

The Damped Spring Report

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

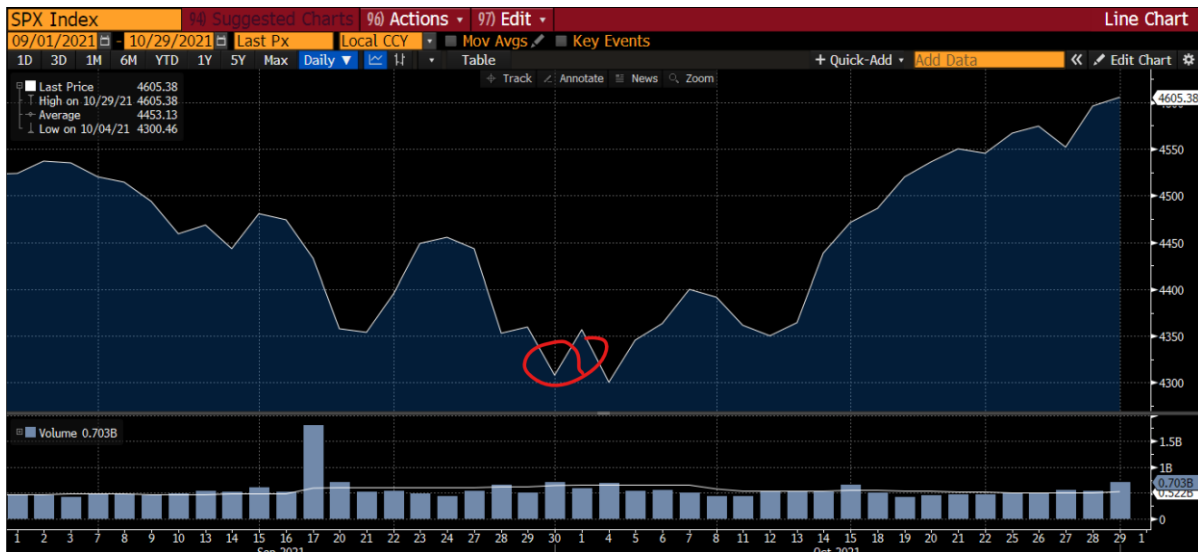
9/28/2022

This Damped Spring Report will be entirely focused on quarter end impact on the S&P 500. It's a very narrow topic but also worth looking at no matter where one invests. Over the last 15 months each quarter has ended at a significant local top or bottom for the SPX. Given the current overall asset valuations and what we think to be the driver this phenomenon we are going to be buying equity aggressively during the day tomorrow.

A large, structured product is rolled every quarter. Depending on the return leading up to quarter end the flow from that roll on the last day of the quarter is either a \$12BN sell or an \$8BN buy. This Friday it will be a sell. Besides this one highly inelastic and impactful flow, there are many other flows which may impact prices on Friday. However, our estimates of those flows are fairly light. Before you say this is just a coincidence read to the bottom. Our synthesis is that a combination of these technicals, the economic outlook, and market pricing all led to these reversals and will likely lead to one this month as well.

[First some pictures.](#)

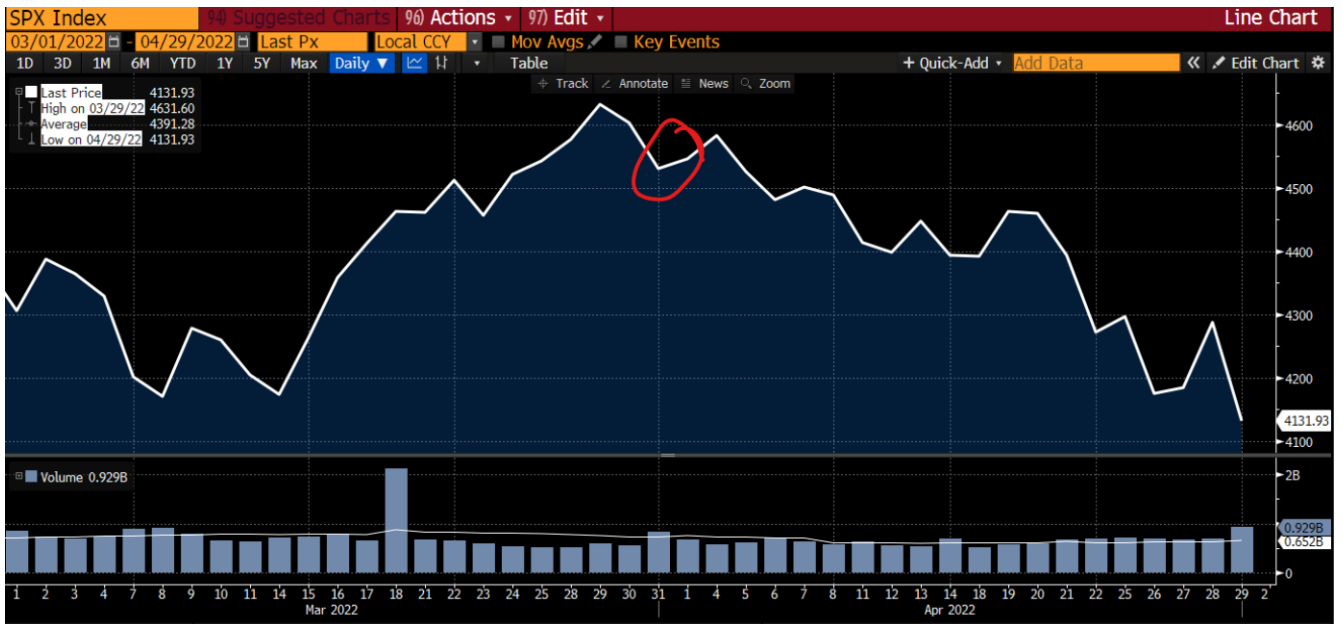
In September of 2021 the fiscal cliff and high issuance resulted in the first real selloff in the post covid era. The structured product roll was a 12BN sell. The SPX rallied 7% within a month. Valuations were depressed and the Fed was stimulating.



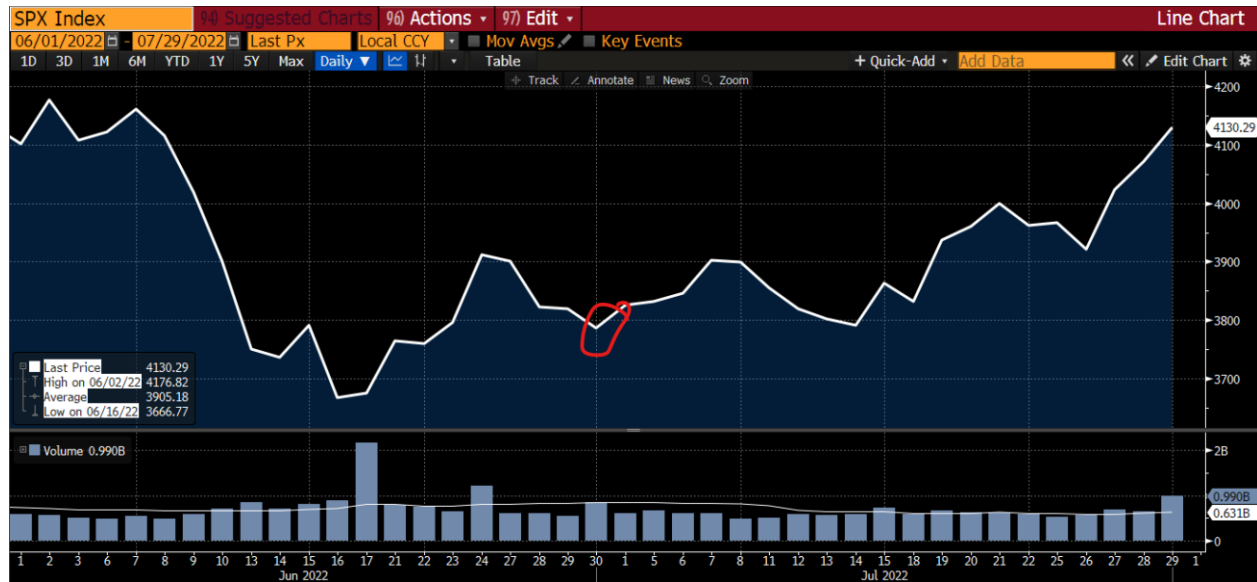
In December the Flow from this product was an \$8BN buy. Within a month the market was down 8.9%. In this case the valuations were extreme, and QT was hinted at in the Dec 15th FOMC and subsequently in the minutes on Jan 3.



In March the Roll created an 8BN buy. Subsequently the market fell 8.8%. A bear market rally had returned the valuations to elevated again and the Fed began to hike as QE also stopped.

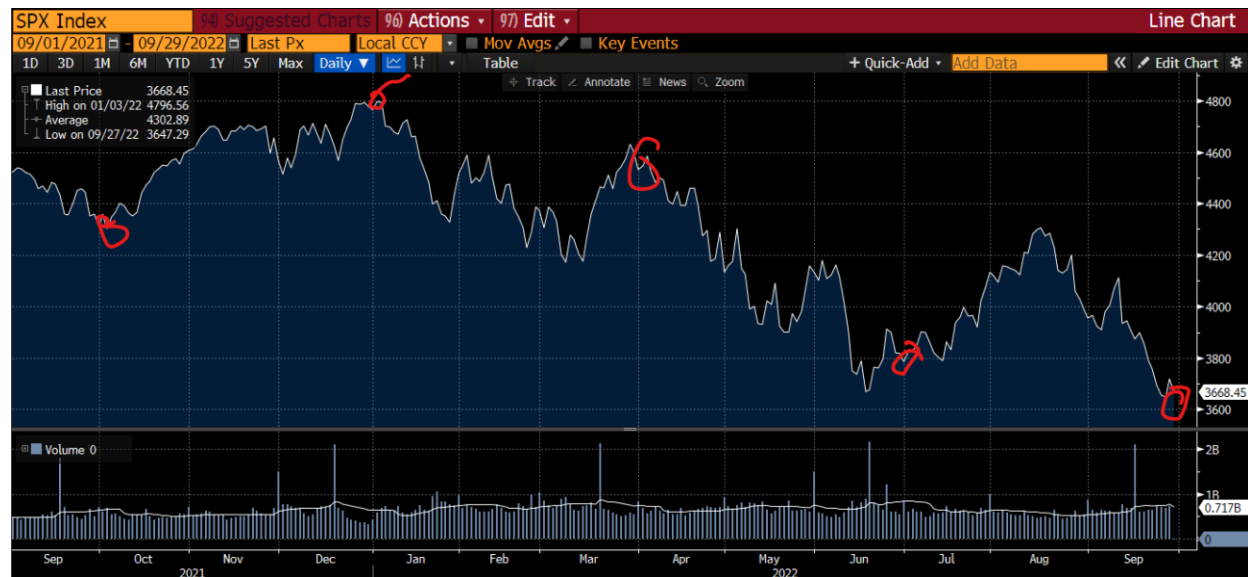


In June the CPI/U of Michigan Data woke up the Fed and they got aggressive. The structured product roll was a 12BN sell. Valuations had hit the lows for bear market. Positions had already been deleveraged over the first half of the year. The market rallied 8.7%.



So here we are in September and the structured product roll will happen tomorrow. \$12BN to sell.

When they buy the market tops. When they sell the market bottoms.

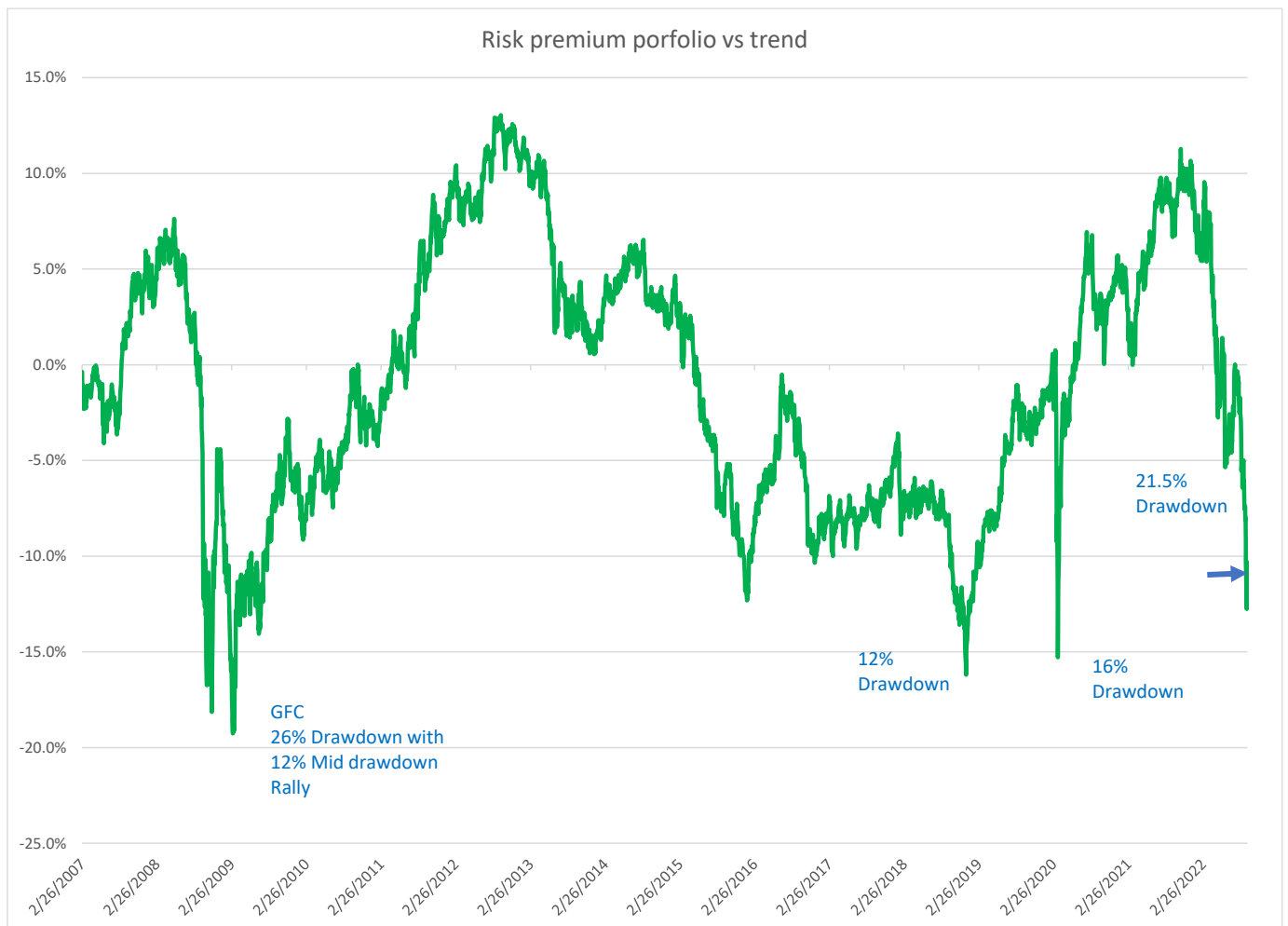


There are a bunch of other impacts of this structured product. In particular like this week the expiring option is struck at 3580 on the SPX and large negative gamma is held by dealers short that put. Clearly all the macroeconomic factors have been extreme as well, but the market reaction has been exacerbated by the negative gamma in markets. That negative gamma disappears tomorrow. That will tend to dampen realized volatility and result in a risk on climate. When

markets have topped in at least the Dec 2021 case the mechanics of the structured product at the time had dealer's long gamma which they lost and needed to replace.

In terms of the macro environment our outlook hasn't changed

- Strong headwinds against asset appreciation from US QT
- Higher for longer Fed policy putting pressure on earnings
- Yet maximum hawkishness likely priced in
- Valuations are very cheap for all assets



The combination of valuations, maximum hawkishness, portfolios broadly delevered, and the impact of the dynamic hedging process and roll of the the structured product lines up to a great opportunity for a risk on trade

We will email when we see the sell flow but expect to be max long equities by tomorrows close

Current Portfolio and Performance

Assumed Portfolio size	\$	100,000,000				
LTD P/L	\$	46,831,955				
Total Return		46.83%		YTD Return		15.54%
Today's Date		9/29/2022		Portfolio Created		4/15/2019
Date	Position	Entry Price	Amount	Worst case loss	MTM	P/L
9/15/2022	CLX 10/17/2022 82/80 Put Spread	0.7	-385 \$	500,000	0.92 \$	(84,615)
8/30/2022	SPX Call Spread 3950/4000 9/30/2022	28	357 \$	1,000,000	1 \$	(963,900)
9/2/2022	SPX Call Spread 3950/4000 9/30/2022	28	357 \$	1,000,000	1 \$	(963,900)
9/16/2022	NDX 12000 11/18/2022	490	20 \$	1,000,000	335 \$	(316,327)
9/16/2022	SPX 4000 Call 11/18/2022	91.5	109 \$	1,000,000	45 \$	(508,197)
9/23/2022	SPX 3670/2620 10/21/2022 Put Spread	20	-333 \$	1,000,000	16 \$	133,333
9/2/2022	TLT October 109 Call Spread	2.15	4651 \$	1,000,000	0.9 \$	(581,395)
9/16/2022	GLD OCT 155/153 Put Spread	0.82	-4237 \$	500,000	0.89 \$	(29,661)
	Inception Risk			7.0%		3.685%