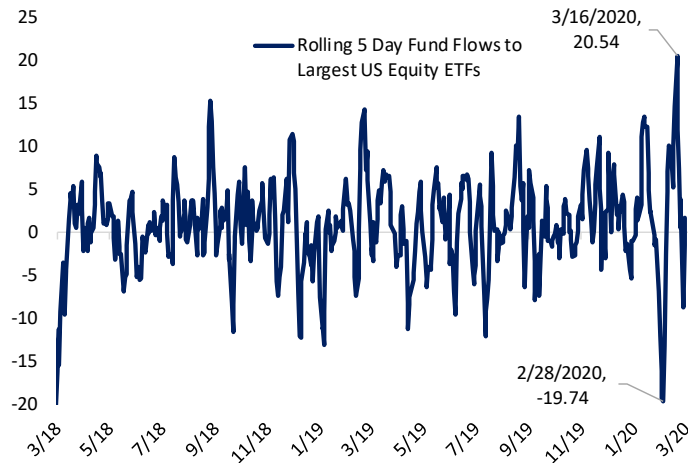




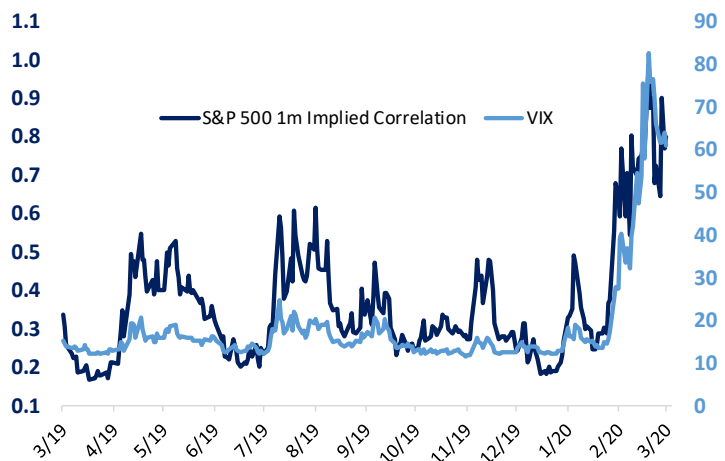
## Rebalancing Boosts Bulls

- We have a theory for what’s been driving the massive ramp in US equities over the last few days, which we’ll discuss later.
- In the meantime, one thing is clear: the huge swing in equity fund flows towards buying that drove \$20.5bn of new money for ETFs across the five sessions ended 3/16 have ended.
- Over the last five days, flows are roughly balanced, meaning retail ETF users seem to have timed the market well.
- While stocks have ripped, volatility remains extremely high; pairwise correlations for the S&P 500 over the next month are still above 0.8, another sign of massive stress.
- While stocks are going up, it seems clear to us that everything is *not* okay as long as volatilities are this high on both an implied and realized basis.
- Another reason for caution is the complete lack of participation for crude in the current market rally.
- As shown at right, Texas Tea dropped back towards the lows today, and is not doing anything even similar to the V-shaped moves of equity markets.
- Oil isn’t the economic lynchpin it used to be, but it can’t be a good sign for the global economy if that asset is stuck in the low-\$20s even as risk appetite recovers.

### Retail Bought The Dip, But Flows Have Slowed



### Implied Correlations & Volatility Remain Elevated

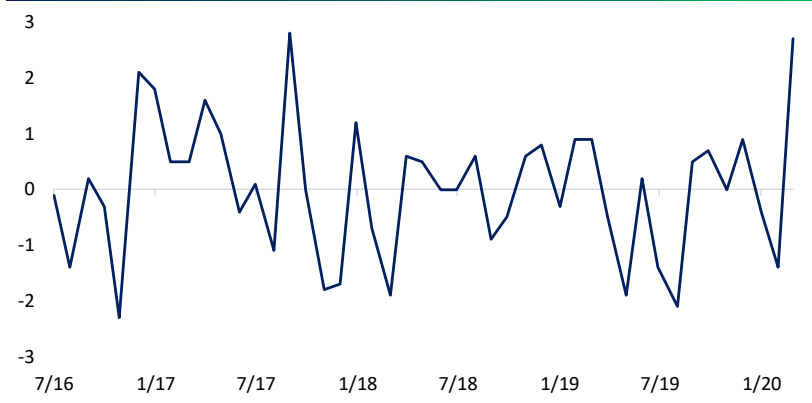


### WTI Can't Keep A Bid, Unlike Stocks (Past 6 Months)

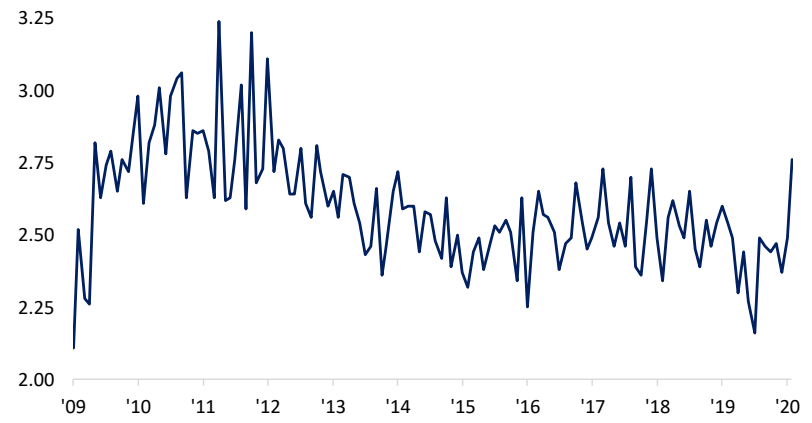




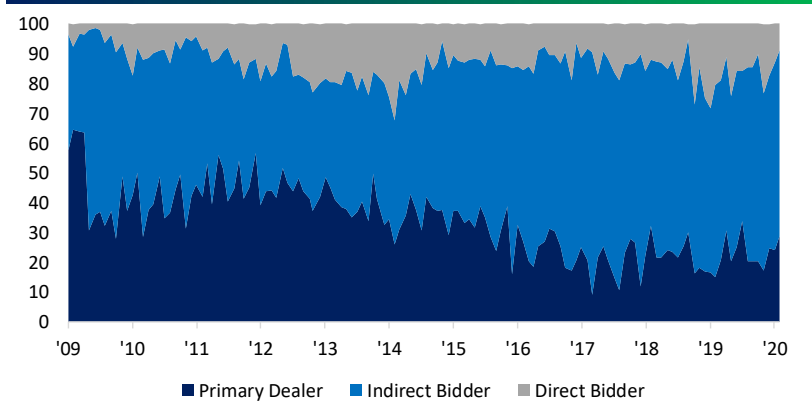
**7 Year Treasury Note Auction Stop-Through/Tail (bps)**



**7 Year Note Auction Bid/Cover Ratio - Past 10 Years**



**7 Year Treasury Note Auction Bidder Takedowns**

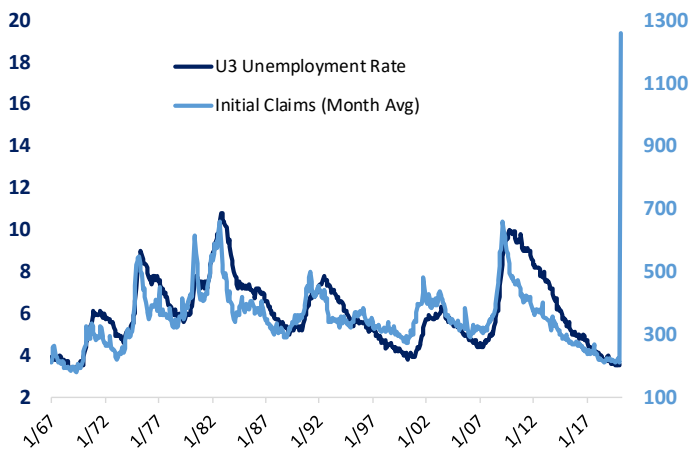


- Today the Treasury auctioned \$32 billion of 7 year notes.
- Overall, demand was very strong which is a good sign considering upcoming stimulus will likely necessitate a large amount of future issuance.
- Fed QE continues to help anchor yields and restore liquidity, and that dynamic may be a material factor influencing investor demand too.
- As with just about every auction and rates in general recently, today's auction had a record low yield which stopped through the when-issued yield of 0.707% by 2.7 bps.
- That is the largest stop through since September of 2017's auction which was 2.8 bps.
- The bid-to-cover ratio reaffirmed this strong demand as it too came in at a multi-year high.
- The bid/cover was 2.76 which is the highest since November of 2012 when it was 2.81.
- As for the internals, indirect bidders took down 62.4% of the auction which is slightly less than the 63% from last month.
- Direct bidders on the other hand took down only 9.1% which was their smallest share of any auction since October of 2018.
- That left primary dealers with the remaining 28.6%; the highest amount since August.
- High primary dealer bidding in the last two auctions suggest a strong interest in buying securities and flipping them right to the Fed's QE program.

**For Personal Use Only—Do Not Forward**



**The Current Claims Rate Is Consistent With ~20% U3...**

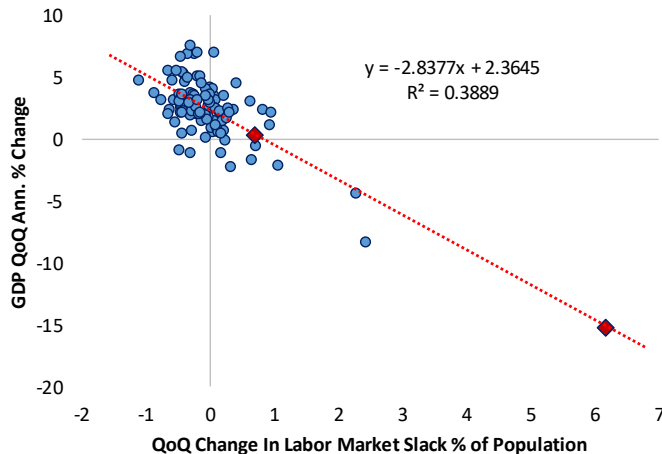


**...But Mechanically, Broad Slack Likely 9% In March, 16% In April**



Note: Assumes March unemployment rises by 500,000, April by 6.505mm (current claims pace for 1 week, 3/4 the pace for the rest of the month); assumes part-time for economic reasons rise is consistent with the historic norm. Also assumes no change in NILF/WJN, total population, and total labor force.

**A 6ppt Increase In Labor Market Slack Equates To -15% GDP**



- We discussed the initial jobless claims data this morning on the blog ([link](#)).

- As shown in the chart at left, the surge implies a massive 20% unemployment rate based on the historic, linear relationship between claims' average on the month and the U3 (narrow) unemployment rate.

- In reality, there just aren't enough claims being made to drive U3 that high unless their pace continues for a long time though.

- Instead, we think a reasonable assumption is for claims to average three-quarters of their pace from this week over the next three weeks.

- Assuming a March unemployment uptick of 500k (the reference date for the BLS was before this week), and the average leading to 6.505 new unemployed in April, total unemployed and underemployed workers would jump to 9.4% of the labor force in March but 15.6% in April.

- We also assume that underemployment (part-time for economic reasons) work rises in-line with its historical relationship to unemployment.

- If that analysis is correct, and "slack" labor markets are felt by 15.6% of the labor force, that implies GDP falling at a roughly 15% annualized rate in Q2.

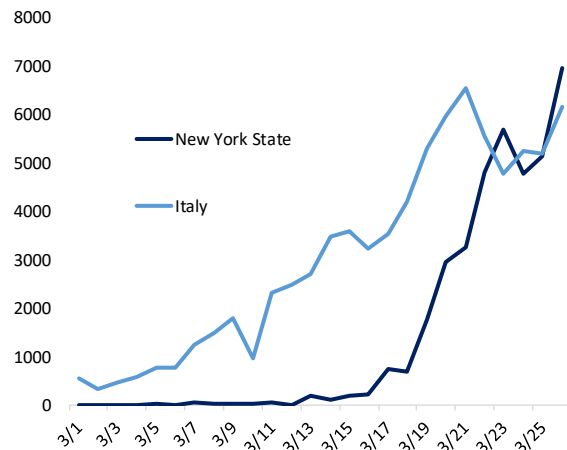
- In reality, the risk is to the downside in that estimate given likely mass declines in productivity across numerous industries.

- The claims data today paints a very grim picture for Q2 overall.



- The massive rip in stocks over the last couple of days is not just a function of extreme over-sold conditions for the equity market or positive policy developments.
- COVID-19 cases are re-accelerating in Italy despite social distancing measures and what had widely been assumed was the peak for new cases counts back in mid-March.
- At the same time, US case counts are rising with 6,958 new cases reported in New York State today.
- While fiscal stimulus is a massive relief, the shock to the labor market currently underway is absolutely massive and larger than had been forecasted.
- You wouldn't know it from stocks with the S&P 500 up 6.1% for its best 3-day gain since 1932, up 17.5%, including a pell-mell sprint 1.7% higher in the last 8 minutes of trading.
- In our view, month-end rebalancing flows are driving huge flows in equities.

### New Cases In New York, Italy Re-Accelerating



### Rebalancing Is A Material Factor In End-of-Month Performance

S&P 500 vs 10y UST Future Relative Performance (%)

Date	MTD Through		Last Session	First Session of Next Month
	Last 5 Sessions	Last 5 Sessions		
11/30/2008	-27.24	17.01	0.53	-10.09
10/31/2008	-25.15	12.49	1.99	-0.88
3/31/2020	-18.73	?	?	?
7/31/2002	-17.44	8.15	0.18	-3.34
9/30/2001	-15.92	6.93	2.32	-0.47
12/31/2018	-13.59	2.90	0.53	-0.01
9/30/2002	-11.80	-2.68	-1.99	4.62
8/31/2011	-11.61	3.15	0.77	-1.62
8/31/2015	-11.24	5.45	-0.73	-3.15
5/31/2010	-10.92	0.69	-1.53	-1.73
1/31/2008	-10.51	1.92	1.05	0.94
<b>Average</b>	<b>-15.83</b>	<b>5.60</b>	<b>0.31</b>	<b>-1.57</b>
11/30/2001	14.11	-2.93	-0.21	-1.07
10/31/2011	12.36	-0.63	-3.21	-3.68
10/31/2002	11.29	-1.37	-0.95	2.13
12/31/2010	10.48	-0.63	-0.40	1.36
3/31/2000	10.27	-3.27	0.44	0.30
4/30/2003	9.21	-1.23	-0.62	-0.15
9/30/1998	8.87	-5.88	-3.82	-3.70
2/28/2015	8.66	-1.06	-0.40	1.14
4/30/2009	8.52	3.42	0.06	0.70
10/31/2015	8.34	0.78	-0.54	1.44
<b>Average</b>	<b>10.21</b>	<b>-1.28</b>	<b>-0.96</b>	<b>-0.15</b>

- A 60/40 stocks/bonds portfolio (using 10y UST futures as a proxy for bonds) at the February close was a 55%/45% portfolio at the close on March 24th, implying investors targeting a 60/40 ratio needed to buy billions in equities.
- As far as stocks/bonds relative performance goes, extreme movements like the ones we saw in March tend to lead to counter-trend moves in the last few days of the month, like the current dynamic.
- That doesn't mean stocks are assured to plunge, but especially on big monthly gains the first session of the new month tends to be rocky.
- In our view, rebalancing is a major factor right now and is being badly exacerbated by illiquidity that was evident on the way lower for stocks.



Equities rallied for a third consecutive day with the S&P 500 rising 6.24%. All eleven sectors finished the day higher with defensives leading. Breadth was strong with only one stock in the Dow, Walmart (WMT), finishing lower and 473 stocks in the S&P rising on the day.

Chinese industrial profits for February are the first release tonight followed by French consumer confidence and Swedish retail sales in Europe. Italy also has multiple sentiment indicators releasing tonight. Economic scorecard [link](#).

Don't forget to keep an eye on what the FOMC is saying with our *FedSpeak Monitor* ([link](#)) and stay up-to-date with central bank meeting dates with our *Global Central Bank Monitor* ([link](#)). These are regularly updated along with our economic scorecard to keep you on top of major developments.

**weif**

Asset	Level	Change	5d Chg	3m Chart	Asset	Level	Change	5d Chg	3m Chart
				(bps)					(bps)
<b>Equity Futs</b>	S&P 500	2608.00	571.5	1074.3	<b>Commodity</b>	Gold	1651.70	106.5	1191.1
	Russell	1166.70	634.4	1357.0		Silver	14.61	-176.8	2029.6
	VIX Fut	45.88	-1053.1	-3273.5		WTI	23.18	-534.9	-963.0
	TSX	810.20	235.0	1071.3		Copper	218.30	-95.3	134.6
<b>Trsy Yields</b>	2 Year	29.27	-3.7	-15.8	<b>Int'l Equity</b>	Nikkei	18664.60	-451.2	1275.8
	5 Year	52.54	0.0	-16.2		CSI 300	3698.05	-65.7	303.6
	10 Year	84.47	-2.3	-29.6		ASX 200	5113.29	230.5	690.7
	30 Year	143.10	-1.4	-35.4		Stoxx 600	321.38	255.3	1166.8
<b>Curves/BE</b>	2s10s	54.58	1.4	-13.8	<b>FX</b>	BBG USD	1248.33	-190.3	-334.6
	5s30s	90.78	-1.0	-18.3		EURUSD	1.1029	-2.7	315.2
	5 Yr BE	69.68	3.2	47.5		USDJPY	109.68	9.1	-93.0
	10 Yr BE	106.97	1.4	51.8		EM FX	54.53	128.9	186.4
<b>Eurodollars</b>	Mar '20	99.43	1.0	9.5	<b>Credit</b>	CDX IG	96.66	-6.3	-45.2
	Jun '20	99.63	2.0	11.0		iTraxx IG	86.22	-3.2	-31.9
	Sep '20	99.65	3.0	14.5		CDX HY	570.71	-13.2	-212.6
	Dec '20	99.69	3.0	16.0		iTraxx HY	521.52	-1.5	-157.8



# Closing Charts & Tweets

## Popular Tweets From @bespokeinvest on Twitter

“Bearish sentiment has been above 50% for three consecutive weeks now. That is the longest stretch since 2009” — 3:20

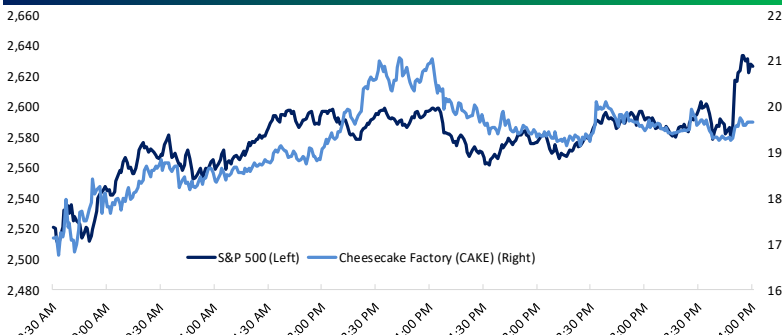
“1% of the entire US population filed for unemployment claims last week.” — 8:43

“3.283 million people filed initial jobless claims for the week ending March 21st, a record.” — 8:30

## S&P 1500 Biggest Movers

Price (%)		Volume vs Historical Avg (%)	
Most Up	Most Down	Most Up	Most Down
GPMT 202.67	WLL -18.79	GPMT 3423.62	MCK -73.70
IVR 66.78	CNX -13.97	RWT 576.04	STMP -68.20
RC 61.22	PLT -13.02	IVR 453.08	IRET -62.71
RWT 60.52	HLX -10.75	HSIC 353.32	ECOL -59.80
NYMT 48.36	FCN -10.75	SIG 334.03	OSIS -58.56
TGI 31.71	MAC -10.74	NYMT 321.16	XEC -57.85
ACHC 30.96	AMN -10.69	CAKE 287.45	JHG -57.59
CMO 30.77	PRFT -10.68	TILE 232.39	VIVO -54.40
ARR 30.50	TLRD -10.56	PMT 222.54	IRBT -53.77
DFIN 30.10	SWN -10.22	NCLH 217.57	CHS -53.17
SIG 29.88	M -10.14	BA 201.50	TUP -52.90
ARI 26.95	BCEI -10.01	CCL 195.40	FOSL -52.10
CDR 26.74	EQT -9.96	AMN 192.00	CABO -51.63
PVAC 25.52	NE -9.72	ARI 184.28	ENTA -51.27
ADTN 25.48	BBBY -9.28	CMO 181.31	SEDG -50.52

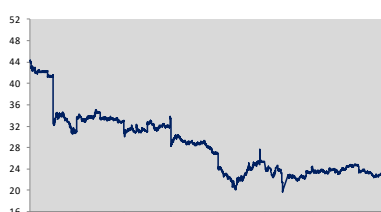
## The Tale of The Tape: S&P 500 (Left) vs Cheesecake Factory (CAKE) (Right)



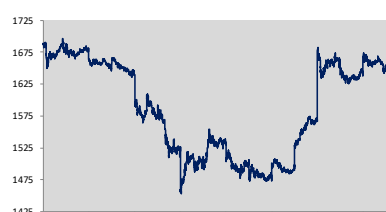
## Key ETFs (1 Day % Change)

Ticker	Name	Change	Last 6 Mos
SPY	S&P 500	5.84	
IJH	S&P 400	5.60	
IJR	S&P 600	6.87	
DIA	Dow 30	6.14	
QQQ	Nasdaq	5.27	
IWB	Russell 1000	6.01	
IWM	Russell 2000	6.22	
XLF	Financials	6.28	
XLB	Materials	4.70	
XLE	Energy	6.11	
XLI	Industrials	6.31	
XLY	Cons. Cyclical	4.14	
XLP	Cons. Staples	5.47	
XLV	Health Care	6.64	
XLRE	Real Estate	7.68	
XLC	Telecom	5.70	
XLK	Technology	6.19	
XLU	Utilities	8.52	
GDX	Gold Miners	-1.75	
XME	Metals & Mining	1.85	
XRT	Retail	3.11	
XHB	Homebuilders	4.42	
IYR	US Real Estate	7.42	
KRE	Regional Banks	8.57	
IWD	Russell 1000 Value	6.08	
IWF	Russell 1000 Growth	5.96	
VIXY	VIX	-8.77	
AGG	Total Bond Mkt	0.31	
TLT	20+ Yr Treasuries	0.49	
MUB	Muni. Bonds	3.43	
LQD	Invest. Gr. Bonds	0.08	
JNK	High Yield Bonds	4.15	
BKLN	Senior Loan	3.36	
GLD	Gold	1.28	
SLV	Silver	0.15	
USO	Oil	-4.92	
UNG	Natural Gas	-1.84	
VT	Total World	5.06	
CWI	World Ex-US	4.39	
VEA	Developed Mkts	4.25	
EEM	Emerging Mkts	3.79	
VGK	Eurozone	4.91	
DXJ	Japan JPY Hdg'd	1.34	
EWZ	Brazil	4.55	
FXI	China	2.73	
EWT	Taiwan	1.67	
EWI	Hong Kong	3.55	
EWJ	Mexico	4.98	

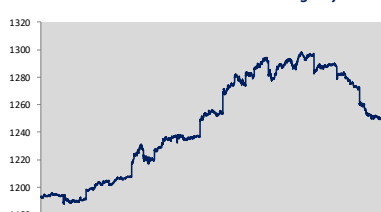
Oil Future: Last 15 Trading Days



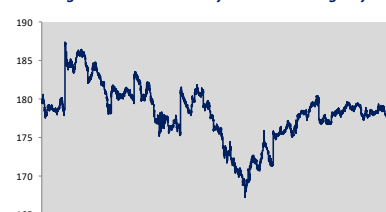
Gold Front Month Future: Last 15 Trading Days



BBG US Dollar Index: Last 15 Trading Days



Long Bond Future Intraday: Last 15 Trading Days



S&P 500 Intraday: Last 15 Trading Days

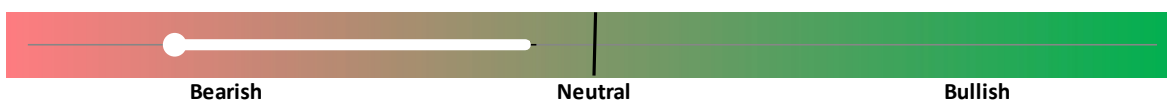


Nasdaq Composite: Last 15 Trading Days





## Bespoke Market Timing Model: 3/26/20



Sentiment	Indicator	Current Level		Average S&P 500 Performance (%)		
		Direction	vs Historical	One Week	Two Weeks	One Month
CBOE Call Volume	0.6	↓	-0.2	0.11	0.28	0.64
NYSE Up vs Total Volume (%)	39.8	↑	-1.9	0.34	1.45	1.44
Nasdaq Up vs Total Volume (%)	43.9	↑	-1.3	0.63	0.75	0.23
Index vs Equity PC Ratio	1.3	↑	-1.8	-0.22	-0.23	0.31
VIX 50-Day ROC (%)	395.1	↓	9.2	-0.63	-0.12	-0.37
VIX 10-Day ROC (%)	13.2	↓	0.5	-0.10	-0.08	0.06
Investors Intelligence Bullish (%)	30.1	↓	-2.2	1.37	2.00	3.21
Investors Intelligence Bearish (%)	41.7	↓	2.3	0.06	0.27	0.76
Inv Intell. Bull Bear Spread	-11.6	↓	-2.4	0.52	1.23	2.21
AAll Bullish (%)	32.9	↓	-0.6	-0.01	-0.02	0.14
AAll Bearish (%)	52.1	↓	2.1	0.35	0.16	1.20
AAll Bull Bear Spread	-19.2	↓	-1.5	-0.08	-0.45	-0.52
<b>Overall Sentiment</b>		<b>↓</b>	<b>0.2</b>	<b>0.09</b>	<b>0.21</b>	<b>0.48</b>
<b>Technical</b>						
S&P 500 10-Day Avg. Spread (%)	7.2	↑	4.0	-0.63	-0.68	0.24
S&P 500 50-Day Avg. Spread (%)	-13.7	↑	-3.5	-0.66	0.58	-0.76
S&P 500 200-Day Avg. Spread (%)	-13.2	↑	-1.9	-0.38	-0.77	-1.21
S&P 500 Monthly ROC (%)	-15.6	↑	-3.5	-0.86	0.37	0.17
S&P 500 Weekly ROC (%)	9.2	↑	3.7	-0.68	-0.76	0.15
S&P 500 Quarterly ROC 1 (%)	-18.8	↑	-2.7	-0.22	0.09	-0.28
Group 10-Day A/D Line	24.0	↑	0.3	-0.14	-0.08	0.36
Group 50-Day A/D Line	-60.0	↓	-1.2	0.36	0.64	1.34
S&P 500 10-Day A/D Line	460.0	↑	0.4	-0.13	-0.05	0.46
S&P 500 50-Day A/D Line	-1965.0	↓	-1.8	0.15	0.42	0.93
NYSE TRIN Index	0.9	↓	-1.1	0.13	0.27	0.15
<b>Overall Technical</b>		<b>↑</b>	<b>-1.1</b>	<b>-0.22</b>	<b>0.09</b>	<b>0.17</b>
<b>Fundamental/Monetary</b>						
Corporate Spreads (10-Day ROC)	167.0	↓	9.8	-0.26	-0.95	-3.08
Corporate Spreads (50-Day ROC)	253.0	↑	5.4	-0.34	-1.39	-4.29
High Yield Spreads (10-Day ROC)	373.0	↓	6.6	1.48	1.02	-2.06
High Yield Spreads (50-Day ROC)	663.0	↑	4.5	-1.11	-0.92	-0.86
S&P 500 P/S Ratio	1.9	↑	0.8	-0.14	-0.14	-0.05
S&P 500 P/E Ratio	17.3	↑	-0.3	-0.09	0.06	0.46
S&P 500 P/B Ratio	2.9	↑	0.4	-0.10	0.02	0.24
Yield Curve (50-Day ROC)	67.2	↓	1.6	0.42	0.38	0.60
Yield Curve (10-Day ROC)	50.7	↓	2.5	-2.03	-2.42	-2.61
<b>Overall Fundamental</b>		<b>↑</b>	<b>3.5</b>	<b>-0.14</b>	<b>-0.14</b>	<b>-0.86</b>
<b>Bottom Line</b>		<b>↑</b>	<b>0.8</b>	<b>-0.10</b>	<b>0.04</b>	<b>0.20</b>
<b>Average S&amp;P 500 Performance (All Days)</b>				0.13	0.25	0.51

© Copyright 2007, Bespoke Investment Group, LLC. Bespoke Investment Group, LLC believes all information contained in this report to be accurate, but we do not guarantee its accuracy. None of the information in this report or any opinions expressed constitutes a solicitation of the purchase or sale of any securities or commodities.



## Bespoke Market Timing Model - Explained

Sentiment	Indicator	Current Level		Average S&P 500 Performance (%)		
		Direction	vs Historical	One Week	Two Weeks	One Month
CBOE Call Volume	1.7	↑	0.6	0.13	-0.22	-0.44
<b>Overall Sentiment</b>		↑	<b>0.3</b>	<b>0.14</b>	<b>0.16</b>	<b>0.28</b>
<b>Bottom Line</b>		↑	<b>0.3</b>	<b>0.12</b>	<b>0.21</b>	<b>0.27</b>
<b>Average S&amp;P 500 Performance (All Days)</b>				0.12	0.24	0.50

The **Bespoke Market Timing Model** is a compilation of some widely (and not so widely) followed market indicators. While most investors have one or two indicators they rely on, we all recognize that no indicator by itself is correct all of the time. With this in mind, we set out to create a series of indicators from multiple disciplines in order to see what the 'crowd' of indicators are telling us. Just as no individual is bigger than the market, we contend that no single indicator is more accurate at forecasting the market than the sum of them all. What follows below is an explanation of the various fields in our report.

**Indicator:** Current level of the given indicator. In this example, CBOE call volume is 1.7 times CBOE put volume.

**Direction:** Change in the indicator (positive or negative) over the last week. In this example, calls relative to puts have increased during the last week.

**vs Historical:** This field measures the distance in standard deviations that the indicator is currently at versus its average over the last five years. In the above example, the volume of calls relative to puts is 0.6 standard deviations above its historical average.

**Average S&P 500 Performance:** This field displays the average performance of the S&P 500 following previously occasions when the indicator was at similar levels to the present. Values highlighted in green indicate the two indicators for that group which are predicting the biggest gains, while indicators highlighted in red highlight the indicators which are signaling the most negative returns going forward.

**Overall Scores:** Averages all the indicators for a given category. In the example above, overall sentiment is 0.3 standard deviations from its long-term average. At similar levels in the past, the S&P 500 has gone up an average of 0.14% over the next week, 0.16% over the next two weeks, and 0.28% over the next month.

**Bottom Line:** This line shows the average of all the indicators in the study. In the example above, the aggregate level of all the indicators is currently 0.3 standard deviations above the historical average, and based on prior experiences, the S&P 500 has gone up an average of 0.12% in the next week, 0.21% in the next two weeks, and 0.27% in the next month. Values highlighted in red indicate returns that underperform the S&P 500 over the entire period covered (regardless of the indicator level), while green highlights indicate that they outperformed the overall average S&P 500 performance.

**Average S&P 500 Performance (All Days):** This line measures the average historical performance of the S&P 500 over all periods for one week, two week, and one month time frames. These levels are then compared to the average level the indicators are predicting in the next two weeks, and 0.27% in the next month. Values highlighted in red indicate returns that underperform the S&P 500 over the entire period covered (regardless of the indicator level), while green highlights indicate that they outperformed the overall average S&P 500 performance.