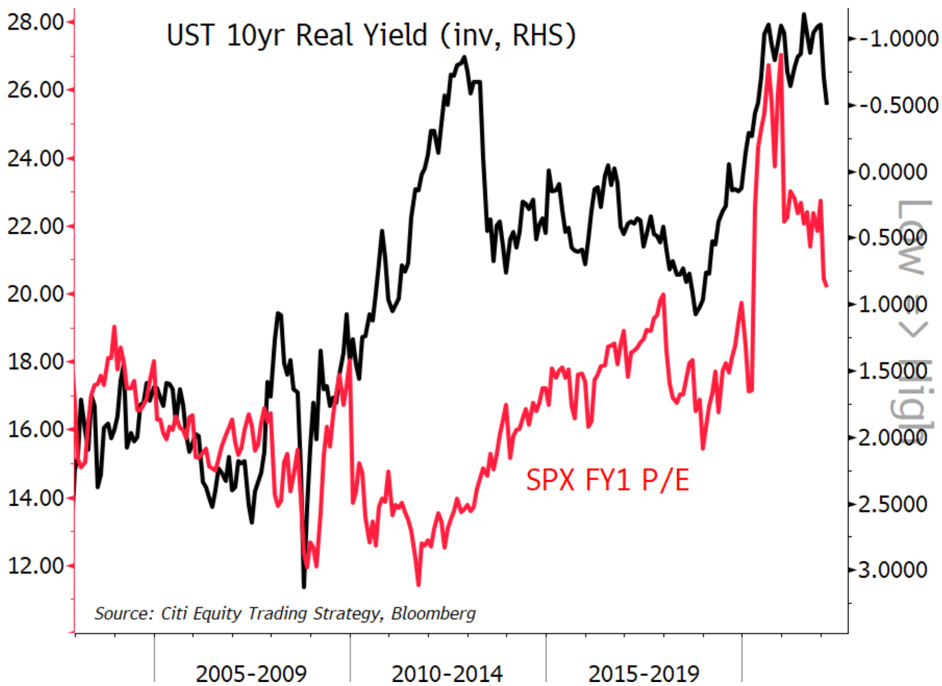
It was a welcomed quiet start to the week versus the edge-of-seat stuff of late, as investors took stock of the micro picture and began to rotate their focus slowly back to the macro picture with the bulk of earnings now in the rear-view mirror. The gradual change in gaze was on display first thing as it took most of the morning for US equities to establish that real yields were still on a march higher, and common logic *should* suggest that risk assets will remain capped accordingly. NDX gave back the early outperformance, and although there were clear indications of retail flurries of activity on the heels of the PTON and airline news, that was ultimately not enough to offset the reality of a valuation brake hanging over equities like the sword of Damocles.



So to keep this EOD uncharacteristically short, in many ways it was not just today but perhaps the entire year ahead that will be dominated by this real narrative (*excuse the pun*). Yes, inflation is the underlying debate, but the fix for that in the eyes of the Fed is tighter financial conditions that is in part determined by the trajectory of real yields. That is perhaps what I struggle with most amongst investor discussions at present: it's unlikely that earnings will be what investors wring their hands over, or indeed the economy going down the swanny, but that it's really hard to justify the historic multiples of US equities in an environment where real yields have been given an uninterrupted green light to move higher by the Fed. And therefore as a word of caution to the NDX dip buyers (let alone the uber Growth sub-categories): does it matter how good the earnings trajectory of this cohort is if the market will struggle to find the correct multiple to attach to those earnings?

Ask yourself the simple question: *where does the Fed want real yields?* If the answer is 'higher' then it's not so much that risk assets need to collapse, but it creates a much higher hurdle rate to meaningful gains from a multiple perspective, and it will be almost exclusively the *earnings* that will have to do the heavy lifting. Plus, sectors that many investors remain reluctant to embrace (Energy notably) will continue to outperform, much to the chagrin of those waiting for a dip to buy… But if the answer is not just '*higher*' and in fact '*higher and into positive territory*', then it would suggest that the clearing price for US equities remains firmly to the downside. And that's perhaps what our POLLS model continues to tell us; it' closed at 19 yet again today.

Current Level: 19			Recent Market Peaks				
	7-Feb-22	31-Jan-22	Oct '20	Mar '20	Caution	Danger	Description
Market Indicators							
% Rally in 21 Days	-4.5%	-5.5%	3.8%	-1.4%	2.2%	5.9%	
Vol/Spot Correlation	2	1	5	3	3	5	# of vol up spot up days in last month
ToB Liquidity % Rank	0%	2%	50%	14%	20%	10%	Percent rank based on 12-month lookback
CDX HY % Rank	99%	98%	17%	45%	20%	10%	Percent rank based on 6-month lookback
Probability of Default % Rank	32%	48%	3%	100%	70%	85%	Percent rank based on 6-month lookback
Real Yields % Rank	100%	91%	33%	14%	80%	90%	Percent rank based on 6-month lookback
Low Risk Factor % Rank	82%	91%	6%	90%	80%	90%	Percent rank based on 6-month lookback
Data							
US Soft - Hard Data	Negative & Falling	Negative & Falling	Positive	Negative	Negative	Negative & Falling	Differential between CESI Hard - Soft dataset
Sentiment							
Levkovich Index	0.22	0.32	0.69	0.25	0.3	0.38	Research Strategy Composite Market Indicator
VXX Rolldown	0.25	0.0625	0.25	0.25	0.5625	0.25	Does not prefer rolldown
Vol Indicator	100	33	-33	50	-33	0	Long Gamma
CGUSOVER	3	2	-1	44	60	75	CETS Proprietary Overbought/Oversold Indicator
Positioning							
Mutual Fund Beta	1.02	1.00	1.06	1.04	1.1	1.2	Beta of Aggregate Mutual Funds to SPX
Hedge Fund Beta	1.51	1.49	1.16	1.16	1.15	1.25	Beta of top HF holdings to SPX
Short Interest	0.7%	0.7%	0.8%	1.0%	1.4%	1.3%	% of SPX Market Cap that is held short
CTA Positioning	-6.9	-6.8	18.0	13.4	15	21	$ Notional SPX Length
CTA Distance from Sell Signal	0.9%	1.7%	3.0%	0.2%	3.0%	1.0%	% move lower required to trigger CTA selling
Financing Rate	34	30	14	26	20	30	S&P 3mL financing rate
Net Short Vega Positioning % Rank	3%	6%	100%	61%	80%	90%	CFTC Net Non-Commercial VIX positioning
Signals							
Caution	1	2	6	5			
Danger	18	18	10	12			
Total Warnings	**19**	**20**	**16**	**17**			
Total Warnings %	**50%**	**53%**	**42%**	**45%**			

Source: Citi Equity Trading Strategy

Alty

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