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Although SPX managed to notch up its 5th green day out of the past six, in reality if we strip out TSLA then some of the shine came off today's rally given it accounted for 50% of total SPX 1-day move. The talismanic auto company closed up over 12%, adding over $100bn to the market cap on a headline that was worth $4bn to revenues (*…how do you like that multiplier?!*) and now propels Mr Musk into his own stratosphere from a net worth perspective; at $290bn he is worth more than the number 3 and 4 spots (held by Mr Arnault and Mr Gates respectively) *combined* on the Bloomberg Rich List. Perhaps more pertinently, it is not just the largest car company in the world – that had been the case for some time – but today's move means that a combination of every major car company in the world collectively now pales in comparison to TSLA alone: below is a chart that I used in the Bizarro Chronicles for 2020, and yet something tells me that it will be a feature of the 2021 vintage too.

There TSLA and then there's 'everything else'

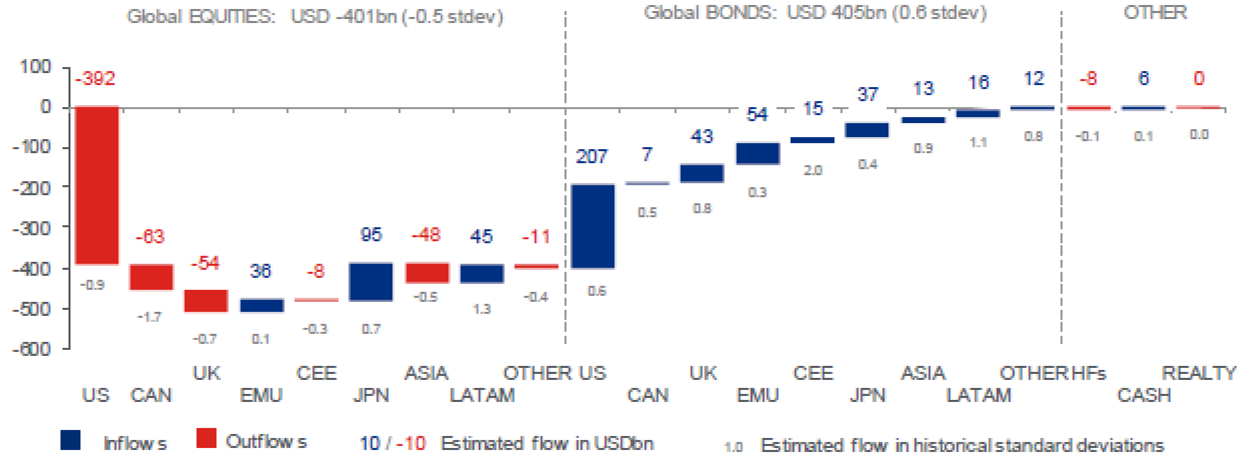
That being said, Low Risk still fell 40bps today and breadth managed to eke out positive to the point where we are within sight of the June 8th all-time highs in cumulative advancers-decliners. We ultimately need to see this previous record broken for markets to sustain new highs in my opinion, but the issue is that markets are starting to look a lot more symmetrical versus three weeks ago when CETS flagged a tactical bullish construct and **oversold conditions**, and we have now hit overbought conditions at the end of last week. HF nets are back up to the 55th percentile, AAII Bull-Bear readings have normalized too, and the positives of Q3s are largely discounted at this juncture with 25% of SPX market cap reporting already taking place (*and another 50% occurring this week*).

Breadth continues to improve but yet to break the June 8th highs

Perhaps most importantly is that POLLS is back at 15 as of this evening (see table below) and for the first time in a year we are seeing a deterioration in 'soft' economic data that is outpacing 'hard' economic data to the downside. Not in itself a cause for immediate alarm but merely to illustrate that risk is nowhere near as lopsided as only a few weeks ago.

Moreover, with month end approaching, our [FX Quant team] highlight that month rebalancing flows are theoretically estimated to be -$400bn for US equities, which may act as a brake on near-term performance too.

Month-end rebalancing flows suggest a sizeable headwind to equities



Source: Citi, as of Friday 22-Oct-21

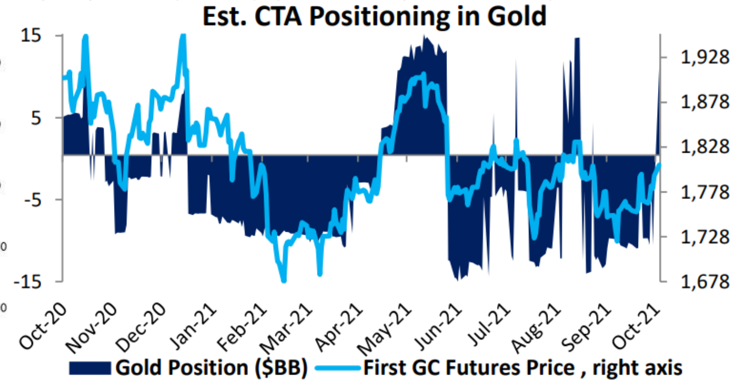
POLLS is back at 15, driven by a combination of normalized positioning and a deterioration in economic momentum

Current Level: 15			Recent Market Peaks				
	25-Oct-21	18-Oct-21	Sep '21	Oct '20	Caution	Danger	Description
Market Indicators							
% Rally in 21 Days	2.5%	1.2%	2.3%	3.8%	2.2%	5.9%	
Vol/Spot Correlation	1	1	4	5	3	5	# of vol up spot up days in last month
ToB Liquidity % Rank	47%	50%	93%	50%	20%	10%	Percent rank based on 12-month lookback
CDX HY % Rank	92%	93%	6%	17%	20%	10%	Percent rank based on 6-month lookback
Probability of Default % Rank	54%	46%	89%	3%	70%	85%	Percent rank based on 6-month lookback
Real Yields % Rank	28%	47%	19%	33%	80%	90%	Percent rank based on 6-month lookback
Low Risk Factor % Rank	38%	29%	84%	6%	80%	90%	Percent rank based on 6-month lookback
Data							
US Soft - Hard Data	Negative & Falling	Positive	Positive	Positive	Negative	Negative & Falling	Differential between CESI Hard - Soft dataset
Sentiment							
Levkovich Index	0.82	0.82	0.98	0.69	0.3	0.38	Research Strategy Composite Market Indicator
VXX Rolldown	0.5625	1	1	0.25	0.5625	0.25	Does not prefer rolldown
Vol Indicator	17	17	17	-33	-33	0	Neutral
CGUSOVER	40	14	-1	-1	60	75	CETS Proprietary Overbought/Oversold Indicator
Positioning							
Mutual Fund Beta	1.02	1.01	0.87	1.06	1.1	1.2	Beta of Aggregate Mutual Funds to SPX
Hedge Fund Beta	1.03	1.03	0.90	1.16	1.15	1.25	Beta of top HF holdings to SPX
Short Interest	0.7%	0.7%	0.8%	0.8%	1.4%	1.3%	% of SPX Market Cap that is held short
CTA Positioning	20.0	18.1	18.0	18.0	15	21	$ Notional SPX Length
CTA Distance from Sell Signal	2.9%	1.3%	3.9%	3.0%	3.0%	1.0%	% move lower required to trigger CTA selling
Financing Rate	39	39	37	14	20	30	S&P 3mL financing rate
Net Short Vega Positioning % Rank	81%	66%	55%	100%	80%	90%	CFTC Net Non-Commercial VIX positioning
Signals							
Caution	5	2	4	6			
Danger	10	8	12	10			
Total Warnings	**15**	**10**	**16**	**16**			
Total Warnings %	**39%**	**26%**	**42%**	**42%**			

Source: Citi Equity Trading Strategy

To be clear, I am still not particularly bearish and would use any intermediate dip to add to tactical risk; whether it's triggered by a megacap Q3 miss this week or jitters around COVID-19 flare ups in China (or anything else). However investors should simply be mindful of how aggressively markets have normalized from the start of the month, and indeed how rapidly our indicators/models have reverted back to prior conditions. So on that vein, I think it is interesting to revisit some unloved parts of the market, notably gold upside. CETS flagged in the regular Monday [CTA update] that the yellow metal is sitting right on the cusp of triggering further systematic inflows as momentum begins to turn, and this could amount to c$30bn of levered notional, on our estimates. To be clear, our commodities team remain pretty unenthusiastic about a sustained bid at present (see their latest note on the topic [here]), so I am thinking about this more from a positioning perspective and a brief catch-up versus the recent move in real yields. With vols having reset down to the low teens, playing GLD short-dated (Nov expiry) upside actually appears quite compelling in my opinion.

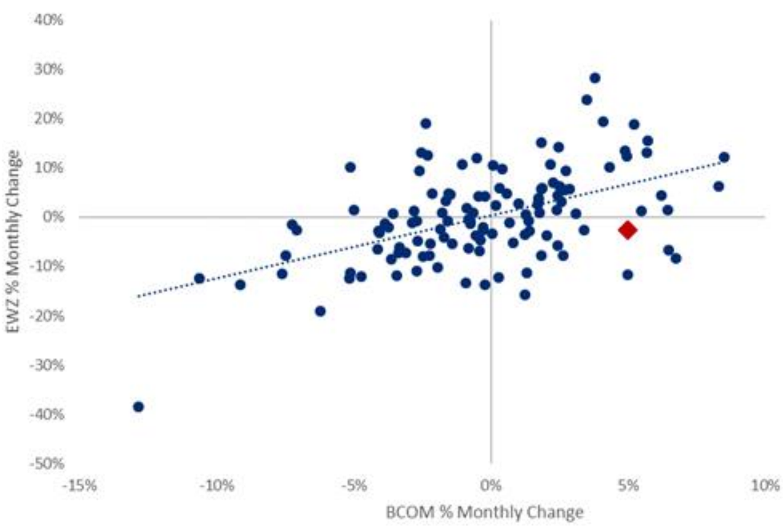
Lower real yields may provide some short-term support for gold, especially if CTAs are forced to buy



Source: Citi Equity Trading Strategy

Lastly, a quick mention on Brazil. Mea culpa, I recommended this within the EM complex/weaker USD and picked pretty much the only EM that has gone down thanks to some poorly-timed fiscal headlines last week. I would not say that all was forgiven based on today's price action, but expectations ahead of the BCB hike on Wednesday (150bps expected) have clearly increased thanks to the gas price hikes. Moreover, as our London colleagues **highlight**, some near-term fiscal concerns may have been allayed thanks to the Minister of the Economy Paulo Guedes not leaving his post, and that further benefits for the spending cap would not be allowed. We clearly need more clarity around this matter, but at the margin helped support both BRL and EWZ during today's session, and EWZ remains significantly out of kilter with regard to historic moves in commodities, which may provide some further upside potential in the local equity market near term.

EWZ has underperformed its beta to commodities in light of political uncertainty



Alty

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