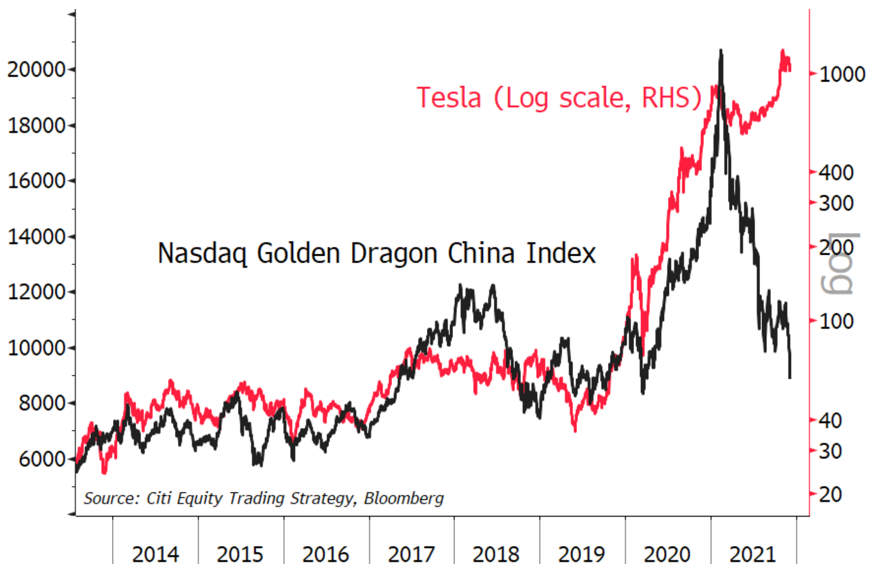
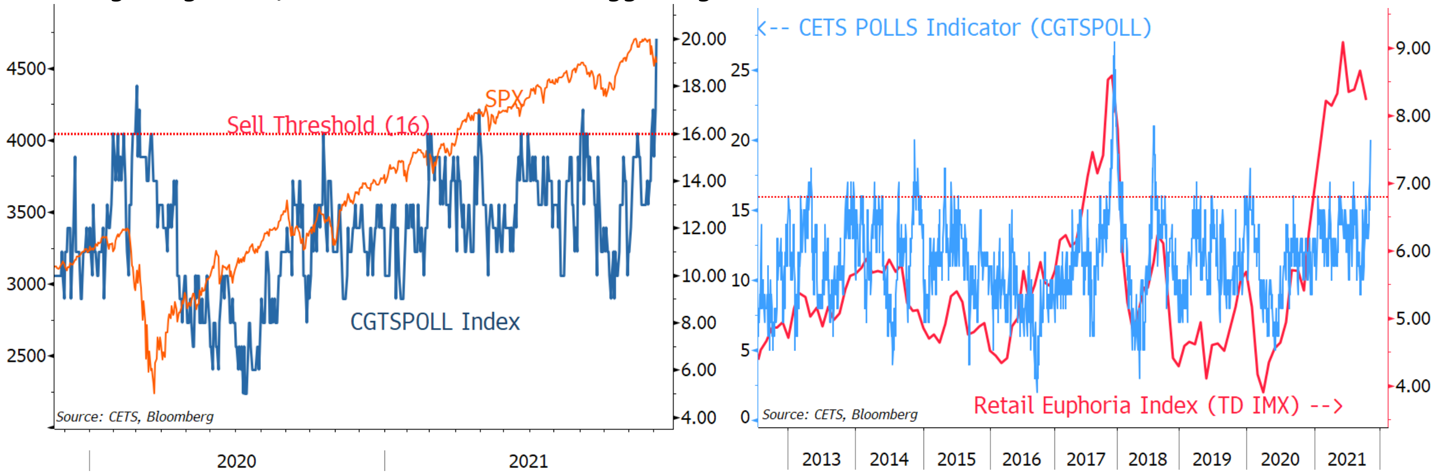
If you made it to the end of the week and still have the energy to read this piece, then you deserve a medal (or a top shelf **Japanese scotch**). The good news is it's Friday and we have some respite from a very soggy 4% high-low move in SPX since Thanksgiving. The bad news is that the warning signals that have been discussed during this week's missives have not normalized to the point where I can definitively say we have reached a positive inflexion point for risk.

Primarily I am referring to our POLLS model, where typically the indicator would have started to revert back below a warning level of 16 on this kind of move. But it hasn't, as Low Risk (CIISLRUT Index) has continued to rally above the 80th percentile of observations over the past six months (admittedly off a very low base), our Probability of Default basket (CGPRPROB Index) is in the 90th percentile on a six-month lookback, and many of the positioning metrics that feed into the model suggest a high level of trepidation. We again closed above the 4520 CTA level that was tested on Wednesday evening, so I suspect many discretionary managers will be watching the Asia open on Sunday evening to see if some support is found once more. Given the debacle in KWEB (-7% on the DIDI news) and the delisting threat re-emergence to that space, it may be a stretch to think that the sentiment from Asia will be robust enough to provide a prop to risk. And speaking of China, with TSLA finally cracking -7.5% today after staying in the stratosphere all week, I could not help but refresh the below chart. One has to wonder whether the next shoe to drop is in crypto…

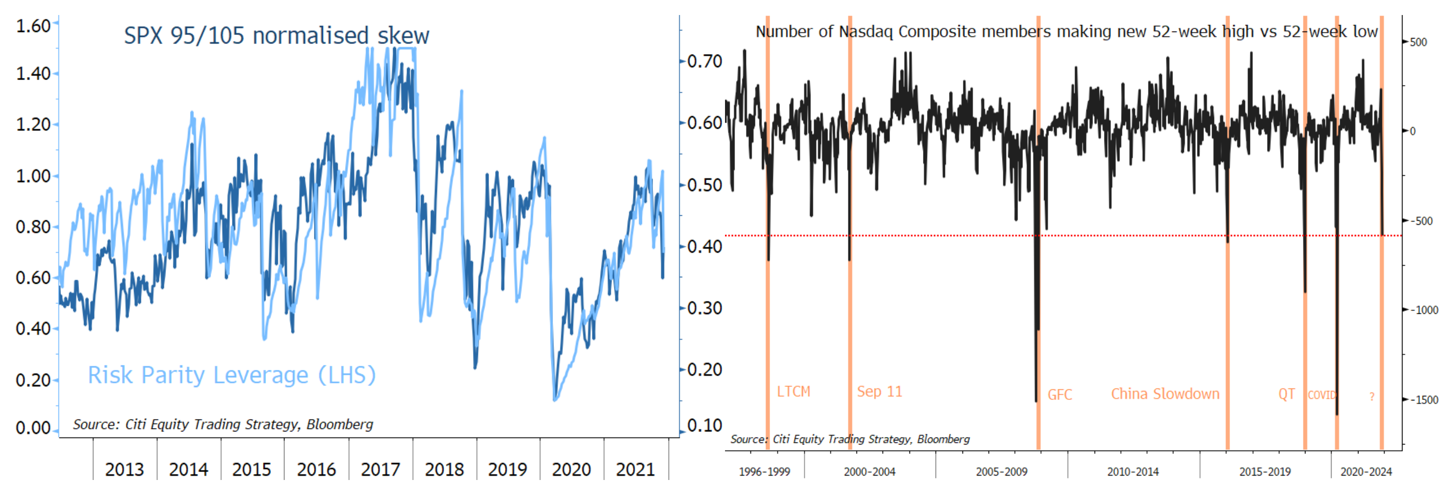


Back to our POLLS model for a moment (primer again **here** in case you would like a refresher), the troubling aspect of the elevated reading is that it somewhat reminds me of the indicator's behavior in February 2020; even as indices fell in February after multiple readings of 16, the model remained elevated as we entered March, moving up to a level of 18. **The setup looks eerily similar today with a 4% drop in SPX has actually taken the index up to a reading of 20… believe it or not, that is the highest level since September 2018 as the Fed were about to embark upon an 'annals of history' policy error during the quantitative tightening cycle. A few of you were drawing parallels the recent price action to December 2018, and although I could list a plethora of reasons why the setup is not the same, the POLLS reading is one strong area of commonality.** Interestingly, the model move of this magnitude has pulled it up to the elevated level of retail positioning (TD Investor Movement Index) in a similar fashion to late 2017; no respite in that space either given crowded Retail names underperformed by another 160bps. **Bottom line – still not an environment to be dip buying, especially when our oversold indicator again fell short of hitting a signal.**

POLLS is getting worse, not better… and is now suggesting that retail unwinds will continue

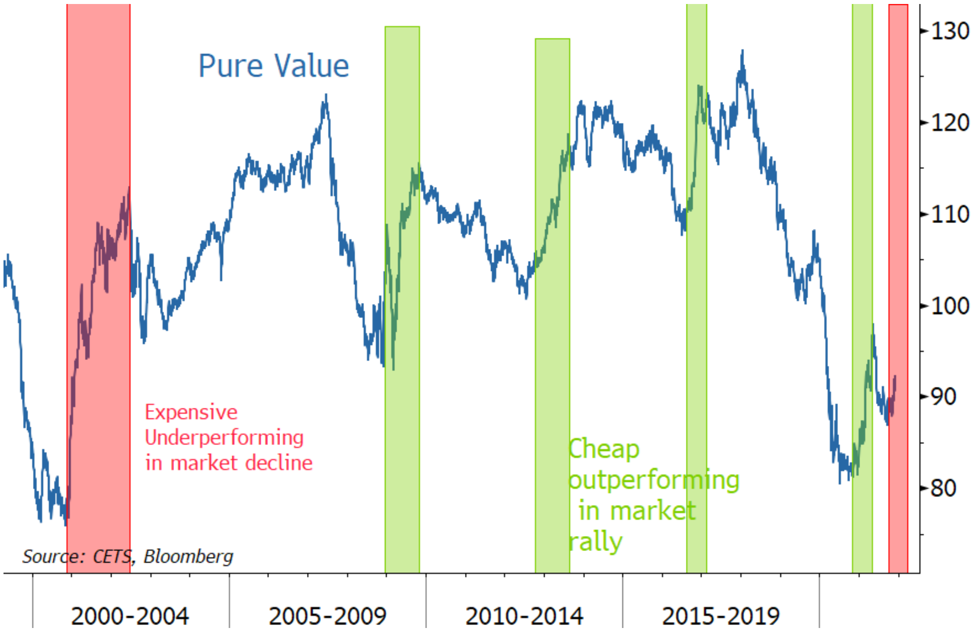


The natural question at this juncture is if markets are to move lower, then how far through the unwind are we? We've already discussed how there is room for CTAs to still take length out the market, but refreshing some risk parity charts suggests that this part of the systematic community have unwound the buildup in leverage from October and November and back to June levels (first chart below). However that is still significantly above readings from the start of the year, let alone the COVID-19 era lows, thus indicative that there remains non-discretionary pressure within the equity complex. Equally, a slightly alarming stat thrown to me first thing today was the fact that Nasdaq Composite companies trading at 52wk lows now outpace those trading at 52wk highs by around 600 names (and likely a lot more once today's data is refreshed); that's only historically been seen during bear markets and as much an illustration of the turmoil below the surface as it is the sheer weight of concentration within the index of Tech bellwethers. I will leave it to you, the readers, to interpret the second chart, but going back to the original question, arguably with the knowledge that complacency levels remain elevated, scope for further systematic pressure, turmoil in large swathes of the Tech complex, and ongoing move in financial conditions, my estimate is that equities could comfortably move another 3-4% lower before our indicators moderate to the point where risk-reward looks more attractive.



Lastly, a quick reiteration on Value, which has now quietly rallied 4% since the start of November. Although it remains significantly below the highs observed back in May, it is worth noting that the cause of the latest rally has primarily been driven by the short (expensive) leg going down. Incidentally, if you map the expensive leg of Value against our Crowded retail basket they essentially look like the same chart, thus what we are witnessing is a reminder that **Value can work as a function of cheap *outperforming* expensive and not just cheap simply going higher.** This is exactly what happened during the dotcom bust, which was not only the textbook example of this phenomenon but equally representative of the largest value rally *in history*. The chart below visualizes that move and is a reminder that there is life yet in the Value trade… just perhaps not exactly in the way you had originally envisaged.

Value can work when 'expensive' underperforms too



Have a restful weekend.

Alty

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