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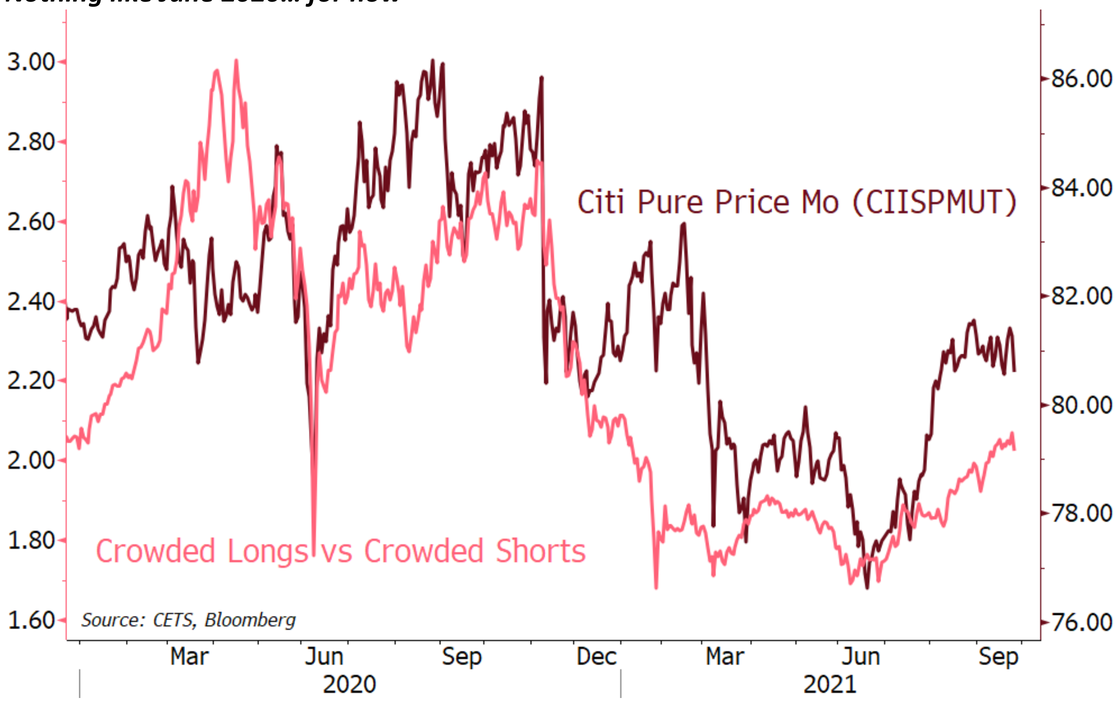
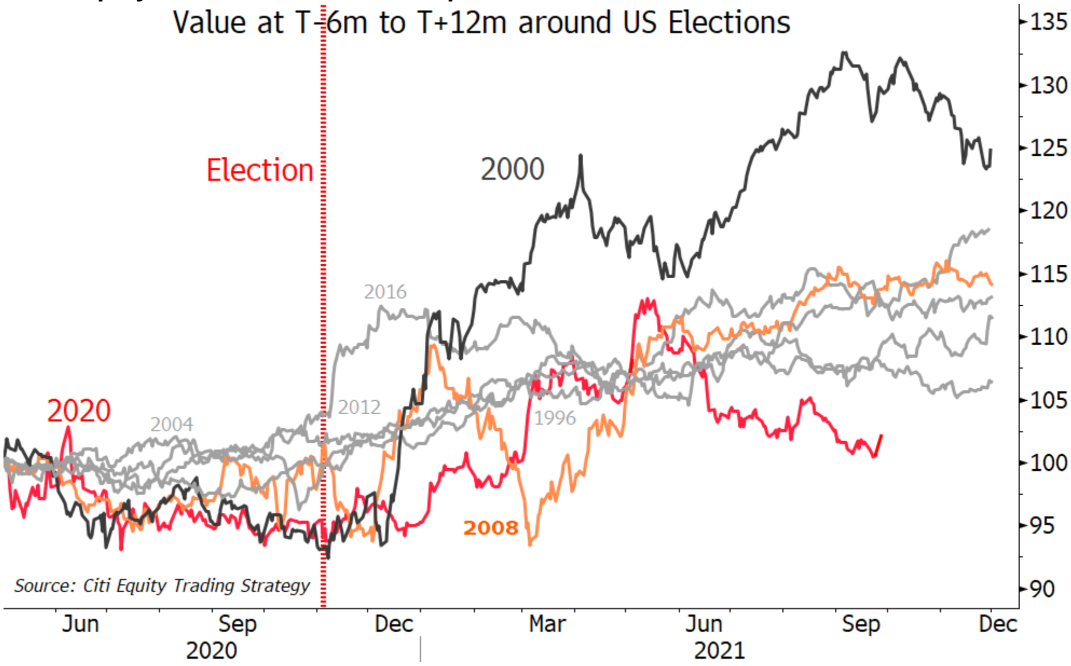
If last Monday was not **[the panic that you were looking for]()**, then maybe today's aggressive rotation represented something subtly more sinister. And as per many of the previous rotations witnessed so far in 2021, and indeed 2020, the surface moves were relatively benign in comparison to the strong undercurrent; SPX -30bps and NDX -80bps (*although at one point down 150bps*) is hardly reflective of a 18% vol environment but yet again the factor and sector dispersion was sufficient to make any seasoned investment professional sweat. Value exploded 200bps higher that marked the largest one-day rise since June of 2020 and notched its way into the 'top 10' movers since 2004. And at the other end of the spectrum, Low Risk fell 1.3% and PriceMo dropped 80bps, the latter of which was illustrative that this rotation was not a setup reflected in consensus positioning. The moves were even more egregious in **Europe** where there was more pronounced evidence of gross risk unwinds, whereas here in the US our 'Crowded Longs' vs 'Crowded Shorts' pair moved in a more measured fashion. The issue, as explained below, is that moves such as today have rarely occurred as a one-day isolation event suggesting scope for more exacerbated moves in the coming days.

Nothing like June 2020… for now

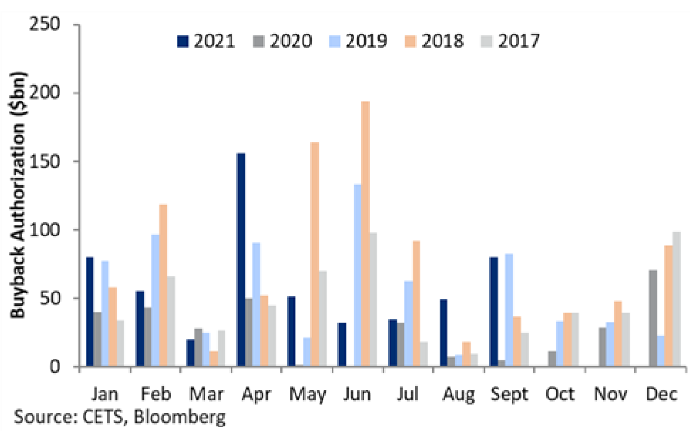


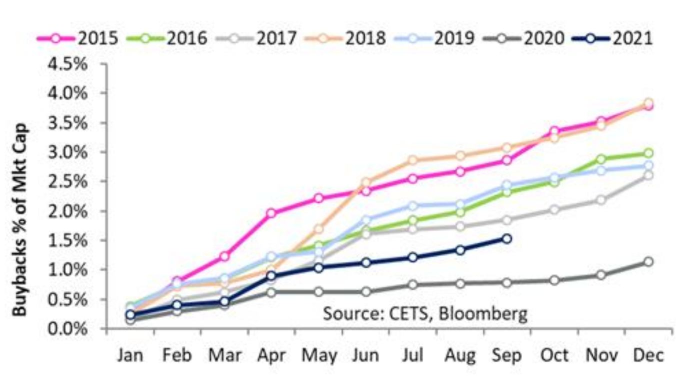
We should attempt to address whether today's move is a one-session *flash in the pan* or not. Going back to the early part of the decade, there have only been 10 previous incidences of Value rallying this much, six of which were accompanied by as larger (or larger) drawdowns in PriceMo. The issue with looking at historical precedent is that outside of the retail-driven short squeeze around the Hertz debacle in June 2020, all of the other incidences of Value rallying 200bps in one day were clustered either during or in the wake of the GFC. In fact of the 10 previous cases, six of them occurred within a one-month window between April and May 2009 (i.e. one of the largest Value rallies in history), and so the subsequent 5-day/10-day/20-day Value rallies were ferocious, notching up cumulative returns of 4-5% on average. In fact, other than in the wake of the Lehman collapse in September 2008, a one-day Value rally this large has typically seen a positive follow through in the subsequent two weeks, making today's move possibly too premature to fade. And drawing parallels to not only that example but in fact CETS' old '**Election Cyclicality**' narrative regarding the performance of Value in the wake of presidential cycles, statistically speaking Value *should* still be rallying when comparing versus history, especially when considering the inflationary backdrop at present.

Value's performance is due a catch up



On to a different topic, I was asked about whether buybacks had seen a significant pickup recently in the context of whether companies would look to front load corporate activity before any potential buyback tax could be introduced as legislation (albeit unlikely in my view). September has indeed seen an acceleration of share repurchase announcements amounting to almost $80bn, making it the second largest month YTD and only just short of the previous September record set in 2019. That being said, the vast majority of this number comes from MSFT's $60bn of authorisations announced on Sept 14th, but nonetheless takes YTD totals to $556bn and on track to take 2021 beyond the 2019 total of $680bn. However, given the US benchmarks have risen dramatically since 2019, buyback authorisations as a percentage of total US market cap is actually still substantially lower than pre-pandemic levels (second chart below).





Lastly as we move into month end, October will most likely see a lot more noise around the trifecta of political threats: the Democratic infrastructure bill (due for a vote this Thursday), budget reconciliation, and of course the debt ceiling deadline. CETS' new joiner, Olivia Moeller, spent some time with our DC Affairs team to get a better understanding on the fluid timeline around these three events that have essentially become intertwined with one another. Although it is virtually impossible to nail down specific dates, we have provided a first-cut 'cheat sheet' on these important political events that will likely present some of the more important event risks next month. You can find the full cheat sheet **here**, and is something that the team will be updating frequently as more catalysts emerge on the timeline over the coming weeks: it is most likely a topic that investors will be unable to ignore if and when the Chinese property saga dissipates from front-page news.

Ongoing timeline, which will continuously be updated as events unfold

September

Sep 21:
- House passed a continuing resolution to temporarily fund the government with debt ceiling suspension attached

Sep 27:
- Senate set to vote on continuing resolution bill at 5:30pm; Requires 60 votes (i.e., all 50 Dems + 10 Reps); Unlikely to pass as Republicans are opposed to the inclusion of debt ceiling provisions alongside the funding provision

Sep 30:
- Deadline for funding bill (continuing resolution) to be passed as current government funding runs out at the start of the fiscal year on Oct 1; Failure to pass would result in partial government shutdown
- House set to vote on $550bn infrastructure bill; Vote could be further delayed by Pelosi due to risk that progressive Democrats will prevent it from passing without more clarification on whether Biden's $3.5tn reconciliation bill will pass in the Senate

October

Oct 1:
- Start of the new fiscal year

Oct 15 – Nov 4:
- Yellen's estimate for when the debt limit will be reached (i.e., the Treasury will be unable to pay its debt obligations); Could result in government default if ceiling is not suspended or raised

November

Nov 3:
- Citi US Economists' prediction for when the debt limit will be reached

December

Dec 3:
- Extension date for federal funding currently proposed under continuing resolution bill

Nov 8, 2022:
- 2022 Midterm Elections; 469 seats in Congress up for election (34 in Senate, all 435 in House); Could mark the last chance for Dems to pass a large reconciliation bill

Source: Citi Equity Trading Strategy, Bloomberg

Alty

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