

Hope all goes well... “Things had been too easy for too long,” said Roadrunner, the equity market’s biggest volatility trader. “Yet vol has found a bid on each dip for weeks,” he said. “The market saw this coming.” The S&P 500 rallied +7.5% in the first 18 trading days of 2018. Yet implied volatility levels rose. Then stocks fell -3.9% in 5 days. “When stocks dump on a Friday, closing at the lows, and you haven’t hedged, it makes for a long weekend,” said Roadrunner. “People are worried that higher interest rates kill this bull market. I’m more worried about lower interest rates,” he whispered, darting looks left, right, up. “Stocks should trade down hard Monday morning.” As hedgers sell. “Then we get to see where this thing really wants to go.”

Overall: “The American people have a right to know when officials in crucial institutions are abusing their authority for political purposes,” announced Devin Nunes, House Intelligence Chairman, abusing his authority for political purposes. “The committee has discovered serious violations of the public trust,” continued Nunes, in a fit of amoral outrage. “The FBI was provided a limited opportunity to review this memo the day before the committee voted to release it. We have grave concerns about material omissions of fact that fundamentally impact the memo’s accuracy,” declared the FBI, gravely concerned about any investigation into its internal conduct. “It’s terrible. You wanna know the truth? I think it’s a disgrace. You wanna know what’s going on in this country, I think it’s a disgrace,” said President Trump, disgrace foremost in his mind. “All should appreciate the FBI speaking up. I wish more of our leaders would. But take heart: American history shows that, in the long run, weasels and liars never hold the field, so long as good people stand up. Not a lot of schools or streets named for Joe McCarthy,” tweeted James Comey, former FBI Chief, stuck in the swamp, struggling for higher ground, positioning himself for some sleazy campaign. “And when you look at that and you see that and so many things, what’s going on, a lot of people should be ashamed of themselves, and much worse than that,” decried America’s President, leader of humanity’s shining city on the hill, devoid of shame, and much worse than that. “If we continue to undermine our own rule of law, we are doing Putin’s job for him,” warned Senator McCain, liberated by the clarity of terminal cancer. And Americans watched their televisions. Listening to everything, unable to believe anything. As something quietly slipped further from our grasp.

Week-in-Review (expressed in YoY terms): **Mon:** US 2017 personal income +3.1%, personal savings rate 2.4% (12yr low), core PCE inflation +1.5%, 10yr yield 2.72% (4yr high), US Treasury issues list of 96 Russians oligarchs for sanctions (appears to have been copied from Forbes list), S&P -0.7%; **Tue:** Turkey lifts 2018 year-end CPI forecast +1.0 to +7.9%, EU 2017 GDP +2.7%, Spain 2017 GDP +3.1%, UK mortgage approvals 3yr

low, German CPI -0.2 to +1.4%, Mexico 2017 GDP +2.3% (IMF lifts 2018 forecast +0.4 to +2.3%), Mnuchin says strong dollar in US interest, consumer confidence jumps to near 18yr highs, AMZN/BRKA/JPM to form healthcare company to cut costs using technology, S&P -1.1%; **Wed:** EU unemployment unch at 8.7%, FOMC modestly hawkish “gains in employment, household spending and business fixed investment have been solid and the unemployment rate has stayed low,” pending home sales rise for 3rd mth (prices +5.8%), S&P +0.1%; **Thur:** Macau gambling revenue +36%, India hikes cap gains tax on equities, India cracks down on crypto currencies, India launches health insurance for 100mm poor, India hikes crop support prices to 1.5x cost of production, Russia 2017 GDP +1.5% (1st rise in 3yrs), EU composite PMI -1.0 to 59.6, UK PMI -0.9 to 55.3 (7mth low), US Q4 productivity -0.1% (exp +1.0%), ISM manu -0.2 to 59.1, 30yr yield above 3% (1st time since May 2017), S&P -0.1%; **Fri:** Japanese regulators raid Coincheck (crypto exchange that suffered \$500mm heist), Oil posts biggest weekly drop in 4mths, German stocks turn lower on year, EU PPI -0.6 to +2.2%, UK construction PMI -2.0 to 50.2, US Payrolls +200k (unemployment rate unch at 4.1%), average hrly earnings +0.3 to +2.9% (9yr high), Trump approves release of Russia/FBI memo, Apple reports disappointing iPhone sales, Bitcoin breaks \$8,000, Google falls on rising distribution costs, 30yr bonds yield hits 3.09%, S&P -2.1%; **Sat/Sun:** Fed imposes limits on Wells Fargo growth pending governance improvements (stock -5% after-hours Fri)

Weekly Close: S&P 500 -3.9% and VIX +6.23 at +17.31. Nikkei -1.5%, Shanghai -2.7%, Euro Stoxx -3.1%, Bovespa -1.7%, MSCI World -3.4%, and MSCI Emerging -3.3%. USD rose +26.9% vs Bitcoin, +17.0% vs Ethereum, +2.3% vs Brazil, +2.3% vs Australia, +1.9% vs South Africa, +1.5% vs Yen, +1.1% vs Indonesia, +1.0% vs Canada, +0.8% vs India, +0.6% vs Mexico, +0.5% vs Russia, +0.5% vs Turkey, +0.4% vs Sweden, +0.3% vs Sterling, and +0.2% vs Chile. USD fell -0.4% vs China, and -0.3% vs Euro. Gold -1.3%, Silver -4.8%, Oil -1.8%, Copper -0.6%, Iron Ore +2.9%, Corn +1.3%. 5y5y inflation swaps (EU +2bps at 1.75%, US +1bp at 2.40%, JP +6bps at 0.46%, and UK +1bp at 3.54%). 2yr Notes +2bps at 2.14% and 10yr Notes +18bps at 2.84%.

Jan Mthly Close: S&P 500 +5.6% and VIX +2.50 at +13.54. Nikkei +1.5%, Shanghai +5.3%, Euro Stoxx +1.6%, Bovespa +11.1%, MSCI World +5.2%, and MSCI Emerging +8.3%. USD rose +43.7% vs Bitcoin. USD fell -32.9% vs Ethereum, -5.4% vs Mexico, -4.8% vs Sterling, -4.3% vs South Africa, -3.8% vs Brazil, -3.7% vs Sweden, -3.4% vs China, -3.3% vs Euro, -3.1% vs Yen, -3.1% vs Australia, -2.6% vs Russia, -2.3% vs Chile, -2.0% vs Canada, -1.2% vs Indonesia, and -1.1% vs Turkey, and -0.4% vs India. Gold +2.9%, Silver +1.9%, Oil +7.7%, Copper -2.9%, Iron Ore +32.7%, Corn +3.0%. 5y5y inflation swaps (EU +1bps at 1.73%, US +14bps at 2.47%, JP -2bps at 0.40%, and UK +7bps at 3.56%). 2yr

Notes +26bps at 2.14% and 10yr Notes +30bps at 2.71%.

2018 YTD Equity Indexes: Greece +13.2% priced in US dollars (+9.1% in euros), Brazil +13.1% in dollars (+10% in reais), Colombia +11.2% (+5.8%), Russia +10.4% (+8.2%), Italy +10.1% (+6.2%), Czech Republic +10% (+4.7%), HK +8.8% (+9%), Malaysia +8.8% (+4.1%), Mexico +8.7% (+2.1%), Finland +8.1% (+4.3%), China +8.1% (+4.7%), Thailand +8% (+4.2%), Austria +7.3% (+3.4%), Chile +6.9% (+4.7%), Poland +6% (+2%), Saudi Arabia +5.9% (+5.9%), Taiwan +5.8% (+4.5%), Belgium +5.7% (+1.9%), Hungary +5.6% (+1.5%), Norway +5.5% (-0.5%), Spain +5.4% (+1.7%), Singapore +5.2% (+3.7%), Portugal +5.2% (+1.5%), Indonesia +5% (+4.3%), NASDAQ +4.9% (+4.9%), UAE +4.9% (+4.9%), Netherlands +4.8% (+1%), France +4.7% (+1%), Japan +4.5% (+2.2%), Euro Stoxx 50 +4.3% (+0.6%), Israel +4.1% (+2.9%), Sweden +4.1% (+0.5%), Argentina +3.7% (+8.5%), New Zealand +3.3% (+0.2%), S&P 500 +3.3% (+3.3%), Turkey +3.2% (+2.4%), Switzerland +2.9% (-1.7%), Australia +2.7% (+0.9%), Germany +2.7% (-1%), South Africa +1.8% (-1.2%), India +1.7% (+2.2%), Ireland +1.5% (-2.2%), UK +1.3% (-3.2%), Korea +0.8% (+2.3%), Russell +0.8% (+0.8%), Philippines -0.5% (+2.9%), Denmark -1.8% (-5.4%), Oh Canada -2.7% (-3.7%).

Easter Bunnies: He remembered quite clearly his racing heart. Sneaking a bedroom window peek, he saw bright colors scattered across the yard. Eggs. Tucked into the hollow of a large tree, balanced on the fork of a limb, beneath an overturned bucket. A rabbit of remarkable ability had performed the miracle. The magic of it filled his little world, leaving no space for a simple question. And he smiled, recalling that early moment, as he balanced an egg on a fork for his own children now. Wondering how it is that we come to believe the things we do.

Athens: Helios was handsome beyond measure. His head crowned by the Sun's aureole. And each morning the Titan climbed atop a golden chariot, his four fire-darting steeds chomping at the bit; Pyrois, Aeos, Aethon, Phlegon. With a crack of the whip, Helios drove these beasts across the sky, from the eastern edge of Oceanus to the westernmost point. At the end of each passage, darkness descending on the earth, Greek children wondered at the magnificence of the journey. The priest's prayers were answered each morning. And no one asked a single question.

Heretics: Galileo peered at Venus and Jupiter. His telescope an engineering miracle. Scribbling in his notebook, patterns appeared like magic. These observations when combined with the mystery of tides and comets formed a cosmic picture forever hidden in plain sight. He published Sidereus Nuncius (Starry Messenger) in 1610, supporting

the heliocentric theories of Copernicus (published in 1543, but buried in scorn by mankind's highest authority; the Catholic Church). And terrified to let go of his beliefs, the Pope branded Galileo a heretic, imprisoning him for life.

Our Reality: "If we believe something, does that make it true?" he thought, unsure. When asked if the US government is concealing what they know about the 9/11 attacks, 49.6% of Americans agree or strongly agree. Is the government concealing what they know of JFK's assassination? 49.6% agree or strongly agree. Alien encounters? 42.6%. Global warming? 42.1%. Plans for a One-World government? 32.9%. Obama's birth certificate? 30.2%. Origin of the AIDS virus? 30.1%. Supreme court justice Scalia's death? 27.8%. Apollo moon landing? 24.2%. Hmmm.

Anecdote: It raced across the night sky at 150,000 mph. No larger than a marble. The meteorite vanished in a trail of brilliant light, a faint green copper glow, come and gone. And his heart raced, recalling that first shooting star, decades ago, a child in a backseat, face pressed to the window, searching the heavens. His excitement late that night, replaced by profound sadness. The tragic fate of that distant star, its surrounding planets, its children too, all gone in a magnificent flash. The enormity of that tragedy consumed the little boy. But the more he thought about it, the less it made sense. So he found an encyclopedia. And having set the record straight he returned to a world filled with Easter bunnies, Tooth Fairies and Santa Claus -- all such wonderful things, as real as the sky is blue, just so long as he never stopped to consider their impossibility. In time, as he explored the history of humanity, he marveled at our ability to believe anything, everything. Religious and political leaders have us believe in things we fear. Business leaders have us believe in things we covet. Scientific pioneers challenge our beliefs. But left to our own devices, we simply believe in those things we most want to believe. Miracles and magic. Holy Grails. Buried treasure and Bitcoin. The lottery. Alchemy. We want to believe so badly that these things become real, for a time. The history of markets is a tale of such things, our myths, manias. Illusions, delusions. As they unfold, they're as real as Santa. Today we've come to believe that volatility is the same thing as risk. When volatility declines, large risks become small. Which allows us to take more. And because volatility is mean-reverting, there are no risks provided we never exit a position. But the more he thought about it, the less sense it made.

Good luck out there,

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