Twitter Thread by Dougie Kass

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From yesterday on @realmoney @WilfredFrost @andrewrsorkin @beckyquick

Jan 14, 2021 | 07:50 AM EST DOUG KASS

The Easy Money Has Been Made in Banks

* The setup into the current reporting period is poor

* With bank stocks elevated, in-line to slightly lower reports, relative to

consensus expectations, could modestly disappoint traders and investors - particularly if my market concerns pan out

* Consider hedging bank stocks or writing calls against positions now

There was near a universal view that bank stocks were unattractive in March-April last

year.

When the ($XLF) was about $21, and I was buying, it was over $31.50 in pre-market trading, one analyst on our site said it was patently foolish to expect a rally in the sector. As to leading the market it was next to unimaginable to that observer.

A well-known

commentator on CNBC said banks were uninvestable because of some vague theory and narrative that they have permanently lost their competitive advantage. (He is now long!)

Others have just wobbled back and forth without any conviction.

I spent months in my Diary, in the media

and in speeches, outlining the merits - both short and long term - of the banking industry and stocks. I am sure, as the stocks traded near their lows, many were fed up with my own theories on the banking industry's attraction.

The rest is history.

Of late, bank stocks have

led the markets with large absolute and relative gains.

* Net interest margins are benefiting from economic optimism. 2s/10s are widening, interest rates are rising and inflation breakevens are hitting multi year highs.

* As well, many now recognize that loan loss provisioning may have been excessive and that reserve reversals may lie ahead.

* Meanwhile, the Feds have taken their feet off the banking industry's necks and are now permitting share buybacks.

While it has paid to be anticipatory in the group I am fearful that we are now in a sell on the news situation for financials. Expectations, so low in 1Q2020, are so high in 1Q2021.

I make this statement because I believe the next six months or so represent a fundamental risk that global economic growth may not live up to expectations. Already Europe is sinking (as I have discussed in my Diary) and domestic economic activity is failing to meet consensus expectations in the current quarter. Moreover, the challenges of gutted industries - like hospitality, travel, education, etc. - represent a near term and intermediate term challenge.

I also make this statement because I believe the broad market is vulnerable for the many reasons mentioned recently in my Diary.

As to the reports coming up over the next week, given the continuing macro economic headwinds, I, importantly, expect most EPS reports will be only in line to slightly below consensus expectations. While capital market activity should beat projections, aggregate revenues will be down sequentially, fourth quarter expenses will be higher and loan loss provisioning will be flat to slightly higher from the third quarter.

With bank stocks elevated, in-line to slightly lower reports, relative to consensus expectations, could modestly disappoint traders and investors - particularly if my market concerns pan out.

When the stocks traded at their lows nine months ago I predicted that, in a market dominated by programs and algos, traders, who abandoned the bank sector would embrace the stocks later in the year as "buyers live higher and sellers live lower". And that is exactly what has happened. Traders, strategists, technicians all love the group now.

I have

already taken profits in ($MS) , ($GS) and ($XLF) , but still have medium-sized long positions in ($C) , ($BAC) , ($JPM) and ($WFC) .

And I am now considering taking an XLF short hedge against my "forever" holdings in banks to insulate me from some turbulence over the next few

months. (Later in day I shorted XLF)

As an alternative, I am also considering writing calls in my four bank holdings to protect me from the downside, to take in some premium and to avoid large taxable gains.

Stay tuned... @jimcramer @tomkeene @riskreversal @ScottWapnerCNBC

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