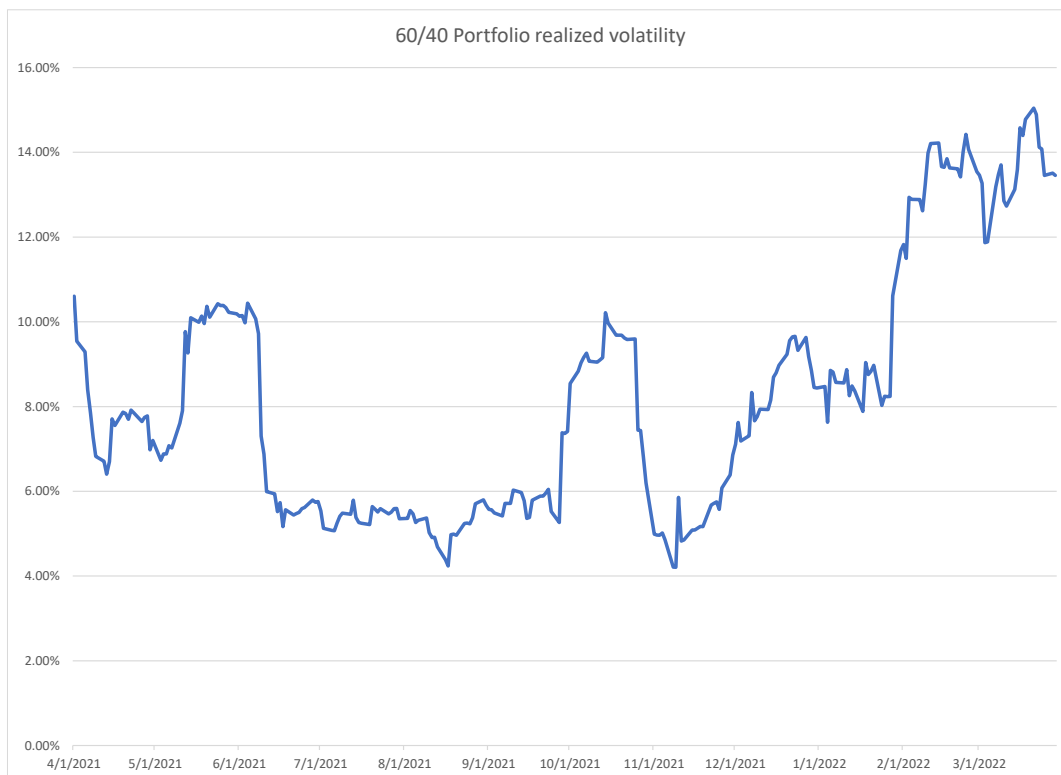
Volatility has clearly diverged between Fixed Income and Equities



However, those shifts in volatility do not balance out by and large and the volatility of the 60/40 portfolio should not change much. However, correlation has fallen from earlier in the year



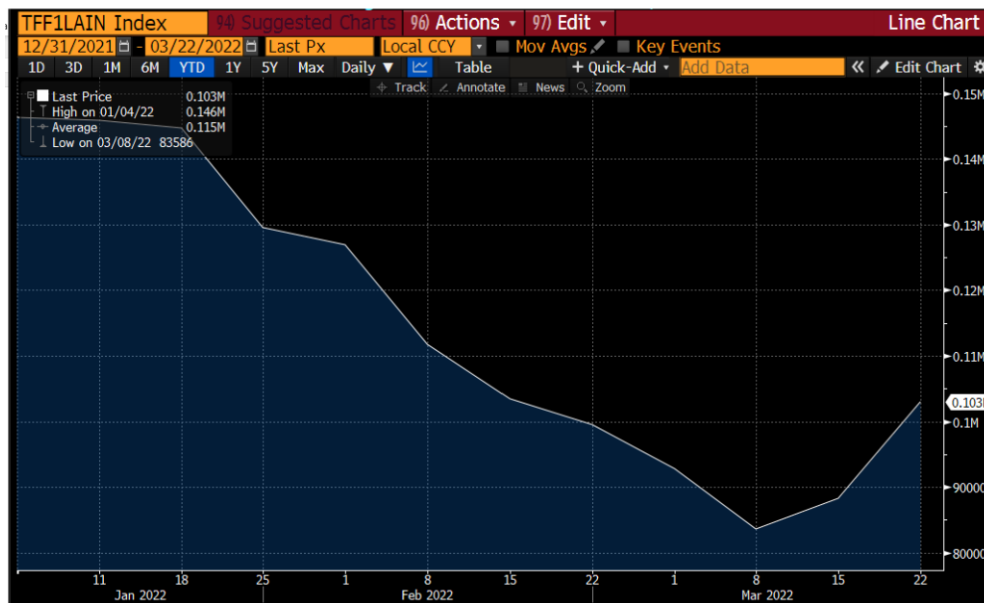
The diversification benefit has lowered the recent 60/40 portfolio risk



The stability of risk premiums will likely continue through April as Move and VIX both fall, and correlations remain negative while hawkish rhetoric and a blazing hot CPI will keep the money and credit driver offsetting the portfolio risk driver.

### Flow and positioning and month end.

Since the minutes long only funds particularly pension funds who have been overweight equities have sold massively.



Besides being overweight they are also pursuing a portfolio insurance strategy which is selling a portion of the portfolio as it falls and as you can see since the March bottom buying back as it rallies.

The portfolio insurance strategy is also evident by the same long only funds selling Treasuries aggressively into a falling market



We believe that this derisking will lead to rerisking in the next few weeks and the selling has been the dominant bearish asset flows all year. This is far more important than month end.

As for month end there are many more cross currents than normal, and the month end flows are unpredictable. Some thoughts

- Monthly rebalance based on asset performance is clearly bearish stocks bullish bonds
- Quarterly rebalance based on asset performance is neutral to slightly favoring bonds
- Vol Targeting fund flows are
  - Bullish assets as portfolio vols are falling and diversification benefit is improving
  - Bullish stocks as stock vol falls
  - Bearish bonds as rates vol is very high
- Hedge funds are bullish stocks due to short squeeze and bearish bonds the crowded trade was anti-growth recession imminent and that is being unwound hard
- The \$20BN collar that expires and is rolled on month end has 12BN to sell but most will happen during the next few days, and some has been done.

Net net I think bonds are neutral for month end with vol targeting and hedge fund selling, pension funds pursuing portfolio insurance not yet buying, and traditional performance reweighting bullish. Equity flows are fairly bullish.

## Current positions and Performance

We added longs in bonds, Eurodollars and rolled our equity exposure over the last few days in separate communications. Over the last few weeks, we have generated over 20% return.

Assumed Portfolio size	\$	100,000,000						
LTD P/L	\$	47,421,476						
Total Return		47.42%	YTD Return			16.13%		
Today's Date		3/29/2022	Portfolio Created			4/15/2019		
Date	Position	Entry Price	Amount	Worst case lt	MTM	P/L	Open/Closed	
2/24/2022	NDX April 15000/15500 Call Spread	120	83	\$1,000,000	260	\$ 1,166,667	Closed	
3/18/2022	SPX April 4510/4595 Call Spread	42	238	\$1,000,000	63	\$ 500,000	Closed	
2/15/2022	TY May 126 Call	0.703125	1422	\$1,000,000	0.02	\$ (971,556)	Open	
2/24/2022	CLH5 20 pt stop	73.5	100	\$1,000,000	72	\$ (150,000)	Open	
2/24/2022	CLM2 20 pt stop	100	-100	\$ -	97.3	\$ 270,000	Open	
2/24/2022	Fxi June 35 calls	1.6	6250	\$1,000,000	1.25	\$ (218,750)	Open	
3/22/2022	NKY April 27250 Call	400	13	\$ 500,000	1100	\$ 875,000	Open	
3/22/2022	USDJPY 122 6/13/2022 Call	1	50,000,000	\$ 500,000	2	\$ 500,000	Open	
3/25/2022	EDZ3 50bp stop loss	96.93	2000	\$1,000,000	96.8	\$ (260,000)	Open	
3/25/2022	USA June 146/144 Put Spread	0.734375	-790	\$1,000,000	0.578125	\$ 123,457	Open	
3/28/2022	USA April 11th 150 calls	0.734375	790	\$ 580,247	0.8125	\$ 61,728	Open	
3/29/2022	NDX April 15500 Call	140	71	\$1,000,000	140	\$ -	Open	
3/29/2022	SPX April 4625 Call	57	175	\$1,000,000	57	\$ -	Open	
				Inception Risk	9%	Total Risk	8.8%	