Variant Perception
And Macro Voices

October 2019
Tian Yang - Head of Research
Variant Perception’s data-driven approach helps decision-makers identify the most asymmetric trades and investments. We’ve built a framework to identify major turning points and extremes in markets.
US economy: leading indicators remain poor

Leading indicators for the US economy have been deteriorating for the past year. Growth headwinds will remain persistent.

Source: Bloomberg, Macrobond and Variant Perception
US recession: we are not quite there yet

We view recessions as regime shifts. While some indicators liked inverted yield curves and the falling ISM are suggestive of recessions, other data are not quite at recessionary levels yet.

Source: Bloomberg, Macrobond and Variant Perception
China: external headwinds, PBOC yet to step up

Chinese authorities still seem content to simply contain the worst effects of a growth slowdown, rather than try to generate a new reflationary cycle. This means China’s LEI remains weak, with little macro tailwinds for cyclical assets.

Source: Bloomberg, Macrobond and Variant Perception
China: global impacts yet to fully feed through

China’s cyclical importance means the negative effects of the Chinese slowdown will continue to feed through to the rest of the world.

Source: Bloomberg, Macrobond and Variant Perception
Europe: ECB actions to help liquidity

Although coincident data in Europe continue to be very poor (Eurozone Industrial Production was -2% YoY in July and -2.4% YoY in June), the leading data is turning more positive at the margin. External headwinds from China remain, but ECB easing will help the recovery in M1 growth.

Source: Bloomberg, Macrobond and Variant Perception
First signs of global liquidity green shoots

If we manage to avoid a recession, then improving liquidity conditions should start to offer some support to asset prices and animal spirits in 2020.

Source: Bloomberg, Macrobond and Variant Perception
Equities: weak earnings, bearish positioning

Weak earnings will persist, but investors are increasingly aware of this and positioned bearishly. The Fed put continues to support sentiment until it doesn’t. Bad news is good news until it becomes bad news. At the same time, the risk of a short squeeze is building. For investors that have to play, options and asymmetric right and left tailed trades are key.
US industrials / semis offer downside asymmetry

In terms of asymmetry to the downside, semis and industrials have shown clear divergences with leading indicators.

Source: Bloomberg, Macrobond and Variant Perception
Right tailed hedges

Ratio calls spreads are great structures to use near the highs, while call switches can offer asymmetric leveraged upside for very little upfront premium.

Source: Bloomberg, Macrobond and Variant Perception
CONTACT US

If you, or a colleague, would like to receive Variant Perception research, please email us at sales@variantperception.com or call +1 (704) 926 1116

RECIPIENTS ARE NOT PERMITTED TO FORWARD THIS PUBLICATION WITHOUT THE EXPRESS WRITTEN CONSENT OF VARIANT PERCEPTION®. VARIANT PERCEPTION DISTRIBUTES ITS PUBLICATIONS ON A PAID SUBSCRIPTION BASIS ONLY.

© Copyright by VP Research, Inc.

VARIANT PERCEPTION is a federally registered trademark of VP Research, Inc.

It is a violation of US federal and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright Act imposes liability of $100,000 per issue for such infringement. The publications of Variant Perception are provided to subscribers on a paid subscription basis. If you are not a paid subscriber of the reports sent out by Variant Perception and receive emailed, faxed or copied versions of the reports from a source other than Variant Perception you are violating the Copyright Act. This document is not for attribution in any publication, and should not be disseminated, distributed or copied without the explicit written consent of Variant Perception.

Disclaimer: Variant Perception’s publications are prepared for and are the property of Variant Perception and are circulated for informational and educational purposes only. The content of this report is intended for institutions and professional advisers only. This report is not intended for use by private clients. Recipients should consult their own financial and tax advisors before making any investment decisions. This report is not an offer to sell or a solicitation to buy any investment security. Variant Perception’s reports are based on proprietary analysis and public information that is believed to be accurate, but no representations are made concerning the accuracy of the data. The views herein are solely those of Variant Perception and are subject to change without notice. Variant Perception’s principals may have a position in any security mentioned in this report. All data is sourced from Bloomberg unless otherwise stated.