MartoCapital

DEVELOPED MARKETS STRATEGY

Real Time Update

9 March 2020

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Positioning

- We have been advocating trading with a risk off bias since the beginning of the year. Last week we advised to restructure most outright risk to structures with limited exposure to a reversal (options) and move to a much more tactical style of trading with a short bias.

- As we gaze at markets this morning we are struck by a number of extreme conditions. Obviously, the OPEC+ announcement has decimated the oil market and will have serious consequences to the energy sector, economy and geopolitically.

- This has caused credit spreads to explode higher and Treasury yields to plummet further. At this point we would use the extreme levels to get closer to flat risk and look for tactical opportunities to trade while biding our time on clarity of direction.

- On Friday AM we suggested selling the Jan Fed Funds contract at 0.15bps against short risk positions like long gold and short equities. Fundamentally we still like this concept but given the extreme conditions we would suggest taking the profits and exiting for the time being.

Trading Commentary

- A quick note on the bond market. This morning the 10yr and 30yr US government bonds are trading at 0.42% and 0.85% up from overnight lows of approximately 0.31% and 0.69%. For some perspective on these levels as an investment:

  - The 10yr at 0.42% is implying an inflation rate of 1.06% over 10 years with a real return of -0.64%. If we realize the implied inflation rate of 1.06% per year this 10yr bond investment will have returned -6.0% at maturity on a real basis.

  - If the Fed meets its target rate of 2% inflation on average over 10 years your return on a real basis will be -14.0%. While the 10yr can rally more in this type of an extreme environment (German Bunds are at -0.87%), you have to ask yourself what kind of long-term investment bonds are at these current levels, and what type of world will we be living in where nominal yields of 0.42% are attractive to lock in for 10 years.