First to Market

August 6, 2024

Carry On

A daily market update from FS Insight — what you need to know ahead of opening bell

"Once I rose above the noise and confusion / Just to get a glimpse beyond this illusion /I was soaring ever higher / but I flew too high." — Kansas

Overnight

S&P 500 posts worst day since 2022 in global market sell-off CNBC

Is this 1987 all over again? What's driving the market meltdown? WSJ

Gold, silver, palladium, platinum slip as wider market rout spills over RT

The easy-money reckoning arrives WSJ

Kamala Harris picks Minnesota Governor Tim Walz for VP slot TH

Are banks sweeping dud property loans under the rug? WSJ

Customers struggle to access U.S. brokerage platforms FT

The Fed rarely cuts rates between meetings; here are 7 crises that forced its hand Barron's

What is driving the global stock sell-off? FT

Private equity group Carlyle doubles fundraising to over $12bn FT

SocGen to sell U.K. and Swiss private bank units for €900mn FT

Asset managers fret over lost gains as investor cash piles up on sidelines FT

Action underway to address performance on over 30% of Ninety One funds IW

Continental considers floating its core automotive business FT

The battle over who makes the rules for U.S. companies FT

Once high-flying software firms confront sluggish growth TI

AI chip start-up Groq's value rises to $2.8bn as it takes on Nvidia FT

Google loses federal antitrust case WSJ

Inside controversial tycoon Gautam Adani's $213 billion succession plan BBG

'The Yale Law School of Economics' MI

Elon Musk files new lawsuit against OpenAI and Sam Altman FT

Neuralink device is implanted in a second patient BBG

Cargo ship spotted at Russian gas terminal under U.S. sanctions FT

Shingles vaccine 'may prevent dementia', research finds FT

A therapy based on the mechanism that allows axolotl salamanders to regrow severed limbs can help mice live 25% longer FT

Chart of the Day

Key Interest Rates
12/31/2021 vs. 7/15/2024 and 7/15/2024 vs. Current

[1]Effective Yield of BB Corporate Bonds
[2]Effective Yield of CCC Corporate Bonds
[3]ARM = Adjustable Rate Mortgage Loan
[4]HELOC = Home Equity Line of Credit

	12/31/2021 to 7/15/2024			7/15/2024 to Today	
	(a)	(b)	(b-a)	(c)	(c)-(b)
	12/31/2021	7/15/2024	Delta	Current	Delta
Fed Funds Rate (Upper Bound)	0.25%	5.50%	525bp	5.50%	0bp
US Treasury 2yr Yield	0.73%	4.46%	373bp	4.10%	-36bp
US Treasury 10yr Yield	1.51%	4.23%	272bp	3.79%	-44bp
Bank Debt	1.50%	4.75%	325bp	4.42%	-33bp
Investment Grade Bond	2.35%	5.28%	293bp	4.97%	-31bp
High Yield Bond[1]	3.40%	6.02%	262bp	6.08%	6bp
Speculative Grade Bond[2]	7.96%	13.56%	560bp	13.81%	25bp
30yr Mortgage Fixed Rate	3.27%	7.16%	389bp	6.90%	-26bp
1yr ARM Rate[3]	2.78%	5.94%	316bp	5.93%	-1bp
5yr ARM Rate[3]	2.74%	6.39%	365bp	6.34%	-5bp
HELOC Rate[4]	4.27%	9.18%	491bp	9.18%	0bp
Auto Loans	3.51%	7.94%	443bp	7.94%	0bp
Credit Card Interest Rate	16.44%	22.76%	632bp	22.76%	0bp

Already dropped, with zero cuts

Bigger if Fed funds cut by -1.25%

Source: Fundstrat, Bloomberg, FRED, Federal Reserve

MARKET LEVELS

Overnight

S&P Futures +38 ▲ point(s) (+0.7% ▲)
overnight range: +10 ▲ to +88 ▲ point(s)

APAC

Nikkei +10.23% ▲

Topix +9.30% ▲
China SHCOMP +0.23% ▲
Hang Seng -0.31% ▼
Korea +3.30% ▲
Singapore -1.39% ▼
Australia +0.41% ▲
India -0.26% ▼
Taiwan +3.38% ▲

Europe

Stoxx 50 -0.22% ▼
Stoxx 600 -0.12% ▼
FTSE 100 -0.31% ▼
DAX -0.09% ▼
CAC 40 -0.59% ▼
Italy -0.63% ▼
IBEX -0.67% ▼

FX

Dollar Index (DXY) +0.44% ▲ to 103.14
EUR/USD -0.36% ▼ to 1.0913
GBP/USD -0.74% ▼ to 1.2681
USD/JPY -0.37% ▼ to 144.72
USD/CNY -0.18% ▼ to 7.1522
USD/CNH -0.09% ▼ to 7.1452
USD/CHF -0.16% ▼ to 0.8536
USD/CAD -0.06% ▼ to 1.3833
AUD/USD -0.31% ▼ to 0.6478

UST Term Structure

2Y-3 ▼M Spread widened 4.1bps to -125.7bps ▼
10Y-2 ▼Y Spread widened 1.9bps to -11.7bps ▼
30Y-10 ▼Y Spread narrowed -0.7bps ▼ to 27.5bps

Yesterday's Recap

SPX -3.00% ▼
SPX Eq Wt -2.36% ▼
NASDAQ 100 -2.96% ▼
NASDAQ Comp -3.43% ▼
Russell Midcap -2.48% ▼
R2k -3.33% ▼
R1k Value -2.44% ▼
R1k Growth -3.47% ▼
R2k Value -3.56% ▼
R2k Growth -3.09% ▼
FANG+ -3.96% ▼
Semis -2.34% ▼
Software -2.83% ▼
Biotech -3.15% ▼
Regional Banks -2.75% ▼ SPX GICS1 Sorted: Tech -3.78% ▼
Comm Srvcs -3.35% ▼
Cons Disc -3.07% ▼
SPX -3.00% ▼
REITs -2.95% ▼
Fin -2.90% ▼
Healthcare -2.69% ▼
Utes -2.69% ▼
Materials -2.28% ▼
Energy -2.02% ▼
Cons Staples -1.94% ▼
Indu -1.72% ▼

USD HY OaS

All Sectors +0.6bps ▲ to 418bps
All Sectors ex-Energy -4.0bps ▼ 387bps
Cons Disc +30.7bps ▲ 365bps
Indu -8.4bps ▼ 315bps
Tech -6.8bps ▼ 425bps
Comm Srvcs -10.7bps ▼ 709bps
Materials -6.0bps ▼ 391bps
Energy -10.5bps ▼ 340bps
Fin Snr -7.7bps ▼ 375bps
Fin Sub -2.1bps ▼ 257bps
Cons Staples -7.2bps ▼ 357bps
Healthcare -7.3bps ▼ 456bps
Utes -7.9bps ▼ 266bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
8/6	8:30 AM	Jun Trade Balance	-72.5	-75.071
8/12	11:00 AM	Jul NYFed 1yr Inf Exp	n/a	3.02

MORNING INSIGHT

Good morning!

The Chicago Fed's Austan Goolsbee stated on CNBC today that the Fed is "forward-looking" when dealing with financial stability. To us, that is an important instance of word choice, as this is a step away from data dependence.

More in today's Macro Minute Video, linked here.

TECHNICAL

The Monday meltdown finally showed some key elements of fear, which suggests that this selloff could be nearing conclusion. While the SPX and QQQ's 3% declines represented the largest moves since 2022, there still hasn't been an equivalent move in the Equal-weighted indices, which look to be in much better shape. Additionally, USDJPY's decline, which was thought by many to have been a key catalyst for this giant cross-asset decline, is rapidly approaching last December's lows, which should provide some stability over the next couple of days. Furthermore, Technology as a sector has now sold off to near this year's lows and, as Tom Lee has discussed, valuations look reasonable ahead of a time when FOMC could be set to cut rates as many as five times in the next four months. Overall, we sense that the decline from mid-July is nearing its end, and a bounce should begin to get back underway this week, or starting next week into mid-September.

Technically, we don't feel that it's right to be bearish, despite the violent selloff over the last couple weeks.

Click HERE for more.

CRYPTO

In our latest video we discuss some encouraging data that suggests a near term bottom, the risks that remain in the market, things we are going to look for for added confidence, and how we would position portfolios in the near term.

Click HERE for more.

First News

Carry On, My Wayward Trader. As global stocks declined Monday, a once-popular hedge-fund tactic has become a much-maligned bad actor in the eyes of many, leading some Wall Street analysts to suggest a potential connection between the plummeting and the tactic – the carry trade.

In the meantime, the Japanese yen's sharp rise continued to erode the effectiveness of the trade. With U.S. stocks on track to notch their most significant drop in nearly two years as part of a broader global market downturn, some market observers noted that the strengthening relationship between the rising yen and falling U.S. stocks was unlikely to be coincidental. They proposed that traders may have been directly financing leveraged positions in U.S. stocks – particularly in large-cap and technology sectors – using yen-denominated loans. Well, sure – that's the trade, in a nutshell. The observers then observed further that market conditions were forcing these traders to unwind their short yen positions by liquidating their U.S. stock holdings. Makes sense so far.

It would also make sense that unwinding the world's largest carry trade would necessarily lead to some market disruption, and Monday saw significant movements in both the yen and the U.S. indices. The Japanese yen appreciated 2.3% against the U.S. dollar, reaching 144 yen per dollar. Simultaneously, U.S. stock markets experienced sharp declines. The S&P 500 closed down 3% at 5,186.33; the Dow Jones Industrial Average fell by 1,034 points (2.6%) – the largest single-day drops for both indices since September 13, 2022. The Nasdaq Composite suffered even more, declining 3.4%, marking its steepest daily fall since June 13, 2022. *Crucially, it's estimated that the carry trade unwind, at least as far as the speculative-investing community is concerned, is only half-done.*

Yet other observers urge a more nuanced interpretation of these market dynamics – say, this one: while the yen's rapid appreciation may have contributed to the U.S. stock market selloff, it was unlikely to be the primary cause. What's more, the relationship could be bidirectional; when one position experienced large losses, they may have moved to reduce exposure in the other. However, it's difficult to argue that this is the main driver behind the equity market decline.

If history is any guide

A sharp reversal in the yen's fortunes has been anticipated since March and is now coming to fruition. The speed of the yen-carry trade's unwinding is reminiscent of the currency's surge in 2007 following the subprime mortgage crisis. Indeed, it seems that concerns over a U.S. economic slowdown, rather than the BoJ's recent interest rate hikes, are the primary catalyst for this shift. The yen's future trajectory will likely depend heavily on U.S. economic developments and the Fed's policy responses.

While there are no comprehensive numbers tracking the yen-carry trade, some inferences about its volume, participants, and the potential for further unwinding may be drawn. Its exact scale remains elusive due to a lack of precise data, but most analysts rely on yen-short positions as a proxy to gauge trading activity, and current indicators suggest that *speculative yen selling has reached levels comparable to those observed just before the carry-trade collapse in 2007*.

Who or what is driving the carry trade?

Still, the dynamics of the current yen-carry trade differ markedly from those observed in the mid-2000s. Back then, foreign banks in Japan were major players, procuring yen and funneling it to their home offices. The present situation shows a shift in participants. The data that is there indicates that short-selling by foreign banks is only about half of what it was in 2007. This suggests a more prominent role for other non-commercial traders, particularly macro hedge funds, in the current carry-trade landscape.

The ultimate destination of yen-borrowed funds remains largely unclear due, again, to limited data. However, Japan's balance of payments statistics offer some insight. These figures indicate that Japanese investors have significantly upped their portfolio investments in U.S. assets compared to other markets. It's plausible that a portion of these funds is subsequently redirected into higher-yielding emerging markets, though there is no concrete evidence of such secondary investments.

Not just the firsthand testimony of market participants, but historical patterns suggest that the current yen-carry trade unwinding may have further to go. During two significant financial events – the onset of the subprime mortgage crisis in 2007 and the collapse of Long-Term Capital Management in 1998 – the yen appreciated by approximately 20% from its lowest point. In comparison, as of August 6, the yen has only gone up ~10% from its recent low against the dollar.

Another facet of the current circumstances is that carry trades take various forms. Investors have borrowed in low-yield currencies like the yen and Swiss franc to invest in higher-yielding currencies such as the U.S. dollar, Australian dollar, and Mexican peso. While the yen's recent weakness against the dollar is a new development, *other carry trades, like the yen-peso pairing, began to unwind about two months ago*. An alternative explanation for the correlation between declining global stocks and a strengthening yen is that they share a common catalyst. Some believe the primary driver is the fear of a U.S. recession. While many pundits still expect a soft landing rather than a recession, recent data, such as the July jobs report, has stoked concerns about a rapid economic cooldown.

During periods of risk aversion, investors have typically sought safety in haven assets, including the Japanese yen – and a stronger currency can harm the competitiveness of Japanese exports. While Japanese markets experienced a significant shock on Monday – with the Nikkei 225 plummeting 12.4% on Monday, marking its worst single-day performance since 1987 – it is still improbable that the unwinding of carry trades is directly causing global stock markets to decline.
MarketWatch, Bloomberg

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