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MACRO: ARE WE THERE YET? IS IT TIME TO “BUY THE DIP” ?

Since its high on 18 Feb, the MSCI World index has fallen 4.6% while the SPX is down 6.2% and just below its 200-day average which it has been above since Nov 2023. The Nasdaq has dropped 9.2% with bellweather Nvidia down 20.7%. Is it time yet to buy the dip?

Chart 1: SPX Testing 200-day Average Which Has Held Since Nov 2023

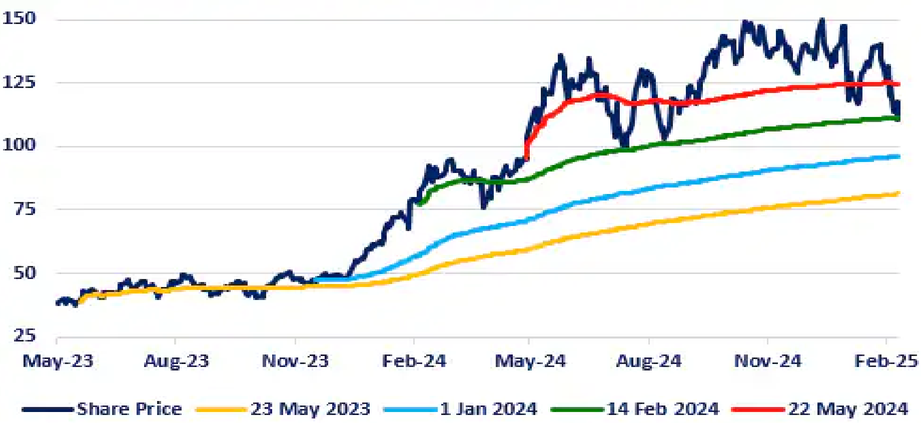
Source: Citi Trading Strategies

(Click image to enlarge)

The first point to note is that although the SPX is down 5.1% since our CGTSPOLL indicator triggered on 12 Feb, the average decline is 5.9% and the standard deviation of those declines is 4.2%. That means that there is around a 15% probability of a 10.1% decline.

Similarly, NVDA has fallen 15.7% already but again a 27% drop to test below $100 has a probability of around 15%.

Chart 2: NVDA Falls Through Estimated Entry Level From 14 Feb Earnings Announcement



Source: Citi Trading Strategies

Crucially ahead of today’ s conference at the White House, the average decline in Bitcoin is 21.0% and so far its maximum fall is only 13.8% since 12 Feb. There is still hope in this market and risk barometers are not yet at extreme levels. Many regional and global equities have very high correlations with Bitcoin and NVDA.

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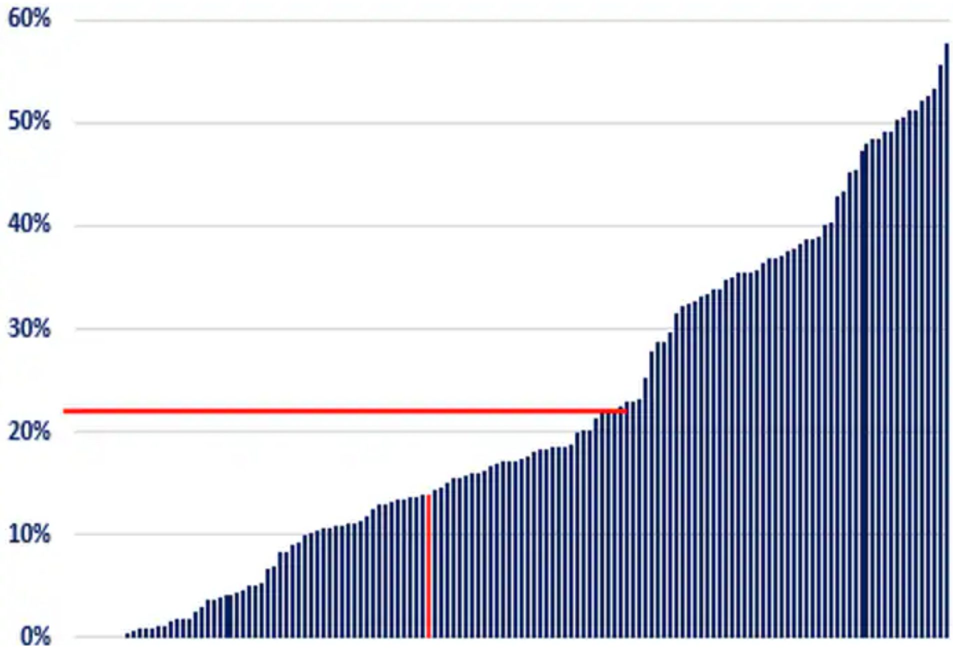
Chart 3: Bitcoin Decline Is Still Below Expected Level When CGTSPOLL Hits 18

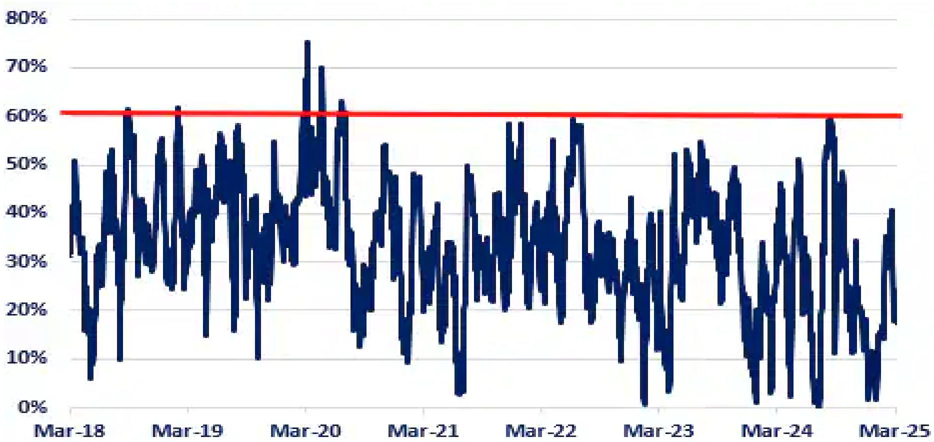


Source: Citi Trading Strategies

(Click image to enlarge)

We are still seeing rotation (but not liquidation) within and across markets - last night saw a selloff in all US sectors except energy but while US equities correct, European and UK equities are near record highs and Chinese tech shares are near three-year highs. US exceptionalism is normally on the upside not the downside. If US equities fall, normally global equities will follow. If the US is entering into recession, the rest of the world will follow. Pairwise correlation between global markets is still low and has not yet reached levels where bounces have traditionally emerged.

Chart 4: Pairwise Correlation Of Global Equities Not At Levels Where Market Lows Are Reached



Source: Citi Trading Strategies

None of our indicators are suggesting the market is yet oversold and ready to rally. CGUSOVER at -18 Is far from the -100 oversold level.

Chart 5: CGUSOVER Is Not Yet At Levels Indicating That The Market Is Oversold

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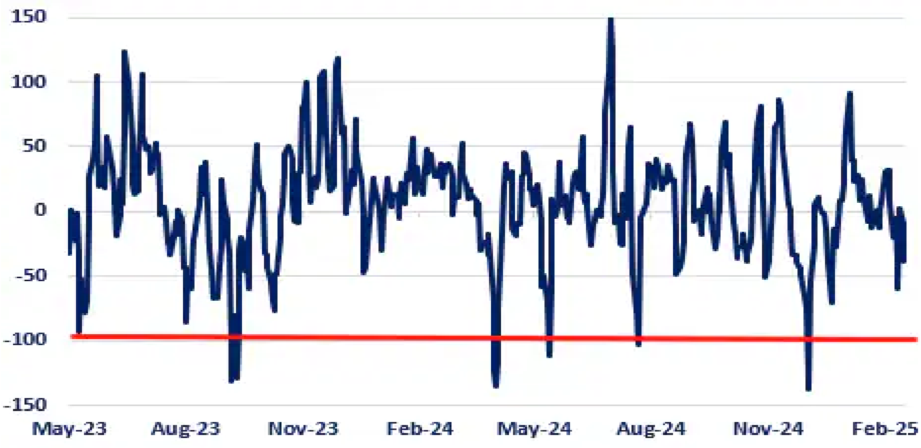


Source: Citi Trading Strategies

CGNASVOL and CGUSVOL are still in their 40s. CGUSQE4 is only at 0.559 and the Keyrate indicator of funding stress is at 54.5, still below the 60 level where Fed action has previously been triggered.

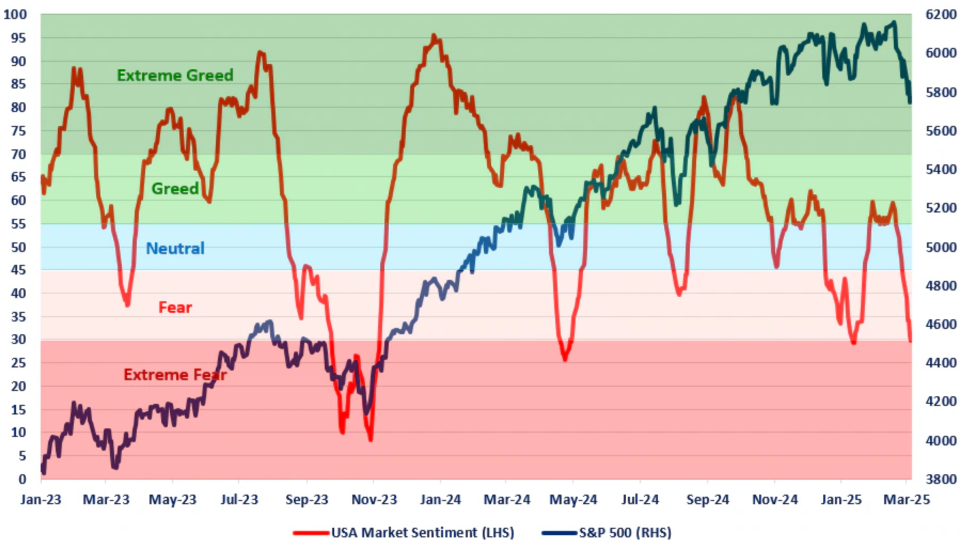
Chart 6: Keyrate Funding Stress Indicator Not At Levels To Trigger Fed Response

Source: Citi Trading Strategies

(Click image to enlarge)

From a sentiment perspective, US equities has just dipped into Extreme Fear and is not yet to levels that have previously marked lows.

Chart 7: Citi US Fear & Greed Indicator Has Just Dipped Into Extreme Fear



Source: Citi Trading Strategies

(Click image to enlarge)

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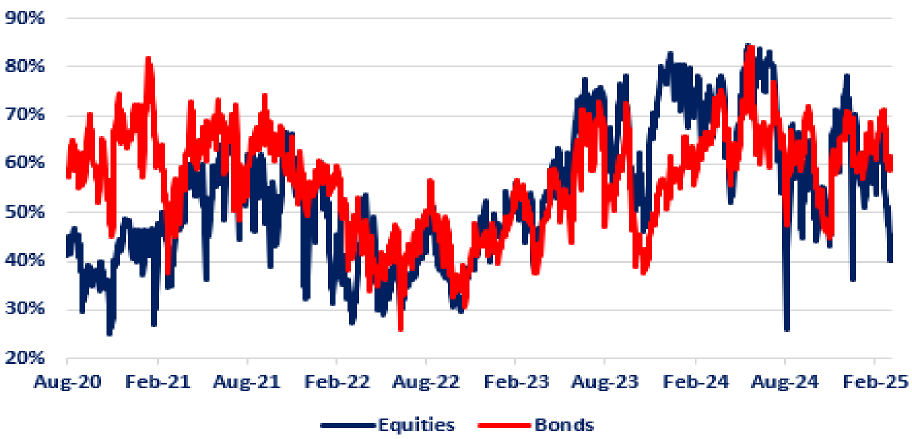
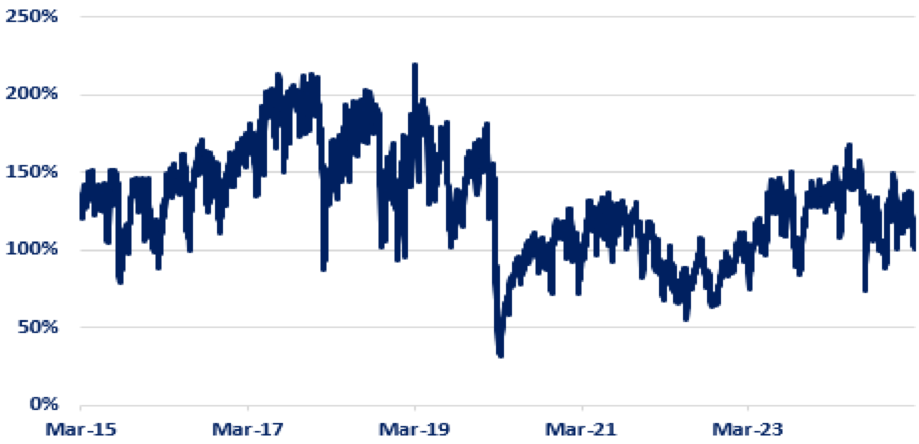
From a risk parity perspective, bond and equity volatilities are above their long term averages but can increase further. Equity allocations are dropping but still above 18 Dec levels.

Chart 8: Risk Parity Funds Continue To Reduce Equity Exposures But Can Cut Further



Source: Citi Trading Strategies

Chart 9: With Leverage Cut Back To Close To Zero, Risk Parity Funds Could Reduce Gross Exposure Further



Source: Citi Trading Strategies

Liquidity drivers remain frozen or in reverse. Fair value on our fiscal debt framework is at 5412.3, and we would expect that level, down 6.1% to be reached at least on an intraday basis. We would expect market bounces to be capped at around 5850.

We have an eventful day coming up for markets. Not only will the US release non-farm payroll numbers which we expect to be softer than market expectations but the White House will be hosting a conference on Bitcoin for the first time ever. Plans to include smaller coins in the US reserves are likely to disappoint the markets.

The cost of hedging is rising with the cost of puts hitting two year highs. It is interesting that despite the announcement from the Trump administration that they would be suspending tariffs on Canada and Mexico to 2 Apr, the equity market continued to sell off. The "Trump Put" is not as powerful as market participants are hoping. There is still a strong probability that US10yr yields will drop down to around 3.95% by the time this sell off is finished.

For the time being it is too early to buy. Continue selling into bounces. We would focus hedges on markets like the Eurostoxx, HSI and FTSE which have not yet corrected and where long positions are likely to be more vulnerable. The market low is likely to be marked by a rise in intermarket and interasset correlation.

Chart 10: Fair Value On Fiscal Debt Framework Currently 5412.3, Lower Bound Is 4637.9