Not Angry Enough to Write?

I really wanted to title today's report "**Don't Cry for Me Argentina**" so that I could write about how amazing the country is! Great trip and while I had high expectations, those expectations were far surpassed by the actual experience.

Then, I started leaning towards "**Road to Nowhere**". In the past 2 weeks, the 10-year yield is up 18 bps, but the S&P 500, Nasdaq 100, and credit spreads are basically unchanged. Even bitcoin is unchanged, although it did surge and drop 10% during that timeframe. However, I already used "Road to Nowhere" as a title so I couldn't use it again. Side note – the SNL skit "Flight to Nowhere from LaGuardia" is still one of the better skits I've seen in years on that show.

I could write about the **Citi Economic Surprise Index** and while it has "stabilized" for now, I expect it to drop further.

I could write about the **T-bill market** where the curve is **finally attracting some attention**. T-bill yields are as low as 3.3% out to May 23rd. They start rising a bit from there (climbing to 4.1% by June 1st), but then normalize somewhere around 4.9% post July. So far, this weirdness is limited to the T-bill market, where a subset of large investors can only do T-bills and seem to be **skewing their purchases to maturities before the debt ceiling would be "breached".** The T-bill market is hinting at concerns and issues around the **debt ceiling**, but it is not having undue influence on other markets (SOFR, CP, etc.).

We could also analyze the creation of a **0DTE VIX** (a VIX index that is based on shorter dated options), but it just **isn't ringing any alarm bells** (or at least nothing new about the "gambling" nature of the 0DTE options market). I "know" that VIX is around 17, but to be perfectly honest, VIX is so far down on my current list of potential signals that I only know it is below 17 because there is so much chatter about this. The "new VIX" could be interesting because I think that 0DTE is where a lot more people are placing their hedging bets.

We could write about the **demise of the dollar**, but the Chinese Yuan is weaker than where it was in January, so there isn't an urgency to this story.

I do want to write about the transition from **"Made in China" to "Made by China"**, but that isn't urgent, and it will be long enough to be a separate "thought piece" (much like our Olympics as Bookends or Recentralization of China reports).

Earnings season has started, but I'm finding it inconclusive so far (I want to see "weakish" reports met by rising stock prices to turn bullish here).

On mornings where we sell-off (followed by buying in the afternoon), it is hard to tell if it is simply shorts getting squeezed, new longs being set, or something else altogether. However, I am leaning towards viewing the market as being "neutral" in terms of positioning.

Maybe 10 days away from the screens and news flow has "dulled" my anger. Maybe, as a contrarian who does tend to "rant" rather than "write", I need that anger to write?

Or maybe, the markets are just that dull! I was going to go with "**Home, Home on the Range**" but that seemed like a cop-out.

As I get back in the "saddle" there will be a lot to write about, and I do think that the **debt ceiling will be an issue that could hurt markets**. I have little faith that D.C. can "maximize" their benefit from this round of debt ceiling "side deals" without triggering at least one round of serious ***Planet of the Apes* "you finally, really did it"** recognition by the markets.

I do think that **geopolitical risk is underpriced**, but that too is part of stories and themes that go beyond the next week or two of earnings releases.

Bank earnings seem ok, but again, the **battle over what banks have to pay on deposits to keep deposits in the banking system has moved to a phase where it will take much longer to play out** than when people were just afraid of default risk (which was heavily overstated).

Bottom Line

I've tweaked the rate section from 2 weeks ago, but little else has changed. Part of this is because I don't have the anger and I'm still getting back into the "grind" after a nice vacation. But so little has changed in two weeks that I'm not sure why I'd change my view?

Rates.

- **Relatively neutral on yields.** This has shifted from "looking for higher yields", because we already got higher yields. I think that the risk of a "gap" (a 25 bp move in a day or two) is more likely to occur on a move to higher yields rather than to lower yields.
- **2s vs 10s to invert more.** Curves didn't move much (a touch in the right direction), **but I could see the market starting to price out cuts later this year.** It will take a lot on the economic data/jobs front for the Fed to cut and we aren't seeing that sort of data (yet).

Equities.

- **Too many headwinds to be constructive.** On a scale of -10 to 10 where -10 is extreme bearishness and 10 is extreme bullishness, I'm about a -3 or -4. That would translate to small to medium underweight/short positions on equities. If it got to "medium" from "small", it would just be for a trade. So, I'm bearish, but not going to pound the table. I need to see more than a week of stocks ramping to convince me that much has changed. **Positive responses to mediocre earnings/outlooks would change me to bullish in a flash.**
- **Reversion to the mean trades.** I generally like "reversion to the mean" trades. The Russell 2000 outperformed the S&P 500, which in turn outperformed the Nasdaq 100 and ARKK. I see no reason that this can't continue, so I like the YTD underperformers on the long side, while on the short side, press some of the amazing outperformers. The long duration stock trade, even if the Fed is done, has created a lot of misplaced risk/pricing here.

Credit.

- **I find it difficult to advocate for high yield** (or leveraged loans) when the Russell 2000 has been so weak. I always think about IG/S&P 500 and high yield/Russell 2000 as having some degree of correlation. High yield has done extremely well and there will be little new issuance (much to the chagrin of big banks as this is a high profit margin business for Wall Street). I'd skew slightly negative on high yield and leveraged loans even as banks extricate themselves from commitments that went "pear shaped". Both the economic outlook and recent performance has me leaning negative on this subset of the market.
- **Investment is ok, at best.** This is more of a "carry trade" than spread tightening, but I think that IG is reasonably well positioned to outperform even if recession talk increases. Senior unsecured bank credit risk (even after rebounding) offers some value. I am really not concerned about the credit quality of banks. I'd skew my long positions into actual bonds and keep shorts in CDX because CDX will correlate more with stocks than the actual bond market. CDX will

underperform if I'm correct on the direction of stocks.

- **Munis.** I liked munis, but they are now too rich. In addition, my view on yields, the relative value of munis, and the end of tax season will create some pressure on this market.
- **Structured risk.** Move up the cap structure. Virtually every type of structured product has been skewed in favor of senior debtholders and when I look at the broad landscape of where risks reside (real estate, auto loans, etc.) many fund in the structured market. I would rather own IG corporate or move up the cap structure in general. Our structured credit team may or may not agree, and in any case, they have trade ideas across structured products and the cap structure, so please reach out to them on how to implement (or fade) my view!

Maybe staring at screens will make me angry enough to want to write more. Or, maybe, markets will actually give me something to write about rather than just seesawing back and forth in small ranges.

In the meantime, let's see how this week plays out as we will get more debt ceiling headlines and earnings, which will hopefully translate into some interesting market moves and opportunities!

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