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Crowded longs

- There are estimates that the average US equity long/short fund is down just over 4% year-to-date. However, the same source* puts crowded longs down 12.5% YTD – the worst start since 2010.
- GVIP is an ETF that tracks the top stock picks of blue chip Hedge Funds. At the end of 2021 the fund factsheet suggested the "very important positions" had a tech heavy skew. Today, the long positions seem split across asset managers, banks, energy as well as tech.
- It is, first-&-foremost, a bottom up stock picking strategy. But while holdings are selected according to company fundamentals, macro has become increasingly important. Qi's GVIP model confidence is now 65% - it is back in a macro regime.
- The valuation gap is at an extreme. GVIP is 2.7 sigma, 8.6% cheap to the macro environment. Critically though model fair value is trending lower. The prevailing macro conditions are deteriorating, it is just that spot has moved lower at a quicker pace.



The new regime has a distinct Goldilocks feel – reflation, easy monetary policy, healthy risk appetite. Given the Fed's hawkish pivot in 2022, that explains the move lower in both spot & model value. The good news for the optimists is a lot of bad news is now priced. But, as always, Qi would prefer to wait for macro-warranted model value to bottom out & inflect higher before taking advantage of the FVG signal.

^{*} Source: Morgan Stanley Prime Brokerage

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