

## State of the Markets: Trade Update

### **Comments: Buy the Rumor, Sell The News**

Over a year ago I argued to go long S&P as part of my trade recommendations for Trumpanomics. Today I am closing that trade. So, I bought the rumor, and am now selling the news of the passage of the Senate tax bill. While US equities will likely continue to rally, the asymmetry has gone as the S&P has rallied almost to my target. Fortunately, there is still plenty of asymmetry left in the other Trumpanomics trades as the Trump administration turns its focus to financial and energy reform. Although the underlying of these trades have rallied with the overall equity market, they asymmetry remains reflecting the additional convexity of reform. Accordingly, I am moving up my targets for these trades (bold highlight) : Regional banks, materials sector, and the housing market. As I highlighted in the note I sent out last week, financial reform could happen fairly quickly particularly for regional banks. Banks will clearly have a tail wind from lower corporate taxes, higher short term rates and growing credit growth driven by a strengthening economy. But what gives regional banks their convexity to the upside is financial reform. Financial reform holds the prospect (given the recently introduced bipartisan Senate bill) of removing the constraints of Dodd-Frank for regional banks. Removing DFAST means regional banks can lever up, increasing ROTE and giving them Beta convexity in any further general equity rally. In addition, now that Trump controls CFPB, they can loosen mortgage underwriting standards without going through congress. This would allow banks to increase revenue by lending in the underserved and higher margin mortgage market. This change could also lift US economic growth by pushing levels of residential investments higher, back closer to historical norms.

Also, I will out in the next few weeks with a 2018 outlook, where I will introduce a couple of new themes.

## Trade Performance

Status	Trade	SOM Strategy	Initial Position					Current Or Closed Position			
			Date	Price	Value at Risk	Target for Underlying	Target Net Payd	Net Payout Ratio			
								Date	Price3	Realized	Potential Remaining
Open	Short 5-yr HY CDS	Credit is Not a Bubble	5-Sep-17	330	1.5	230 bp	3.38	4-Dec-17	317	0.5	3.0
Continuation	Long basket of Greek Banks	Greece	25-Sep-17	1.3	0.3	2.4	4.2	4-Dec-17	1.4	0.3	2.8
Open	Long 30yr GGBs	Greece	24-Mar-17	68.2	6.8	108	5.8	4-Dec-17	92.1	3.5	2.8
Continuation	1/5 Payer Swaption 2.5 % Strike	Position For Higher Rates	9-May-17	0.8	0.8	3.5% Yield	3.0	4-Dec-17	0.3	-0.6	8.7
Open	Long Materials sector	Strategies For Trumpanomics	9-Nov-16	48.3	4.8	77.00	6.0	4-Dec-17	59.9	2.4	2.9
Open	Long Regional banks	Strategies For Trumpanomics	9-Nov-16	46.5	4.6	74.00	5.9	4-Dec-17	61.2	3.2	2.1
Open	Long Mortgage Insuers and Home Builders	Strategies For Trumpanomics	9-Nov-16	21.7	2.2	35.00	6.1	4-Dec-17	31.0	4.3	1.3
<b>Closed</b>	<b>Long S&amp;P 500</b>	<b>Strategies For Trumpanomics</b>	<b>9-Nov-16</b>	<b>216.0</b>	<b>10.0</b>	<b>270.00</b>	<b>5.4</b>	<b>4-Dec-17</b>	<b>266.4</b>	<b>5.0</b>	<b>0.3</b>
Closed	Long basket of Greek banks	Greece	25-Mar-17	1.1	0.22	2.2	4.7	15-Aug-17	2.1	4.5	0.1
Closed	1/10 Payer Swaption 2.5% Strike	Position For Higher Rates	9-Nov-16	1.5	1.5	3.5% Yield	4.1	9-May-17	1.4	0.0	4.5
Closed	Long Mxn Peso vs Short Brazian Real	Brazil	8-Nov-16	6.1	0.03	5.20	4.9	3-Jan-17	6.3	-1.0	0.0
Closed	Best of Puts Euro, Yen vs USD	Strategies For Trumpanomics	9-Nov-16	1.0	1.0	Euro 1.05/Yen 120	4.0	23-Dec-16	3.7	2.7	0.1
Closed	Long a 6-month 61000 strike put on Bovespa	Brazil	31-Oct-16	600	600	54000	2.6	21-Dec-16	1275.0	1.1	0.6
Closed	Short GBP vs USD	Strategies For BREXIT	1-Jul-16	1.3	0.03	1.20	3.3	11-Oct-16	1.2	2.8	0.5
Closed	Long a 6-month Call 17000/19000 call spread on Nikkei	Abenomics	9-Sep-16	6.5	6.5	19000	2.0	17-Jan-17	14.0	1.2	0.4
Closed	Long a 6-month Call 15000/17000 call spread on Nikkei	Abenomics	24-Jun-16	8.0	8.0	19000	1.4	9-Sep-16	18.5	1.3	0.1

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