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## A wall of cash and technical factors support risk assets

◆ **Stock markets breach several technical indicators pushing some bears to capitulate.**

◆ **Money market funds' assets under management rose by US\$1.2 trillion in the past three months.**

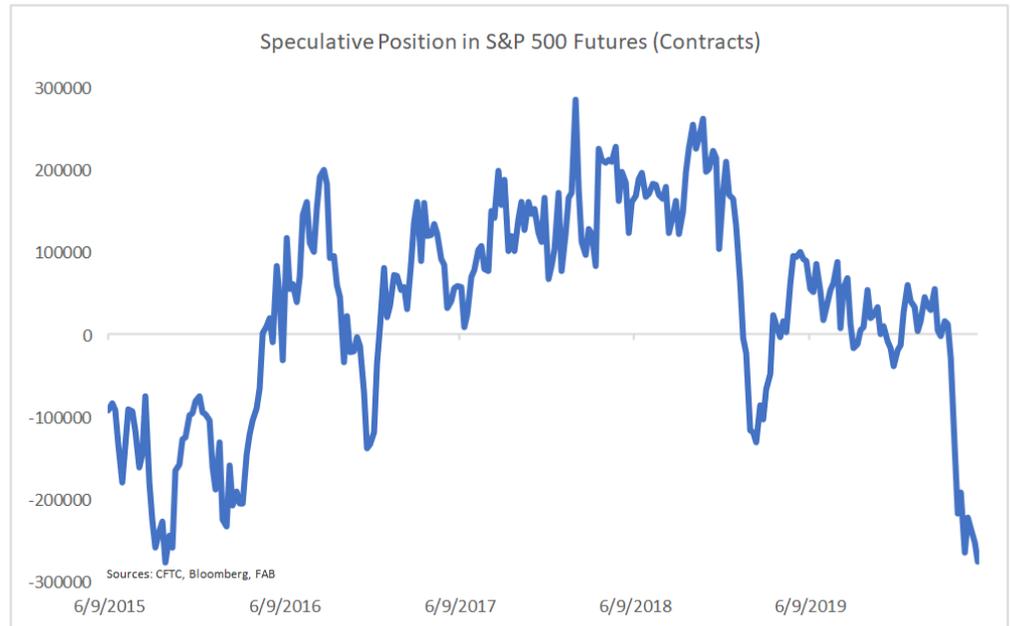
◆ **Hedge funds have the largest net short position in S&P 500 futures in five years, which could backfire.**

◆ **FAB AAC remains underweight in equities and overweight in gold.**

Financial markets tend to discount the future cash flows of assets and, therefore, are sometimes less focused on the current situation. That could be a significant part of the explanation for why the Nasdaq is again trading near a record high even as the streets of New York are literally set on fire by growing protests.

There are indeed a raft of technical measures to support a further rally and to suggest that any downside will be limited — for the time being. One of them, the breadth of the market, helps explain why some of the bears have started to capitulate and reenter the market. As of yesterday, 97% of the S&P 500 stocks were above their 50-day moving average, usually a marker for further strength ahead. Similarly, the index itself has now solidified its hold above the 200-day moving average, another important bull market indicator.

The latest rally in the market has also been marked by more diversity. While five technology stocks had accounted for about a quarter of the points the index gained between 23 March and 21 May, yesterday the rally was led by much more



boring names, such as Coty or GAP. That suggests investors are also starting to chase value, betting that these cyclical laggards will catch up with the rest of the market. This further suggests that perhaps funds are putting cash to work.

Since the March sell-off, funds raised their average cash level to nearly 6%, according to a Bank of America Merrill Lynch fund manager survey. That was the highest since 2008. That high cash level has also been reflected in the money market funds' assets under management, which have increased by about US\$1.2 trillion in the past three months to US\$4.8 trillion. All that cash eventually has to be deployed and it seems like the technical barrier breaches are emboldening fund managers to deploy it.

So much cash also puts a floor on any potential downside, since many managers may actually be waiting for the next sell-off to invest their rising pile of cash.

### CFTC data is showing the largest speculative short on the S&P 500 since 2015

On the flip-side, hedge funds seem to be increasingly convinced that the market cannot continue disconnected from the real world for too long. Commodities and Futures Trading Commission data showed last week the largest speculative short position in S&P 500 futures contracts since 2015. That, unfortunately, only supports another leg up for now. If the rally continues, those shorts will have to be covered and to do so hedge funds are likely to invest in the S&P 500 itself.

Eventually, however, after the cash is deployed and the speculative positions are cleared, investors will have to cope with the reality being written on the streets. Until then, even if irrational, the rally may continue for a bit longer.

# Investment Strategy Update

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