

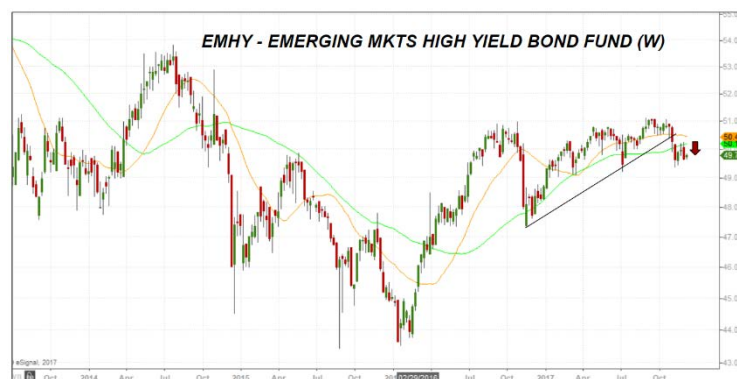
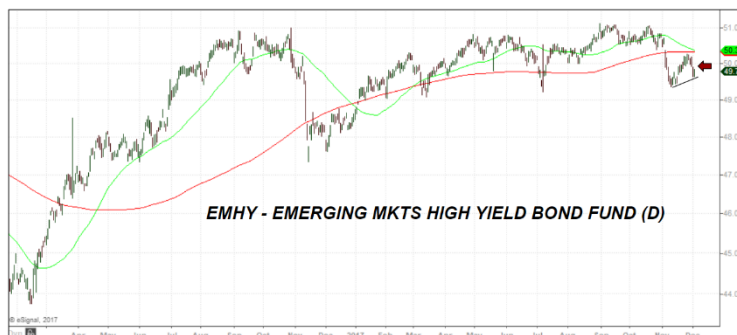
Ready to short EM high yield on V-bottom failure (12-05-17)

The gist: The EM high yield debt ETF is nearing a complete reversal of its V-bottom and could be shortable on its way to a new downtrend after a long topping process.

Actions: Will establish a new moderate short in EMHY on a confirmed $\frac{1}{2}$ ATR break of the 12-01-17 lows, with risk to $\frac{1}{2}$ ATR above the 11-28-17 highs.

The world is awash in credit and low-yielding debt. This is largely due to the 2008 financial crisis response, in which central banks doubled down on debt levels and the rest of the world followed suit. Total debt levels are now something like 50% higher than 10 years ago.

When the mood turns, credit markets are likely to feel it first. Take a look at the long-term pattern for EMHY, the emerging markets high yield debt ETF.



EMHY has been going sideways just above its 200 day MA (top chart) for roughly a year. Now it is showing sign of tapping out once again, with a drop below the 200 and a pending 50 day / 200 day bearish cross.

In mid-November, EMHY rebounded sharply from a vertical drop in the classic V-bottom style. But the past few days have reversed that progress. If EMHY continues to drop, we are ready to establish a short position on the potential for a real decline to begin. The embedded volatility risk makes the pot odds look favorable, and historically volatile EM debt has been near the epicenter of the yield chasing frenzy.