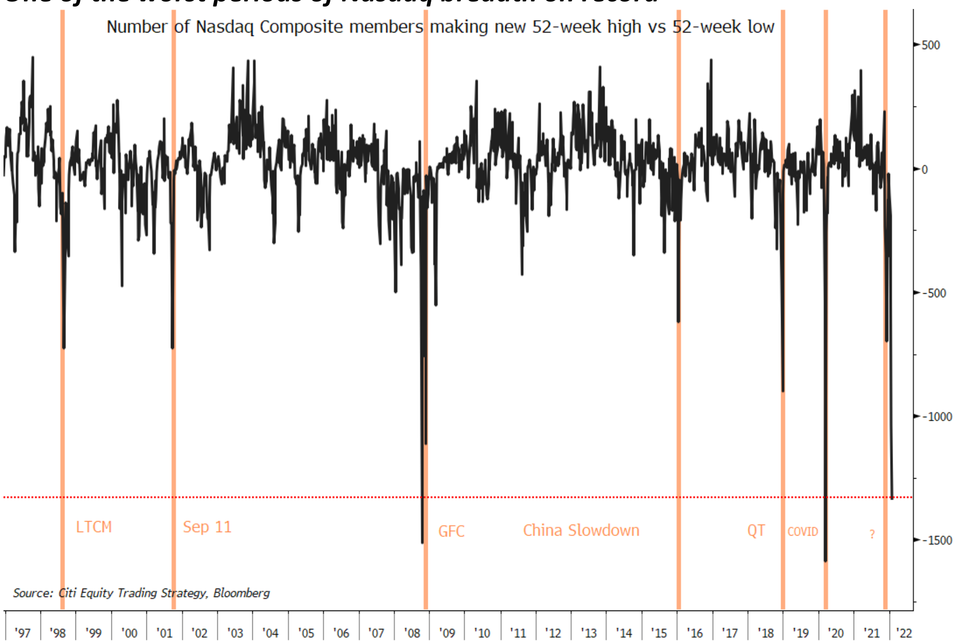
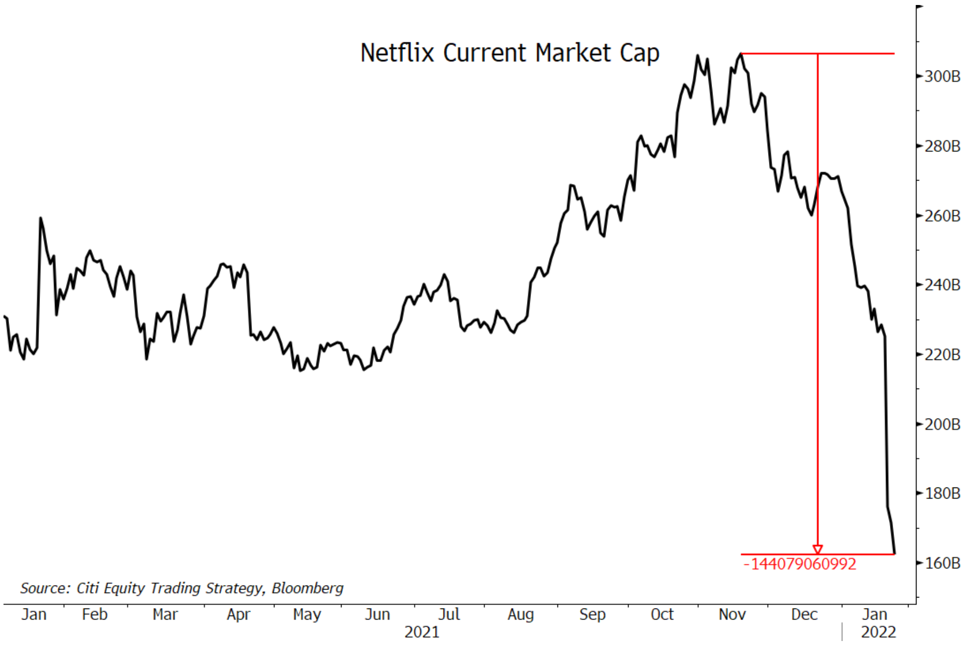
Microsoft just shed the entire market cap of UPS today if we include the after-hours miss in Azure. And yes, I am aware that this well-loved bellwether has a habit of trading down on earnings day to then claw back to a gain on a T+1 month basis, but that has historically been on an earnings *beat* as opposed to miss! But nonetheless, indices spent the bulk of the today's session once again in the red, and much to the chagrin of this strategist, had you only been paying attention to the macro and quantitative variables in the market you would have been forgiven in thinking equities would have been more robust today. Value up 90bps, Growth -100bps, Low Risk negative on the session, WTI closing above $85, real yields were down, EM and SMID both outperforming… Energy was up 4%, and AXP +7% on what I can only describe as a bullish outlook for consumer spending ! It is as if for the second consecutive day that the broader US equity market is sitting in an doomsday echo chamber whilst the rest of the world quietly gets on with things… Nasdaq is down 13.3% YTD, making it the worst-performing developed-market index by a substantial margin.

One of the worst periods of Nasdaq breadth on record



I highlighted this last point in a note on breadth earlier (see **here**), and for those that missed that summary, the key chart is repeated above to illustrate not just how bad the Tech unwind has become (*especially in light of the non-recessionary backdrop and less aggressive index moves*), but also how rare the current environment against anything we have seen over the past 25 years. That was again on display today as pretty much everything 'Growth-y' is now down on a two-day basis despite yesterday's sharp reversal. There are a lot of names you could highlight at this juncture but perhaps the poster child for this period of unwind is not any de-SPAC and IPO name but instead NFLX that has *halved* since November; $144bn of market cap wiped out, and the bellwether has been relegated from a top-10 NDX constituent to now 17th place. I would say they need a bit of a Ted Lasso pep talk in their life, but then I remembered that's on Apple TV+, which makes things even more awkward.



But I digress. Tomorrow we have the week's primary catalyst by way of FOMC meeting and whilst expectations for a hawkish surprise have certainly been tempered in light of market turmoil (note that Mar ED$ is no longer pricing in >1 hike), there remains a high degree of investor scepticism that any kind of dovish message will be on display either. Citi's FX and Economics team have their own previews [here]() and [here]() respectively, and I remain more focused on the specific narrative of the Fed – although a balanced and measured approach to rate hikes would be welcomed news, in my opinion – and more about **the technical dimension of US equity risk where a rally above 4422 would start to trigger an covering of the now well-established CTA shorts.** Given the ongoing poor liquidity backdrop, that squeeze could still be violent, especially given both rate and equity vol are simultaneously at the highest level since Q3'15.

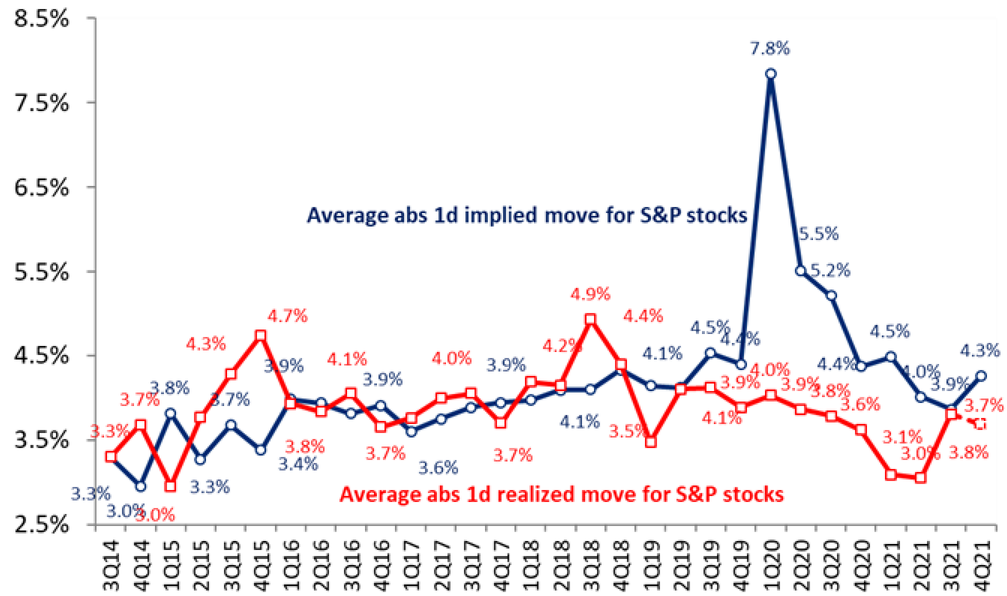
Rate and equity vol have not been concurrently this elevated since 2015

Lastly, since we are now firmly in the thick of earnings I thought it would be relevant to give a very early earnings scorecard (note this has yet to be updated for the post-market results at the time of writing), and the average implied moves for the balance of earnings season. The first table below shows that out of the >10% of reporting that has taken place so far, for the most part earnings are still delivering healthy beats of 1.7% at the sales line and 4.1% at the bottom line. However it is the reaction that has so far been more elevated with an average 1-day absolute price move of 3.7%, which takes us to the more volatile reporting season since the middle of 2020. Of course, we will have a much better picture by the end of next week, but I note that for the remaining bellwethers that are still to report in SPX (Tech or otherwise), options implied moves have shifted up by 1.1 percentage point WoW – perhaps unsurprising in light of the VIX/market moves, but it's also fair to say that the additional risk premium is already been largely baked in by the vol market at these levels. Even with MSFT's negative reaction, it is thus far not dramatically outperformed the implied expectations of 6.8% after all…

			# Rep |	Mkt Cap Reported		Sales ($B)			Earnings ($B)		
Sector	**# Reported**	**Total**	**Total**	**% Sector**	**% SPX**	**Curr**	**% Surprise**	**% Growth**	**Curr**	**% Surprise**	**% Growth**
Info Tech	1	71	1 | 71	1%	0%	17	4.4%	(18.0%)	3	2.5%	63.1%
Materials	1	28	1 | 28	4%	0%	4	3.2%	11.5%	0	6.9%	(21.2%)
Industrials	11	73	11 | 73	25%	2%	102	0.3%	14.9%	8	7.5%	107.6%
Cons Disc	0	61	0 | 61	0%	0%	0	-	-	0	-	-
Energy	4	26	4 | 26	12%	0%	20	6.4%	17.6%	2	4.6%	71.5%
Financials	31	66	31 | 66	57%	6%	195	2.3%	8.1%	54	11.0%	8.1%
Real Est.	1	31	1 | 31	11%	0%	1	6.5%	14.9%	1	18.1%	18.1%
Comm Serv.	2	26	2 | 26	7%	1%	42	0.2%	1.1%	6	4.4%	3.8%
Health Care	3	62	3 | 62	20%	2%	100	0.3%	12.1%	10	2.0%	33.4%
Utilities	1	28	1 | 28	16%	0%	5	(14.6%)	14.8%	1	5.7%	3.7%
Cons Staples	2	33	2 | 33	16%	1%	44	8.6%	16.8%	5	1.7%	2.2%
SPX	57	505	57 | 505		14%	530	1.9%	9.5%	90	8.1%	17.0%
SPX ex-Financials	26	439	26 | 439			335	1.7%	10.3%	36	4.1%	33.4%

Source: Citi Equity Trading Strategy, Bloomberg

Earnings implied moves have ticked up, but they are also one-day reactions are realizing so far



Source: Citi Equity Trading Strategy

Alty

Alexander Altmann
Head of US Equity Trading Strategy
Office +1 212 723 1999

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