

Positioning Intelligence | Tactical Takes

Where are we? (latest on Momentum, crowding, and de-grossing)

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Summary below – Distribution of the full report is restricted. To request access pls contact Position_Intel@jpmorgan.com

With HF performance rebounding a bit yesterday (and looking positive again today), here are some details on what we've seen lately.

Summary: HF performance started to recover on Tues as momentum / crowding performed much better. **HF crowding has seen sharp declines in the past month that are getting close to some of the worst we've seen in the past few years in both N. Am. and EMEA.** These would suggest much of the move could be over. However, gross flows have not shown nearly as extreme a move (beyond 1wk de-grossing in EMEA that is very large). Gross leverage remains elevated, but starting to tick lower. Hence, there could be risks if we either continue to sell-off (could hit L/S funds that haven't yet sold that much long risk) or if we rebound quickly (could hit Quants who have added gross from a flow perspective to maintain target leverage, but might have to reverse that if markets rally fast, especially if led by shorts). **The "best" scenario might be a steady recovery in market & HF performance and decline in volatility that allows for further risk adjustments.**

From a net perspective, CTA net risk in US equities is back near levels last seen in Oct '23, though above lows we saw in 2022. A lot of the net selling seems to be happening in futures. HF net flows in N. American stocks were more negative in late Jan to mid-Feb and have been more positive most recently (some buying of Mag7 / LC software & covering shorts in LC Health Care, Staples, Utilities vs. selling Airlines, Energy, Banks, Med Tech). Retail and ETF flows have been mixed, but not clearly showing outsized selling. **In general, the recent net flows would suggest that there's been modest selling and hedging of risk, but not more extreme capitulation. Our TPM's aggregate level of positioning remains very low on a 12m lookback (around -2z) and modestly below average since 2015 (-0.4z or 25-30th %-tile).**

Europe has seen **very challenging alpha in the past week**, which has coincided with one of the largest 5d de-gross periods of the past few years (-2.6z). Longs in Cap Goods, UK Exporters, Financials, and Health Care have been sold, while shorts covered in Consumer / Retail mostly. From a net perspective, flows have been slightly negative among HFs recently and we don't see the relative HF flows between US and EU following the continued EU outperformance. Among CTAs, the relative EU vs. US equity positioning is at the highest since 1H23 and we're seeing moves similar to early 2022 when US fell faster than EU risk. Momentum risk remains elevated.

In **Asia**, **HF performance has held up better and we've seen little in the way of de-grossing.** CTAs remain very net long HK stocks (near historical highs), while HFs have been selling HK stocks lately via short additions. Japan continues to be net sold, in line with YTD trend. HF net positioning remains somewhat high in HK stocks vs. past few years (L/S ratio at 71st %-tile and net exp +1z), though rolling over a little. Japan positioning is similar to HK vs. longer term data, though trend has been more consistently negative in past few months.

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