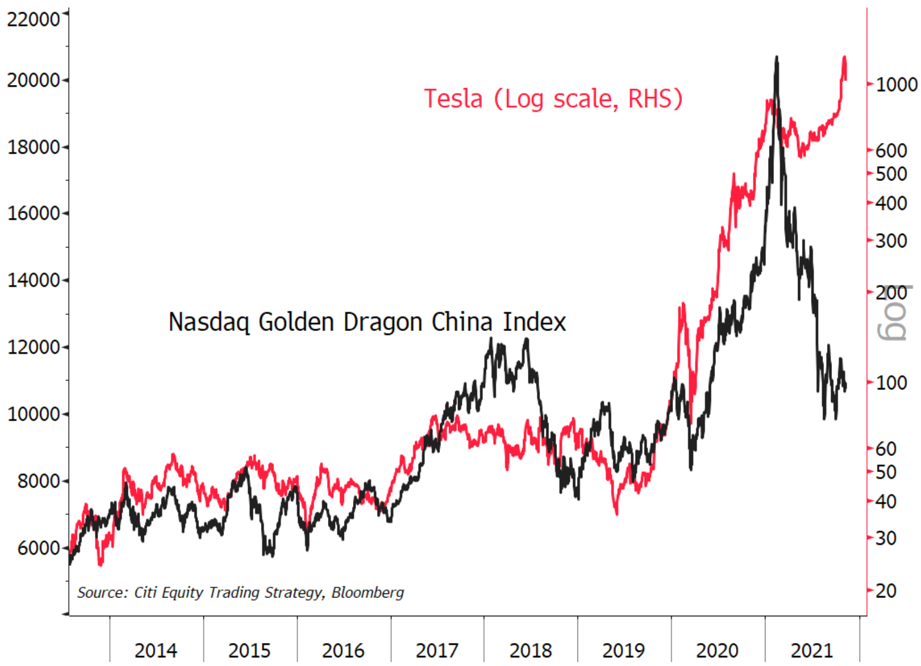
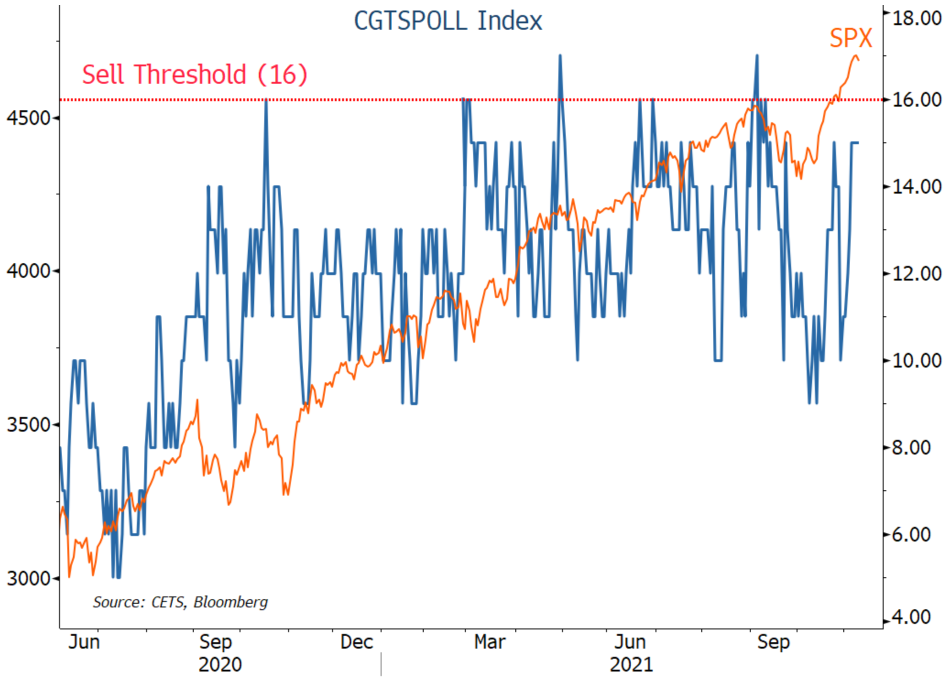
Short one from me ahead of CPI, and yet with only 55bps priced into SPX for tomorrow equities are expecting even less fireworks than the 65bps implied move into NFP. That being said, with rates vol hovering close to YTD highs, and the stark divergence between nominal and TIPS yields illustrating a degree of tension about how nonplussed markets have become to higher inflationary prints, that SPX implied move may well be masking a further degree of rotation risk below the surface.

Nowhere was that more apparent today than the sharp move in TSLA. Whether rotation-related or not, the $200bn drop in the auto giant's market cap over the past two days is a sharp reminder that in a world where all risk assets have a seemingly incessant bid, sometime the 'what goes up must come down' mantra still holds true. Fun fact, TSLA accounted for 40% of the entire SPX daily loss, and >100% of the NDX decline, yet the turnover was less today than during the *squeeze* days at the end of October. Strange times we live in when the company can lose the entire market cap of Intel (the 42nd largest company in SPX) over two days, and still be sixth largest market capitalization in the US. The chart below still bothers me by the way…

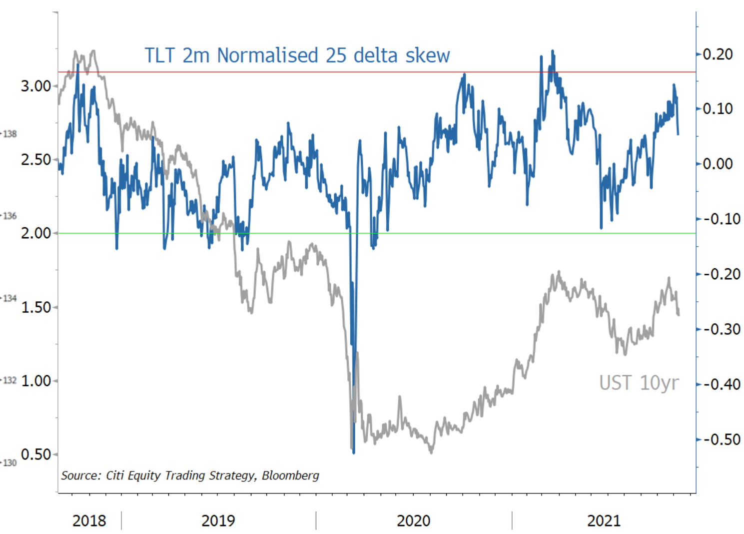


Source: Citi Equity Trading Strategy, Bloomberg

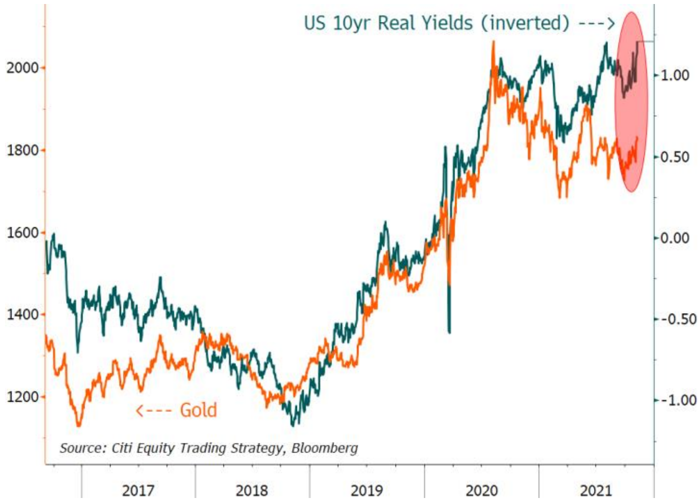
As an extension of the above analysis thinking about TSLA's outsized impact on markets, it's worth highlighting that cumulative breadth actually hit a new all-time high yesterday, and even today the net advancers less decliners was flat as a pancake. This was further evidenced by looking at equal-weighted S&P500 (SPW Index) that rose during the session, further reinforcing that the underlying state of the market is less precarious than the optics. Yes, our POLLS model is still flirting with danger territory at a level of 15, which in itself warrants a degree of trepidation, but we are not exactly signaling full-blown alarm bells either.



Back on the topic of rates for a moment, a quick EOD refresh of our CTA model has highlighted that USTs are getting closer to a pretty pivotal level in TY1s. 132-10 in the front-month future is a key threshold, above which systematic funds would be forced to buy approximately $74bn of unlevered capital, which would equate to c.$300bn+ of levered notional. Although we aren't sitting right on that threshold at the time of writing, the sheer velocity (and magnitude) of UST moves recently means rates investors could be faced with this technical prospect in the near future, especially if we get a CPI surprise tomorrow. Moreover, if we look at UST swaption skew (proxied by TLT 95/105 normalised vol skew) as a measure of overall rates positioning, it is pretty evident that the investor base is far from long at this current juncture. There may yet be room for more pain (second chart).



What would that mean for real yields in that eventuality? Given breakevens continue to illustrate a degree of entanglement with crude prices (that have bounced as the Administration flip flop their communication over SPR releases), a puncturing lower of UST yields would take 10yr reals further into unchartered territory. We already witnessed a new record low in 30yr real yields during today's session, and of course this adds fuel to the 'TINA' fire for equity inflows (until it doesn't of course…). It is somewhat ironic that on the one hand the Fed talk about **the buildup of financial asset risks**, yet on the other have managed to convince the bond market to be comfortable absorbing negative yield on their portfolios, and thus force more capital out the CAPM curve! I had a chat with my commodity research team today to work out where they stand on gold given this real yield backdrop, and although they remain **less** constructive on the precious metal, there is an acknowledgement that the pace of real yield decline may inevitably give some support to the gold space in the near term. Outflows have continued in the space despite more positive spot performance recently, so it's worth keeping an eye a potential turn in these flows given the stark divergence with real yields that has been getting larger throughout 2021.



Alty

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