These comments will be brief as incrementally there is not a huge amount of information since yesterday evening, and as flagged at the time, we are currently operating in an 'information vacuum' that is occasionally scattered with geopolitical headlines. Liquidity is still thin: 1.8mm ES1s on a 2% down move is extreme by historic standards with only 18 occurrences post GFC of this magnitude of sell off with such low turnover, and for the second day in a row was not meaningfully backed up by quant behavior. Low Risk rallied by only 45bps by the close, and breadth was similar to yesterday but with obviously a much larger move in headline indices.

If you were looking for a silver bullet culprit for today's moves, however, you would have been better off looking on domestic shores than for a headline out of the Kremlin. For those of you that receive the blast IB chats, I mentioned TSLA's 200dma break yesterday (*and forgot to put it in the EOD… nice job, Alty*), and today marked a definitive collapse below that 830 threshold as the stock had its worst day since Jan 27$^{th}$ and now trading at the lowest level since last September. Yes, it's just one company (that contributed to 10% of NDX negative index points despite only being a 3.7% weight), but remember this is <u>*the*</u> talismanic name for the small investor and arguably the last 'shoe' to drop in the cascading effect of retail unwinds. This does of course beg the question as to what is in store for crypto if the final gantry of retail begins to shake at the foundations, especially considering the overall net length that small investors continue to deploy relative to history.

***TSLA may be the last 'shoe' to drop for the retail community, who have reduced length but remain long by historic standards***


But that being said, we still need to consider the reality of incredibly poor liquidity, and the scope for an information vacuum to exacerbate moves in both directions. Real yields have come off c10bps from their early Feb highs, whilst VIX – despite being above 30 once again – has actually not eclipsed the levels seen at the end of January. Neither of these present the slam dunk **squeeze risk** that was evident last month, but when positioning is this short (courtesy of our **quant team**), and investors this bearish on the geopolitical landscape, it would not take much to tip sentiment to trigger a violent bout of futures covering in the higher-beta parts of risk; i.e. Nasdaq. **CGUSOVER hit the first reading of**

**oversold again today (-78), and although the model needs two observations of this nature within a 4-day rolling window, it goes to reinforce a view that markets are reaching the point of seller's exhaustion, even if temporary.**

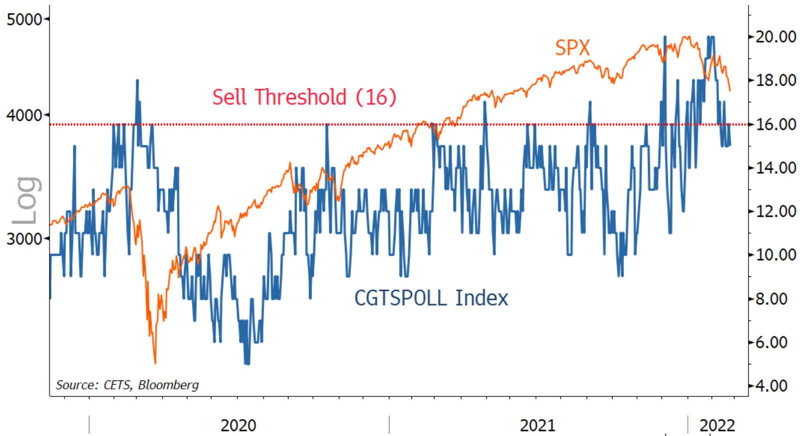
***Real rates have steadied, even as NDX continues to undershoot. Extreme positioning leaves bearish positions vulnerable to right-tail outcomes***

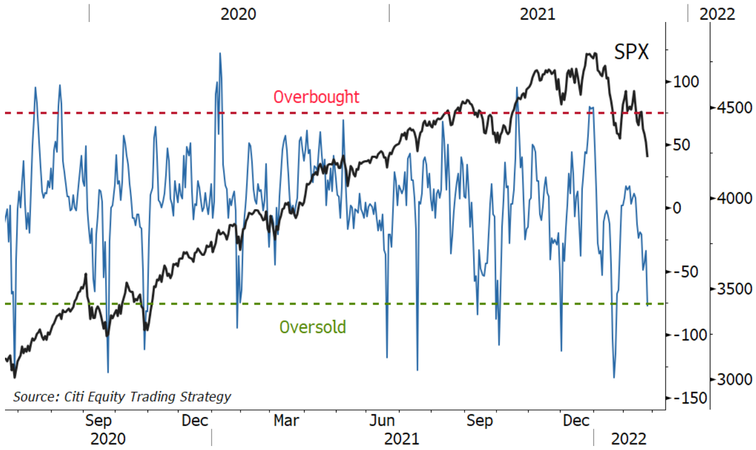


*Source: Citi Equity Trading Strategy, Citi Research, Bloomberg*

So let's lay it all on the table. There's plenty to be fearful of – the Fed, the liquidity backdrop, the valuation, the QT, the Vladimir – and unlike say September last year, this wall of worry is a *legitimate* one that will likely linger for a protracted period of time and a question mark hanging over the geopolitics*. **That means 'sell the rallies' is a mantra that remains in place, but it is the right-tail risks that should now be considered especially in indices like NDX that are within 50bps of being in an 'official' bear market.** CETS' POLLS model has moderated away from the warning level of 16 for five out of the last seven trading days, and that's the longest stretch of relative improvement witnessed so far this year. Yes, the indicator's sweet spot remains on a T+1 month basis, so I am not ready to cheer for the return of a bull market, but I am at least willing to hedge that right tail should a dousing of perceived dovishness sweep over risk (for whatever reason!), or indeed a perception of declining geopolitical risk premium. QQQ Mar4 345 calls cost $1.72 (vs 329.42 ref), which gets you PCE this Friday, Powell's testimony on March 2nd, and NFP on the day of expiry. I know short-dated options have no 'vol' as such, but at 32% vol, that's implying a 2% daily move over the next week, which is comfortably where the 10d realized has been.

***POLLS is finally starting to moderate, and oversold conditions are being re-established***




Alty

**Personally I could see the Russian news dissipating into the background of investor discussions as the March data dump begins next week, but hey, I'm no Henry Kissinger!*

**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.**