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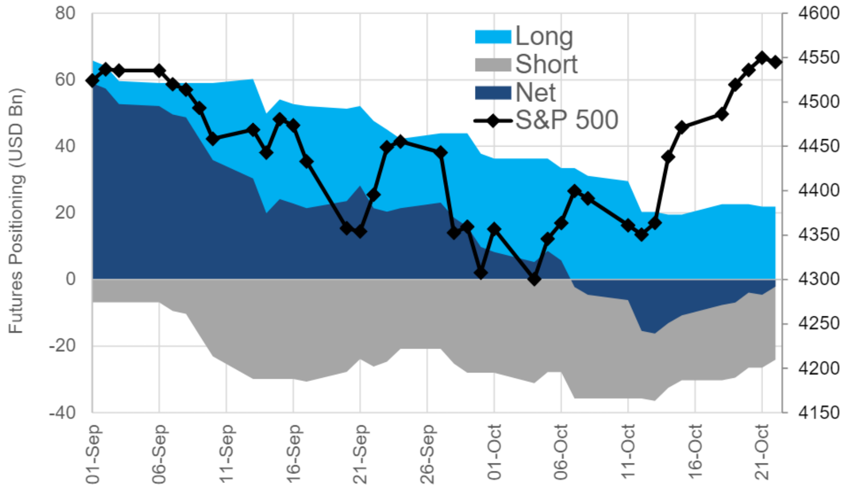
Perhaps it was the torrential rain here in the north east that made the session feel soggier than it really was. Or maybe it was the fact that in the thick of earnings season and a tonne of political noise regarding infrastructure (and ways to pay for it) reared the ongoing ugly divide within the Democrat party to the point where it was virtually impossible to discern signal from noise. And despite SPX managing to eke out another positive day, the underlying tone was certainly not as buoyant given the distinctive sell skew across our cash desks, the negative breadth, and indeed the underperformance of midcaps (*IWM has only beaten SPX 2 out the last 9 sessions*). MSFT delivered a habitual beat, but even that has only taken the stock +90bps after hours as I type this EOD. The rest of the major reporting looks pretty soggy with even strong numbers from GOOGL and AMD not doing much to initially stir a positive reaction in the post-trade session. And we will steer clear of HOOD's numbers that had a pretty nasty miss on first glance and is back below the IPO price.

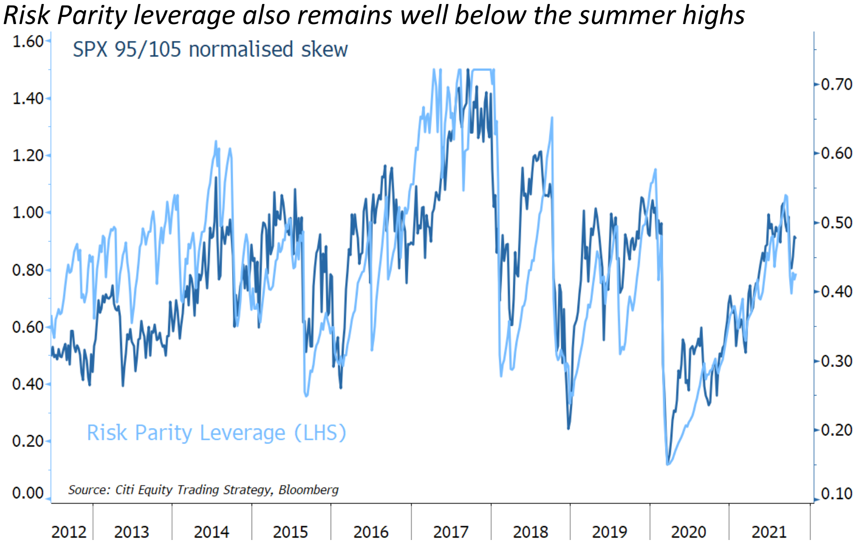
This all fits in with the thesis since end of last week that markets ultimately need to take a breather here after a pretty spectacular run up of late. I mentioned yesterday that the all-time high in cumulative breadth has yet to be reached and today we came no closer to that elusive level. POLLS moderated to 14 thanks to a noisy input from our Vol Indicator, but I need not present a model to establish that risk is more symmetrical in the near term as broader positioning has normalized over the past three weeks. Our Quant Strategy team published their regular **positioning update** that continues to flag underweights within NDX, but SPX has at least neutralized over the past week, albeit well below levels witnessed at the start of the month. Equally, refreshing our risk parity leverage chart illustrates that vol-targeting funds have yet to really redeploy leverage back into the equity space, which may provide a floor under equity risk in the near term. To reiterate comments over the past couple of days, a period of consolidation as markets digest overbought conditions is the base case near term (i.e. 1-2 weeks) before a rally can resume, as investors continue to climb the Q4 wall of worry.

SPX futures positioning has neutralized, but remains well below last month levels

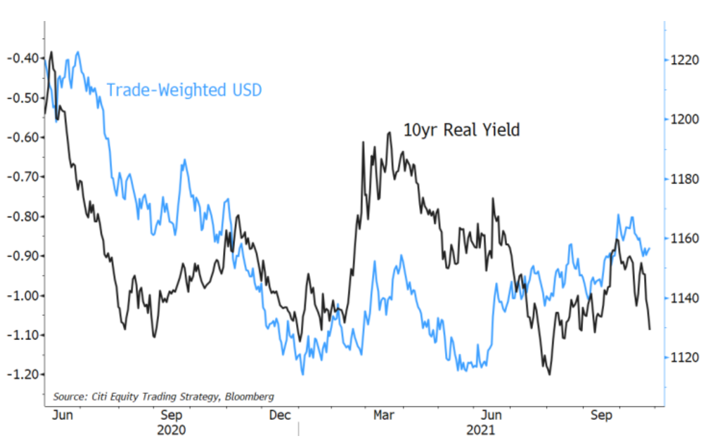


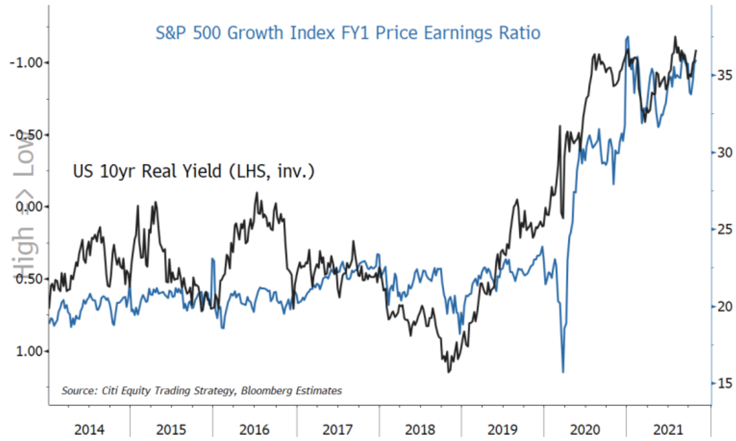
Source: Citi Research

Risk Parity leverage also remains well below the summer highs

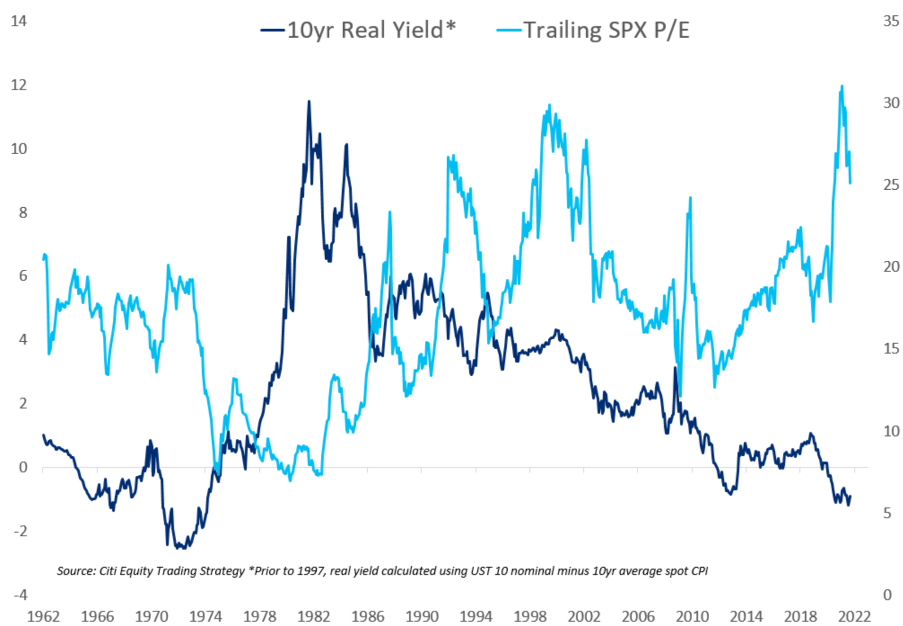


Beyond the ongoing light positioning and lack of participation in the rally, the other dimension that we need to come back to time and time again is the prevailing level of real yields that fell to the lowest level in a month during today's session. That has a few obvious ramifications in my opinion: 1) it adds tactical downside pressure on USD – see first chart below – and as per a separate note sent around earlier today (see **Three Equity Expressions for a Tactical USD Reversal**) presents an opportunity for some respite to the EM complex; 2) it is supportive of the equity Growth cohorts (second chart below) that is ultimately a massive prop for equities more broady… until it isn't (see below for more), and; 3) should be a tailwind for gold prices, which we discussed in **yesterday's EOD** – although it is proving hard to find investors to engage on this specific topic.

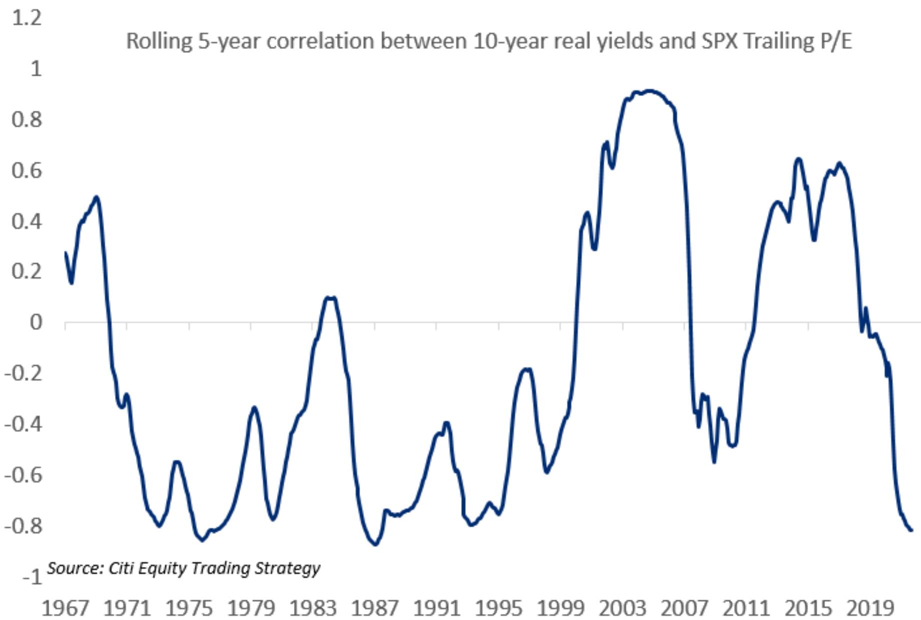




To the above point that real rates are positive for the equity Growth (and therefore the entire US) market, I decided to run a quick analysis looking at how SPX multiples have changed in terms of their sensitivty to real yields. We only have breakevens data going back to 1997, so I backfilled data to 1960 by using an 'ex post' real yield of the 10yr nominal UST minus the average CPI over the subsequent 10 years. And we get something that looks like this:



If we measure the rolling 5-year correlation between SPX multiples and 10yr real yields (chart below) we can quickly determine that the relationship between the two has not always been stable, and although investors are used to lower real yields being supportive of the 'TINA' argument for equities, that has not always been the case. I need to give more thought to what could change this correlation over time (*thoughts are welcome here!*) but the fact that the relationship has rarely been more negative than it currently is suggests at the very least that there may be attractive optionality in 'taking the other side' of this regime in the future. My instinct is that although today's environment is vastly different to the 1970s, we can draw a lesson that equity/real rate correlation can indeed flip, and investors saw most of that decade in an environment where lower real yields were bad for equities as it was a reflection of poor central bank policy and runaway inflation.



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