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|---|---|
| **From:** | jeffrey E. <jeevacation@gmail.com> |
| **Sent:** | Friday, August 5, 2016 7:11 PM |
| **To:** | Ens, Amanda |
| **Subject:** | Re: MEGA Action: Post NFP Trades: Hedge US Credit, Buy Financials, Buy USD proxies, Buy Biotech |

yes

On Fri, Aug 5, 2016 at 3:08 PM, Ens, Amanda =lt;amanda.ens@bam=.com <mailto:[redacted]wrote:

Perfect. Should I call yo=r[redacted] number?

From: jeffrey =. [mailto:jeeva=ation@gmail.com <mailto:jeevacation@gmail.com> ]
Sent: Friday, August 05, 2016 3:08 PM
To: Ens, Amanda
Subject: Re: MEGA Action: Post NFP Trades: Hedge US Credit, Buy Fina=cials, Buy USD proxies, Buy Biotech

sorry just landed , does now=work?

On Fri, Aug 5, 2016 at 12:06 PM, Ens, Amanda[redacted]> wrote:

Jeffr=y, sounds great. Would this afternoon after 1:30pm ET work for you? I =80 d also like to introduce my colleague Greg Kaldor (his bio is below.)

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Greg =aldor is a Managing Director in the Macro & Equities Global Alpha Grou= (MEGA) based in New York. In this position, Greg is responsible for generating robust and executable trade ideas through cross referencing=our macro and equity research with positioning and flow data.

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Greg =oined BofA Merrill in Sydney, Australia in 1985 and has spent the followin= 30 years in a range of leadership roles across fixed income and currencies; trading and structuring FX interest rate products a=d now equities. Most recently, Greg held the position of Managing Director=in FX Institutional Sales in New York, where he covered senior macro Portf=lio Managers as well as writing strategically on alpha opportunities.

=A0

Prior=to this role, Greg was the Global Head of FX structuring, a London-based p=sition where he was responsible for running the firm's institutional FX sales business until 2008. Greg later joined a London-bas=d hedge fund implementing systematic hedging strategies for FX markets.

=A0

Prior=to this role, Greg was as an FX option trader and later an FX option struc=urer in New York.

=A0

Greg =olds a Bachelor of Commerce in Accounting and Finance from the University =f New South Wales in Sydney, Australia.

=A0

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Amanda Ens<=>

Director

Bank of America Merrill L=nch

Merrill Lynch, Pierce, Fe=ner & Smith Incorporated

[redacted]

amanda.ens@baml.com <mailto:yuriko.=ita@baml.com>

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The power of global conne=tions™

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

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MEGA Action: Strong US =ayroll data risks steepening of US yield curve - tail hedge US credit expo=ures.

* Post Strong US Payroll Data we still see a December US =ate hike.

* Growing hike expectations will steepening the US and Ja=an yield curves. The question is how do Risk Parity funds handle "=he Great Rotation" as US equities continue to look more attractive than Fixed Income?

* Financials and Healthcare and Technology to outperform =tilities and Staples.

* USD should also benefit as the US yield curve steepens.=</span>

* There is a chart pack below.

What is the Trade?

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

2. Financials Outperformance: Buy =egional Banks Call. A Dec KRE, 103% Call ($42) costs 3.8% ($1.60, ref: $41=65, 23.0 vol, 36 delta)

3. Or buy a 6M ATM worst-of {XLF (=inancials) call, XLU (utilities) put} for ~1.38% (65% discount to the aver=ge vanilla option)

4. Post earnings – Buy Hea=thcare & Biotech on improved outlook: Buy Calls on Bio-Tech Index. A D=c 104% ($310) IBB Call costs $12.70 (4.1%, ref $296.00, 26.0 vol, 41 delta)

5. USD Strength Trade: Short the B=ML "Weak USD Winners Equity Custom Basket", MLDIUSDC Index=

Rationale

US Payroll data was a very strong re=ort showing that the economy can resume a higher trajectory of growth into the second half of the year and the Fed can deliver a hike in December.

1) NFP was up 255K with net positive re=isions of 18K. The 6month moving average of 189K suggests a solid pace of growth.

2) Household jobs surged 420K, reversin= the recent few months of weakness. This offset the increase in the labor force participation to 62.8 from 62.7%, which is an encouraging sign for t=e longer run trajectory of job growth.

3) Average hourly earnings increased 0.=%, leaving the yoy rate unchanged at 2.6%, showing that wages are sticking at a higher pace.

4) The Unemployment rate held at 4.9% w=ile the underemployment rate (U6) increased to 9.7%.<=p>

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

Post Q2 earnings results, Health Care is now in a strong position to outperform=/span> <http://r=ch.baml.com/r?q=--f3Kv0H2hhIw6fcYbuRtA&e=jeevacation%40gmail.com&a=p;h=7Ws4Wg> . The sector saw more positive than =egative revisions to estimates on a three-month basis, more positive than negative revisions to sales forecasts and management ha= been most positive in guidance.

The Nasdaq Biotechnology Index (NBI) has surpassed S&P500 (up 13% vs. 5%) =ince the end of 1Q, thanks to increased M&A activity and solid 2Q earn=ngs reported by the large-cap biotech companies as a group <http://r=ch.baml.com/r?q=DcR3HFJAJ9Gr!8M4aKdamg&e=jeevacation%40gmail.com&a=p;h=oE91Sw> . Recent NBI rally suggests a "real" turn in market sentiment post=major sector sell-off beginning last August. 62% of S&P 500 companies =ave beaten on EPS, 52% have beaten on sales and 40% have beaten on both co=pared to full-quarter historical averages of 53%, 57% and 35%, respectively.

“Global Equity Volatility Insights <http://rsch.baml.com/r?q=GCfeDc!MVw2r!8M4aKdamg&e==eevacation%40gmail.com&h=1H7UoA> ” from June 28=and suggests risk parity fund leverage is high and we do not think the rel=tionships have changed significantly. As correlation between bonds and SPX=increases, risk parity leverage increases.

The Bank of Japan’s "comprehensive assessment" in Sep MPM is=creating intense speculation <http://r=ch.baml.com/r?q=QnrX!5ChBkWr!8M4aKdamg&e=jeevacation%40gmail.com&a=p;h=Hiu8QQ> . BoJ m=y make QQE more flexible which would enhance policy sustainability risking steeper yield curve, stronger yen and weaker equity but bank shares to ris=. If the BoJ does move to make policy more flexible, we think the focus wi=l be on JGBs, rather than on negative interest rates.

Chart Pack:<=b>

Nasdaq Bio Tech In=ex: Buy Calls on Bio-Tech

US Investment Grad= ETF, (LQD in white) and (Shares Outstanding in Green). Buy Puts on IG Credit.

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In JGB Futures, 15=.60 is an important level for all global fixed income.

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Regional Bank ETF =KRE): Buy Calls on KRE

Short the BAML  =80 Weak USD Winners Equity Custom Basket"</=>

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This chart is a da=ger for risk parity funds as bond/equity correlation swings positive.

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

US MEGA (Macro Equity &am=; Global Alpha)

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T Gregory.Kaldor@baml.com <tel:%2B1-646-855-2572>

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