MACRO Voices
with hosts Erik Townsend and Patrick Ceresna

Charts for

MacroVoices #312

Charlie McElligott:
Tightening Cycle Is A Headwind Until It Becomes A Tailwind

February 24th, 2022

What Historically Occurs in an "Aggressive" Fed Lift-off?

NOMURA

- 2m into "aggressive Fed hiking cycle" on the median typically marks the low point for Equities

- Would however note the 2018 scenario as a lookalike standout, because both in that case and like today, we saw Equities trade negative going into the hiking cycle—while too it was a big "Yields up, USD up" trade

- Interestingly, the most bullish instance below—that of 1980, where Volcker began a serious of multi-year hikes—actually saw Equities markets believing that the Fed would stop hiking as the unemployment rate moved higher—But he kept hiking to try to contain Inflation, and by end 1981, a recession had hit, and the SPX finished -~10%

Date	2m after	SPX	RTY	NKY	Discret.	Staples	Energy	Fin'ls	Hlthcare	Indust.	Mat'ls	Tech	Tele	Utilities	Dollar	Silver	Gold	mmodit	10y Yield	Value	Growth
3/16/2022																					
3/21/2018		0.8	3.7	7.6	0.9	-4.7	14.4	-2.2	-0.8	-0.1	2.1	2.6	-3.1	-1.1	4.3	-0.4	-3.0	4.1	6.1	0.4	1.1
6/30/2004		-3.7	-7.9	-5.7	-4.2	-3.4	0.0	0.2	-4.6	-3.0	-1.1	-12.3	3.7	4.0	1.0	16.2	3.5	-0.7	-8.8	-1.8	-5.5
6/30/1999		-3.5	-6.6	2.2	-8.1	-2.1	0.7	-10.5	-1.5	-4.3	-3.8	4.3	-10.3	-0.7	-1.9	-2.8	-3.3	5.9	3.0	-5.7	-1.6
2/4/1994		-6.6	-5.6	-5.8	-6.5	-5.0	-8.0	-6.8	-10.7	-6.3	-7.0	1.3	-6.4	-10.0	-2.5	2.9	0.2	-1.3	21.6	-7.1	-6.2
3/29/1988		-2.6	-0.4	5.2	-1.2	-5.2	2.9	-1.0	-6.3	-1.1	-1.1	-1.7	-0.2	0.8	1.8	-0.8	-0.6	4.3	8.2	1.2	-4.7
8/7/1980		6.2	11.7	6.1	2.2	0.8	17.6	7.3	4.7	6.6	9.6	9.7	6.5	4.2	-0.2	29.1	7.7	5.1	6.7	2.0	9.8
8/15/1977		-4.7	-1.3	-1.5	-1.1	-2.2	-6.4	-4.4	0.0	-5.1	-6.1	-5.7	-1.9	-1.4	-1.5	7.5	9.5	4.6	0.8	-4.2	-3.9
1/4/1973		-6.0	-16.1	-4.0	-11.3	-4.6	-3.4	-14.1	-2.8	-7.6	-2.1	-1.1	-6.8	-6.9	-10.5	21.8	16.1	19.9	4.2	-6.7	-6.0
Average		-2.5	-2.8	0.5	-3.7	-3.3	2.2	-3.9	-2.7	-2.6	-1.2	-0.4	-2.3	-1.4	-1.2	9.2	3.8	5.2	5.2	-2.7	-2.1
Median		-3.6	-3.5	0.4	-2.7	-4.0	0.4	-3.3	-2.2	-3.6	-1.6	0.1	-2.5	-0.9	-0.9	5.2	1.8	4.4	5.2	-3.0	-4.3
Hit Rate		25%	25%	50%	25%	13%	63%	25%	25%	13%	25%	50%	25%	38%	38%	63%	63%	75%	88%	38%	25%

What Historically Occurs in an "Aggressive" Fed Lift-off?

NOMURA

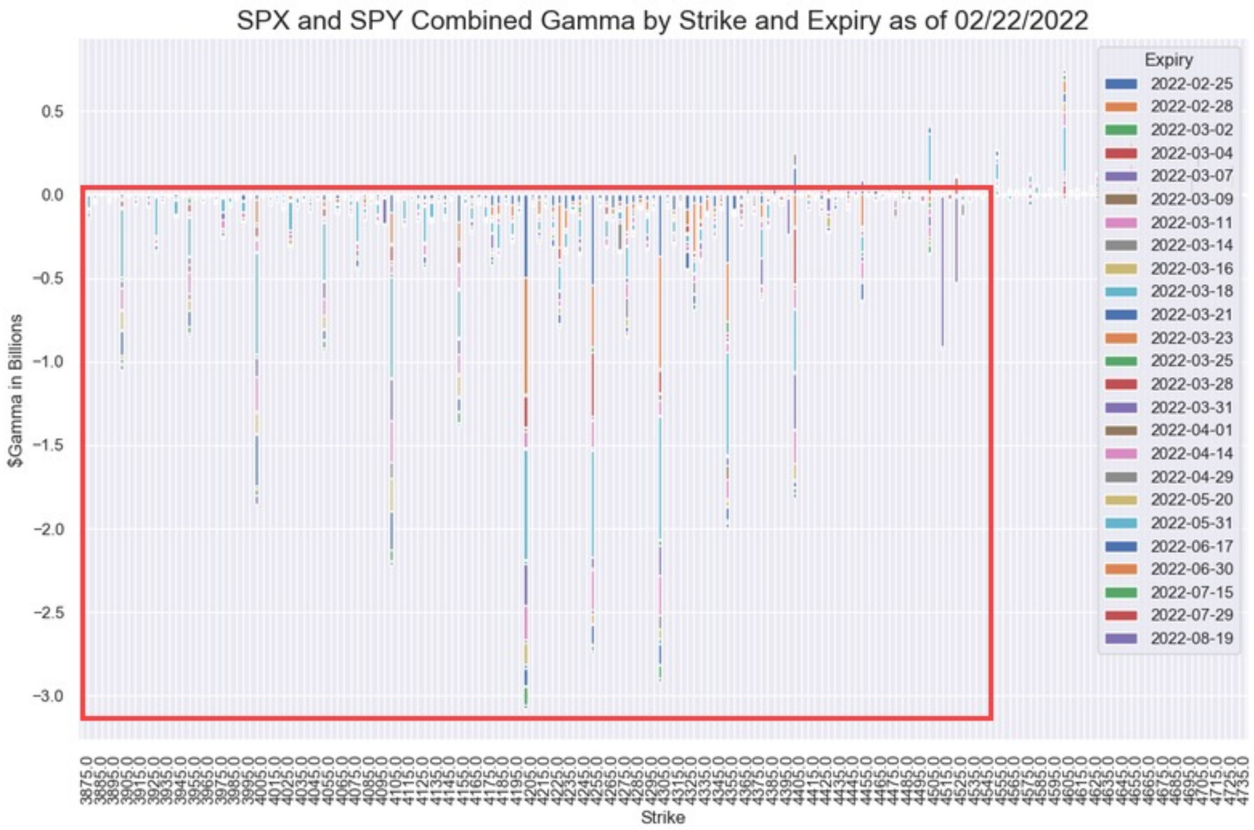
- But after the initial re-pricing and concerns, markets have typically found their footing: The world (by-and-large) doesn't end when the Fed undertakes a aggressive liftoff

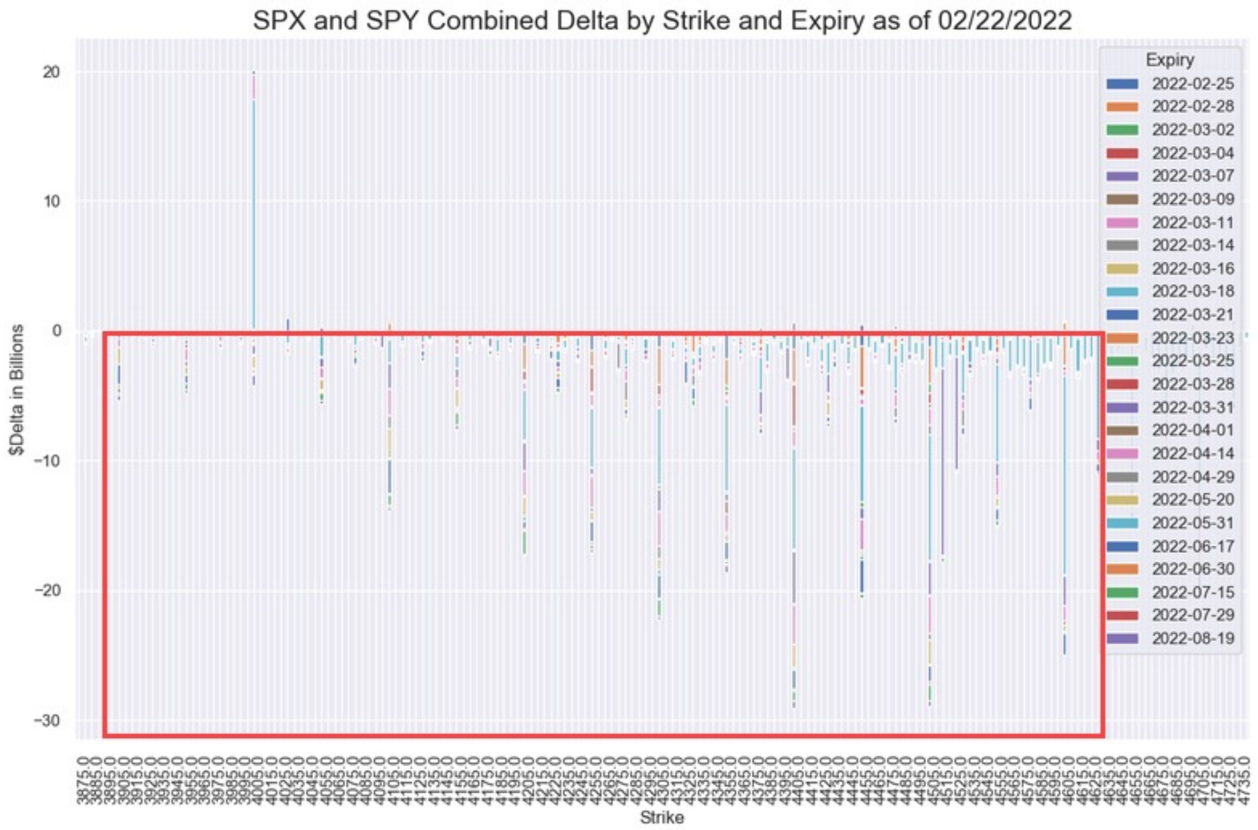
- 12 months later, it's an "everything higher" tape on the median —the lone exception being an outright "Inflation Crisis" like we saw in 1973

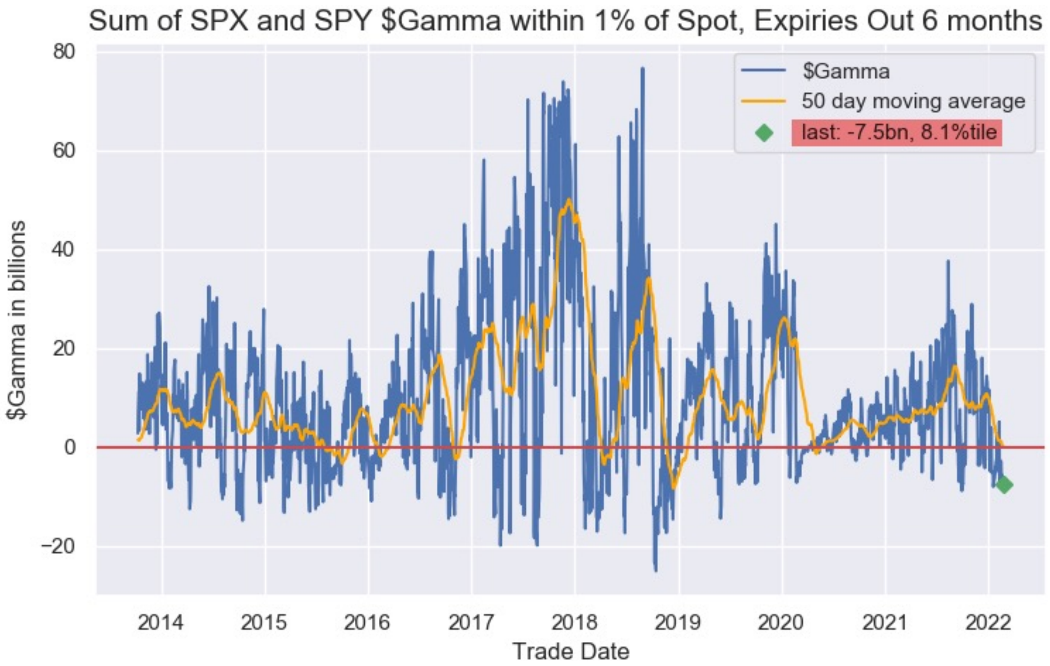
Date	12m after	SPX	RTY	NKY	Discret.	Staples	Energy	Fin'ls	Hlthcare	Indust.	Mat'ls	Tech	Tele	Utilities	Dollar	Silver	Gold	mmodit	10y Yield	Value	Growth
3/16/2022																					
3/21/2018		5.3	-1.1	1.1	8.6	7.2	-1.7	-9.2	10.1	-2.0	-4.9	11.1	5.9	17.3	7.5	-6.6	-1.7	-5.8	-12.0	2.2	8.1
6/30/2004		4.4	8.1	-2.3	3.7	-0.2	36.8	3.1	1.5	2.7	1.4	-4.1	6.3	33.0	0.3	22.1	10.5	6.1	-14.6	8.8	0.1
6/30/1999		6.0	12.8	-0.7	-5.3	-15.0	2.6	-10.0	11.8	0.2	-24.9	46.8	-15.0	-1.7	3.9	-4.1	10.3	26.8	4.3	-6.8	17.7
2/4/1994		1.9	-4.1	-8.7	-8.8	12.1	-1.0	2.3	19.8	-3.6	-3.5	21.6	-2.3	-6.9	-8.8	-14.0	-2.6	6.1	27.7	-2.5	5.0
3/29/1988		12.4	11.5	26.1	16.6	26.8	15.5	18.3	13.5	11.4	11.9	-2.2	28.5	12.9	10.5	-12.2	-15.8	10.5	9.2	22.9	13.9
8/7/1980		6.9	22.8	18.2	13.2	10.8	18.9	21.9	15.6	13.5	15.7	4.9	27.4	14.1	32.4	-47.3	-36.9	-28.6	38.5	16.7	14.4
8/15/1977		5.8	47.5	5.6	16.4	19.9	2.3	21.0	38.1	25.2	9.2	21.0	7.9	3.6	-14.7	29.8	47.9	26.8	13.1	16.3	14.4
1/4/1973		-17.2	-34.1	-18.6	-34.2	-20.2	13.3	-19.6	-17.7	-16.1	14.9	-26.7	-3.4	-14.9	-5.4	59.9	67.0	117.3	8.4	-0.7	-23.4
Average		3.2	7.9	2.6	1.3	5.2	10.8	3.5	11.6	3.9	2.5	9.1	6.9	7.2	3.2	3.5	9.8	19.9	9.3	7.1	6.3
Median		5.5	9.8	0.2	6.2	9.0	8.0	2.7	12.6	1.5	5.3	8.0	6.1	8.3	2.1	-5.4	4.3	8.3	8.8	5.5	11.0
Hit Rate		88%	63%	50%	63%	63%	75%	63%	88%	63%	63%	63%	63%	63%	63%	38%	50%	75%	75%	63%	88%

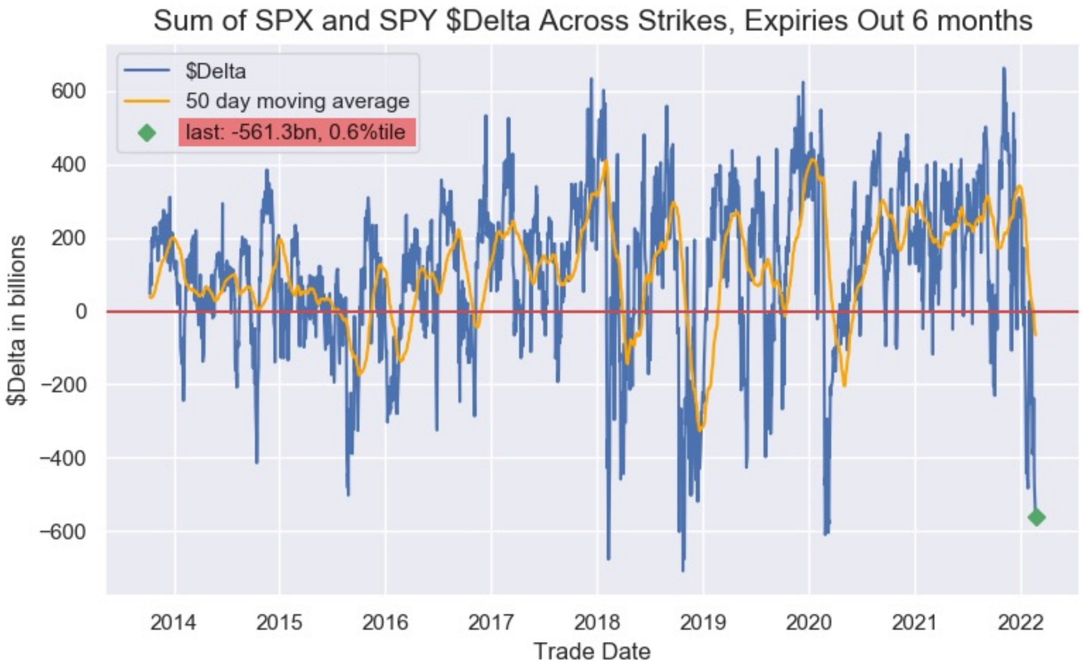
- Equities Index / ETF options *(and everybody's favorite downside hedge, HYG)* have become a quagmire of *"Short Gamma, EXTREME Short Delta"* which means chase-y accelerant flows from Dealer hedging into moves and **creating overshoots in BOTH directions** *(buying rips, selling dips)*

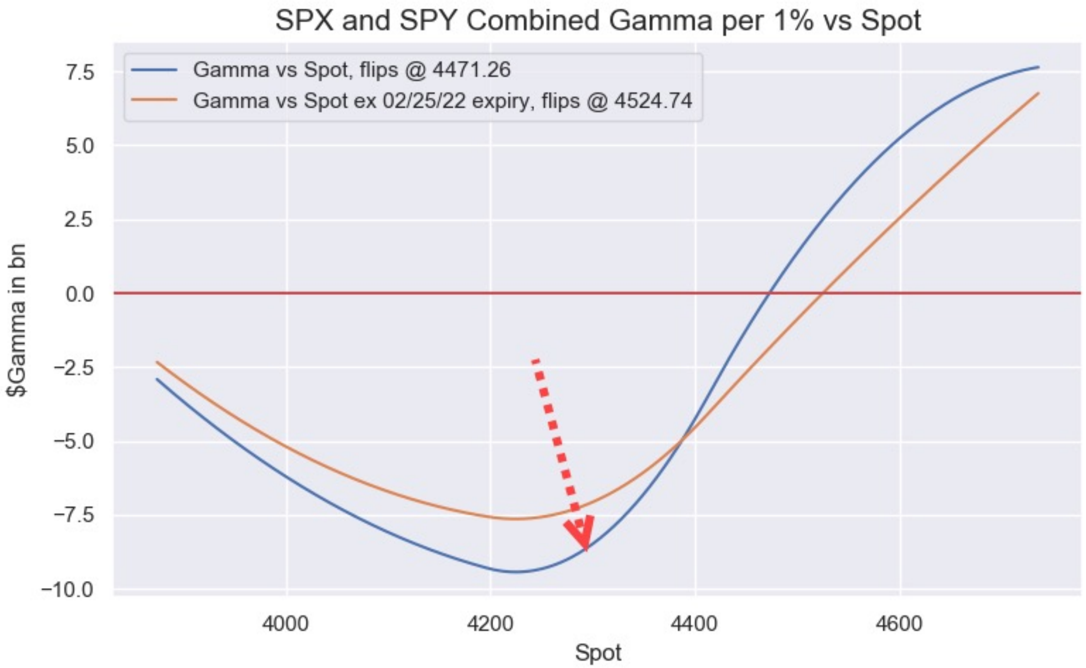
SPX / SPY

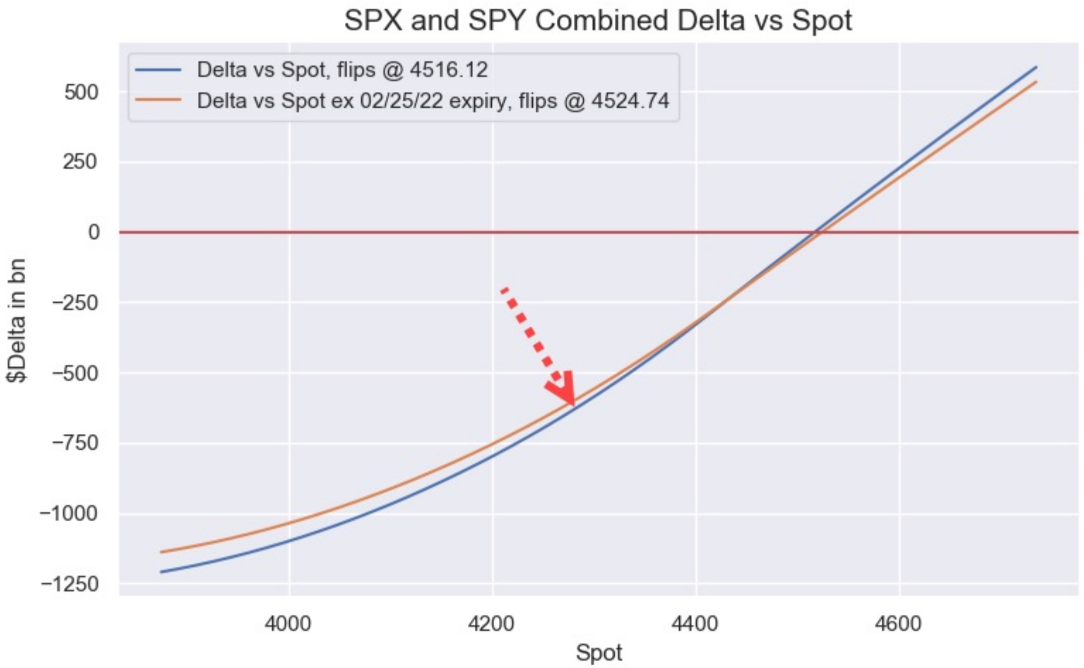




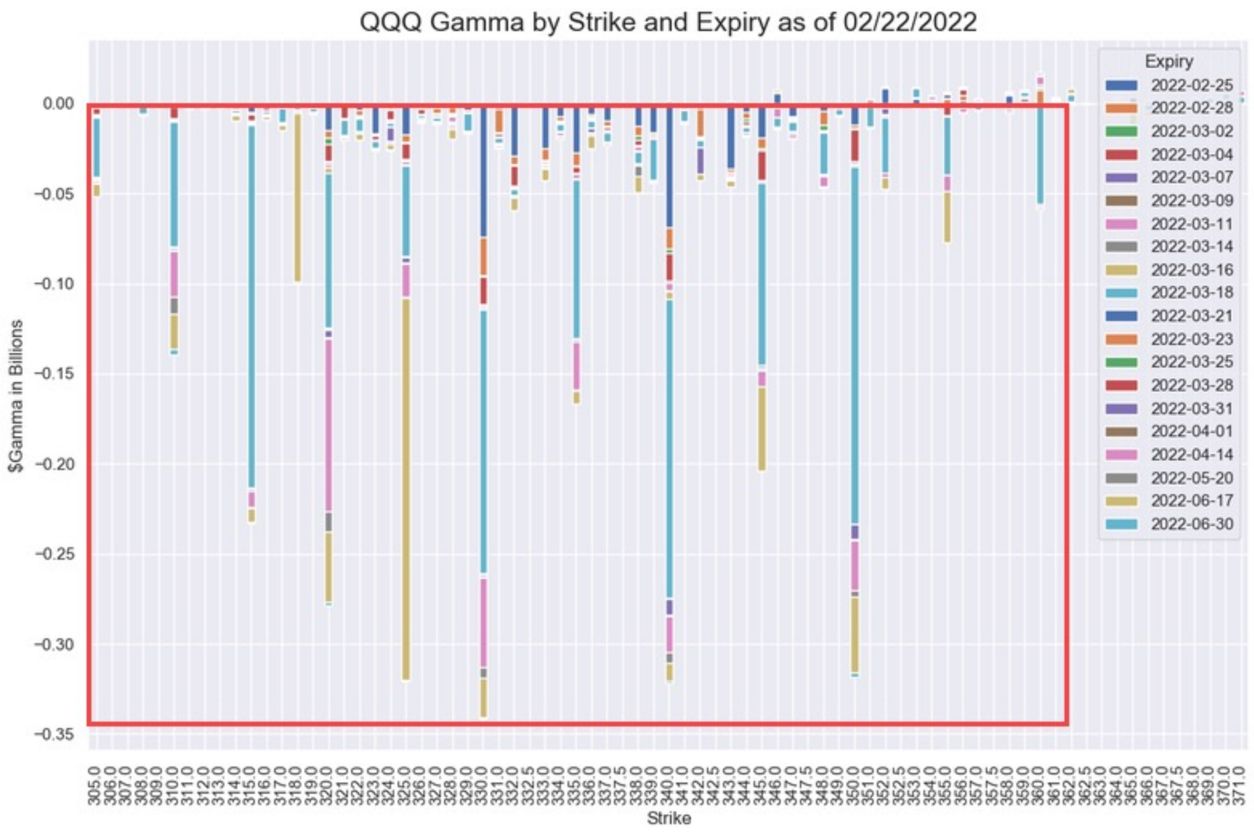

Sum of SPX and SPY $Gamma within 1% of Spot, Expiries Out 6 months
$Gamma
50 day moving average
last: -7.5bn, 8.1%tile
$Gamma in billions
Trade Date
80
60
40
20
0
−20
2014
2015
2016
2017
2018
2019
2020
2021
2022

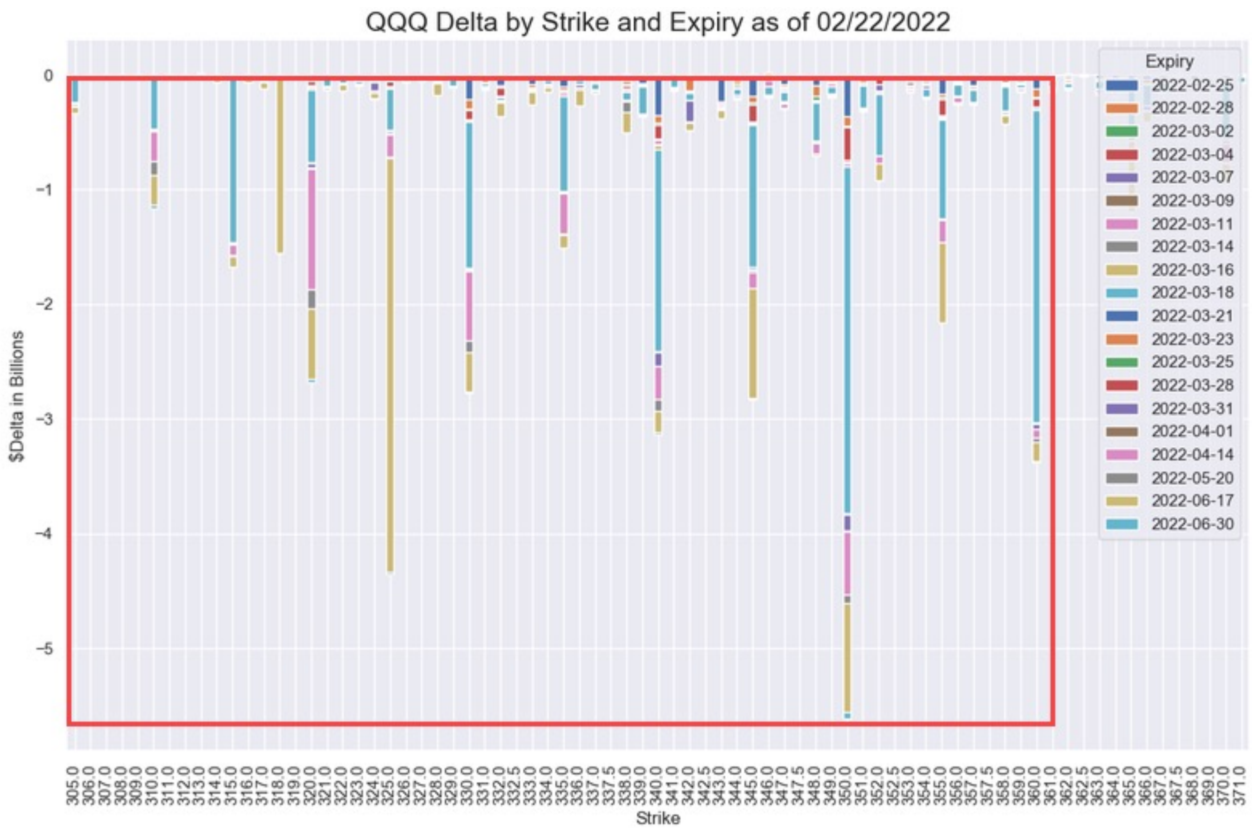

Sum of SPX and SPY $Delta Across Strikes, Expiries Out 6 months
$Delta
50 day moving average
last: -561.3bn, 0.6%tile
$Delta in billions
Trade Date
600
400
200
0
−200
−400
−600
2014
2015
2016
2017
2018
2019
2020
2021
2022

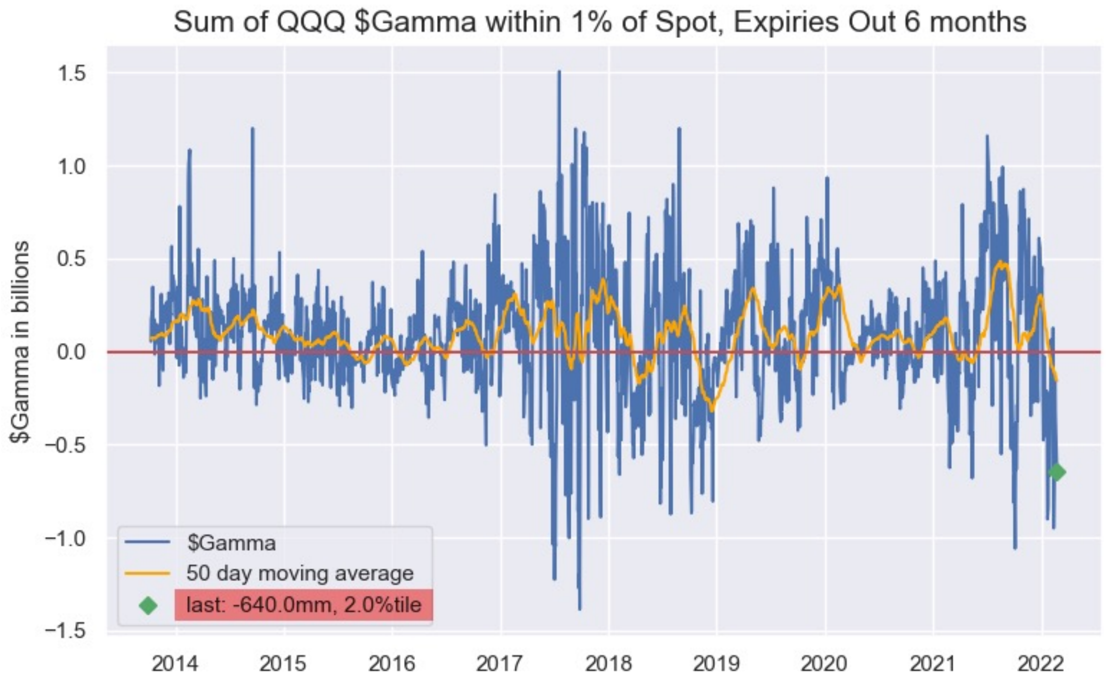

SPX and SPY Combined Gamma per 1% vs Spot
Gamma vs Spot, flips @ 4471.26
Gamma vs Spot ex 02/25/22 expiry, flips @ 4524.74
$Gamma in bn
Spot
7.5
5.0
2.5
0.0
-2.5
-5.0
-7.5
-10.0
4000
4200
4400
4600

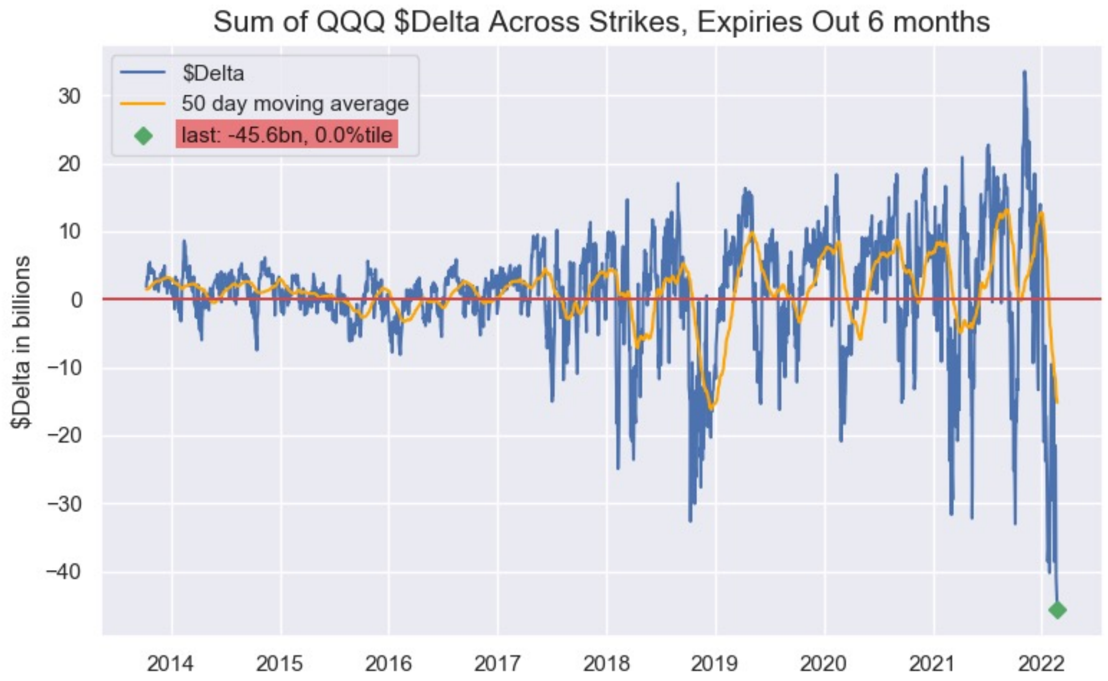

SPX and SPY Combined Delta vs Spot
Delta vs Spot, flips @ 4516.12
Delta vs Spot ex 02/25/22 expiry, flips @ 4524.74
$Delta in bn
Spot
500
250
0
−250
−500
−750
−1000
−1250
4000
4200
4400
4600

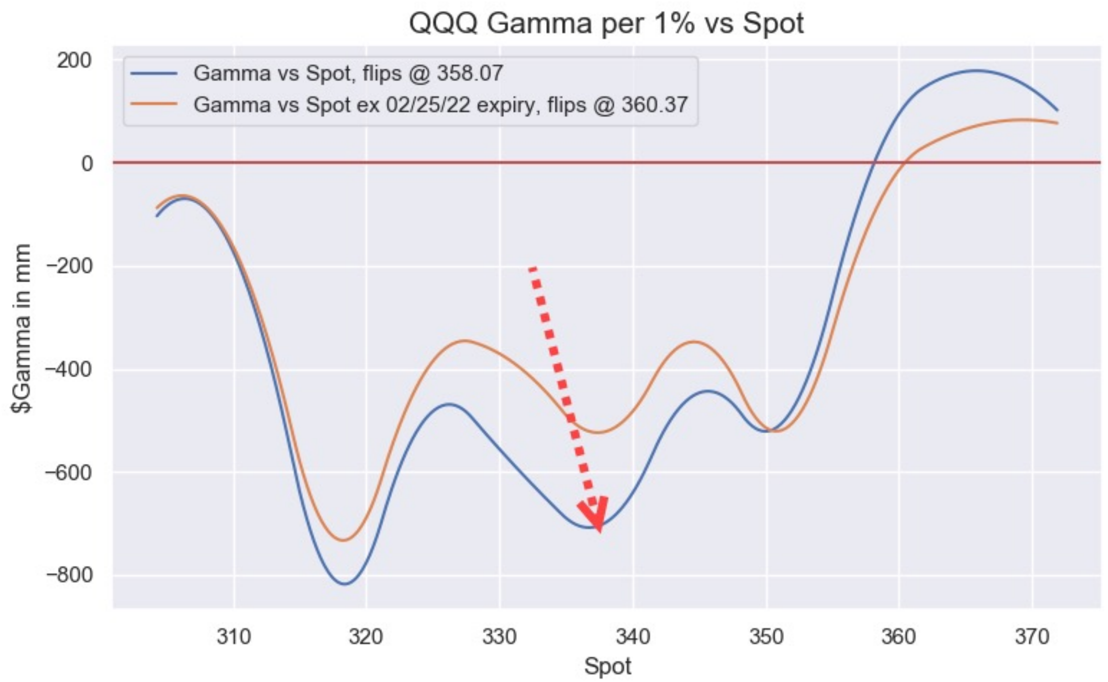
QQQ

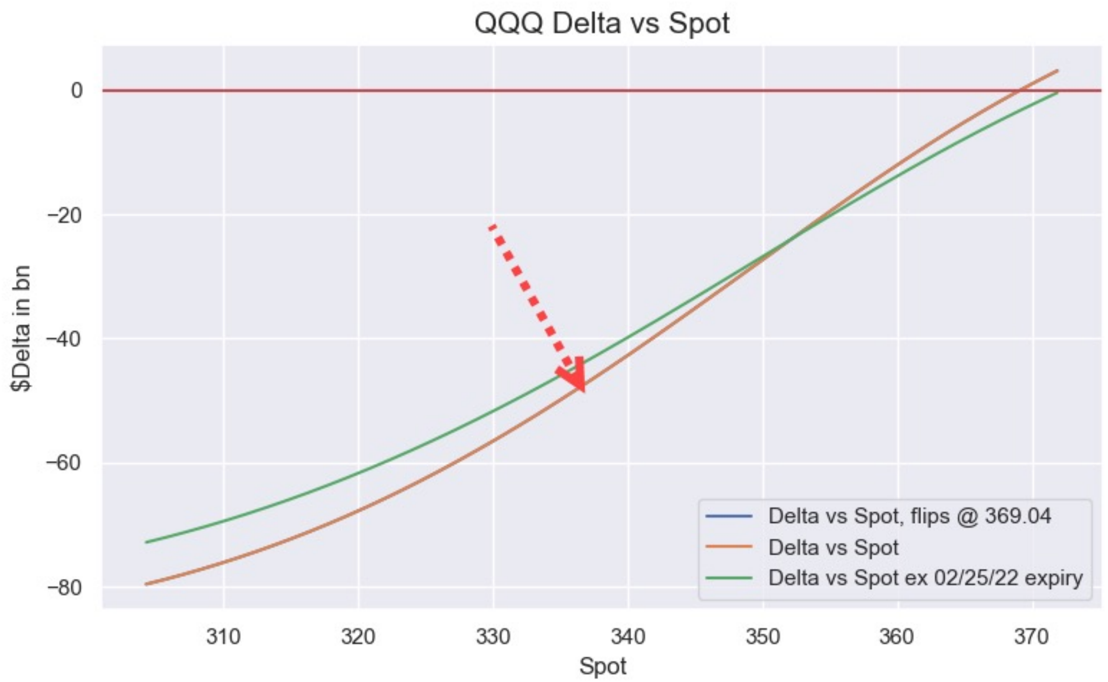

QQQ Gamma by Strike and Expiry as of 02/22/2022
$Gamma in Billions
Strike
Expiry
2022-02-25
2022-02-28
2022-03-02
2022-03-04
2022-03-07
2022-03-09
2022-03-11
2022-03-14
2022-03-16
2022-03-18
2022-03-21
2022-03-23
2022-03-25
2022-03-28
2022-03-31
2022-04-01
2022-04-14
2022-05-20
2022-06-17
2022-06-30


QQQ Delta by Strike and Expiry as of 02/22/2022
$Delta in Billions
Strike
Expiry
2022-02-25
2022-02-28
2022-03-02
2022-03-04
2022-03-07
2022-03-09
2022-03-11
2022-03-14
2022-03-16
2022-03-18
2022-03-21
2022-03-23
2022-03-25
2022-03-28
2022-03-31
2022-04-01
2022-04-14
2022-05-20
2022-06-17
2022-06-30

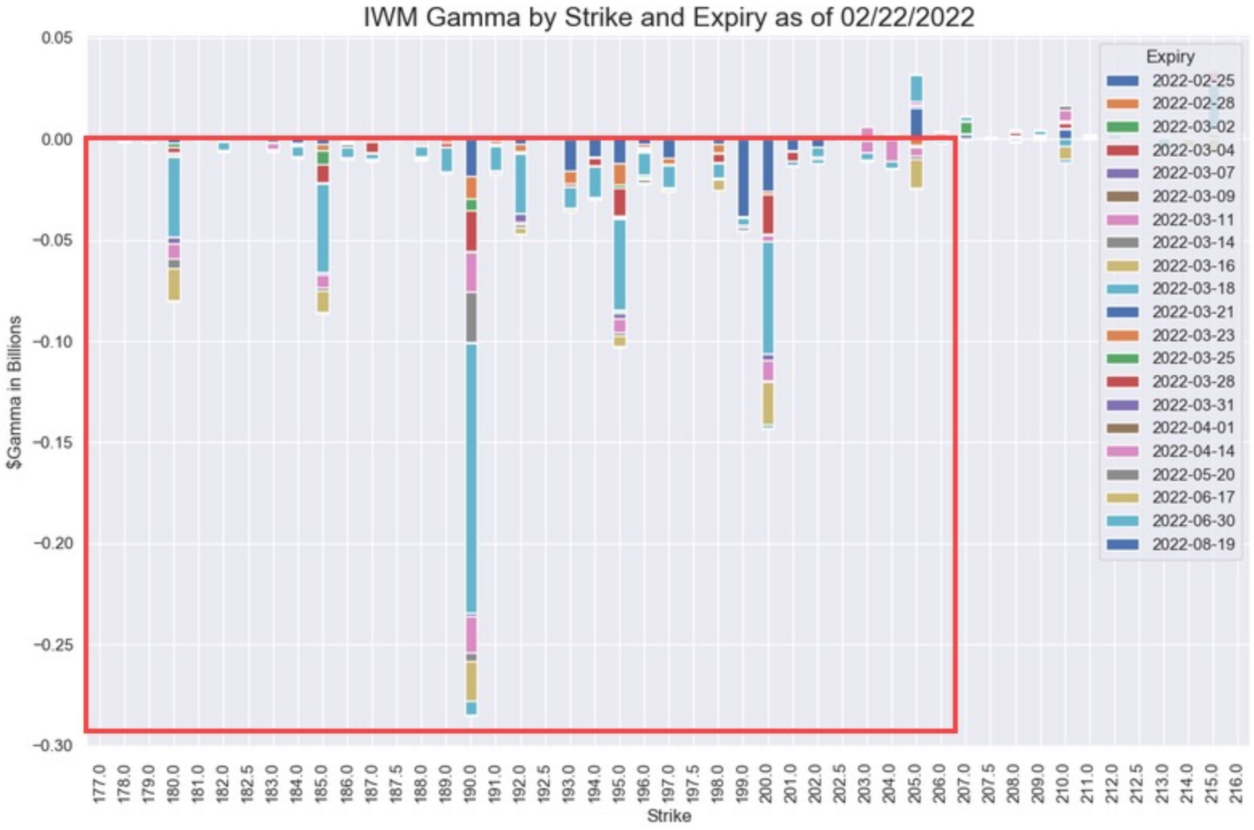

Sum of QQQ $Gamma within 1% of Spot, Expiries Out 6 months
$Gamma in billions
$Gamma
50 day moving average
last: -640.0mm, 2.0%tile
1.5
1.0
0.5
0.0
−0.5
−1.0
−1.5
2014
2015
2016
2017
2018
2019
2020
2021
2022


Sum of QQQ $Delta Across Strikes, Expiries Out 6 months
$Delta in billions
$Delta
50 day moving average
last: -45.6bn, 0.0%tile
30
20
10
0
−10
−20
−30
−40
2014
2015
2016
2017
2018
2019
2020
2021
2022

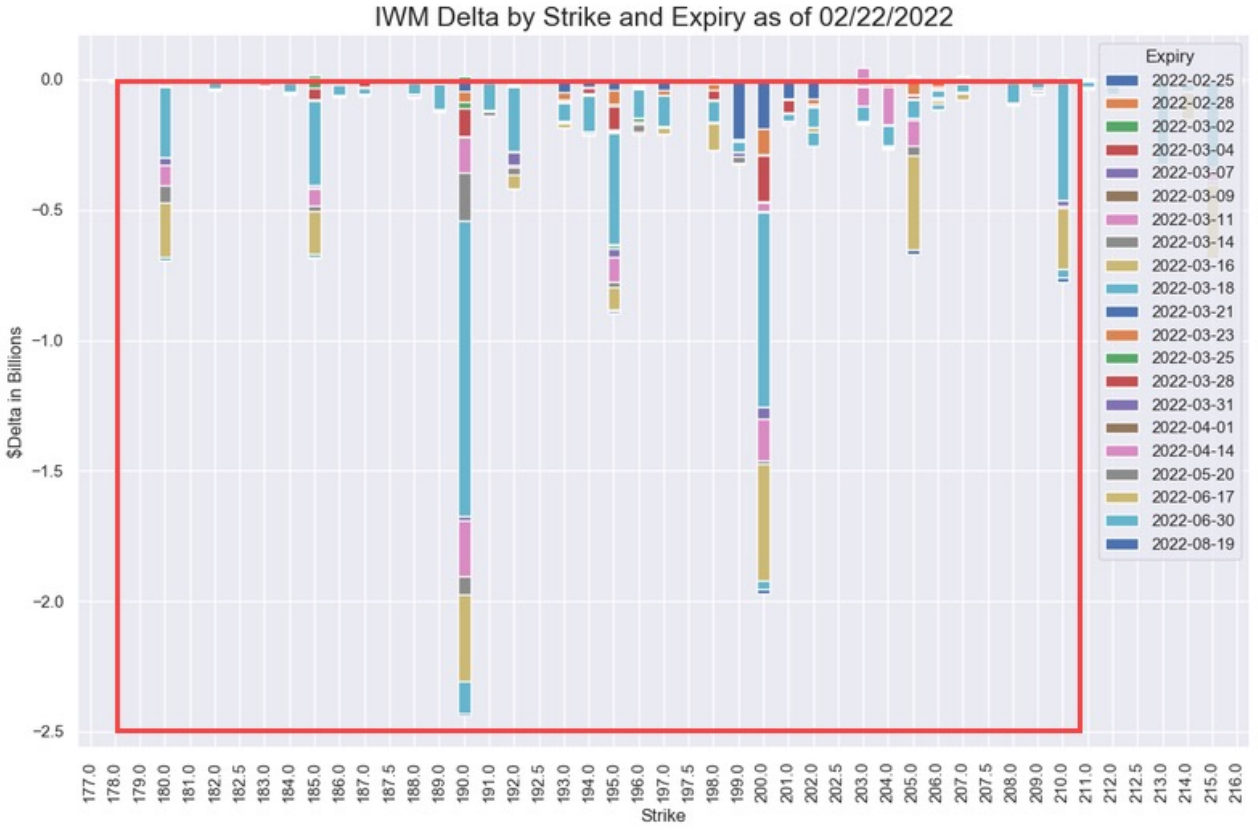

QQQ Gamma per 1% vs Spot
$Gamma in mm
Spot
Gamma vs Spot, flips @ 358.07
Gamma vs Spot ex 02/25/22 expiry, flips @ 360.37
200
0
−200
−400
−600
−800
310
320
330
340
350
360
370


QQQ Delta vs Spot
$Delta in bn
Spot
Delta vs Spot, flips @ 369.04
Delta vs Spot
Delta vs Spot ex 02/25/22 expiry
0
−20
−40
−60
−80
310
320
330
340
350
360
370

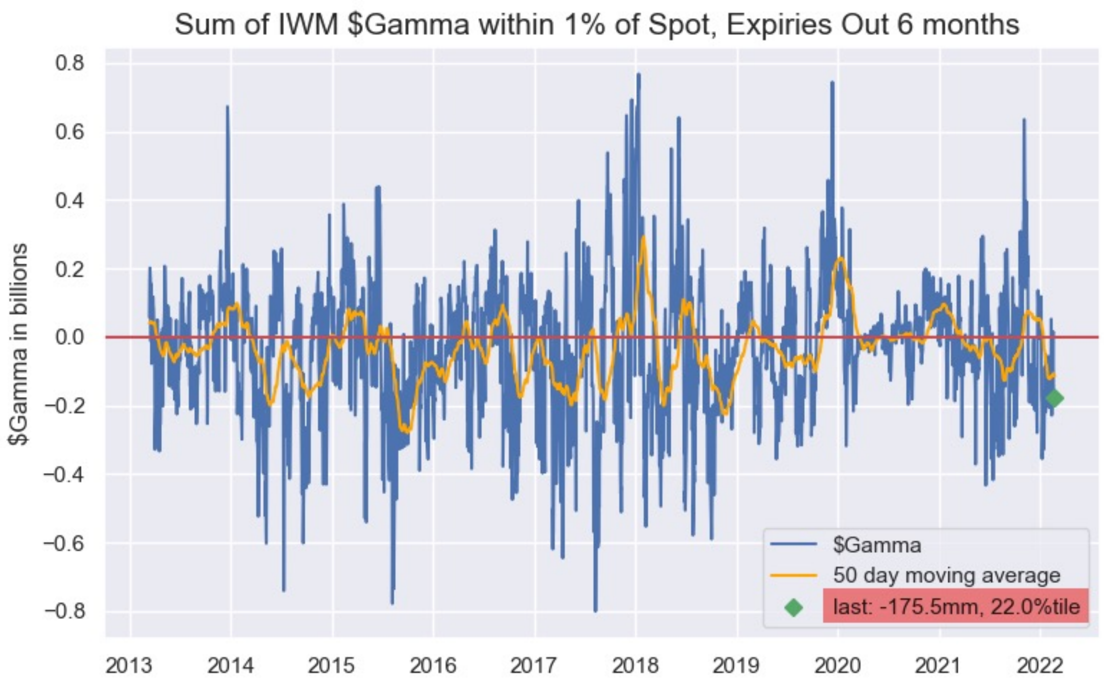
IWM

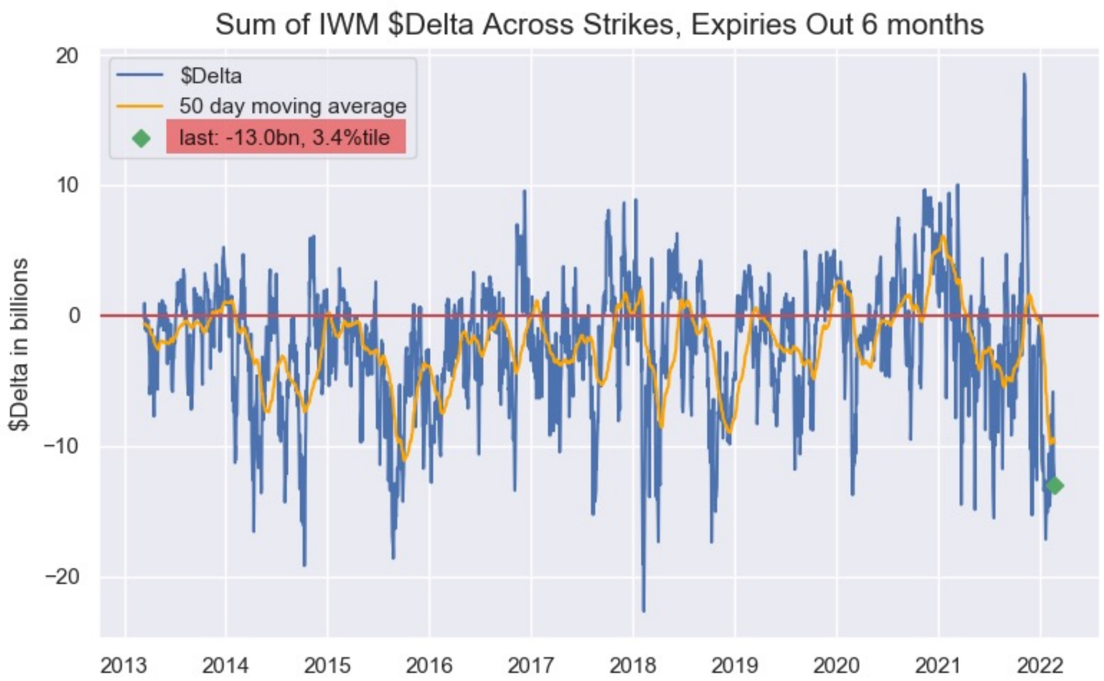


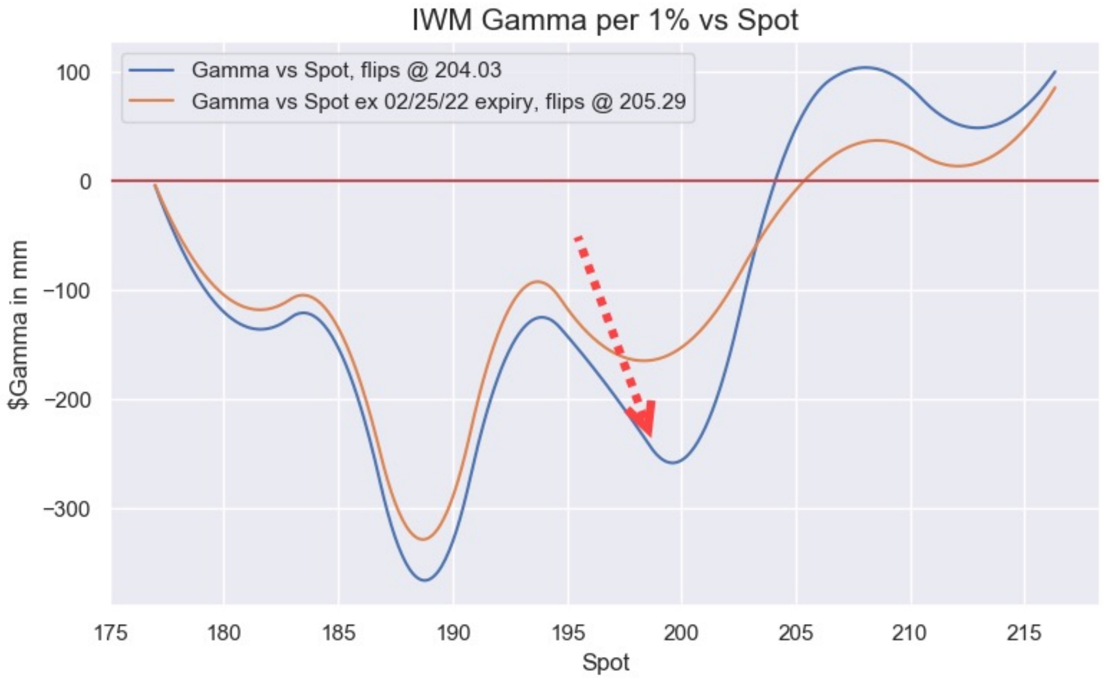
IWM Gamma by Strike and Expiry as of 02/22/2022
$Gamma in Billions
Strike
Expiry
2022-02-25
2022-02-28
2022-03-02
2022-03-04
2022-03-07
2022-03-09
2022-03-11
2022-03-14
2022-03-16
2022-03-18
2022-03-21
2022-03-23
2022-03-25
2022-03-28
2022-03-31
2022-04-01
2022-04-14
2022-05-20
2022-06-17
2022-06-30
2022-08-19

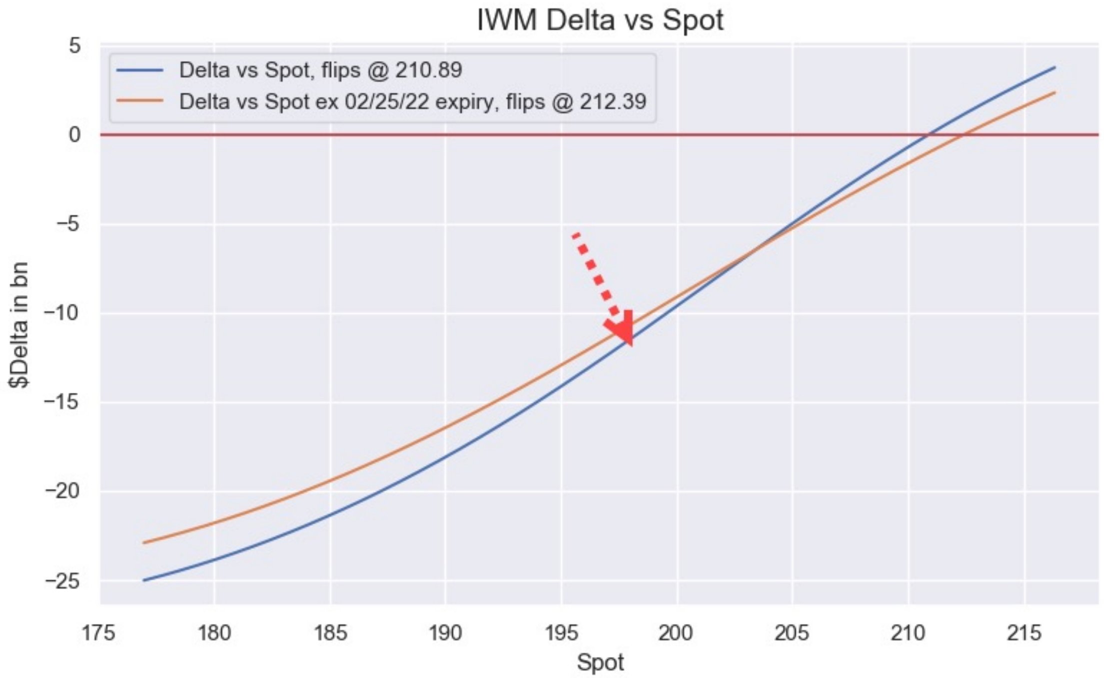


IWM Delta by Strike and Expiry as of 02/22/2022
$Delta in Billions
Strike
Expiry
2022-02-25
2022-02-28
2022-03-02
2022-03-04
2022-03-07
2022-03-09
2022-03-11
2022-03-14
2022-03-16
2022-03-18
2022-03-21
2022-03-23
2022-03-25
2022-03-28
2022-03-31
2022-04-01
2022-04-14
2022-05-20
2022-06-17
2022-06-30
2022-08-19

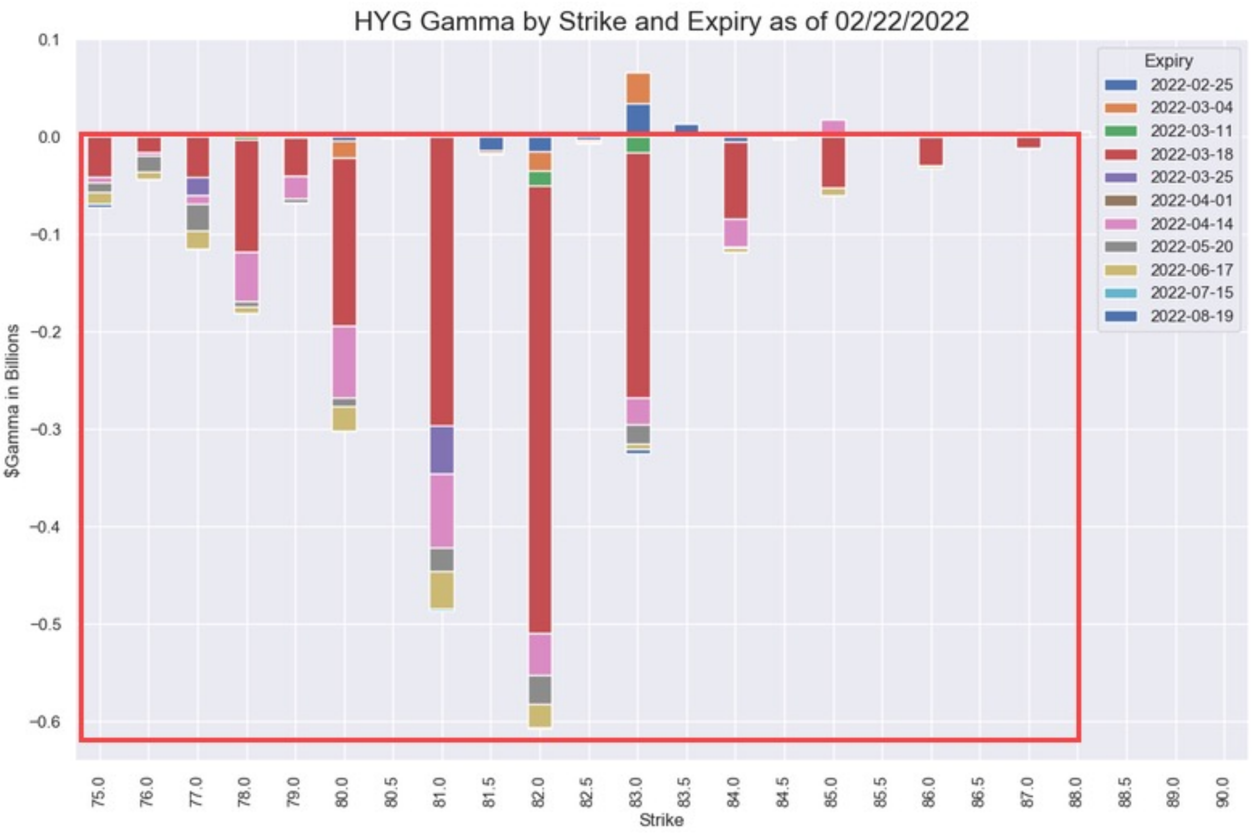

Sum of IWM $Gamma within 1% of Spot, Expiries Out 6 months
$Gamma in billions
$Gamma
50 day moving average
last: -175.5mm, 22.0%tile

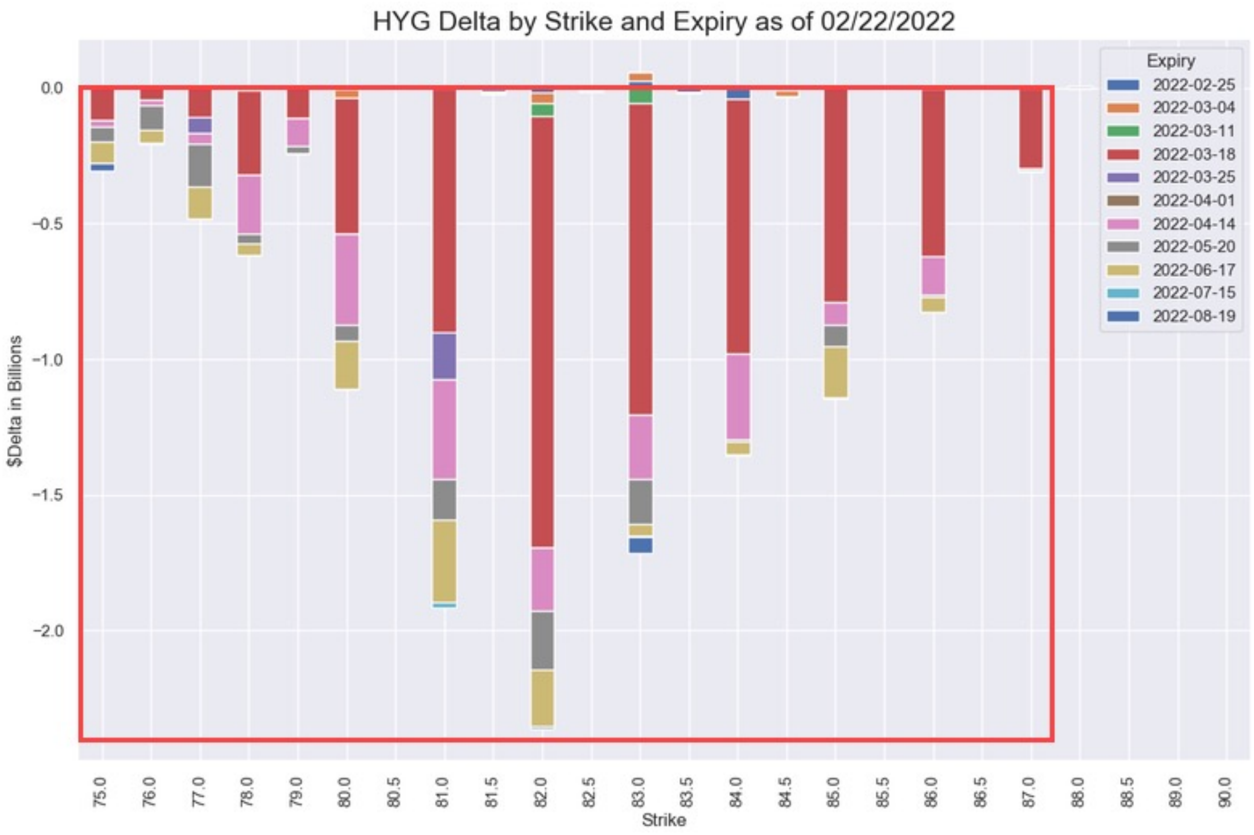

Sum of IWM $Delta Across Strikes, Expiries Out 6 months
$Delta in billions
$Delta
50 day moving average
last: -13.0bn, 3.4%tile

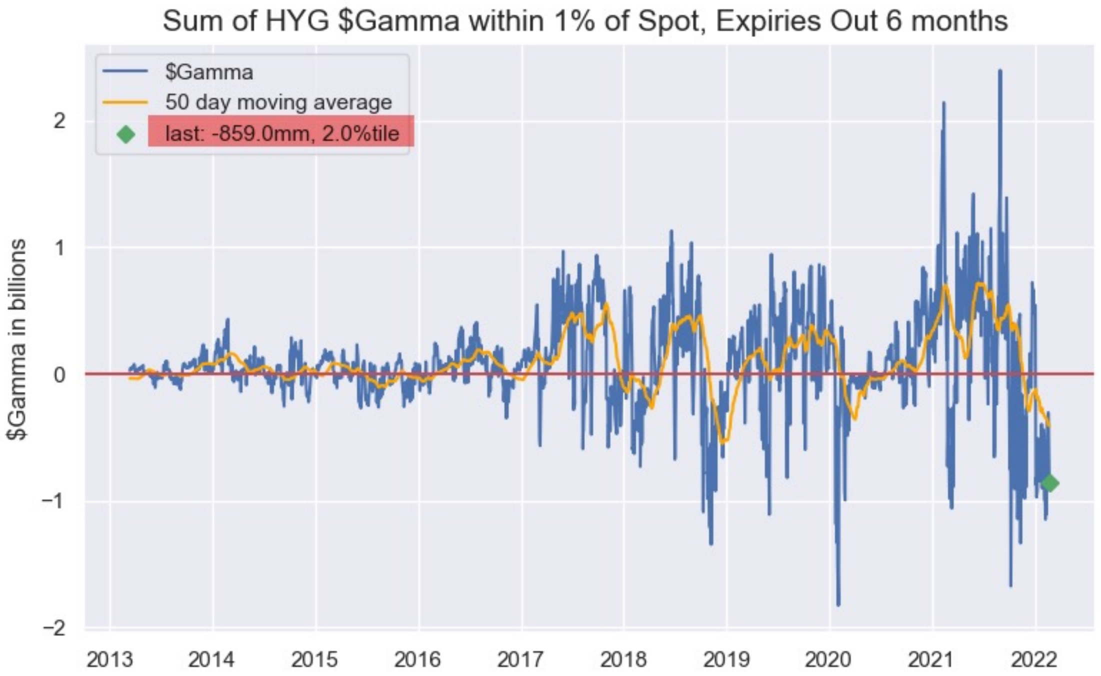

IWM Gamma per 1% vs Spot
$Gamma in mm
Gamma vs Spot, flips @ 204.03
Gamma vs Spot ex 02/25/22 expiry, flips @ 205.29
Spot

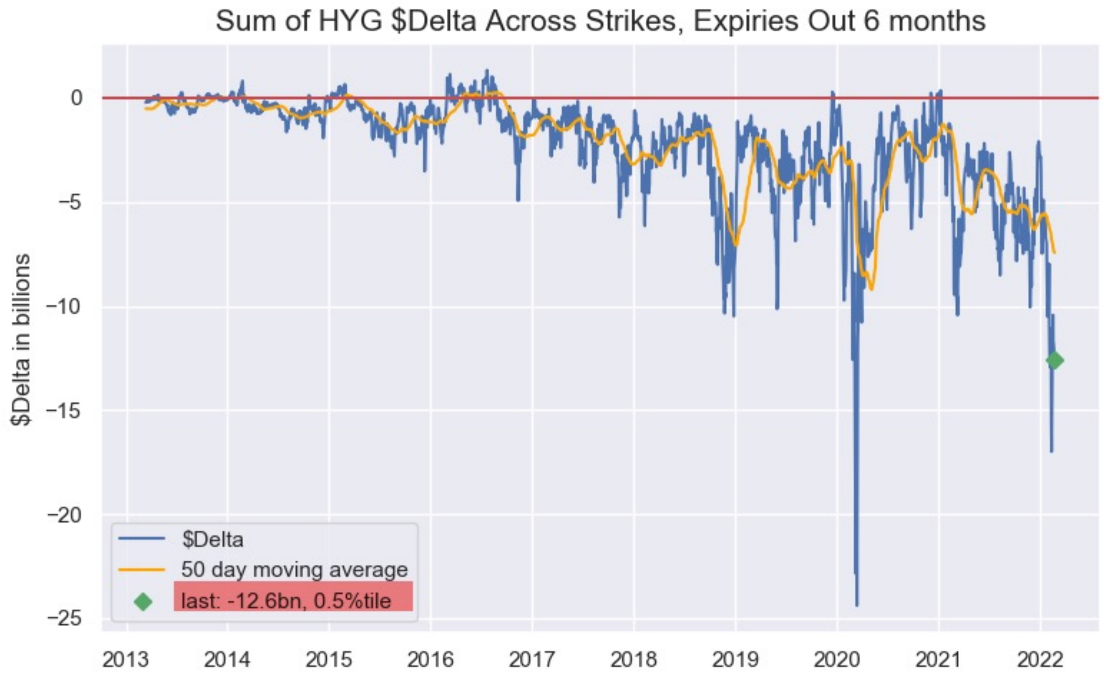

IWM Delta vs Spot
$Delta in bn
Delta vs Spot, flips @ 210.89
Delta vs Spot ex 02/25/22 expiry, flips @ 212.39
Spot

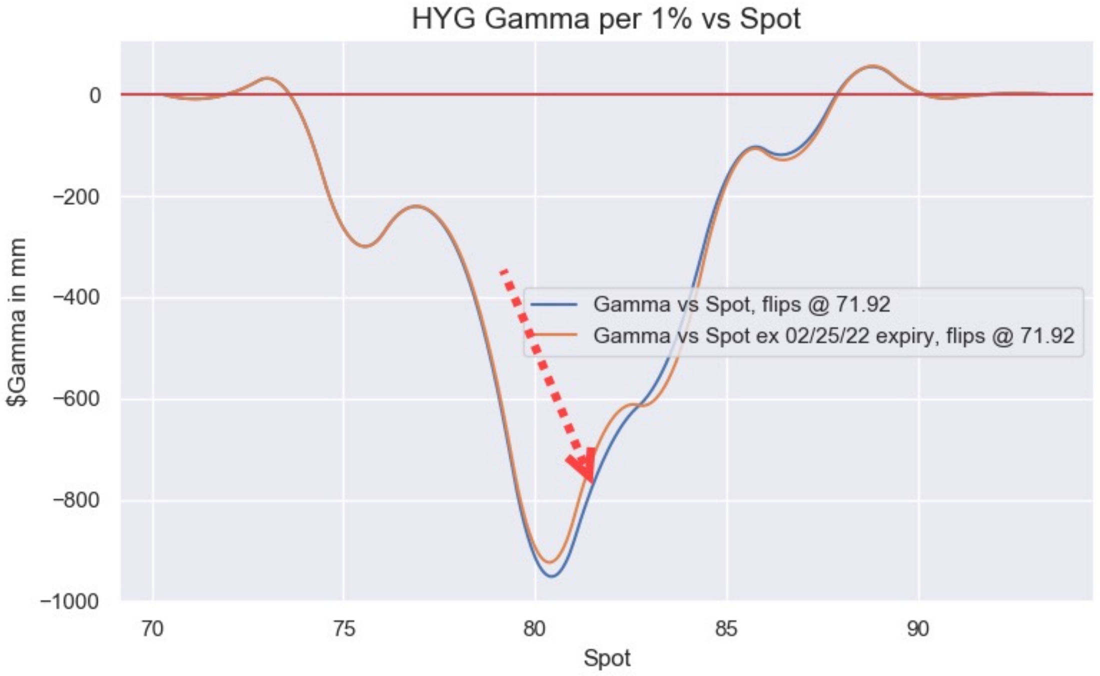
HYG

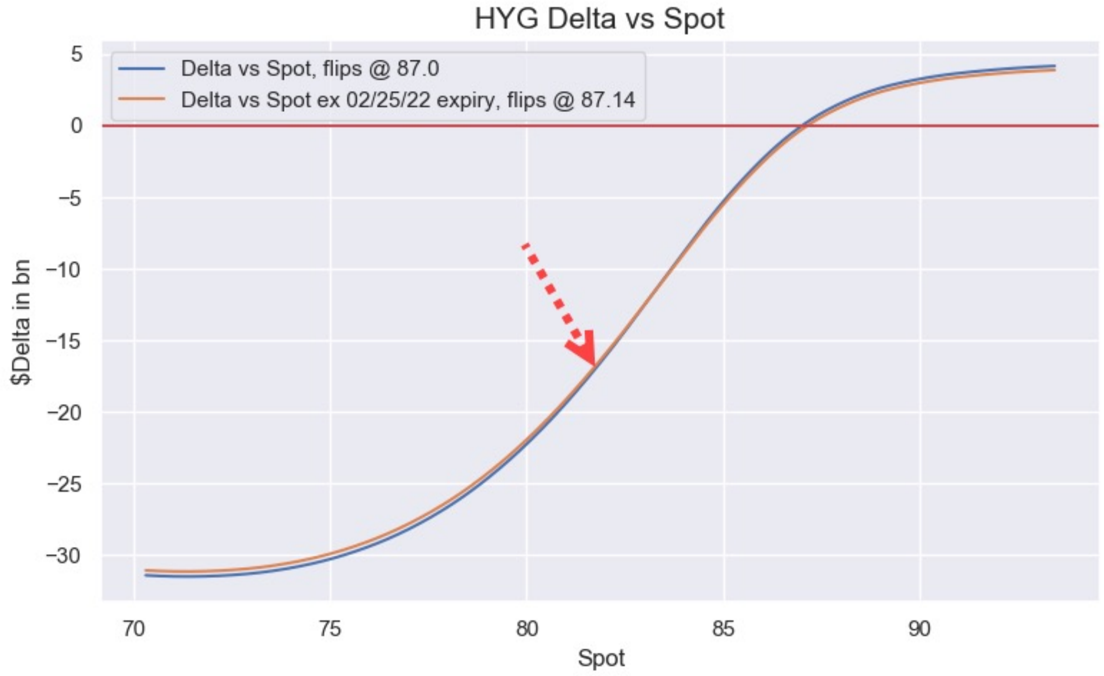

HYG Gamma by Strike and Expiry as of 02/22/2022
$Gamma in Billions
Strike
Expiry
2022-02-25
2022-03-04
2022-03-11
2022-03-18
2022-03-25
2022-04-01
2022-04-14
2022-05-20
2022-06-17
2022-07-15
2022-08-19


HYG Delta by Strike and Expiry as of 02/22/2022
$Delta in Billions
Strike
Expiry
2022-02-25
2022-03-04
2022-03-11
2022-03-18
2022-03-25
2022-04-01
2022-04-14
2022-05-20
2022-06-17
2022-07-15
2022-08-19


Sum of HYG $Gamma within 1% of Spot, Expiries Out 6 months
$Gamma
50 day moving average
last: -859.0mm, 2.0%tile
$Gamma in billions
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022


Sum of HYG $Delta Across Strikes, Expiries Out 6 months
$Delta
50 day moving average
last: -12.6bn, 0.5%tile
$Delta in billions
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022


HYG Gamma per 1% vs Spot
Gamma vs Spot, flips @ 71.92
Gamma vs Spot ex 02/25/22 expiry, flips @ 71.92
$Gamma in mm
Spot


HYG Delta vs Spot
Delta vs Spot, flips @ 87.0
Delta vs Spot ex 02/25/22 expiry, flips @ 87.14
$Delta in bn
Spot

- As you can see, **$Deltas associated with said options positioning remains historically very negative / "short"**—which means that by-and-large, the ongoing concerns and short-dated downside hedging demand from clients keeps Dealers Net sellers of futures as they maintain their own hedges to stay neutral…but then this too provides massive *"covering fodder"* on rallies away from those OTM Put strikes as they lose Delta, so Dealers cover their "short hedges" in these **extraordinarily active near-dated (thus highly convex) Puts**

- The literal "day-trading" of options is fueling the manic intraday behavior, because it it not just Retail that is YOLOing anymore

- With little ability to sustain long-term views into the market "chop," the extent of the intraday trading within Equities is now just so absurd that we are seeing many institutional traders compress their time horizons now to intraday trading as-well, bc you can't just sit in positions while you're *constantly blowing-through VaR risk limits daily*—**thus, persistent bouts of mechanical "Gross-down" flows**

- **To this point, we are now increasingly seeing institutional investors playing the 'retail' game too, buying 0-1-2-3 DTE Puts on selloff days (and selling out by the close), or buying short-dated Calls on short-squeeze rally days (similarly monetizing same-day), *with all that "short dated" optionality creating such a convexity headache for markets***