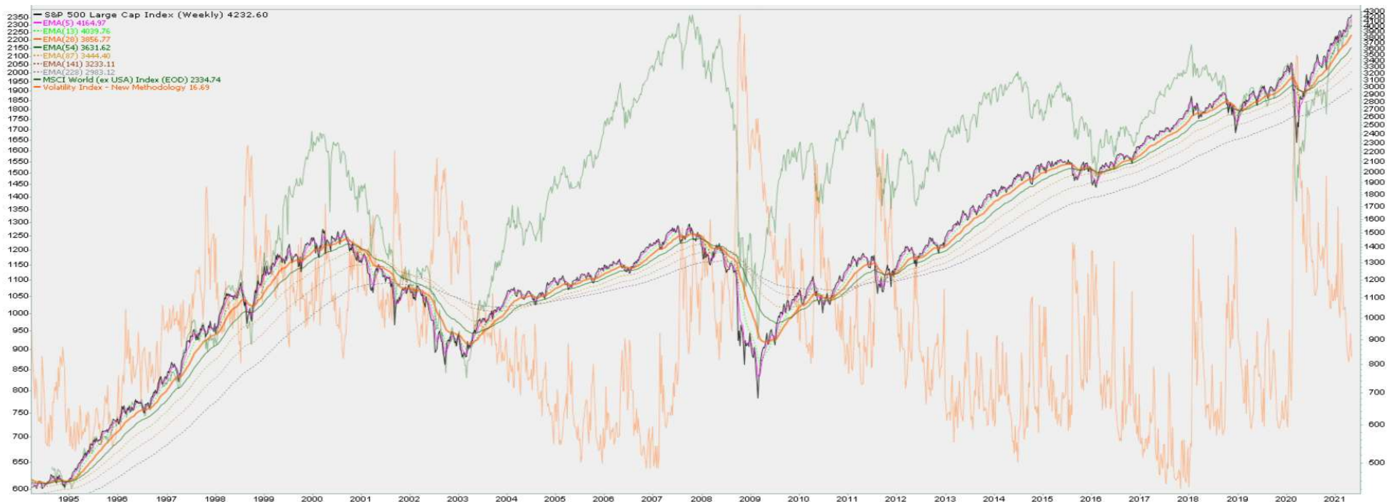
STOW GROW GLOW

COVID Vaccines for Humans and Markets

Price action is definitively important, but I tend to overweight other indicators like volume and sentiment. Fundamentals & liquidity are also particularly important and part of the whole analytical process.

I tend to focus very much on the US stock market due to the fact it has been, since 2008, the main driver of equity market behavior.

The US market has been the principal recipient of world liquidity and a “lower” equity volatility allocation “play” since 2008. (Green = MSCI World, Black = S&P 500, orange = VIX index)



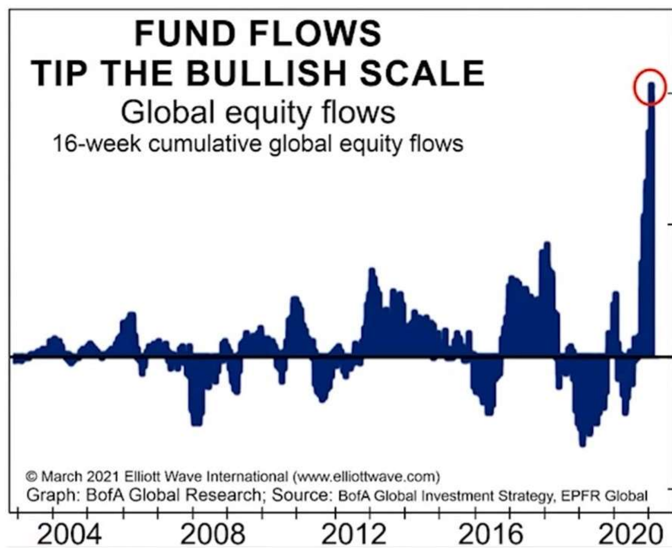
Viewed differently, (Black = S&P 500 / MSCI World Ex-USA ratio, Green = S&P 500, orange = VIX)

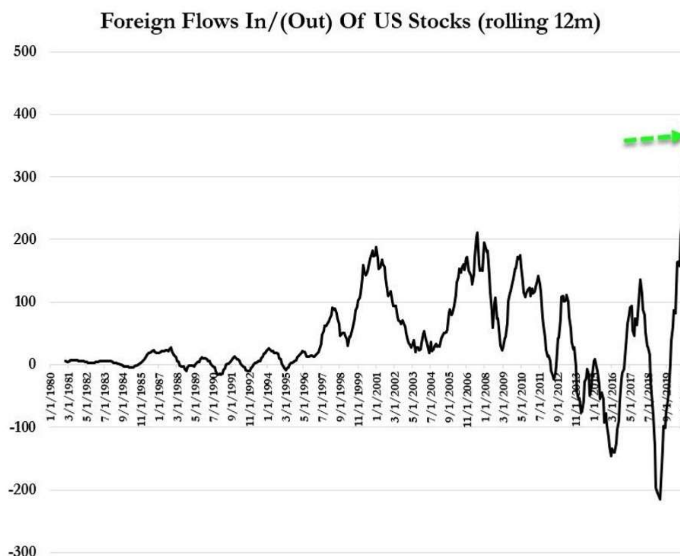
Since 1999, the S&P 500 has outperformed the world about 80% and 300% since the low of 2008. In USD term, non-US investors have poorly done in their respective domestic market comparing to holding a single allocation line in the S&P 500. Diversification has been a bad choice.

I expected a reflation trade favoring non-US stocks and it did not happen. On the contrary, foreign flows in US equities produced by BOFA research shows and astounding reversal with COVID. Foreigners tend to be

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional’s services. Information herein may reference historical performance data which do not represent and or guarantee future performance.

late and if history is a guide, we could be reaching an inflection point again. Everything is a process which takes time (months, quarters, years).





Going forward, we need to see what incremental flow will be coming. This will depend on Central Banks and Fiscal stimulus. However, I believe that we are moving towards a soft merger of monetary and fiscal policies.

The central banks and fiscal liquidity pool regime have driven asset prices to a new mechanism of price discovery. Probably, inflation (money velocity) will be a trigger for a shift in risk perception and fundamentals will become once again the center piece of all attentions.

We may have plenty of liquidity, but volume is not behaving "accordingly". (Green line = S&P 500 index, Black-Red line is the cumulative advance decline volume.

Since FEB 20 top, the index is up about 25% and volume about 14%. We can observe that volume changes induce bigger price changes (Volatility – standard deviation) (UP & Downside).

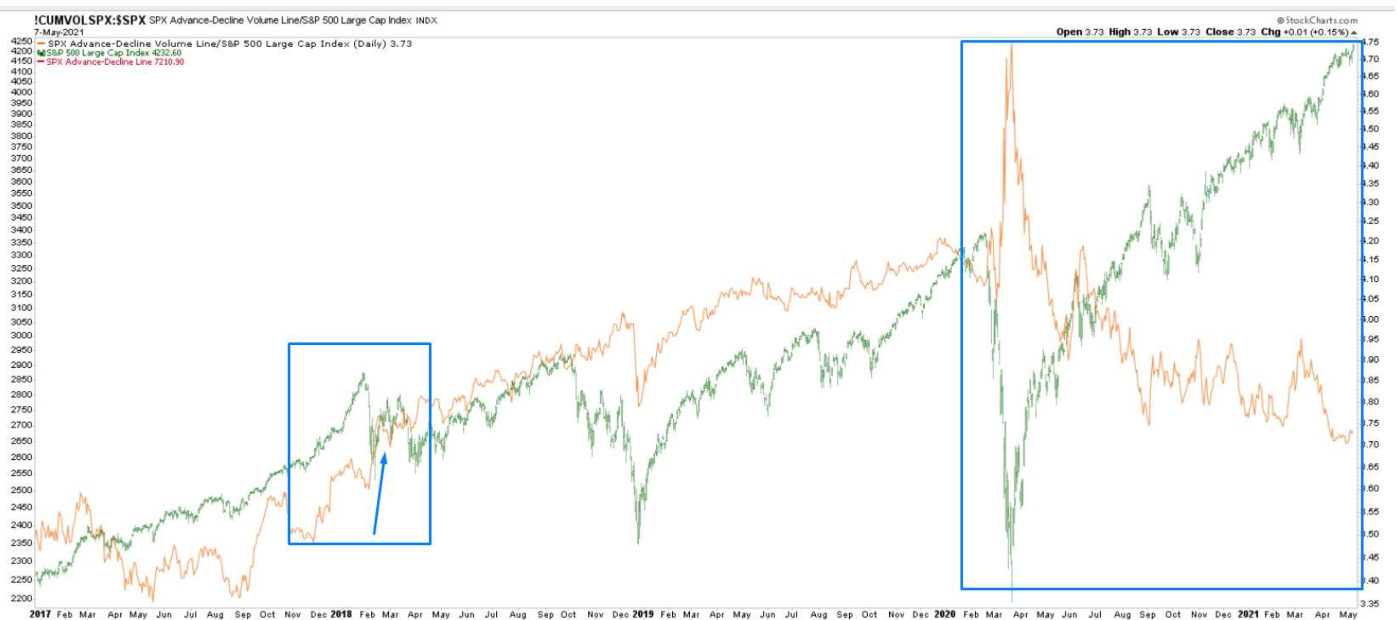
Volume and price action relationship have a rather good track record when we look at historical data. I use the ratio of advance decline volume/ S&P 500 price index to measure the "healthiness" / soundness of price action. Basically, volume action is stronger than price action. We can have sometime divergences (red line)

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.

which can indicate potential price changes direction. The little blue line indicates, in my view, an unusual regime change.

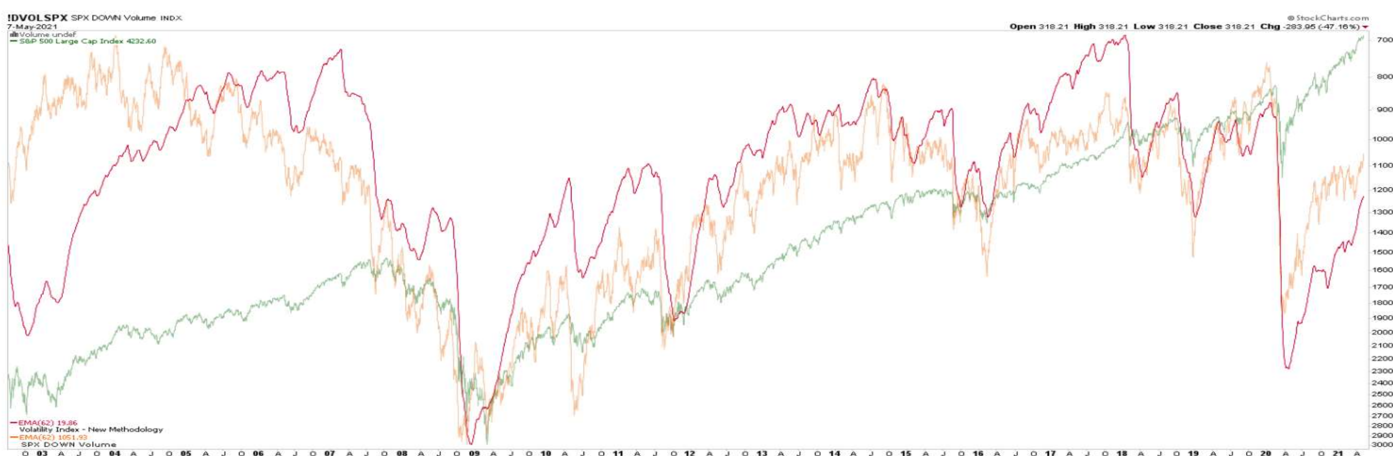
(it looks a bit distorted here due the life span of the chart and the scale. When you look on shorter time frame, if fits very well. I was able to access once some data since the 50's, unfortunately not anymore available but the track record is about 70 years).

Here is a closer snapshot: The first relevant instance was the "Volmaggedon" crash of Feb 5th, 2018. In 2019, we had choppy period May to October and volume action did not fit perfectly but nothing too strange.



Then came the COVID crash and the phenomenal rally. A 70 years broken relationship. In fact, quite a series of other indicators show strange behaviors. When we break up the components and look at UP (blue line) and Down Volumes with, in red line the VIX inverted, they never recovered to their prior level.

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.



It looks like diminishing Down Volume is the main driver behind price action.

I have written quite a few posts about the commodity like behavior of the Index due to the massive derivatives volumes (Options -Gamma play and Futures).

Central Banks liquidity is an important driver behind such change in behavior. The price of the S&P 500 depends on relative positioning of investors and basically four important factors.

- Cash transactions.
- Options (Put & Call – Gamma play)
- Futures
- Volatility short & long speculative positions.

Cash transactions and cash price used to be the main driver. Today…. Cash price seemed to have become a derivative of the derivatives at times.

Since 1998 LTCM “private bailout”, Central Banking growing activism has created, the now deep belief, of a permanent PUT option for asset prices. Anyone who has sold the “dip” has been proven wrong time and time again (BTFD- buy the f…. dip).

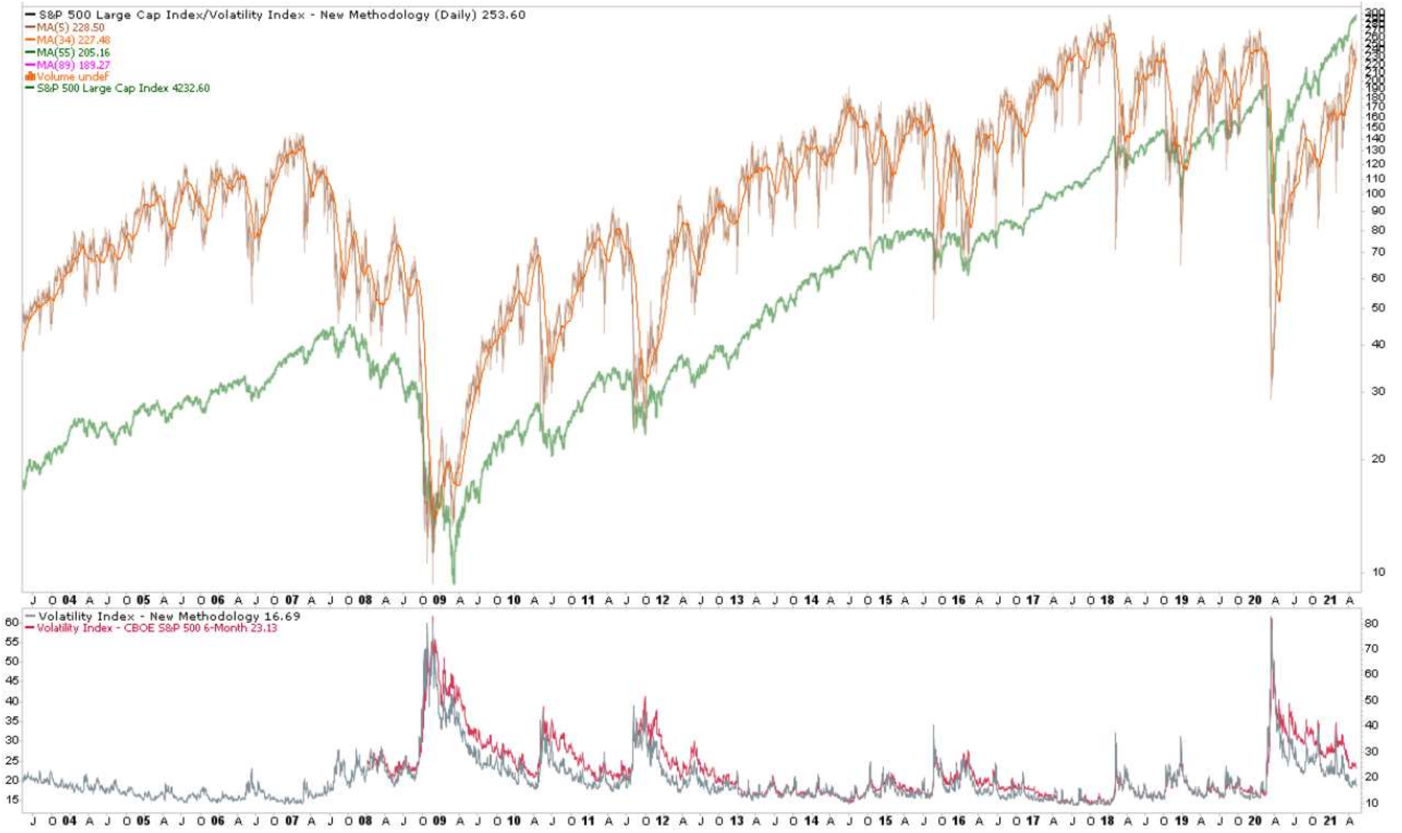
Another way to look at it is the ratio of Total Volume / Down Volume. The 2008-2009 crash was traumatic.

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.

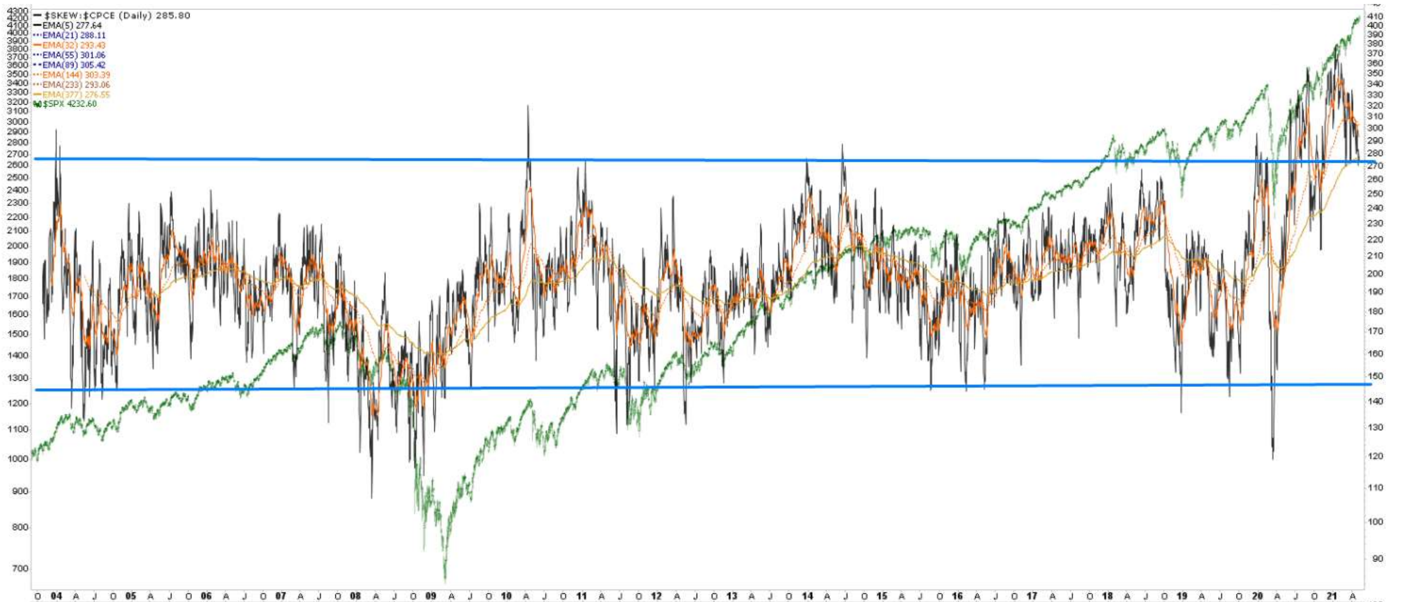
A closer snapshot shows clearly that the present rally has not recovered its prior levels (Orange line)

Orange, brown is the S&P 500/ VIX ratio. Green SPX 500. Under in gray = VIX and RED = 6 months VIX futures. The 2020 shock was more violent than the 2008-2009 decline when looking at the VIX behavior. The current Vix decline is taking much more time to come down and 6 months futures spread to spot remains high; sign of potential underlying stress. SPX/VIX ratio stands at 253. If such ratio would break its all time high and go to 320 with a VIX around 14, it means a 4500 level for SPX.

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.



The SKEW – PUT/CALL ratio (black line) measures what I call the willingness to spend money in Call Options comparing to expensiveness. It is a sentiment indicator which usually "contains" itself within a fluctuation band (blue lines). The index has recently come down a bit which has not translated into cash market weakness. On the contrary, the S&P 500 index has shot higher. Total options volume has come down a bit the last two months and CALL buyers have targeted shorter expiration dates at and or close to the money.



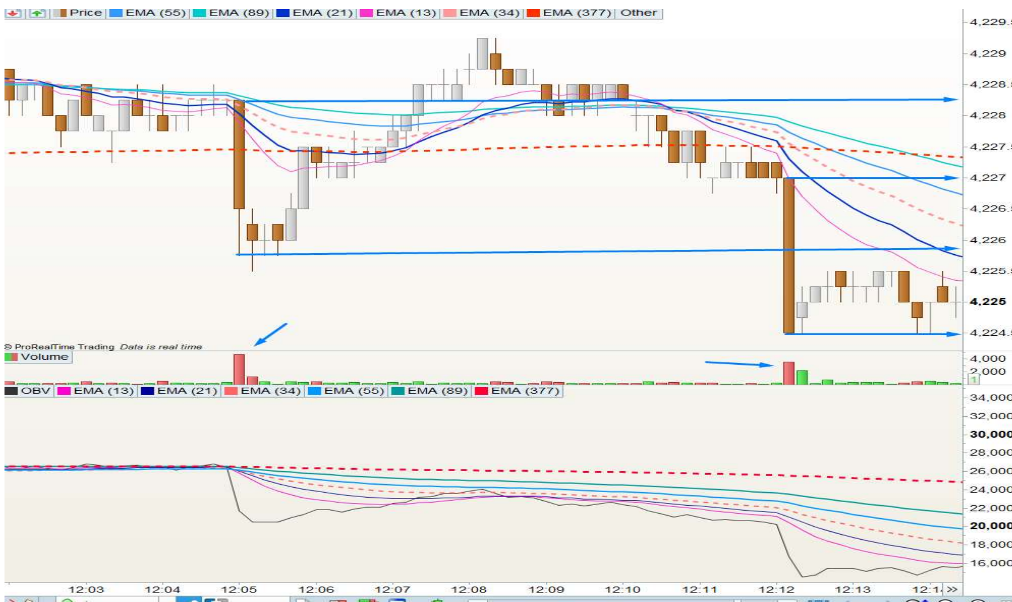
Options dealers and market dealers have been managing narrower "Gamma" adjustments, bringing down overall market volatility. In fact, I have noticed that short options maturities (weekly) were often showing implied volatility between 11%-14%. It means that speculators were still able to make money (less) if the index would move within a 1%-1.5% range within a week. It also means that the regime of overnight price gaps has come down quite a bit and most of the action has happened during the day cash session.

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.

As said, derivatives and futures contracts are an important driver of the price index. Comparing the Index and the OBV (On balance volume) line shows much wider fluctuations for the OBV. OBV declines were not met with corresponding price decline. The last leg shows an increase of 125% to about 39M contracts (about 15% notional value of total market cap). On the other side, cash market volume has been weak in comparison.

Abundant liquidity does not mean that market liquidity is good. In fact, research provided by different brokers and other entities shows that market liquidity is weak. It means that average bid-ask spread (usually 0.25) tends to easily widen and block orders are harder to execute.

Daily average volume is around 1.7M contracts. Ticks data offer a more precise view but here you have two



Cases:

A few thousand contracts met by an important price fluctuation (10 seconds charts). March 20, when stress was at maximum level; a few hundred contracts would move the index by 5-10 points.

Resuming! Many TA indicators (which includes sentiment etc..) present unusual behaviors and or are extremely stretched. We can observe many other distortions across the spectrum. Sure, the unprecedent monetary and fiscal measures taken by governments bear quite some weight and results are here to support the investment narrative. I believe that COVID 19 has unleashed the full power of the BTFD mind set. It is so powerful that it could become an unprecedent FOMO (Fear of Missing Out) wave. A race which could push

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.

indices with relative ease and speed to unexpected levels. It is possible to see the S&P 500 trading, in the next 12 months, within a 4800-3200 range.

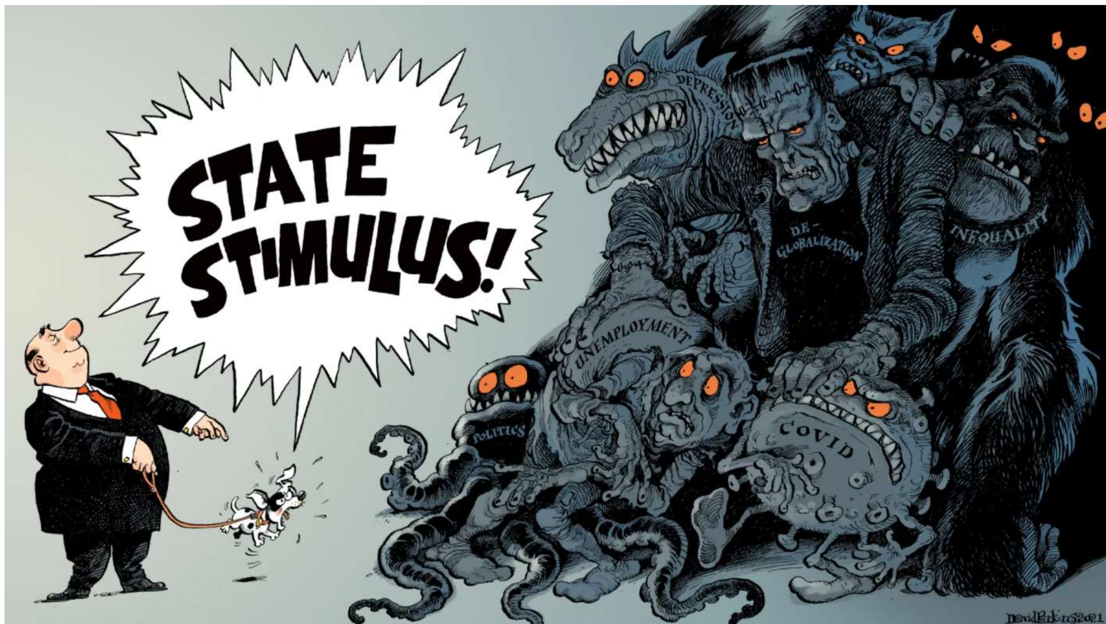
Such price range might sound a bit strange to you coming from me, but I have spent quite some time looking at historical data of multiple bubbles. They all share similarities. They take time to build, when your reach the "vertical" ascent phase, volatility tend to increase (sharp corrections and strong rallies) and they usually overshoot. Every bubble is different, maybe we could have a low volatility overshoot. However, we know that market liquidity is weak which leads me to believe that volume increase will be met with "strange" volatility conditions. A look-alike bubble which turns into an "infinite" bubble is when a currency collapse.

This central bank liquidity wave has been unleashed to counter powerful deflationary forces. The unprecedent answer to COVID 19 crisis has truly induced economic growth with some inflation. I still tend to believe that such massive fund transfer (a record 34% of all household income in the US now comes from the government) is not yet the answer which will jumpstart the economy for the long haul.

As the economist and central banking specialist, Richard Werner (author of Princes of the Yen) says. Money creation through bank loans for GDP transactions is the engine. That is what will increase money velocity (circulation). So far, lending has mostly gone for asset price swap /purchases fueling bubbles.

More troubling, as highlighted by ZeroHedge and other sources. "aggregating the data across the big 4 banks shows something striking: there has been no loan growth since the global financial crisis, while total deposits have doubled!"

I would say that Central Banks are indeed desperate about the situation. The ECB cannot tolerate less negative interest rates and the FED has changed its policy towards inflation with the hope to anchor permanently higher inflation expectations & inflation. The next 6 -12 months will definitively see more worrisome inflation headlines which could spur some anxiety and or FOMO among investors.

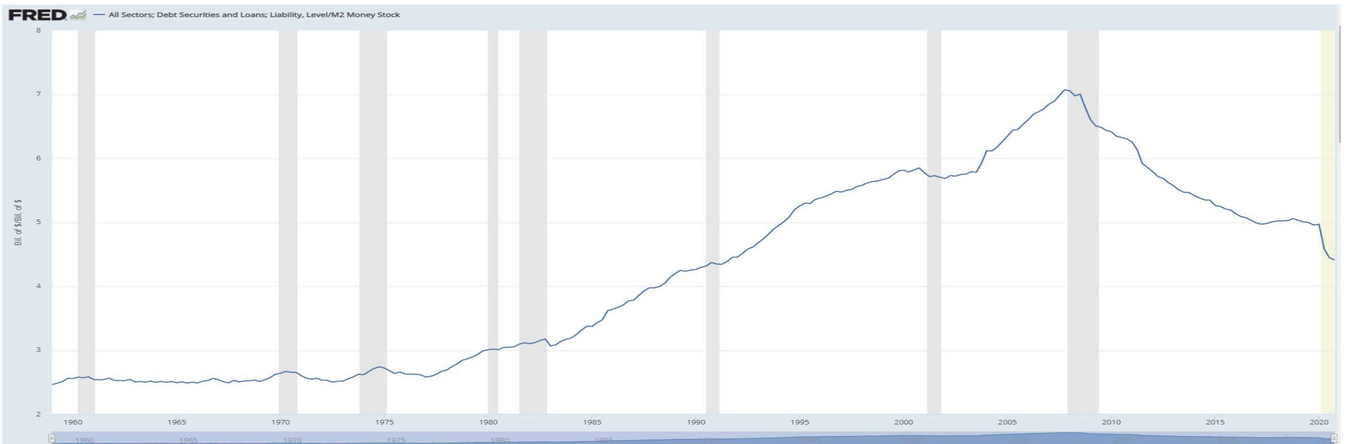


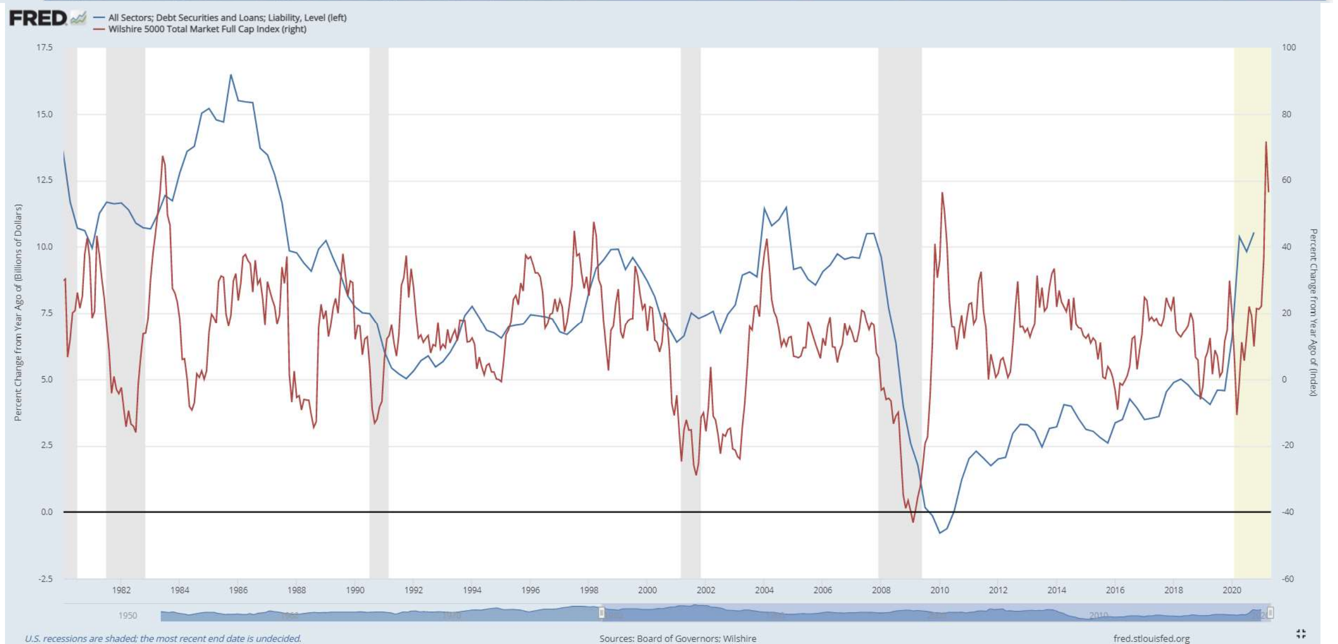
The liquidity tsunami wave seems to make consensus as the driving force behind asset price inflation. Markets got a massive cash vaccine, and the world is working hard to get most vaccinated. What we know is such vaccines will probably need subsequent doses.

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.

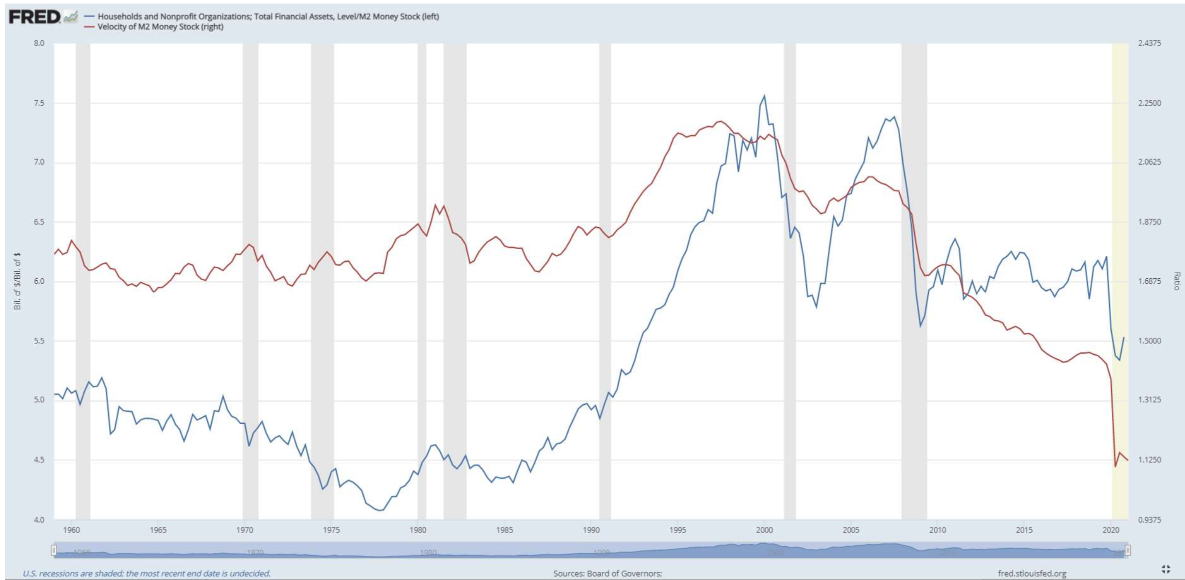
As a curiosity, we can visualize the impacts of the "Cash vaccines" on markets and the economy.

In black we have the ratio of the S&P 500/M2. In yellow the S&P 500 index.





Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.



Kind regards,

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.

Renzo

Private Reporting

Portfolio system

Any material, content and or opinion produced, expressed and or distributed by www.StowGrowGlow.com does not constitute an offer to buy or sell any security, financial instruments and/ or other contractual investment scheme. It is neither a solicitation and/or an offer of financial and or investment advisory services. All material produced and published is designed to provide information, analysis and opinion which do not render any investment advice. Anyone seeking and or needing assistance in areas that include investment, legal, and accounting advice should consult a competent professional's services. Information herein may reference historical performance data which do not represent and or guarantee future performance.