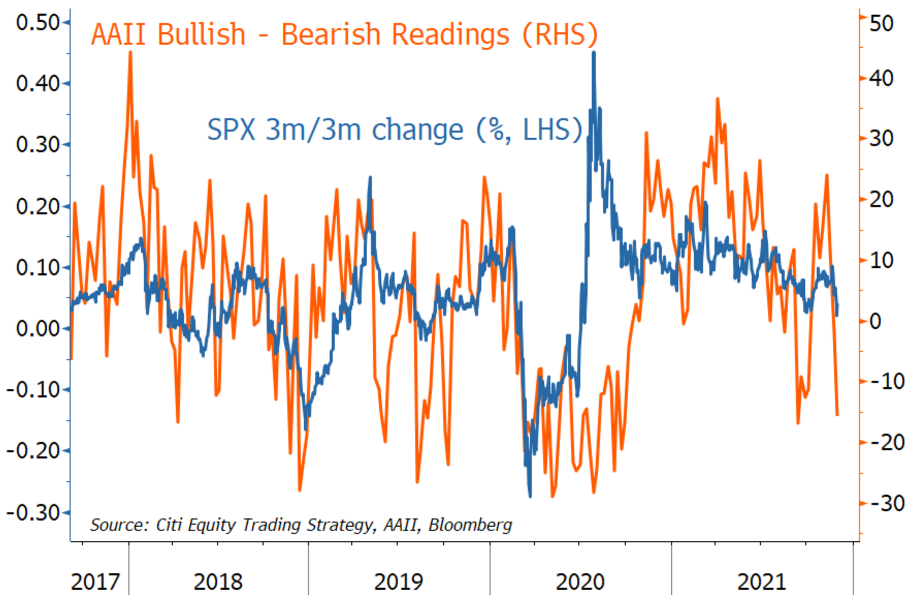
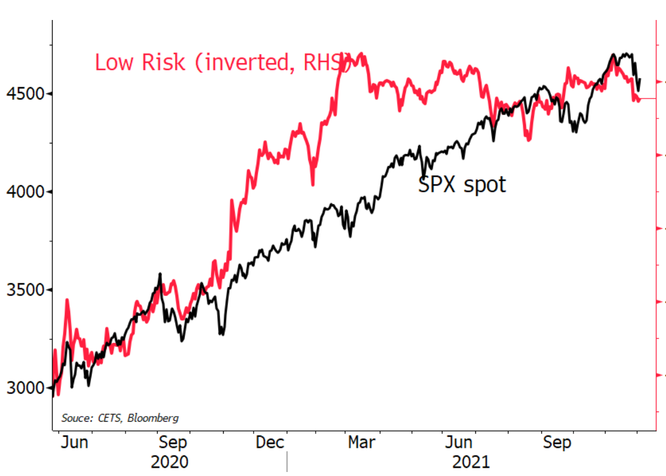
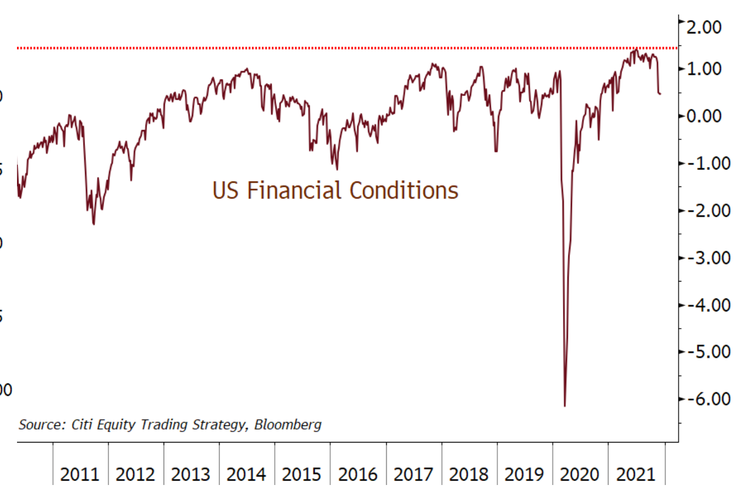
This one will be short (promise!) as there is not a lot that has actually changed since the last update. Let's start with the positives since we ended the day in the green. That 4520 CTA level managed to hold both the overnight move and the early-morning weakness, and breadth today was impressively strong (4th highest YTD). Virus-sensitive parts of the market – perhaps more commonly classified as 'junk' these days – staged a meaningful comeback, although whether that was specifically due to markets becoming desensitized to the subject, or just a beta effect on a day where all sectors were comfortably in the green is a matter of opinion. Add on top the sharp reversal in crude despite OPEC raising production by 400kboe/d in January (*hat tip to Mr Morse and the Commodities team for calling this correctly*), which in my opinion helped put a floor underneath sentiment from mid-morning onwards. As an additional point, Jimmy pointed out to me that the AAII Bull Bear sentiment is back to late-September levels too. So we are out the woods, right?



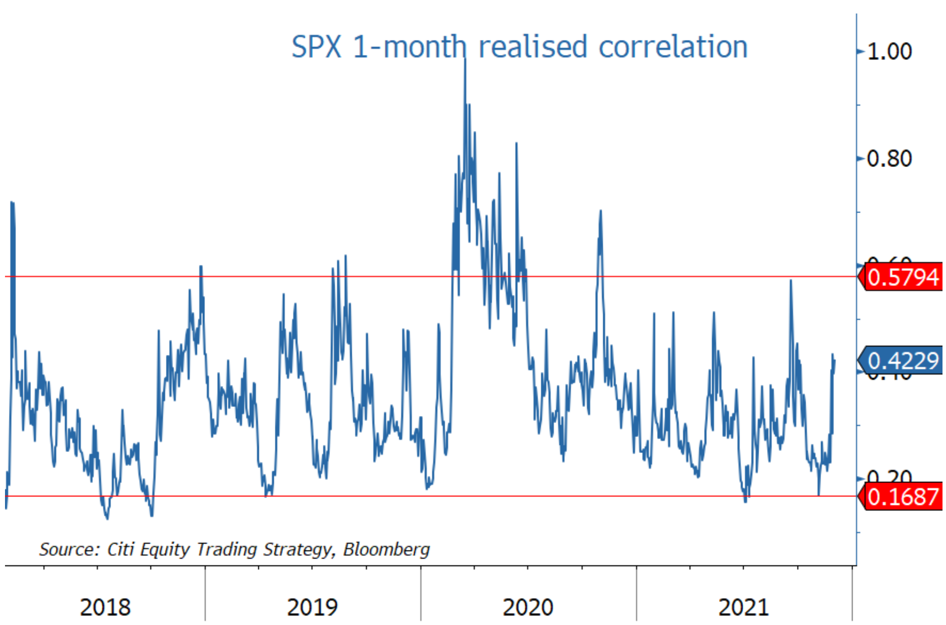
I'm not so sure. First and foremost, **our POLLS model ticked back to 17 today**, and as flagged in the previous EOD the only reason it went down two points was because the 4pm model snap was capturing a cash close that was sub 4520 and therefore the binary inputs had removed the threat of CTA selling that are still very much in play – in other words POLLS has essentially been at a warning level all week despite indices being lower. **Moreover, our desk flows were decently skewed to sell throughout the session, which is not only unusual on a rally of this magnitude, but also the setup we saw on Monday's rally as well before markets rolled over once again**. Add on top the fact that our oversold signal (CGUSOVER) predictably rallied meaningfully after the deep negative reading yesterday, **we do not yet have the oversold conditions to fall back on either.** Low Risk did manage to end the day down, but only by 27bps, and remains well above levels witnessed prior to Thanksgiving… hardly an endorsement of conviction in the SPX move, especially when Financial Conditions failed to loosen either.





Within the rates space, 5s30s and 2s10s both continued to flatten in the face of a rip higher in the equity cyclical complex and SPX more broadly. Is that an unusual phenomenon? Yes, most certainly; **going back to 2000, there have only been 30 incidences where we saw this size one-day SPX rally and this kind of DoD curve flattening across 2s10s and 5s30s and they all occurred during periods of market distress** (majority clustered around 2000-2002 and 2007/8), so it is hard for this author to materially change perspective from 24 hours ago. And on that note, it is somewhat odd that regional banks outperformed in spite of this curve move, presenting a sizeable dislocation between the two asset classes.

And perhaps most telling was the fact that our crowded retail basket (**CGTSRETL**) failed to deliver any outperformance today in spite of the higher beta (unlike IWM that actually had some respite), thus illustrating that if there is a degree of unwind taking place in that part of the market then today did not look like it represented the capitulatory flush. Or to think of it another way, typically markets find a local low when SPX 1-month realized correlation tops out somewhere in the high 50s/low 60s (as was the case as recent as September of this year). At present it is only at 0.42, which suggests that markets *more broadly* have yet to see the kind of cathartic selling required to illustrate a real opportunity to buy the dip.



So no change in view for the time being. We obviously have NFPs tomorrow, although with Chair Powell already showing his hand ahead of the FOMC and the ADP/IJC data both modestly surprising positively, I am not sure that tomorrow's data will have any specific bearing on risk. SPY tomorrow straddles (4pm expiry) cost 1% and given SPY 10d realized is already above 20%, it suggests that the equity market is not expecting fireworks from the print either.

Alty

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