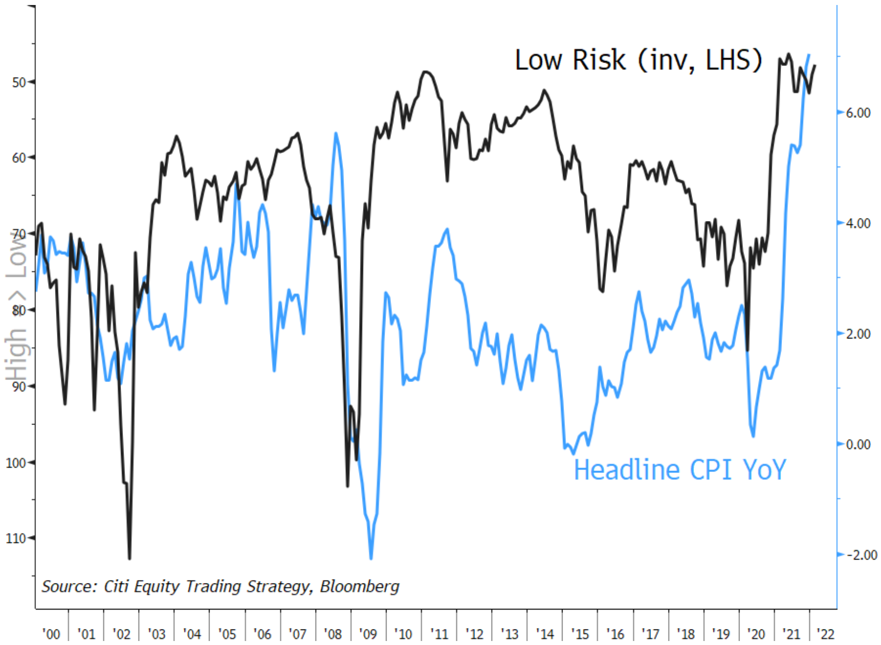
The benign price action today was supported by some helpful activity in quant world as Low Risk continued its recent run of daily declines (-50bps today and taking this factor into negative territory YTD) and SMID notched up a third consecutive day of outperformance. The optical Value into Growth switch that also manifested was clearly helpful to many beaten up institutional and retail books, but was not accompanied by any meaningful excess volume, not that the small investor army will care as a basket of crowded retail names are now +15% from the lows and outperforming SPX by almost 10%. That was also true in the index space where ES1s definitively broke through another CTA level (4538) that should be triggering an unwind of any residual systematic shorts and initiation of fresh longs, yet only 1.3mm contracts changed hands by the 4pm close, which is the lowest futures turnover so far this year… Perhaps that CTA follow through is tomorrow's business, but as I've regularly mentioned in these missives, these signals can be noisy in a 20% vol environment and poor underlying liquidity.

Retail bounce… but is it a dead cat?

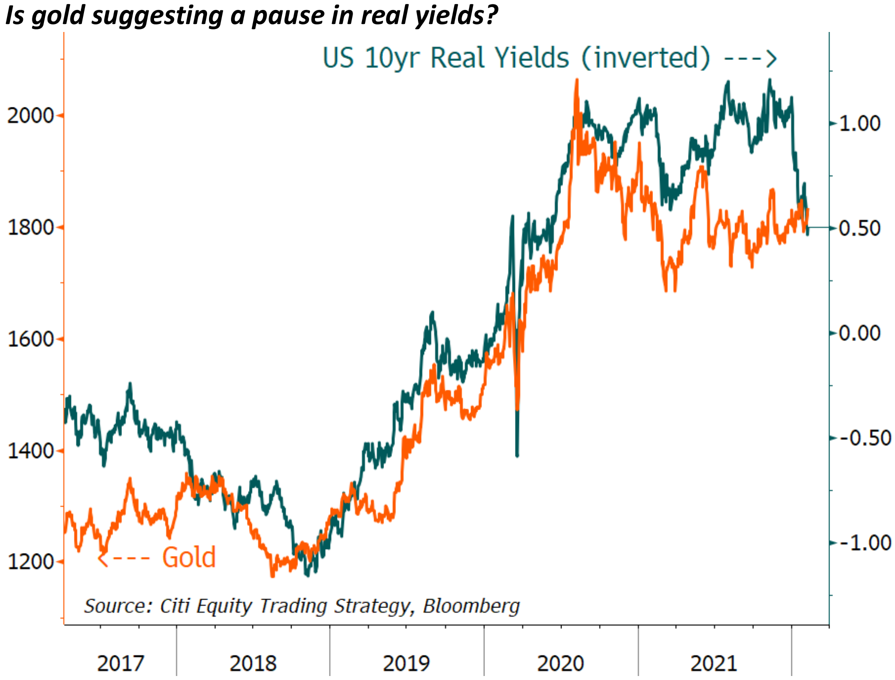
Price action more broadly today had a distinct whiff of position squaring into CPI data tomorrow, where Citi Economics team have identified **two-way risks** for the print itself. Yet with parts of the Growth complex within equities having rallied so substantially in the past 1-2 weeks, and indeed USTs ending today unchanged despite a veritably strong auction, I remain unconvinced how much symmetry is left heading into the inflation data. Regular readers will know that I often refer to Low Risk as a symbol of tactical intraday price action, but equally we should not lose sight of the fact that it was the thematic behavior of this index that gave us a lead indicator into the path of inflation almost exactly a year ago (see March 9th 2021: **Are equities signaling much higher inflation?**). Back then CETS identified some pretty definitive evidence going back to the 1970s that illustrated regime shifts in single stock performance depending on their leverage profile (i.e. the Risk quant factor) and prevailing inflation. **Today, the fact that Low Risk has yet to recoup any of the sharp move witnessed in late 2020 is relevant in showing how the equity market still believes that there is *upside* risk to inflation; not necessarily for tomorrow per se, but more as a counterpoint to the consensus thinking that we will see a precipitous fall in prices during the second half of the year.**

Equities are not pricing in a meaningful decline in inflation over the medium term



Perhaps that is what gold is ultimately telling us: recall that the precious stuff has lost some of its allure since mid-2020 as investors have preferred stocks and crypto, and yet it has nonetheless provided an unwavering hand in confirming the ultimate path of real yields. There is an unequivocal amount of noise in the chart below and a couple of week's steady price action is far from affirmation that gold is signaling the end of this recent move in real yields, but it may at the margin indicate that either real yields may simply pause for breath here, or sticking with the inflationary narrative, they *cannot* go much higher yet as a function of inflation continuing to run much hotter than either the Fed or the bond market are currently predicting.

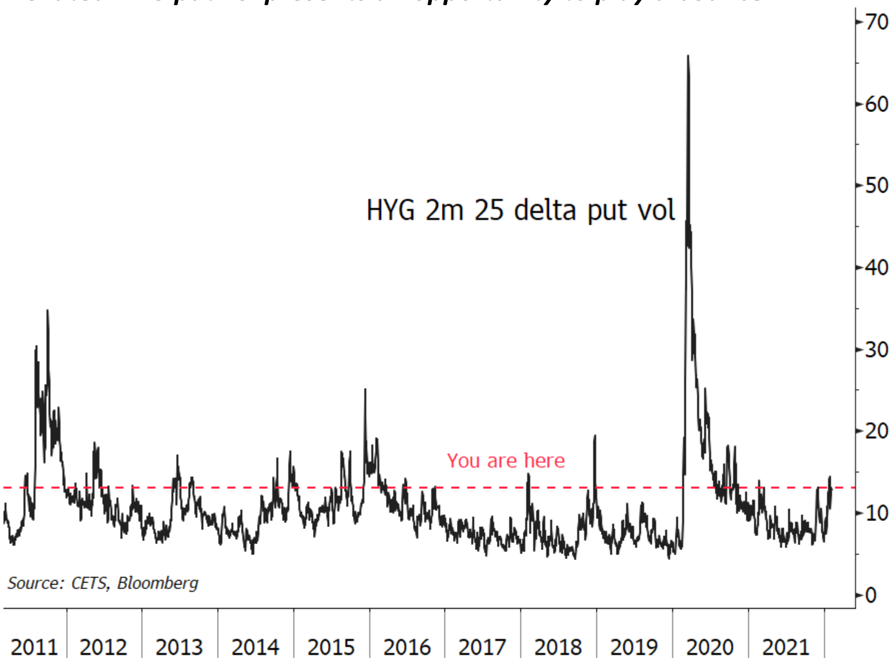
Is gold suggesting a pause in real yields?



And that is a nice segue into the **note** written earlier today on HYG / HY credit. Although there may be plenty of reasons to be bearish on HY credit here, there also needs to be an acknowledgement that levered companies (*reasonable* leverage that is, not excessive) stand to benefit from structurally higher inflation so long as they maintain a degree of pricing power. That's not to say that all of the constituents of HYG are afforded that luxury, but given the selloff in credit appears driven more by technical factors and indeed the underlying move in risk-free rates, the elevated put skew in

HYG offers an interesting tactical opportunity for investors to play some retracement in US high-yield credit over the next 1-2 months.

Elevated HYG put vol presents an opportunity to play a bounce



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All charts/data sourced from CETS, Bloomberg and Citi, unless otherwise indicated.