For many of those that read this product, you have often appreciated that it tries to succinctly summarise not only what is going on below the surface in markets, but also to shed light on some of the more subtle thematics that are occurring away from the brouhaha and sensationalist headlines. And sometimes, I don't have all the answers – even post hoc – with today essentially being one of them.

To address the 'elephant' in the room to begin with; the 2.6% intraday drawdown in NDX that a couple of people referred to as a 'flash crash' (*it wasn't*) . Whether it was driven by some activity prior to afternoon newsflow in the HF space is somewhat unclear to me, but what I would say is that there was no spurious activity in the quant world, nor was there some outsized volume in futures (1.7mm ES1s changed hands in total today, which is bang in line with the 6m average). Some of you suggested that the intraday reversal in GME was mission critical to the broader single stock moves given it peaked at the same time as SPY, but in reality if there was some wholesale retail unwind taking place then we would have seen TSLA down more than 1.2stev high to low. Indeed, to me GME is a *symptom* of retail activity that has been discussed about at length in this column historically, but not in itself the cause. If you're looking for a recent analogue, then look no further than HTZ last year that coincided with a truly monstrous market-based short squeeze around vaccine news; it was a bizarre illustration of how retail can juice up random stocks but it wasn't the *reason* stuff was moving the way it was. **My takeaway from today is threefold:**

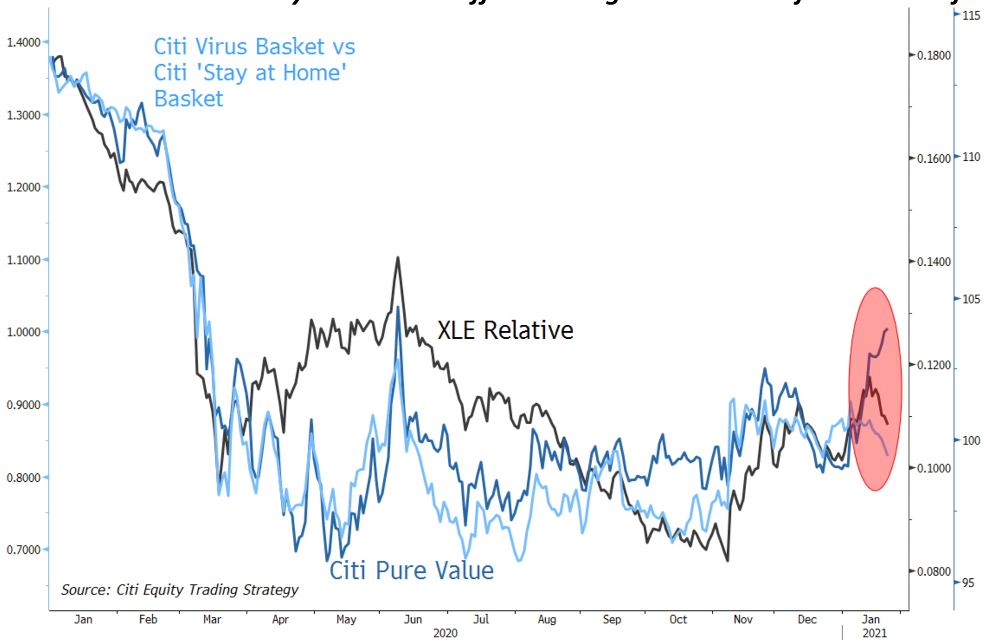
As an organised 'group', the retail investment group is forcing professional investors at the margin to reexamine how committed they are to certain (short) positions, regardless of how deep their pockets are. That in itself is a really scary prospect and indicative that there may be a serious misallocation of capital taking place. AMC should be thanking small investors for essentially bailing them out.

If small investors are targeting lower market-cap companies with a large short base and/or consensus negative outlooks by the professional community, then we should be particularly sensitive to those that are geared towards any vaccine news and/or opening up of the economy. Think cruise liners, consumer discretionary (but the stuff that over-65s spend money on since that represents a significant amount of pent up demand). Or anything in our Most-Shorted basket (**CGTSSINT Index**).

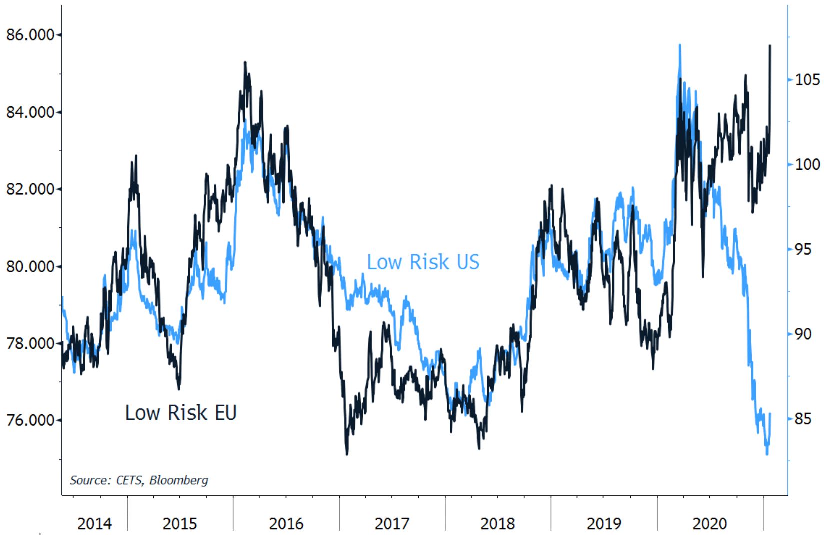
Markets are naturally more vulnerable when the institutional shareholder base is less assured given the valuation backdrop, and retail investors are less wedded to their positioning given the ability to react quicker thanks to app technology. Both are symptomatic of **bubbles**.

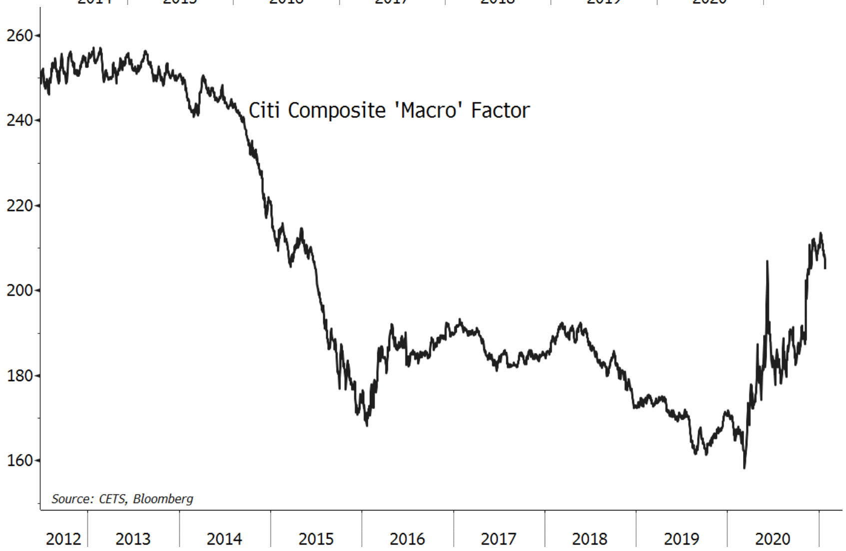
But let's clarify one really important point: whilst the likes of GME, BB, AMC, or ***insert your retail stock du jour*** may be grabbing a lot of attention (and I'll address this ongoing topic in just a moment), I want to again stress that these insane moves are not reflective of the market as whole. In fact, the underlying narrative of equity risk today is actually one that I **began to flag on Friday**, which is that investors are at the margin becoming less sanguine about the pace of vaccine rollout and simultaneously fretting about renewed lockdown threats and/or the pace of economy reopening. This is clearly evident across pretty much everything CETS analyses: quant, sector performance, and thematic baskets. Take, for example, the virus-sensitive names (**CGTSVRL2 Index**) and measure it against the habitual momentum basket of 'Stay at Home' (**CGTSSTAY Index**) that had a 7% intraday move. Or the fact that cruise liners were down >6% at one point today, and Energy stocks were hit another 100bps (*…still up 10% YTD by the way*) despite crude rallying 100bps by the close. It's as though the investor base has the knee-jerk 'stuff to sell' names ready to go and open that playbook on short notice given the Pavlovian response to headlines. But it's not as though *any* of these parts of the market are making new relative lows against the benchmark: if anything I would argue that given Value is still rallying on a daily basis (which it was not doing during the first six months of COVID-19 cases in the US) is illustrative that slower money has simply run out of virus-sensitive stuff to sell.

It's not like economically-sensitive 'stuff' is making new lows…so just a reset of expectations?

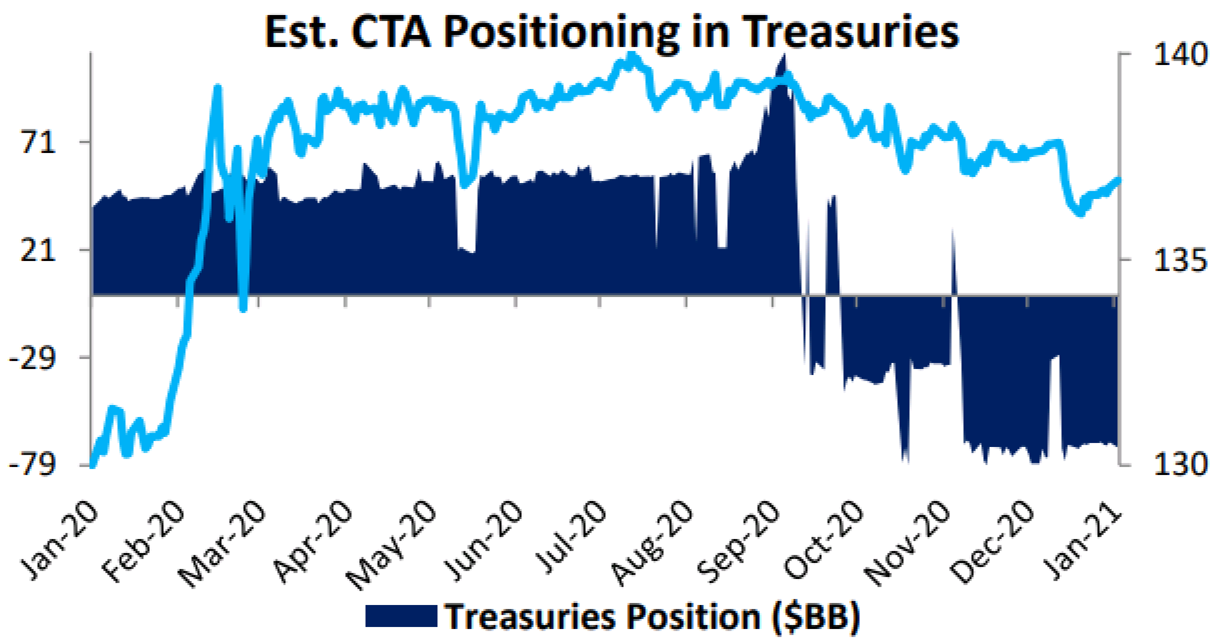


Let's be clear, Low Risk (**CIISLRUT Index**) rallied another 110bps in the US, and to reiterate the point from **last week**, appears to have at the very least paused the downward trajectory that has been in place since the nadir of equity markets almost a year ago. This is a factor that I will continue to monitor as it has **historically signaled relevant turning points for broader index risk**, and is an important component in our POLLS Model. But let's also not lose sight of how far this index has moved not just since March but even YTD was at one point down 2.5% (for a 10% vol index), and is still only +75bps for the year. We sadly cannot say the same for European Low Risk that is making multi-year highs (see first chart), and illustrative perhaps of the way the region is handling vaccines and broader fiscal packages. More broadly, however, *overall* factor performance is still not suggesting anything enormously sinister; more just a reset of exuberance in light of a *confluence* of marginal negatives that have hit investors over the past week: slower vaccine rollout (expected), new variant threat (arguably known) and a delay to fiscal stimulus (now expected by March, again not exactly news). My colleague Christian Raute pointed out that the Composite Macro Factor (see second chart below) is still on a healthy upward trajectory, even if lost some recent steam, and indicative to the above point that sentiment appears to have soured very quickly beyond what the quant world is suggesting.





What am I watching out for next? No, it's not the Reddit feed's stock picks for tomorrow. Clearly we have a big week with the Fed and Tech earnings, although many market participants have earmarked tomorrow's JNJ results in the calendar with an eye on the anticipated vaccine news given the mooted 'one and done' shot at more sensible logistical temperatures. That could at the margin cauterise some of the 'macro' issues highlighted above (or worsen them), but again to the first point on retail, what could that do to some of the smaller, vaccine-sensitive stocks? Separately, much of the risk off environment that has seeped into market since Inauguration Day appears to stem from the recent reversal in the bond market, which is now on the cusp of forcing some systematic positioning adjustment (see this week's CTA update **here**). A positioning flush in TY1 may be ultimately what we could see around the Fed meeting and set us up to continue on the pro-cyclical trade… and that signal switch is only 3bps away.



Source: CETS

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