



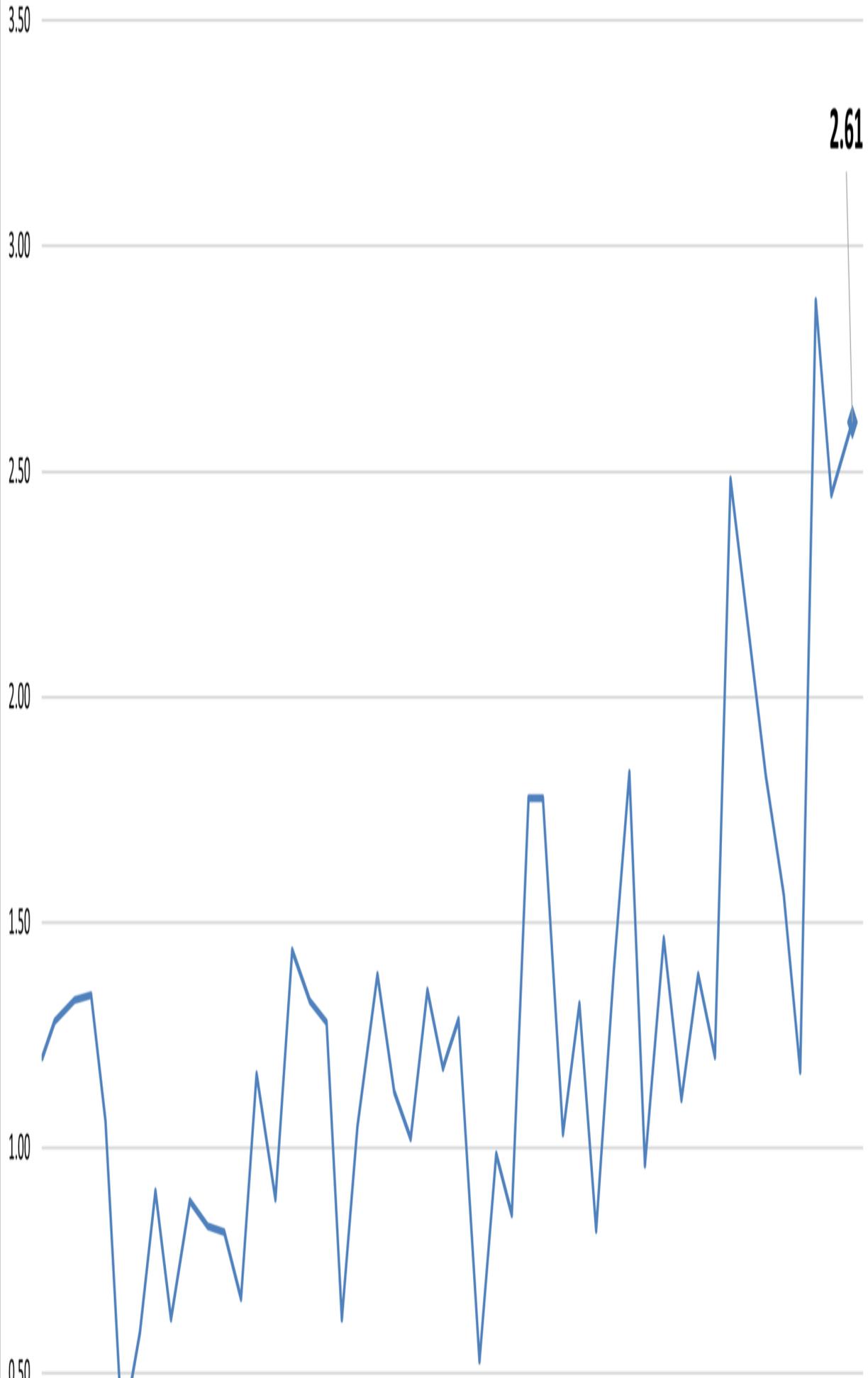
Bond Vigilantes Are Building Tremendous Short Positions

Our Commentary from January 7, [Outflows Of TLT Are Tremendous](#), discussed the "tremendous" investor outflows of the bond ETF- TLT. While outflows are often associated with investors being bearish, that is not always true. Nonetheless, TLT is in a bearish trend, and indeed, some of the record outflows from TLT are due to the environment. It's not just selling TLT and bonds driving the trend higher in yield; short sellers also play a significant part. In bond parlance, short sellers are often referred to as bond vigilantes.

Bond vigilantes refer to bond traders shorting bonds to protest monetary and/or fiscal policy. The moniker makes these traders appear to be do-gooders out for the nation's better good. Accordingly, in theory, their actions will force the government or Fed to take actions to reverse harmful monetary or fiscal policies. Such paints a heroic picture of bond vigilantes. The reality is these are traders solely looking out for their wallets, not yours or Uncle Sam's. They are short bonds in the hope yields rise to earn hefty profits. When the trend changes, they will cover their short positions and go long, regardless of their monetary or fiscal policy opinions.

The graph below shows that short interest as a percentage of average daily volume is now 2.61x, the highest over two years.

TLT Short Interest: Days To Cover



What To Watch Today

Earnings

Friday Jan 17	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Truist Financial TFC.US	0.88	0.81		5.04B	5.76B	\$58.6B	Q4	PM	★ 🔔
Schlumberger SLB.US	0.90	0.86		9.2B	8.99B	\$57.94B	Q4	PM	★ 🔔
Fastenal FAST.US	0.48	0.46		1.84B	1.76B	\$42.96B	Q4	AM	★ 🔔
State Street STT.US	2.36	2.04		3.29B	3.04B	\$29.84B	Q4	AM	★ 🔔
Huntington Bancshares HBAN.U	0.31	0.27		1.88B	1.72B	\$24.85B	Q4	PM	★ 🔔
Regions Financial RF.US	0.55	0.52		1.86B	1.81B	\$22.79B	Q4	PM	★ 🔔
Citizens Financial CFG.US	0.82	0.85		1.96B	1.99B	\$20.78B	Q4	PM	★ 🔔
Webster Financial WBS.US	1.35	1.46		687.1M	634.8M	\$10.07B	Q4	PM	★ 🔔
BOK Financial BOKF.US	2.00	1.78		517.65M	501.56M	\$7.02B	Q4	AM	★ 🔔

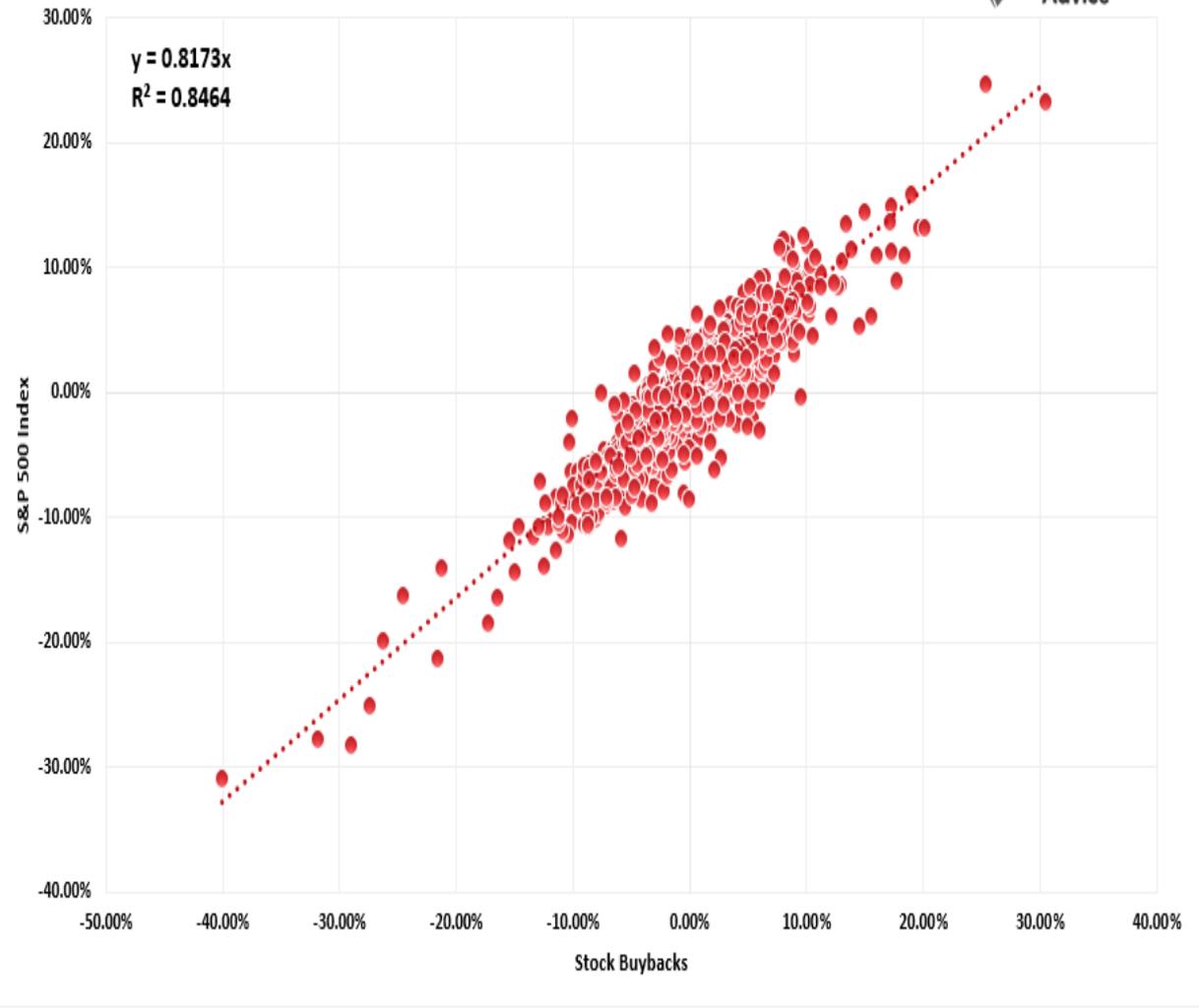
Economy

Friday January 17 2025	Actual	Previous	Consensus	Forecast	
07:30 AM US Building Permits Prel DEC		1.493M	1.46M	1.48M	🔔
07:30 AM US Housing Starts DEC		1.289M	1.32M	1.32M	🔔
07:30 AM US Building Permits MoM Prel DEC		5.2%		-0.9%	🔔
07:30 AM US Housing Starts MoM DEC		-1.8%		2%	🔔
08:15 AM US Industrial Production MoM DEC		-0.1%	0.3%	0.1%	🔔
08:15 AM US Capacity Utilization DEC		76.8%	77%	76.9%	🔔
08:15 AM US Industrial Production YoY DEC		-0.9%		-0.5%	🔔
08:15 AM US Manufacturing Production MoM DEC		0.2%	0.2%	0.4%	🔔
08:15 AM US Manufacturing Production YoY DEC		-1%		-0.7%	🔔

Market Trading Update

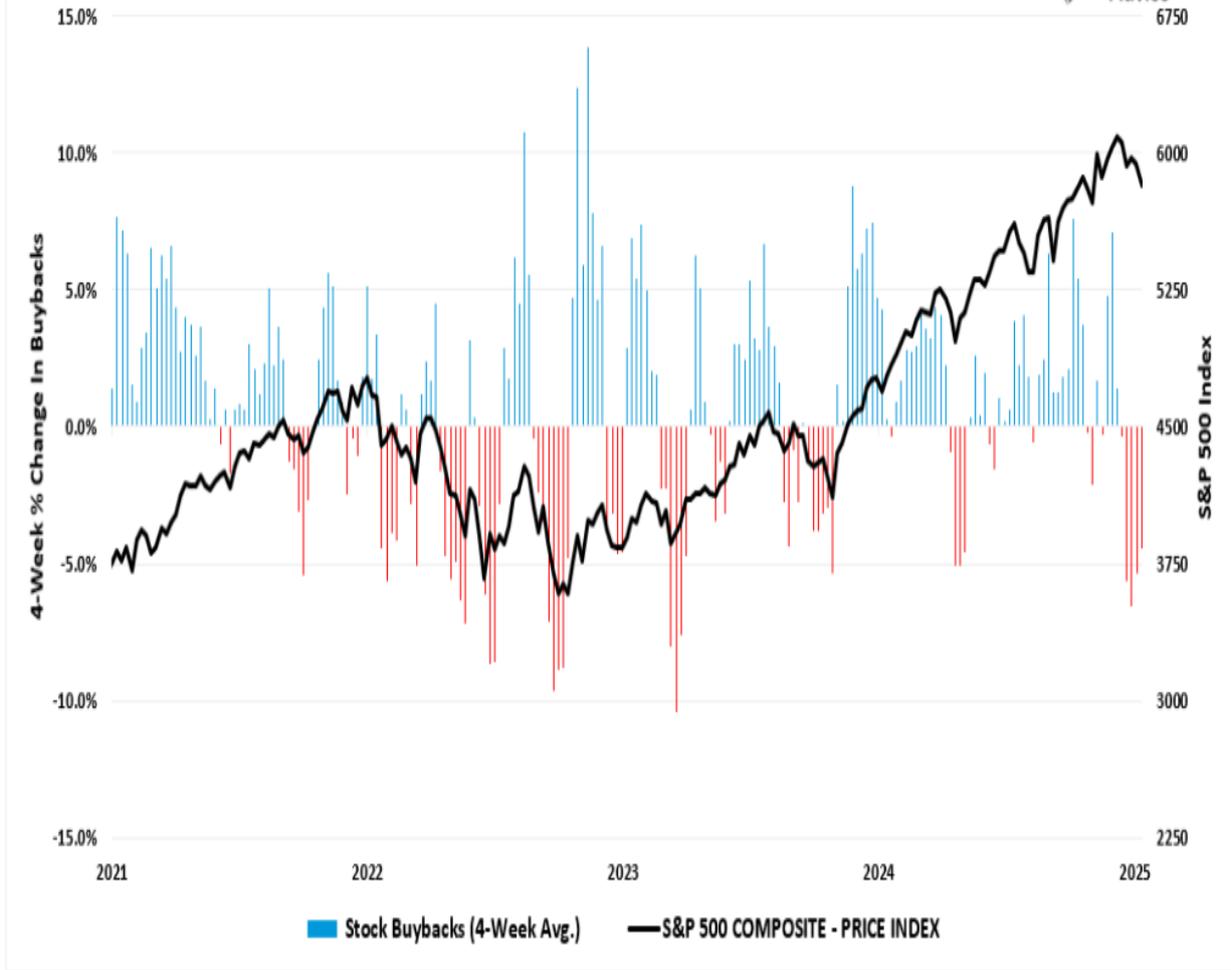
Yesterday, we discussed that the strong rally following the CPI report has kept the market's bullish trend intact for now, and we are close to triggering a short-term buy signal. While the market has been digesting the enormous gains from last year, one of the underlying supports for the market starting in the last two weeks of December was the closure of the corporate share repurchase window, better known as the *buyback blackout* period. With earnings season underway and gaining momentum over the next two weeks, that major *buyer* of equities is set to return. As companies announce earnings, they are then able to start share repurchases. As shown, share repurchases and market returns have an extremely high correlation.

Share Repurchases Vs Stock Market Returns

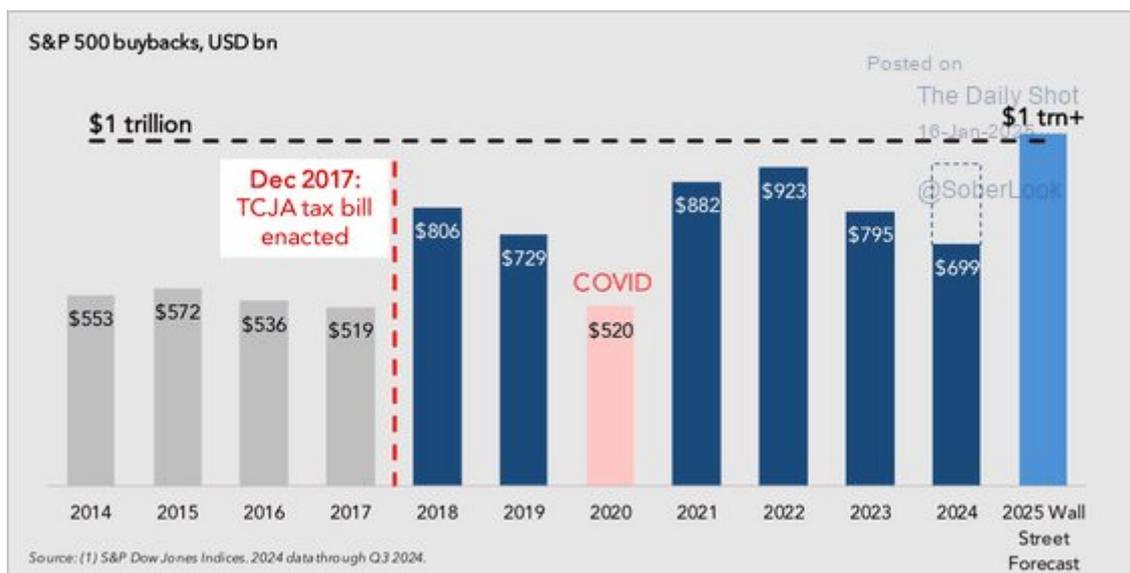


As shown, the ebbs and flows of corporate share buybacks dictate the ebb and flow of market returns.

4-Week Average In Share Buybacks Vs S&P 500



The good news is that in 2025, corporations are set to establish a record level of share repurchases exceeding \$1 Trillion. Sure, that's a trillion dollars that could go to expanding businesses, increasing wages, and supporting the economy, but hey, executive compensation is more important than that? I guess.



Regardless of your feelings about share buybacks, the one truth is that the current bull market has a lot of support planned for it this year.

Will The BOJ Melt Markets Again?

On August 5, 2024, Bloomberg ran an article entitled *BOJ (The Bank of Japan) Under Fire for Rate-Hike Timing After Market Meltdown.* The somewhat surprising BOJ rate hike on August 5 and their hawkishness caused US stocks to quake. Investors feared the yen carry trade, which had propelled stocks for many years, was ending. Because the stock market and many other global markets reacted so violently, the BOJ backed off on its hawkish. The yen, as shown below, which significantly rallied against the dollar leading up to and following the rate hike, faded in time as BOJ members talked down their actions.

Recently, the yen has perked up slightly in anticipation of another BOJ rate hike on January 24th. Thus far, the move has been minimal, and investors don't appear to be fearful. A difference between August and today is the Fed. Then, the market was assured the Fed would cut rates in September and the months ahead. Diverging monetary policy between Japan and the US would strengthen the yen and reduce the incentives driving yen carry trades. Today, the Fed has a dovish tilt but is effectively on hold. Thus, a BOJ rate cut may not have the same impact as last year. However, continued hawkishness from Japan and promises of more hikes could rattle investors.



Deficit Doom

The following Tweet is troubling.

***BREAKING:** The US budget deficit hit a massive \$711 BILLION for the first 3 months of Fiscal Year 2025. This is ~\$200 billion, or 39%, higher than in the same period last year. The deficit reached \$2.0 TRILLION for the full calendar year 2024, up \$248 billion*

YoY.

The deficit is too high and problematic, creating a strong headwind toward productivity and economic growth. However, the tweet above lacks context. It would also be helpful to know how much our ability to take on more debt has changed. For example, the deficit rose by \$200 billion in the first three months of the current fiscal year. We don't have GDP for the quarter yet, but conservatively assuming it grows by 3%, GDP will increase by \$220 billion. The annual deficit rose by \$248 billion throughout fiscal year 2024. GDP over the same year rose by \$1.9 trillion.

While growing deficits are troubling, the flat debt-to-GDP ratio since 2022 provides some comfort that they are not worsening. Moreover, headlines like those above tell half a story. Bond investors best understand the whole story.



Tweet of the Day



MacroMicro @MacroMicroMe · Jan 14



🚩 US heavy truck sales plunged 9.5% YoY to 0.42M in Dec 2024, hitting the lowest level since 2020.

Historically, this indicator has often signaled S&P 500 bear markets.

Will this time be different?

en.macromicro.me/collections/34...



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