

The Damped Spring Report

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

4/4/2022

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 21 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 comfortable being very short equity.

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. On Friday 3/31/2023 it flipped from a sell to a buy. 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 2021 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 2022 the Roll flipped from a 12BN sell to 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 of 2022 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%.



In September we wrote the first quarter end turning point DSR and went max long equities. The structured product roll was \$12BN sell. The market hit the 2022 bottom on that day and rallied 14%

Last quarter ending on December 31st, 2022, the market was pulled down to the exact strike of the JHEQX collar. Falling 6% in one month. The Collar acted as a magnet or option pin dragging the market to finish at the strike. There was no net flow per se in this situation but clearly the magnet has an impact.



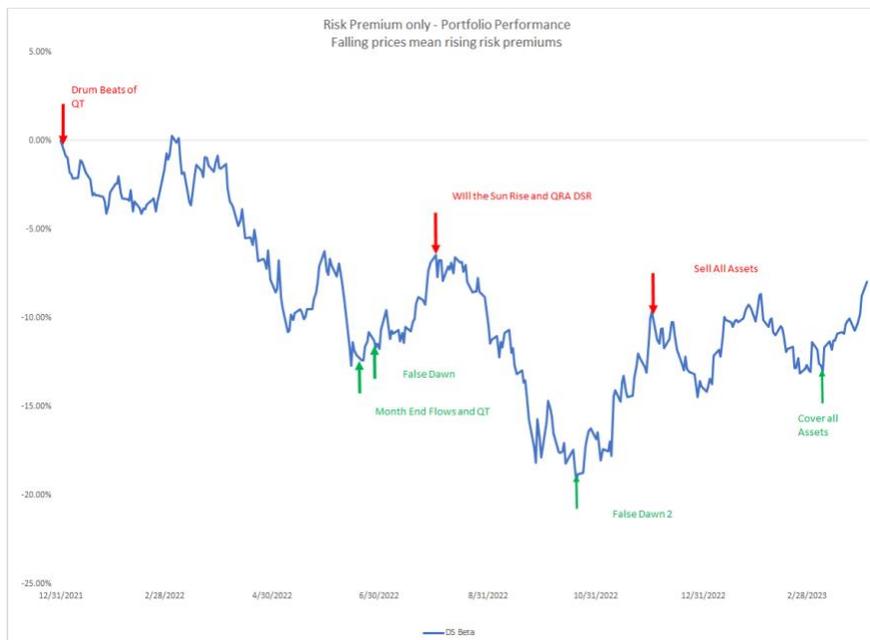
Within the month the equity market. The SPX rallied 8.9% and the NDX (unrelated to this particular collar) rallied 18% in a month.

When they buy the market tops. When they sell the market bottoms. Six in a row. Given the rally in assets particularly stocks last week we think it will be lucky 7.



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

- Strong headwinds against asset appreciation from US QT
- No soft landing likely
- Bonds price a recession and equities price something else
- Valuations are rich for all assets.



The combination of valuations, fundamentals, shorts covered, longs levered, and the impact of the dynamic hedging process and roll of the the structured product lines up to a great opportunity for short equities.

Current Portfolio and Performance

Assumed Portfolio size	\$	100,000,000					
LTD P/L	\$	45,920,095					
Total Return		45.92%	YTD Return			0.62%	
Today's Date		4/4/2023	Portfolio Created			4/15/2019	
Date	Position	Entry Price	Amount	Worst case los	MTM	P/L	Open/Close
10/20/2022	CLZ23 95/105 Call Spread	2.1	476	\$ 1,000,000	0.85	\$ (595,238)	Open
1/4/2023	FXI ETF	30.28	115,000	\$ 500,000	29.4	\$ (101,200)	Open
2/24/2023	NDX 11500/10750 4/21/23 Put Spread Recession Isl	165.00	61	\$ 1,000,000	5	\$ (969,697)	Open
2/24/2023	SPX 3750/3350 April 21 2023 Puts Two's and Spoons	42.50	235	\$ 1,000,000	2	\$ (952,941)	Open
3/2/2023	SPX 3750/3350 April 21 2023 Puts Two's and Spoons	36.00	278	\$ 1,000,000	2	\$ (944,444)	Open
3/16/2023	NDX 12500/11750 6/16/23 Put Spread	230.00	43	\$ 1,000,000	130	\$ (434,783)	Open
3/28/2023	NDX 12500/11750 6/16/23 Put Spread	170.00	59	\$ 1,000,000	130	\$ (235,294)	Open
3/28/2023	SPX	60.00	333	\$ 2,000,000	40	\$ (666,667)	Open
4/3/2023	SPXApril 4125.4200 Call Spread	34.00	-243	\$ 1,000,000	34	\$ -	Open
2/1/2023	SFRZ4 ShortTwos and Spoons	97.085	-1600	\$ 2,000,000	97.03	\$ 220,000	Open
3/15/2023	ZN 117/113 Call Spread	1.8125	-914	\$ 2,000,000	2.125	\$ (285,714)	Open
3/17/2023	SFRZ3 Short	96.02	-400	\$ 1,000,000	95.75	\$ 270,000	Open
				Risk		9.804%	