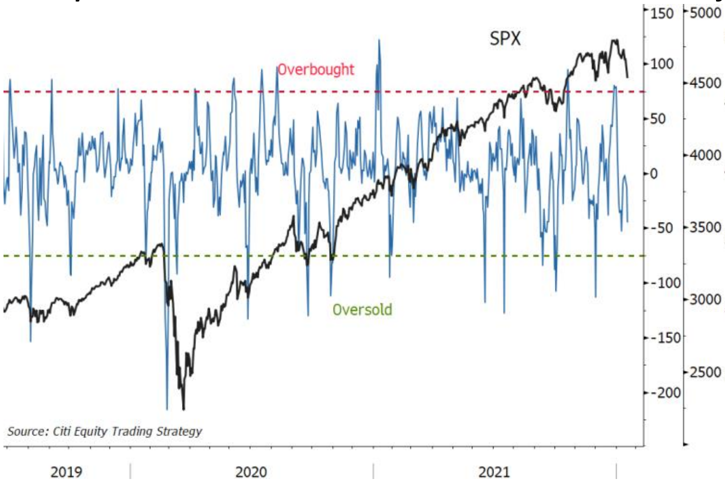
That was a sloppy last hour of trading, and most importantly we are now sitting right on the CTA threshold **highlighted yesterday** where systematic funds will start to flip short for the first time since May'20 if we definitively break 4525 in ES1 futures during the overnight session**. I've previously mentioned that this kind of correl 1 move as price takers begin to meaningfully alter their risk profile not only should represent more of the late stage of this part of the selloff, but also starts to provide a positioning floor in risk to setup for a tactical bounce. If we consider the repeated signal that our POLLS model has been sending for almost two months now, a 5-7% SPX pullback – i.e. 4450 level in SPX – would represent a meaningful drawdown in the context of the model signal history, and moreover takes the market down to sub 20x 2022 consensus EPS, which is starting to be more aligned with where our CPI vs SPX P/E regression would be more 'reasonable' in the context of history.** Although that does not present any compelling upside either, it *should* start to bring equity buyers out the woodwork after the Q4 degrossing exercise, although as I highlighted to one client today, cutting VaR in half only to watch market volatility double leaves you with the same PnL swings on half the capital deployed… Rate vol (MOVE Index) is back above 80, where historically presented an average for the VIX of 22, which is obviously a meaningful departure from the 16% 2010-2019 long-term average.

When rate vol >80, VIX has averaged 22

Our Oversold indicator (**CGUSOVER Index**) is not yet signaling an opportunity to buy risk, but it's an indicator to keep watching over the next couple of sessions to provide some clues as to when to catch a falling knife, especially given SPX has now convincingly broken through its 100dma for the first time since Oct'21. For now though, POLLS closed the session at 18 and I would at the very least want to see a moderation here before being more comfortable with the risk-reward setup in US equities. Forgive the noisy and oscillating charts below, but these two technical models that CETS use have been a pretty robust guiding light in fast/technical markets such as today. As ever, please contact the team (cets.us@citi.com) if you need permission to see these indices on Bloomberg, or need a crash course in the analytical process.

CETS quantitative models remain relevant in technical and fast markets



Both Value and rates finally hit the pause button today, which we could argue was a week overdue given the velocity of moves since the start of the year. The 20y auction sailing without a hitch would have supported some duration sentiment, and a three-day decay in the Financials during the reporting season has been enough to take some of the shine off the Value rally. Against that, Low Risk soared for a second consecutive day, not only taking the index into positive territory for the year, but again signaling that what started out as a Growthy/deSPACy/concept valuation-y unwind so far in January may yet be contagious to more wholesale parts of the market. NDX 100 is -7.8% so far in January (*ouch…*), which marks it as the worst start to any year since 2008 (-11.5% by this point in Jan'08), but perhaps more telling is that only 22% of the constituents are in positive territory so far this year and puts a lot of focus on the upcoming earnings season to provide some much-needed relief for the beleaguered Tech space, especially the mega caps that have not been spared so far this month either. Not-so-fun fact: you have to go down to Pepsi – a 1.75% constituent weight – before finding a positive return YTD. Double ouch.

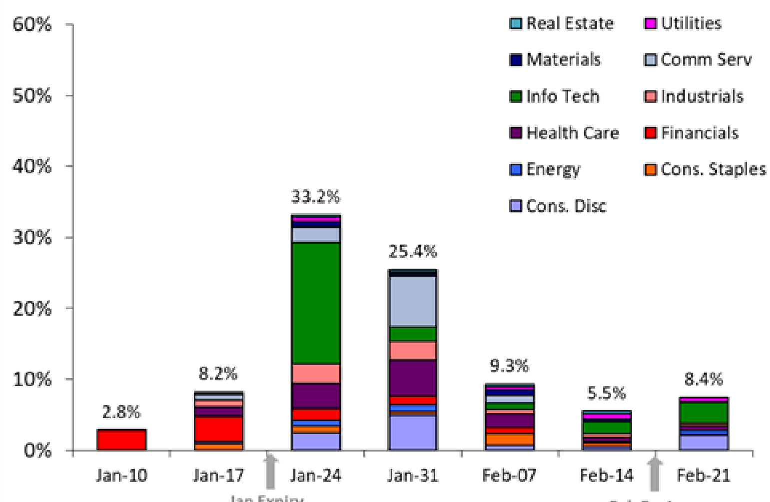
NDX is having the worst start to a year since 2008, with even the mega caps not being spared

Name	NDX Index Weight	YTD Return
APPLE INC	11.8	-6%
MICROSOFT CORP	9.9	-10%
AMAZON.COM INC	6.9	-6%
META PLATFORMS INC-CLASS A	4.9	-5%
TESLA INC	4.3	-6%
NVIDIA CORP	3.8	-15%
ALPHABET INC-CL C	3.7	-6%
ALPHABET INC-CL A	3.5	-7%
CISCO SYSTEMS INC	1.8	-7%
ADOBE INC	1.8	-9%
PEPSICO INC	1.7	1%
BROADCOM INC	1.7	-15%
COMCAST CORP-CLASS A	1.7	0%
NETFLIX INC	1.6	-14%
INTEL CORP	1.6	4%
COSTCO WHOLESALE CORP	1.6	-14%
PAYPAL HOLDINGS INC	1.5	-8%
QUALCOMM INC	1.4	-6%
TEXAS INSTRUMENTS INC	1.2	-5%
ADVANCED MICRO DEVICES	1.1	-11%
INTUIT INC	1.1	-15%
HONEYWELL INTERNATIONAL INC	1.0	1%
T-MOBILE US INC	0.9	-9%
AMGEN INC	0.9	3%
APPLIED MATERIALS INC	0.9	-9%
STARBUCKS CORP	0.8	-17%
INTUITIVE SURGICAL INC	0.8	-18%
CHARTER COMMUNICATIONS INC-A	0.7	-11%
MICRON TECHNOLOGY INC	0.7	-3%

Source: Citi Equity Trading Strategy

Now on the one hand we could argue that the equity moves MTD sets up for a relatively easy bar into Q4/FY'21 earnings – consensus already expects a sequential decline in EPS QoQ, but still delivering healthy YoY growth ,and the earnings revisions at an index level remain marginally positive. I did a quick sanity check across the megacap Tech names that all cluster their reporting in the last week of Jan and the lack of variation in implied option moves on the day of reporting is remarkably homogenous; all are expected to move 4-4.5% on the day of earnings (bang in line with the 8-quarter realized average), aside from TSLA that has an implied 7% move (again, bang in line with the 8-quarter average one-day realized). Perhaps what the market needs right now is the soothing words of some *unsurprisingly* corporate earnings and stability on the forthcoming quarter guidance.

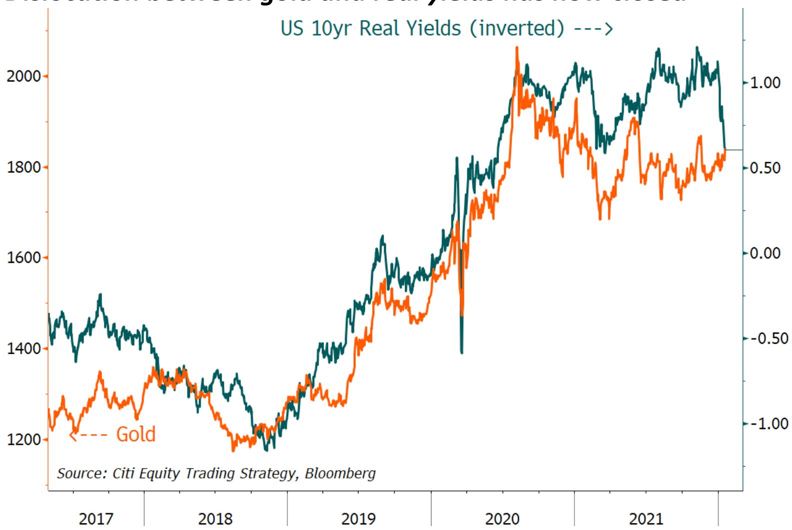
Earnings 'season' has really just become earnings 'week' given the dominance of Tech influence



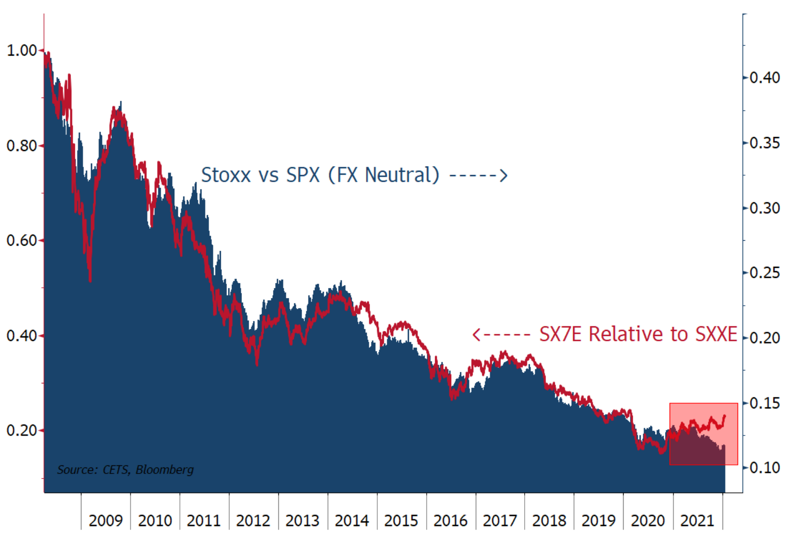
Source: Citi Equity Trading Strategy, Bloomberg

How about some good news? Gold ripped today, which had *nothing* to do with systematic buying since our model forecasts that CTAs are already max long, but with the simultaneous rally in real yields *and* the rally in gold, the relationship between these two assets have closed a dislocation that has been in place for several months. Although we cannot rule out overshoots/further dislocations, gold has ultimately proven to be a sanity check for the trajectory of 10y reals, and as such may now be signaling that we may have run course on the tightening of financial conditions from this specific perspective, at least in the short term.

Dislocation between gold and real yields has now closed



Lastly, in the ongoing client discussions of where investors can currently hide it is noteworthy that with the backdrop of a 'bid to Value' narrative it is worth highlighting that Europe has quietly outperformed US by 6% since mid-Dec in FX neutral terms. It barely registers on a multi-year chart (below) but as we can see there has historically been a strong relationship that when European banks outperform (something that Jimmy has been extremely focused on of late) then the broader region has typically followed suit. Yes, we have some near-term political hurdles in the region with Italy Presidential uncertainty later this month and then the French elections in April, but if investors are considering non-US diversification to seek out alternative pockets of Value, then Europe is starting to look interesting, and on the cusp of breaking a multi-year period of underperformance.



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