

GS Tactical Flow-of-Funds: September

Global Markets | 19 August 2022 | 12:06PM UTC

GS Tactical Flow-of-Funds: September Preview (I am on correction watch and the sellers are lower)

The number one incoming question to hit my inbox: "Are we there yet?" Yeah, we are. "Who are the sellers from here?" There is potential for supply and demand mismatch in the now opposite direction from July and August. During the peak of August demand, I calculated \$14B worth of daily non-economic demand. This moves to flat after next week (ie a more fair fight).

It is time for a thread!

This is the line for the press: The S&P 500 and World's retirement portfolio (voters) US 60/40 portfolios had their best start to Q3 since 1935, 87 years ago. And 3rd best start to Q3 since 1900. Repeat this is the best start to Q3 in 87 years. Why do I flip now?

a. This email is for September (not today). I am previewing market technical now for September given vacation schedules (reminder Labor day is late this year 9/6). The anticipators have anticipated my flow-of-fund and the bid is weakening.

b. July and August flow-of-funds were extremely favorable and this dynamic now skews to the downside for September.

c. The tone in every one of my zoom calls / IB chats / emails has changed and now there are too many bulls in the room, the most bearish crew, flipped bullish for a trade.

d. This September flow-of-funds dynamic may start to get pre-traded in two weeks. Yesterday was the lowest \$ traded in US equities since December 30th, 2020.

e. To be clear: I think that a potential selloff will be more shallow than many hope, and we do not rest the lows in S&P >\$4000. I do not share the same views for Europe and this is our best location to express downside.

GS SEPTEMBER TACTICAL FLOW OF FUNDS – SEPTEMBER PREVIEW. THE SELLERS ARE LOWER FROM HERE: THESE ARE THE 10 THINGS THAT YOU NEED TO KEEP ON YOUR RADAR: THIS IS WHY I THINK THAT THE EQUITY MARKET MAY SELL OFF DURING SEPTEMBER JUST AS SHORTS WERE CAPITULATED / SYSTEMATIC STRATEGIES RE-LEVERED / AND THE MACRO COMMUNITY EXITED THEIR PUT OPTIONS:

1. [OpEx] - Options Expiry / "Pin" (Op-Ex): \$2.1 Trillion worth of option notional expires today. This is significant for an August expiry. The market has been pinned at \$4300. per 1% move in SPX, our model shows ~4.7bn of equities that would need to trade (buyers on the way down, sellers on the way up)

At the 930am SQ settlement:

- \$770bn of SPX AM options will expire
- \$65bn of non-SPX index will expire (e.g. NDX, RTY, SOX Index, etc)
- Total of \$835bn expires at the open

on the 4pm closing settlement:

- \$205bn of options on E-minis
- \$185bn of SPY options
- \$205bn of SPX PM options
- \$220bn of non-SPY ETF options
- \$430bn of single stock options
- ... Total of \$1.245tn expires on the close

= total of \$2.1tn all day

2. **[LONG GAMMA FLIPS SHORT]** - Gamma Run off: Dealer Long Gamma is in the 99th percentile on a YTD basis: Dealers have been significantly long gamma, acting like a buffer, and buying market weakness, heading into August expiry. We estimate that 33% of this long dealer dynamic (SPX/SPY) rolls off today and now is far less long, and taking away some of this buffer. The most significant expiry has been around \$4300 (which we have hovered around all week). S&P gamma positioning is approaching YTD highs with dealers long \$4.7bn gamma around current spot (should be vol dampening, unless we break higher... Dealers flip to short gamma very quickly).

3. **[MONTH END PENSION SUPPLY]** - August Pension Month-End Supply (8/31/22) – this is a pretty random Wednesday heading into Labor day. Liquidity adjusted this may have some impact (and could carry over into September 1st and 2nd). As of yday's close, our GS model estimates \$11bn of US equities to SELL for month-end. We saw one trigger event occur on Aug 11th in which \$13bn of US equities were sold. Reminder we assume trigger rebalance occurs on T. This brings total estimated rebalancing for Aug to \$24bn of EQ to be sold.

4. **[SEASONALS ARE THE WORST OF THE YEAR]** - September seasonals are the weakest month of the year. Since 1928, September 2nd is the top tick day for the month, and then subsequently lower all month. Macro funds may be willing to engage on the short side, given they are back to work. This is also NFP day.

5. **[BLACKOUT WINDOW IS NEAR AND THE LARGEST BUYER OF THE MARKET GOES ZZZZZ]** - US Corporate Blackout Window: GS blackout window begins on September 15th (~51% of the S&P 500 will be in blackout). The largest buyer in the US equity market has now faded during the closed window (-35% drop in demand). \$5.5B of daily demand drops to \$3.5B of daily demand during the closed window.

5-1. **[BLOCK PARTY]** Issuance / Lock-up / PE / Conglomerate (net issuance ex-buybacks): I expect a significant pick up in blocks when everyone is back to school given higher equity markets.

6. **[SYSTEMATIC DE-LEVERAGING?? BUYERS RUN OUT OF AMMO NEXT WEEK]** - CTA demand buy fades from here and they are running out of ammo, CTA's have flipped from short to long, and is now asymmetrically skewed to the downside. We have overshoot to the upside.

We estimate that systematic strategies have purchased \$159B worth of equities over the last 1 month. We model another \$24B worth of demand, assuming a flat tape from here over the next 1 week. Then this impulse fades and we are subject to market moves. From my seat, this becomes skewed to the downside in September, and would be exacerbated the same way, if we moved lower.

7. **[COVER BID OVER]** - Hedge Fund Extreme Cover Bid fades (from Long Shorts) and macro capitulation on the short trade.

Eyes. From GS PB. Trading Activity (as of COB August 17th) - Overall US book saw the largest 1-day notional increase in gross trading flow since 6/16 (when SPX fell to YTD lows) and the largest notional net selling in three weeks, driven by short sales outpacing long buys 3 to 1.

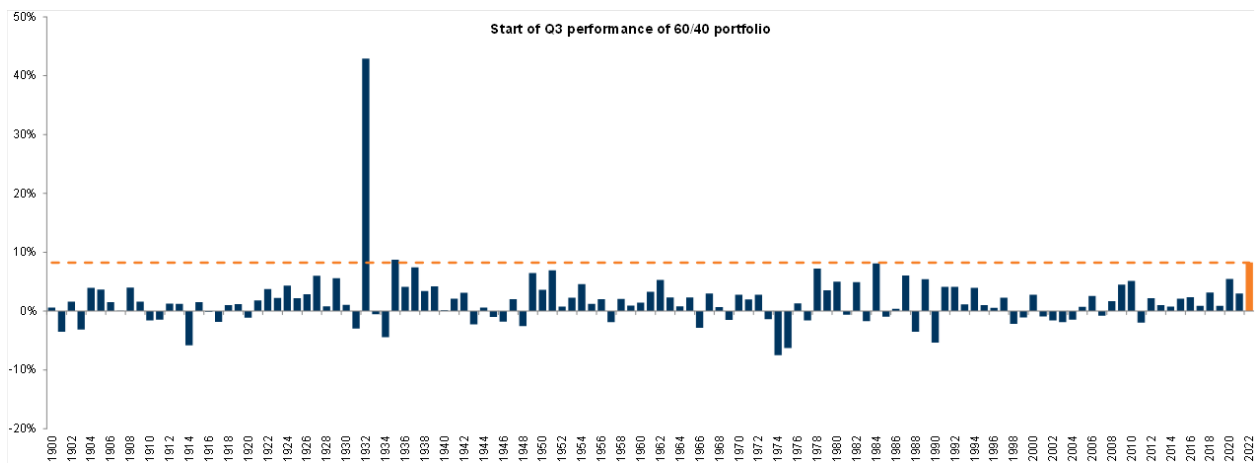
8. **[SENTIMENT BACK TO NEUTRAL AND THERE ARE NO LONGER MAX BEARS]** - Sentiment is no longer extremely/max bearish: Its bearish, but not off the charts bearish like it was. Keep an eye on GS Sentiment Indicator (SI) or AAIIBULLBEAR which is almost back to flat. Professional and Civilian investor sentiment have both increased in tandem.

9. **[YOLO TRADERS ARE GOING BACK TO SCHOOL]** - WOW. Retail YOLO / "meme" traders are back to school and have "varsity soccer practice" and "Western Civilization": Have you seen BBY (Bed BATH & Beyond) this week? Or WEBR grillz (BBQ time). This has been the biggest driver of right tail style risk into the lowest volume days of the year.

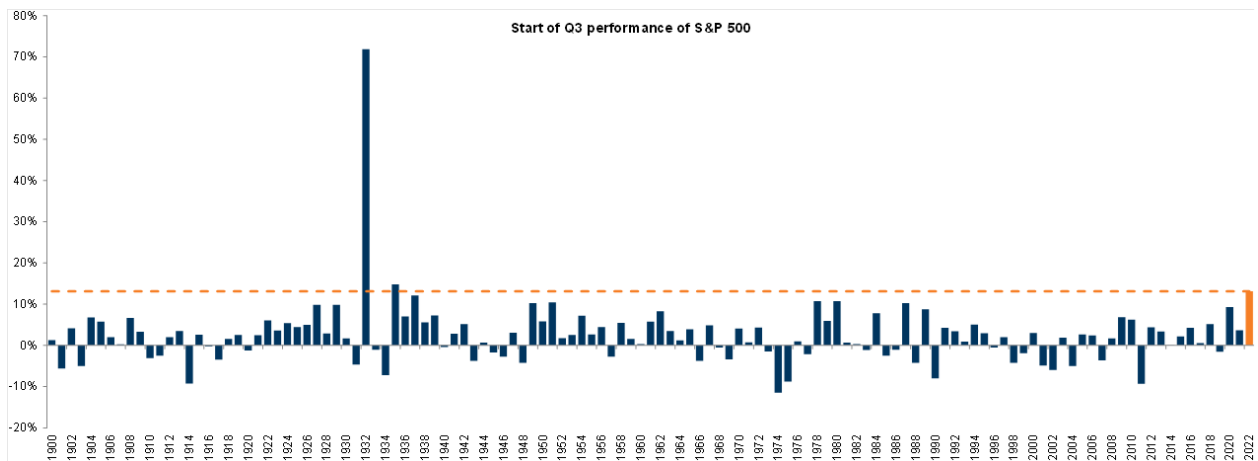
10. **[QUARTER END REBALANCING]** - September quarter end rebalancing: Quarterly rebalancing is usually the big one. This could be some of the largest estimates that we have seen. Quarterly rebalances are weighted more heavily. Keep an eye on this as we move through the month.

GS TACTICAL WEST PALM BEACH – SEPTEMBER CORRECTION WATCH – CHART PACK

60/40, best jump to Q3 since 1935... (not a typo).

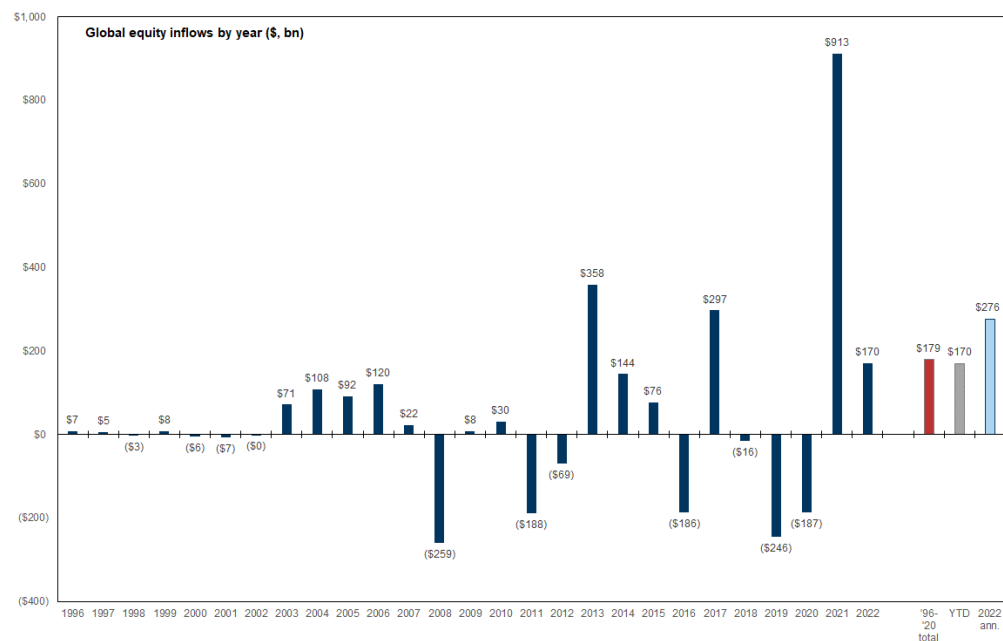


Source: Goldman Sachs Investment Research Division, Cecilia Mariotti, as of 8/19/22. Past performance is not indicative of future returns.



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INFLOWS STILL STRONG.. BIG INFLOWS INTO US TECH THIS WEEK



\$1.4 Trillion worth of inflows, HODL'd, ITM



CTA DEMAND... STRONG FOR THE NEXT 1 WEEK, BUT THE IMPACT IS GETTING LOWER....

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	
S&P 500 E-mini	2,949	2,378	-306	7,433	7,362	-32,636	11,289	34,423	
TOPIX	61	-607	-1,579	-385	166	-21,913	259	15,773	
DAX 30	4,802	5,783	1,535	7,515	12,173	-3,194	719	4,589	
DJ Euro Stoxx 50	98	-162	-1,116	544	738	-14,258	3,647	15,719	
FTSE 100	299	-14	-1,754	523	622	-15,158	204	15,537	
Nasdaq 100 E-mini	1,333	1,025	549	2,455	2,463	-5,375	2,056	5,624	
Russell 2000 E-mini CME	1,318	1,197	809	1,988	1,952	-6,816	2,959	7,521	
TSE 60	3,148	3,107	953	4,945	5,140	-4,150	2,110	5,552	
Hang Seng	-223	335	-365	-669	5,040	-460	-3	-1,327	
SPI 200	138	-44	-2,099	139	482	-9,095	2,512	10,696	
CAC 40	160	16	-540	382	340	-7,320	1,134	8,239	
FTSE/JSE Africa Top 40	1,115	1,089	474	1,339	1,469	-2,068	924	2,214	
Hang Seng China Ent. Idx	-225	45	-285	-448	1,187	-444	-3	-689	
Kospi 200	18	507	-261	18	3,143	-886	239	1,371	
AEX	-22	-91	-376	200	78	-3,574	228	3,755	
MSCIEM(NYL)	470	966	182	470	3,386	-422	260	388	
IBEX 35	1,326	1,269	956	1,326	1,414	-2,920	1,850	3,365	
S&P/MIB	1,359	1,369	442	1,365	2,415	-1,006	238	1,374	
OMX Stockholm 30	1,356	1,349	461	2,254	2,386	-1,653	466	1,764	
SMI	11	1,174	-719	-434	4,221	-1,161	226	1,722	
Thai stock exchange 50	438	382	-392	215	554	-2,491	1,145	2,831	
Totals	19,929	21,072	-3,433	31,176	56,731	-137,000	32,460	140,442	

Source: Goldman Sachs Global Markets Division Strats , of 8/19/22. Past performance is not indicative of future returns.

TOTAL SYSTEMATIC – STILL STRONG... BUT DONE BY NEXT WEEK. THEY BOUGHT A LOT.

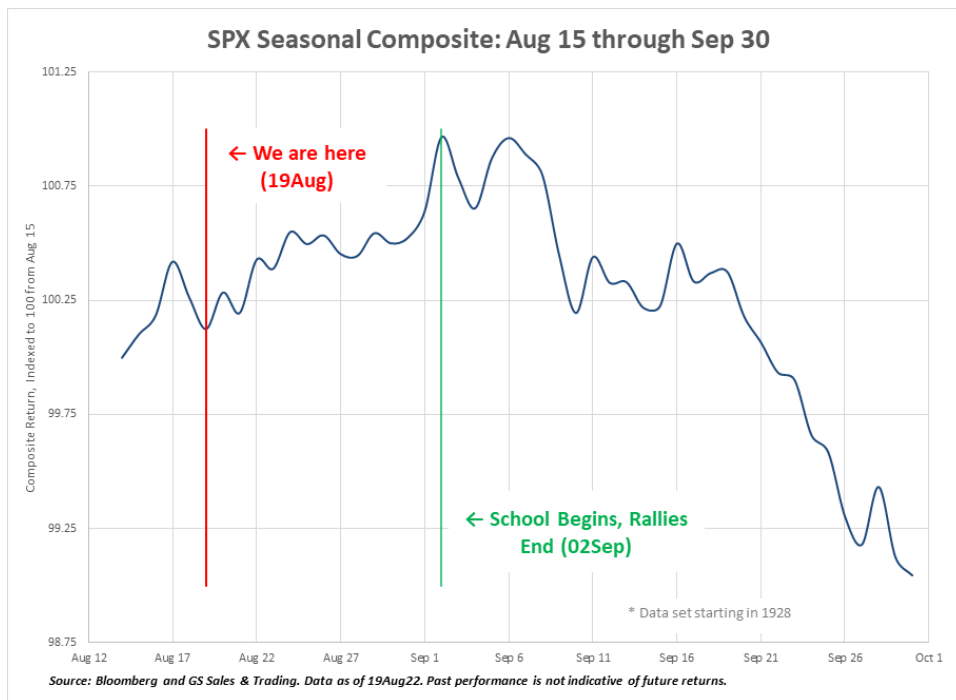
Conditional Expectations for Next 1 WEEK (US\$-bn) as of 16-Aug-2022						
	Baseline/ If Mkt Flat	Up Mod	Up Big	Down Mod	Down Big	1-Wk Std-Dev
CTA/Trend	19.9	20.3	21.1	13.8	-3.4	25.8
Risk-Parity Style	0.8	-0.1	-1.2	1.4	2.2	4.4
Insurance Rebal	3.9	6.5	8.9	1.3	-2.8	6.7
Totals	24.7	26.6	28.8	16.5	-4.0	

Conditional Expectations for Next 1 MONTH (US\$-bn) as of 16-Aug-2022						
	Baseline/ If Mkt Flat	Up Mod	Up Big	Down Mod	Down Big	1-Mth Std-Dev
CTA/Trend	31.2	52.2	56.7	-68.4	-137.0	61.3
Risk-Parity Style	9.2	7.5	5.6	5.8	1.7	10.5
Insurance Rebal	10.6	28.0	45.1	-9.1	-38.4	16.0
Totals	51.0	87.7	107.4	-71.7	-173.7	

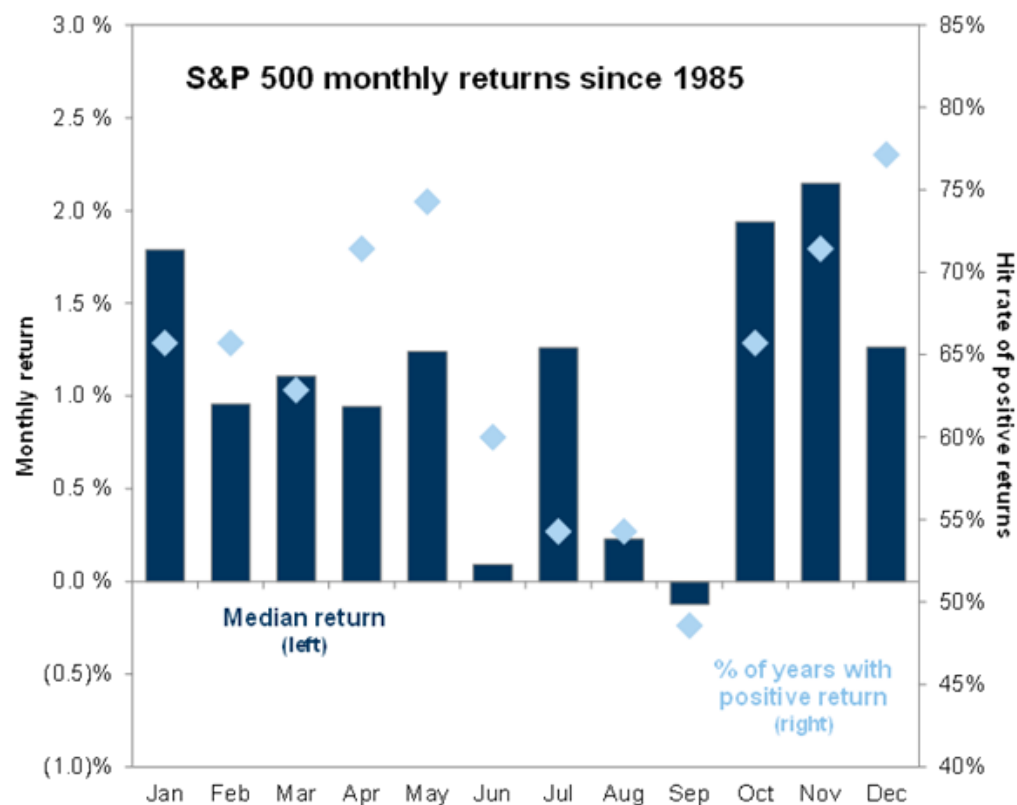
Previous Month's Simulated Flow as of 16-Aug-2022					
	Last 1 Week and 1 Month Flow		Resultant/Current Global Eq Position		
	1-Week	1-Month	US\$-bn	Percent of Assets	1-Yr Rank
CTA/Trend	32.5	140.4	50.2	20.9%	55.5%
Risk-Parity Style	0.9	2.5	70.9	20.3%	7.7%
Insurance Rebal	4.1	16.0	118.1	41.4%	40.8%
Totals	37.5	159.0			

Source: Goldman Sachs Global Markets Division Strats , of 8/19/22. Past performance is not indicative of future returns. "Simulated results are for illustrative purposes only. GS provides no assurance or guarantee that the strategy will operate or would have operated in the past in a manner consistent with the above analysis. Past performance figures are not a reliable indicator of future results."

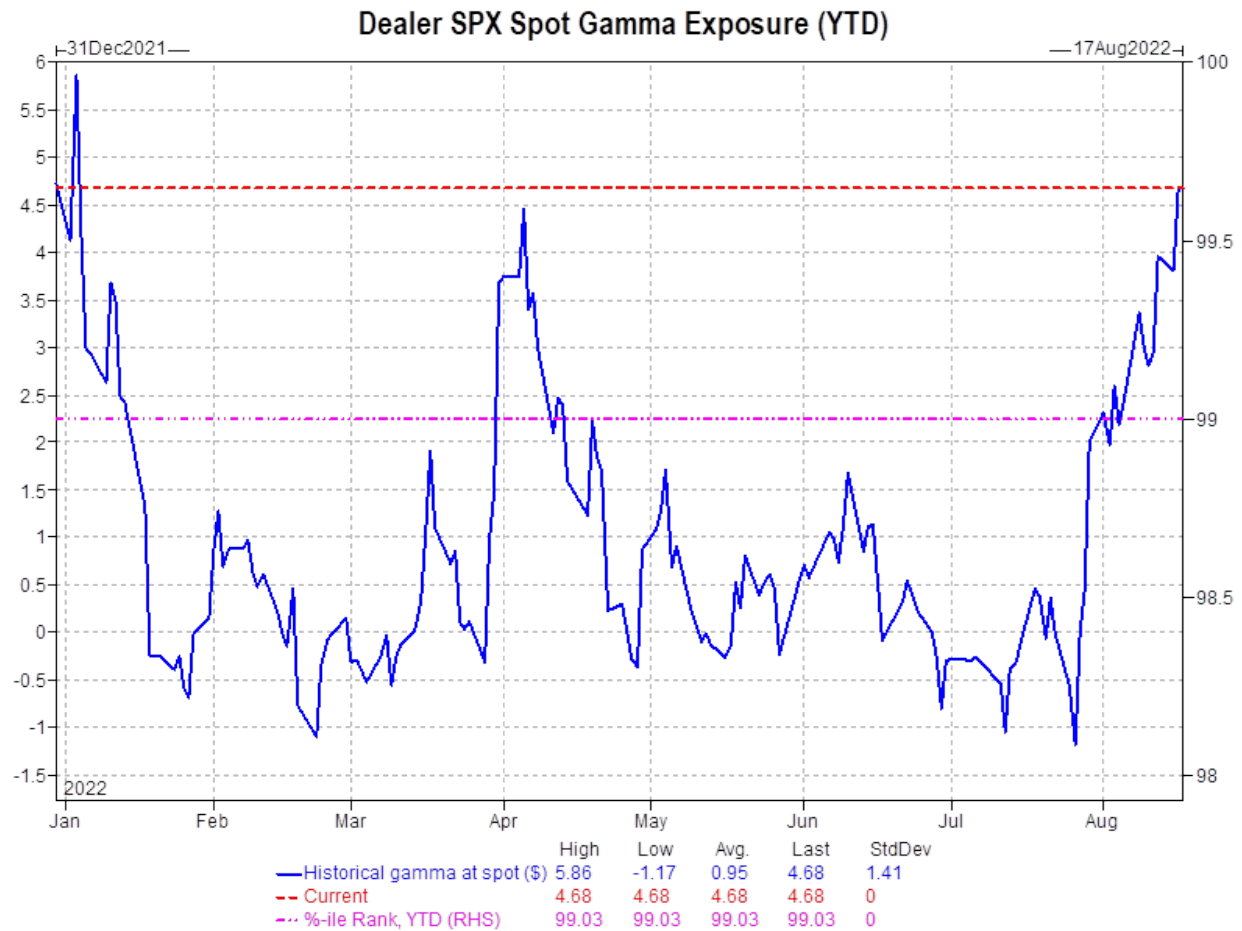
YOU ARE HERE.... SINCE 1928, SEPTEMBER 2nd IS THE HIGH FOR THE MONTH.



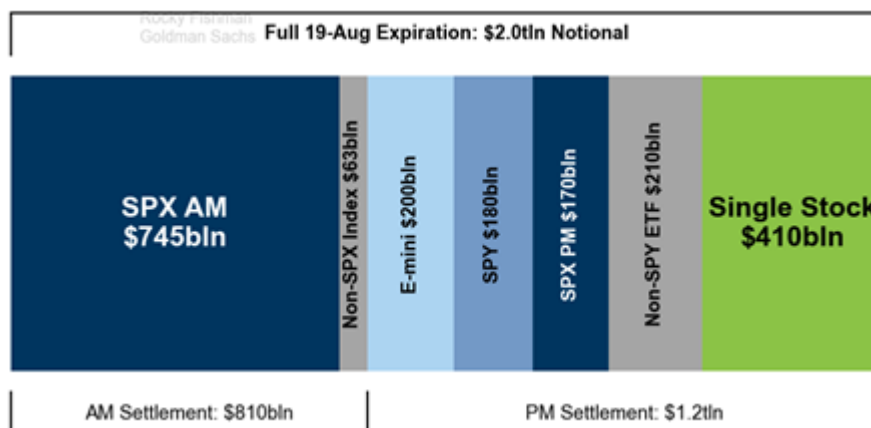
September is the worst month of the year



Long Dealer Gamma gets unwound on today... Buffer removed.



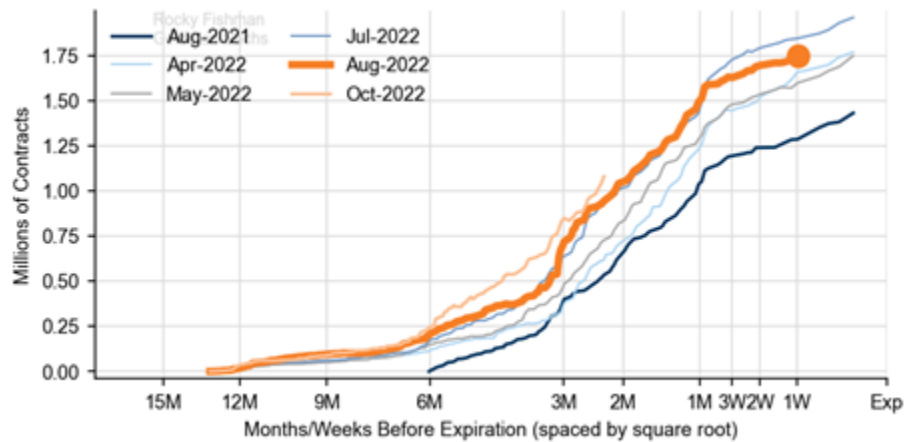
\$2 Trillion worth of options expire today. WOW. This is significant. Hold on to your shorts. No early cannonball train.



Research Link: [Four Observations Ahead of the Upcoming \\$3.4tn Expiry](#) (13-Jun-2022)

Non-quarterly expiries

Open interest (millions of contracts) of SPX non-quarterly expiries, by time to maturity

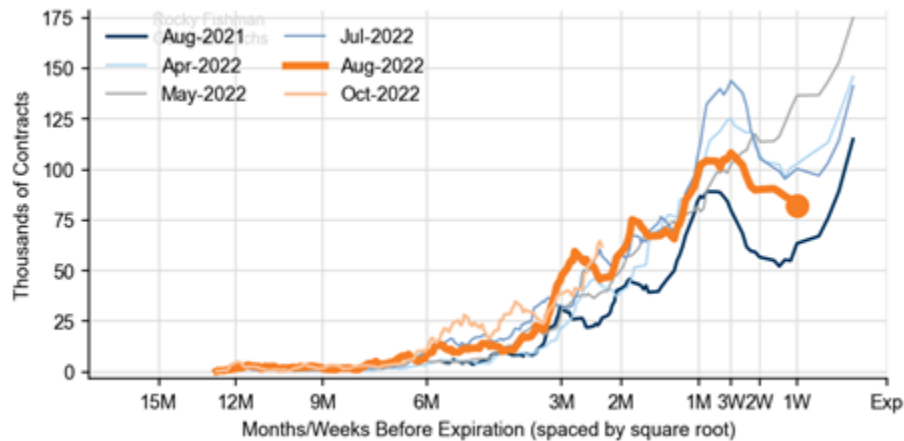


Research Link: [Vol Vitals: Short-Dated Hedges Increasingly Attractive With the VIX Falling Below 20](#) (16-Feb-2021)

Source: Goldman Sachs Global Investment Research, OptionMetrics

Non-quarterly expiries

10-day rolling average daily volume (thousands of contracts) of SPX non-quarterly expiries, by time to maturity

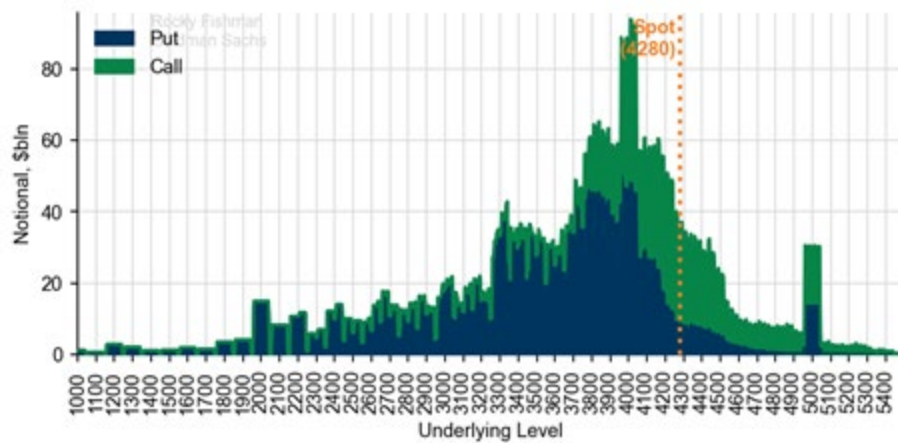


Source: Goldman Sachs

Global Investment Research, OptionMetrics

19-Aug strike distribution

Notional 19-Aug-2022 SPX open interest, \$bln notional within 1% of each point



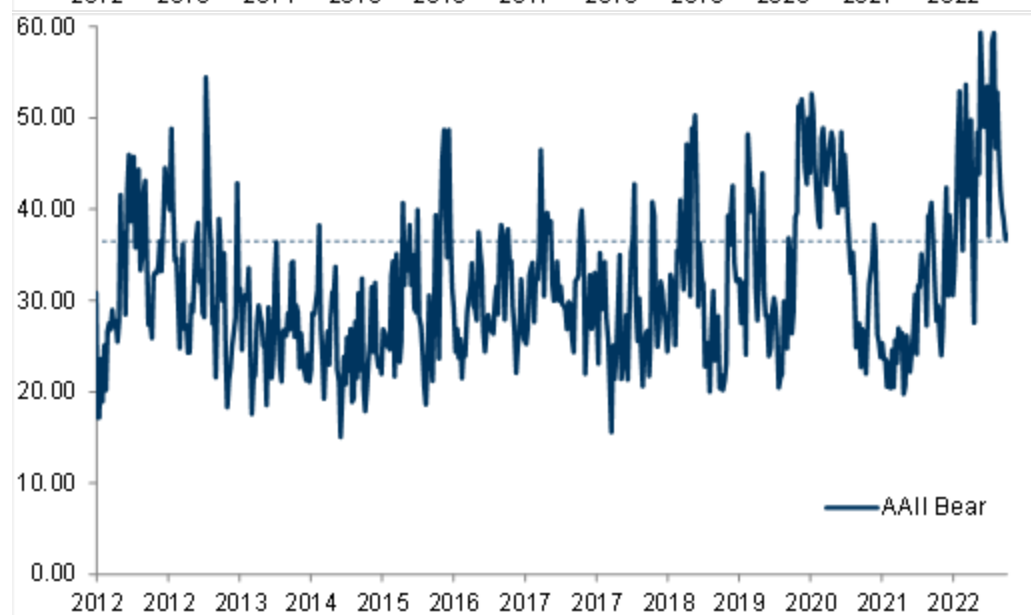
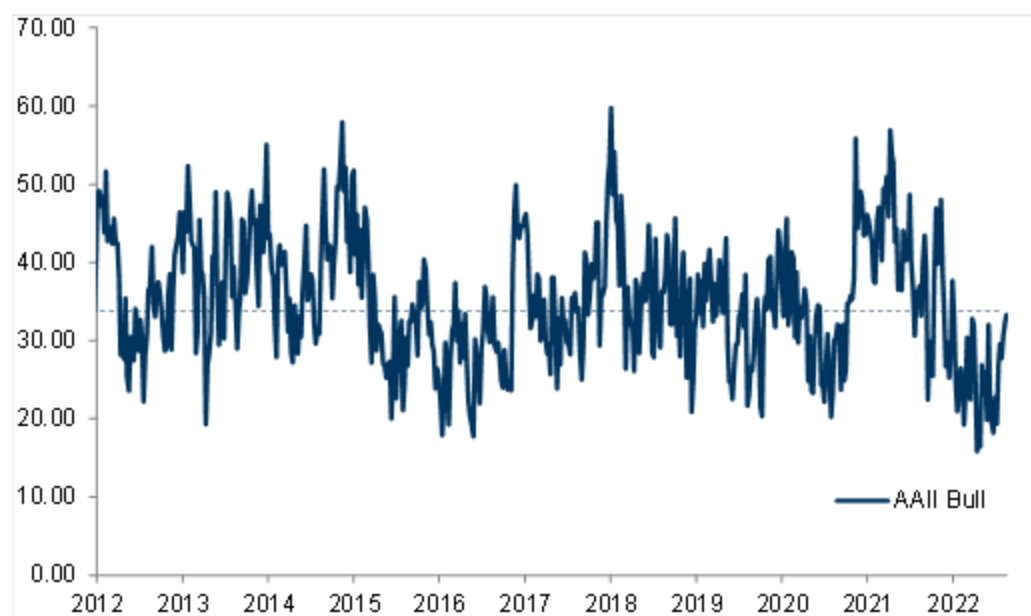
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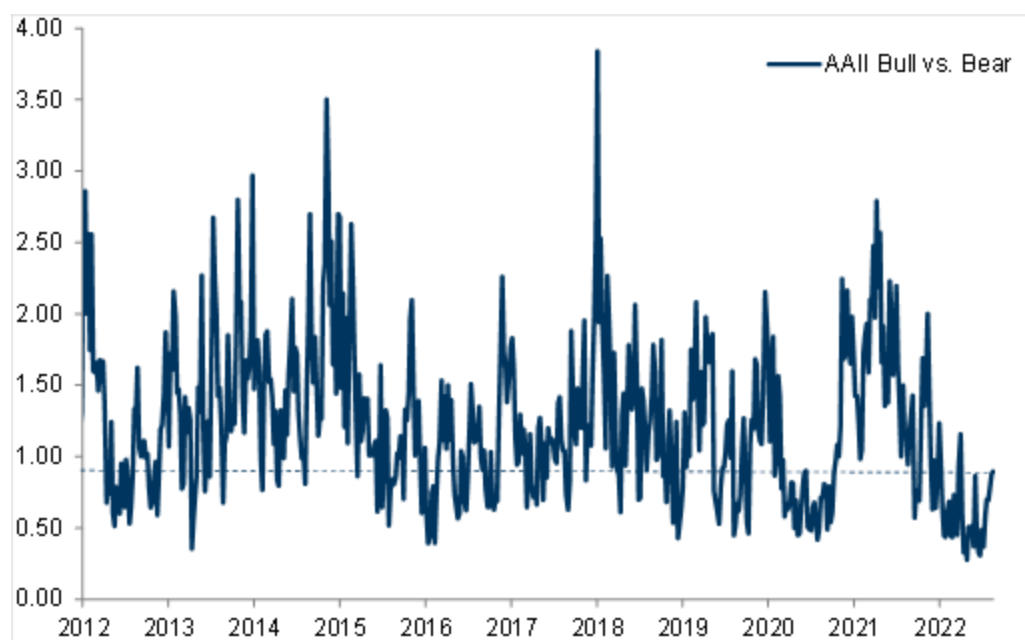
US equity index notional open interest distribution
Notional open interest statistics

		Total/Call/Put Goldman Sachs	Last 3Y	Top 4 Expiries	Tenor Distribution
SPX	SPX	Total \$7.1tln Call \$2.6tln Put \$4.5tln		19-Aug \$920bln 16-Sep \$1.6tln 21-Oct \$500bln 16-Dec \$1.2tln	15-Aug to 19-Aug \$1.1tln 22-Aug to 16-Sep \$2.1tln 23-Sep to 17-Mar \$3.1tln 31-Mar to Dec-2027 \$920bln
	SPY	Total \$855bln Call \$305bln Put \$550bln		19-Aug \$180bln 16-Sep \$175bln 21-Oct \$61bln 16-Dec \$90bln	15-Aug to 19-Aug \$210bln 22-Aug to 16-Sep \$270bln 19-Sep to 17-Mar \$315bln 31-Mar to Dec-2024 \$63bln
Russell	IWM	Total \$175bln Call \$46bln Put \$130bln		19-Aug \$35bln 16-Sep \$39bln 16-Dec \$28bln 20-Jan \$13bln	15-Aug to 19-Aug \$38bln 22-Aug to 16-Sep \$47bln 19-Sep to 17-Mar \$68bln 31-Mar to Dec-2024 \$23bln
	RTY	Total \$96bln Call \$37bln Put \$59bln		19-Aug \$11bln 16-Sep \$26bln 16-Dec \$18bln Dec-2023 \$7.5bln	15-Aug to 19-Aug \$13bln 22-Aug to 16-Sep \$37bln 23-Sep to 17-Mar \$30bln 31-Mar to Dec-2024 \$18bln
NASDAQ	QQQ	Total \$370bln Call \$135bln Put \$235bln		19-Aug \$71bln 16-Sep \$85bln 16-Dec \$61bln 20-Jan \$31bln	15-Aug to 19-Aug \$79bln 22-Aug to 16-Sep \$110bln 19-Sep to 17-Mar \$145bln 31-Mar to Jun-2024 \$35bln
	NDX	Total \$205bln Call \$100bln Put \$100bln		19-Aug \$46bln 16-Sep \$51bln 21-Oct \$13bln 16-Dec \$27bln	15-Aug to 19-Aug \$52bln 22-Aug to 16-Sep \$65bln 19-Sep to 17-Mar \$68bln 21-Apr to Dec-2024 \$18bln

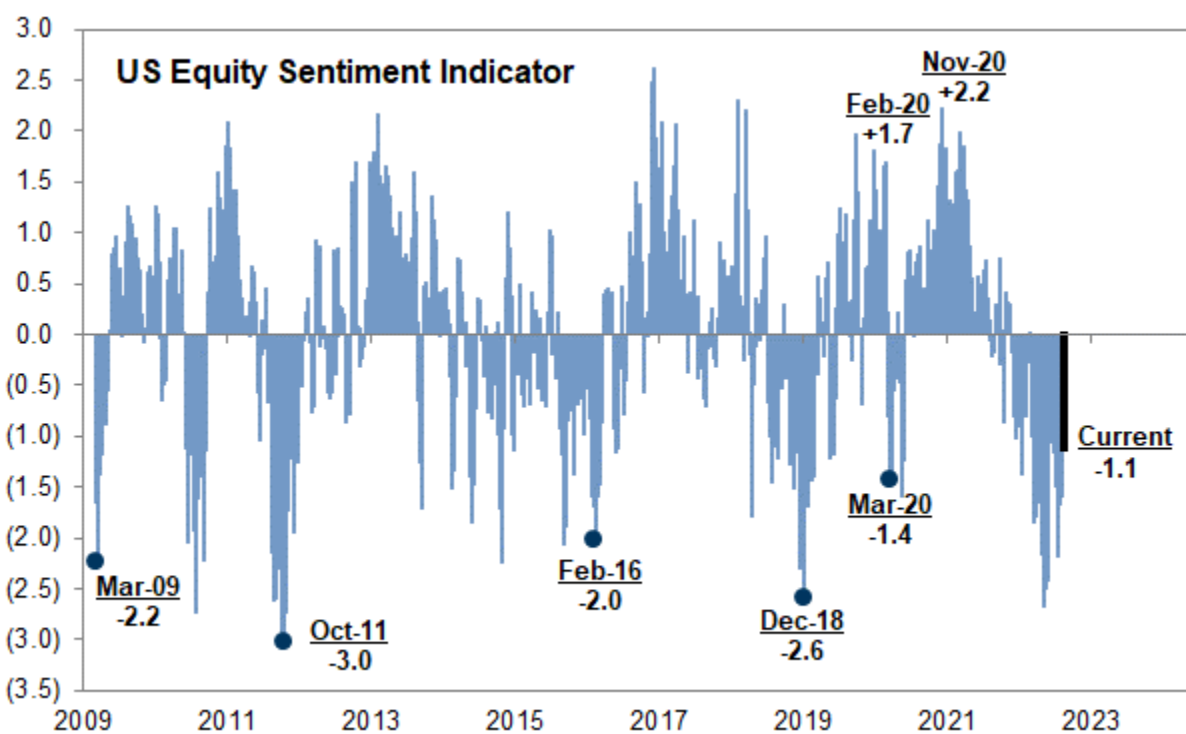
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Source: Goldman Sachs Global Investment Research, OptionMetrics

There has been a big jump higher in sentiment.



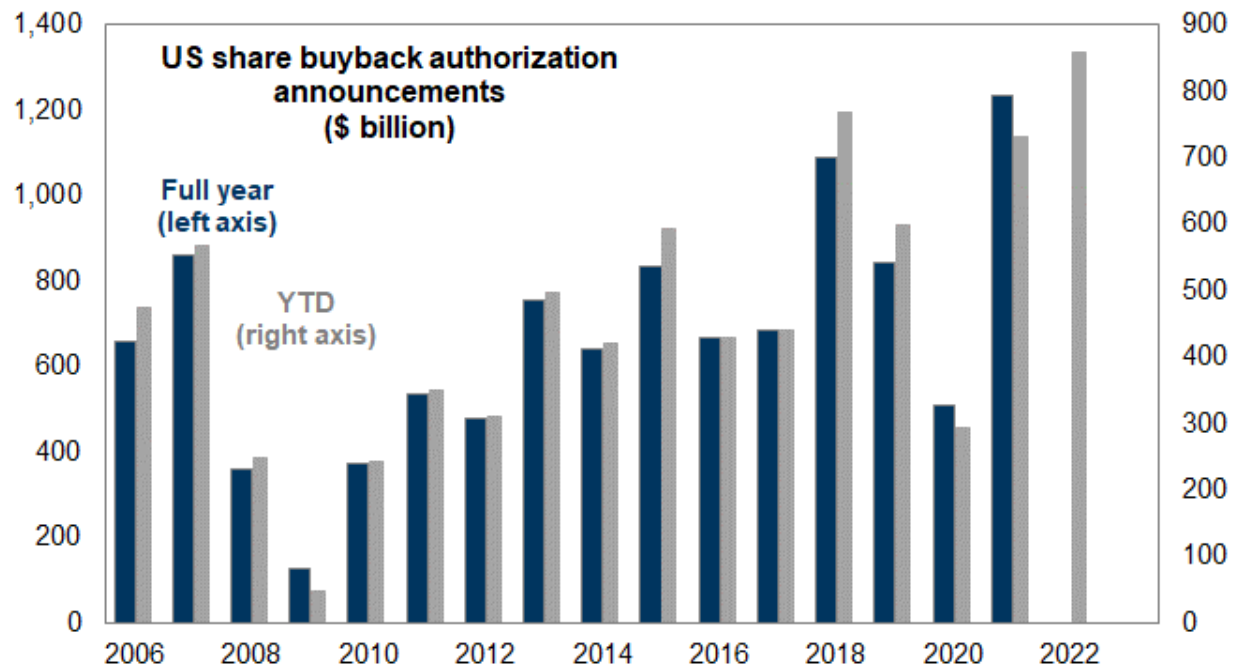


Source: Goldman Sachs Investment Research Division, Cecilia Mariotti, as of 8/19/22. Past performance is not indicative of future returns.



Source: Goldman Sachs Investment Research Division, Cormac Connors, as of 8/12/22. Past performance is not indicative of future returns.

The largest buyer of the US Equity Market – US CORPORATES... TOPPIN' UP BEFORE SEPTEMBER BLACK OUT.



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*Scott Rubner
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