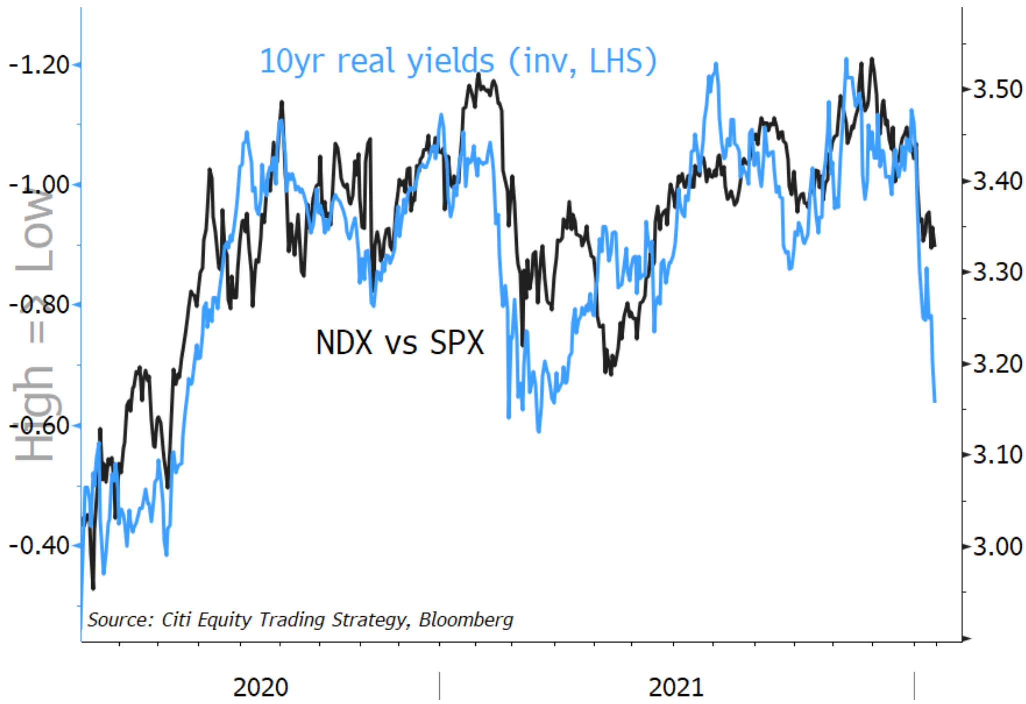
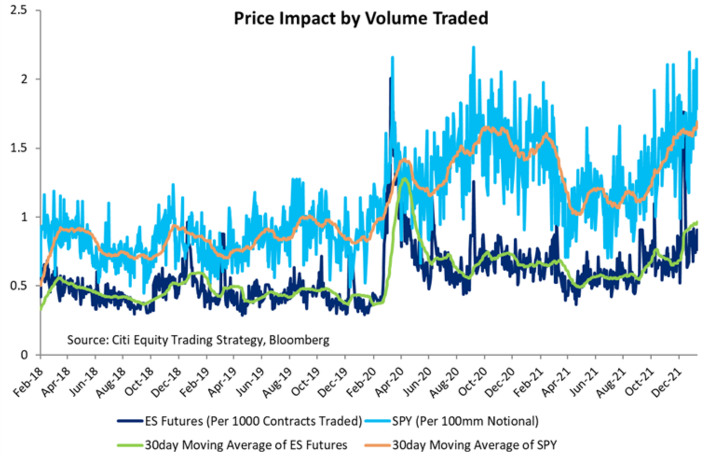
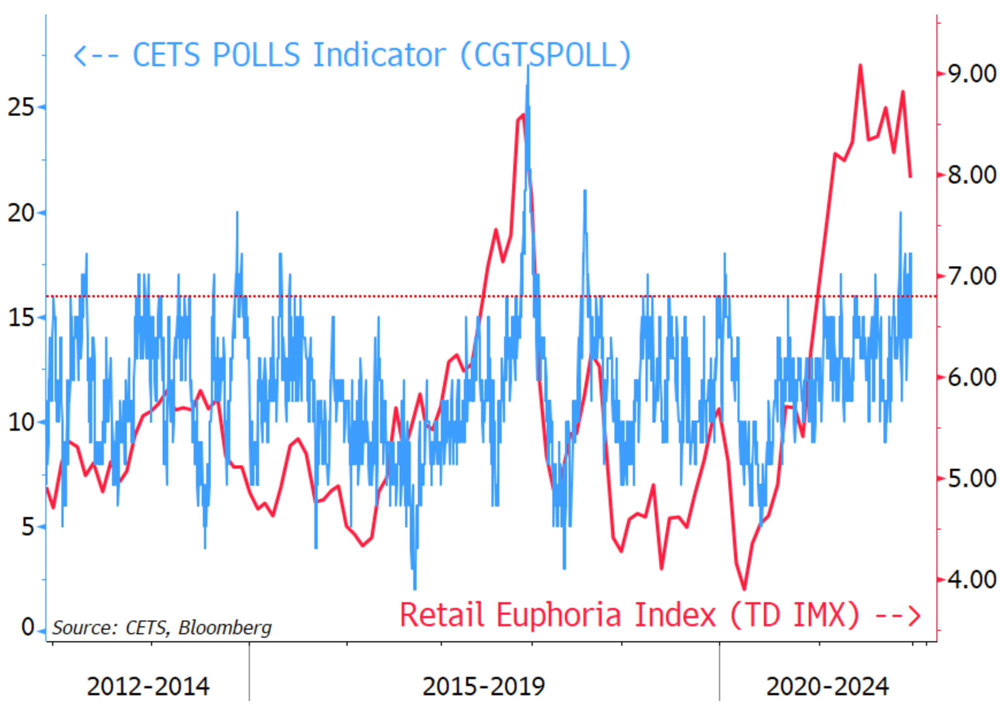
Ugly. And you if you needed real evidence of that today was more of a liquidation than anything more surgical, the fact that the most yield-sensitive sectors actually *outperformed* today despite both 10y nominals and reals rising by 8bps and 7bps respectively is illustration that there was not an enormous amount of due care and attention for US equities today. Right now the most obvious standout dislocation is that NDX has only underperformed SPX by 3% YTD, and yet this magnitude of real yield move would suggest that NDX should be underperforming by closer to 7-8%; given the historical 91% daily R2 between NDX relative and 10y real yields (see chart below) and absent a snap back in real yields, there may be further underperformance due for Tech large cap in the run up to earnings season.



'High flying' SaaS -3%, De-SPACS -5% (and -23% YTD…), new-issue/IPO ETF -4%, and crowded retail names -3%... it was a pretty sloppy session all round. Given today had some smacks of broader liquidation (as evidenced by no meaningful factor moves other than Low Risk rallying 1.3%, the largest move since end Nov), I took the liberty of refreshing two measures that CETS use for broad market liquidity; price impact by volume traded (higher = worse liquidity) and ES1 'top of book' (lower = worse). From a futures perspective liquidity has deteriorated towards the bottom end of the past twelve-month range, but for SPY (and likely other index ETFs with it), the ability to trade in meaningful size without market impact has diminished substantially. This creates problems in a market that remains sensitive to systematic/momentum funds that are *price takers* in equity indices. **Today we just witnessed the first CTA sell signal being definitively established in SPX since Sept/Oct of last year, and now are within 1% of systematic funds flipping short major US indices for the first time since May 2020.** Full details of latest CTA levels can be found in CETS' usual weekly report **here**.

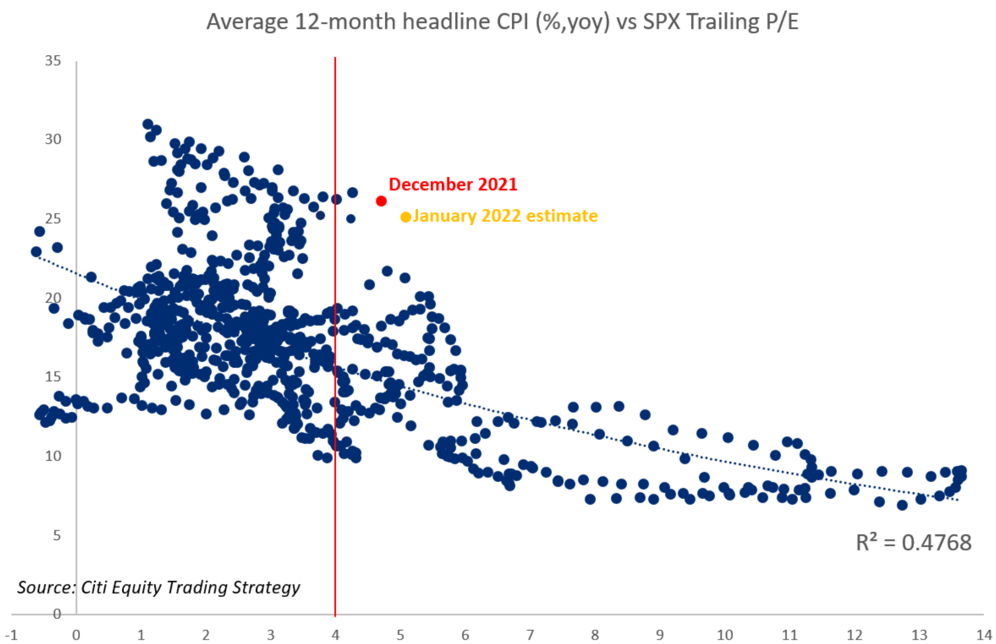


But it is not only the systematic funds that are driving selling pressure at present. I sent around an update note on the small investor community earlier today (see [Retail are finally selling, but it's long way down]) to illustrate that if we take a basket of concentrated ownership of retail names and measure their collective VWAP from the start of 2021, it is now apparent that *all* profits on average since the beginning of last year have now been wiped out. Remember, retail have the hallmarks less of a value investor and more of a momentum fund these days, thus with momentum turning (see Jimmy's posit on [rotation *becoming* momentum]) the recent drawdown represents the first time that the small investor has been tested in terms of their ability to withstand a PnL hit. Here's the problem; both TD Ameritrade *and* FINRA's margin data suggest that positioning remains close to all-time highs and the PnL resilience of the retail community may be materially weakened. **POLLS is still at 16, representing the longest monthly streak of warning readings since Q4'18 and continues to suggest a degree of complacency both within the retail and broader institutional setup.**



At this juncture, what do we do? The good news is that a break of the next CTA level where funds flip short would represent a cleaner positioning setup, especially into the bulk of reporting season later this month where expectations are not especially high with consensus expecting a sequential decline in earnings QoQ. The bad news is that **rallies are made for selling at present** given the ongoing POLLS warning and the ongoing conditioning of market participants to still try to buy dips. I was out for a couple of days last week so did not get a chance to update my CPI/SPX P/E model until the weekend, but with December's CPI reading now locked in, **we can clearly see that US Equities remain**

uncharacteristically expensive for this kind of inflationary backdrop. Some of that necessary derating will come from 2022 EPS growth, but even assuming a 10-15% earnings uplift this year, it still suggests US equities are around 10% overvalued based on a 60-year lookback of inflation and valuations. Value may pause for breath here after a truly astonishing rally, but I remain wedded to the notion that it remains the best place to 'hide' at least for the next few months.



And speaking of places to hide: if 2022 is meant to represent a breakthrough year for the metaverse, then MSFT's agreed bid for ATVI is a strong step in the right direction to consolidate different media channels with the right capital backing (well beyond META's dream!). Bazinet covers some preliminary thoughts **here**, but from this layman's perspective (*that used to wear an event-driven hat religiously!*), you do not often see companies this large being bid by AAA-rated corporations in a CASH deal. So whilst there is a long timeline here with a lot of antitrust hurdles, a 10%+ annualized return on an provisional mid-2023 completion timeline is also perhaps not a terrible place to hide either… !

Alty

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