Hope all goes well… "Wanted to make sure you're seeing this," texted a PM from one of those multi-manager monstrosities. "8 standard deviation move in the Momentum Factor in 5-days," he added. I heard his heart pounding all the way from Australia. "Guys who defended positions in the Q4 selloff all got fired, so the message is real clear – when things start getting weird, take immediate corrective action." And I imagined the quiet panic consuming firms that leverage their capital at multiples that would make a Lehman risk manager blush. "I'm more convinced than ever that one of these days, this kind of 8 standard deviation event is going to crash the market," he texted, having puked his position without the slightest idea why the move had even started.

Overall: He had always been a nerd at heart. A policy pervert too. And fell into the habit of turning to Twitter for short clips. The ECB posted just five videos after Thursday's meeting, curated to deliver a direct message from the central bank chief to Europe's politicians. To save you the search, here's the transcript: *1. Draghi on the importance of fiscal policy:* Almost all the things you see in Europe – the creation of more than 11mm jobs over a short period of time, the recovery, the sustained growth for several quarters – were, by and large, produced by our monetary policy. There was very little else. Of course, there were structural reforms in some countries – in some countries. So, now it's high time, I think, for the fiscal policy to take charge. *2. Draghi on whether the ECB targets exchange rates:* We pursue price stability and we don't target exchange rates. Period. *3. Draghi on the thinking behind the two-tier system:* The European economy is a bank-based economy; that lending goes through the banks and we want to protect the transmission of our monetary policy through the lending channels and I think that is the, shall I say, the philosophy behind the tiering measures, the mitigating measures that we have discussed and approved today. *4. Draghi on helicopter money:* Let's keep in mind all the time that giving money to people in whatever form: it's a fiscal policy task – it's not a monetary policy task. *5. Draghi on monetary policy and fiscal policy:* We really think this package is adequate to re-anchor inflation expectations. And, by the way, again, if I may repeat myself, if fiscal policy had been in place, or would be put in place, the side effects of our monetary policy would be much less, the action of our decision today would be much faster and therefore the need to keep in place some of these measures would be less.

Week-in-Review (expressed in YoY terms): Mon: China cuts RRR 50bps (feeing $126bln in new lending), Chinese exports -1.0% (exports to US -16%, imports -22.4%), Saudis replace energy minister, India auto sales collapse -41% on slowing growth and shadow-banking credit squeeze (scooter sales -22%, commercial vehicles -39%), UK GDP +0.3% MoM (lifting hope of avoiding recession), Mnuchin "US and China have come to conceptual agreement on enforcing intellectual property rights," S&P flat; **Tue:** China CPI unch at +2.8% (food prices +10% with pork prices +47%), Chinese PPI -0.8% (steepest decline in 3yrs), WTO rules in favor of Japan in Korean anti-dumping dispute, Saudi's new energy minister signals production cuts to remain in place, Saudi Aramco chief "IPO to happen very soon," UK's Johnson loses 2nd attempt at snap elections, UK workers earnings growth +4% (decade high), Swedish CPI -0.2 to +1.3%, US job openings fall to 5mth low, National Security Advisor Bolton departs, JP Morgan's Dimon "analyzing the effect of 0% rates," S&P flat; **Wed:** China exempts 16 types of US imports from tariffs in attempt to improve trade deal prospects, France says no-deal Brexit is most likely outcome (hires additional 600 customs officers), US PPI +0.1 to +1.8% (core PPI +0.2 to +2.3%), Trump pushes out China tariff increases 2 weeks to Oct 15, Trump calls Fed “boneheads” and pushes for rate cuts to below zero and renewed QE, California introduces bill to force Uber/Lyft to treat drivers as employees, Trump discusses easing Iran sanctions, S&P +0.7%; **Thur:** Cathay Pacific reports 40% decline in incoming HK air traffic, ECB cuts rates -10bps to -0.50% (restarts QE at E20bln/mth), German industrial output -5.3%, Ifo economic institute cuts German 2019 GDP forecast -0.1 to +0.5% (2020 -0.5 to +1.2%), Ifo lifts German 2020 unemployment forecast +0.3mm to 2.31mm, US CPI +0.1 to +1.7% (core CPI 1yr high of +2.4%), Broadcomm “semiconductor demand has bottomed out,” Trump to ban flavored vape, US budget deficit exceed $1trln with 1mth to go in fiscal year, S&P +0.3%; **Fri:** China encouraging SOEs to purchase US soybean and agricultural products, Q2 EU nominal wages rise +2.7% (fastest pace in decade), US 10yr rates +34bps (largest weekly move since 2016), Russell 2000 small caps +4.9% (largest weekly move since 2016), S&P -0.1%; **Sat/Sun:** Houthi rebel drone strikes hit two Saudi refineries and cuts output by 50% - Pompeo blames Iran for “an unprecedented attack on the world’s energy supply.”

Weekly Close: S&P 500 +1.0% and VIX -1.26 at +13.74. Nikkei +3.7%, Shanghai +1.1%, Euro Stoxx +1.2%, Bovespa +0.5%, MSCI World +1.2%, and MSCI Emerging +1.9%. USD rose +1.1% vs Yen, +0.9% vs Canada, +0.8% vs Bitcoin, and +0.6% vs Brazil. USD fell -6.7% vs Ethereum, -2.1% vs Russia, -1.7% vs Sterling, -1.5% vs South Africa, -1.1% vs India, -1.0% vs Indonesia, -0.7% vs Chile, -0.6% vs Mexico, -0.5% vs China, -0.5% vs Australia, -0.4% vs Turkey, -0.4% vs Euro, and -0.4% vs Sweden. Gold -1.3%, Silver -4.2%, Oil -3.4%, Copper +2.7%, Iron Ore +7.3%, Corn +3.9%. 5y5y inflation swaps (EU +7bps at 1.31%, US +10bps at 2.04%, JP flat at 0.11%, and UK +1bps at 3.67%). 2yr Notes +26bps at 1.80% and 10yr Notes +34bps at 1.90%.

YTD Equity Index Returns: Greece +35.1% priced in US dollars (+39.7% priced in euros), Russia +27.6% in dollars (+17.8% in rubles), NASDAQ +23.2%, Israel +20.8% (+14.1%), S&P 500 +20%, Canada +19.6% (+16.5%), Switzerland +18.5% (+19.2%), China +18.1% (+21.5%), New Zealand +17.2% (+23.3%), Italy +17.2% (+21.1%), Russell +17%, France +15.6% (+19.5%), Australia +15.4% (+18.1%), Euro Stoxx 50 +14.4% (+18.3%), Netherlands +14.4% (+18.2%), Germany +14.3% (+18.1%), Thailand +13.5% (+6.3%), Japan +12.2% (+9.9%), Brazil +12.1% (+17.8%), Portugal +11.9% (+15.7%), Denmark +11.4% (+15.1%), Colombia +11.3% (+15.1%), Belgium +11.2% (+15%), Ireland +10.9% (+14.6%), Sweden +10.3% (+18.2%), Taiwan +10.1% (+11.3%), Philippines +8.3% (+7%), South Africa +8.1% (+9.5%), Norway +7.4% (+10.4%), UK +7.1% (+9.5%), Austria +6.9% (+10.5%), Indonesia +6.3% (+2.3%), HK +5.9% (+5.8%), Finland +5.6% (+9.1%), Turkey +5% (+12.9%), Mexico +4.4% (+2.9%), Singapore +3.9% (+4.7%), UAE +3.7% (+3.7%), Spain +3.5% (+7%), Czech Republic +2.6% (+6.4%), India +0.1% (+2%), Saudi Arabia +0.1% (+0.1%), Poland -2.8% (+0.8%), Hungary -3.3% (+2.9%), Chile -3.9% (-2%), Korea -6% (+0.4%), Malaysia -6.1% (-5.3%), and Argentina -33.2% (-0.5%).

Factor Definitions (Momentum): Momentum is the empirically observed tendency for rising asset prices to rise further and falling prices to keep falling. For instance, it was shown that stocks with strong past performance continue to outperform stocks with poor past performance in the next period with an average excess return of about 1% per month. Momentum signals (e.g., 52-week high) have been shown to be used by analysts in their buy and sell recommendations. The existence of momentum is a market anomaly, which finance theory struggles to explain.

Factor Definitions (Value): The value factor is based on a belief that stocks that are inexpensive relative to some measure of fundamental value outperform those that are pricier. the best-known work on the value factor was carried out by Fama and French in their 1992 paper (The cross-section of expected stock returns), which concluded that low price-to-book ratio was the most predictive definition of value. To this day, different definitions of value are favored by investors, including cashflows, price relative to earnings, dividend yield, and other company fundamentals.

Inner Turmoil: "There were early adopters," he said. "Citadel was probably the foremost expert in style factors and for years they were playing the game with few real competitors." We were discussing the carnage taking place beneath the market's surface, with many guys losing their year, some losing their jobs – all in a week when the S&P 500 closed +1.0% and the VIX finished at 13.7. "They leveraged the factor strategies and did very well. But over time their advantage got difficult to sustain. Then their traders scattered. Some started firms to compete."

Inner Turmoil II: "The momentum factor had been on fire for 3-4 months," he said. By early August it hit levels last seen at the Feb 2016 extreme. "A lot of guys figured it would reverse and fought it. But it kept going, then went into overdrive, it hit insane levels as people capitulated," he said. "Then it just reversed for no reason and it was madness-of-crowds time. It was not-everyone-gets-out-of-the-burning-theater-alive time. It was bank-run time. And then the momentum collapse spilled into the value factor. Which took off in the opposite direction."

Inner Turmoil III: "When this kind of liquidation starts, there are two schools of thought," he said. "There's the ditch-everything school," he said, having just ditched. "Then there's the take-half-off-now-and-pray-it-comes-back school." That's where most guys got diplomas. "But you end up taking off half the next day, then half again, and so on." That's what gives liquidations longevity. "Some think Value has underperformed Growth for so long that this unwind goes on for ages. I think it'll look like 2016 which means it's 60% over - and this attack on the Saudi refineries is going to wreak havoc on the factor trade Monday morning."

Money Multipliers: "Let's say they give me $500mm capital to trade," he said. "I buy $500mm worth of stocks and sell $500mm worth, which makes me 1x leveraged," he explained. "Multiply that leverage across all the equity traders here, then add all the rates traders and you find that the firm overall is 10x leveraged." For each $1bln of capital, they hold $10bln of positions. The biggest player in the market is leveraged 15x. "When you have that kind of leverage you need to have tight stops. Which we all do. And that's why when it starts going wrong, you're out."

Anecdote: For as long as he could remember, it was the same. Presidents came and went, rising, falling, like the tides. They commanded a House or Senate majority, sometimes both. They started wars, each time rediscovering they're easier to enter than exit. Our Presidents addressed the nation annually, pretending to lead, but following. The State of the Union ebbed and flowed like the market, reflecting an economy over which the President had little influence. His party stood, applauding. The opposition sat, arms folded. But none of that mattered – not the President, not the party, the majority, minority, not even the wars. What mattered was the Federal Reserve, which guided the economy and markets by adjusting the price of money. Every major global central bank adopted the Fed's policies, playbooks. For sure, in each cycle one bank moved more quickly than another. Europe always made monetary mistakes. These things caused some volatility, but ultimately every central bank could simply do more of the same to restore order and this relieved their politicians from the burden of making vital but difficult policy choices. This cycle of political negligence and central bank accommodation eventually led rates to zero or lower, at which point they could no longer decline meaningfully. But nor could they rise materially without destroying the extraordinary debt stock built up on the journey to zero. It was then that central bankers passed control back to politicians, not because they wanted to but because they had to. And as global markets transitioned from monetary-dominance to fiscal-dominance, it slowly became apparent that the market's new masters would no longer all use the same tools and playbooks - because central bankers are clones, but no two politicians are the same. And this sparked far greater differentiation between nations, their relationships, their policy mixes, their exchange rates, their asset valuations, trends, their susceptibility to sharp shifts, reversals. And the world became a much more volatile place.

Good luck out there,

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