



Market SitRep

Reach For Yield



Topics

- Bottom pickin' in high-yield energy
- Bond Duration
- The Fate of Classic 60/40
- Currency Chop



Bottom Pickin'



Starved for Return

- No one has made much money in the last 18-months so investors continue to find high-yield products that they can pile into
- A popular choice recently has been picking up beaten down energy companies with high dividend yields



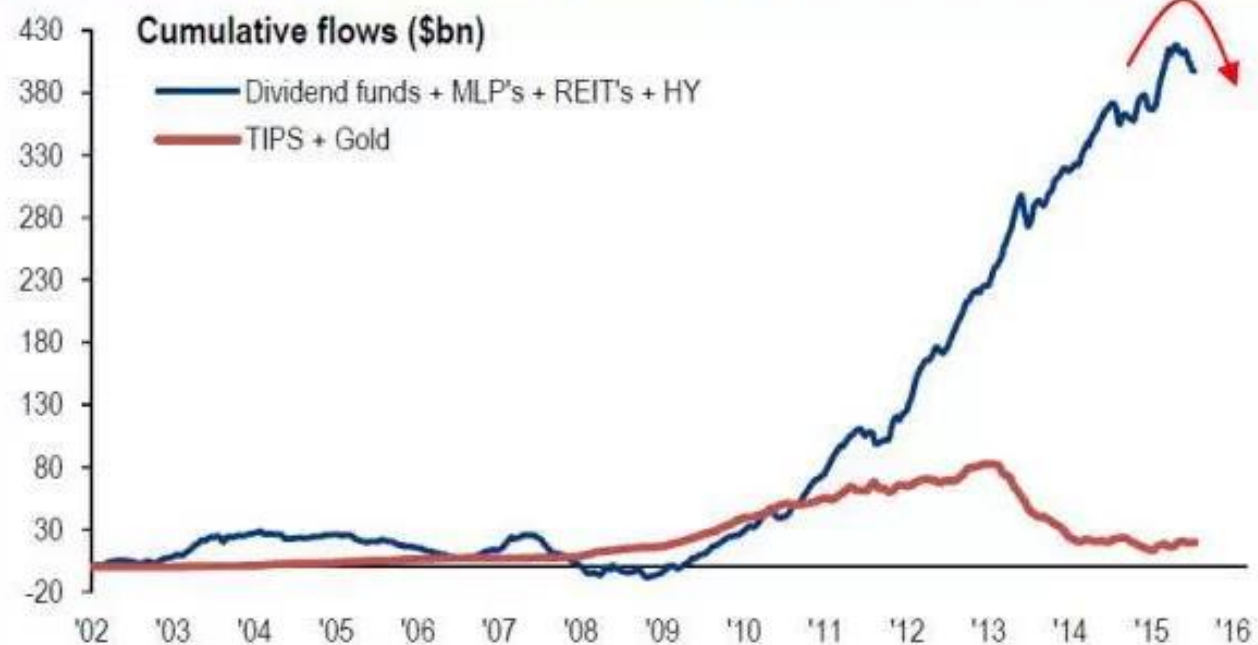
Starved for Return

- This looks like a new investment play cause of energy but investors have been piling into this stuff for a long time



Starved For Return

Chart 5: Mania for high "yield" showing signs of fatigue



Source: BofAML Global Research, EPFR Global

Starved for Return

- We are interested in the high-yield energy space
- But would prefer another washout near prior lows to make the trade a little less crowded
- We still think strong dollar can send oil back to lows and kick off one more wave of defaults



David Tepper's 13F





David Tepper's 13F

 03/31/2016

Top Buys

Name	% Change
ETP Energy Transfer Par...	5.782%
WPZ Williams Partners L.P.	3.468%
FB Facebook Inc	3.283%
SYF Synchrony Financial	2.543%
QQQ (CALL) PowerShares QQQ Tru...	1.93%

 03/31/2016

13F Holdings Summary

Stock	% Port
SPY (CALL) SPDR S&P 500 ETF Index	9.8106%
Depo...	9.2413%
ETP Energy Transfer Partners LP	7.9081%
GOOG ALPHABET INC CAP STK CL C	7.3958%
DAL Delta Air Lines Inc. (New)	
WPZ Williams Partners L.P.	4.7851%



Top Buys

- ETP – Energy Transfer Partners
- WPZ – Williams Partners
- Both focus on midstream services



Upstream
Exploration & Production



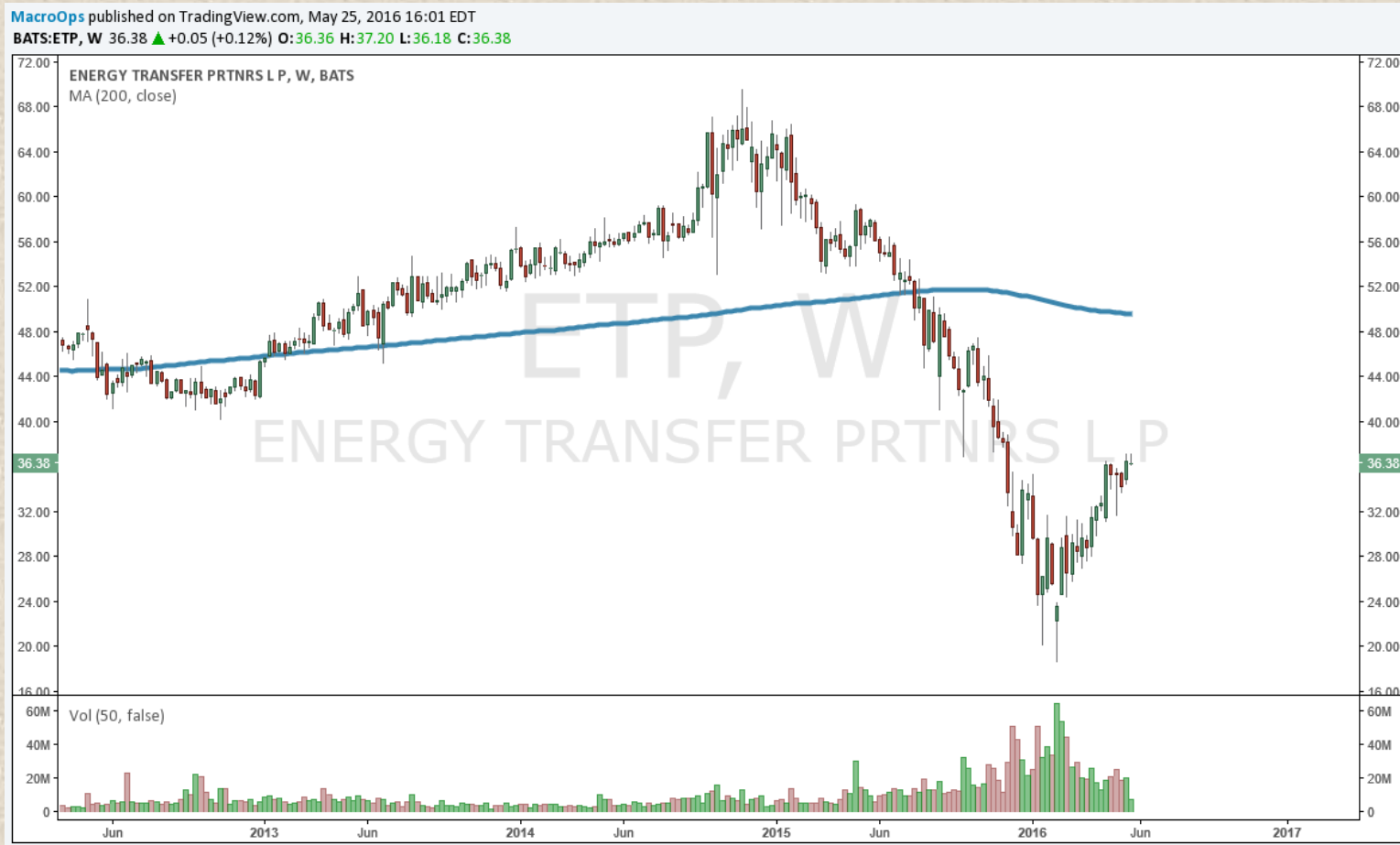
Midstream
Transportation



Downstream
Processing & Distribution



Energy Transfer Partners





ETP



- 11.49% dividend yield
- Started in natural gas pipelines
- Now expanded into diversified portfolio including natural gas liquids (NGLs), refined products, and crude oil
- MLP



Williams Partners





WPZ



- 10.82% dividend yield
- Focused on dry gas pipeline transport
- MLP



The Rub

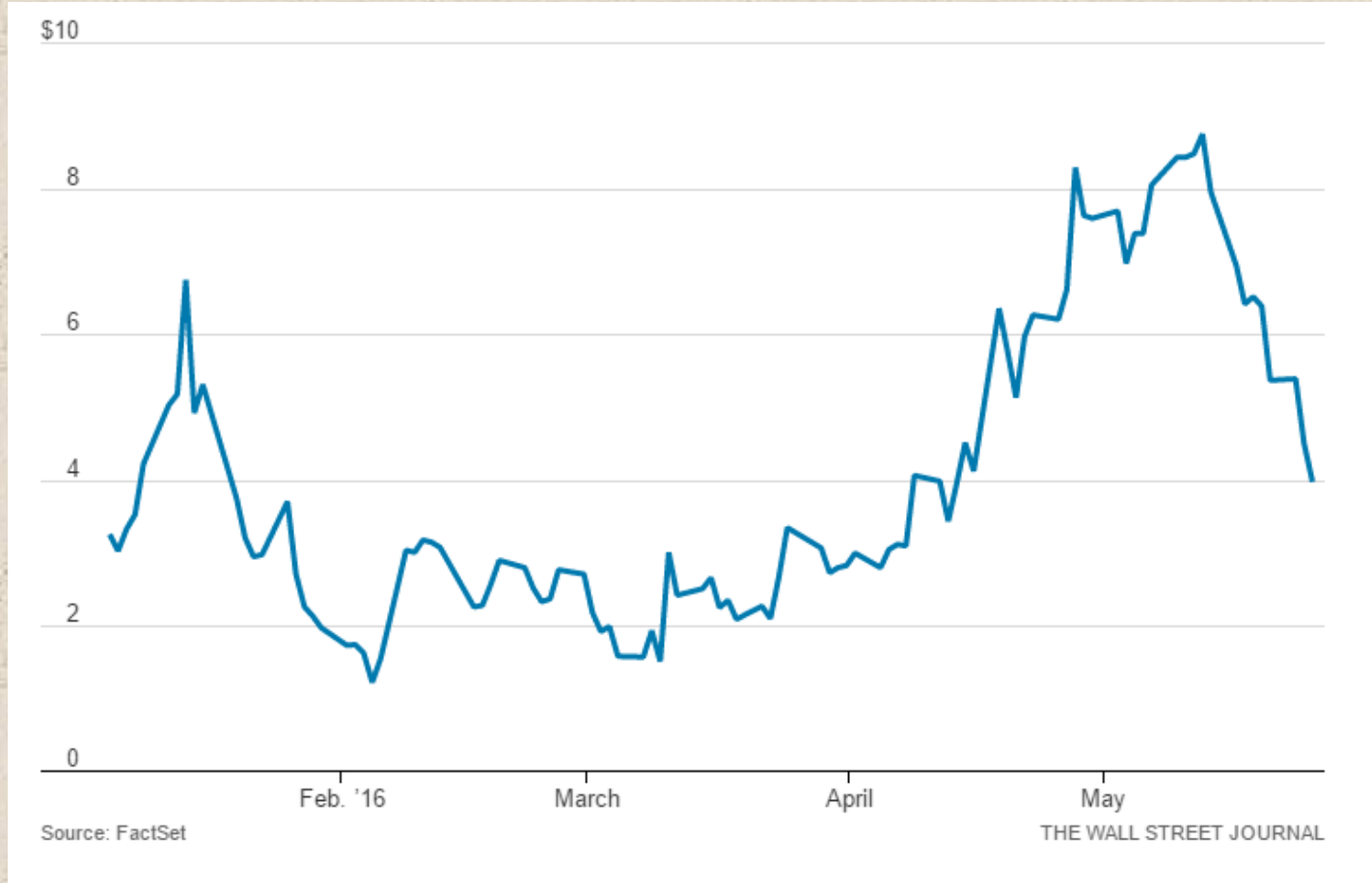
- Will they be able to pay the dividends if energy prices revisit the lows?
- WPZ's credit rating is Baa3 (Moody) one above junk debt
- ETP at BBB- also one rating above junk debt
- Further downgrade would jeopardize dividend

The Merger

- That's why the parent companies of both of these MLP's are trying to complete a merger
- Tepper is betting that a merger between the two will be successful and odds of maintaining the dividend payment for both go up
- Shareholder votes in Williams happening before end of June



Spread of Trading Price/Value of Deal





Bond Duration

The Relationship

- Longer term bonds are more sensitive to interest rate changes than shorter term bonds
- Bonds with higher coupons are less sensitive to interest rate changes than bonds with low coupons
- Refresher: rates up bonds down
- Refresher: rates down bonds up

Asymmetry

- We still feel government bonds will be bid up in the next couple of years
- But 10 years out long-term investors need to expect large drawdowns on bonds with long duration
- Rates can only go so negative.....



A Look At Changes In Rates

- <http://graphics.wsj.com/government-bond-duration-calculator/>



Fate of 60/40



60/40

- The “classic” stock bond mix in a portfolio
- 60% equities
- 40% fixed income

Mean Reversion

- Bonds have been killing it last 5 years, that makes them fragile going forward
- Stocks have been killing it last 5 years, that also makes them fragile going forward



Stats (2010-2016)

Summary Statistics*	60/40	SP500	LTR
CAGR	9.88%	13.04%	4.54%
Standard Deviation	7.26%	13.14%	4.63%
Downside Deviation (MAR=5%)	4.21%	7.93%	2.65%
Sharpe Ratio	1.33	1.00	0.97
Sortino Ratio (MAR=5%)	1.12	1.03	-0.17
Worst Drawdown	-6.83%	-16.26%	-5.18%
Worst Month Return	-3.89%	-8.01%	-2.94%
Best Month Return	6.24%	10.93%	3.44%
Profitable Months	66.67%	63.89%	55.56%



Historical Stats (1946-Present)

	60/40
<hr/>	
Total Return	8.50%
Excess Return	4.10%
Standard Deviation	8.90%
Sharpe Ratio	0.45

Comparison

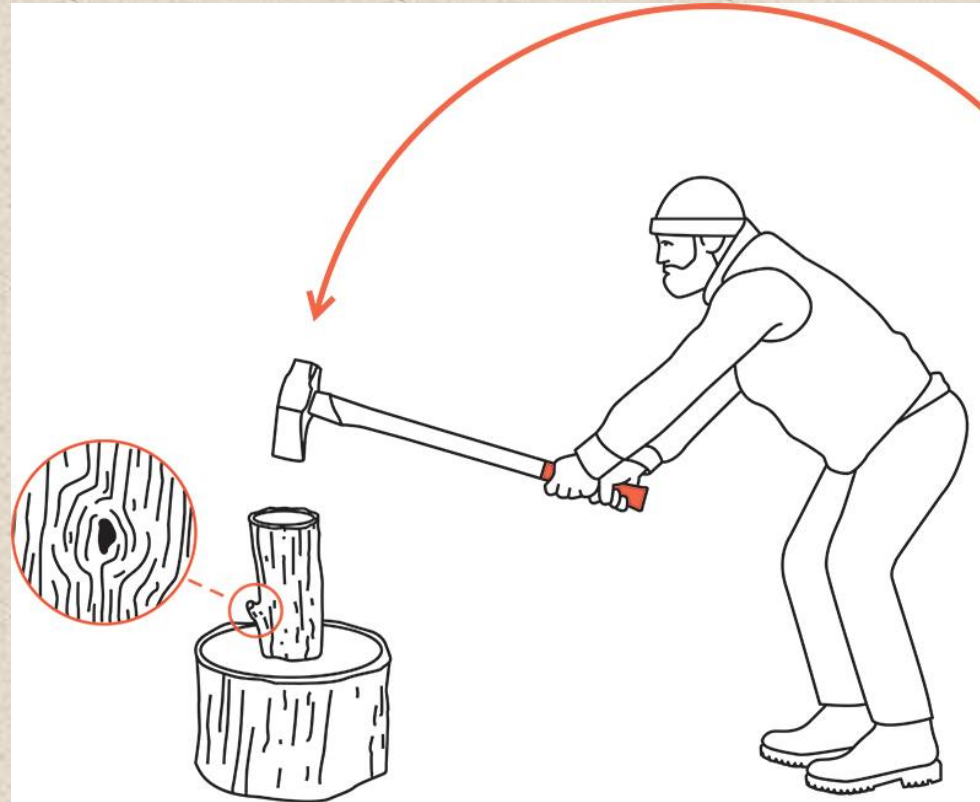
- Sharpe ratio of 1.3 recently
- Historical of .45
- Painful years ahead for investors as Sharpe reverts to the mean...

Two Scenarios

- If inflation scenario plays out bonds will get killed
- If deflation scenario plays out stocks will get killed
- We still think deflation scenario is the higher probability one right now



Currency Chop





DXY Trap





Gold





Macro Ops
Target. Deploy. Profit.

Follow Us!



@Alex_



<https://www.facebook.com/groups/global.macro.investing/>



@MacroOps

<http://macro-ops.com>