



Variant Perception

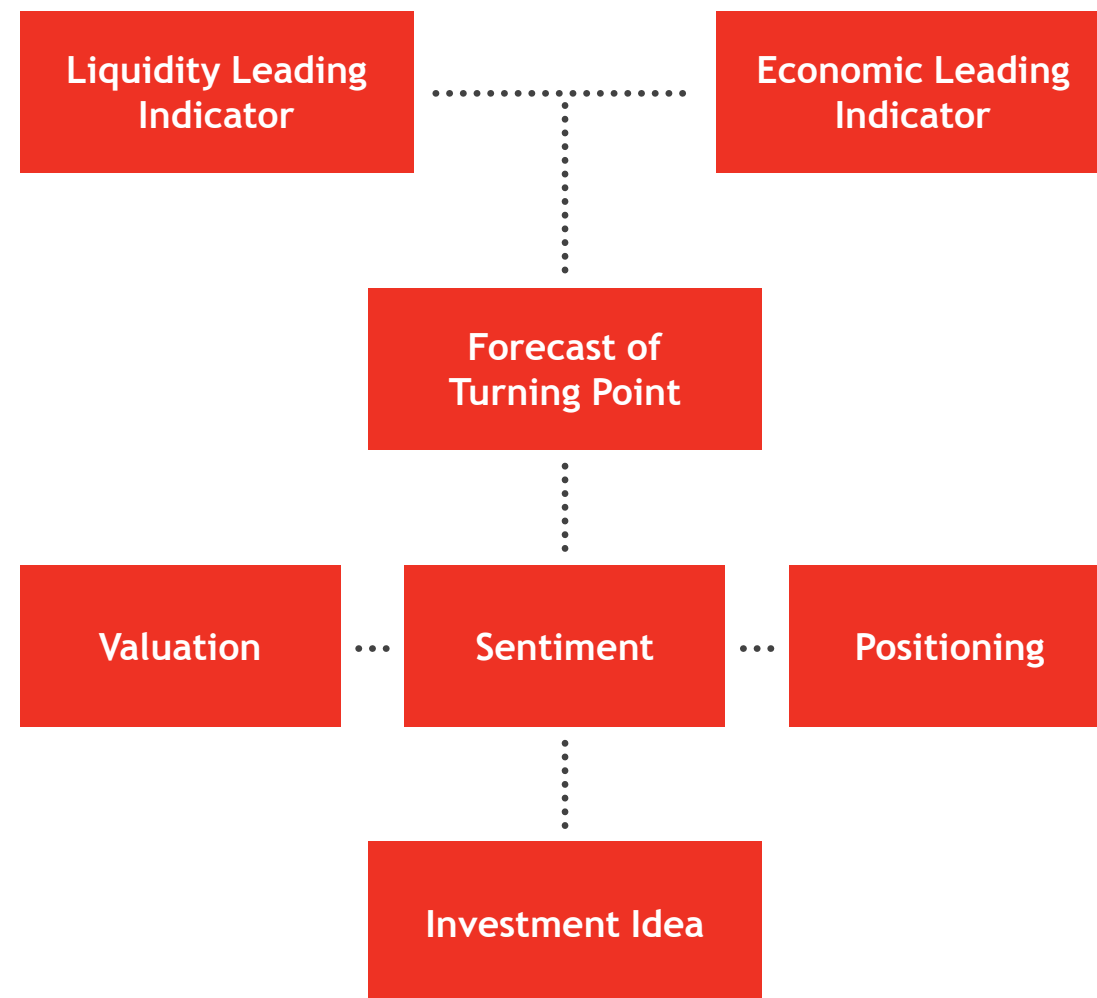
And Macro Voices

October 2019
Tian Yang - Head of Research



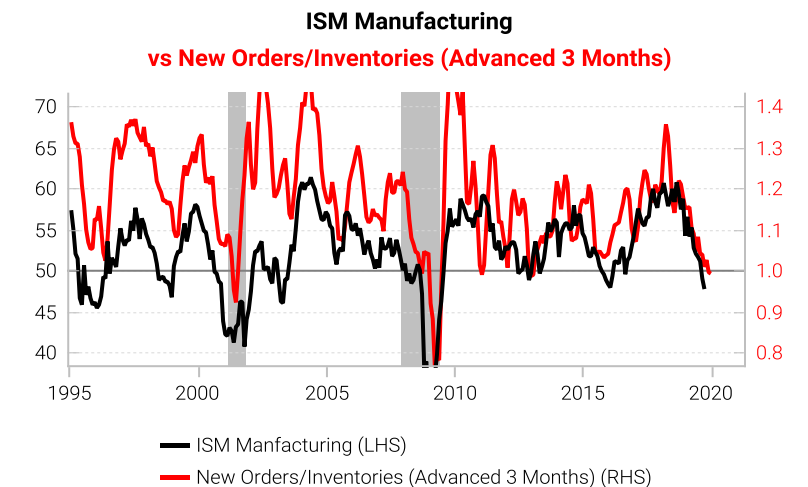
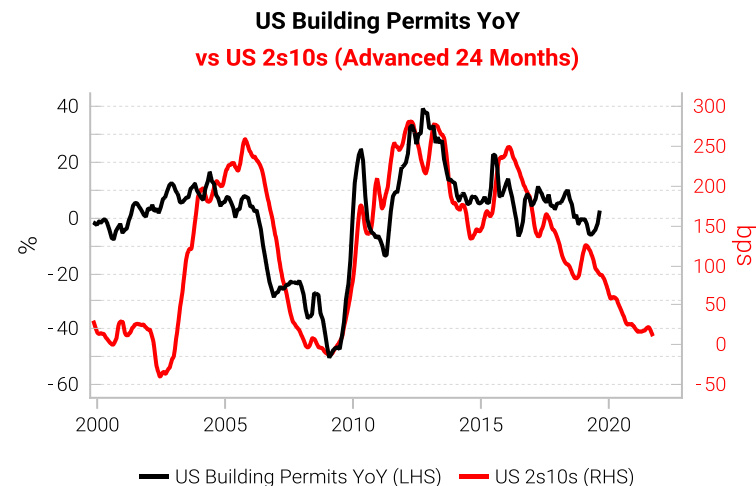
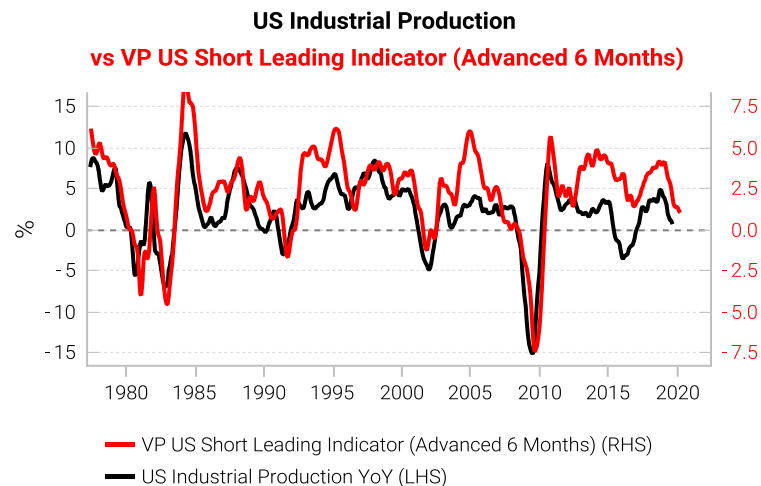
DEVELOPING A VARIANT PERCEPTION

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.



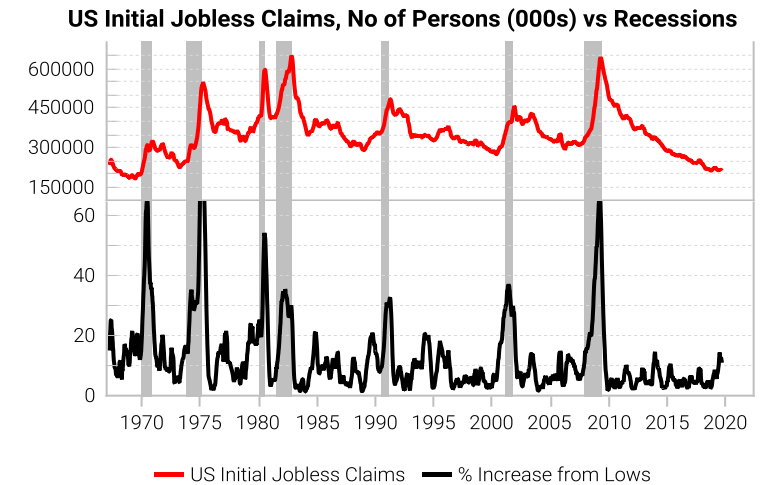
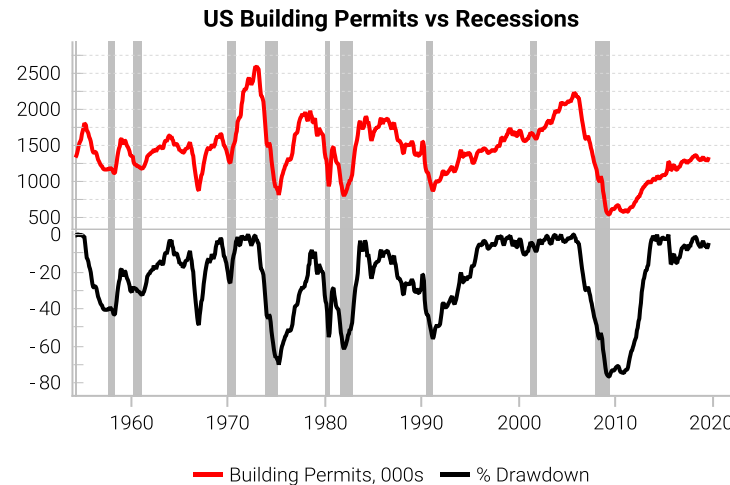
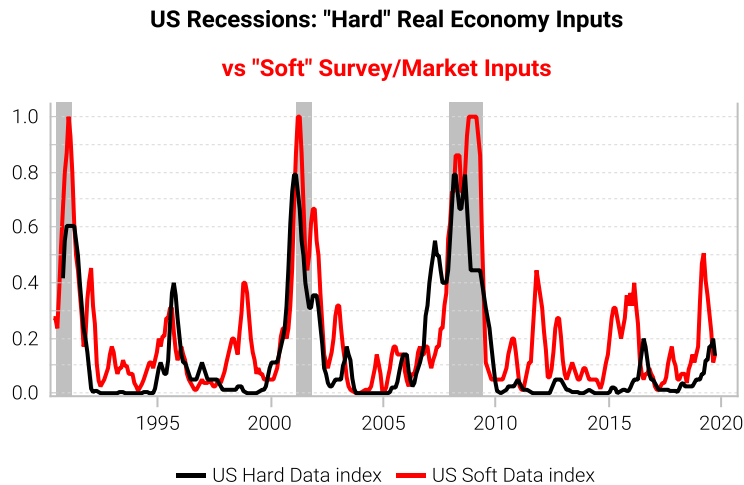
US economy: leading indicators remain poor

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



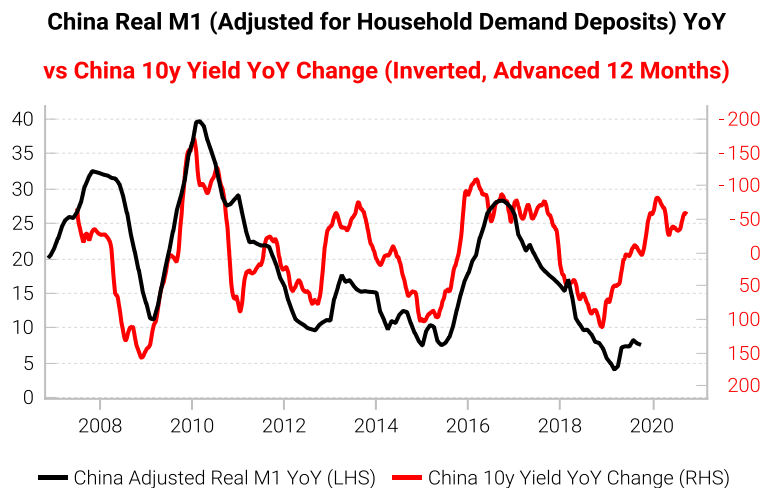
US recession: we are not quite there yet

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



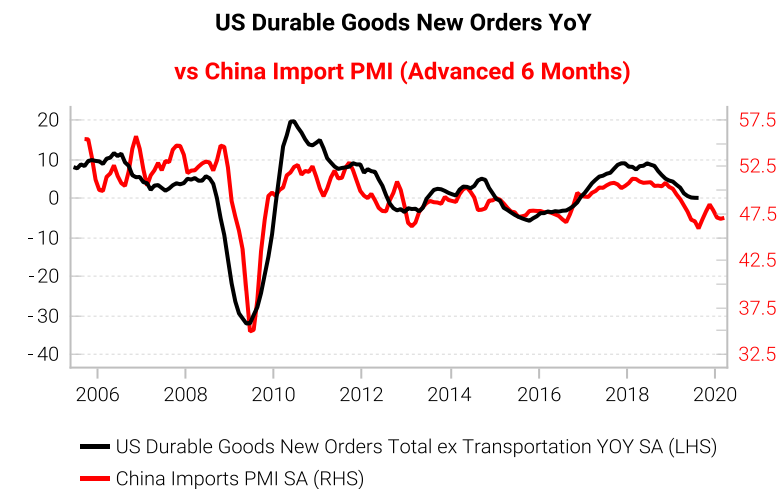
China: external headwinds, PBOC yet to step up

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.



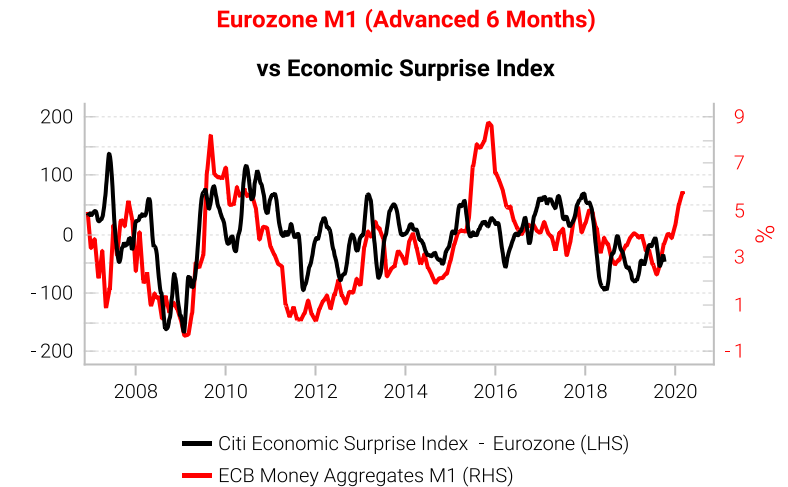
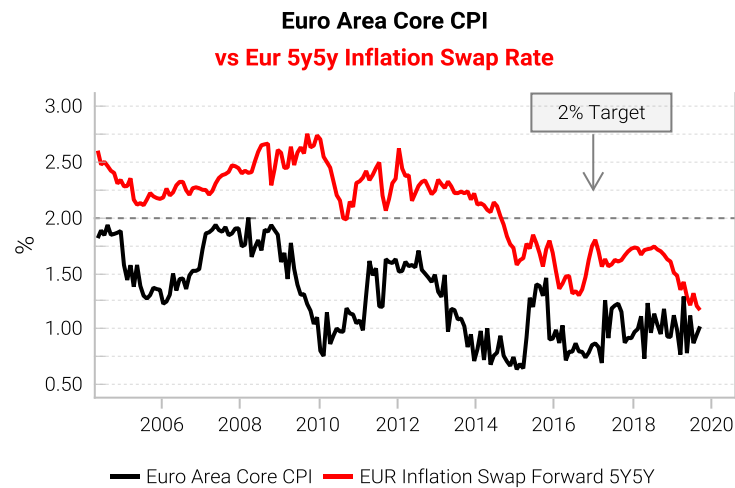
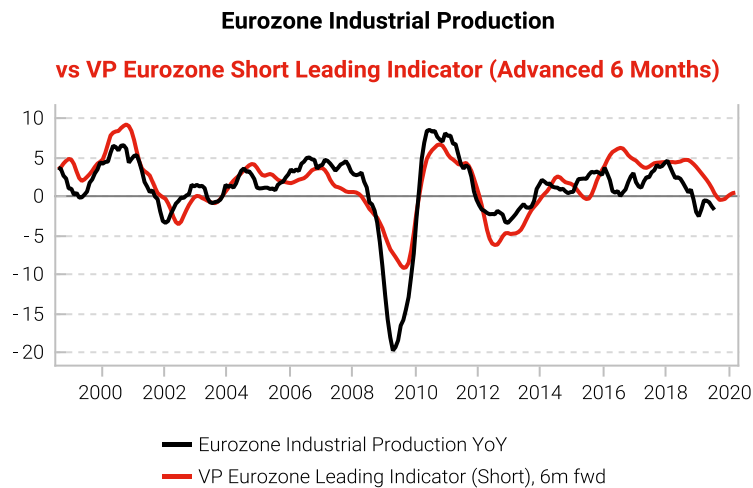
China: global impacts yet to fully feed through

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



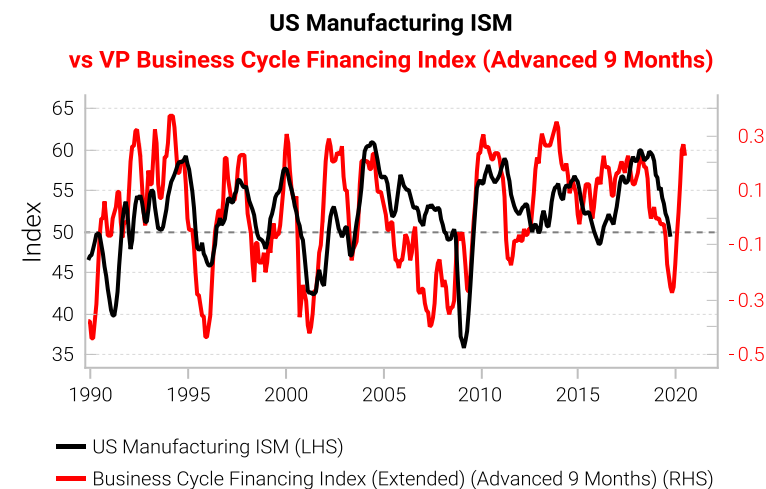
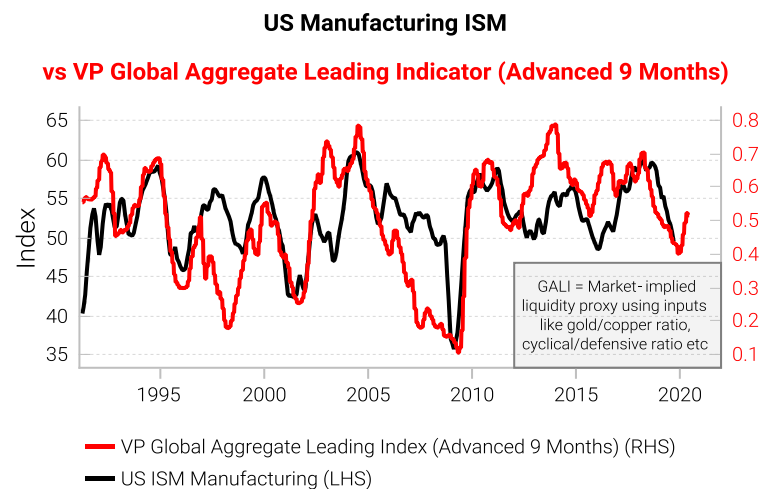
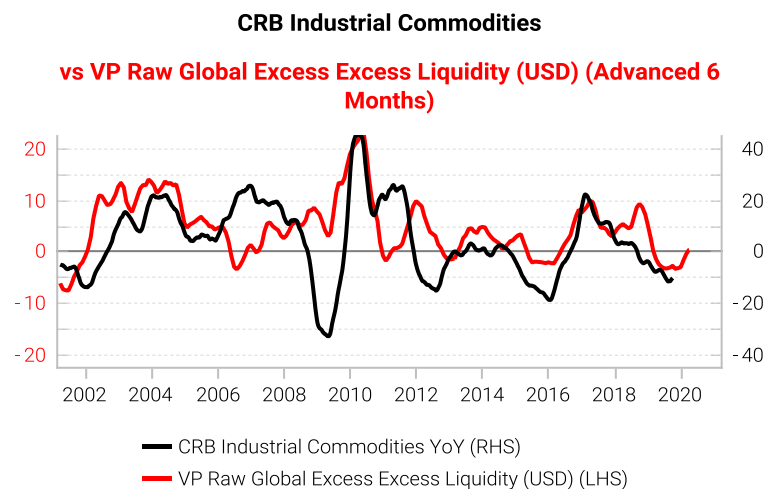
Europe: ECB actions to help liquidity

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.



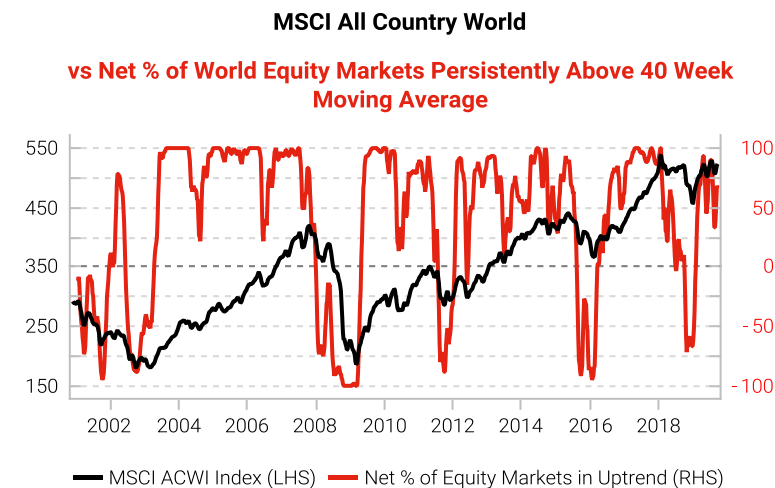
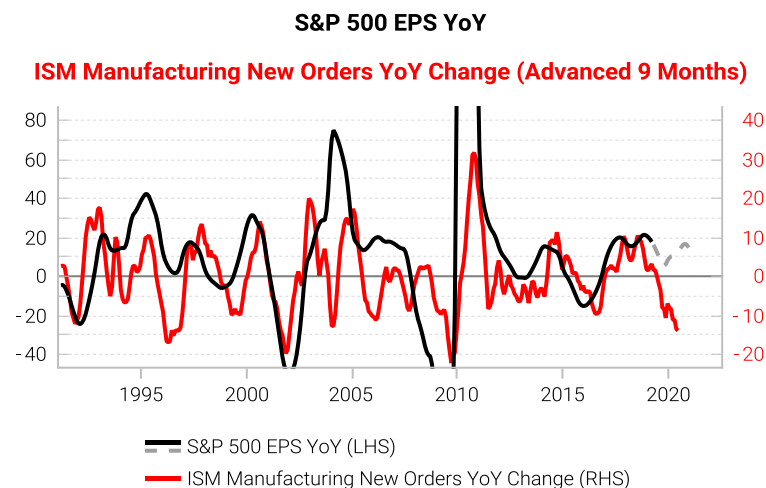
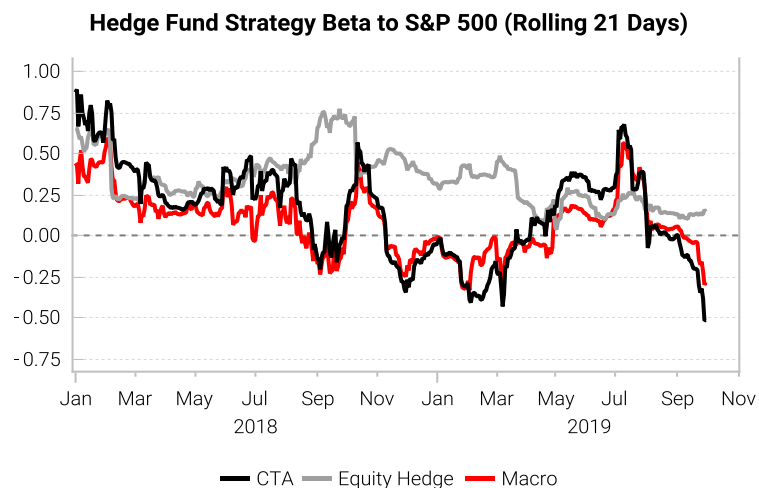
First signs of global liquidity green shoots

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.



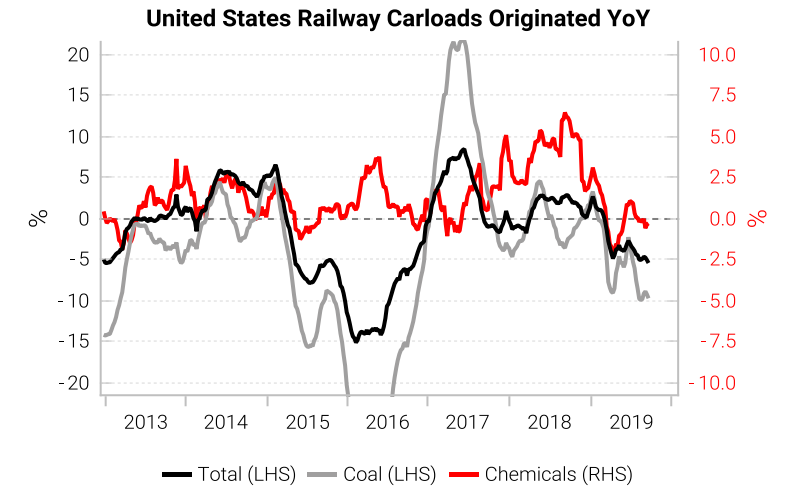
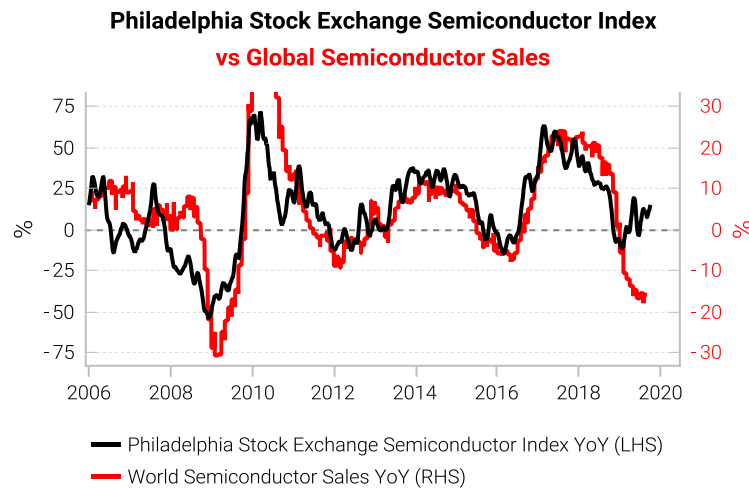
Equities: weak earnings, bearish positioning

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

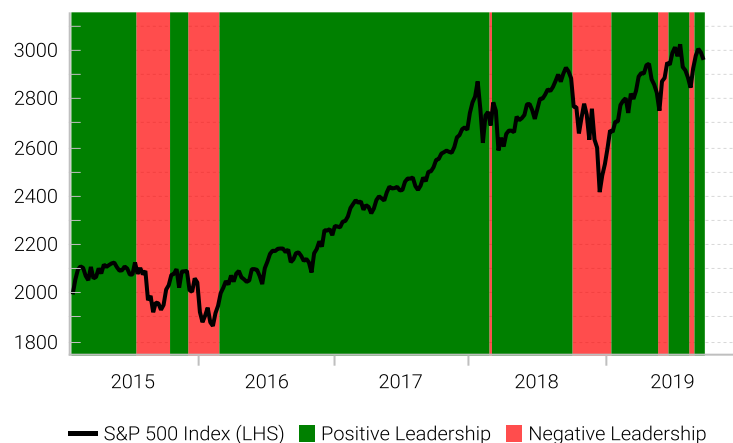
In terms of asymmetry to the downside, semis and industrials have shown clear divergences with leading indicators.



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.

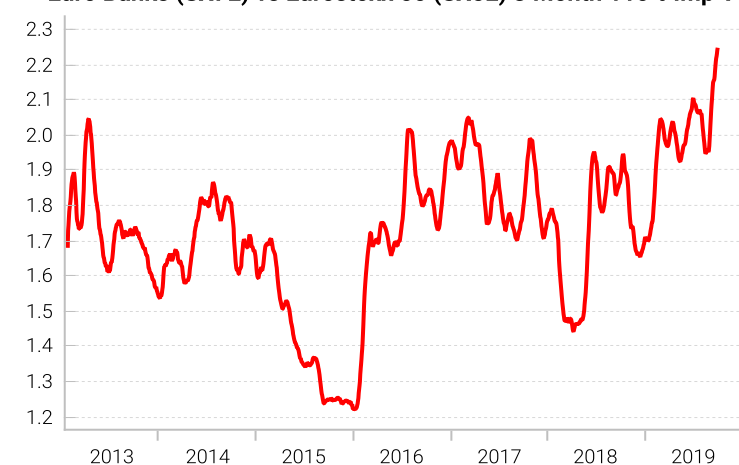
Variant Perception NYSE + NASDAQ Negative Leadership Composite



Euro Banks (SX7E) vs Eurostoxx 50 (SX5E)



Euro Banks (SX7E) vs Eurostoxx 50 (SX5E) 3 Month 110% Imp Vol



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