Weekly Market Summary

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A Trendless and Broken Market, Mostly Influenced by Trade Headlines and Un-Presidential Tweets!!?
Fadi Nasser - Deputy Chief Investment & Treasury Officer

Economic indicators define the economic performance of a country and are usually updated on a monthly or quarterly basis. The release of major economic data stretches over the full month (for the US, this process starts with the ISM Manufacturing release, followed by Non-Farm Payroll data, ISM Non-Manufacturing, CPI, PPI, Retail Sales, Consumer Confidence, Industrial Production / capacity Utilization, Housing Start, Building Permits, Durable Goods Orders, GDP, etc…) and provide the key basis for minor / major moves in financial markets (FX, Rates, Equity and Commodity instruments). Professional traders and investors actively prepare for and trade those economic releases (referred to as fundamental analysis), at times swiftly shifting views and reversing positions once the data flow confirms a sudden but permanent change to the general economic outlook.

Central bankers too highly rely on these indicators to gauge how their economy is performing. Moreover, they use the data to spot developing trends they need to address via changes to their monetary policy tools (rate cut of hike, quantitative easing or tightening, etc.) These trends include levels of unemployment, the rate of inflation and potential growth. Because central banks and the markets are watching each other, one would expect economic indicators to have the potential for creating large market moves. As such, the secret to a successful trader is his/her ability to try and get into the market with the proper positions before these large moves occur (also known as beating markets!).

However, most of the past twelve months' large market gains and losses – be it in the equity or fixed-income markets – have been built on hopes and/or discontents governing the ongoing US-China trade standoff (and to a lesser extent the Brexit saga). Markets have turned irrational and erratic since no one knows (outside The Donald and his economic clique, maybe Ivanka and Jared too ☺) the specific policies and legislations that will be proposed, agreed and implemented over the near future, their exact go-live date and impact on future economic releases (mostly business and consumer sentiment indicators). Add to that the US President's hilarious, often narcissistic and hyperbolic – sometimes idiotic – tweets on the state of both national and foreign affairs, and one would have the perfect recipe for a period of significant uncertainty and instability, where economic data releases lose their meaning and eventually stop mattering!

In that context, it is perhaps not much of a surprise that Louis Bacon, a long-time legendary trader who made billions betting on various macro events, is shutting up shop and returning the capital of his Moore Capital Management fund to investors, as the Financial Times reported yesterday. *"Reducing our asset base with this return of client capital will obviate the necessity for my taking on the lion share of the risk of the firm on a daily basis*," Bacon wrote in a letter to investors, a copy of which was seen by Bloomberg News. "*Disappointing results of these funds of the last few years obviously support this decision, but our long-term record is one we remain proud of*," he continued. "*Intense competition for trading talent coupled with client pressure on fees has led to a challenging business model for multi manager funds such as ours*." Bacon, who founded Moore in 1989 with a $25,000 inheritance from his mother, is considered one of the most successful traders of his era. Bacon popularized trading on a "*macro*" basis, making bets on everything from U.S. equity to European bonds and Asian currencies based on what he expected from the global macroeconomy. He delivered a net annualized return of 17.6% since inception for its flagship Remington funds but has returned low-single digit gains this year, the manager noted. At the start of 2018, Bacon's firm managed about $13 billion. By September of that year, he was down to $10.2 billion, and by the end of 2018 his firm oversaw $8.9 billion, according to the FT. The closure would see Mr. Bacon, 63, joining other prominent hedge fund managers who threw in the towel in recent years; Those include Paul Tudor Jones, who shut his Discretionary Macro Fund at Tudor Investment Corp., Hugh Hendry, who closed his Eclectic Fund, John Burbank, who shuttered his flagship macro fund, and Michael Platt who shut his BlueCrest Fund.

Mr Bacon has been an influential voice among global policymakers. During the 2011 European crisis, he led a group of Wall Street executives who met with the Federal Reserve before it and other central banks flooded the eurozone with cheap debt. Following US president Donald Trump's election in 2016, Mr. Bacon sent a rare letter to investors predicting macro trading would flourish under the new administration. The letter said Mr Trump's victory would lead to higher interest rates, increased corporate spending and a stronger dollar, creating trading opportunities in commodities and emerging markets. Yet, Mr. Bacon later expressed doubts about Mr Trump, telling the hedge fund publication Absolute Return he had misjudged the president's ability to govern (unfortunately, as Napoleon Bonaparte once said, "*in politics stupidity is not a handicap*!" ☹)

Below are the other two major market stories we have been following in past few days:

- **ARAMCO Sees Nearly Enough Orders to Cover Local IPO After Few Days:** Saudi Aramco's bankers are seeing sufficient early demand to pull off the state oil giant's initial public offering just three days after launching the deal, people with knowledge of the matter said. The IPO arrangers are indicating in private discussions that they already have nearly enough orders to cover the institutional portion of the deal, according to the same sources. They still have more than two weeks to go, as fund managers can subscribe to the stock until December 4th, according to Aramco's prospectus. Building early momentum is important in large equity offerings, as investors are encouraged to jump in when they see other institutions rushing to buy shares. As a reminder, Saudi Aramco announced last Sunday that it will sell a 1.5% stake in the company as it looks to raise as much as $25.6 billion from the sale, potentially becoming the most-valuable initial public offering in history (the previous record holder is Alibaba whose IPO raised $21.8 billion on its first day of trading in 2014). The newly released figures revealed a valuation for the company that is between $1.65 trillion and $1.70 trillion. Aramco also announced it will have 200 billion regular shares, selling 1.5% or what is 3 billion shares at a price ranging between 30 to 32 Saudi riyals a share to investors ($8 to $8.50). The company is selling 0.5% to individual investors, which will include Saudi citizens, residents of Saudi Arabia and Gulf Arab nationals, and 1.0% to institutional investors, which could include major Chinese and Russian buyers. Aramco will announce the final price for the stock when the book-building period ends on December 5th. Trading on the local Tadawul exchange in Riyadh is expected to happen sometime in mid-December.

- **FOMC Minutes Are Out:** Federal Reserve officials worried that weakness in manufacturing, trade and business investment could threaten the economic expansion by triggering cutbacks in hiring and consumer spending when they cut interest rates by 25 bps last month (to a current range of 1.50% and 1.75%). "*Risks to the outlook associated with global economic growth and international trade were still seen as significant despite some encouraging geopolitical and trade-related developments*," said minutes of the October 30th policy meeting, which were released on Wednesday. At the same time, most officials thought that after making their third rate cut last month since July, they could shift to a wait-and-see stance to determine whether the economy would need more stimulus in the months ahead. "*Most participants judged that the stance of policy, after a [quarter-percentage-] point reduction at this meeting, would be well calibrated to support the outlook of moderate growth, a strong labour market and stable inflation"*, the minutes noted. At the meeting, Fed officials also debated additional approaches to maintain stable conditions in very short-term funding markets, with an emphasis on continuing "*relatively frequent*" money-market operations that the Fed has employed in recent weeks. Investors now expect the Fed to hold rates steady at its upcoming meeting on December 10-11th, and futures markets see a roughly 50% probability of one more rate cut by the middle of next year, according to CME Group. UST 5-year yields were last trading at 1.60%.

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