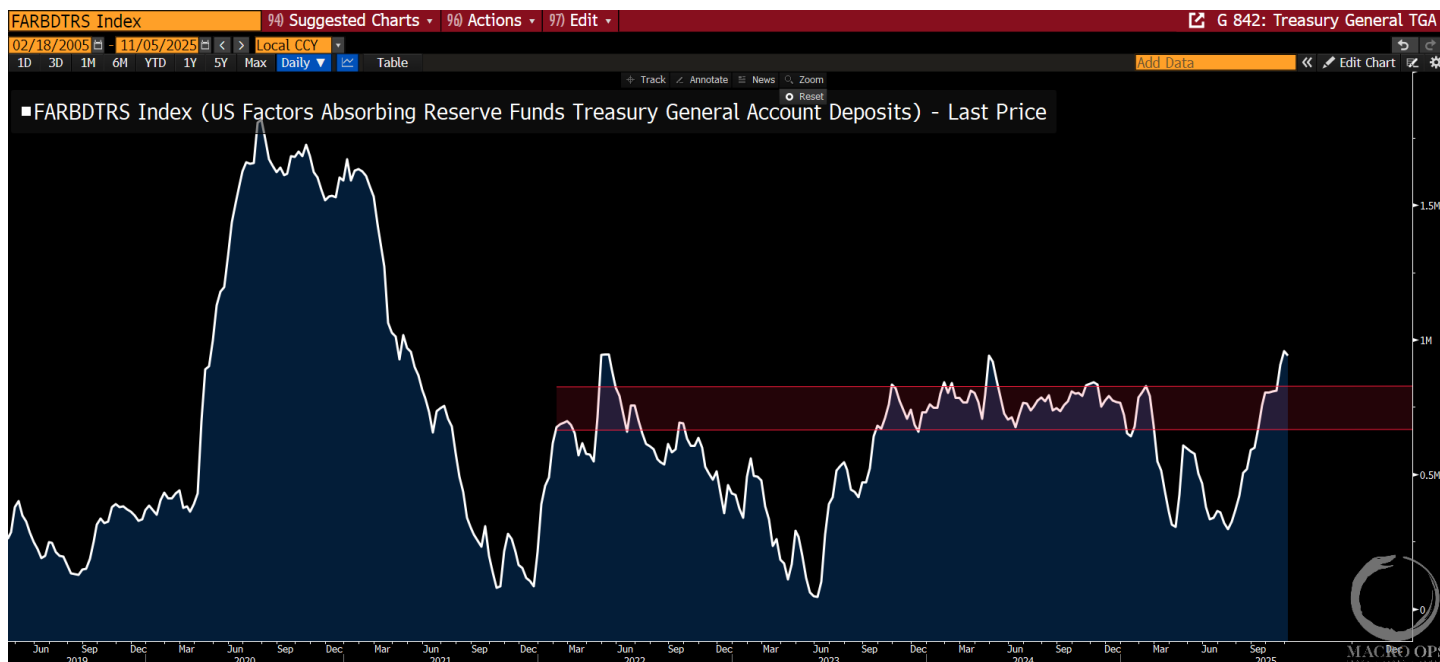


The Senate cleared a critical procedural hurdle late Sunday, moving to end the record government shutdown. From the WSJ: "Democrats provided enough votes to advance a measure designed to end the more than monthlong impasse." Kalshi now has 95% odds that the government will reopen before Friday.

This table from [Subu Trade](#) shows that market returns skew positive post shutdown, due to the resolution of uncertainty as well as the reintroduction of liquidity from the Treasury.

S&P 500 after Government Shutdown ends								
SubuTrade.com, past 40 years								
	1 Week Later	2 Weeks Later	1 Month Later	2 Months Later	3 Months Later	6 Months Later	9 Months Later	1 Year Later
October 18, 1986	-0.24%	2.15%	1.83%	3.65%	12.77%	19.78%	30.38%	18.36%
December 20, 1987	-1.44%	3.80%	-2.62%	5.00%	7.86%	7.94%	7.89%	10.89%
October 9, 1990	-2.03%	2.38%	0.30%	7.42%	2.09%	22.30%	23.15%	24.77%
November 19, 1995	0.21%	2.27%	1.98%	1.96%	6.76%	12.18%	11.08%	22.92%
January 6, 1996	-2.42%	-0.79%	4.01%	5.72%	6.35%	6.60%	12.33%	21.29%
October 17, 2013	1.09%	1.35%	3.75%	2.76%	6.09%	8.01%	13.88%	8.86%
January 22, 2018	0.73%	-6.50%	-4.65%	-6.68%	-5.74%	-0.92%	-2.30%	-6.86%
January 25, 2019	1.57%	1.62%	4.85%	5.28%	10.32%	13.55%	12.97%	21.72%
Soon ???								
Average:	-0.32%	0.79%	1.18%	3.14%	5.81%	11.18%	13.67%	15.25%
% Positive:	50%	75%	75%	88%	88%	88%	88%	88%

Speaking of liquidity, the Treasury General Account (TGA) has ballooned to over \$1trn — well above its target range (red highlighted level below). Once the government reopens its doors we expect to see an approximate \$250bn drawdown in the TGA by the end of January, injecting ample liquidity back into the system.



The short-term risk for the market here is that those in Congress fumble the ball, and the deal doesn't get done this week. That would drive some derisking but it'd be short lived. Both sides are strongly incentivized to get this out of the way before Thanksgiving, and we expect it will.

We also have the end of quantitative tightening (QT) come December. Dalio put out a good note on this last week ([link here](#)) that's worth a read.

He argues that the Fed's shift from QT to QE represents a critical milestone in the "[Big Debt Cycle](#)". What makes this moment particularly significant—and dangerous—is that the Fed is "**stimulating into a bubble**" rather than a depression, as it has historically.

Unlike past QE programs deployed during economic busts with low valuations, falling inflation, and wide credit spreads, today's conditions show the opposite: asset valuations at highs, unemployment near lows, inflation above target, AI stocks in bubble territory, and credit spreads near record lows. When combined with massive fiscal deficits and Treasury issuance, this QE effectively *monetizes* government debt rather than simply providing liquidity to a distressed private system.

Dalio explains that these mechanics will likely create a liquidity-driven melt-up in financial assets, particularly benefiting long-duration assets like tech and AI stocks while widening the wealth gap between asset holders and non-holders.

He views this as a "bold and dangerous big bet on growth," particularly AI-driven growth, financed through extremely loose fiscal, monetary, and regulatory policies—warning that the ideal time to sell will be during the melt-up phase, just before tightening becomes necessary to rein in inflation and pop the bubble.

So, QE today is "stimulus into a bubble."



Stimulus Episode	Starting Point	Real GDP (Y/Y)	Unemployment Rate	Inflation	Cyclically Adjusted P/E Ratio	Credit Spreads	Govt Debt-to-GDP
Great Depression	Mar-33	-10.4%	25.4%	-10.0%	7.9	5.3%	35%
WWII QE	Apr-40	8.3%	15.8%	1.4%	16.4	3.1%	43%
GFC	Oct-08	-2.5%	6.5%	3.7%	16.4	7.3%	71%
QEII	Nov-10	2.8%	9.8%	1.1%	21.7	4.4%	94%
Covid	Apr-20	-7.4%	14.8%	0.3%	25.9	3.5%	100%
	Average	-1.8%	14.5%	-0.7%	17.7	4.7%	69%
	Today	2.1%	4.3%	3.0%	39.5	1.0%	118%

We mostly agree with his take, though we're less convinced or concerned about the bubble chatter — as of now, at least. We'll become more guarded once we see leveraged positioning start rising significantly, as things are pretty vanilla at the moment.

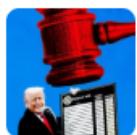
All in all, the flip from QT to QE will stem a bleed of \$60bn per month of liquidity. This will amount to more than \$700bn over the next 12 months. That's nothing to sneeze at.

Come January, we have a number of other stimulatory measures from the OBBA taking effect, which were designed to bring much of its stimulative punch starting in 26'.

With midterms coming up and Trump's approval rating on the economy sitting at just 41%, we can expect him and his team to pull out every stop to pump things as much as possible — or as long as inflation allows... His tweets regarding sending out \$2k checks and introducing 50-year mortgages may be questionable as far as from a practicality and implementation standpoint, but the fact that he's thinking this way is not bearish.

The SCOTUS discussion around the legality of the Trump tariffs may inject a bit of additional headline volatility into markets over the next month or so (as if we don't already have enough). However, we ultimately don't view this as a significant risk, as the admin has several potential responses to the Supreme Court's decision.

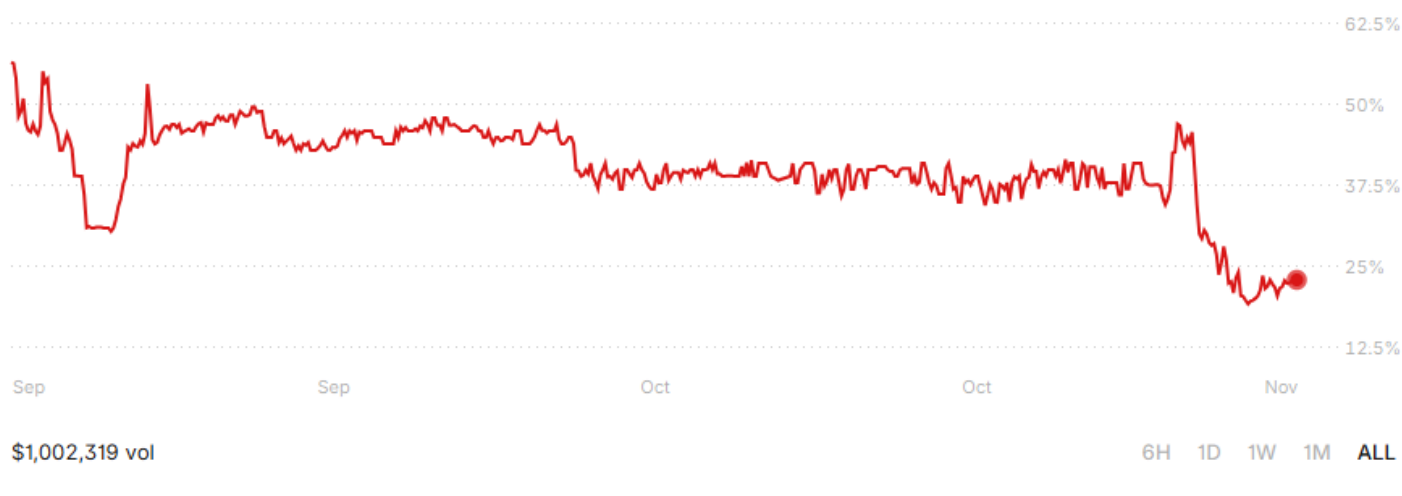
Prediction markets give Trump a sub 25% shot at winning the case, down lately. If the Court says no, Trump's got backups. He could use national security rules for tariffs on EVs, chips, or AI gear. Or ramp up probes against China and the EU for unfair trade. There's also a temporary 15% tariff option for balance-of-payments woes.



Will the Supreme Court rule in favor of Trump's tariffs?



23% chance ▼ 33.6 ⓘ



My hope is that SCOTUS rejects Trump's tariffs, forcing the admin to go back to the drawing board, because what they've cooked up, and especially how it's been implemented, is just plain atrocious, and it puts us in a weaker position against China.

They should take this opportunity to push Congress to codify a baseline tariff rate of 10%, remove this tit-for-tat uncertainty, so businesses can make long-term decisions and investments. Apply high additional reciprocal tariffs when warranted (ie, China). But work closely with our allies (not sure those in this admin know what an "ally" is, but they should google the word) to derisk our supply chains and reduce our shared dependency on hostile countries, which China certainly is.

Moving on...

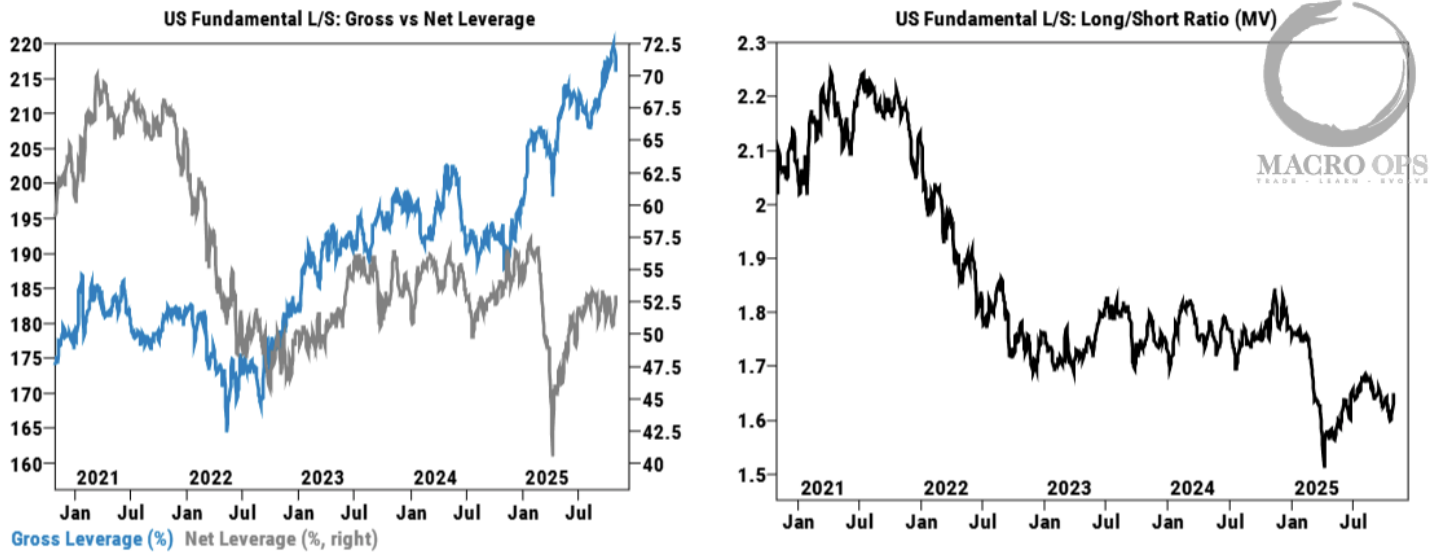
Broadly speaking, the macro backdrop remains quite positive for risk assets. The unfortunate truth is that a K-shaped economy, where lower-income brackets struggle, is good for markets.

Inequality keeps money circulating back to the wealthy, who have a lower propensity to spend each marginal dollar. Meaning that money goes into savings and investment, which keeps growth low and slow and inflationary impulses muted than they otherwise would be. This keeps the Fed on easing street, until populist policies eventually spike prices.

To quote [Druck](#), “the best environment for stocks is a very dull, slow economy that the Federal Reserve is trying to get going...”

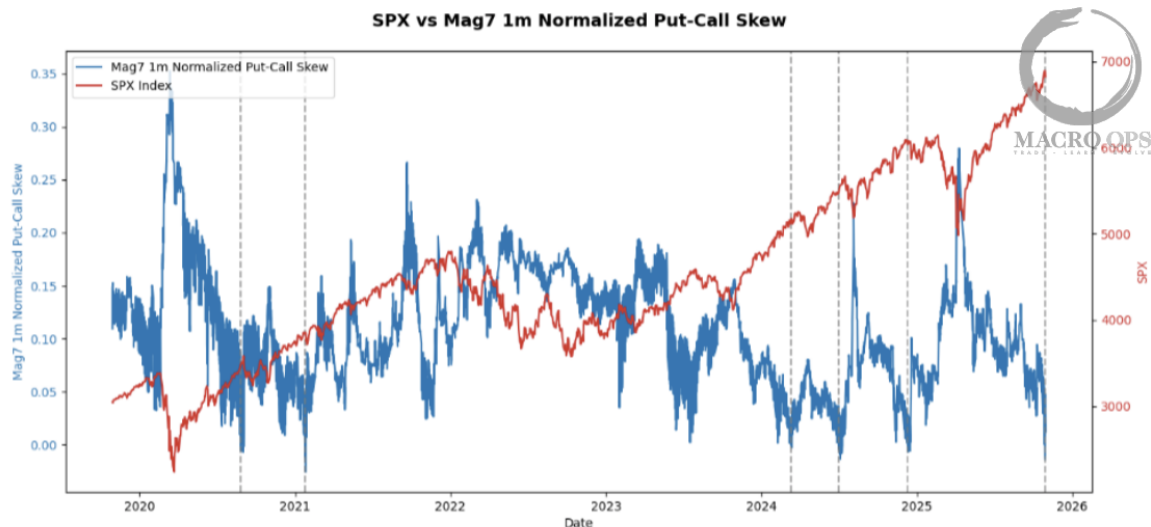
We’re in that “best environment”. And we expect inflationary pressures to remain fairly muted over the next 1-2 quarters, giving the Fed space to remain accommodative.

The positioning backdrop also remains quite supportive. Gross leverage is elevated, but net positioning is muted (charts via GS).



Schwab’s STAX index, measuring retail activity, sits at just 41%. Sure, retail has been consistent net buyers over the past few months, but this is coming off a very low base, and they’re still not aggressively chasing this trend.

GS recently pointed out that the “put-call skew in the Mag7 complex inverted for the first time since December of last year (i.e. implied volatility of calls traded over puts).”



Date	+1w Return	+2w Return	+3w Return	+1m Return	+3m Return	+6m Return	+9m Return	+1y Return
26-Aug-20	2.94%	-2.29%	-2.68%	-3.65%	4.34%	9.56%	20.62%	28.50%
25-Jan-21	-2.11%	1.56%	2.06%	-0.67%	8.62%	14.71%	18.44%	13.00%
12-Mar-24	0.06%	0.55%	0.59%	-1.00%	4.75%	8.12%	16.93%	8.19%
2-Jul-24	1.23%	2.87%	0.85%	-2.95%	3.64%	6.53%	2.94%	13.04%
10-Dec-24	0.26%	0.09%	-2.54%	-3.44%	-6.97%	0.06%	8.24%	
29-Oct-25								

SPX Index	+1w Return	+2w Return	+3w Return	+1m Return	+3m Return	+6m Return	+9m Return	+1y Return
Average	0.48%	0.55%	-0.34%	-2.34%	2.88%	7.80%	13.43%	15.68%
Median	0.26%	0.55%	0.59%	-2.95%	4.34%	8.12%	16.93%	13.02%
Max	2.94%	2.87%	2.06%	-0.67%	8.62%	14.71%	20.62%	28.50%
Min	-2.11%	-2.29%	-2.68%	-3.65%	-6.97%	0.06%	2.94%	8.19%
%Positive	80%	80%	60%	0%	80%	100%	100%	100%

**Dates within 1-month of previous signal removed to limit double counting*

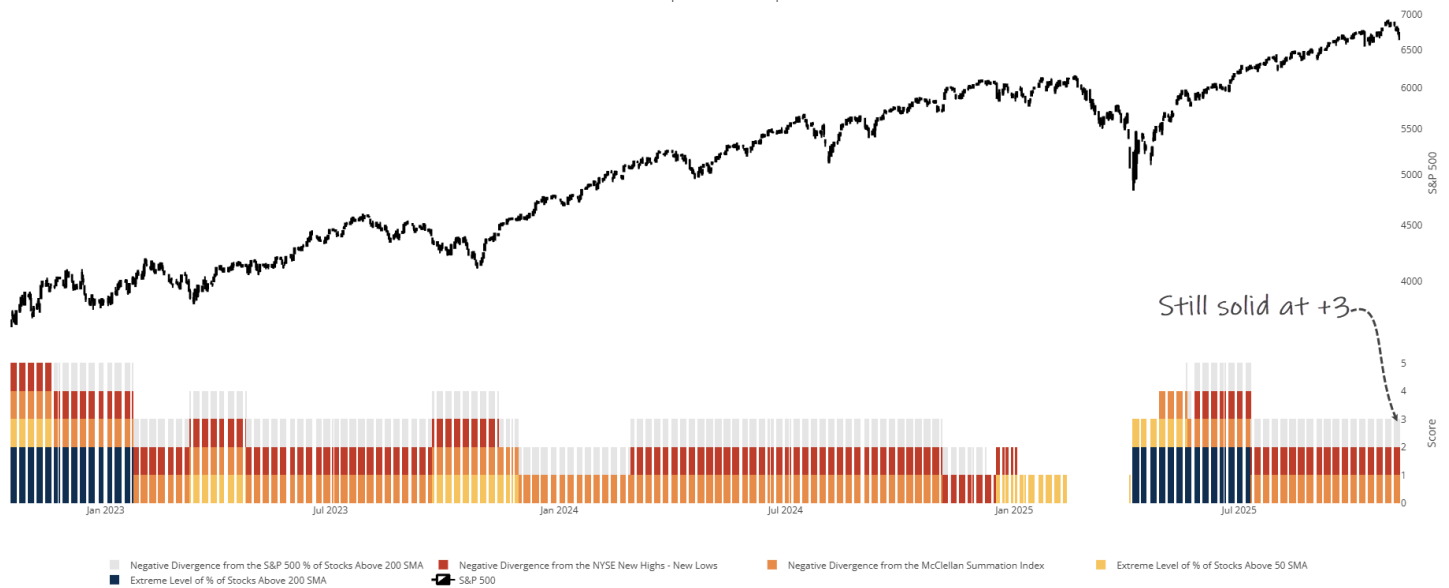
However, unlike the last few times we saw this inversion, the “optimistic” call buying isn’t matched by broader positioning, which remains neutral. This tells us that investors continue to be noncommittal. They’re loading up on calls because they remain underpositioned for the trend.

It seems to me that the biggest pain trade is still a slow grind higher, with an emphasis on the “grind” aspect. My base case is that we see some continued sideways chop and vol in the SPX as the market wears down the theta on those options, while the weak short-term breadth measures we’ve discussed slowly resolve themselves higher.

Regarding breadth, the short-term picture isn’t great. Nevertheless, we added some risk yesterday because we had derisked quite a bit over the past two weeks.

The good thing is that longer-term measures of underlying strength, such as our aggregate breadth measure, still confirm the bull trend, telling us this is a market we want to stay patiently long and not be too aggressive in overpositioning in one direction or the other until the shorter-term measures improve.

Macro Ops: Breadth Components



Additionally, the buyback window climbs to 85% this week, and the current buyback flows are 1.5x last year's pace according to BBG, providing a [persistent structural bid](#) under the market over the next two months.

Combine this with strong seasonality, the finish to a better-than-expected earnings season, and kicking the can of the US-China trade war out a year, and we have a highly stimulative, largely underpositioned backdrop to keep things grinding higher.

The key chart to watch for short-term direction of risk-on/off is BTCUSD. Below is a weekly. It's formed a classic megaphone broadening top pattern. Last week's candle resolved above the support line and lower weekly band. If we see a move back below this level, it'll point to broader volatility in the near term.

So we'll want to keep an eye on this over the next week or two.



Our focus continues to be on the broader commodities space. We added a second leg to our Bloomberg Commodity ETF (BCI) long yesterday, and now hold a roughly 30% position. We're also long individual commodities that are setting up, such as WTI crude, soybeans, gold/silver, and coffee — along with a host of various miners.

Let's think about the story this chart of BCOM below is telling us... It's now at new recent highs after trading sideways in a tight compression regime for 3-years. Over this period, it weathered a historic tightening cycle, with the most aggressive rate hike's since the Volker era in the early 80s.

During this time we also saw manufacturing PMI contract for 16 consecutive months — the longest stretch since the GFC crisis.

Things were of course even weaker in China where we saw a sharp drop in commodity demand driven by a collapsing property sector, weak manufacturing, and depressed consumers.

China saw factory activity contract for 9 consecutive months through Oct of *this* year, marking the longest slump in nearly a decade. Housing dropped over 40% YoY in 23', copper imports declined 12% YoY, 22'Iron Ore imports down by the same, etc...

Yet, despite the dramatic slump of the two largest global demand sources for commodities over the last three years, the BCOM index just quietly traded sideways... **If that isn't a major signal, then I don't know what is...**

What this simple chart is telling us is that supplies of broad commodities are really tight. That the last 15 years of underinvestment into commodity [CAPEX](#) is starting to show. The world that runs on CAPEX light software is no longer, as we're now moving into an extremely capital / resource intensive AI driven one. One where any marginal improvement in global growth is going to have outsize effects on the broad commodity complex.

What's even more unusual *and* bullish about this setup, is that we're seeing this breakout occur while we're still in a tech led [USD Core centric cycle](#). This is, of course, not the cycle where commodities are supposed to

perform well. Read our pieces on [Core vs Periphery](#) and [Bubble Rotation theory](#) to better understand why that is.



Precious metals are always the leaders in the commodity space. And what they've been telling us for the past two years is that **a historic rally in hard assets is coming**.

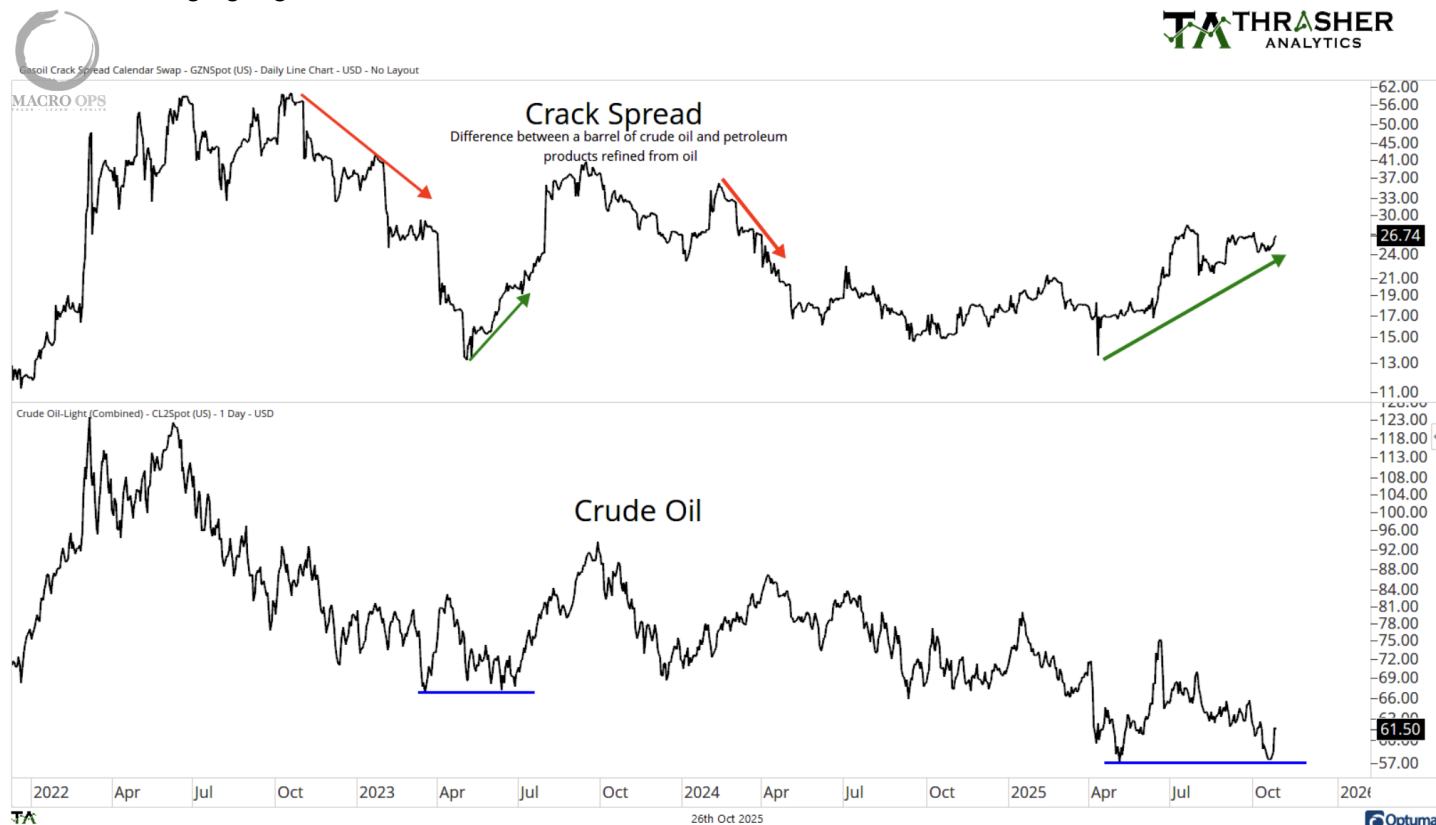
This is why we're laser-focused on this space and why we'll continue to aggressively push positioning as long as the technical picture allows for it.

We'll be looking to add longs in natty and related equities, soybean oil, and aluminum plays such as CENX pictured below, in the coming days/weeks.



We also continue to be of the belief that crude is setting up for a major move. This chart from Andrew Thrasher's great Substack ([link here](#)) shows the Crack Spread (difference between a barrel of crude and petroleum products refined from oil) tends to lead at significant turning points.

It's been diverging higher for months.



This aligns with the technical picture: a major double bottom in what we think will mark a bear trap. The historic bearish positioning that we were pointing out over a month ago before CoT went silent, with net money managers holding the most pessimistic positioning in over 20 years. And relative valuations in the 0th percentile.

We're long the futures and will be adding if/when the tape gives further confirmation. We're also long a basket of E&Ps, and we'll likely be adding XOM to that group very soon.

That's all I've got for this morning. I just wanted to get a quick note out on this.

I'll be back with more later this week.

Stay frosty and keep your head on a swivel!

Your Macro Operator,

Alex