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## Global Markets Division

# S&P 500

Preparing for 2024 - a deeper dive into elections and potential rate cuts - US index positioning using a derivative strategy

**Growth Target: +10%**

**Investment Horizon: 1 year**

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# Team Overview

## Global Markets



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# Potential market drivers

What to expect from 2024?

## Events

### US Elections



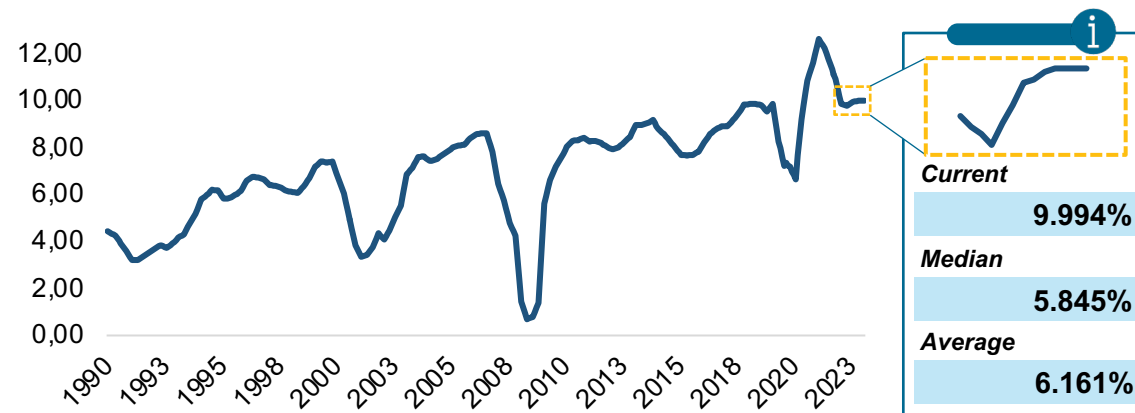
### Inflation



### Recession



## Profit Margin of the S&P 500



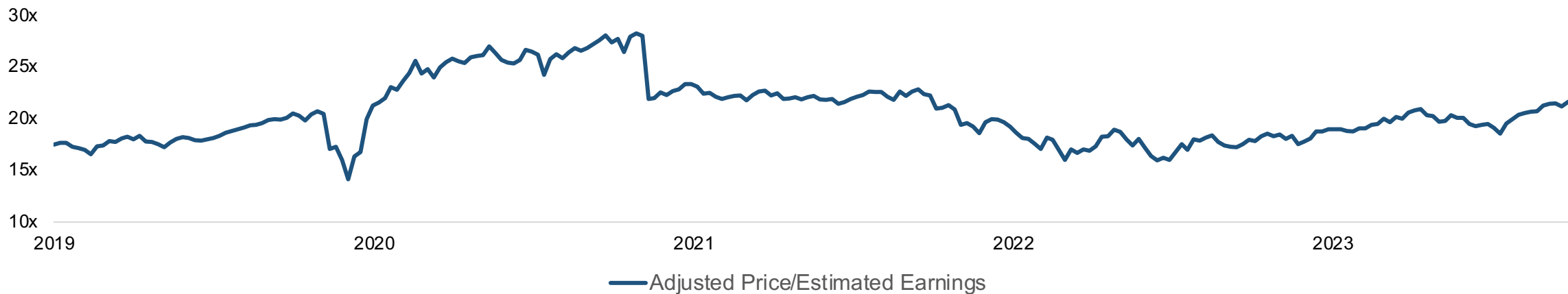
## Forecast Consensus

Goldman Sachs Targets	Baseline	Faster growth lower yields	Slower growth Higher yields	Recession
2024 EPS growth	5%	9%	1%	(15)%
Equal weight P/E	14x	15 x	13 x	13 x
%ile rank vs history	65%	77%	58%	53%
Aggregate P/E	18x	19 x	16 x	15 x
%ile rank vs history	83%	86%	71%	61%
Real 10y UST yield	2.3%	1.8%	3.0%	1.3%
<b>S&amp;P 500 level</b>	<b>4700</b>	<b>5000</b>	<b>4150</b>	<b>3700</b>
% total return vs current	6%	13%	(6)%	(16)%
% rank since 1976	50%	25%	10%	15%
	29%	47%	13%	5%

# The magnificent 7 vs. the remaining 493

Magnificent 7 compromise 29% of the S&P 500 market cap

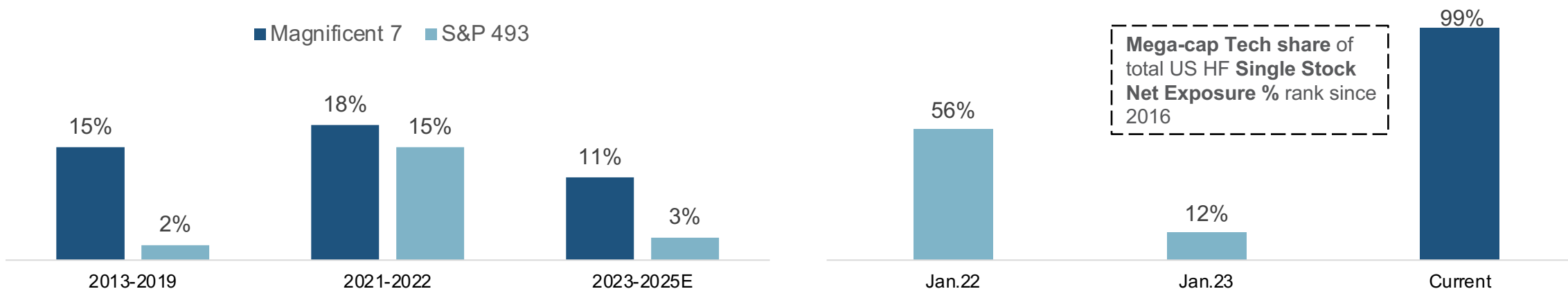
## Magnificent 7 trade at a large P/E premium vs. the rest of the market



## Consensus sales growth CAGR

## Hedge fund positioning in tech is back

■ Magnificent 7 ■ S&P 493





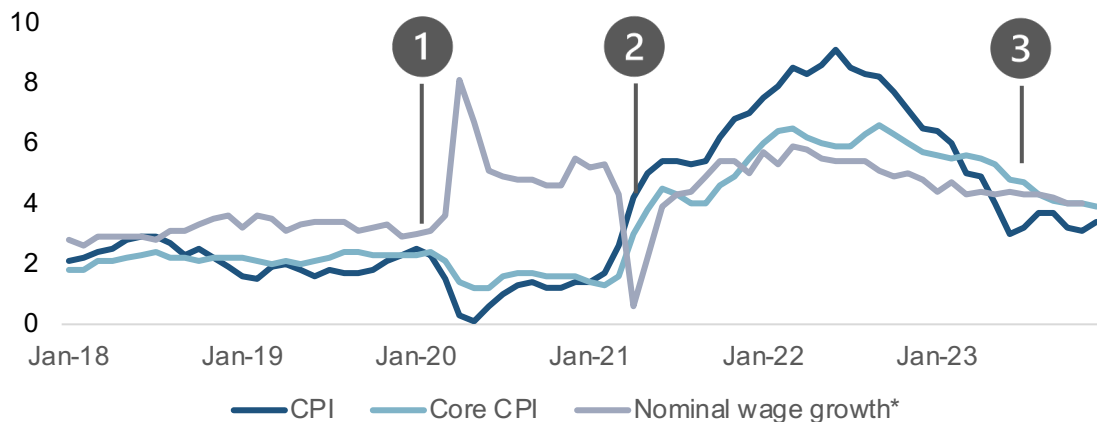


# Macroeconomic Overview

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## Will inflation meet expectations?

### Headline- /Core inflation and nominal wage growth for the US



### Breakdown of main events



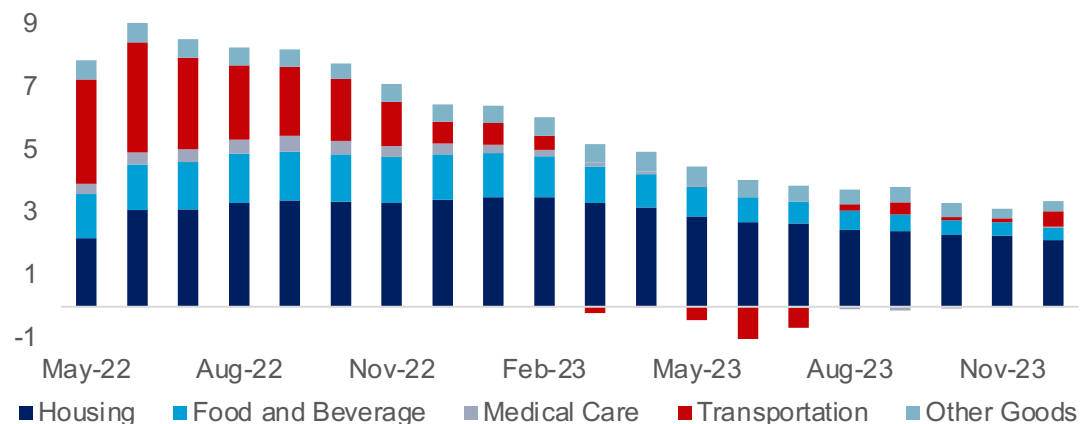
#### Inflation dynamics

- 1 Covid: Low Inflation but high nominal wage growth
- 2 Supply shortages & excess liquidity
- 3 Interest rate hikes effects



Does the inflation development meet our investment thesis?

### Major expenditure groups – CPI breakdown



Although the inflation level fell significantly, it is still above the Fed's 2% target

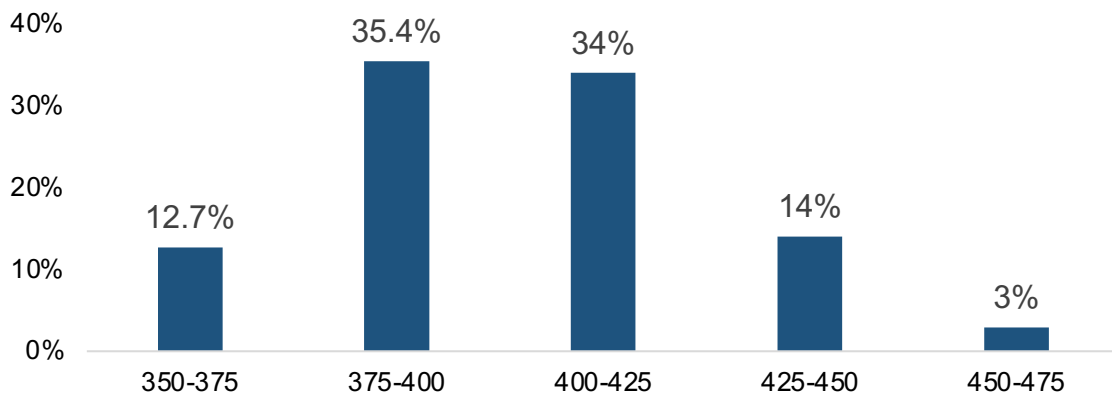
Real wage growth and rising consumer confidence with strong labor market

Wage perspective: growing demand can be expected, but no recovery yet

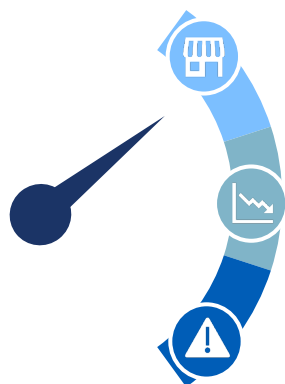
# Has the Fed officially achieved a soft landing?

As the Fed stays put, market bet on timing of rate cuts

## Target rate probabilities for 18 Dec 2024



## Current sentiment



### Market expectations

35,5% chance of a Fed rate cut by March

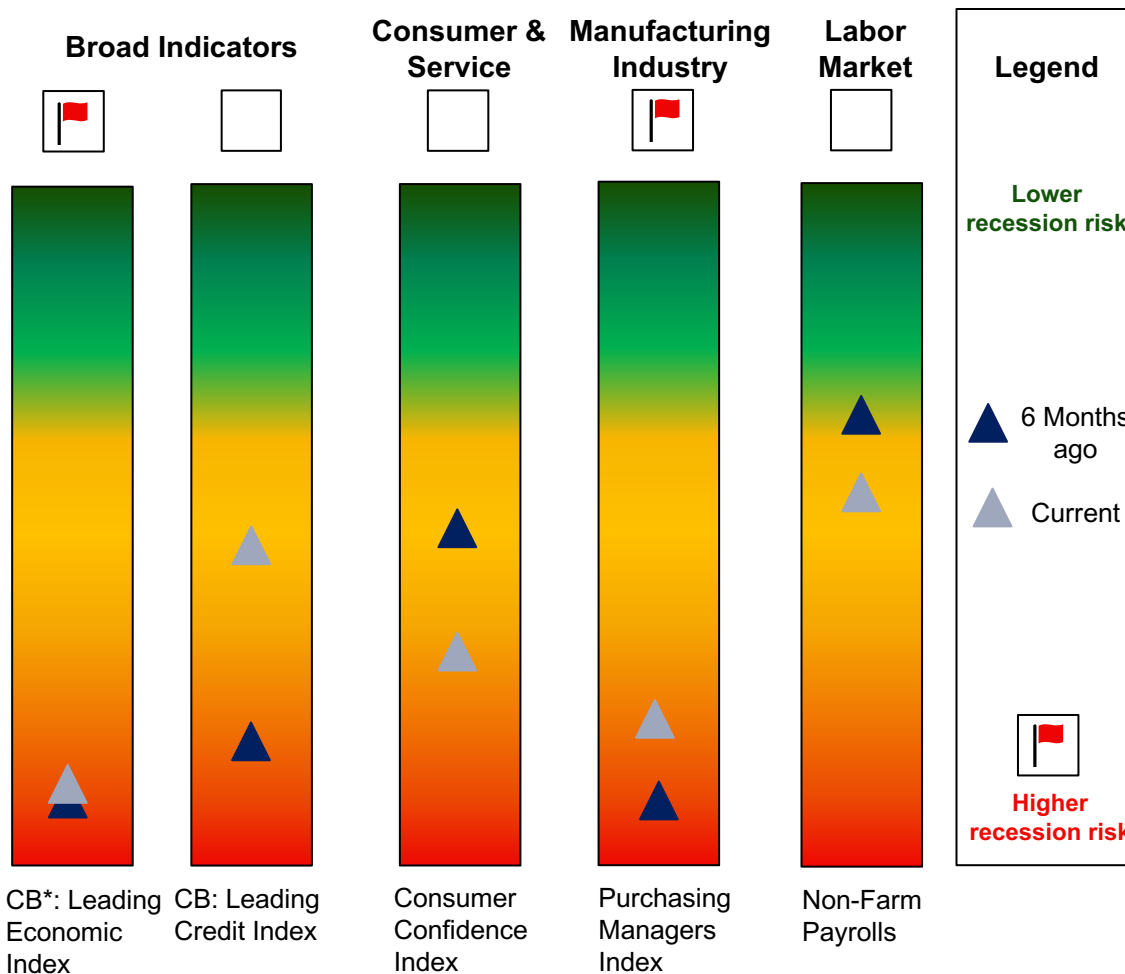
### Declining inflation

Projected inflation for 2025 is 2.2%

### Low recession risk

Currently there are no signs for an outright recession

## US economic monitor: Recession risk assessment







# US 2024 Presidential Election

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# What will make this election matter to markets?

We can expect a Biden -Trump rematch in 2024

Only a few states typically determine the presidency

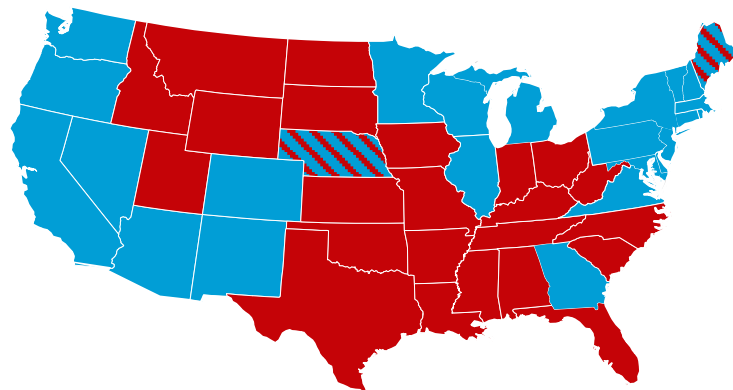
## Democrats



**Joe Biden**  
President (incumbent)  
80 years old | Delaware



**Marianne Williamson**  
Author  
71 years old | Iowa



## Republicans

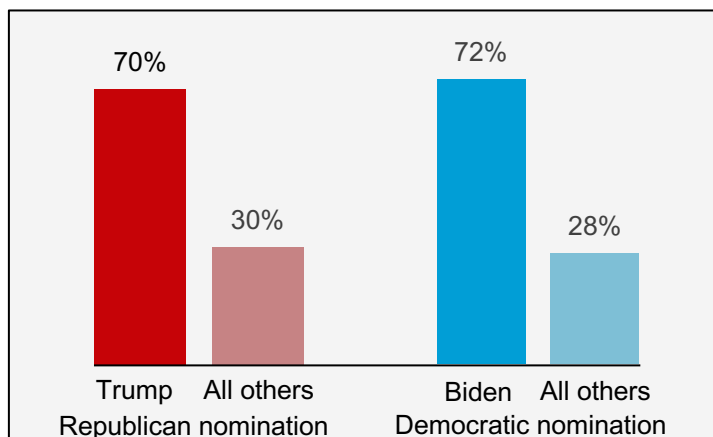


**Donald Trump**  
Former President  
77 years old | Florida



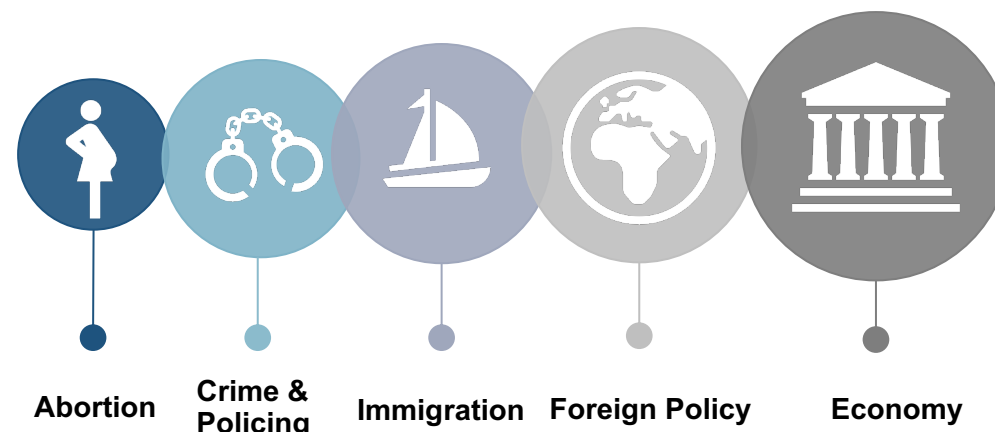
**Nikki Haley**  
Former Governor (SC)  
51 years old | South Carolina

## Prediction of the primary election



The lack of **ideological overlap** across political parties makes finding **common ground** on divisive issues ever **more challenging**.

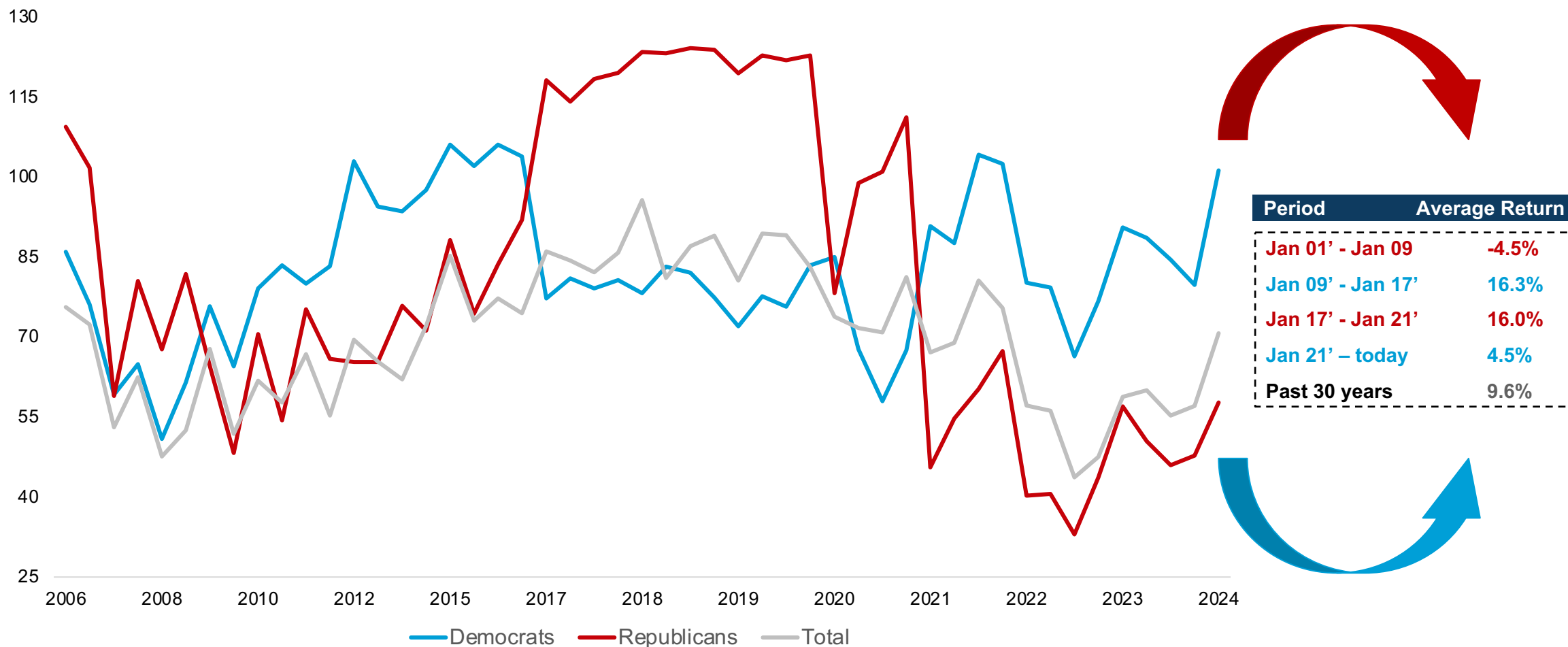
## Issues that will define the 2024 election



# Economic Views by Party

Republicans optimistic when GOP leads, Democrats positive under Democratic rule

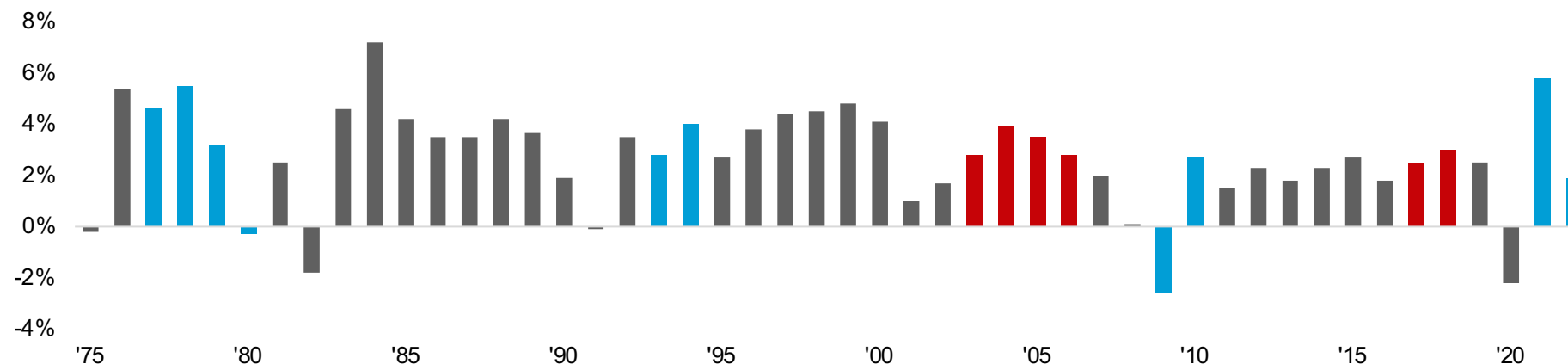
% who say economic conditions in the US today are excellent or good



# Republicans VS Democrats

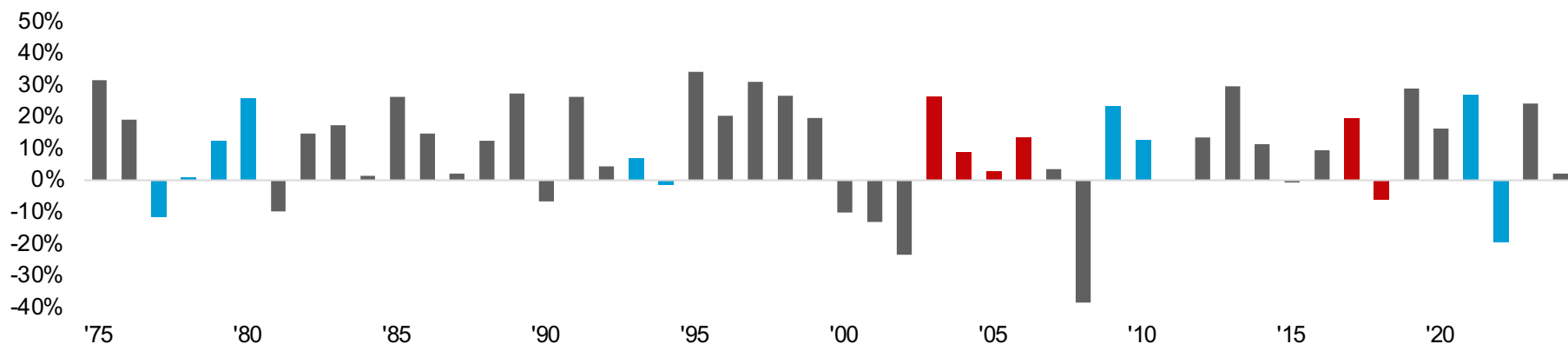
The Economy and the markets both performance well, regardless of who is in power

Real GDP (Year-over-year % change, annual)



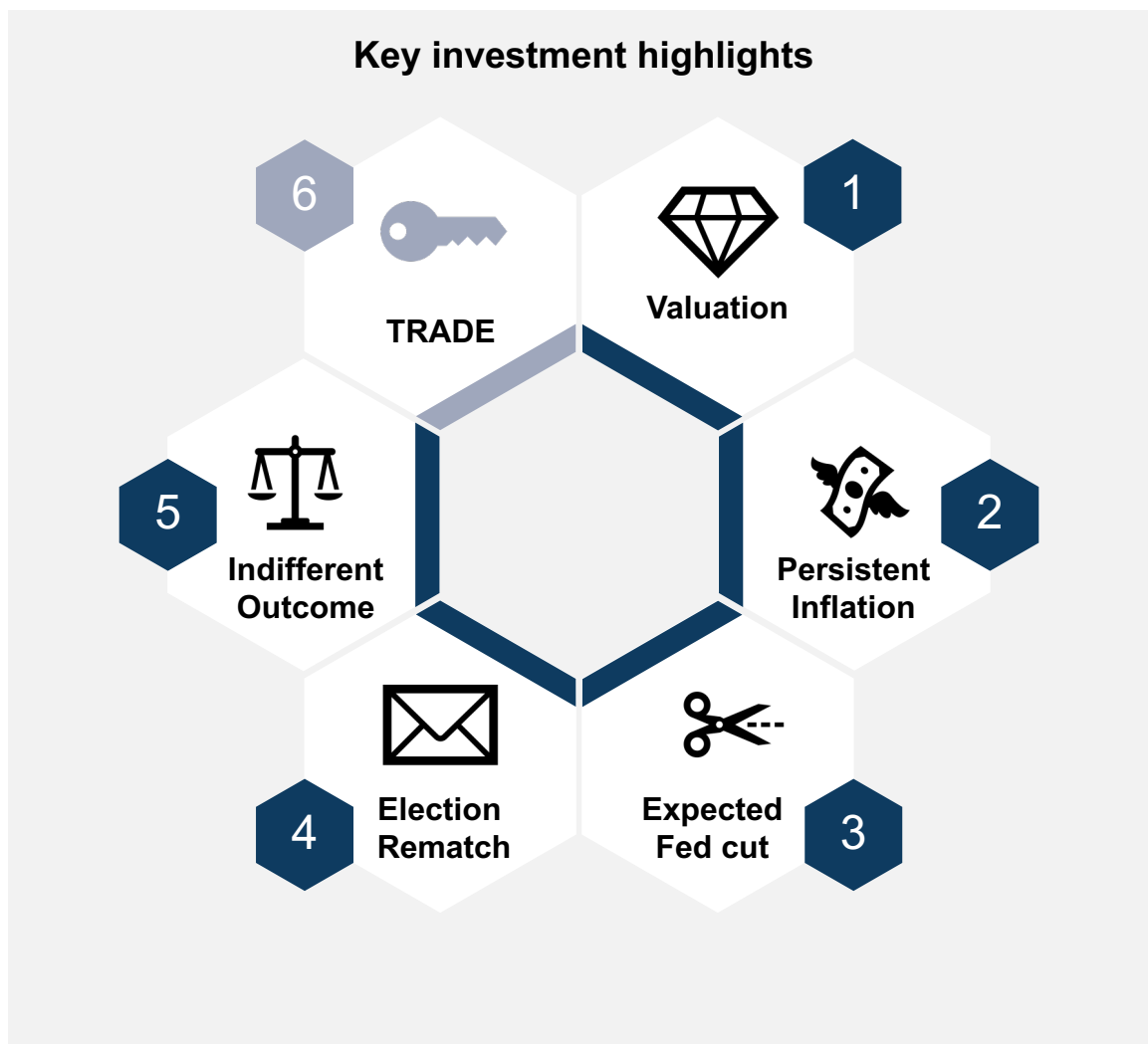
Party	Average	% of time
Republican	2.8%	10%
Democrat	4.0%	29%
Divided gov't	2.7%	61%

S&P 500 Price Index (Calendar year returns)



Party	Average	% of time
Republican	12.9%	10%
Democrat	9.3%	29%
Divided gov't	8.3%	61%

S&P will end 2024 at 5200 (+10%)



- 1 Valuation**  
We believe the fundamentals of the largest stocks will support the current valuation premium
- 2 Persistent Inflation**  
Inflation has declined but exceeds the 2% target, with real wages growing amidst a robust labor market, yet no complete wage recovery
- 3 Expected Fed Cut**  
Market expectations suggest a possible Fed rate cut in Summer amidst varying levels of recession risk across economic indicators
- 4 Election Rematch**  
We can expect a Biden-Trump contest with focus on major issues like abortion, law enforcement, and the economy
- 5 Indifferent Outcome**  
Regardless of the ruling party, the economy and financial markets have historically shown strong performance
- 6 Investment Conclusion**  
Given the economic landscape, potential Fed rate cuts, and election-year market trends, we arrive at a target price of 5200 (+10%) for the S&P 500





# Trade

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# Implementation of the strategy

Using a Short Put to exploit our hypothesis

## Short Put

Position	Expiration	Strike Price	Break Even Point	Net Credit	Max Loss
Sell 50x SPX 12/31/24 P5075 @ \$276.45	Dec 31, 2024	\$5,075	\$4,798.55	\$1,382,250	-\$23,992,750

## Details

### Key figures

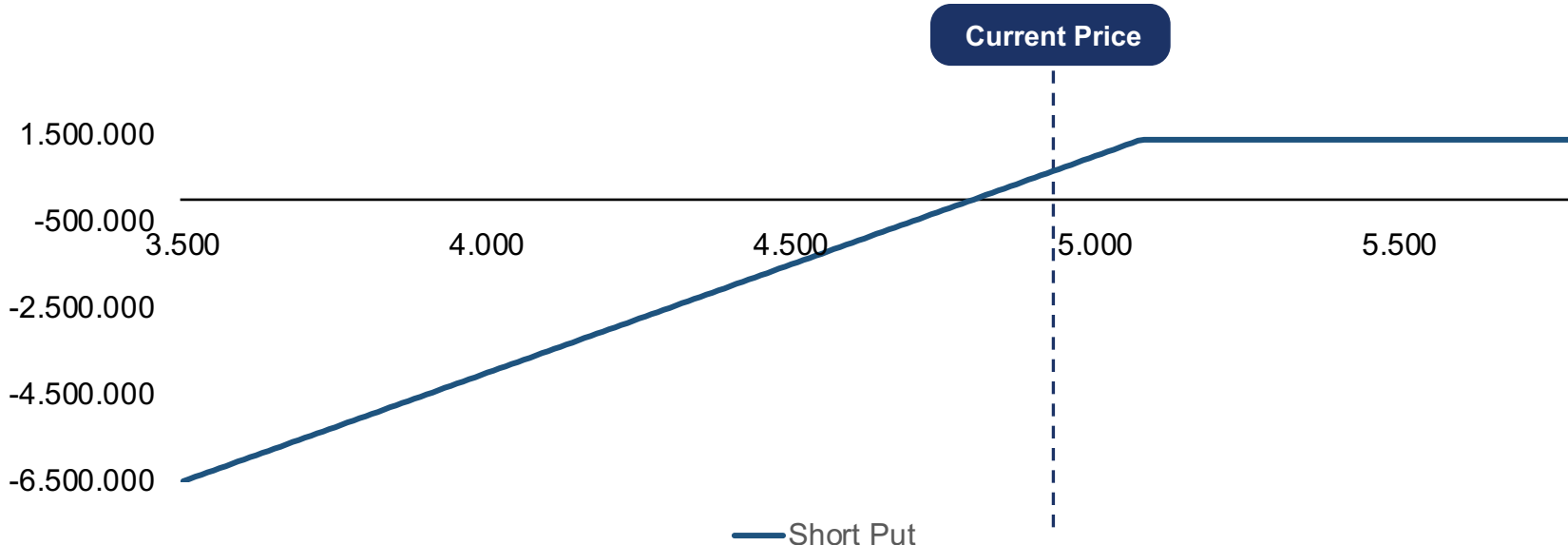
- Profit/Loss: 0.06
- Probability of profit: 64%
- Max Return (64%): \$1,382,250
- Max Loss (<1%): \$23,992,750

### Greeks

- Δ Delta: 22.78
- ∇ Vega: -928.27
- Θ Theta: 3.19

### Risks

- 2024 Election
- Black Swan event



# Implementation of the strategy

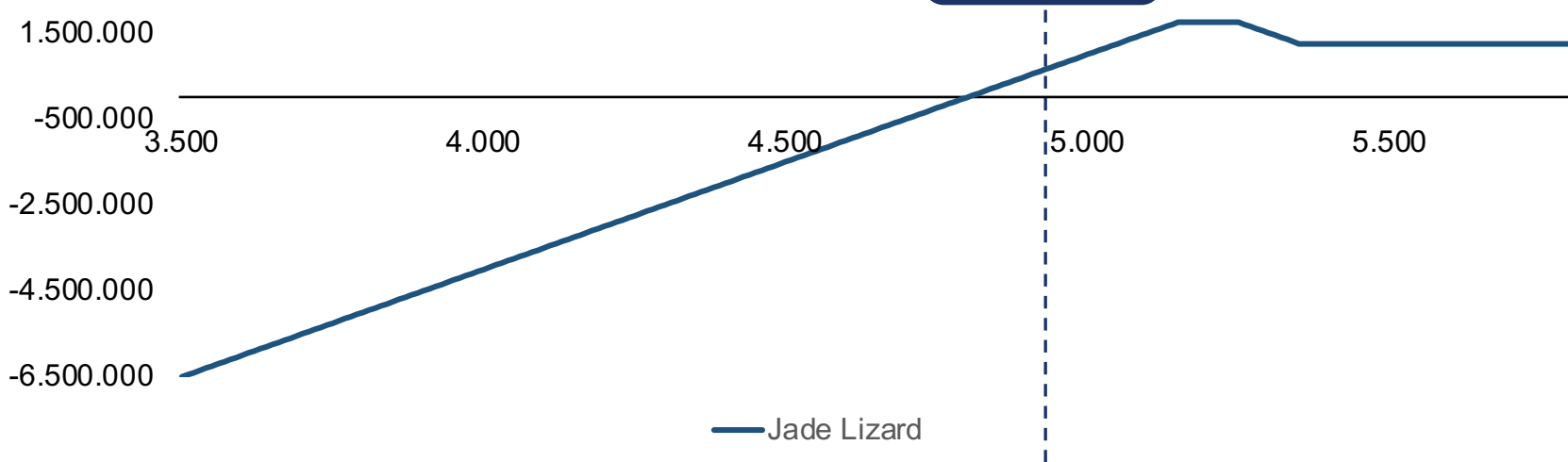
Using a Jade Lizard to exploit our hypothesis

## Jade Lizard

Position	Expiration	Strike Price	Break Even Point	Net Credit	Max Loss
Sell 50x SPX 12/31/24 P5150 @ \$308.35	Dec 31, 2024	\$5,150	\$4,801.70	\$1,741,500	-\$24,008,500
SELL 50x SPX 12/31/24 C5250 @ \$164.30		\$5,250			
Buy 50x SPX 12/31/24 C5350 @ \$124.35		\$5,350			



Current Price



## Details

### Key figures

- Profit/Loss: 0.08 (options)
- Probability of profit: 64%
- Max Return (5.3%): \$1,741,500
- Max Loss (<1%): \$24,008,500

### Greeks

- Δ Delta: 21.80
- ∇ Vega: -967.91
- Θ Theta: 3.16

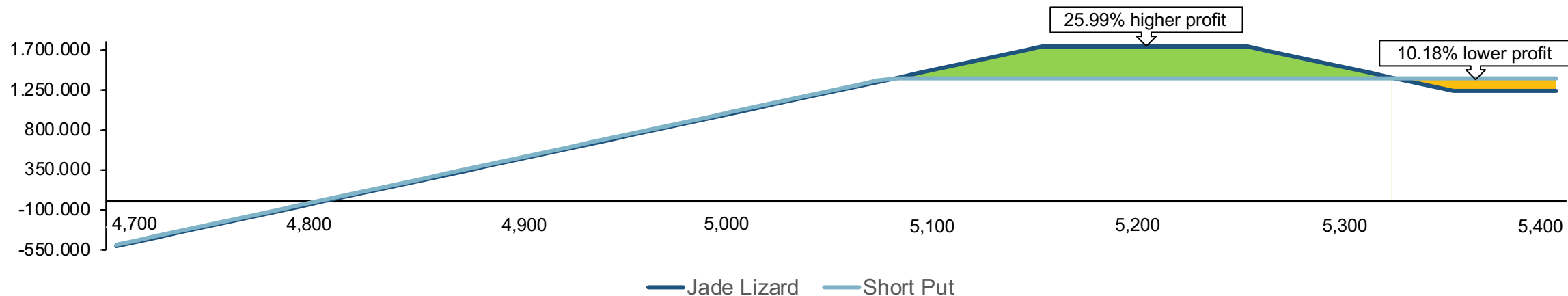
### Risks

- 2024 Election
- Black Swan event

# Comparison Jade Lizard vs. Short Put

The advantages of the Jade Lizard dominate



## Payoffs



## Key Figures

	Jade Lizard	Short Put
Max Profit	\$1,741,500	\$1,382,250
Max Loss	\$24,008,500	\$23,992,750
Profit/Loss	0.08	0.06
Break Even	4,801.70	4,798.55

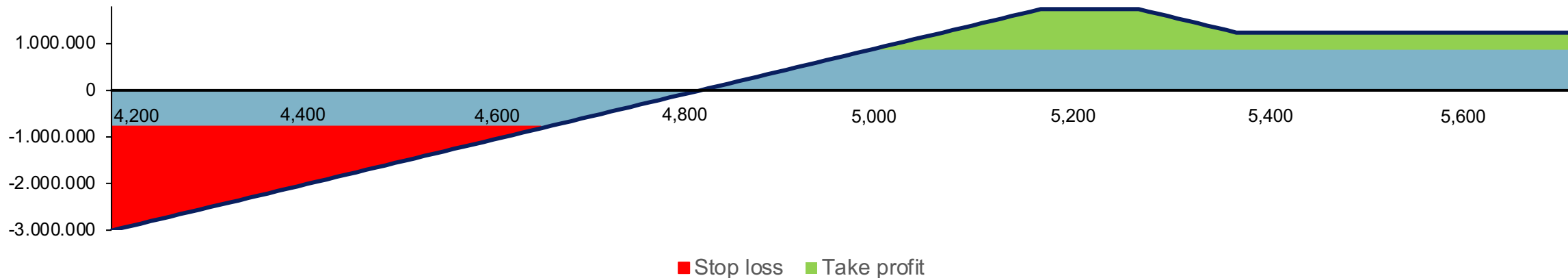
## Advantages/Disadvantages

	
<ul style="list-style-type: none"> <li>Higher profit/loss ratio</li> <li>Higher potential profit with same risk</li> <li>Taking advantage of the volatility skew</li> </ul>	<ul style="list-style-type: none"> <li>Limited profit potential</li> <li>Unlimited risk on the downside</li> <li>Lower profit when the underlying asset increases significantly</li> </ul>

# Trading Summary

Implementing Stop Loss and Take Profit to protect against losses and secure profits

## Jade Lizard



### Take profit

- 50% of max profit – starting to take profits
- 5200 - profit target
- Profit to risk ratio: 430/120 points – 3.58

### Stop loss

- 4649 – close below
- Watching market action close
- Liquidation if confidence lost

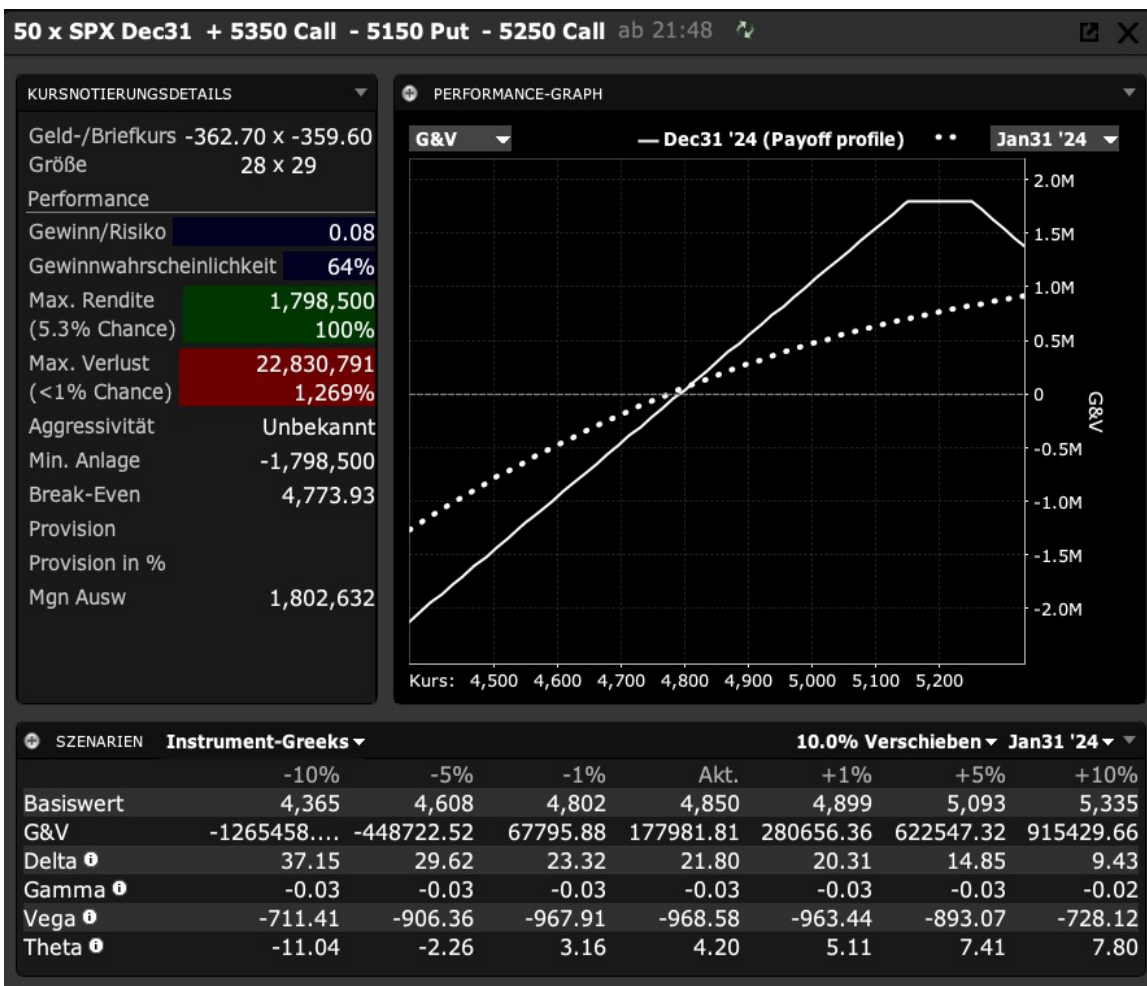
**i** Option strategy distorts the risk



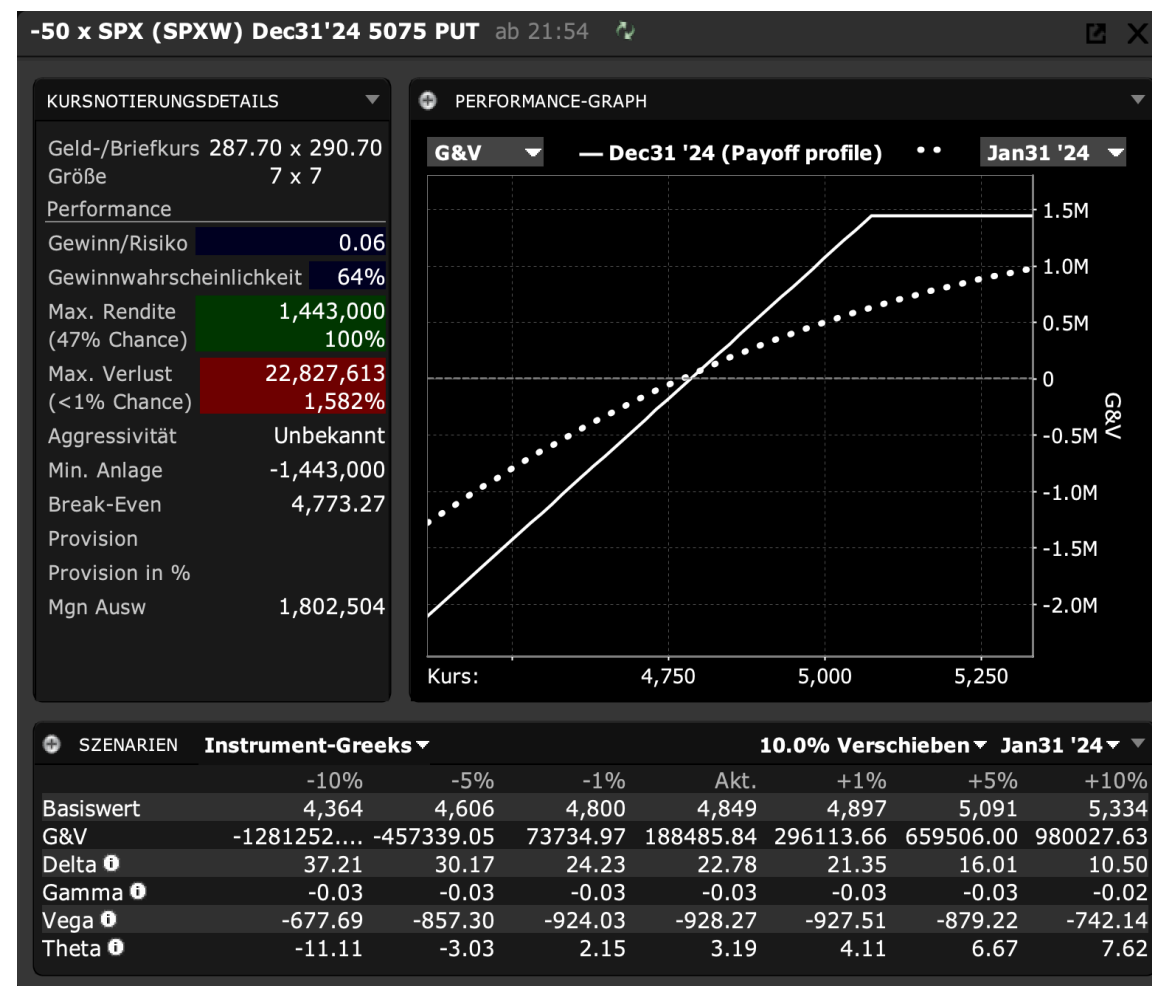
# Appendix



### Jade Lizard



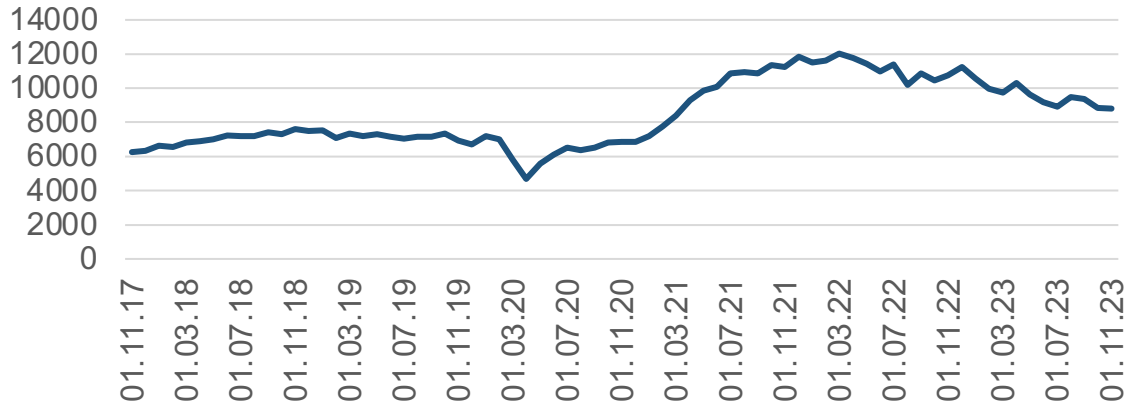
### Short Put



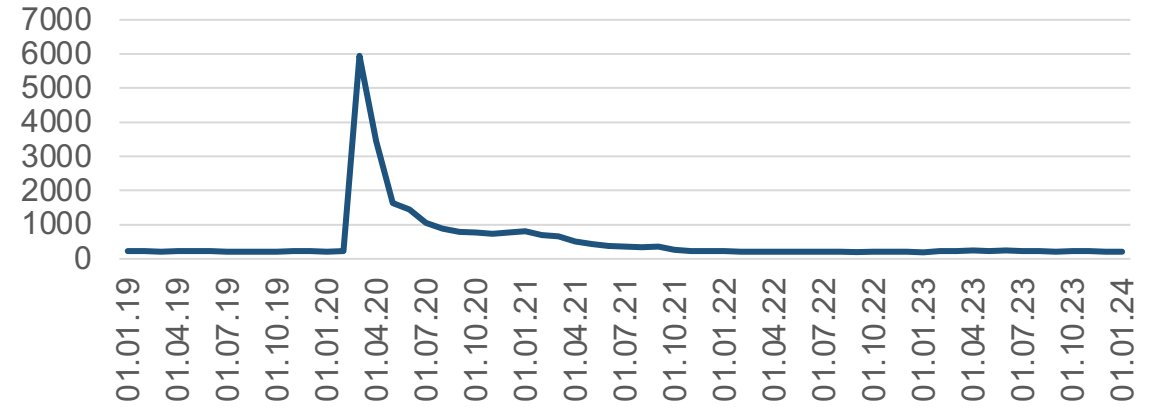


## Data

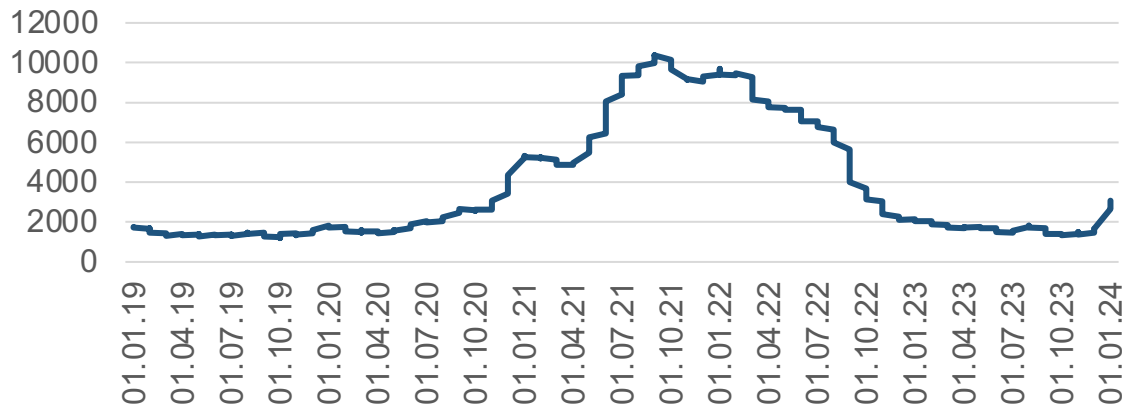
### JOLTS



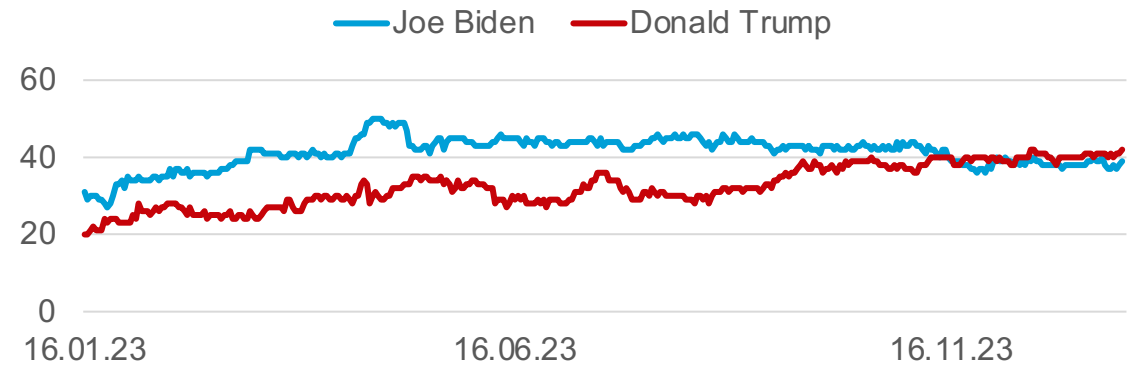
### Jobless Claims



### Freight Cost



### Trump vs Biden Poll



## Sources

Source Name	Link	Date of Retrieval	Used for
Economy Policy Institute	<a href="https://www.epi.org/nominal-wage-tracker/">https://www.epi.org/nominal-wage-tracker/</a>	20.01.2024	Inflation Composition
Interactive Brokers	<a href="https://www.interactivebrokers.eu/de/home.php">https://www.interactivebrokers.eu/de/home.php</a>	31.01.2024	Trade Probabilities
JP Morgan Asset Management	<a href="https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-themes/us-elections/">https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-themes/us-elections/</a>	19.01.2024	Election Insights
JP Morgan Asset Management	<a href="https://am.jpmorgan.com/at/de/asset-management/adv/insights/market-insights/guide-to-the-markets/">https://am.jpmorgan.com/at/de/asset-management/adv/insights/market-insights/guide-to-the-markets/</a>	20.01.2023	Macro Research
Goldman Sachs	<a href="https://www.goldmansachs.com/intelligence/pages/2024-us-equity-outlook-all-you-had-to-do-was-stay.html#:~:text=Goldman%20Sachs%20Research%20forecasts%20the,return%20of%206%25%20including%20dividends">https://www.goldmansachs.com/intelligence/pages/2024-us-equity-outlook-all-you-had-to-do-was-stay.html#:~:text=Goldman%20Sachs%20Research%20forecasts%20the,return%20of%206%25%20including%20dividends</a>	20.01.2024	S&P Valuation
CME Group	<a href="https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html">https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html</a>	31.01.2024	Rate cut probabilities
CNN	<a href="https://edition.cnn.com/election/2024">https://edition.cnn.com/election/2024</a>	20.01.2024	Election Poll
DQYDJ	<a href="https://dqydj.com/sp-500-profit-margin/">https://dqydj.com/sp-500-profit-margin/</a>	19.01.2024	Profit Margin
Bloomberg Finance L.P.	Software	Continuous	Continuous work

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