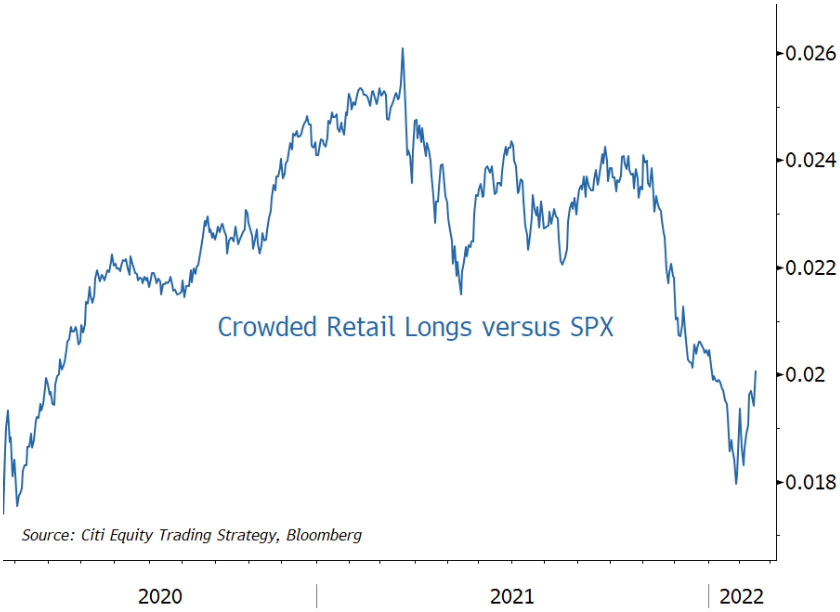
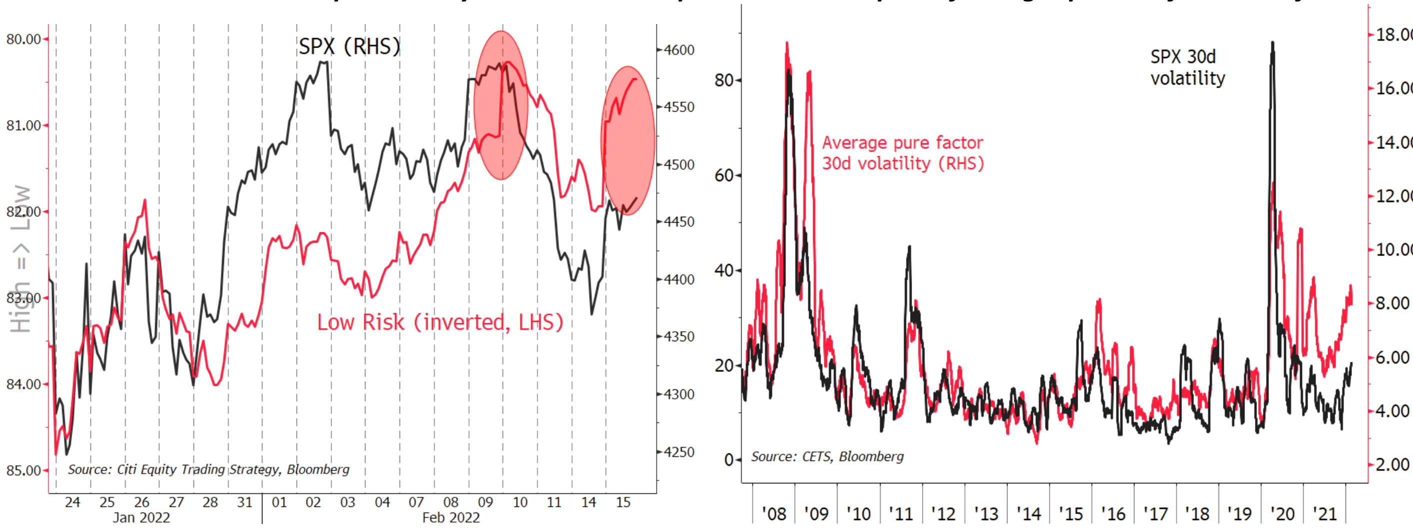
By almost all measures, today was certainly a relief rally courtesy of some rather vague comments on the geopolitical front, and serves to illustrate how low investor conviction is in *both* directions at present. But not only did headline indices bounce, market composition saw the third best cumulative breadth observed in data going back to 2004 and was led by some impressive bounces in some of the beaten up corners of risk; SPACs +2%, new issues +4%, de-SPACs +6%, ARKK +5%, not to mention crowded parts of the retail community like Biotech and CGTSRETL both up between 4% and 5%. Unless you were staring at the oil price, gold or the bond markets (*and I was*) then there was not a lot of red on the screen today.



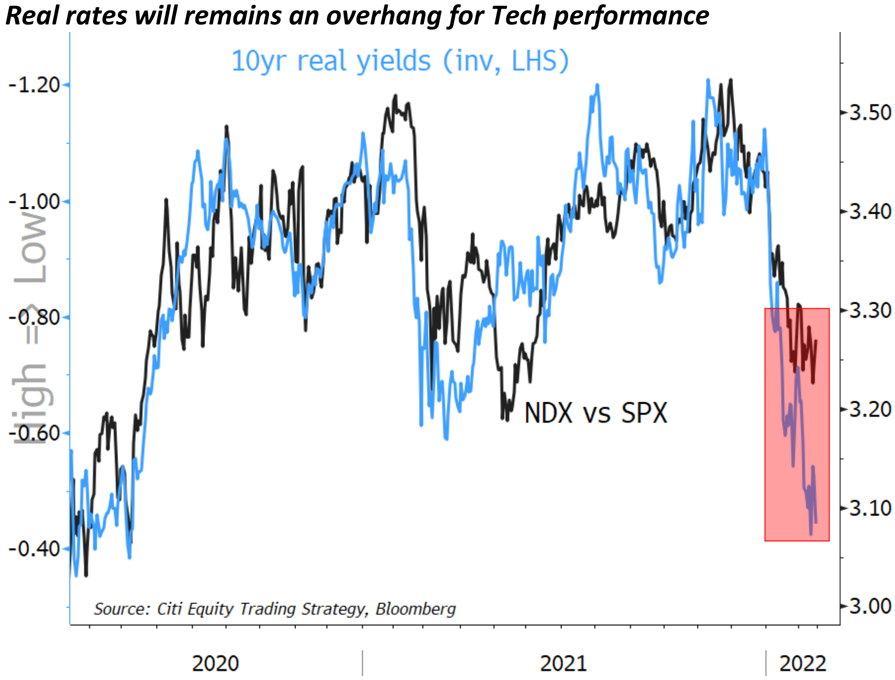
However, as has often been the case in relief days such as today, the price action found little support by way of heavy turnover. Consolidated tape volumes were sub 11bn, which is not terrible by historic standards but hardly emphatic of investors buying into the bounce. Indeed, our flow desks were skewed better for sale in all sectors except one today (more on that in a moment), and ES1 futures turnover was one of the lowest so far this year. A bright spot was the impressive decline in the Low Risk quant factor (**CIISLRUT Index**) that has been oscillating in a violent range since the end of November, but today's 1.8% drop marked a 6th percentile move going back to 2004 and *should* be bullish for risk… except the caveat here is that if we examine historical days of this downside amplitude in the factor, the average SPX move is +3.1% (median +2.5%) versus today's relatively tame +1.6%. That suggests that either the factor was being distorted by some specific stock/sector moves, or more likely that the ongoing elevated factor volatility is leaving this dimension of quant less relevant from a signaling function for risk… **My best guess is the latter is a likely culprit and that investors should take today's rally with a pinch of salt, in a similar vein to the SPX rally a week ago.**

Low Risk moves have been particularly violent over the past month and part of a larger period of elevated factor vol

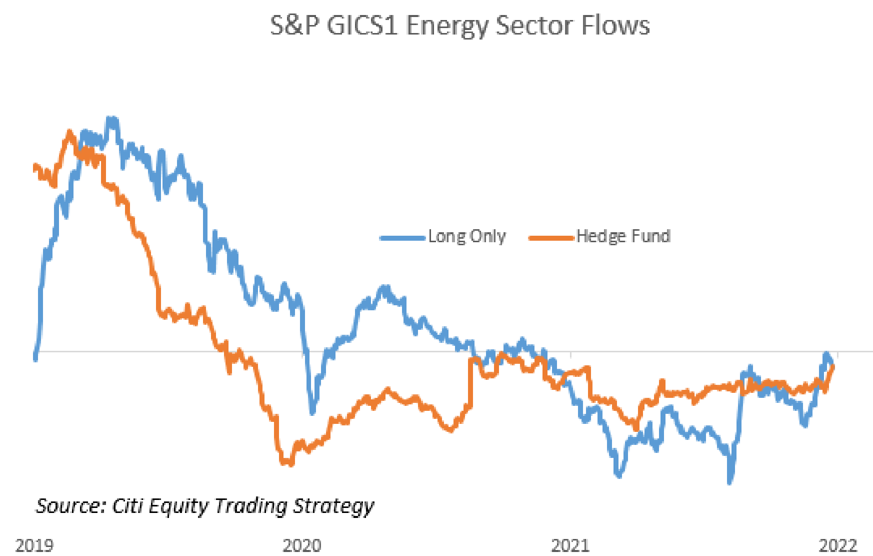


Further evidence of this may again sit within not only sector leadership but also stylistic bias. Nasdaq outperformed for a second consecutive day despite 10y USTs breaking 2% once again, and real yields moving back to recent highs. One year inflation swaps are back up to 4.3%, and although front-end rates did not react to today's PPI data, it is hard to square the circle in buying into a *sustained* Growth/Tech dip with the lack in moderation of producer prices. Nasdaq positioning *is* crowded on the short side according to Citi's quant team so it is not unreasonable to expect short-term dislocations between expectations and reality, but if expectations remain that real rates will continue to rise as the Fed pumps the liquidity brakes, then it stands to reason that Tech not only loses its ability to generate alpha but also perhaps becomes the *funding* vehicle of choice too.

Real rates will remains an overhang for Tech performance

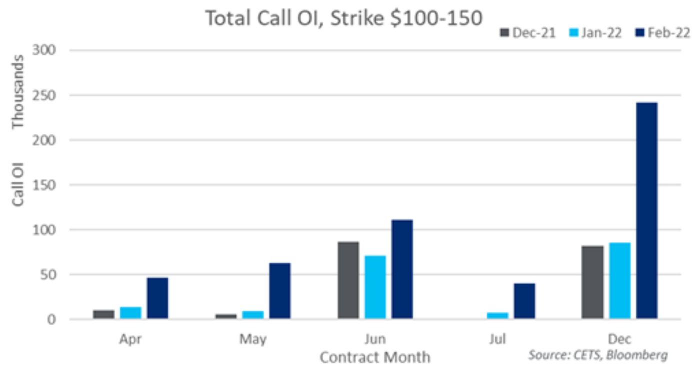


And on that topic, I mentioned earlier that one sector had a standout buy bias today in an otherwise unequivocal day of investors trimming risk; Energy. I took the liberty of refreshing some flow data for the Energy space, dissected by Long Only and Hedge Fund investor groups and what grabbed my attention is that we are now seeing a positive flow bias in both verticals for the first time in two years, illustrative that there is real demand to buy this recent dip in Energy equities. And whilst there remains geopolitical risk attached to the sector in the *near term* (although I personally do not believe that Ukraine represents a meaningful catalyst for crude in either direction), the attractiveness of the space extends beyond just any view on crude; ROE improvement, dividend yield, and (most importantly) a positive sensitivity to rising rates leaves the sector attractively positioned for investors looking for somewhere to – dare I say – *hide* currently. The irony here is that despite XLE's rally over the past 16 months since CETS' first bullish recommendation, the space is trading *cheaper* today and continues to trade below levels seen in Jan 2020 when compared in relative performance vs SPX. Yes, I appreciate potential risks from Iranian crude (an amazing note from Ed Morse can be found **here**), or indeed the Administration's considerations to get oil/gasoline prices down to salvage any political hope in the midterms (even if I personally do not think gasoline prices are anywhere near problematic levels on an **inflation-adjusted basis**), but there are fundamental, positive counterweights in terms of sector valuations and *momentum* as funds are increasingly drawn to the attractive profile of the sector's basics.

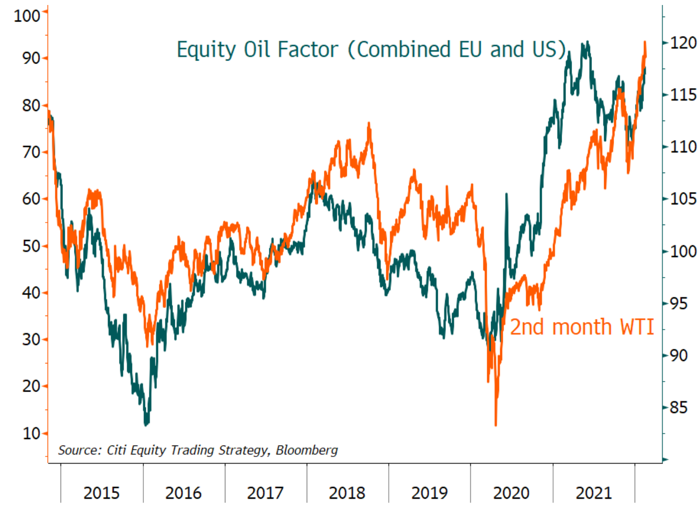


I **mentioned** **at the end of last week how call open interest in crude had more than doubled over the past month in strikes >$100/bbl,** and that chart was worth repeating in this EOD given the weight of separating a *fundamental* oil view (i.e. Ed's **bearish construct** on supply versus demand) and the *financial* view where technical factors such as gamma positioning and speculative momentum can easily cause prices to meaningfully deviate from any rationale expectations; see 2008 for details here (!). So it is noteworthy that although crude is in backwardation (i.e. the market is already pricing a decline in crude prices over the course of the year), the equity interpretation of oil prices has <u>not</u> moved lower in recent weeks. We can of course deliberate whether the signaling function of equity macro is correct or not – regular readers will know this has consistently been a fantastic sanity check on both consensus and non-consensus macro views – but it is relevant to note that if there is indeed a legitimate *structural* threat to crude prices, then it is not something that is what the quant world is forecasting, and backs up a view to continue buying these dips in the Energy space.

Oil call open interest has more than doubled over the past month, and equities are pricing a <u>sustained</u> move higher in crude too



Source: Citi Equity Trading Strategy



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