

TGFF

TGFF

Thank goodness for Friday!

Or maybe I should just thank Bostic because his comments on Thursday seemed to turn the markets around.

The view (presented in last week's [Surprise, Surprise](#) and [Acceptance Stage of Rate Hike Grief](#)) that the market was getting tired of pricing in higher yields and dragging stocks down got off to an okay start, but it became pretty shaky in the middle of the week.

The 10-year Treasury ended last week at 3.95% (it got as low as 3.89% before grinding steadily higher to 4.09% on Thursday). But TGFF because it recovered and closed basically unchanged on the week. Not a win as a bond bull, but I'll take it.

The S&P 500 followed a rate dependent path and things got a little hairy on Thursday when the S&P dipped below the 200 DMA (around 3,940). Ultimately Bostic seemed to help (along with too much bearishness). I believe that too many people were betting on more rate hikes and that caused yields to go higher (which in turn dragged stocks lower).

As we head into this week:

- I need to do a summary of **Academy's Second Annual Geopolitical Summit West**. It was very well attended and the main conversation was driven by a combination of 4 Generals and an Admiral from our Geopolitical Intelligence Group. These individuals brought a wide variety of experience and expertise to the table. Russia, China, chips, commodities, and AI all took center stage. [World War v3.1](#) is a good piece if you haven't read it already and the February [Around the World](#) is also germane to these discussions.
- It is "**Jobs Week**". Not as entertaining as "Shark Week", but at least we get to do it 12 times a year. Even some Fed speakers seem to be questioning whether the jobs data has been overstated. **So, I'm looking for some weaker data, which should help bonds and stocks.**
- **Rate hikes.** The terminal rate is up to 5.44%. There is chatter that the Fed could raise rates 50 bps at the next meeting. The market is pricing in 1.25 hikes at the meeting, so I am leaning towards 25 bps, but I am giving 50 bps a chance. That seems like a reasonable assessment to me. Fed fund futures are pricing in only a small chance of any cuts this year. The year-end rate is 5.3% versus a terminal rate of 5.44%. That seems fair because our view has been that the Fed was serious about staying "higher for longer" all along. We've disagreed on the pace of hikes, but have not been looking for cuts as early as the market expects. **From here, a lot seems to have been priced into the bond market (and theoretically the equity market), which should help bonds and stocks this week.**
- **Stocks versus bonds.** The 10-year finished unchanged, but stocks finished up 2%-3% (S&P vs Nasdaq). That is decent outperformance. From a technical standpoint, not only did the S&P 500 recover to the 200 DMA, but it is also back above the 50 DMA. I suspect that a lot of shorts got added because the market was sliding and exhibiting some technical weakness and that probably leaves us with a decent short base (which is susceptible to further squeezes). **Stock performance last week should help stocks into this week.**

TGFF

- **Credit is looking strong!** CDX IG (investment grade CDS index) tightened from 77 to 71 and never went much above 77, even with stocks swooning. CDX IG tends to be more correlated with stocks than other measures of credit quality. It's a "macro fan favorite" to trade SPX vs CDX and many of the CDX market making algos are linked to the S&P 500. All that "jargon" just means that as we dig deeper, it is even more impressive how well CDX did compared to how it seemed on the surface. Even the Bloomberg Corporate Bonds spread went from 123 to 120 (peaking at 125). That occurred even with decent new issue activity. LQD, a longer-dated IG ETF which tracks bond markets in real-time better than the indices, went from a spread of 159 to 152 (though it did get to 166 at Wednesday's close). It is important, at least to me, that it is trading at a premium to NAV because that typically indicates that there is more strength to come. **Corporate credit was very strong and is poised to do very well on any slowing of the calendar!** You could argue that this is part of a trend of re-allocating money out of stocks and into bonds, but I'm going with **the "credit markets often lead the way" story and they are pointing to more potential strength for equities.**
- **Temperance is good.** This clearly has nothing to do with our Summit 😊. It is, however, a reflection that any sign of cost controls out of tech is being rewarded with higher stock prices. This will hurt the economy and ultimately stocks (I don't think the lows are in), **but for now I expect more announcements since they are relatively easy to make (especially given how well the stocks respond).**
- **ODTE.** Some people are addicted to the MOSO function on Bloomberg. Others laughed (or questioned my sanity) for writing [A Day in the Life of a ODTE Option](#). Many people followed our more serious writing on the topic in [Is 4,000 More than a Number](#) and [Zero Dark Thirty](#). That being said, I'm convinced that ODTE is changing our market structure in ways that are difficult to assess and it can dramatically amplify moves.

Bottom Line

I see no reason to change last week's bottom line (accept for adding more on credit).

Bonds can do well with the 10-year having a 3.7% target.

Risk assets can do well with a 4,200 target for the S&P 500 and CDX IG heading towards 60 (the semi-annual roll should be another factor that helps push spreads tighter). If the new issue calendar remains robust, credit could lag for a bit. However, if there are any signs of issuance slowing, the rally should be strong.

Despite the Summit starting on a day where San Diego was having worse weather than Chicago (the hail/30 mph winds made it an "experience"), the San Diego weather came through in the end!

Good luck this week and jobs are going to be interesting. I'm more worried that the jobs data could be bad (downward revisions, etc.) than I am that the data will be too strong, though both of those extremes would hurt my position on risk assets!

Maybe this Friday will give me another reason to proclaim "Thank Goodness for Friday (TGFF)"!

TGFF

Disclaimer

This document and its contents are confidential to the person(s) to whom it is delivered and should not be copied or distributed, in whole or in part, or its contents disclosed by such person(s) to any other person. Any party receiving and/or reviewing this material, in consideration therefore, agrees not to circumvent the business proposals explicitly or implicitly contained herein in any manner, directly or indirectly. Further, any recipient hereof agrees to maintain all information received in the strictest confidence and shall not disclose to any third parties any information material to the opportunity contained herein and, upon review hereof, agrees that any unauthorized disclosure by any party will result in irreparable damage for which monetary damages would be difficult or impossible to accurately determine. Recipients recognize, and hereby agree, that the proprietary information disclosed herein represents confidential and valuable proprietary information and, therefore, will not, without express prior written consent, disclose such information to any person, company, entity or other third party, unless so doing would contravene governing law or regulations.

This document is an outline of matters for discussion only. This document does not constitute and should not be interpreted as advice, including legal, tax or accounting advice. This presentation includes statements that represent opinions, estimates and forecasts, which may not be realized. We believe the information provided herein is reliable, as of the date hereof, but do not warrant accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Nothing in this document contains a commitment from Academy to underwrite, subscribe or agent any securities or transaction; to invest in any way in any transaction or to advise related thereto or as described herein. Nothing herein imposes any obligation on Academy.

Academy is a member of FINRA, SIPC and MSRB. Academy is a Certified Disabled Veteran Business Enterprise and Minority Business Enterprise and is a Service Disabled Veteran Owned Small Business as per the US SBA. Investment Banking transactions may be executed through affiliates or other broker dealers, either under industry standard agreements or by the registration of certain principals.