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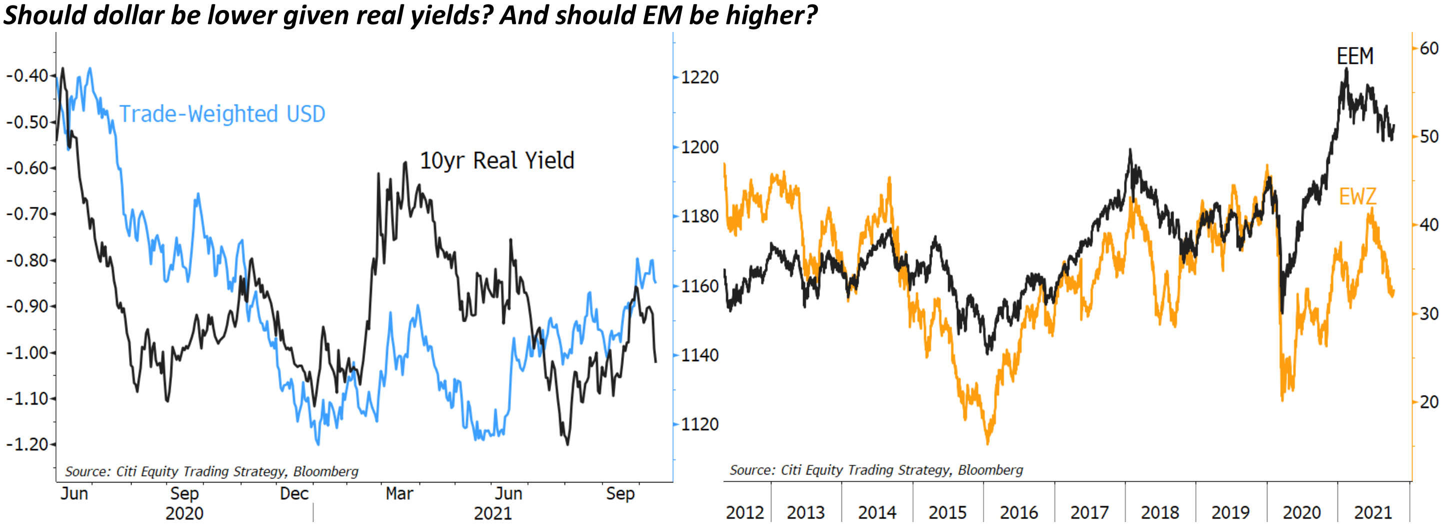
An abridged EOD from this author given a client event, and there's little in today's price action that needed to be deciphered. The fact that we closed through an important CTA level of 4413 suggests that there should be some index follow through as systematic funds re-level back into ES1 to the magnitude of $50-$60bn notional over the next 24 hours. And add on top the lack of localized gamma in the market at present (see a separate note on the topic published earlier today **here**), as well as the EOD buying from levered ETF rebalancing, and it's a powerful concoction when many investors I speak to remain cautious/bearish on markets in the short term. **And for the record, I remain tactically constructive on markets even at these levels as we continue to climb the wall of worry.**

Systematic positioning has room to grow substantially from current levels

Speaking of the wall of worry, did the last 24 hours provide another brick being removed by way of eliminating some of the Q3 results tail risk? Not only is AAPL now trading higher than prior to the 'warning' on iPhone shipments, but some robust reports from the banks has already gone a long way to calm some nerves about this reporting season. Remember, investors had been starved of positive news for several weeks now, thus even incrementally good news is seeing disproportionate price action thanks to the aforementioned defensive positioning setup. Add on top the fact that real yields have once again dipped below -100bps in the 10yr bucket, the hurdle rate for performance in the asset class only goes up and diminishes the endogenous risk at present. **It also has near-term implications for USD move, which suddenly looks horribly out of kilter with the prevailing yield environment… could that re-engage investors into emerging markets (Brazil!) after a torrid time over the summer?**

Should dollar be lower given real yields? And should EM be higher?



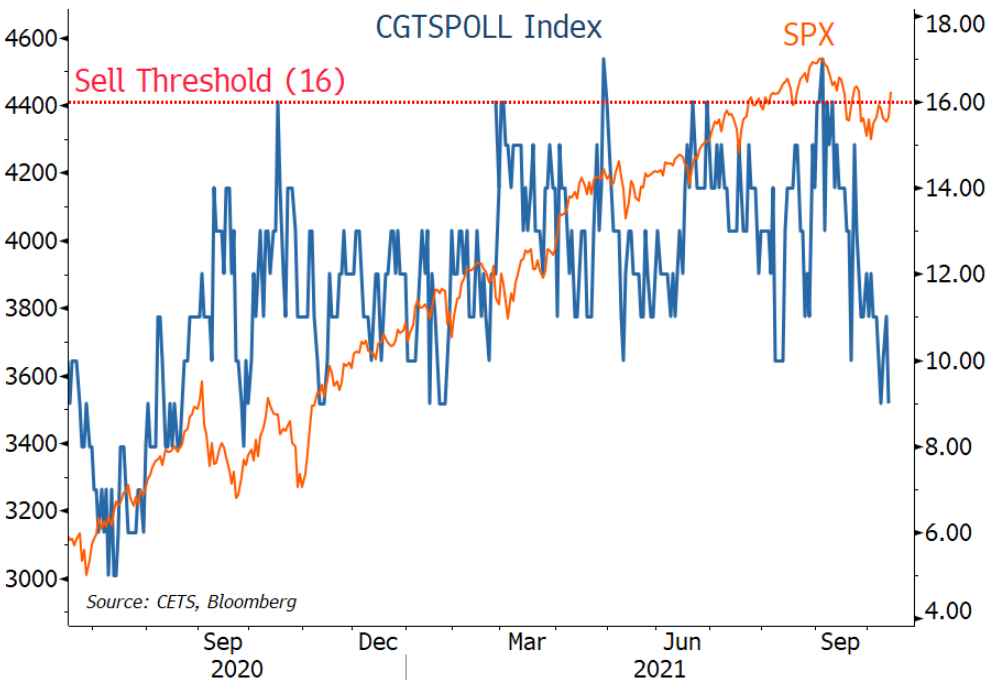
If I had to sum up the current state of play, it would be as follows: **endogenous risks appear to be very low, even if exogenous risks (known unknowns such as China/Taiwan, oil squeezing to $130/bbl, SEC changing rules on PFOF for retail investors, etc) appear high.** Investors, in my mind, are worried about risks that may or may not transpire over the next 6-12 months (corporate margin pressure, consumer slowdown from higher prices, etc) at a time where the *market-*

derived risk factors are showing some of the lowest levels of complacency – i.e. a bullish signal for risk – so far this year. Our POLLS model hit 9 yesterday… that's the lowest reading of the year and reflects only 10% of observations going back to 2012. If we bucket the performance stats of SPX subject to the 'regime' that POLLS is in, we can see that an environment of 9 (or below) offers some of the most compelling return profiles for the market on a 3m-forward and 6m-forward basis – see the table below. Chalk that up as more reasons to be bullish…

Forward SPX returns when POLLS is at 9 are favourable

	#cases	Mean 1M return	Mean 3M return	Mean 6M return
CGTSPOLL<4	2	1.3%	3.9%	1.8%
4<=CGTSPOLL<8	41	1.2%	3.7%	6.7%
8<=CGTSPOLL<12	316	1.2%	2.7%	5.4%
12<=CGTSPOLL<16	274	0.3%	2.2%	5.0%
16<=CGTSPOLL<20	45	-0.3%	0.4%	3.7%
20<=CGTSPOLL	9	-2.9%	-5.9%	-1.2%

Source: Citi Equity Trading Strategy



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