



Market SitRep

If you can't beat 'em, join 'em



Topics

- U.S. Equity Market Breakout
- Stocks We Are Watching



Fuel Behind the Fire

- Typical Late Cycle Sentiment
- Equity Risk Premium
- China's Massive QE



Late Cycle Sentiment

- Bears have been getting killed in U.S. equities
- Fund managers can't stay in business staying short, they need to produce returns for clients to avoid redemptions
- Buying is the only way to make money right now so that is what they are forced to do



FOMO

WHAT IS FOMO?

“fear of missing out”

According to *Urban Dictionary* it is “the state of mental or emotional strain caused by the fear of missing out; a compulsive concern that one might miss an opportunity or satisfying event.”

Equity Risk Premium

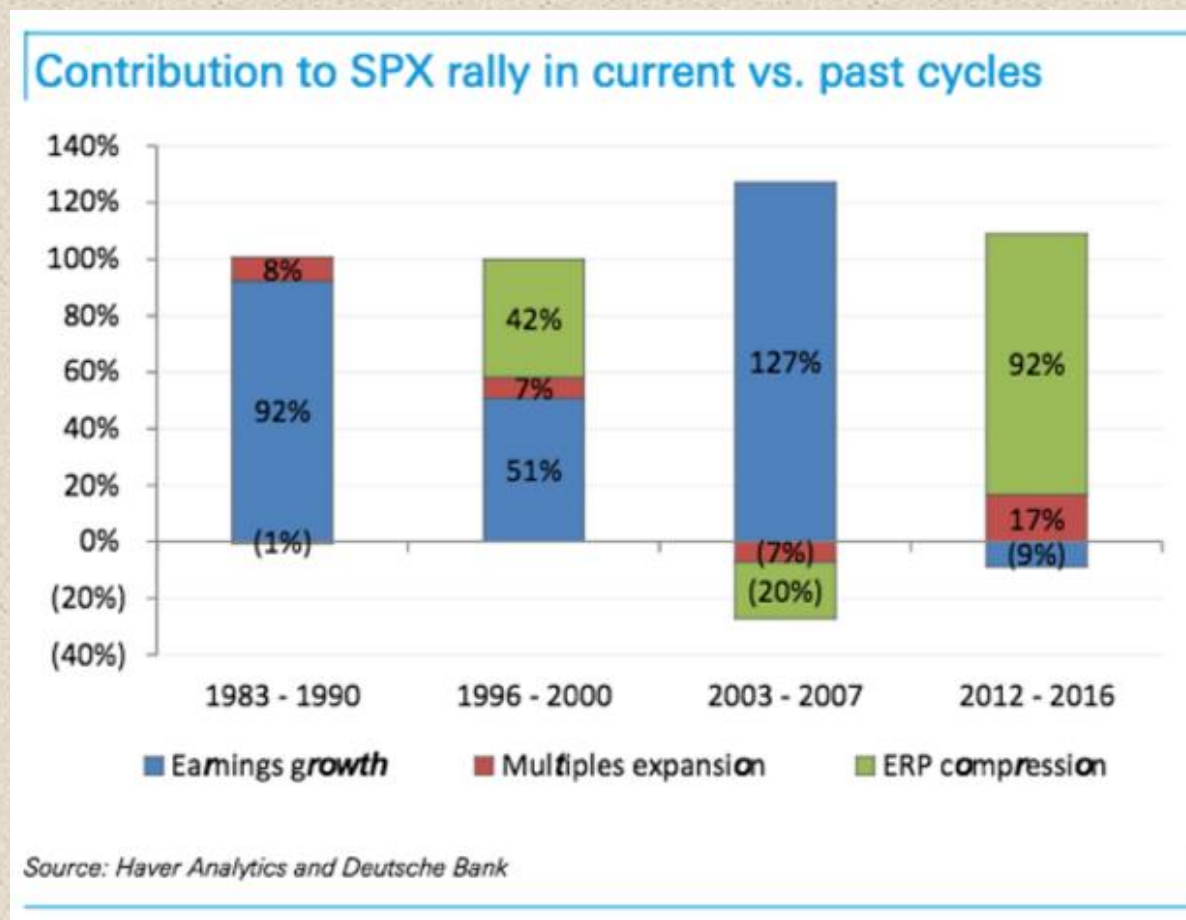
- ERP is the difference in the risk premium spread between assets, most notably 10yr treasuries and the equity markets
- Falling rates around the world continue to make equities the only game in town

Equity Risk Premium

- As the yield on long bonds continues to move lower, the risk premium on equities widens, making equities more attractive
- U.S. long bond yields continue to drive lower due to global relative value trade (U.S. is still the world's cleanest dirty shirt)



Equity Risk Premium



China's Massive QE

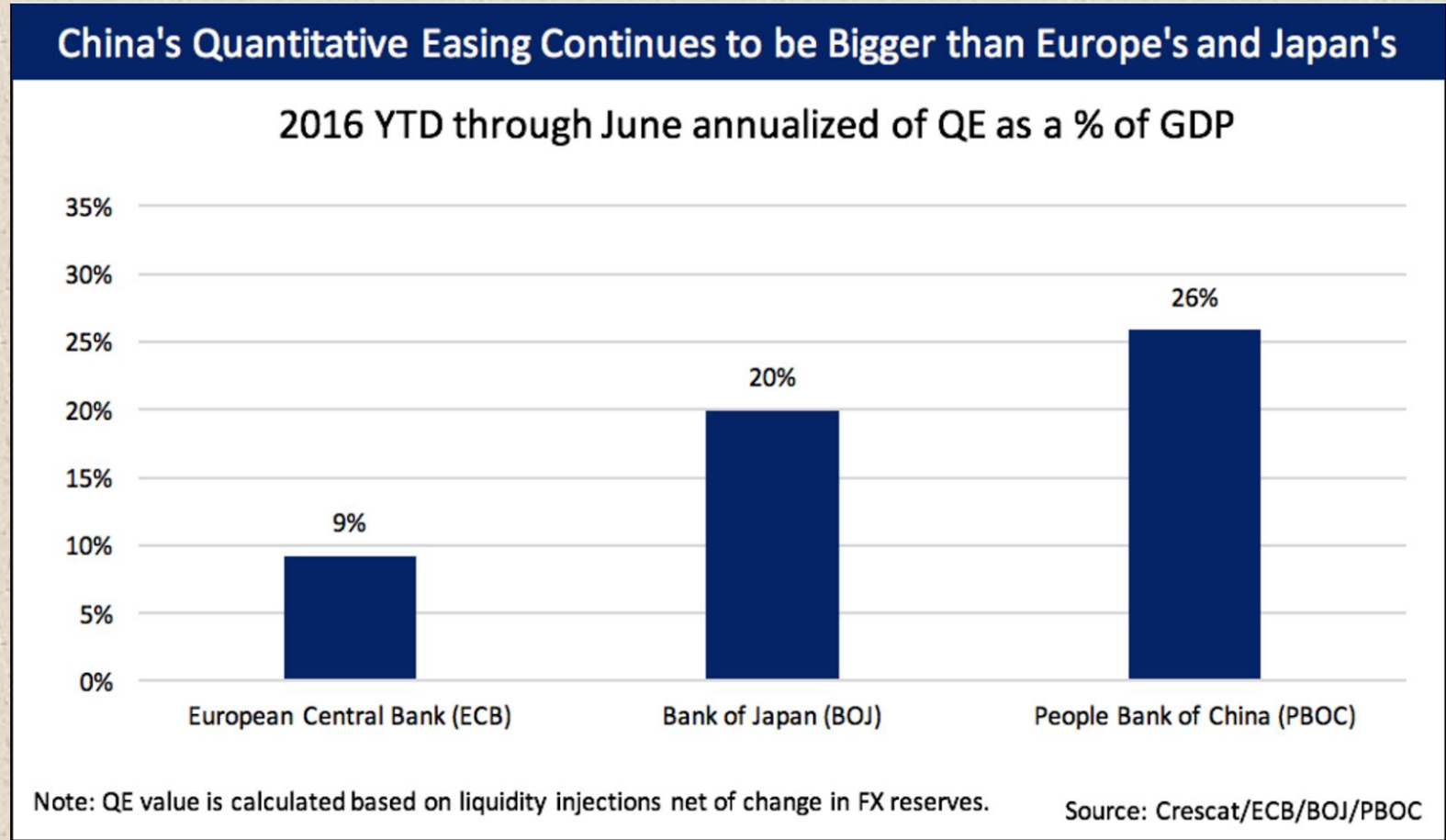
- China has been conducting a MASSIVE hidden QE over the last 6 months through their repo markets
- This is likely having a large impact on commodity demand and boosting some emerging markets

China's Massive QE

- *The PBOC has injected over \$1.6 trillion of cash into the Chinese markets this year through the repo market. This intervention (net of foreign reserve changes) is approximately \$2.8 trillion annualized, or about 26% of its nominal GDP. This annualized net level of QE is beyond any other major central bank stimulus program today. It exceeds both that of the European Central Bank (ECB) and the Bank of Japan (BOJ). – Crescat Capital*



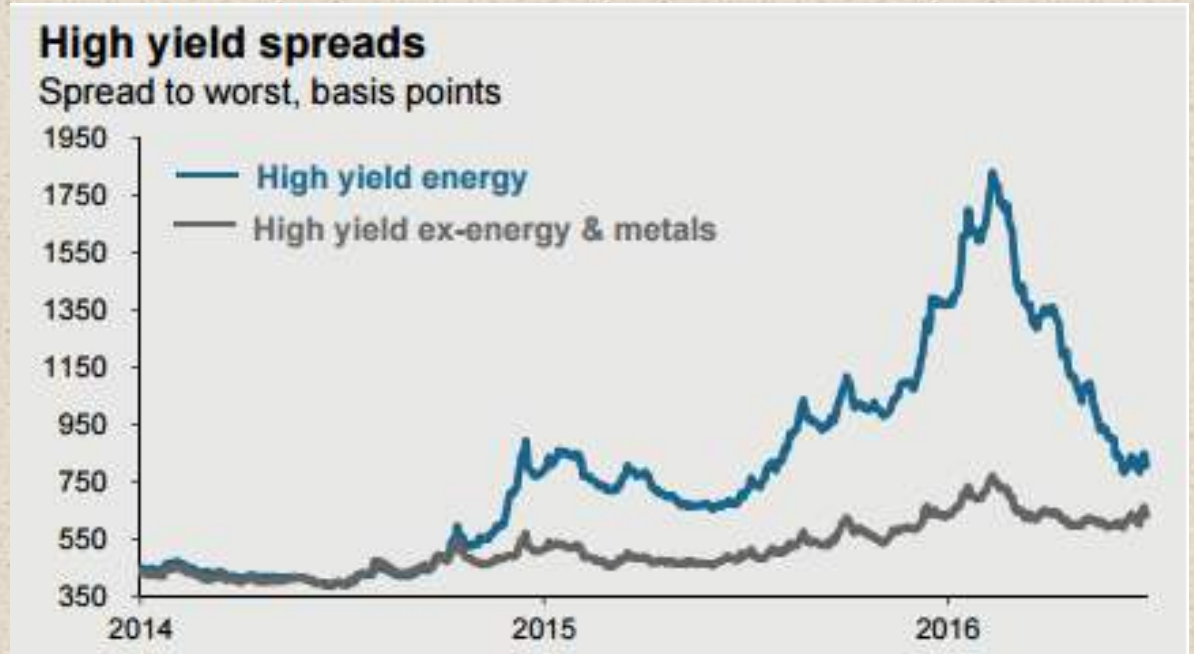
China's Massive QE





More Gas In The Tank?

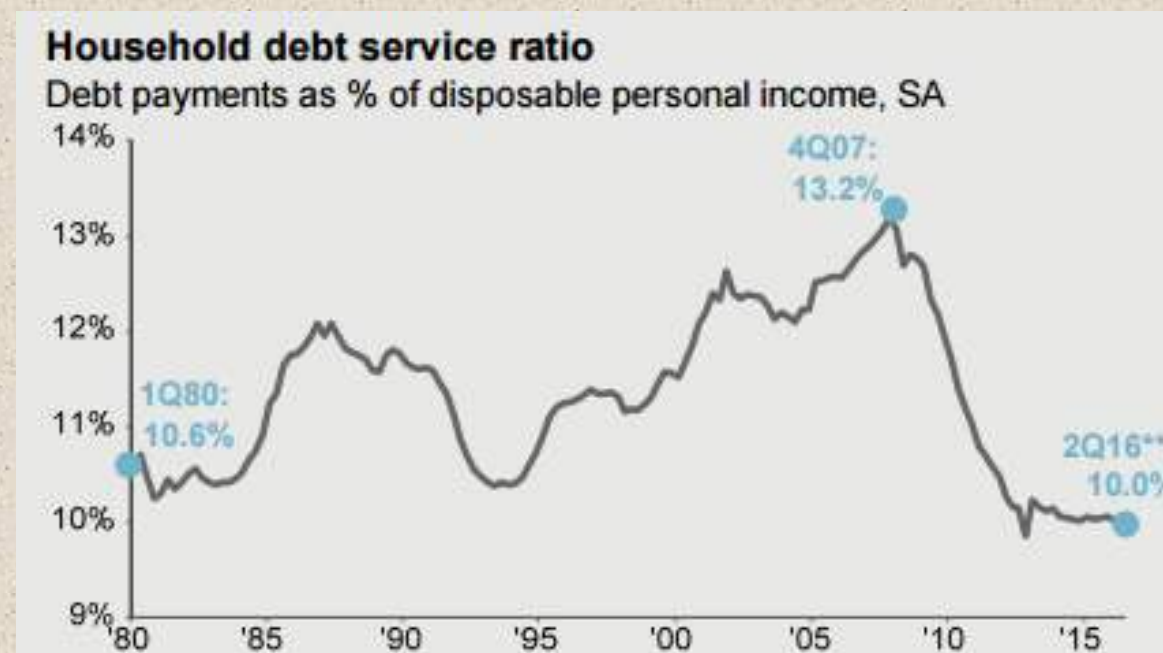
- Liquidity conditions still improving because oil has held up





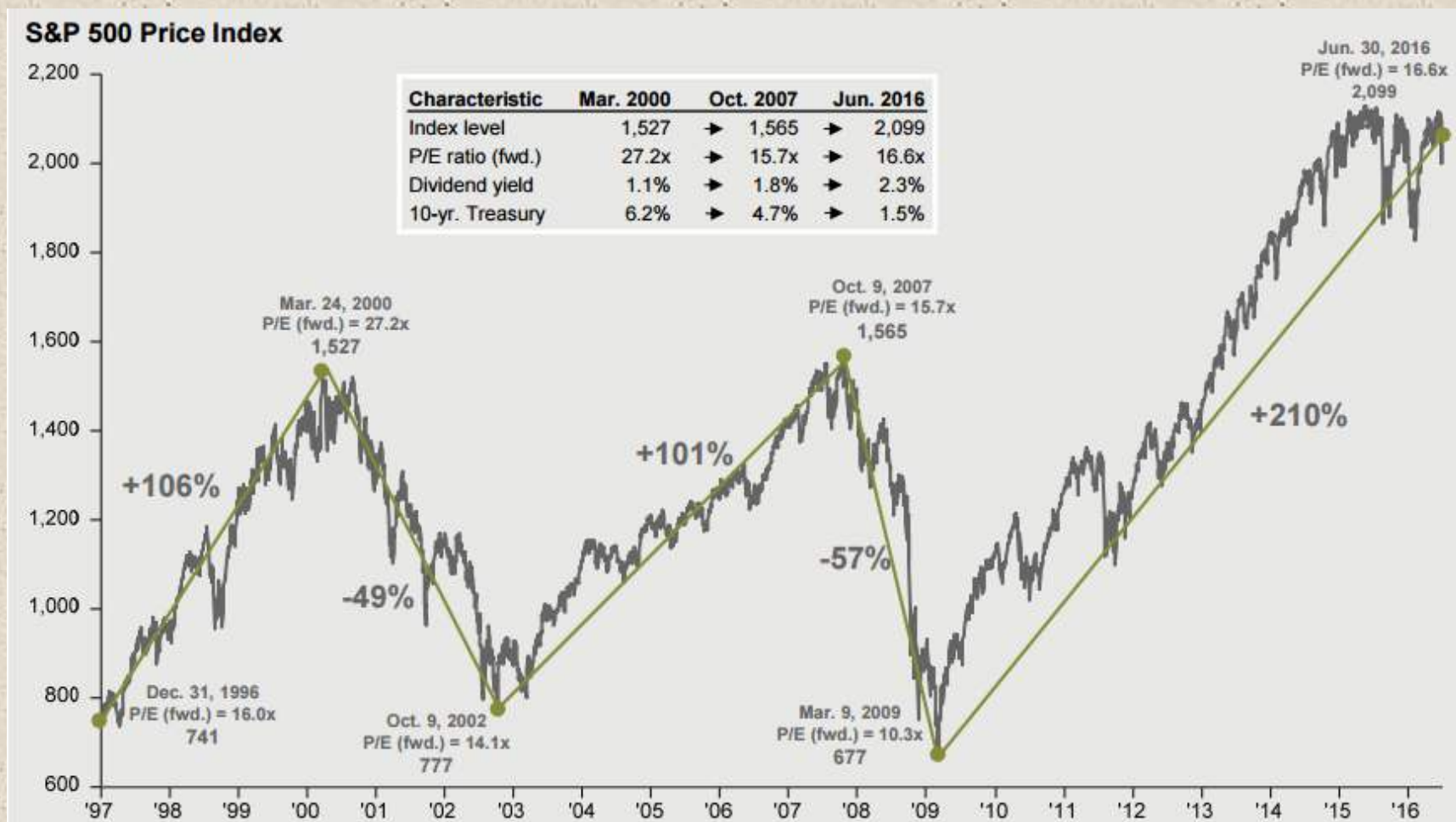
More Gas In The Tank?

- Household debt service ratio in the U.S. is low compared to past cycles



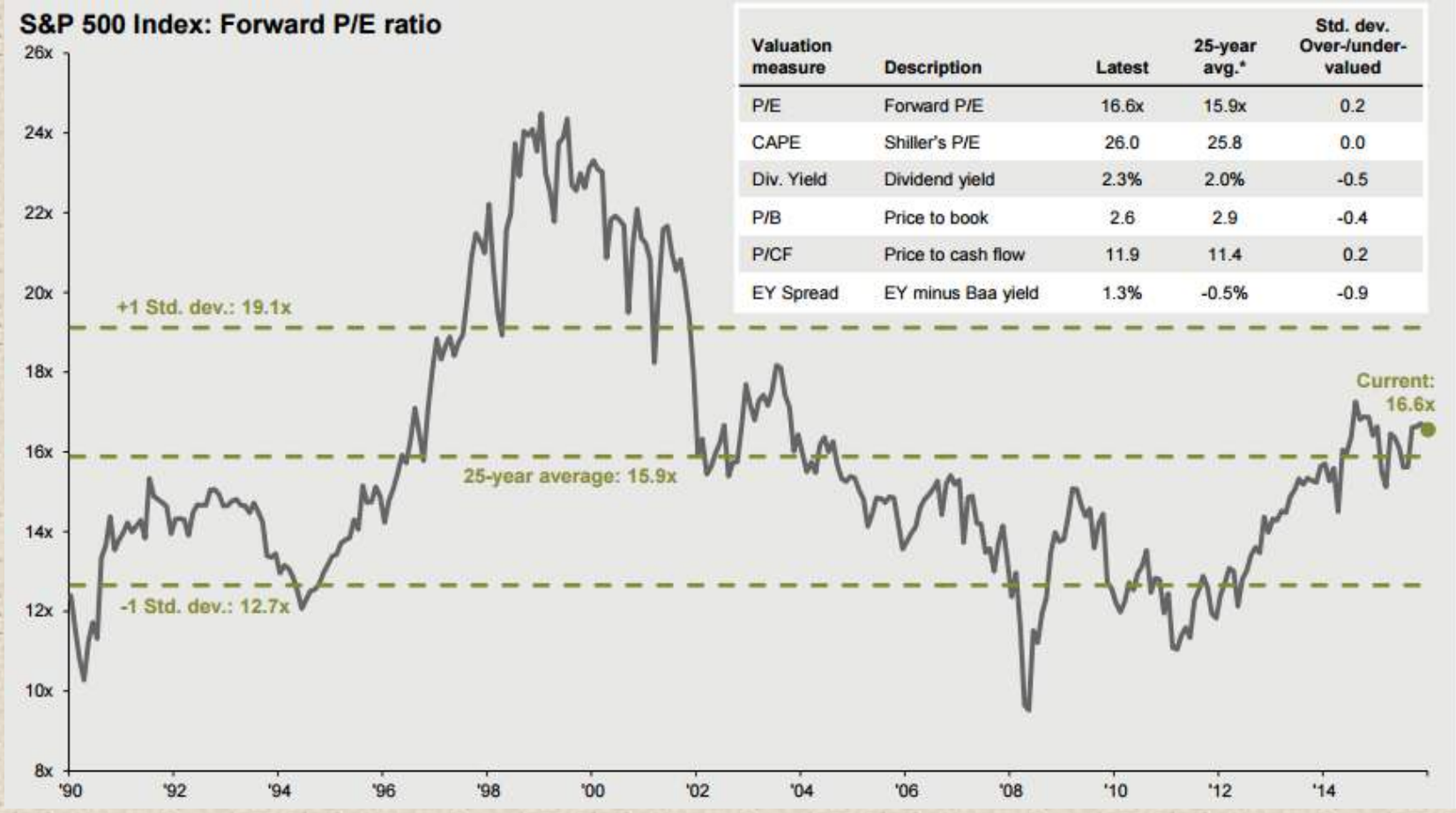


Snapshot of Prior Tops





Multiple Comparison



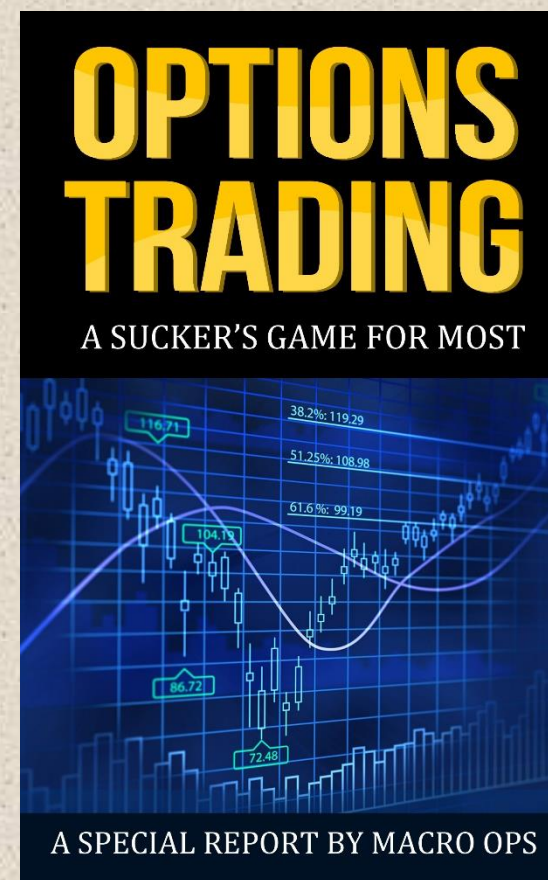
How To Play The Long Side

- We like commodity stocks, tech, and healthcare
- Commodity dependent emerging markets should run too



New Special Report!

- 20+ page report about option strategy and how we use options at Macro Ops





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