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**From:** jeffrey E. <jeevacation@gmail.com>  
**Sent:** Friday, August 5, 2016 3:54 PM  
**To:** Ens, Amanda; Richard Kahn  
**Subject:** Re: MEGA Action: Post NFP Trades: Hedge US Credit, Buy Financials, Buy USD proxies, Buy Biotech

amanda lets talk today

On Fri, Aug 5, 2016 at 10:01 AM= Ens, Amanda <[REDACTED]> > wrote:

The Tai= Hedge: Buy Puts on IG Credit. A Dec LQD 98% Put (\$120.00) costs 1.29% (\$1=55, ref: \$122.80, 7.6 vol, 38 delta) or sell JGBs.

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MEGA Action: Strong US pa=roll data risks steepening of US yield curve - tail hedge US credit exposu=es.

<=>

- Post Strong US Payroll Data we still see a December=US rate hike.
- \* =/span>Growing hike expectations will steepening=the US and Japan yield curves. The question is how do Risk Parity funds ha=dle “The Great Rotation” as US equities continue to look m=re attractive than Fixed Income?
- \* =C2\* Financials and Health=are and Technology to outperform Utilities and Staples.

=C2\* =C2\* USD should also benefit as the US yield curve steepens.

=C2\* There is a chart pack below.

<=>What is the Trade?

1. The Tail Hedge:=Buy Puts on IG Credit. A Dec LQD 98% Put (\$120.00) costs 1.29% (\$1.55, ref= \$122.80, 7.6 vol, 38 delta) or sell JGBs.

2.=span style="font:7.0pt "Times New Roman""> <=span>Financials =utperformance: Buy Regional Banks Call. A Dec KRE, 103% Call (\$42) costs 3=8% (\$1.60, ref: \$41.65, 23.0 vol, 36 delta)

<= style="line-height:150%">3. =Or=buy a 6M ATM worst-of {XLF (financials) call, XLU (utilities) put} f=r ~1.38% (65% discount to the average vanilla option)

<=pan style="font-size:10.0pt;line-height:150%;font-family:"Verdana&q=ot;"sans-serif"">4. =span>Post earnings – Buy Healthca=e & Biotech on improved outlook: Buy Calls on Bio-Tech Index. A Dec 10=% (\$310) IBB Call costs \$12.70 (4.1%, ref \$296.00, 26.0 vol, 41 delta)<=u>

=b>5. =/u>USD Strength Trade: Short the BA=L "Weak USD Winners Equity Custom Basket", MLDIUSDC Index.=u>  
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#### Rationale

=span style="font-size:10.0pt;font-family:"Verdana", "sans-=erif"">US Payroll data was a very strong report showing that the econ=omy can resume a higher trajectory of growth into the second half of the ye=r and the Fed can deliver a hike in December.

=p class="MsoNormal">1) NFP was up 255K with net positive re=isions of 18K. The 6month moving average of 189K suggests a solid pace of =rowth.

2) Hou=ehold jobs surged 420K, reversing the recent few months of weakness. This =ffset the increase in the labor force participation to 62.8 from 62.7%, wh=ch is an encouraging sign for the longer run trajectory of job growth. =/u>

3) Average hourly=earnings increased 0.3%, leaving the yoy rate unchanged at 2.6%, showing t=at wages are sticking at a higher pace.

4) The Unemployment rate held at 4.9% while the=underemployment rate (U6) increased to 9.7%.

5) Professional & business services saw =he strongest job growth of 70,000, though this sector tends to account for=a good portion of job growth generally. Only mining and logging (-7k) and =nformation services (0k) were weak.

Post Q2 earnings results, Health =are is now in a strong position to outperform <<http://rsch.baml.com/r?q=-f=Kv0H2hhlw6fcYbuRtA&e=jeevacation%40gmail.com&h=7Ws4Wg>> . The sector saw more positive than negative revisions to estimat=s on a three-month basis, more positive than negative revisions to sales f=recasts and management has been most positive in guidance.</=pan>

The N=sdaq Biotechnology Index (NBI) has surpassed S&P500 (up 13% vs.=5%) since the end of 1Q, thanks to increased M&A activity and solid 2Q=earnings reported by the large-cap biotech companies as a group <<http://sch.baml.com/r?q=DcR3HFJA9Gr!8M4aKdamg&e=jeevacation%40gmail.com&mp;h=oE91Sw>> =/span>. Recent NBI rally suggests a "real" =urn in market sentiment post major sector sell-off beginning last August. =2% of S&P 500 companies have beaten on EPS, 52% have beaten on sales a=d 40% have beaten on both compared to full-quarter historical averages of =3%, 57% and 35%, respectively.

"Global Equity=Volatility Insights  
<<http://rs=h.baml.com/r?q=GCfeDc!MVw2r!8M4aKdamg&e=jeevacation%40gmail.com&am=:h=1H7UoA>>" from June 28 and su=gests risk parity fund leverage is high and we do not think the relationsh=ps have changed significantly. As correlation between bonds and SPX increa=es, risk parity leverage increases.

The Bank of Japan's "=comprehensive assessment" in Sep MPM is creating intense speculation<=span>  
<<http://rsch.baml.com/r?q=Qnr=!5ChBkWr!8M4aKdamg&e=jeevacation%40gmail.com&h=Hiu8QQ>> . BoJ may make QQE more flexible whic= would enhance policy sustainability risking steeper yield curve, stronger=yen and weaker equity but bank shares to rise. If the BoJ does move to mak= policy more flexible, we think the focus will be on JGBs, rather than on =negative interest rates.

Chart Pack:

Nasdaq Bio Tech Index: Buy Calls on Bio-Tech=b>

In JGB Futures, 150.60 is an impor=ant level for all global fixed income.

<=span>

Regional Bank ETF (KRE): Buy Calls on KRE=span style="font-size:10.0pt;font-family:"Verdana","sans-erif"">

Short the BAML "Weak USD Winne=s Equity Custom Basket"

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This chart is a danger for risk parity funds as bond/eq=ity correlation swings positive.<=span>

=span style="font-size:10.0pt;font-family:"Verdana","sans-erif"">

=p class="MsoNormal">Greg Kaldor=span style="font-size:10.0pt;font-family:"Verdana","sans-erif";color:#948671">  
Managing Director

US MEGA (Macro Equity & Global Alpha)

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B/Berry [REDACTED]

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=A0 please note

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