Twitter Thread by 1 Main Capital



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GS Tactical Fund Flows 2021 - some interesting tidbits:

We are set up to see a massive wave of inflows [in 2021]. The “January Effect” will be exceptionally strong this year. Investors are looking to buy the dips, but they remain shallow as there is competition for dip alpha.

Global stocks are now worth equal to 116% of Global GDP, the highest level since 2007.

AAIIBEAR Index “Da Bears” just logged a reading of sub 22.00, the lowest reading since January 2nd. The Bulls logged their longest euphoria reading since January 2018. Euphoria is high.

The month of January see’s a 37% of yearly inflows as a result of 401k and asset allocation rebalancing. Can see financial advisors recommending a portfolio shift back into equities given the current defensive allocation.

Over the last 25 yrs, 25bps of AUM of new money comes into the market each January. This is a big number on $20 Trillion worth of fund assets. This would be about +$50B worth of buy demand, and 2021 could see at least double this year.

The Nasdaq hit its 55th record close of the year on Monday and has gained almost 44% this year. There may be some FOMO.

This flow of funds shift will get exacerbated this year given the heavy positioning in money markets and bonds, aka TINA, or lack of alternatives.

Global Equities logged +$46.4B worth of weekly inflows in the week ending Dec 16th. This is the largest weekly global equity inflow on record. This is a massive number. This exceeds the prior record of +$45B set on Nov 11th and +$43B on Mar 2018. There is a big EM tilt here.

Looking back at the last 4 election cycles, investors typically fully rotate their capital in Jan. We think some of this capital is still on the sidelines.

Money market assets fell by -$59B last week. At the high point of the year, investors added +$1,224B into global money markets, since that time investors have withdrawn -$366B. The US 2 year yield is around 11bps, the lowest level since August.

Bonds have seen inflows in 34 out of 35 weeks for +$500B worth of inflows. They key dynamic here is that bond inflows are getting smaller each week.

The world's stockpile of negative-yielding debt reached $18 Trillion, the high level ever recorded on Friday. This week alone had $1 Trillion worth of bonds dip into negative. 27% of the worlds investment grade-debt is now sub-zero.

Real yields on US 10 yr debt turn the most negative since early September, at negative -1.05%, heading back down to the record low.

US Investment grade corporate bond yields are at their all-time low of 1.8%, less than what 10-year US Treasuries were yielding earlier this year.

Retail is the largest newly minted traded of 2020 and they crushed it. There are no signs of slowing down at all. In fact, more people are joining the online sites.

The return of the online message board retail trader is the most important change to market structure dynamics. There no time off for the retail trader. In fact, given that everyone is home, we are seeing record call option volumes.

Hands down the most aggressive trader out of the gates in January is the return of the retail trader: the flow of funds 2020 award winner. GS Retail Trading favorites is up 82% YTD and 150% from the Mar lows. This is 2x the HF VIP basket +43% YTD, also a great year.

Single stock call activity is off the charts with $252B notional worth of calls trading per day.

There are currently 49M accounts now open for online brokerage, a jump of 13M in 2020. DARTs, the common metric for retail activity hit a record of 10M trades/day earlier this year.

During elevated periods of volatility in Q1, retail activity made up ~25% of total market volumes, up from 10% in 2019. Weekly call options from retail have significantly impacted street short gamma position in single stock calls.

#fintwit, Free commissions, fractional share investing, lack of sports betting, online message boards, Davey the global day trader, are just some of the reasons cited for a return of the work from home trader. Something more structural is at play here.

Households have a 41% allocation to equities according to the federal reserve board. This is just shy of the 47% record during the tech bubble. A 1% percentage point increase in allocation would be about $1 trillion worth of demand or 3% of the S&P market cap.

The total number of US ETFs is 2,304. Investors need to pay attention to Retail “group think” in single name investors. For context look at ARKK, assets jumped from $2B to $18B this year alone after record performance. Now $38B under the ARK product suite.

72% of flows into ETFs (on rolling 3m basis) have been directed into equities.

Systematic Unemotional Mechanical equity demand is in the market and will accelerate once the volatility premium is taken out of Georgia. Georgia can be another clearing event for investors.

GS Systematic strats team estimates +$5B worth of equity CTA demand over the next 1-week assuming a flat market tape.

GS Systematic strats team estimates +$19B worth of equity CTA demand over the next 1-month assuming a flat market tape.

Risk Parity strategies are just starting to re-lever as 6-month realized vol series is starting to roll off. Risk parity strategies are still running low equity exposure.

Vol Control strategies also have scope to add. The S&P 500 is pricing in a 2.35% 1 day move on January 5th. If Georgia does not sweep, we think that the vol premium gets taken out of the market and VIX finally breaks 20.

The VIX index has now stuck above 20 for 220 trading days and counting. That marks the fourth-longest streak since the start of the VIX index.

GS Systematic strats team estimates +$10B worth of equity Total Systematic demand over the next 1 week and +$35B worth of equity Total Systematic demand over the next 1 month assuming a flat market tape. This piles on to the already record “January Effect”.

GSAM estimates the average aggregate GAAP funded status for the S&P 500 defined benefit plans to be 81%. This ranks in the 50th percentile on a 1-year forward basis. We think pension funds may want to ramp up equities here (so not rebalancing back into bonds).

Using Federal Reserve data, GS Research estimates the wealthiest households now hold around $1 trillion in unrealized equity capital gains. This equates to 3% of total US equity market cap and roughly 30% of average monthly S&P 500 trading volume.