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Instant Thoughts

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Optimism Unbound, Seemingly

- **Since 1928 when S&P 500 was on a violent run, topping 20% growth in the first eight months of the year, shareholders were richly rewarded for their fealty over the next four months, with a respectable 8.5% return on average. Buying the dip, however shallow, seems a hard and fast rule.**
- **Chasing an army of frenzied investors rarely pays off big time.**
- **Hedgers are digging deeper into pockets to protect themselves against volatility spike. And bond traders are doubling down on the idea that yield could become unmoored.**
- **As we witness the wild goose chase, remember Ralph Waldo Emerson's quote, "the great man is he who in the midst of the crowd keeps with perfect sweetness the independence of solitude."**

Doom-monger, often posing as financial conservatives, want you to question whether we can afford to keep investing in September, historically the worst performing month with a -0.6% averaged return in S&P 500 since WWII.

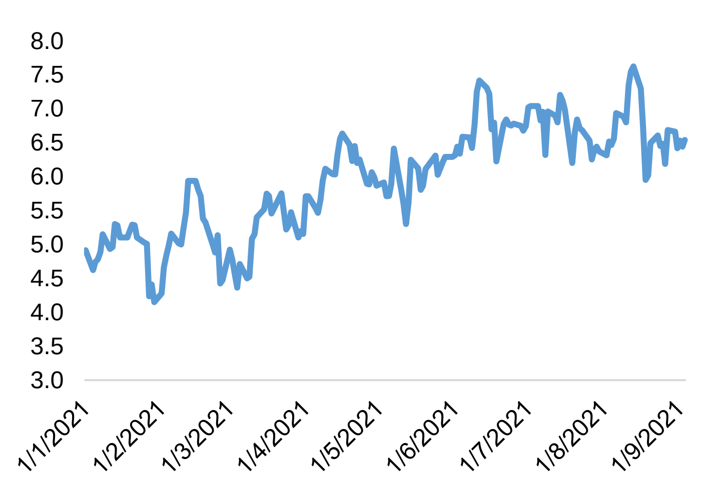
The better question, apparently, is whether we can afford not to. What else are we going to buy when U.S. 10-year Treasuries offer a pittance of 1.3%? Bond investors felt hung out to dry for the most part of the year. And speaking of historical parallels, since 1928 when S&P 500 was on a violent run, topping 20% growth in the first eight months of the year, shareholders were richly rewarded for their fealty over the next four months, with a respectable 8.5% return on average. This is not even a prediction, but a statistical fact.

With so many bullish reasons being spoken aloud, risk-on play seems a shoo-in, and buying the dip, however shallow, is a hard and fast rule.

But chasing an army of frenzied investors rarely pays off big time. 2020 is a case in point - there are always unexpected twists in the road.

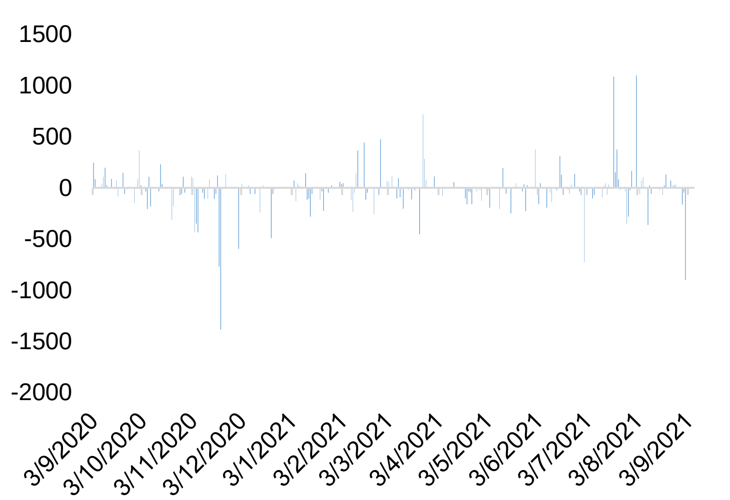
In fact, the long list of market absurdities is unsettling. The urge to buy protection has been as tense as ever. If we look at the less talked-about VVIX Index, which measures the volatility surface of options on the VIX, it's marching steadily higher against the VIX (Exhibit 1). In other words, hedgers are digging deeper into pockets to protect themselves against volatility spike.

Exhibit 1: VVIX / VIX



Source: Bloomberg, Shanghai Commercial Bank

Exhibit 2 : Daily Flow of ishares 7-10 Treasury ETF (US$ million)



Source: Bloomberg, Shanghai Commercial Bank

Equally striking, bond traders are doubling down on the idea that yield could become unmoored. ishares 7-10 year Treasury ETF had bleed a billion dollars in a single day last week (Exhibit 2), its biggest one-day withdrawal since last November.

Hubris is a dangerous trait after all. As we witness the wild goose chase, remember Ralph Waldo Emerson's quote, "the great man is he who in the midst of the crowd keeps with perfect sweetness the independence of solitude."

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