



DEVELOPED MARKETS STRATEGY

Real Time Update

Contact Information

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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 feel equities are overvalued, we are respectful of the trend's momentum and have only held 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

- With last week's Fed Minutes revealing member's concerns that overvaluation and excessive indebtedness could amplify an adverse shock to the economy, coupled with PMI misses in the US and Coronavirus spreading globally, we continue to maintain our risk-off balance.
- The uncertainties around the Coronavirus are not waning, with the incubation period now being questioned and the potential for exponential growth outside of China becoming more real each day that passes.
- Regardless of whether a vaccine is developed the outbreak is going to have a meaningful impact on the global economy and significantly so if containment does not start immediately. The US presidential election raises the stakes all around.
- With respect to this week's large move, the tactical trading heuristic has been to fade (or "buy the dip") after large panicky moves on harder-to-substantiate news. While this time seems different to us, we still took some profits on our positions (e.g. credit shorts) and restructured some of our option structures to harvest profits (ex. precious metals).
- We continue to have a risk off bias and will actively trade and structure positions with that theme in mind.