

## ***GS Tactical Flow of Funds: Hello July***

*The #1 incoming question to hit my desk week from global wall street “When do I short (actually re-short) the equity market?”. Is it location (price level) or time and when is the short covering bid completed? My reply: "I would wait a few weeks" - 9 points.*

- 1. This was the best Q3 start for the S&P 500 since 1980, 42 years, and 9<sup>th</sup> best start to Q3 since 1900.*
- 2. This is the best Q3 start for the US 60/40 “worlds retirement portfolio” since 1997, 25 years, and 11<sup>th</sup> best start to Q3 since 1900.*
- 3. As investors have now “opened their quarterly statements” over the weekend following the worst 1H for the US 60/40 since the Great Depression, I am not seeing this cohort sell after seeing their reports. The opposite has happened, in a rather interesting order of events.*
- 4. US stocks logged inflows again, while every other region globally saw outflows. European equity funds saw 21 straight weeks of selling and Emerging Market Equity Funds saw the largest weekly outflow in two months. I expect this theme to continue.*
- 5. As a reminder, we are right in the middle of the best 16-day stretch of the year going back to 1928. This two week period is the best two week period of the year. The top of my seasonal chart is Monday July 18<sup>th</sup>. 2H July is middle of the range, and 1H August is near the bottom of the pile, as vacation kicks off materially in the next few weeks.*
- 6. New month, new quarter, new 401k, new 529 accounts are getting put to work right now from civilian investors. The market tested and held key levels on Tuesday. There was definitely a sense of urgency to cover shorts both in macro products (ETF + Futures, and GS most short themed baskets), which picked up on the institutional side. Best on the board yesterday below.*
- 7. The most important line of my email today: there is scope for systematic investors to re-leverage and liquidity adjusted this matters. Given the construction of US indices, this bid to bonds has led to a large rally in NDX, and the top 5 most important stocks in the world. There is demand for bonds in all scenarios, and is demand for stocks in most scenarios, with large asymmetry to the upside if we keep going.*
- 8. Check out my updated margin leverage data. Happy Trails to leverage, now cleared.*
- 9. How many days until the corporate blackout ends? Not many. July 22<sup>nd</sup>. As new inflow \$ ends, corporate \$ re-emerges from the blackout window with size authorized and ready to buy Q2 earnings "expected, already in the price" weakness.*

## Equity CTA's

*1w globally: +650mm in flat tape / +23bn in up tape / -10bn in down tape*

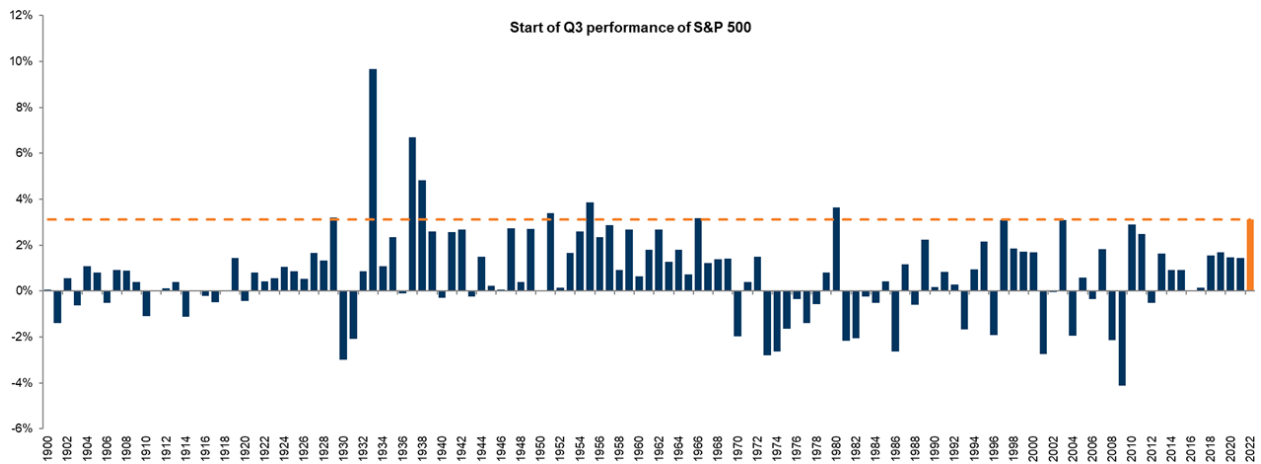
*1m globally: +10bn in flat tape / +115bn in up tape / -4bn in down tape*

## Bond CTA's

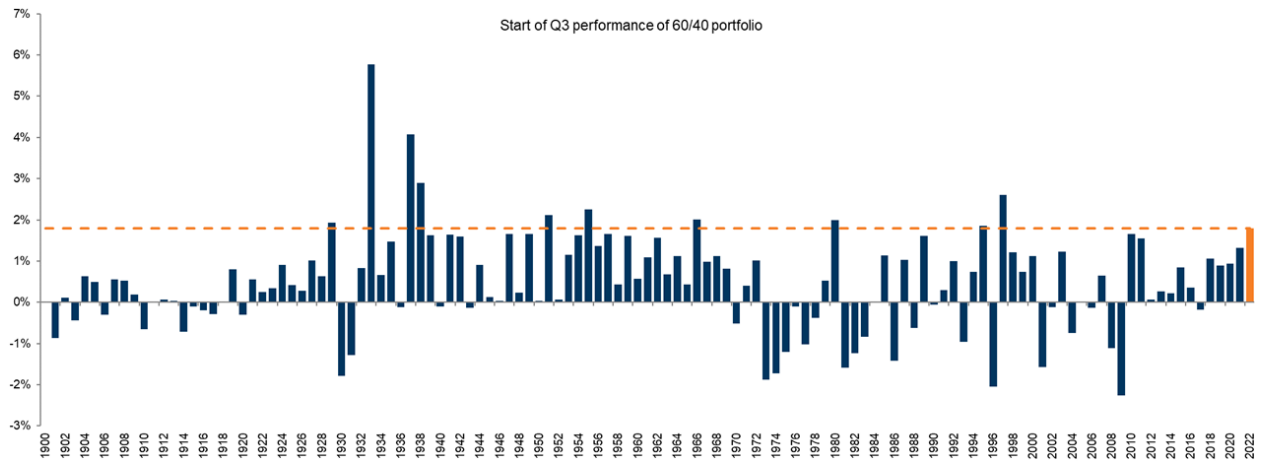
*1w globally: +43bn in flat tape / +61bn in up tape / +32bn in down tape*

*1m globally: +130bn in flat tape / +263bn in up tape / +53bn in down tape*

## Great Start to Q3....



*Source: Goldman Sachs Investment Research Division, Cecilia Mariotti, as of 7/8/22. Past performance is not indicative of future returns.*



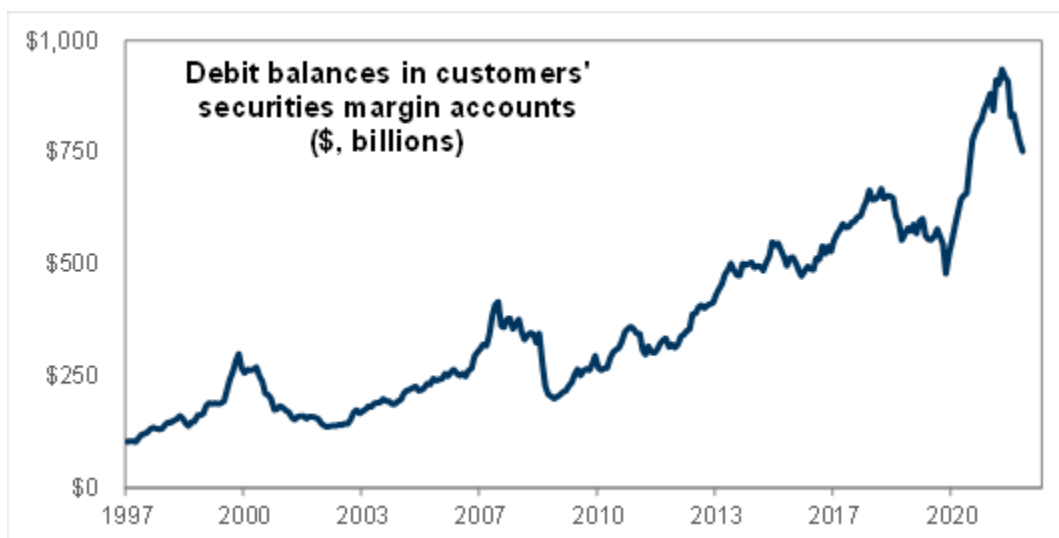
## Bond Re-leveraging....

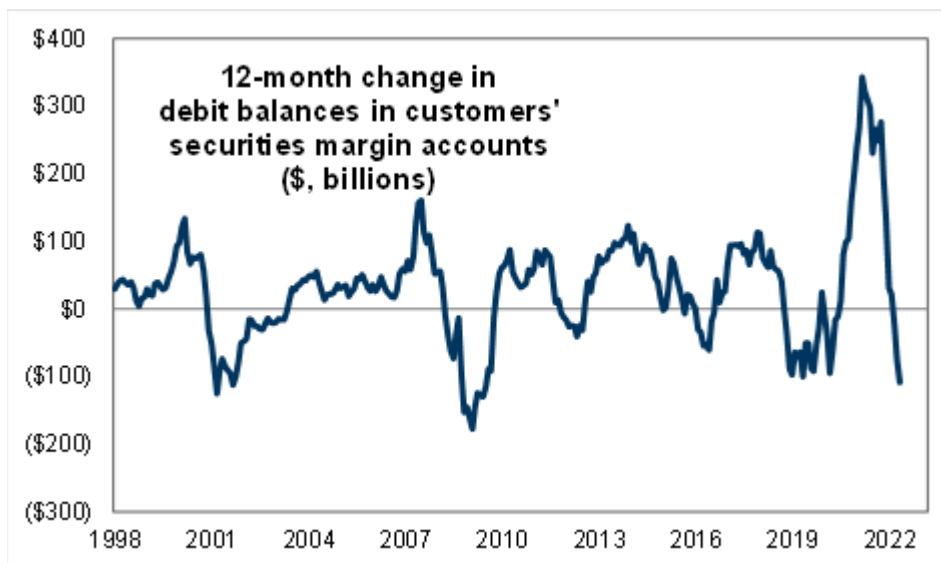
Expected Flows in Different Scenarios by Market (\$MM)								
Market	1 Week			1 Month			Simulated Realized	
	Flat	Up 2 STD	Down 2.5 STD	Flat	Up 2 STD	Down 2.5 STD	Last Week	Last Month
CBT US 2-Yr	6,927	7,323	4,341	21,340	36,079	7,177	7,929	-441
CBT US 5-Yr	2,962	3,239	2,611	9,148	22,729	4,503	3,076	361
CBT US 10-Yr	1,970	3,252	1,652	7,128	18,633	2,503	2,888	287
CBT US 30-Yr	980	2,213	714	3,051	11,444	511	1,602	1,206
EUX German 2-Yr	16,161	23,735	12,581	45,912	80,859	15,619	14,631	12,948
EUX German 5-Yr	2,977	4,274	1,603	8,134	25,766	4,559	5,290	4,366
EUX German 10-Yr	1,989	2,224	656	5,088	9,500	1,459	3,984	2,130
LIF UK 10-Yr	952	1,201	636	5,081	13,579	1,414	1,887	157
TSE Japan 10-Yr	8,090	13,435	6,790	25,587	45,068	15,146	6,156	573
Totals	43,007	60,897	31,584	130,469	263,657	52,892	47,443	21,585

## Equity Re-leveraging....

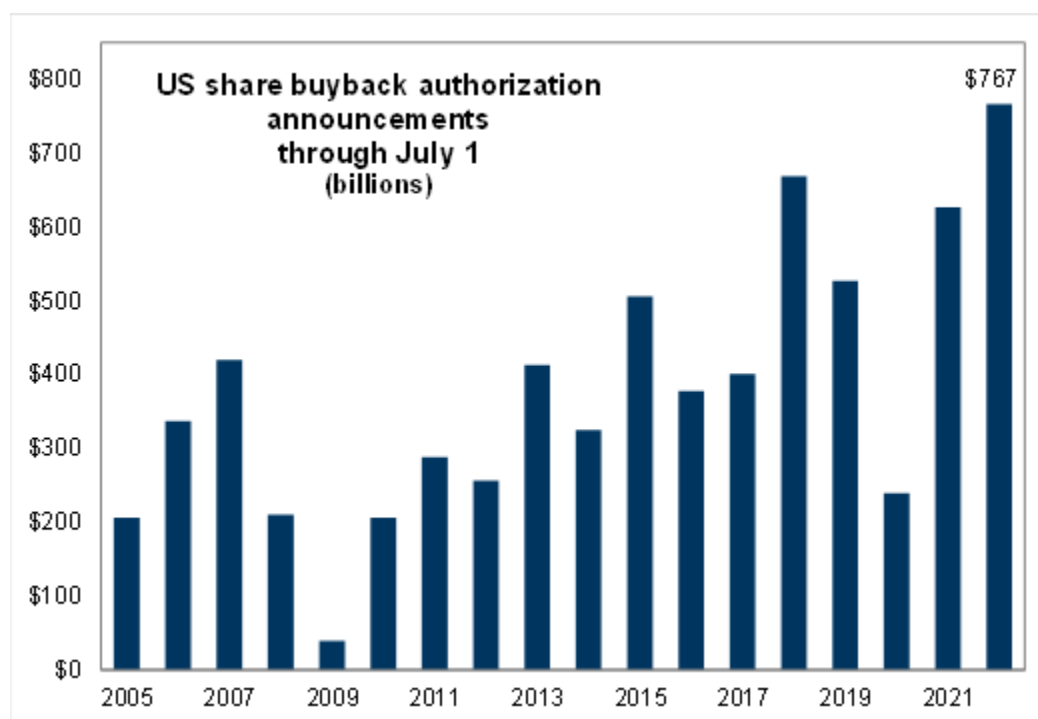
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Market	1 Week			1 Month			Simulated Realized	
	Flat	Up 2 STD	Down 2.5 STD	Flat	Up 2 STD	Down 2.5 STD	Last Week	Last Month
S&P 500 E-mini	491	3,350	-827	1,252	20,927	747	99	-3,150
TOPIX	-712	4,965	-3,158	1,232	17,871	-3,974	715	-6,013
DAX 30	448	917	-144	1,060	4,506	1,230	-581	-5,210
DJ Euro Stoxx 50	451	1,114	-105	1,064	8,157	1,085	-473	-5,469
FTSE 100	-577	3,901	-1,115	-175	12,647	-2,229	1,065	-10,935
Nasdaq 100 E-mini	59	709	-193	33	1,893	-59	9	-344
Russell 2000 E-mini CME	14	467	-271	-16	2,126	-188	192	-271
TSE 60	22	501	-525	659	5,670	443	-105	-2,170
Hang Seng	217	884	-902	211	2,322	-2,743	650	1,819
SPI 200	18	983	-351	872	8,099	1,063	71	-4,663
CAC 40	-110	997	-377	304	6,312	188	-204	-3,545
FTSE/JSE Africa Top 40	51	376	-78	263	3,042	224	-99	-1,172
Hang Seng China Ent. Idx	-4	431	-439	-6	608	-1,453	442	1,143
Kospi 200	-24	109	-191	406	1,082	311	131	-283
AEX	56	385	-79	484	3,044	215	136	-1,136
MSCIEM(NYL)	9	343	-126	-5	1,058	151	-57	-566
IBEX 35	-212	566	-567	-231	3,864	-305	-71	-3,146
S&P/MIB	38	144	-97	245	878	188	-130	-2,199
OMX Stockholm 30	82	652	-70	732	3,311	465	-70	-984
SMI	61	888	-141	717	4,435	798	-50	-1,023
Thai stock exchange 50	271	545	-15	677	2,931	266	-264	-2,111
Totals	650	23,229	-9,771	9,780	114,781	-3,578	1,406	-51,429

## Everyone else DE-leveraging....





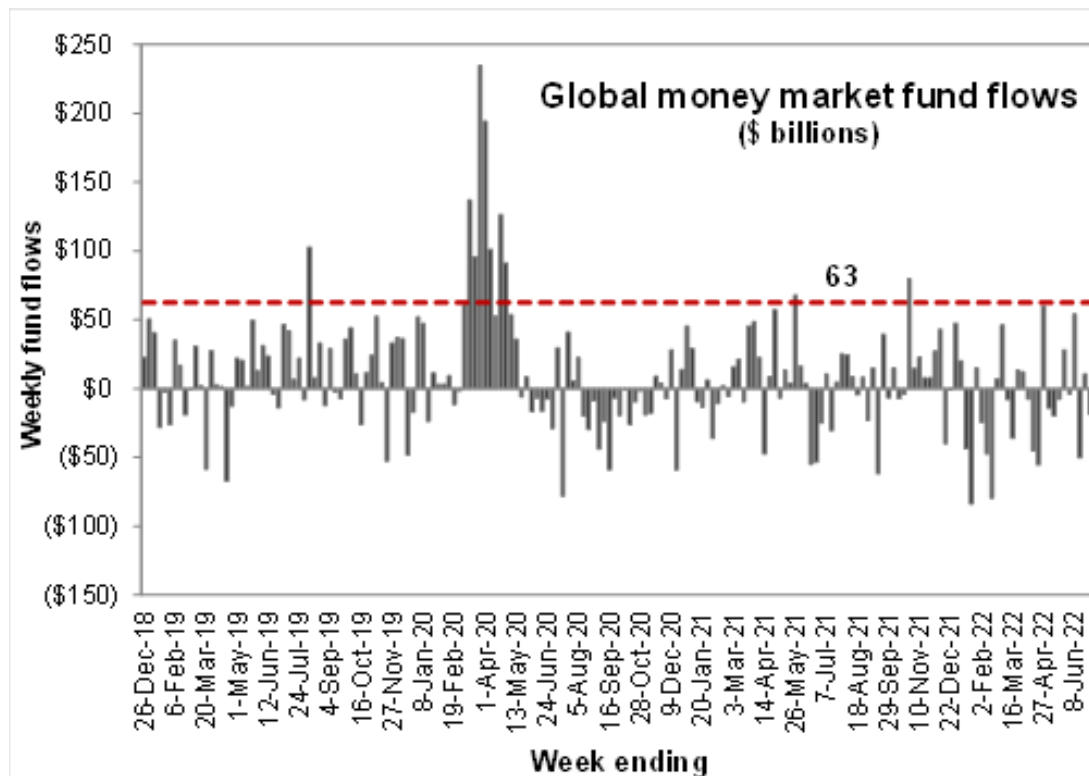
***US Corporates stand ready....***



## Covering into the weekend + Payrolls + Cannonball Train...

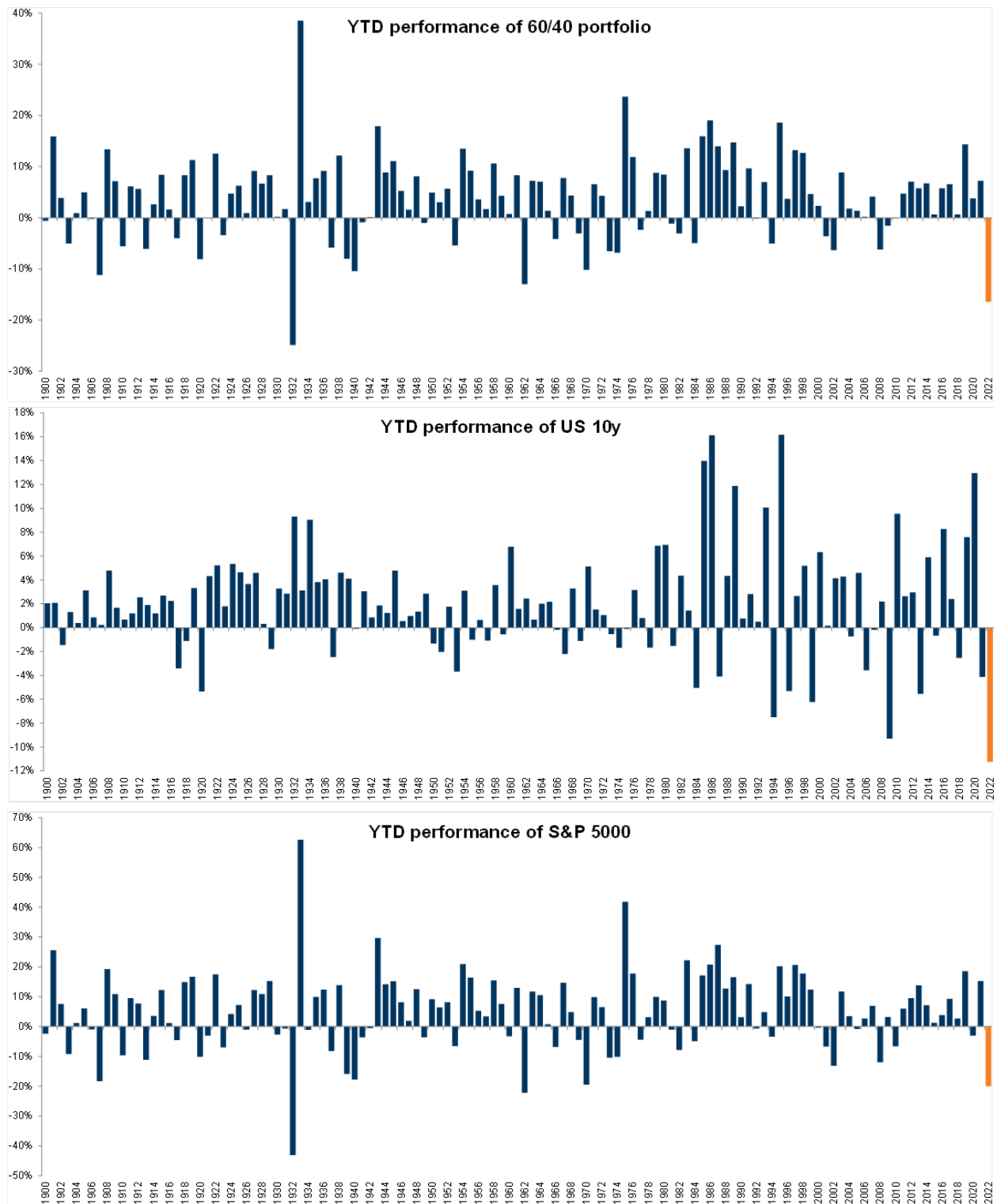
Ticker	%1D ↓	%5D	%1M	%YTD	Last Price	Std Dev	Ticker
▼ Macro/Thematic (51)							
► Bitcoin Sensitive Equities	+9.02%	+8.90%	-17.36%	-61.1%	56.3y	1.9	GSCBBTC1
► Retail Net Bought since 2019	+7.00%	+7.66%	-4.58%	-31.3%	86.0y	1.8	GSCBRFTS
► Non Profitable Tech	+6.37%	+10.60%	+1.40%	-45.8%	144.8y	1.4	GSXUNPTC
► Liquid Most Short	+6.14%	+9.46%	-5.60%	-36.2%	47.3y	1.5	GSXUMSAL
► Most Short Rolling	+5.96%	+10.53%	-2.35%	-29.0%	192.3y	1.6	GSCBMSAL
► High Beta 12M Losers	+5.61%	+10.55%	-.63%	-41.6%	88.9y	1.4	GSCBLMOM
► Renewables	+4.76%	+6.40%	-8.24%	-9.7%	266.1y	1.6	GSXURNEW
► High Retail Sentiment	+4.62%	+7.83%	-3.66%	-41.5%	51.6y	1.4	GSCBHRSE
► Recent Liquid IPOs	+4.40%	+8.04%	-1.55%	-42.2%	121.7y	1.2	GSXULIPO
► High Beta 12M Winners	+4.25%	-1.70%	-16.84%	-20.7%	171.5y	1.8	GSCBHMOM
► High Stock Based Comp	+4.21%	+6.41%	-5.59%	-43.5%	101.1y	1.2	GSXUSBCH
► China ADRs	+4.15%	+1.95%	+7.93%	-4.9%	45.5y	1.0	GSXUCADR
► Commodity Sensitive	+4.04%	-3.23%	-23.40%	+7.9%	104.3y	1.7	GSXUCOMO
► Long Duration Equities	+3.84%	+7.07%	-2.54%	-36.4%	58.4y	1.2	GSTHLDUR
► Expensive Software	+3.68%	+9.00%	-.05%	-43.9%	209.2y	.9	GSCBSF8X
► HY Debt Sensitivity	+3.67%	+2.33%	-14.76%	-28.7%	80.3y	1.4	GSXUDEBT
► Early Cycle Reflation	+3.51%	-.62%	-17.93%	-13.8%	141.6y	1.7	GSXUREFL
► Secular Growth	+3.42%	+7.85%	-.93%	-36.0%	154.1y	1.0	GSXUSGRO
► HY Debt ex-commodities	+3.37%	+3.43%	-11.36%	-31.3%	78.2y	1.3	GSCBDEXC
► Stagflation Losers	+3.31%	+2.48%	-12.34%	-32.5%	82.1y	1.4	GSXUSTGS
► China Supply Chain	+3.27%	+1.63%	-12.05%	-25.2%	79.0y	1.6	GSXUCSUP
► Short Quality	+3.24%	+3.69%	-8.77%	-26.6%	68.9y	1.3	GSXUMFQS
► Over-earning Cyclical	+3.05%	+.70%	-13.36%	-26.3%	88.6y	1.4	GSXUOEFCY
► Retail Favorites	+3.02%	+4.20%	-5.51%	-36.1%	119.1y	1.2	GSXURFAV

## Big money market inflows this week (+63B), looking for a home...



## // 1H REVIEW

- 1. The US 60/40 “World’s Retirement Portfolio” just logged the second worst start to the year since 1900, that is 122 years. (-17%)*
- 2. The worst start to the year in the past 122 years happened during The Great Depression in 1932 (Market bottom July 8<sup>th</sup>, 1932).*
- 3. US bonds had their worst start to the year on record dating back to 1900.*
- 4. The S&P 500 logged its worst start since 1970 (Richard Nixon was president 52 years ago), and the 4th worst start on record, only 1932, 1962, and 1970 started off worse.*
- 5. Past performance is certainly not indicative of future returns, however in 1970 the S&P closed unchanged and rallied +27% in 2H, 1962 rallied +15\$, and 1932 +56% in 2H.*
- 6. The last 4<sup>th</sup> of July, investors were opening their half-year statements with a +14.41% gain for the S&P, and the 60/40 hasn’t seen a down first half in the past 11 years.*
- 7. My biggest risk for 2H is that investors have not seen their 1H half statements and decide to reduce risk.*
- 8. There have been no unwinds from the largest and most important owner of the market, and I don’t know if that is common knowledge for folks that don’t have Bloomberg IB or watch CNBC. It is time for a thread.*



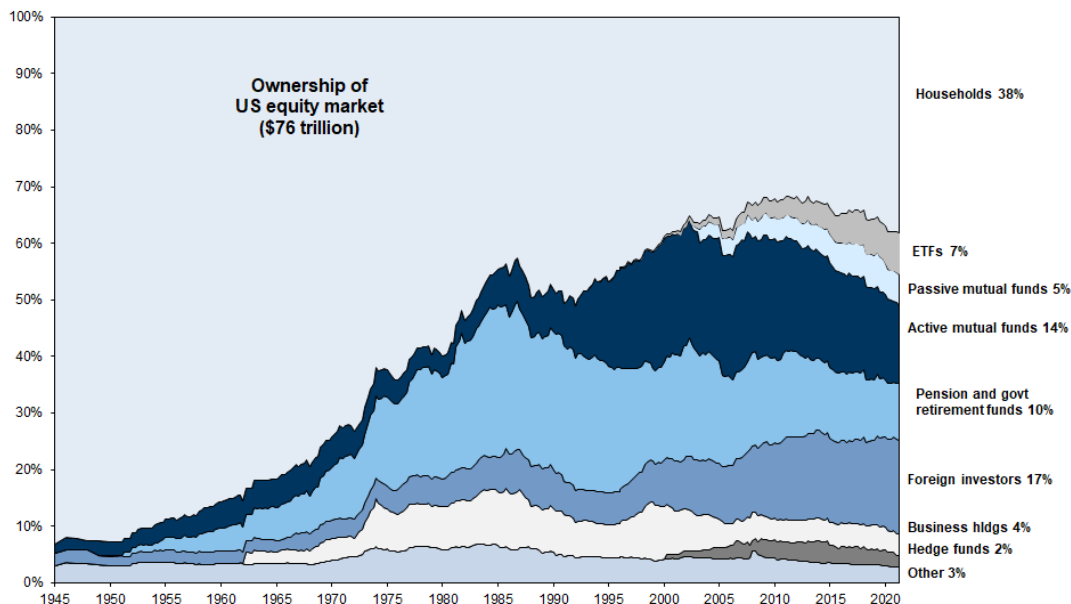
*Source: Goldman Sachs Investment Research Division, Cecilia Mariotti, as of 7/1/22. Past performance is not indicative of future returns.*

**9. US Households own 38% of the \$76 Trillion US Stock Market. US households have more impact on market direction than anyone else.**

**10. After the second worst start to the 60/40 since 1900, there has been almost NO risk reduction. We show that equity exposure dropped a modest 300bps from 47% percentage points to 44% percentage points.**

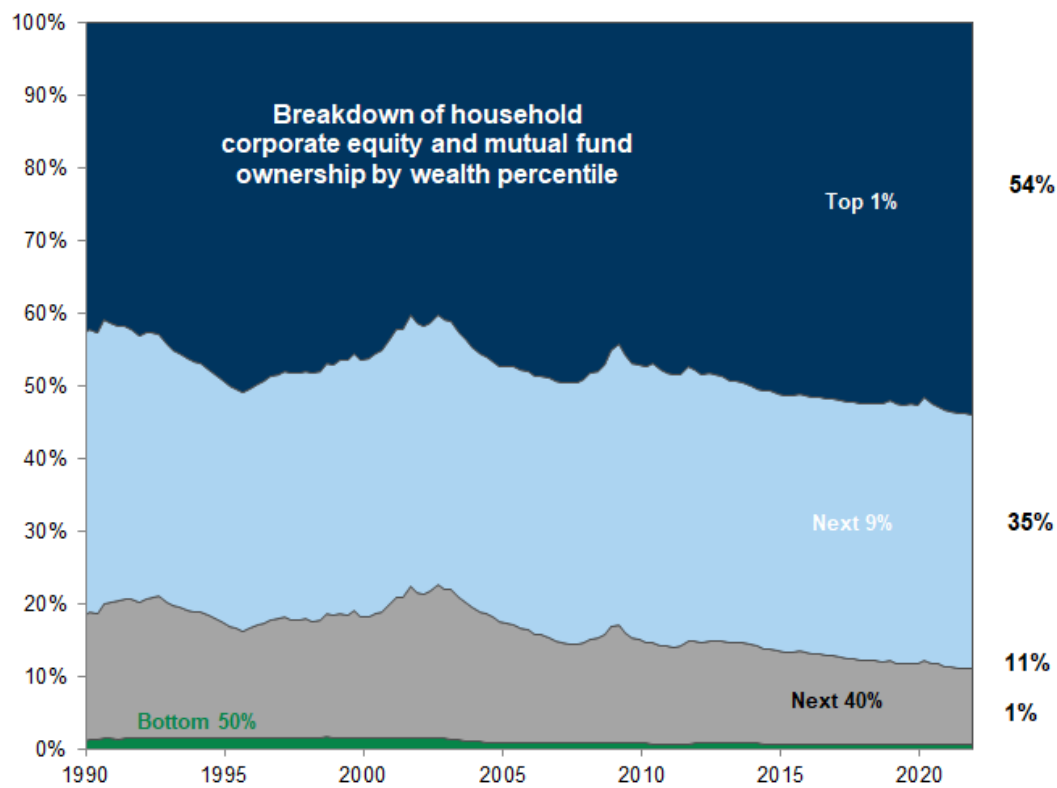
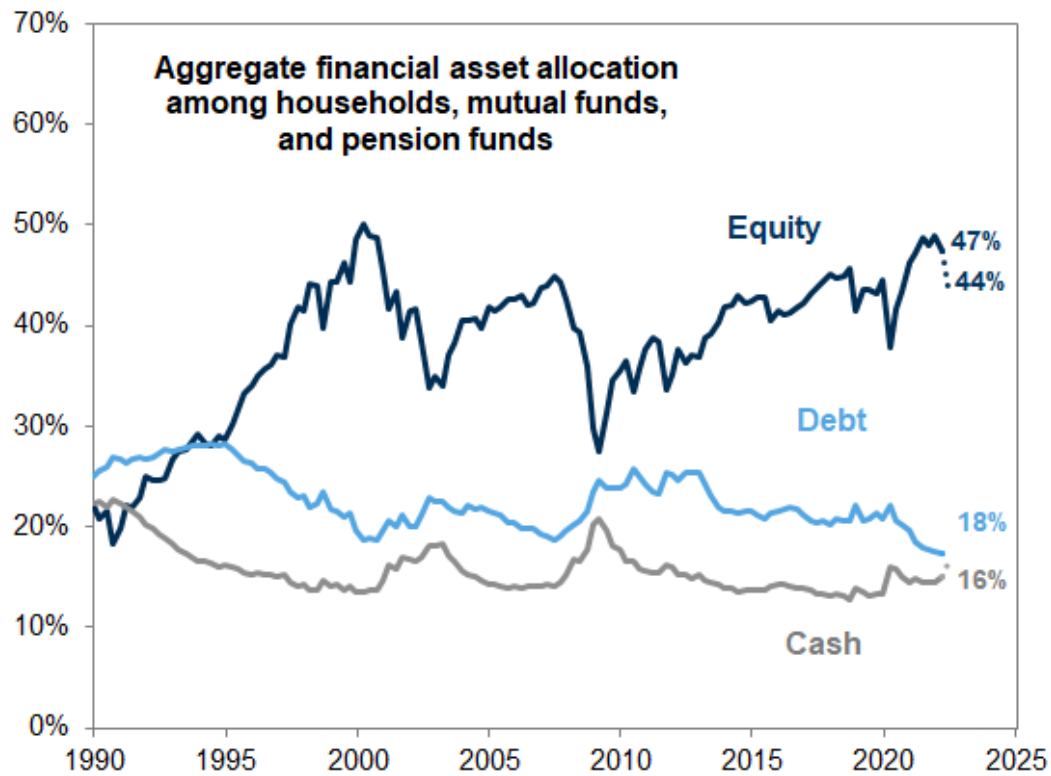
**11. How can this be? The top 1% own 54% of the equity market and the top 10% own 89% of the market. Can equities be an inflation hedge for the largest percentage of incomes, who have the ability to sustain a drawdown within their own investor portfolios? It's a thought.**

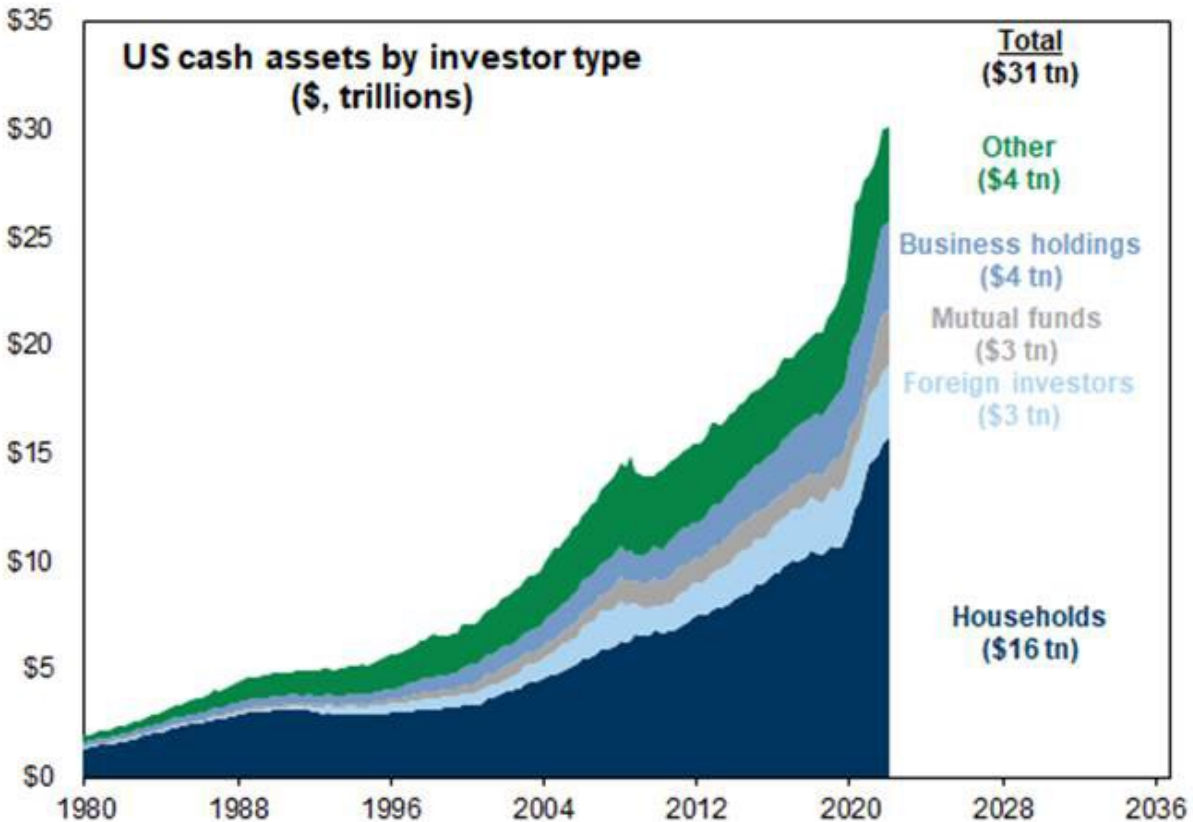
**12. After all of the hoopla, the work from home trader, who started trading during the Covid 2020 era, is now no longer a market force and I can't even see this impact on my longer term charts.**



*Source: Goldman Sachs Investment Research Division, Cormac Connors, as of 7/1/22. Past performance is not indicative of future returns.*







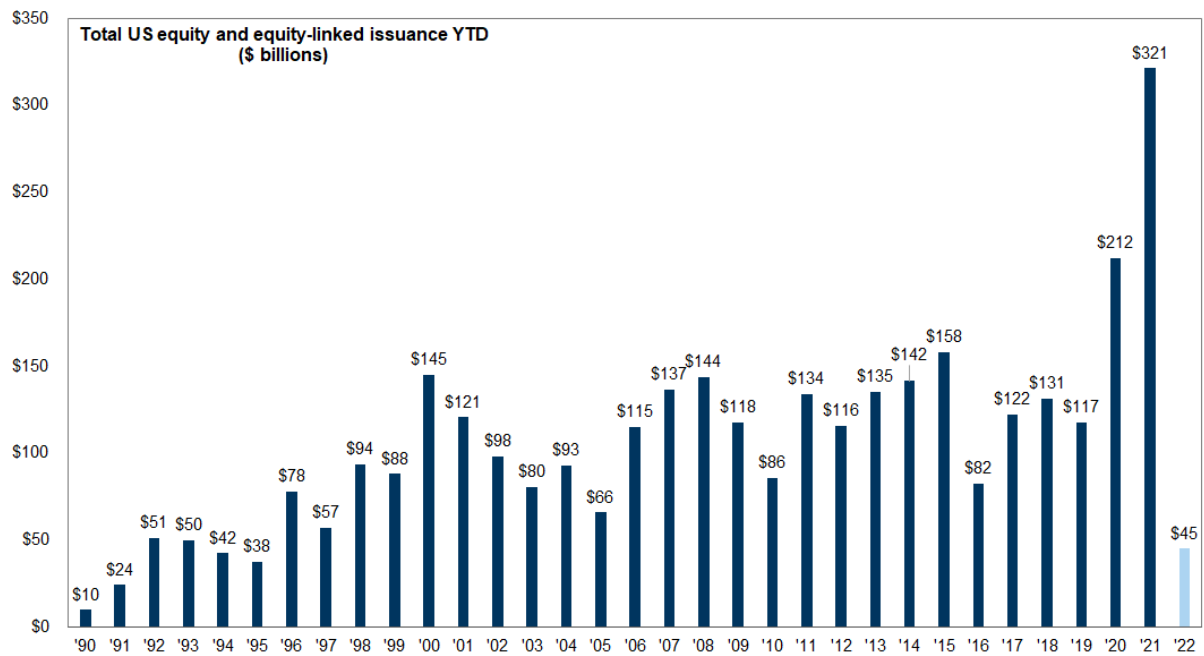
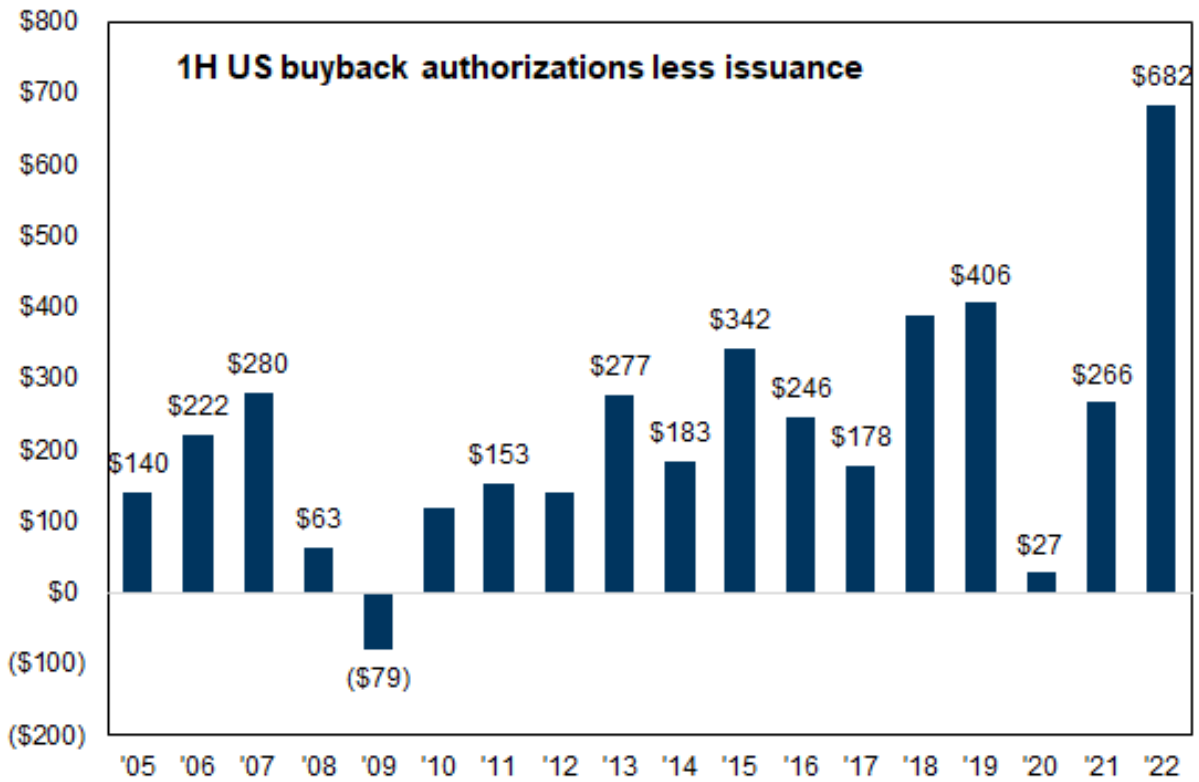
*As always, for the last 20 years, I give you my outperformer (US Corporates) and underperformer (Issuance) in the flow-of-funds world for the first half of the year. Any slow down in corporate repurchases in 2H after lower guidance?*

**13. Total US Equity and Equity linked issuance for 1H 22 is \$45B, this is the lowest 1H since 1995 (\$38B)**

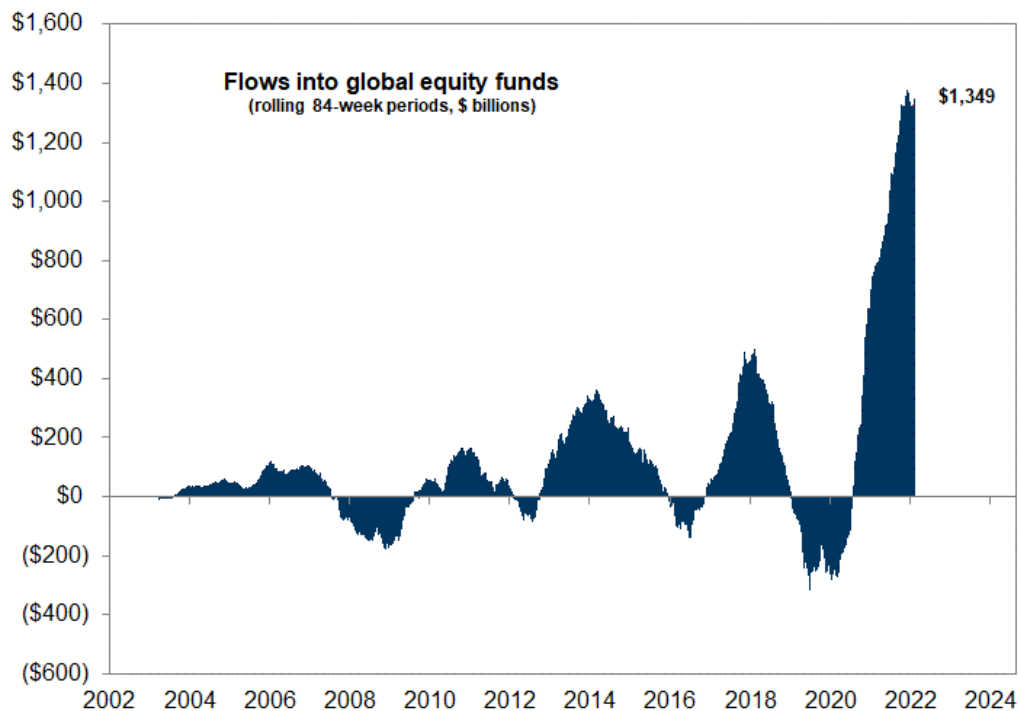
**14. US corporate authorizations for 1H 22 were \$727B, the best year on record. This exceeds 1H 21 which was \$600B, by +20%.**

**15. The Net impact (Buybacks ex-issuance) of \$682B is the best on record and is >\$276B larger than the prior impact record in 2019.**

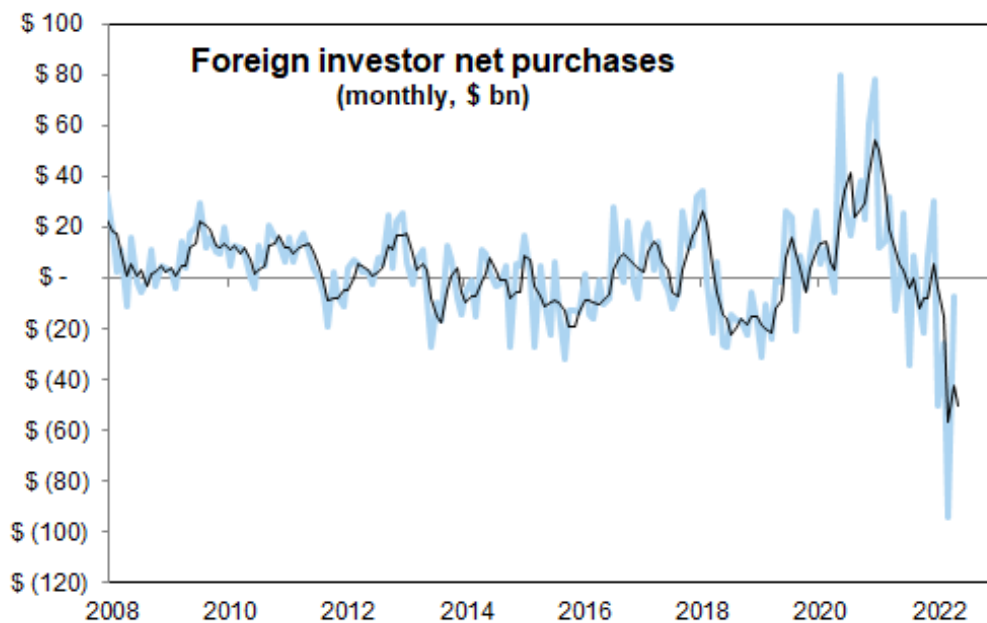
**16. For comparison purposes following '08, issuance exceeded buybacks in 2009, and had negative impact.**

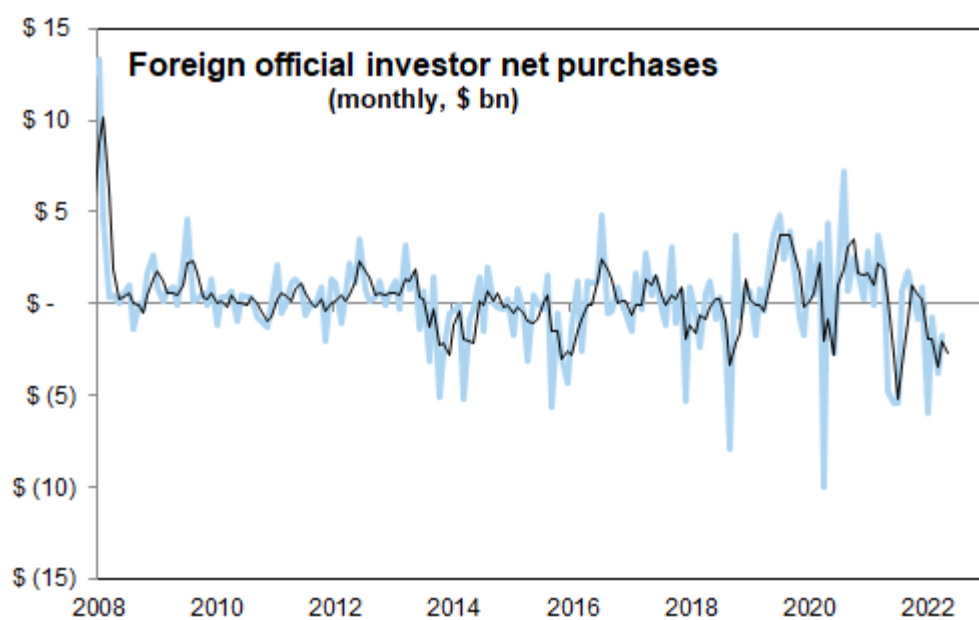
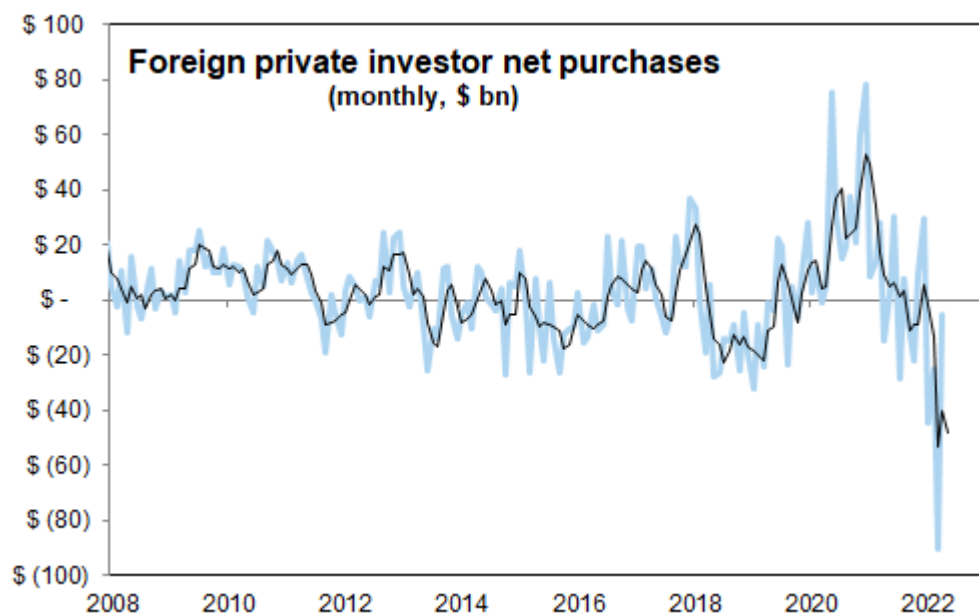


**17. Second place for the largest buyer was “passive equity funds” who have seen >\$1.349 Trillion worth of inflows over the past 84 weeks.**



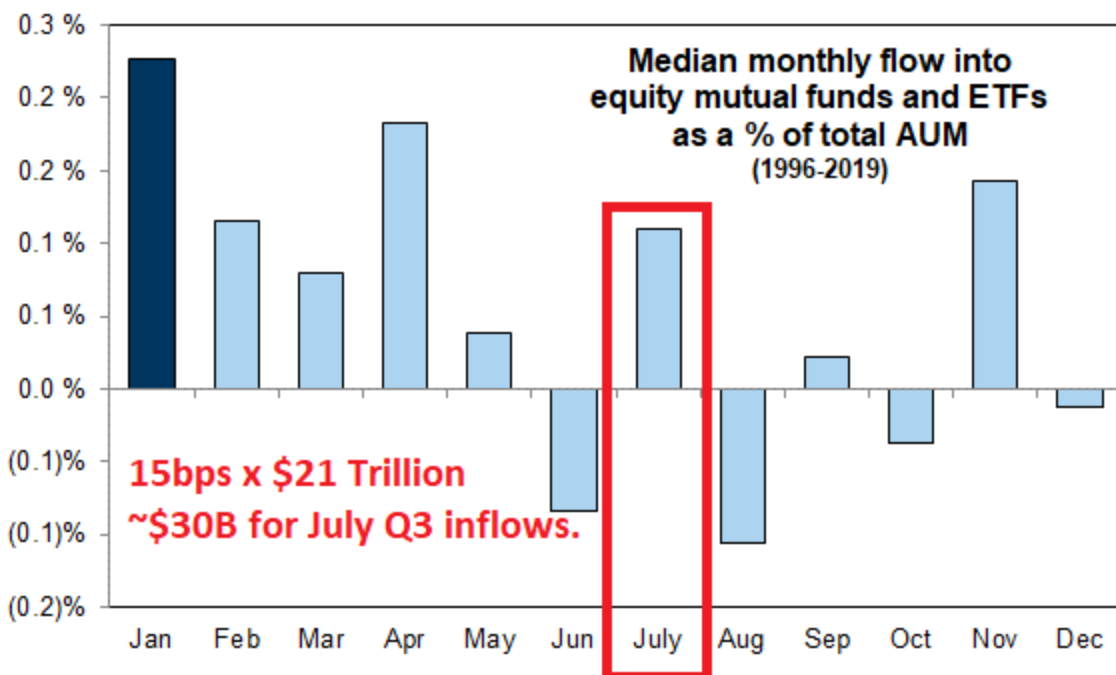
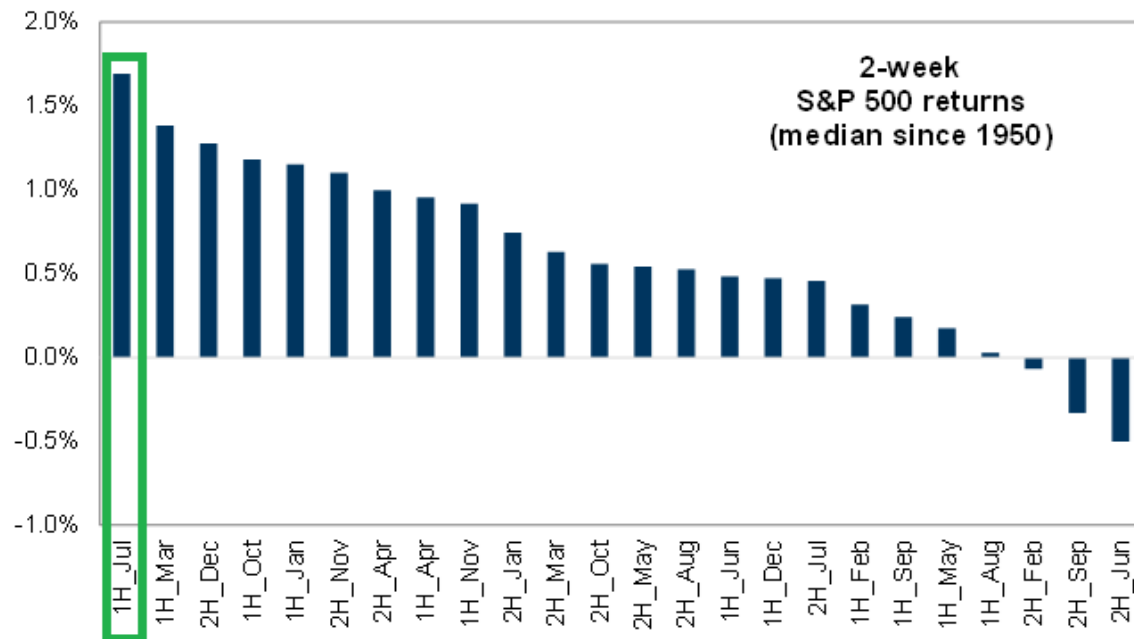
**18. Second place for the largest seller was “foreigner investors” aka Central bankers who no longer want US “tech” stocks as a key allocation. Does this continue? It was heavy going into the end of 1H.**



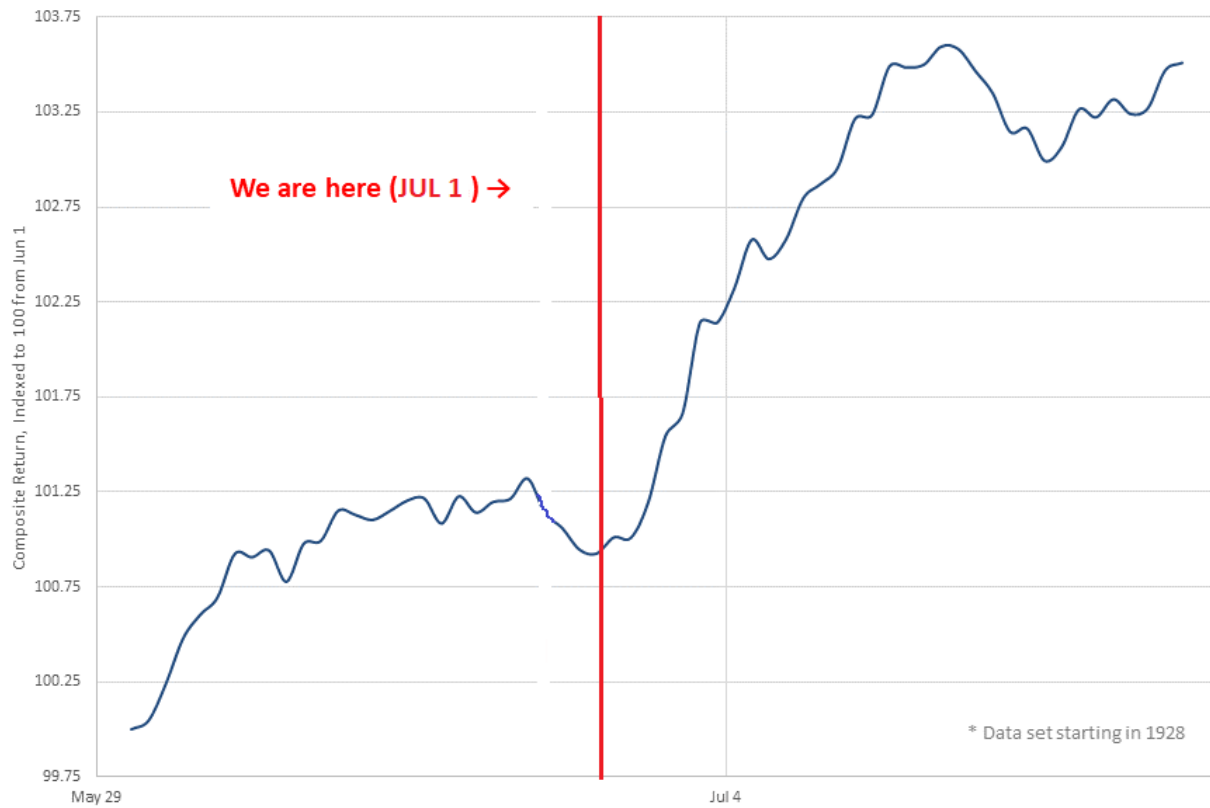


**19. Do we bounce right now? We are here. We are entering the best two week period of the year. That's when money comes in. If it doesn't I am worried about the path. We are looking to fade, "the rally" if it comes later in the month.**

**20. 1H July is the best period from now until July 17. 2H June was the was worst. We are watching the seasonal, robotic allocation, that happens every quarter. Will keep you posted.**



### SPX Seasonal Composite: Jun 1 through Jul 31



Source: Bloomberg and GS Sales & Trading. Data as of 24Jun22. Past performance is not indicative of future returns.

***Good Luck in 2H!***

***"All references to "we/us/our" refer to the views and observations of the desk."***