

Equity Trading Strategies

Noah Weisberger
noah.weisberger@gs.com
New York: 1-212-357-6261

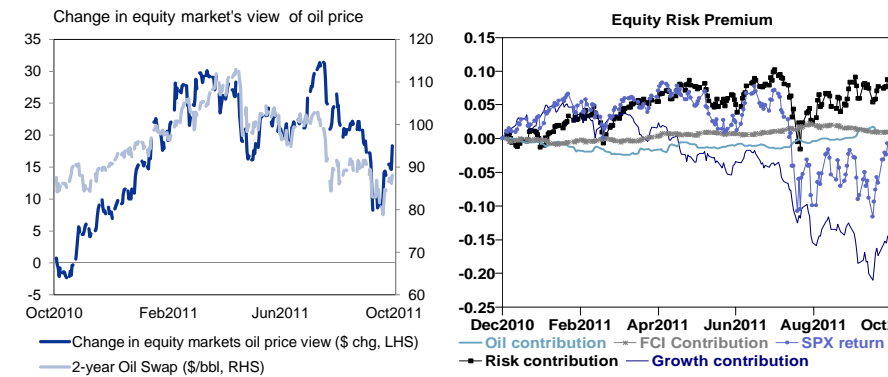
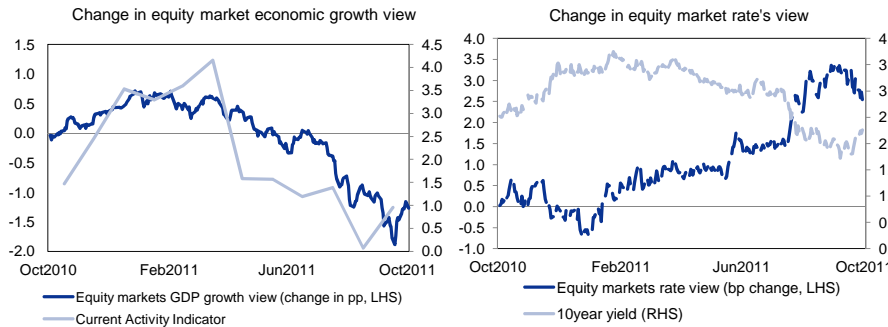
Dominic Wilson
dominic.wilson@gs.com
New York: 1-212-902-5924

Kamakshya Trivedi
kamakshya.trivedi@gs.com
London: 44-20-7051-4005

Aleksandar Timcenko
aleksandar.timcenko@gs.com
New York: 1-212-357-7628



How has the US equity market changed its economic views?



Commentary

-After a 2 week rally that lifted the S&P 500 index by more than 10%, Monday brought a retrenchment. The index was down 2%, 10 year yields rallied 8 bp (after a 45 bp slide over the past 2 weeks), and the VIX closed above 32.

-Our Wavefront US Growth Basket gave up most of its weekly gains, around 2%, but managed to close 20 bp up on the week. Over the past few weeks, it moved mostly in unison with the index, leaving the index close to "neutral" on the month relative to its macro drivers.

-The European situation remains a source of concern, with the Financials remaining volatile, and continuing to trade with the anecdotal news flow. Despite Germany still leading all indices based on last month's absolute returns (and trailing only the broader Eurostoxx index in terms of the performance relative to macro drivers), its Financials sector has sharply underperformed, down more than 3% on the week. While German Financials were among the 10 worst performing global sectors on the week, broader German equities held, finishing the week flat.

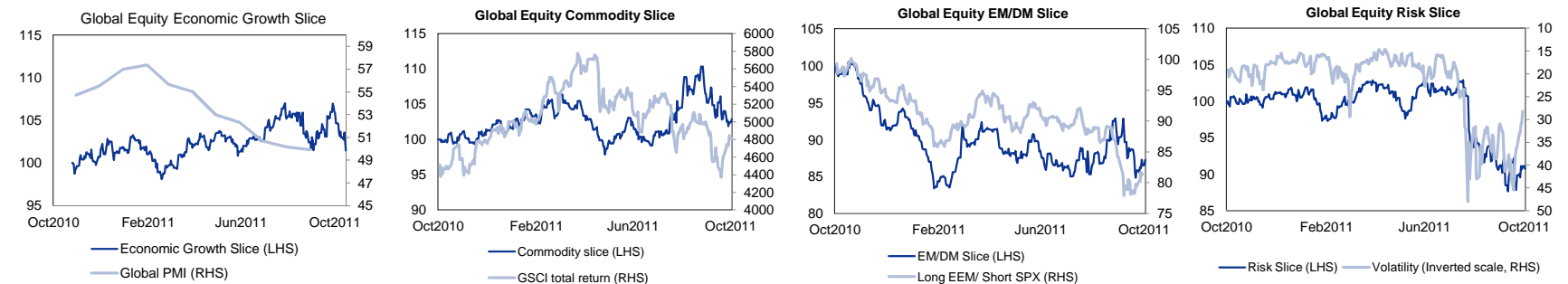
-The pattern of Financials underperformance is visible throughout the Eurozone, with French, Italian and Eurostoxx Financials sectors underperforming their respective indices by 5.2%, 6.1%, and 1.9% on the week. Interestingly, US Financials are showing some signs of contagion too, with the Financials underperforming relative to S&P 500 by 2.1%. On the other hand, in some other important equity markets (Japan, Korea, Switzerland) the financials remained mostly flat relative to broader country indices, and in China, with a favorable inflation report, actually outperformed by 40 bp.

-With some key decisions concerning the situation in Europe on the near-term calendar, macro data in the US seem to remain somewhat in the background. However, we are entering a data-intensive portion of the month, with the Philly Fed scheduled for the coming Thursday. Over the past several days, we've seen some marginally softer numbers. Last Friday, Michigan sentiment, at 57.7, was worse than both the consensus and the last month's number. Similarly, Monday's Empire Fed survey disappointed. On the other hand, unemployment claims, at 404K, remain stable.

-While still close to the tail end of monthly performances, and continuing to underperform relative to macro drivers, China has improved marginally relative to the past few weeks. Indeed, 5 out of 10 best performing sectors on the week come from either China or Hong Kong, including China Financials. But, perhaps with lingering worries about China long-term growth prospects, most commodity-producing economies, including Russia, Canada and Mexico, continue to struggle.

-Korea continues its strong streak, scoring right behind three European markets lifted by recent easing of European tensions. With its strong outperformance relative to macro drivers, and despite its leverage to Chinese economy buffeted by (now somewhat alleviated) worries of "hard landing," Korea remains the best performing Asian market. In particular, with their common exposure to China, Korea/Russia at the moment presents an interesting relative trade pair.

What themes are being traded in global equity markets?



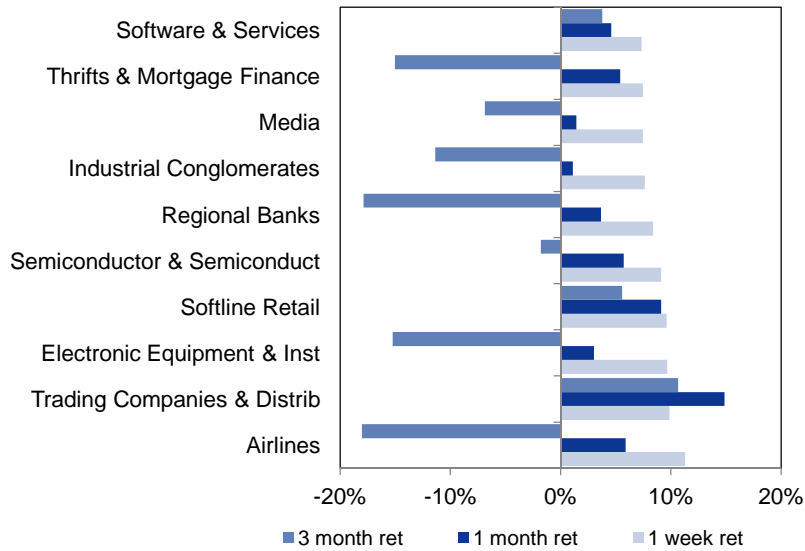
Calculated on the close of 14-Oct-11

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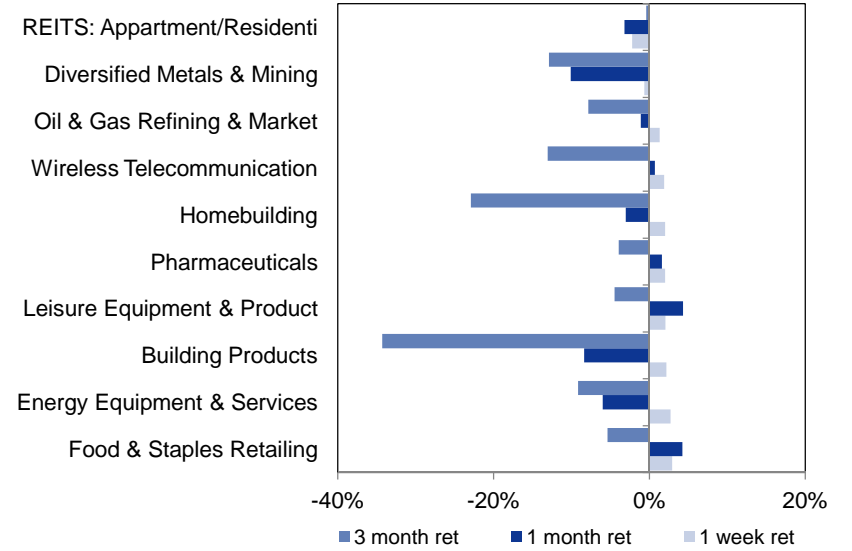
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How have industries performed over the past week?

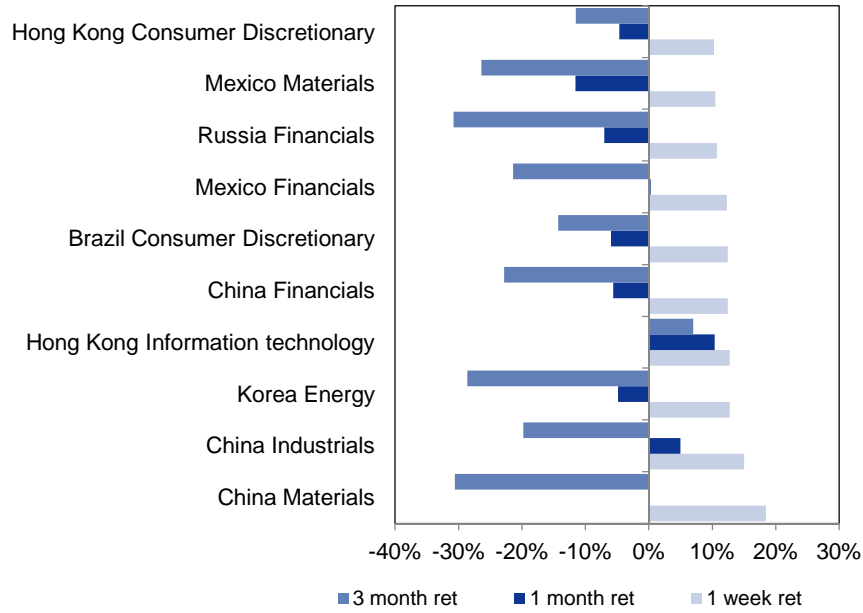
Top 10 US Performers



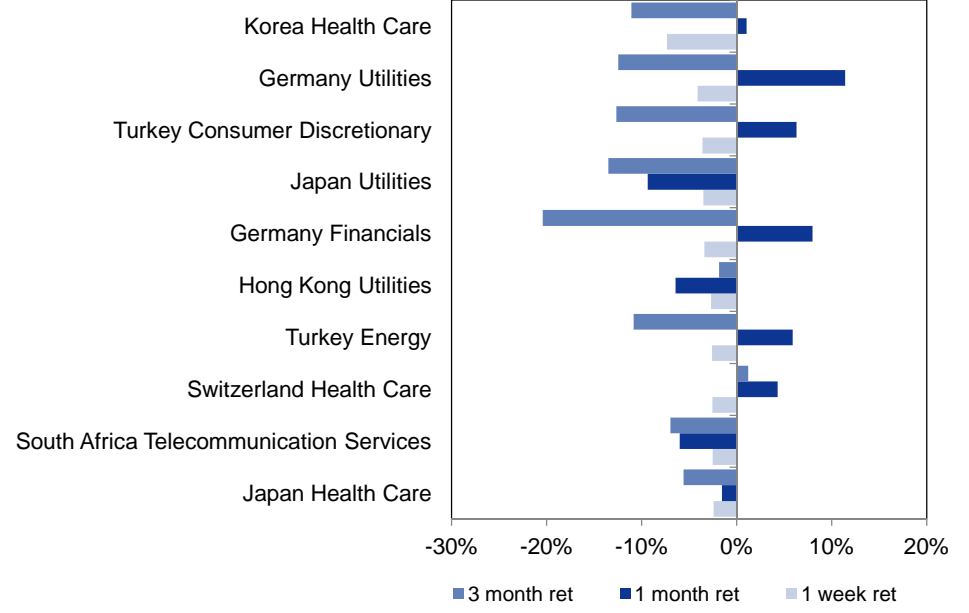
Bottom 10 US Performers



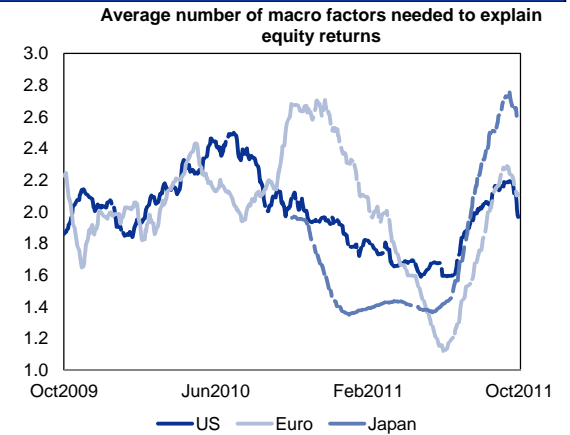
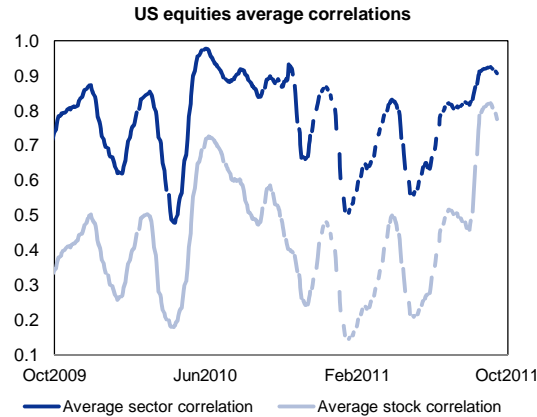
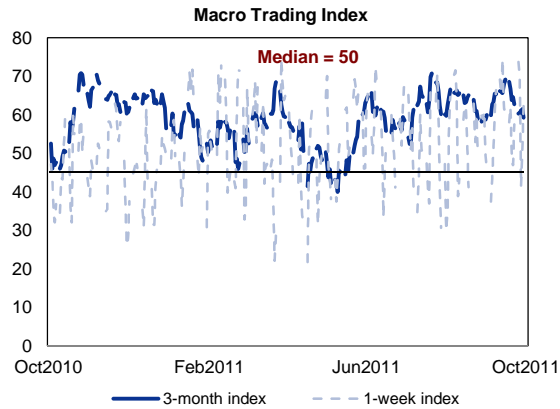
Top 10 Global Performers



Bottom 10 Global Performers



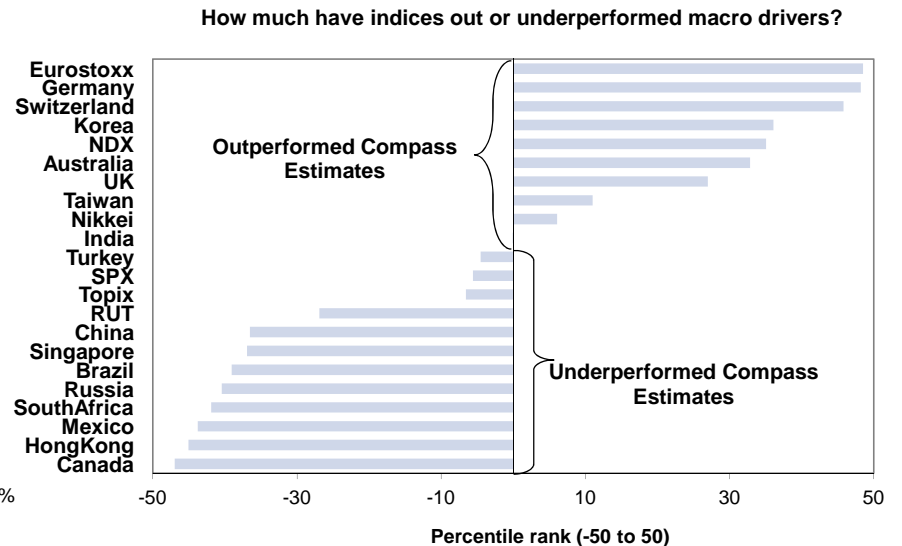
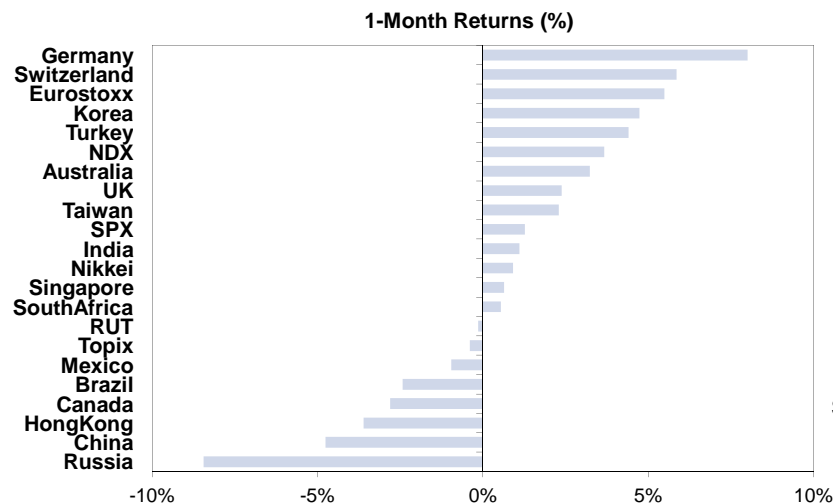
How macro focused are markets?



How have the Wavefront Baskets performed?

	United States											United Kingdom				Europe	
	US Growth	Turbo Growth	Foreign Growth	China Growth	Consumer Growth	Consumer Rotation	Interest Rates	Housing	Oil	Oil with growth	Infra structure	UK Consumer Growth	UK Consumer Rotation	UK Cyclical Growth	UK Housing	EU Consumer Growth	EU Consumer Rotation
Last Week (10-Oct-11 to 17-Oct-11)	0.2%	1.2%	0.1%	-0.6%	0.3%	-0.4%	0.4%	2.0%	1.6%	2.2%	1.3%	1.8%	0.3%	0.7%	-0.6%	1.0%	0.7%
Last Month (16-Sep-11 to 17-Oct-11)	-4.1%	-2.4%	-0.2%	-5.8%	0.6%	0.6%	1.0%	6.0%	-2.2%	2.1%	-1.3%	1.3%	2.6%	-1.6%	3.0%	-1.5%	-3.0%
Last 3-Months (18-Jul-11 to 17-Oct-11)	-14.9%	-11.8%	-4.4%	-14.8%	-5.6%	3.4%	2.9%	-3.0%	-8.9%	4.3%	-7.3%	-1.7%	2.0%	-5.6%	5.1%	-10.3%	-5.0%

How have global indices performed relative to their macro drivers this month?



Reg AC

We, Noah Weisberger, Kamakshya Trivedi, Dominic Wilson and Aleksandar Timcenko, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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