

***SOM** Macro Strategies*

Trade Book of Recommended Trades And Historical Performance

December 2019

Alan Brazil

SOM Macro Strategies

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Performance of Recommended Trades

Positions	Number Trades	December 16, 2019		
		Initial Investment (MM)	Current Investment (MM)	Total Return
Open	5	25	43	73.2%
Closed	38	190	501	163.8%
Total	43	215	544	153.2%

Current Recommended Trades

SOM Strategy	Trade	Date	Initial Position			Current Valuation		December 16, 2019	
			MM/Shares	Price	Invest (MM)	Status	Price	Invest (MM)	Total Return
Germany Embraces Monetary And Fiscal Stimulus	Buy 6-month OTM Call On European Equity Index(25 delta)	31-Oct-19	500	1.0	5.0	Updated	1.9	9.5	90%
<i>Germany Embraces Monetary And Fiscal Stimulus</i>	<i>Buy 1-yr OTM Payer Swaption On the Eur 10-year (strike 34 bp)</i>	<i>3-Dec-19</i>	<i>500</i>	<i>1.0</i>	<i>5.0</i>	<i>Updated</i>	<i>1.2</i>	<i>6.0</i>	<i>20%</i>
<i>Phase 1 Agreement and UK Election Acts As Stimulus to Growth</i>	<i>Buy 6-month OTM Call On US Equity Index (25 delta)</i>	<i>12-Dec-19</i>	<i>500</i>	<i>1.0</i>	<i>5.0</i>	<i>Updated</i>	<i>1.4</i>	<i>6.9</i>	<i>38%</i>
US Follows The ROW Into Global Slowdown	Buy 2-year maturity 10-2-yr curve cap (strike of 45 bp)	3-Jun-19	3125	0.16	5.0	Updated	0.07	2.2	-56%
US Follows The ROW Into Global Slowdown/ Buy EM High Yield Commodity Countries	Buy Basket of Local Currency Sovs (Russia, Brazil and Mexico)	3-Jun-19	100	100.0	5.0	Updated	113.70	18.7	274%

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Closed Trades As Of December 16, 2019

SOM Strategy	Trade	Initial Position			Closed Valuation/Performance			
		Date	MM/ Shares(000)	Price	Date	Price	Investment (MM)	Total Return
Abenomics	Long a 6-month Call 17000/19000 call spread on Nikkei	9-Sep-16	76.9	6.5	17-Jan-17	14.0	15.8	215%
Abenomics	Long a 6-month Call 15000/17000 call spread on Nikkei	24-Jun-16	62.5	8.0	9-Sep-16	18.5	16.6	231%
Brazil	Long Mxn Peso vs Short Brazilian Real at 6.1	8-Nov-16	100.0	100.0	3-Jan-17	95.0	0.0	-100%
Brazil	Long a 6-month 61000 strike put on Bovespa	31-Oct-16	248.8	2.0	21-Dec-16	5.7	19.2	284%
Credit is Not a Bubble	Short 5-yr HY CDS	5-Sep-17	-400.0	330	22-Mar-18	345	8.6	72%
Credit is Not a Bubble	Short 5-yr IG CDS at 66 bp	22-Mar-18	-667	66 bp	25-Jul-18	59 bp	7.35	47%
Greece	Long 30yr GGBs	24-Mar-17	75.0	68.2	7-Feb-18	114	39.4	687%
Greece	Long basket of Greek banks	25-Mar-17	454000	1.1	15-Aug-17	2.2	10.0	100%
Position For Higher Rates	1/10 Payer Swaption 2.5% Strike	9-Nov-16	333.3	1.5	9-May-17	1.4	4.7	-7%
Position For Higher Rates	1/5 Payer Swaption 2.5 % Strike	9-May-17	625.0	0.8	22-Mar-18	1.5	9.4	88%
Position For Higher Rates	1/5 Payer Swaption 3% Strike	22-Mar-18	556	0.9	26-Oct-18	1.0	5.6	11%
Strategies For BREXIT	Short GBP vs USD at 1.33	1-Jul-16	200.0	100.00	11-Oct-16	108.27	21.5	331%
Strategies For Trumpanomics	Long Regional banks	9-Nov-16	1.1	46.5	25-May-18	64.2	24.1	382%
Strategies For Trumpanomics	Long Materials sector	9-Nov-16	1.04	48.3	14-May-18	59.6	16.7	235%
Strategies For Trumpanomics	Long Mortgage Insurers and Home Builders	9-Nov-16	2.3	21.7	14-May-18	26.6	16.2	224%
Strategies For Trumpanomics	Long S&P500	9-Nov-16	0.46	216.0	4-Dec-17	265	27.7	455%
Strategies For Trumpanomics	Best of Puts Euro, Yen vs USD	9-Nov-16	625.0	0.8	23-Dec-16	3.7	23.1	363%
The Normalization of The EMU	Long EMU Bank Equities	29-Dec-17	0.32	156.7	24-May-18	141.0	0.0	-100%
The Return of The King/EMU Slowdown	Buy 9-month Euro Puts/Dollar Calls, 1.21 strike	11-Apr-18	515	0.97	29-May-18	5.80	29.9	498%
The Return of The King/EMU Slowdown	Buy Dec Euro Puts/Dollar Calls, 1.13 strike	29-May-18	454	1.10	22-Nov-18	0.5	2.50	-50%
The Return of The King/EMU Slowdown	Buy 6-month Euro Puts/Dollar Calls, 1.12 strike	22-Nov-18	1.00	5.0	24-Apr-19	1.0	5	0%
The Return of The King/EMU Slowdown	2/5 Euro Receiver Swaption 0.62 Strike	11-Oct-18	1000	0.5	25-Jan-19	1.2	12.3	146%
The Return of The King/EMU Slowdown	Buy 1/7 Euro Receiver Swaption 0.45 Strike	25-Jan-19	1000	0.50	3-Jun-19	2.32	23.2	364%
The Return of The King/EMU Slowdown	Buy 6-month Euro Puts/Dollar Calls, 1.11 strike	24-Apr-19	515	1.0	3-Sep-19	1.4	7.2	44%
Stronger Dollar Part II---Position For A Weaker EM	Buy December 2018 7% OTM Put on EM Equities	11-Apr-18	285	1.75	28-Jun-18	3.75	10.7	114%
Stronger Dollar Part II---Position For A Weaker EM	Buy USD, Sell A Basket of EM Commodity FX (BRL, RUB, ZAR)	11-Apr-18	100	100.0	12-Jul-18	110.5	15.50	210%
Stronger Dollar Part II---Position For A Weaker EM	Buy Bovepa 10% OTM puts for October	25-Jul-18	13513	370.0	13-Sep-18	800.0	10.8	116%
Stronger Dollar Part II---Position For A Weaker EM	Buy Bovepa 10% OTM puts for Dec	13-Sep-18	13513	370.0	19-Dec-18	0.0	0.0	-100%
Stronger Dollar Part II---Position For A Weaker EM	Buy December 2018 7% OTM Put on EM Equities	28-Jun-18	295	1.7	26-Oct-18	4.7	13.9	176%
Stronger Dollar Part II---Position For A Weaker EM	Buy January 2019 7% OTM Put on EM Equities	7-Nov-18	714	0.7	22-Nov-18	1.3	9.3	86%
Stronger Dollar Part II---Position For A Weaker EM	Buy USD, Sell A Basket of EM Commodity FX (BRL, RUB, ZAR)	22-Nov-18	200	100.0	27-Dec-18	104.2	13.4	168%
Stronger Dollar Part II---Position For A Weaker EM	Buy Bovepa 4-month 10% OTM spot puts (7800 strike)	22-Nov-18	400.0	5.0	24-Mar-19	0.0	0	-100%
US Regional Banks Vs S&P 500	Buy Regional Banks, Sell S&P, -2.5% stop	24-Oct-18	200	100.0	25-Jan-19	106.0	17.0	240%
The Coming Economic War Between The US and China/ The "China" Model	Buy Protection on IG	25-Jul-18	667	100.0	27-Dec-18	101.8	16.7	233%
The Coming Economic War Between The US and China/ The "China" Model	Buy 4-month 7% OTM Puts on USD Denominated EM Equity Index (37.5 strike)	22-Nov-18	1.2	5.0	24-Mar-19	0.0	0	-100%
The Coming Economic War Between The US and China/ The "China" Model	Sell CNH One Year Forward vs USD	22-Jun-18	330	100.0	3-Jun-19	106.5	18.0	260%
The Coming Economic War Between The US and China/ The "China" Model	Sell CNH One Year Forward vs USD	2-Jun-19	330	100.0	25-Oct-19	105.0	15.0	200%
US Follows The ROW Into Global Slowdown	Buy 1/2 Receiver USD Swap (Strike = 2.0%)	21-Mar-19	2500	0.20	3-Jun-19	0.80	20.0	300%
Corporates Are The New Subprime	Buy Protection On the IG Index at 50 bp	24-Jul-19	100.0	5.0	12-Dec-19	0.00	-5.0	-100%

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State Of the Markets: Germany Turns To Deficit Spending

- ***Step 1: Macro Theme: Germany Turns To Deficit Spending***
 - Falling economy coupled with growing political populist pressure could push Germany to reverse their fiscal conservatism and embrace deficit spending
- ***Step 2: Fundamental Economic Framework***
 - Germany's economic engine built on trade is faltering
 - Future growth is constrained without a resurgence in trade
 - Domestic capital stock is declining
 - Labor productivity growth is diminishing
 - Labor forces is shrinking
 - Political vulnerabilities are growing
 - Falling personal disposable income and consumption
 - Widening income and wealth inequalities
 - Growing current account surplus
- ***Step 3: Identify Potential Repricing Events***
 - Germany abandons “Back Zero” and deficit spends
 - The call to do more will grow as the German economy continues to slow without a pickup in world trade
 - Populist are gaining voting shares in Europe and in Germany
 - Populist success in recent state elections in the former East Germany reflect growing dissatisfaction with income and wealth inequality
 - Recent leadership changes in the SPD party could mean a lean towards support for more spending by the ruling CDU/SPD
 - Decline of voter support for both the CDU & SPD in recent polling versus the Greens reflects, in part, the growing demand by younger voters for increase spending to fight climate change
 - The ruling CDU/SPD coalition turns to deficit spending
- ***Step 4: Find Asymmetric Trades***
 - Trade 1: Buy calls on European equities
 - Trade 2: Buy OTM payer swaption on the 10-yr part of the Euro swap curve

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State of The Markets: Buy US Equities--Phase 1 Agreement & UK Election Is A Stimulus For Growth

- ***Step 1: Macro Theme: State of The Markets: Buy US Equities--Phase 1 Agreement & UK Election Is A Stimulus For Growth***
 - Election and agreement should increase GDP by reducing policy uncertainty
- ***Step 2: Fundamental Economic Framework***
 - Recent events have the potential to boost world growth
 - *US/China Phase 1 agreement rolls back current and potential future tariffs*
 - *UK election provides complete clarity about Brexit*
 - World growth has slowed in part because of the slowdown in investment, which reflects a rise in policy uncertainty
 - Phase 1 agreement/UK election results should reduce policy uncertainty which has been a headwind to investment and ultimately to growth
 - Phase 1 agreement/ UK election results could also be a tailwind for US growth by reducing the uncertainty surrounding the US 2020 presidential election
 - Economic models of the 2020 election suggest that Trump is the favorite, increasing GDP by a Phase 1 agreement could enhance his chances
 - Fall of the labor party and its economic manifesto could portend a similar fate for democrats given the similarities in their platform
- ***Step 3: Identify Potential Repricing Events***
 - GDP growth accelerates as policy uncertainty falls and adds to the force of the monetary stimulus already in place
 - Fed cut rates both current and on a potential forward basis to offset the slowdown in GDP
 - If policy uncertainty falls then those cuts become an even more of a force to push up US GDP
- ***Step 4: Find Asymmetric Trades***
 - Trade 1: Buy calls on US equities

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State Of the Markets: Buy Local Currency High Yield EM SOVs

- ***Step 1: Macro Theme: Buy Local Currency High Yield EM SOVs, Case For Russia***
 - Is there an opportunity given that the RUB has not reflected the reduction in their sovereign economic risk
- ***Step 2: Fundamental Economic Framework***
 - Russian economy has rebounded
 - New government initiative could provide tailwinds to this growth
 - Current account is growing and their budget deficits have turned to a surpluses
 - Sovereign economic risk is even lower as their hard currency reserves have grown while external debt has shrunk
 - The US economy could slow as the impact of fiscal stimulus ebbs without a pickup in China stimulus
 - Employment market could soften as falling profits push firms to scale back hiring plans
- ***Step 3: Find Potential Repricing Events***
 - The USD could weaken if the Fed could cut rates and halt QE runoff in the face of further economic slowdown
 - US yield curve suggests slower growth that could spur FED stimulus
 - Historically, a weaker USD has lead to a rally in EM FX and commodity prices
 - Sovereign economic risk could fall as the weaker USD leads provides a tailwind to EM Growth
 - Russian could benefit given their large commodity sector, and improving economic picture
- ***Step 4: Find Asymmetric Trade***
 - Trade 1: Buy RUB and Sell USD
 - Trade 2: Buy Russian Local Currency Sovereign Debt

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State Of the Markets: The US Follows The ROW Into A Global Slowdown

- ***Step 1: Macro Theme: The US Follows The ROW In A Global Slowdown***
 - Will The US economy rebound given the strength of the labor market even as fiscal stimulus ebbs and the Fed remains on hold?
- ***Step 2: Fundamental Economic Framework***
 - Fiscal stimulus has offset to some extent the impact on growth from the Fed's unwinding of QE and higher funds rates, as well as ebbing China credit stimulus
 - But the US is slowing as the fiscal stimulus pulse is fading leaving it exposed to these other factors
 - However, the strength of 1st quarter growth could imply a rebound
- ***Step 3: Find Potential Repricing Events***
 - First quarter growth was driving by one time factors, the real slowdown could push the Fed to act
 - The Fed could cut rates if labor market slow as small business cut back hiring plans given rising labor costs
 - The Fed could cut rates if inflation (PCE) continues to fall
- ***Step 4: Find Asymmetric Trade***
 - Trade 1: Buy receivers on the front end or curve caps

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Model Portfolio Historical Performance

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