



## DEVELOPED MARKETS STRATEGY

### Real Time Update

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#### Positioning

- Consistent with our view entering 2020 that risk assets were more fully priced than not, we have been advocating maintaining a risk-off portfolio principally comprising trades where we felt the cost of being wrong carried limited downside.
- Some of the more prominent themes we suggested included:
  - Short positions in the IG and HY CDX indexes;
  - Long FX volatility in AUD forward volatility contracts (ex. 3mth/3mth);
  - Long gold and silver
- Although we've felt equities are overvalued, we are respectful trend momentum and have only been holding short positions through options.
- Against these risk-off trades, we've held positions like 5yr versus 30yr steepeners in the US that have held compelling technical drivers and should not suffer much downside in a risk-off environment (ex. yesterday 5s30s steepened 3bps).

#### Trading Commentary

- We feel it is becoming more likely the FED will intervene with a 25-50bp cut and a dovish message maybe coordinated with other central banks.
- Given the 10% correction from the high in S&P we want to be prudent with profiting from our correct calls.
- We have advised being in a number of risk off oriented positions since the start of the year, positions which we felt had limited loss potential. Examples were short credit indexes, long forward foreign exchange volatility contracts on currencies like the Australian dollar, long precious metals (Gold/silver) and option positions on equities.
- We posted yesterday that we would be taking some profits. Today, we are advocating exiting essentially all the outright short risk positions and spending up to 20% of the large profit built up in February to pay premium on option structures (put spreads most likely).
- To be clear, we are not suggesting "buying the dip" but rather to protect profits while maintaining short risk exposure and allowing time for reassessment.
- We also feel that there will be ample opportunities to position relative value trades which will be more market neutral in the coming sessions.