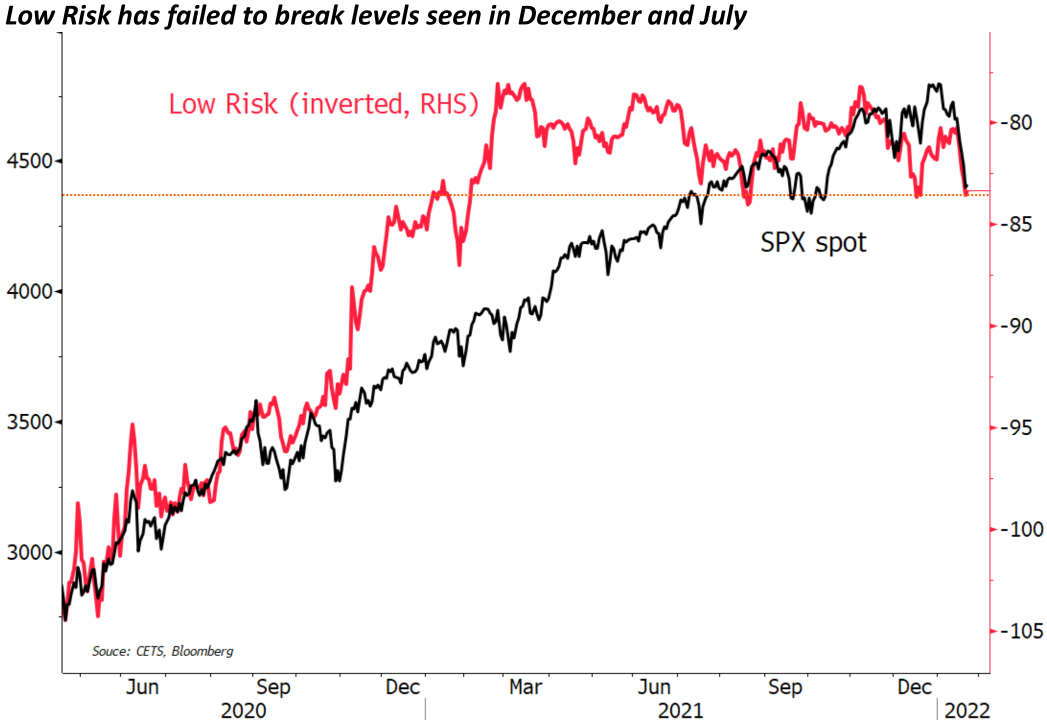
A session of two halves? Or in trader parlance a 'proper' market? You have probably had a few stats thrown at you today: worst intraday since March 2020, SPX officially entered 'correction' territory, or a mention about some moving averages being broken. In truth we could dissect many a statistic about the horrible start to the week (and indeed year for that matter) but it may not make you feel any better about the state of markets at present. Yes, if you had spent all of Monday blissfully unaware of the aggressive gyrations then you may have been better off (and had fewer grey hairs), but there were a number of tells during the day that provided some clues to the afternoon price action.

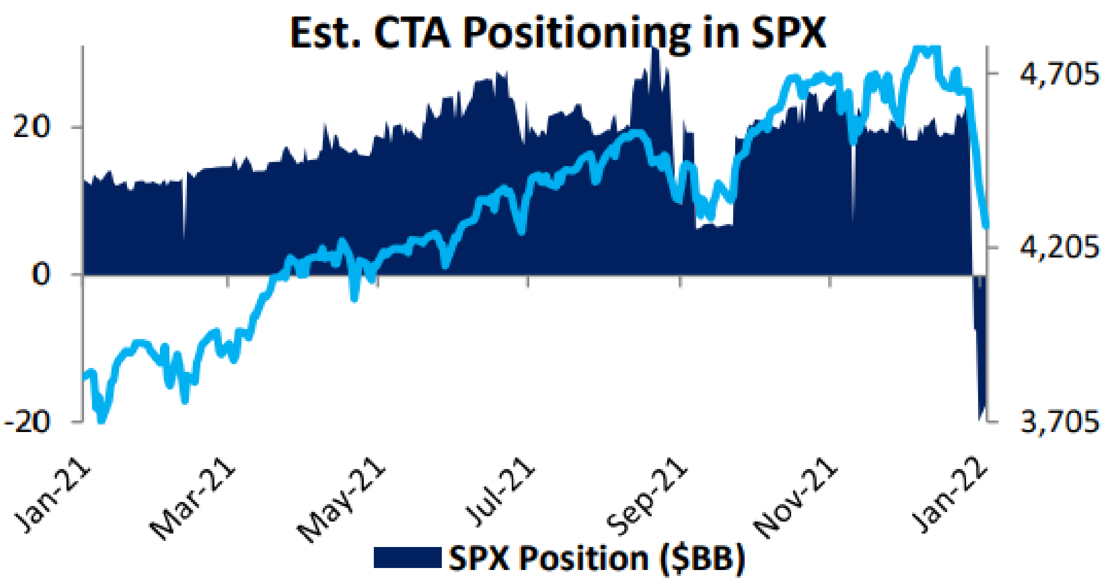
First and foremost NYSE breadth **–** as measured by the number of advancing stocks minus number of declining stocks – was already showing signs of dislocation by early afternoon as we had never witnessed a market this deep in the red with daily breadth improving quickly. Our HT flows were actually pretty balanced all day, and by the close they were slightly skewed to buy, but it was our ETF flows that witnessed the largest buy skew so far this year even as markets were plummeting during the morning. Midcaps – typically a higher-beta sector – closed the session *up* almost 2.5%, crypto equally clawed its way into the green by the US equity close, and even in single-name world, things like SHOP round tripped 24% from the session lows... That is a truly staggering turnaround for a $125bn market cap company. **Equally, Low Risk (CIISLRUT Index), an index I often reference to help navigate turbulent markets, closed the session *down* for the first time in five days** and is still below levels seen in mid-December. If investors had been aggressively seeking safe-haven equities then we would not have witnessed the sizeable intraday turnaround.

Low Risk has failed to break levels seen in December and July



Perhaps the icing on the (rather foul-tasting) cake today was the most simple of observations: ES1 (SPX mini front-month futures) turnover was a monstrous 3.7mm contracts, or 160% higher than the 6mo ADV and 23% higher than Friday's volume. If you needed evidence to suggest that it is price taker (i.e. systematic) flow that is dominating equities, rather than price setters (i.e. discretionary money management) then this is it. I had flagged towards the end of last week that our **CTA model** indicated that systematic traders would already be short US equities, and yet I saw several articles early doors this morning highlighting the extent to which momentum funds would need to sell here: a bit surprising as one would *hope* that momentum funds were already short equity risk after a 10% correction (!), and underscores my view that **the equity supply picture is already exhausted, leaving room for squeeze potential to the upside, especially above 4421 in ES1 futures, which on CETS' calculations would start to trigger meaningful short covering of CTA shorts. That is only 50bps away from spot.**

CTAs were already short going into today – the risk of short covering is high above 4421 and adds to squeeze risk

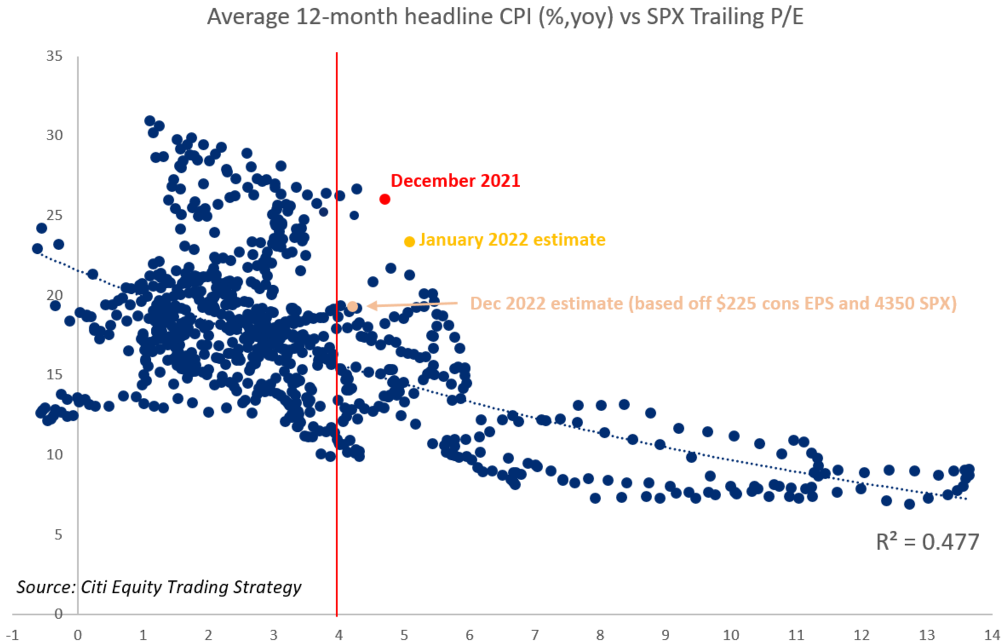


If you're still looking for a silver-bullet reason why equities did what they did then you may well struggle to find it. There was clear evidence of retail capitulation in the morning given the sheer size of moves in crowded retail names (ARKK -9%, crowded retail basket -8% at lows), compounded with a broad-based risk management exercise and some inevitable shorts being pressed, all of which with a pretty lousy liquidity backdrop would have contributed to the move. Yet what still astounds me is less that we rallied in the afternoon – **regular readers will know that I remain tactically bullish given prevailing oversold conditions** – but more that other asset classes basically spent the entire session doing very little of note other than a bit of repricing at the front end of the ED$ strip. The equity market had a serious tantrum today on no incremental news flow over the weekend beyond the Russian sabre rattling, and I am thoroughly unconvinced that marginally rising geopolitical tensions should cause almost a trillion dollars to be wiped off the US equity market in a day…

Still oversold. At one point intraday CGUSOVER registered -205 – the worst since Q1'20

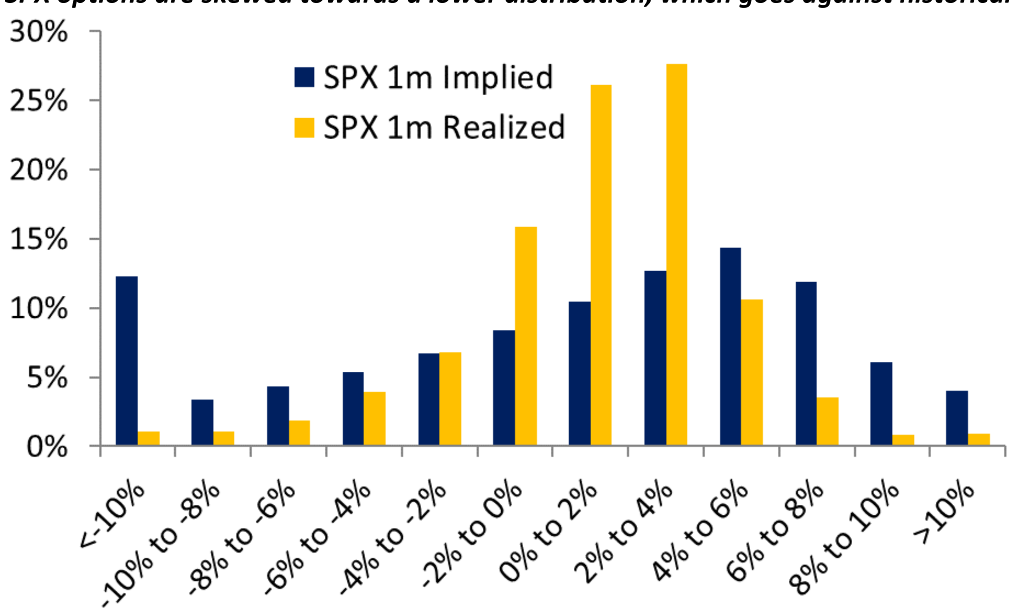
At 4400 in SPX, we are trading on around 19.5x 2022 EPS. At one point today it was more like 18.6x, and as per our CPI vs SPX multiple regression chart below takes us to more within a reasonable range versus a 60-year history of how equities price in different inflationary environments. It also doesn't exactly allow for much upside either, but it is irrefutable that the market has done a lot of heavy lifting in short order to reprice the regime we are currently in and certainly a cleaner slate for tactical upside into the Fed on Wednesday.

Based off current spot in Dec'22, SPX multiples have quickly reset to a more reasonable level



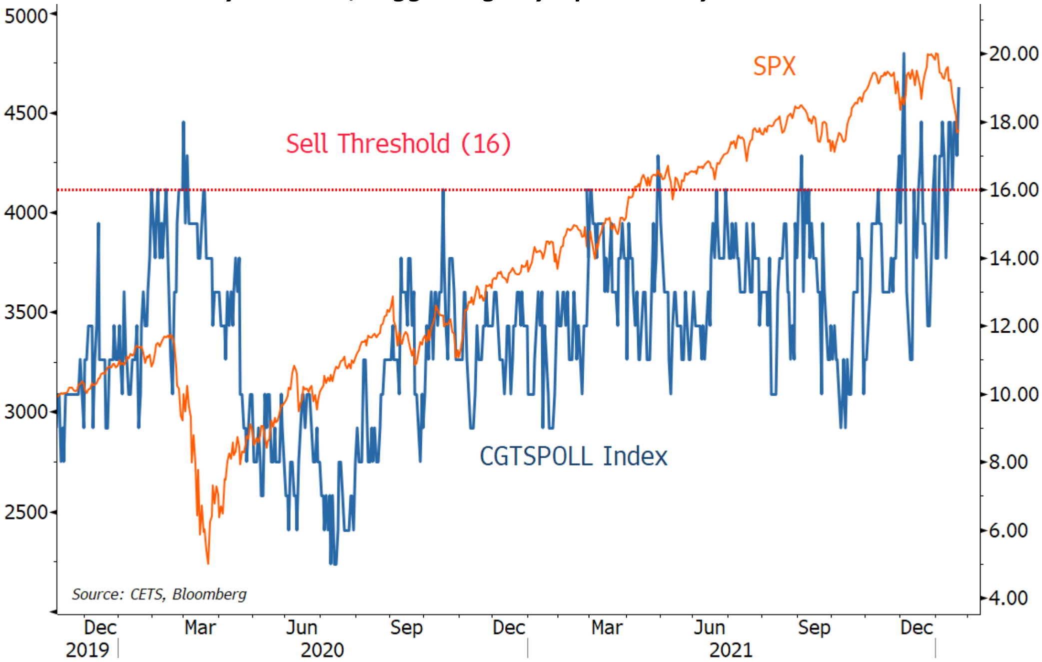
<u>This strategist remains tactically bullish into the catalysts this week, and price action intraday gives me encouragement that squeeze risk is the predominant theme over the next 1-2 trading sessions; how many investors will want to be aggressively short into the Fed meeting after all?</u> POLLS is still elevated at 19, which is now the second-highest reading since the model started flashing warning signals at the end of November, which means that **rallies are still to be sold**, but with VIX @ 30, even a two standard deviation daily move could easily see SPX above 4600 before the week finishes. And if we look at how SPX 1-month implied distribution looks based on the current options surface, we can see that (unsurprisingly) the market is extremely lopsided to a mid-single-digit (MSD) drop in markets over the next month, rather than a MSD rise.

SPX options are skewed towards a lower distribution, which goes against historical norms



Source: Citi Equity Trading Strategy

POLLS remains very elevated, suggesting any squeeze rally should be sold



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