We'll Re-Short High Yield On a Break of the Jan 10th Lows (01-12-18)

The gist: High yield debt ETFS are showing sign of immediate reversal after a headfake spike higher. We will re-enter starter shorts if the Jan 10th lows are broken.

Actions: Will establish new starter level short positions in JNK, HYG and EMHY on a ½ ATR break of the Jan 10th lows.

The top chart shows one of the top threats to bullish euphoria. It's a trend of the interest rate on the 10-year Treasury going back to 2002.

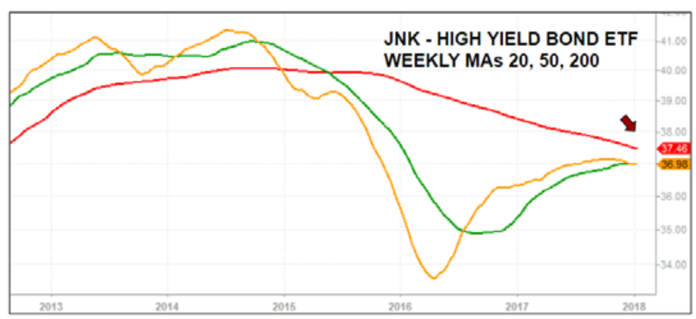
Interest rates have been in a downtrend since 2007 (and a broader downtrend since 1982).

Now interest rates are threatening to rise, at a time when the global economy has $233 trillion in debt (with debt levels up 50% since 2008).

This is a threat to the whole bullish stance, because higher interest rates destroy the case for the most inflated valuations in a century.

Rising rates also threaten to hit overheated credit markets, where risky deals have reached extremes.

We had initial shorts in JNK, HYG and EMHY that were taken out by a euphoria surge at the start of the year. These fake-outs are the kind of thing that happens in the context of a major topping process, as the prevailing forces resist as long as they can. It's the reason why big turns are usually hard.



But the upward spike in high yield is looking like a headfake, as JNK now shows, with the near-term possibility of confirming a reversal.

If interest rates continue to rise, high yield debt will feel the pain. The JNK 20 week moving average is also in the process of rolling into a downside cross with the 50 week. That is big.

We'll reestablish short positions on a break of the Jan 10th lows because, when this trend "goes," it will really go. Part of the reason for an explicit focus on big trends, with big pyramid and runway potential, is that the ability to scale up the trade, over many months, makes all of the exploration efforts worth it. Sometimes including multiple entry attempts in the early going.