

US ETF Index performance (5d): SPY -0.3%, DIA -0.1%, IWM +1.8%, QQQ +0.2%, TLT +1.2%, GLD +2.0%

TTG Market View

US Markets rallied off a 25 bps interest rate hike on Wednesday – which is very uncommon but **it was the language regarding future rate hikes that was the catalyst for the rally on Wednesday**. Janet Yellen said that same thing that she always says regarding the possibility of future rate hikes – if the US & Global economic data supports rate hikes then the Fed will hike. In addition, she said that she is not married to a set number of hikes in 2017. **The market perceived this as dovish and rallied.**

So, where does that leave us? In regard to chances of rate hike, **only a 13.3% chance of a hike occurring in May and a 53.5% chance in Jun according to Fed fund futures**. After last week's global central bank meetings that leaves us with very little macro / economic events on the short term horizon. **The VIX is a cool / calm 11.28 – however, the SKEW index, which measure the implied volatility of out of the money options prices is at a very high reading of 154**. We addressed this back in Jan when the SKEW had a reading of 145. Just as a reminder **a reading of 145 in the SKEW means that there is a 14.5% chance that there could be a 2 standard deviation move in equities** (vs a 120 SKEW and a 7.7% chance). The translation for me is that options are pricing in a big move and it would make sense to have some hedges in place in case of some stormy weather. Again, this is not meant to scare anyone, it just means that OTM option prices are implying a larger move than average.

That said, many of the trouble areas that I talked about in last week's newsletter have dissipated – **High Yield Bonds (HYG) found support at the 200d MA, Crude prices stabilized (at least for now), and Small Caps outperformed last week**. *So, while SKEW is unusually high, I don't see any major breakdowns in any charts, in fact globally they look strong.*

In this week's newsletter, I will be going through the major US indices, a look under the hood at the health of the US Sectors, fund flows, and going into detail about International markets which I feel have more opportunities than domestic presently.

SKEW vs SPY 1 year chart



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