ABL Digital US Cross-Market Weekly

Exhaustive US Cross-Market Report | week ending 2026-11-02

69 market instruments + 60+ macro series | Reflation quadrant | 2898 days

REGIME: Risk-on

EXECUTIVE SUMMARY

The regime reads risk-on with a 67.6% posterior, but the composite risk-appetite scorecard at −0.10 is flatly neutral, and that gap is the week's whole story. Breadth did the work while the index did not: 73% of sectors up, Materials +4.9%, Discretionary +4.2%, Financials +2.5%, Russell 2000 +2.1%, against Tech −3.7%, Comms −2.8% and Nasdaq −1.9%. Lean with that rotation rather than against it — cyclical value, equal-weight exposure and small caps over mega-cap growth and semis — while keeping gross exposure unexceptional, because the index-level trend component is negative (−0.35) and HY credit is the single worst scorecard input at −1.00.

Three developments matter for positioning. HY OAS at 3.44% sits in the 88th percentile of richness: compensation for credit risk is near the tightest it has been, so HY is a source of funds, not a place to add, and IG at 0.94% is the better carry per unit of downside. The S&P-versus-equal-weight spread is +1.92σ with a seven-week half-life, which is a tradable mean-reversion window favouring RSP over SPY. Semis screen 10.6% rich to Nasdaq on a 0.96 R^2 fit, while Nasdaq itself is 2.6% cheap to real yields and the S&P — fade semis, not the whole index.

The biggest risk is that this is rotation inside a topping tape rather than a healthy broadening. The confirming signal is credit: HY OAS widening through roughly 4.00% alongside VIX above 22 and the S&P losing its recent range would turn the neutral scorecard decisively risk-off. Conversely, HY holding under 3.50% with breadth above 60% and VIX term structure back above 1.0 validates the cyclical tilt.

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Executive Dashboard

US cross-market state and the week's key readings.

REGIME	QUADRANT	VIX	HY OAS
Risk-on	Reflation	18	3.44

KEY READINGS (price | 1w | 1m | 3m)

S&P 500	7,633.3	-0.6%	-2.4%	-0.8%
Nasdaq	25,669.3	-1.9%	-7.0%	-2.4%
Russell 2000	2,844.0	+2.1%	+0.5%	-5.8%
Tech	179.4	-3.7%	-11.2%	-3.4%
Financials	57.4	+2.5%	+6.3%	-0.7%
Energy	68.5	-1.7%	+7.4%	+7.6%
Long Bond	81.7	+0.1%	+5.8%	+0.1%
HY Corp	77.1	-0.1%	-0.2%	-3.0%
IG Corp	104.0	+0.0%	+1.8%	-1.7%
TIPS	106.5	+0.2%	+2.2%	-0.5%
DXY	101.7	-0.3%	-0.1%	+2.1%
Gold	3,967.8	-1.7%	-5.2%	-10.2%
WTI	97.4	-4.2%	+9.0%	+14.7%
Copper	6.6	+1.0%	-0.3%	+1.4%
VIX	18.1	-0.2	+3.1	+2.3
MOVE	101.1	-1.1	-4.1	+26.2

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US CROSS-ASSET SCORECARD

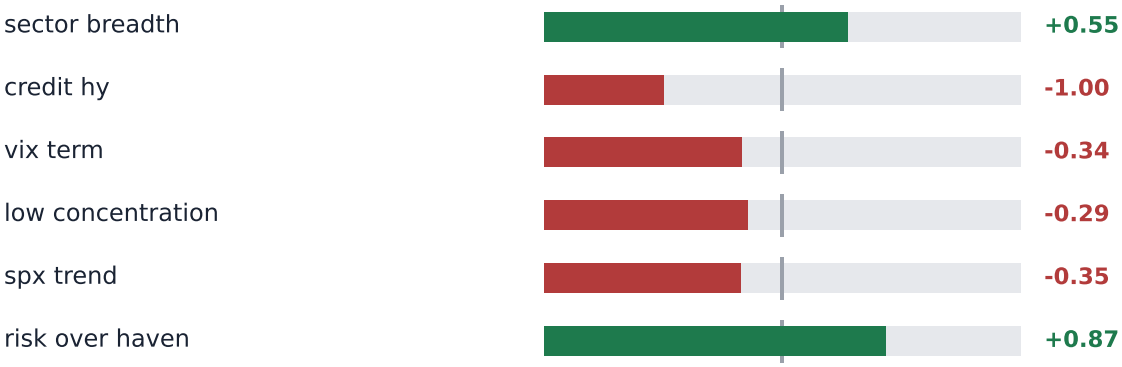
Cross-asset risk appetite and the high-frequency growth nowcast

RISK APPETITE

Neutral

score -0.10



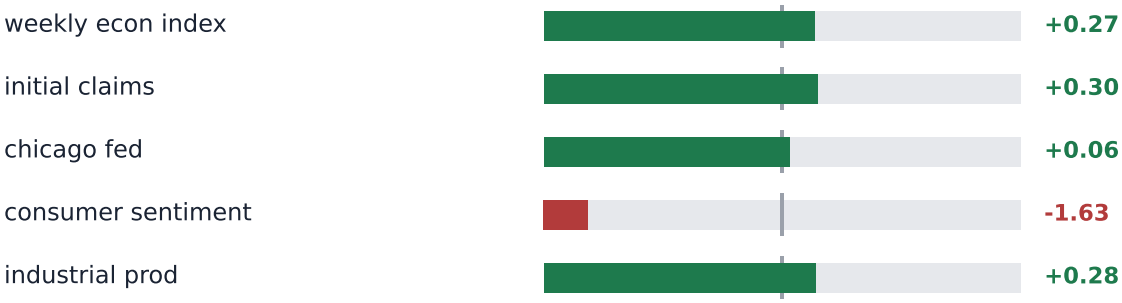


MACRO NOWCAST (growth pulse)

Trend growth

score -0.14





Each component is a 10-year z-score, sign-aligned so higher = risk-on / stronger growth; the headline is their average. The nowcast reads the Weekly Economic Index, jobless claims, Chicago-Fed activity, sentiment and output.

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WHAT CHANGED THIS WEEK

Week-over-week moves and how the market-state readings shifted · 2026-11-02

TOP GAINERS

NatGas	+11.8%
Homebuilders	+6.4%
Materials	+4.9%
Discretionary	+4.2%
Retail	+3.8%
Defense	+3.4%
Transports	+3.1%
Financials	+2.5%

TOP DECLINERS

Gasoline	-8.4%
Brent	-8.3%
Software	-6.3%
Silver	-5.7%
Internet	-4.6%
Momentum	-4.3%
WTI	-4.2%
Tech	-3.7%

KEY LEVELS — week-over-week

S&P 500	7,633.3	-0.6%	WTI	97.4	-4.2%
Nasdaq	25,669.3	-1.9%	DXY	101.7	-0.3%
Russell 2000	2,844.0	+2.1%	Long Bond	81.7	+0.1%
VIX	18.1	-0.2	HY Corp	77.1	-0.1%
Gold	3,967.8	-1.7%	Semis	526.3	-2.8%

MARKET-STATE READINGS — now vs prior report

Regime	prior: R+	->	Risk-on
Risk appetite	prior: -0.14	->	-0.10
Macro nowcast	prior: -0.12	->	-0.14
PC1 share	prior: 33	->	33%

The fastest orientation: what actually moved and how the headline state shifted since last week. VIX/rate/spread increases are shown as adverse (red).

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US Cross-Market Analysis

Executive Summary

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The biggest risk is that this is rotation inside a topping tape rather than a healthy broadening. The confirming signal is credit: HY OAS widening through roughly 4.00% alongside VIX above 22 and the S&P losing its recent range would turn the neutral scorecard decisively risk-off. Conversely, HY holding under 3.50% with breadth above 60% and VIX term structure back above 1.0 validates the cyclical tilt.

Regime, Scorecard & Market State

The Markov filter puts 67.6% weight on risk-on and 32.4% on risk-off, with zero on neutral — a two-state market that has not committed. That split is the honest characterisation: the dominant state is constructive, but a third of the probability mass sits in the adverse state, which is far more than a trending bull market produces. Pair it with the risk-appetite composite at −0.10 and the conclusion is that the regime label is being carried by past realised returns while the forward-looking components are mixed.

Inside the scorecard, the dispersion matters more than the level. Risk-over-haven at +0.87 and sector breadth at +0.55 are genuinely risk-positive and are what keeps the composite from going negative. Against them: credit HY at −1.00, the index trend at −0.35, the VIX term structure at −0.34, and low concentration at −0.29. So the parts of the market that reflect participation are healthy, and the parts that reflect valuation of risk and price momentum are not. A market where breadth is the strongest bull argument and credit spreads are the strongest bear argument is one where you own the broad market and avoid the leveraged expression of it.

Price confirms the rotation reading rather than a directional one. The S&P is −0.6% on the week, −2% on the month, −1% over three months; Nasdaq −1.9%/−7%/−2%; the Dow only −0.2% on the week and +1% on the month; Russell 2000 +2.1% on the week. Nasdaq's −7% month against the Dow's +1% is a 8-point divergence in four weeks. That is a leadership change, not a drawdown, and it has been orderly: the S&P's current drawdown is only 2% against a 5% expected shortfall of −4.8%.

The growth-inflation quadrant reads Reflation, with the growth score at 0.0 and the inflation score pinned at 1.0. Growth is at trend and inflation is the active variable. Reflation quadrants historically favour real assets, cyclicals and value over long duration and long-duration equity — which is precisely the rotation the sector tape printed this week. It also explains why the long end is steepening rather than rallying, and why Materials led.

Sector & Factor Rotation

The week's sector table is a textbook cyclical-value rotation with a technology funding leg. Materials +4.9% and Discretionary +4.2% led, Financials +2.5% and Industrials +2.0% participated, and the defensives were up but lagged — Staples +2.4%, Health +2.4%, Utilities +1.8%, Real Estate +1.3%. Tech

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−3.7% and Comms −2.8% were the only meaningful decliners alongside Energy −1.7%. Breadth at 73% up confirms this was broad rather than a two-name event.

Read carefully, this is the constructive version of a decline. When cyclicals and financials lead and the index falls only because its largest weights fall, the market is reallocating risk rather than shedding it. The defensives being up but up *least* is the key tell: in genuine risk-off, Staples and Utilities lead on an absolute basis and cyclicals are the decliners. That did not happen. Financials +2.5% alongside Russell 2000 +2.1% is particularly informative, given the Russell's +0.50 recent correlation to regional banks — small-cap strength is being underwritten by bank strength, not occurring in spite of it.

Energy at −1.7% is the dissonant note in a Reflation quadrant and worth flagging rather than explaining away. If the inflation score is pinned at 1.0 and Materials is leading, Energy underperforming suggests the reflation impulse is in industrial and goods pricing rather than crude. WTI also appears as a net *leader* in the Granger network, so Energy weakness is a signal to monitor for whether the reflation read persists.

The factor table over three months tells a longer and more cautionary story. Momentum −10% and High-Beta −5% are the worst performers; Value +2% and Low-Vol +3% are the only positives; Growth −4% and Quality roughly flat. The Growth-Value spread at −5.2% over three months quantifies the rotation's duration — this is a quarter-long move, not a week-long one. Momentum at −10% is the number to respect: a momentum unwind of that magnitude means crowded positioning has been forcibly reduced, which is painful while it happens but removes a source of fragility once complete. The combination of Value and Low-Vol both positive while High-Beta is −5% describes an investor base that wants equity exposure but does not want to pay for beta. That is a defensive risk-on posture, and it aligns with the −0.10 scorecard.

For positioning, the factor structure argues for quality-value cyclicals over momentum-growth, equal-weight over cap-weight, and against adding High-Beta here. Momentum's −10% is not yet a contrarian buy signal; momentum crashes mean-revert on timescales longer than a seven-week half-life.

The Yield Curve & Rates

The curve is positively sloped across its entire length and the level is high: 1M 4.06%, 3M 4.18%, 6M 4.28%, 1Y 4.42%, 2Y 4.61%, 3Y 4.73%, 5Y 4.78%, 7Y 4.87%, 10Y 4.98%, 20Y 5.35%, 30Y 5.32%. There is no inversion anywhere. 2s10s is +38bp and 3M10Y is +78bp — both comfortably positive, with 3M10Y the steeper of the two, meaning the steepening is concentrated in the belly-to-long segment rather than the front.

A 10Y at 4.98% with a 20Y at 5.35% is the number that should govern asset allocation decisions here. The long end is pricing meaningful term premium, and the 20Y trading 3bp above the 30Y is a slight hump that signals supply or duration-aversion at that point of the curve rather than a growth expectation. For an investor, a risk-free 4.2% at three months and 4.98% at ten years sets a high bar for equity risk premium: at an S&P earnings yield context, duration-heavy growth equity has to compete against a near-5% nominal risk-free rate. That is a large part of why Tech is −3.7% on the week and Nasdaq −7% on the month.

The slope's message about the rate cycle is that the front end is not pricing imminent, aggressive easing. The 3M-to-2Y segment is upward-sloping (4.18% to 4.61%), which is unusual — a market expecting cuts normally inverts that segment. Instead, 2s10s at +38bp with an upward-sloping front end is consistent with a market pricing a higher-for-longer policy path with term premium rebuilding at the back. Combined with the Reflation quadrant and the inflation score at 1.0, the risk to the curve is bear-steepening, not bull-steepening: yields rising from the long end as inflation compensation is demanded.

That has direct portfolio implications. Front-end Treasuries and T-bills at 4.06–4.42% are attractive on an absolute basis and carry minimal duration risk. The belly, 5Y at 4.78%, offers most of the yield with materially less convexity exposure than the 20Y at 5.35%. Long duration is the position to be most

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careful with — not because the yield is unattractive, but because in a reflation regime with term premium rebuilding, a 20Y at 5.35% can easily see 5.60%, and that is a mark-to-market loss of roughly 3–4 points. Prefer the 2Y-to-7Y segment; be deliberate about anything past 10Y.

The curve also matters as a recession signal, and it is currently a clean negative: 2s10s at +38bp is not flashing. A re-inversion toward 0bp from here would be a change of state worth acting on.

Credit & Financial Conditions

Credit is the most uncomfortable input in the entire briefing, and it is uncomfortable because it is *too good*. HY OAS at 3.44% sits in the 88th percentile — meaning spreads have been tighter only 12% of the time in the sample. IG OAS is 0.94%. The risk-appetite scorecard assigns credit HY a score of −1.00, the floor, precisely because tight spreads are a negative forward-looking signal: there is almost no cushion left.

The practical reading is asymmetry. At 3.44%, HY offers roughly 344bp over Treasuries, so a HY portfolio yields in the vicinity of 8% against a 4.98% 10Y — but the spread can widen 200bp in a stress episode and only compress perhaps 80bp in the best case. For an investor, that makes HY a source of funds rather than a destination. If credit exposure is wanted, IG at 94bp over is the cleaner expression: it is also tight, but the downside path from 94bp is shorter in duration-adjusted loss terms and the instruments are more liquid under stress. Loans or short-dated HY, where spread duration is low, are preferable to long-dated HY beta.

Financial conditions corroborate the easy-credit picture. ANFCI at −0.50 and the stress index at −0.58 are both meaningfully negative, which means conditions are looser than average. Easy conditions plus tight spreads plus a neutral risk-appetite scorecard is a specific configuration: the market is well-financed and complacent at the same time. That combination does not predict a drawdown, but it does mean any drawdown that starts will be amplified by positioning rather than cushioned by it.

The one genuine support is that credit is not confirming equity weakness. The S&P's correlation to HY corporate credit is +0.67 over 252 days but has fallen to +0.53 over 63 days. Credit is not leading equities lower. That decoupling is why this week reads as rotation rather than stress — in a real risk-off episode, HY and equities re-couple and move together. Watch that correlation: if the 63-day figure climbs back toward +0.67 while both are falling, the rotation thesis is dead.

Net liquidity at $5,742bn, down $125bn over the month, is a modest headwind worth stating honestly. A $125bn monthly drain is about 2.2% of the stock — not large, but it is the wrong direction, and it is consistent with an index that cannot make progress while breadth improves. Liquidity withdrawal typically pressures the most crowded, highest-multiple assets first, which is what Nasdaq −7% looks like.

Factor Structure & Systemic Risk

The PCA results need care because the two reported figures measure different universes. Within sectors, PC1 explains 66% of variance — high, meaning sector returns are still substantially one common factor. Across the broader 89-instrument cross-asset set, PC1 (Risk, proxied by the S&P) explains 33%, PC2 (Rates, 10Y) 16%, PC3 and PC4 (both Energy/WTI, one inverse) 6% and 5%. Together the top four explain 60%, leaving 40% idiosyncratic.

The cross-asset 33% is the more useful number and it is moderate, not extreme. A single risk factor at 33% means the market is not in the single-factor state that characterises genuine crises, where PC1 can exceed 60–70% and everything moves together. There is a real, separately-priced rates factor at 16% — which is exactly what you would expect in a reflation regime where duration is the active variable and is why the Tech-versus-Materials dispersion was so wide this week. Two distinct 6%/5% energy components, one inverse, indicate commodity-specific pricing that is not simply a function of risk appetite.

The investor implication is that diversification is working at the cross-asset level and working poorly

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within equities. The sector-level 66% means intra-equity sector diversification buys you less than it appears to; if you want genuine diversification, it must come from the rates and energy factors, not from owning eleven sectors.

The systemic co-movement gauge is the most reassuring number in the briefing. Average pairwise conditional correlation across the 12-asset MV-DCC system is +0.04 now, identical to +0.04 a year ago, with 0.8838 persistence. Near-zero average pairwise correlation means diversification is not failing — assets are, on average, behaving close to independently. The flat year-over-year comparison matters: this is not a correlation regime that has been quietly tightening. In the pre-conditions for a systemic event, this gauge rises well before the drawdown.

The 0.8838 persistence is the caveat to hold. It is high enough that correlation shocks, once they arrive, decay slowly — a spike would take weeks to normalise rather than days. So the current +0.04 is good news about the present and says nothing reassuring about the speed of a transition. Monitor it as a state variable: a move from +0.04 toward +0.25 or higher would mean cross-asset hedges are stopping working and would warrant cutting gross exposure directly, independent of any price signal.

Cross-Asset Correlation & Lead-Lag

The stock-bond relationship is the critical one for portfolio construction, and the two measurement methods disagree in an informative way. Unconditional correlation of the S&P to the long bond is +0.27 over 252 days, falling to +0.12 over 63 days. The DCC-GARCH conditional estimate is −0.19 now, with 0.9875 persistence. The conditional measure, which adapts to current volatility, says bonds are currently providing a modest hedge; the trailing window says they have on average not been. Nasdaq to the long bond is clearer: +0.19 over 252 days but −0.05 over 63 days.

The honest conclusion is that Treasuries are a weak and unreliable equity hedge right now. A −0.19 conditional correlation does hedge, but it is a fraction of the −0.4 to −0.6 that made 60/40 work. In a Reflation quadrant with the inflation score at 1.0, that is expected: when inflation is the shock variable, stocks and bonds fall together. The practical answer is that the hedge in this market is cash and short-duration bills, not long-duration Treasuries. At 4.06–4.28% on 1M to 6M paper, cash is paid to wait and carries no duration risk — it is the cleanest defensive asset available. The 0.9875 persistence on the stock-bond DCC means this low-hedge-value state will persist; do not expect it to flip quickly.

The dollar is similarly a poor hedge. S&P to DXY is −0.34 over 252 days but only −0.21 over 63 days, and the DCC conditional is −0.14. A −0.14 conditional correlation means the dollar provides almost no portfolio protection at present. Gold is the more interesting case: S&P to gold is +0.34 over 252 days *rising* to +0.56 over 63 days. Gold is co-moving with equities more, not less, which strips it of hedge value in the short run — it is behaving as a reflation asset rather than a haven. That matters given the fair-value model shows gold 9.6% rich. Gold to DXY remains reliably negative at −0.39/−0.41, so gold is still primarily a dollar trade.

The VIX relationship is the only dependable hedge in the set: S&P to VIX is −0.82 over 252 days, −0.84 over 63 days, and the DCC conditional is −0.86 with 0.9771 persistence. At −0.86, volatility is a genuinely effective and stable equity hedge. Combined with VIX at 18.1 and a term structure at 0.91, options-based protection is both effective and not expensive on a historical basis — the clearest tactical opportunity in the briefing.

Two structural correlations are worth noting for position sizing. Semis to the S&P at +0.76/+0.72 means semiconductor exposure is close to a levered index position, not a diversifier — relevant given semis screen 10.6% rich. Russell 2000 to regional banks at +0.58/+0.50 means small-cap exposure carries embedded regional bank credit risk; the +2.1% Russell week is partly a bank-credit week.

On lead-lag, be explicit: weekly Granger predictive skill is modest. The network identifies VIX, the long bond, the US 10Y and WTI as net leaders, with gold, DXY, Nasdaq and the S&P as followers. The directional logic is intuitive — volatility and rates lead equities, equities do not lead rates — and it is consistent with a rates-driven market where the 10Y at 4.98% is setting the discount rate for equity.

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But the effect sizes in weekly Granger tests are small, the relationships are unstable across subsamples, and they do not support a mechanical trading rule. Use the network as a hierarchy of what to watch, not as a signal to trade: moves in the 10Y, the long bond and VIX deserve more attention than equivalent-magnitude moves in the S&P, because they are more likely to be causal.

Relative Value & Fair Value

One cointegrated spread is stretched beyond 1.5σ, and it is the one that matches the week's rotation. The S&P versus equal-weight spread is at z +1.92 with a seven-week half-life. Cap-weighted is nearly two standard deviations expensive relative to equal-weighted, in a pair with a statistically established long-run relationship and a defined mean-reversion speed. Long equal-weight against cap-weight is the cleanest expression, and the seven-week half-life gives a concrete horizon: roughly half the dislocation should close over seven weeks if the relationship holds. This is the trade the breadth data and the factor rotation both independently support, which is what makes it worth taking seriously rather than a lone statistical artefact.

The fair-value residual models add nuance that cuts against a simple "sell tech" conclusion. Nasdaq against real yields and the S&P screens 2.6% *cheap* at z −1.17, on an R^2 of 0.99. That fit is strong enough to take seriously: conditional on where real yields and the broad index actually are, Nasdaq has already overshot to the downside. A −7% month has taken it past what the rates backdrop justifies. The implication is that fading Nasdaq as a whole here is late, not early.

The genuine excess is one layer down. Semis against Nasdaq screen 10.6% rich at z +0.95 with a 0.96 R^2. So within technology, the overvaluation is concentrated in semiconductors, not in the Nasdaq complex broadly. Combined with the +0.72 semis-to-S&P correlation — meaning semis give levered index beta with no diversification — and a 10.6% rich reading, semis are the specific place to reduce. Note the z is only +0.95: the residual is large in percentage terms but less than one standard deviation, so this is a position-sizing signal, not a high-conviction short.

Gold screens 9.6% rich against real yields and the dollar at z +0.48, on a weaker R^2 of 0.70. The lower fit means less confidence in the residual, and a +0.48 z is well within the normal range. Combine the 9.6% richness with gold's rising +0.56 equity correlation and the conclusion is that gold is expensive on fundamentals and currently not hedging — a reason to trim rather than add, but not a reason to short.

Taken together, the relative-value book argues for a specific set: long equal-weight versus cap-weight, trim semis, do not chase a Nasdaq short, and trim gold. Notice these are all relative trades. There is no stretched spread arguing for a directional change in equity exposure, which is consistent with the neutral scorecard.

Volatility & Tail Risk

The volatility complex is sending a mixed message that resolves into one actionable conclusion: protection is cheap relative to the tail risk being signalled. VIX at 18.1 is modestly elevated but unremarkable. VIX3M at 19.9 gives a term ratio of 0.91 — upward-sloping, which is the normal, non-stressed configuration. An inverted term structure is the stress signal; at 0.91 there is none. The risk-appetite scorecard nonetheless marks the VIX term component at −0.34, reflecting that 0.91 is flatter than a fully complacent market would produce.

SKEW at 150 is the number that should change behaviour. A SKEW of 150 is high and means out-of-the-money put demand is substantial relative to at-the-money — investors are paying up specifically for crash protection even while spot VIX sits at 18.1. The combination of low-to-moderate VIX and high SKEW describes a market that expects calm conditions punctuated by a possible discontinuous move. That is the classic profile where tail hedges are mispriced relative to the distribution: at-the-money volatility is affordable while the tail is being bid.

VVIX at 101 and MOVE at 101 both sit near the middle of their historical ranges. MOVE at 101 is the more notable of the two in context: with a 10Y at 4.98% and a reflation regime where rates are the active

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variable, bond volatility at only 101 suggests the rates market is not pricing much risk around the inflation path. Given that the PCA identifies rates as a distinct 16% factor and the Granger network puts the 10Y and the long bond among the net leaders, cheap rates volatility in a rates-driven market is an under-appreciated exposure.

Tail risk by index maps onto the rotation and validates the positioning. S&P 500 ES5 is −4.8% against a current drawdown of only 2%; Nasdaq ES5 −5.9% against a 6% drawdown; Russell 2000 ES5 −6.4% against a 7% drawdown. The S&P has used less than half its expected 5% shortfall, while Nasdaq and the Russell have already fully realised theirs. The reading: the S&P has more room to fall before it reaches a statistically normal bad outcome, while Nasdaq and small caps have already been through one. For an investor, that means index-level protection is more valuable than protection on the already-drawn-down parts, and the risk-reward of adding to Nasdaq and small caps is better than the raw price action suggests.

Given the −0.86 conditional S&P-VIX correlation, a VIX at 18.1 with a 0.91 term structure, and SKEW at 150, the specific conclusion is that S&P index put protection or VIX-based hedges are both effective and reasonably priced, and that financing them by selling richer parts of the complex is worth examining. This is the most straightforward tactical recommendation in the note.

Macro Pulse & Recession Risk

The recession indicators are, without qualification, benign. The NY Fed probability is 0.4%. The Sahm rule is at 0.00, meaning no trigger and no deterioration in the unemployment trend. 2s10s is +38bp and positively sloped. Initial claims are 194,000 — a low number in absolute terms and well below the 250–300k zone that signals labour market cracking. Four independent indicators pointing the same way is a stronger statement than any one of them. The near-term recession case is not supported by the data.

The labour market detail is consistent with that. Unemployment at 4.2% and U6 at 7.6% are both historically low, though the 3.4-point gap is normal. Participation at 61.8% is soft. Job openings at 7,079k have come down substantially from peak but remain above pre-2020 norms. Continued claims at 1,701k alongside initial claims at 194,000 means people are not losing jobs *and* are not sitting unemployed for long. Average hourly earnings at $37.8 with payrolls at 159,044k rounds out a labour market that is cooling without breaking. This is the core of the "growth at trend" read.

The macro nowcast at −0.14 sits in the Trend growth band, and the composition of it matters more than the headline. Four of five components are positive: weekly economic index +0.27, initial claims +0.30, industrial production +0.28, Chicago Fed +0.06. Consumer sentiment at −1.63 is the single outlier dragging the composite negative. Consumer sentiment at 48.1 is extremely depressed — near crisis-era levels. But retail sales at $745,021m and a Reflation quadrant do not corroborate a consumer in collapse. The saving rate at 3.8% is the genuine fragility: consumers are spending with a very thin buffer, so a labour shock would transmit quickly. For now, treat the nowcast as trend growth with a sentiment-driven distortion, not a slowdown signal. If claims start rising from 194,000 while sentiment stays at 48.1, that changes.

Inflation is the active variable, consistent with the Reflation quadrant's i-score of 1.0. Sticky CPI at 2.8% is the most reliable reading and it is above target but not alarming. Michigan inflation expectations at 4.6% are the concern — expectations that high are inconsistent with a 2% target and constrain policy. Core CPI at 338.9 running above headline CPI at 336.3 and core PCE at 130.9 against PCE at 132.3 shows the composition is in the sticky components. The policy implication is that the front end at 4.18% is unlikely to fall quickly, which sustains the pressure on long-duration equity.

Housing is the clearest sign of policy restriction biting. A 30-year mortgage at 7.2% against a Case-Shiller index at 336.7 is a severe affordability constraint. Starts at 1,221k are running below permits at 1,398k — builders have permission and are not building, which is a forward-looking negative. New home sales at 676k are holding up better than starts, suggesting inventory is being worked down rather than added. Housing is contracting quietly and is the sector where a reflation regime does the most damage.

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Industrial production at 104.0 with capacity utilisation at 76.9% completes the picture: 76.9% is below the long-run average, meaning real slack in the industrial economy. That slack is why growth can be at trend without generating demand-pull inflation, and it is the main argument that the reflation impulse is cost-driven rather than demand-driven — which would make it less persistent.

Key Risks & What to Watch

The central risk to the constructive-but-neutral view is that credit is priced for perfection. HY OAS at 3.44% in the 88th percentile means the market has almost no spread cushion, and the scorecard's −1.00 on that component is the honest assessment. Easy financial conditions at −0.50 ANFCI amplify rather than mitigate this: a well-financed, complacent market unwinds faster than a cautious one. The second risk is the reflation path itself — with the i-score at 1.0, Michigan expectations at 4.6% and MOVE at only 101, the rates market is not priced for an inflation surprise, and a 10Y moving from 4.98% through 5.25% would hit long-duration equity hard while Treasuries fail to hedge at a −0.19 conditional correlation. The third is that the breadth improvement is distribution rather than broadening — rotation into cyclicals before a decline looks identical to rotation at the start of a new leg for several weeks.

What would confirm the view: HY OAS holding below 3.50% while equities consolidate; the S&P-HY 63-day correlation staying at or below +0.53 rather than re-coupling toward +0.67; VIX term structure moving back above 1.00 with VIX under 17; breadth holding above 60% with Financials and Industrials continuing to lead; and the S&P-versus-equal-weight z of +1.92 beginning to compress toward +1.0 over the stated seven-week half-life.

What would change it: HY OAS widening through 4.00%, which given the 88th-percentile starting point implies a rapid repricing; IG OAS above 1.20%; VIX above 22 with the term structure inverting below 1.00; the systemic MV-DCC average pairwise correlation rising from +0.04 toward +0.25, which would mean cross-asset diversification is failing and gross exposure should be cut regardless of price; initial claims rising above 230,000 for two consecutive weeks, which would invalidate the 0.4% NY Fed probability and the 0.00 Sahm reading; 2s10s re-flattening from +38bp toward 0bp; and the Markov risk-off posterior rising from 32.4% above 50%. On the long end specifically, a 20Y through 5.60% would mark term premium rebuilding faster than equity multiples can absorb. Net liquidity is the slow variable: the $125bn monthly drain from $5,742bn is tolerable, but a second month of similar size with the index still unable to advance would argue for reducing exposure to the most crowded positions first.

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PART I

Rates, Credit & Macro

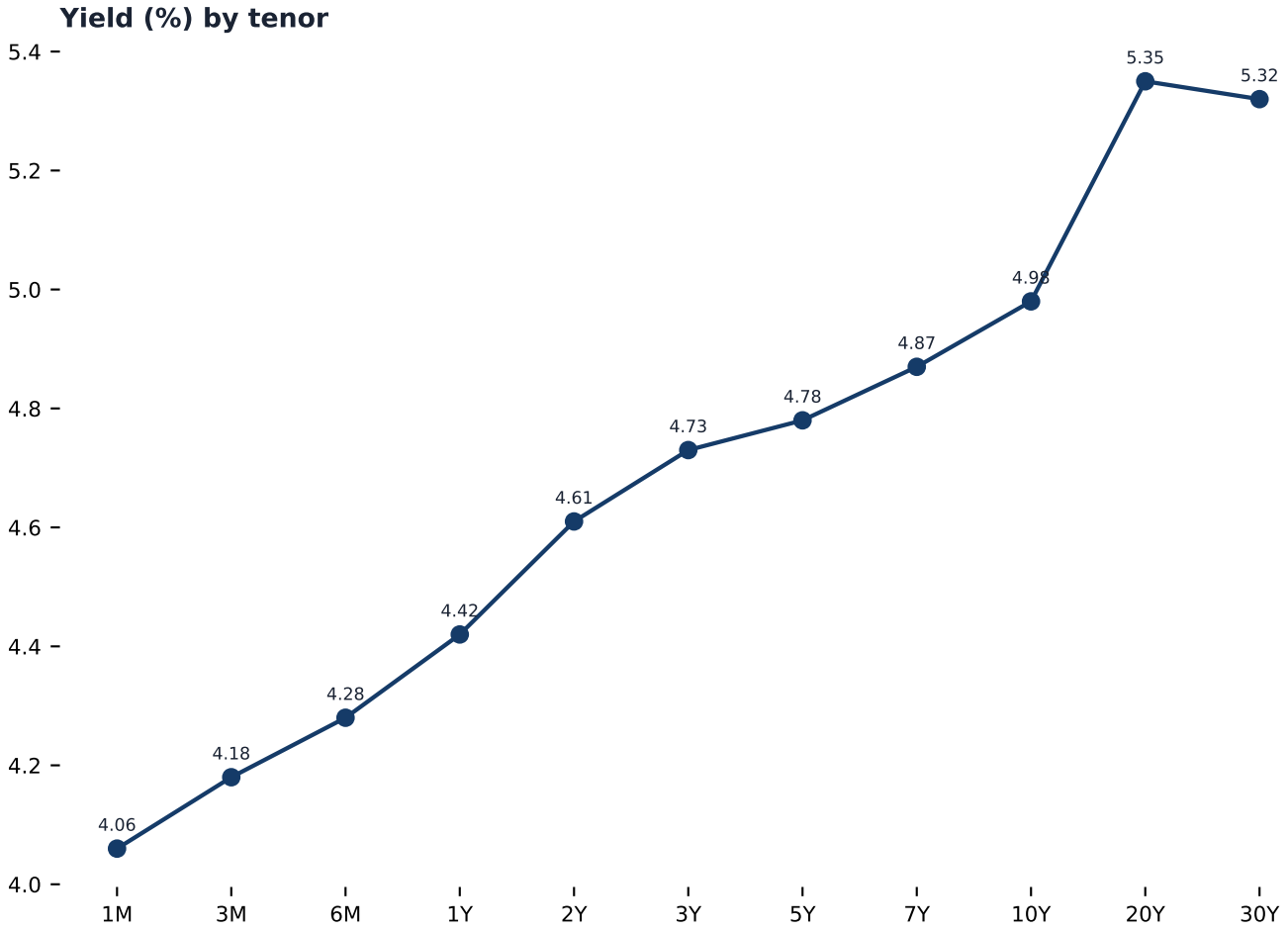
The Treasury curve, credit spreads, the growth-inflation regime and the deep macro dashboard.

- Yield curve, credit & vol, regime & liquidity
- Labor, inflation, growth/consumer/housing, money/policy, recession

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The Treasury Yield Curve

Current US Treasury curve. 2s10s +0.38bp, 3M-10Y +0.78bp (positive).



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Credit, Financial Conditions & Volatility

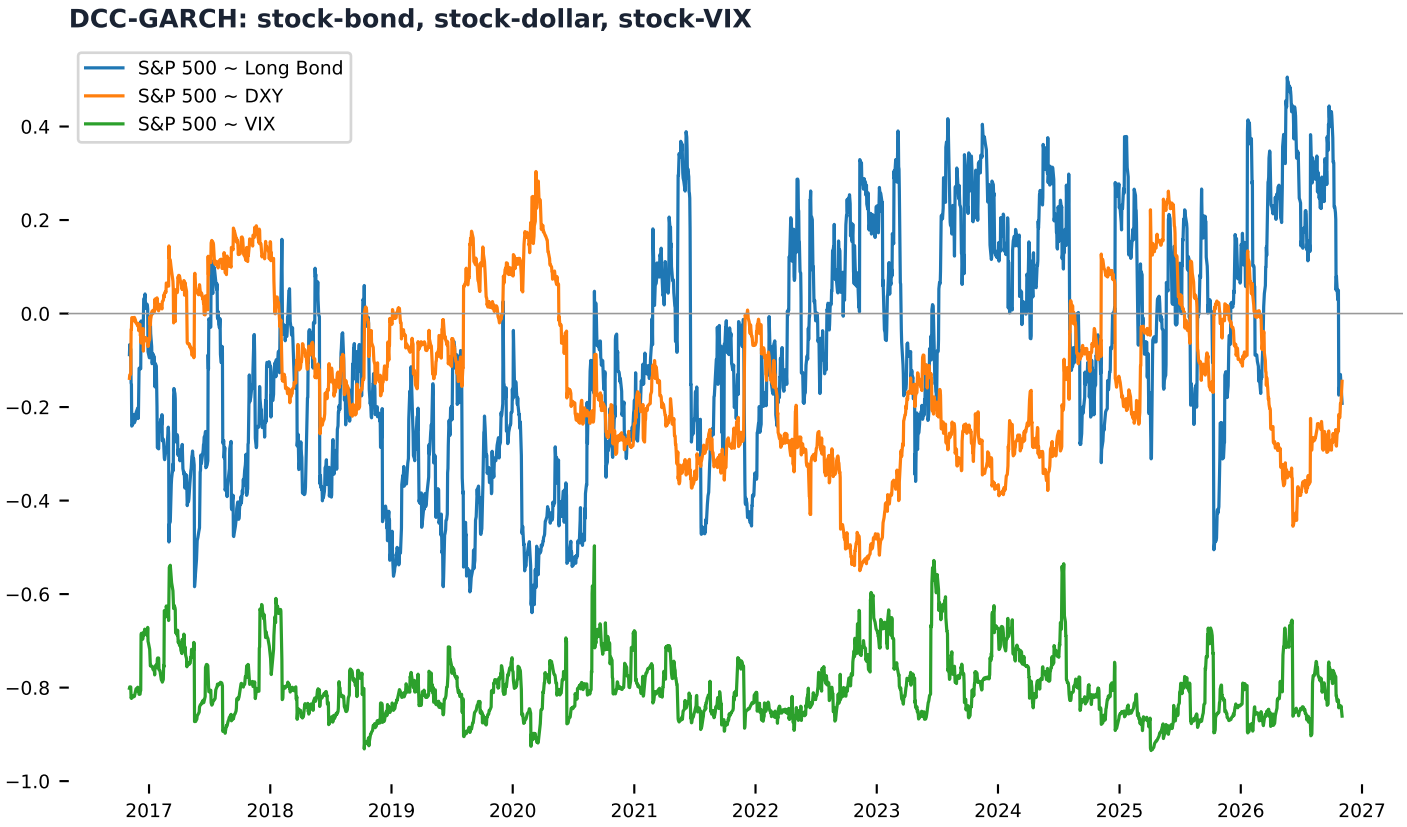
Credit spreads and the volatility complex - the market's stress gauges.

HY OAS	**3.44**	88th pctile
IG OAS	**0.94**	
Fin Conditions (ANFCI)	**-0.50**	0 = average; +tight
St. Louis Stress	**-0.58**	
VIX	**18.1**	term VIX/VIX3M 0.91
VIX3M	**19.9**	
VVIX (vol of vol)	**101**	
MOVE (bond vol)	**101**	
SKEW (tail hedging)	**150**	

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Regime, Growth-Inflation & Liquidity

Markov regime: Risk-on (posterior Neutral 0.00, Risk-on 0.68, Risk-off 0.32). Quadrant: Reflation.





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Macro Pulse: Labor

The US labor market - payrolls, unemployment, openings and weekly claims.

INDICATOR	LATEST	CHANGE	AS OF
Nonfarm payrolls (k)	**159,044.00**	+29.00	2026-09
Unemployment %	**4.20**	+0.10	2026-09
U6 underemployment %	**7.60**	-0.10	2026-09
Participation %	**61.80**	+0.20	2026-09
Job openings (k)	**7,079.00**	-256.00	2026-08
Avg hourly earnings $	**37.81**	+0.05	2026-09
Initial claims (wk)	**194,000.00**	-1,000.00	2026-10
Continued claims	**1,701,000.00**	-21,000.00	2026-10

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Macro Pulse: Inflation

CPI, PCE, PPI and inflation expectations.

INDICATOR	LATEST	CHANGE	AS OF
CPI index	**336.30**	+2.17	2026-09
Core CPI index	**338.90**	+1.13	2026-09
PCE index	**132.26**	+0.65	2026-09
Core PCE index	**130.90**	+0.41	2026-09
PPI index	**295.71**	+7.97	2026-09
Michigan inflation exp %	**4.60**	+0.60	2026-09
Sticky CPI %	**2.82**	+0.07	2026-09

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Macro Pulse: Growth, Consumer & Housing

Activity, the consumer, and the housing cycle.

INDICATOR	LATEST	CHANGE	AS OF
Real GDP (bn)	**24,611.08**	+203.07	2026-07
Industrial production	**103.95**	+0.68	2026-09
Capacity utilization %	**76.85**	+0.43	2026-09
Chicago Fed NAI	**0.07**	+0.15	2026-09
Weekly Econ Index %	**2.98**	-0.27	2026-10
Durable goods ($m)	**345,371.00**	+6,254.00	2026-09
Retail sales ($m)	**745,021.00**	+5,699.00	2026-09
Saving rate %	**3.80**	-0.20	2026-09
Consumer sentiment	**48.10**	-3.60	2026-09
Housing starts (k)	**1,221.00**	-67.00	2026-09
Building permits (k)	**1,398.00**	-5.00	2026-09
New home sales (k)	**676.00**	-4.00	2026-09
Case-Shiller HPI	**336.74**	-0.52	2026-08
30y mortgage %	**7.24**	-0.08	2026-10

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Money, Liquidity & Policy

Fed policy rate, M2, reserves and credit aggregates.

INDICATOR	LATEST	CHANGE	AS OF
Fed funds	**3.88**	+0.00	2026-10
SOFR	**3.95**	+0.01	2026-10
M2 ($bn)	**23,508.00**	+214.00	2026-10
Bank reserves	**2,966.80**	+30.80	2026-09
C&I loans ($bn)	**2,958.98**	+24.54	2026-09
Consumer credit ($bn)	**5,196,778.44**	+8,280.61	2026-08

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Recession Dashboard

The signals that historically lead a US downturn.

NY Fed recession probability	**0.4%**	12m-ahead, curve-based
Sahm rule (real-time)	**+0.00**	>0.50 triggers
2s10s curve	**+0.38 bp**	inverted = warning
Initial jobless claims	**194,000**	weekly labor pulse

PCA: PC1 explains 66% of sector variance (market-factor concentration).

LEAD-LAG INTO S&P 500 (weekly; skill is modest)

VIX	contemp -0.79	1d-lag +0.14
HY Corp	contemp +0.76	1d-lag -0.08
Semis	contemp +0.80	1d-lag -0.07
Long Bond	contemp -0.14	1d-lag +0.05
DXY	contemp -0.13	1d-lag -0.01

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PART II

Cross-Market Structure

How US assets move together — factor structure, systemic co-movement, directional lead-lag and relative value.

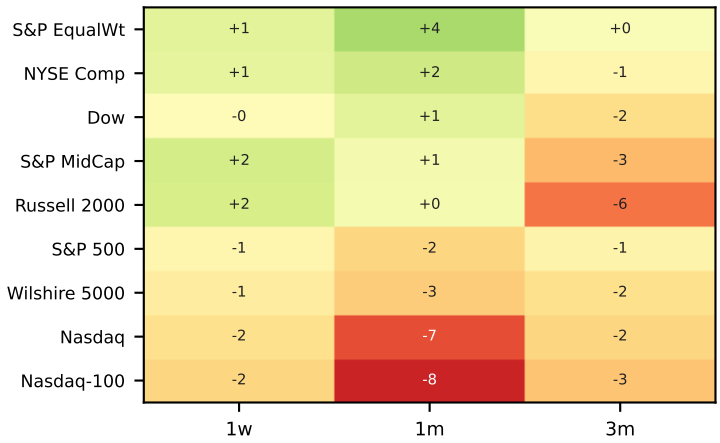
- PCA factor model & multivariate DCC conditional-correlation
- Correlation, wavelet coherence, Granger causality & cointegration

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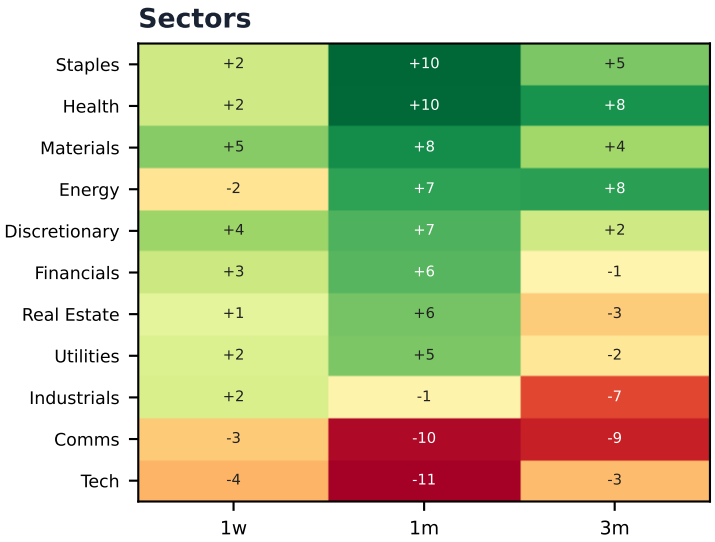
Returns Heatmap

Price return (%) over 1 week / 1 month / 3 months.

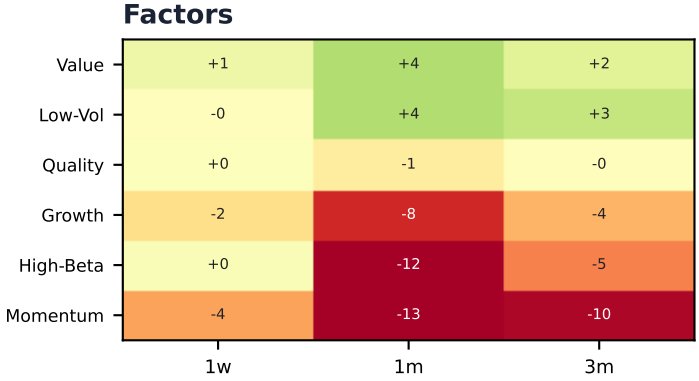
Indices



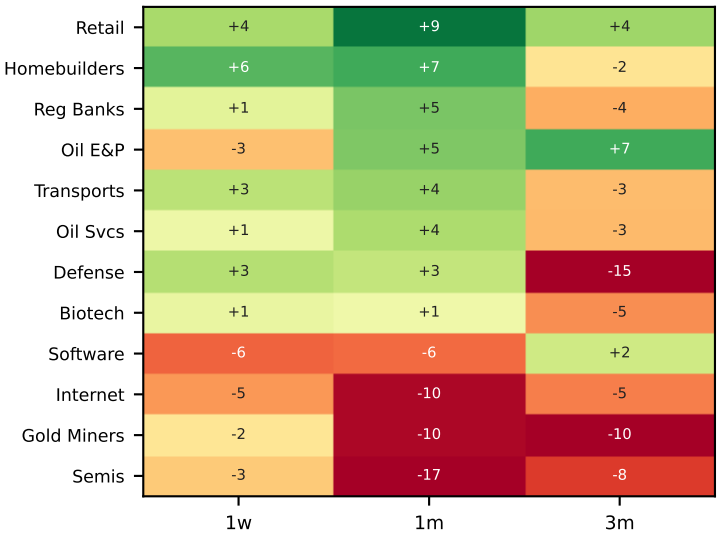
Sectors



Factors



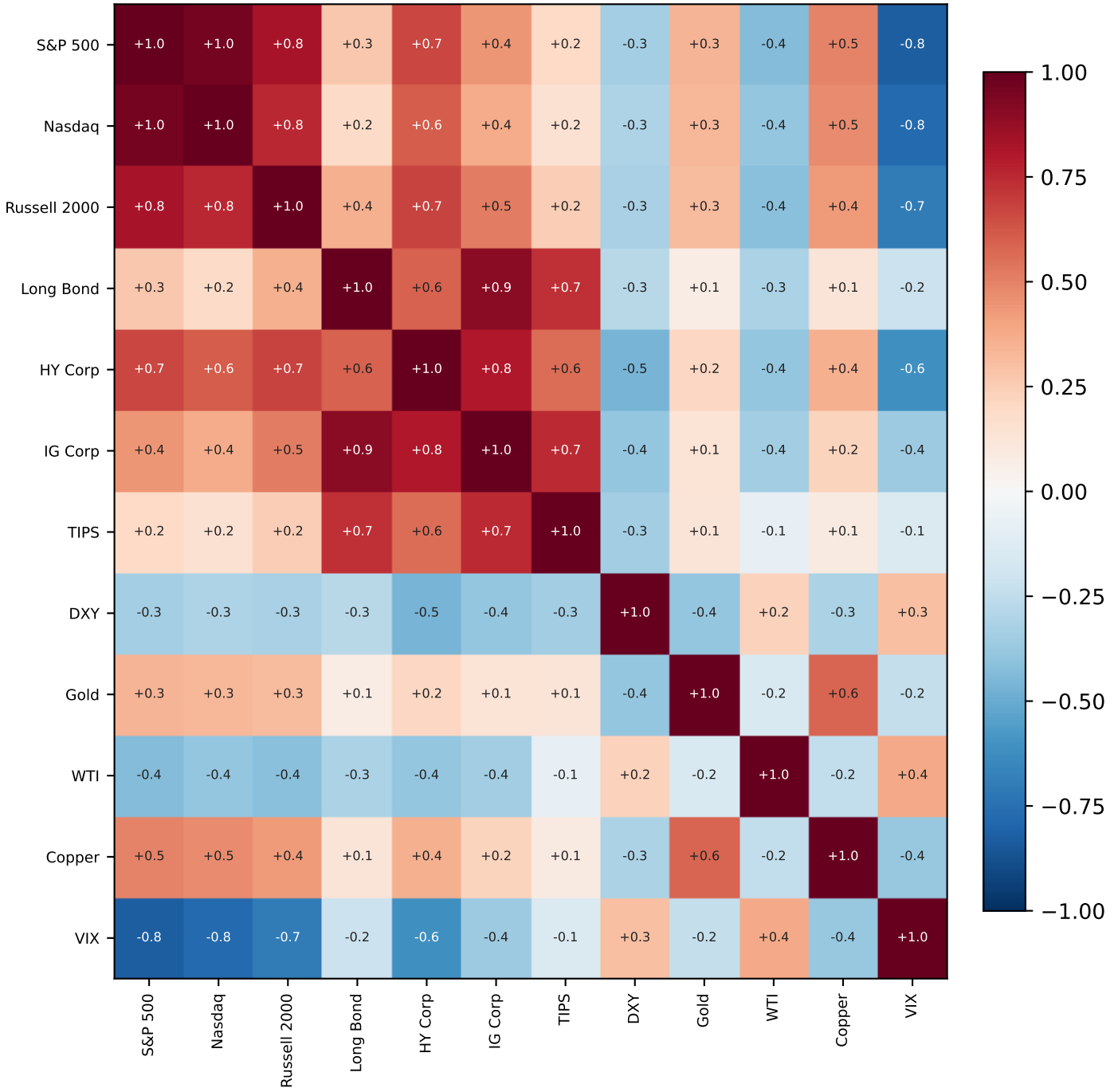
Industries



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Cross-Asset Correlation (252d, daily)

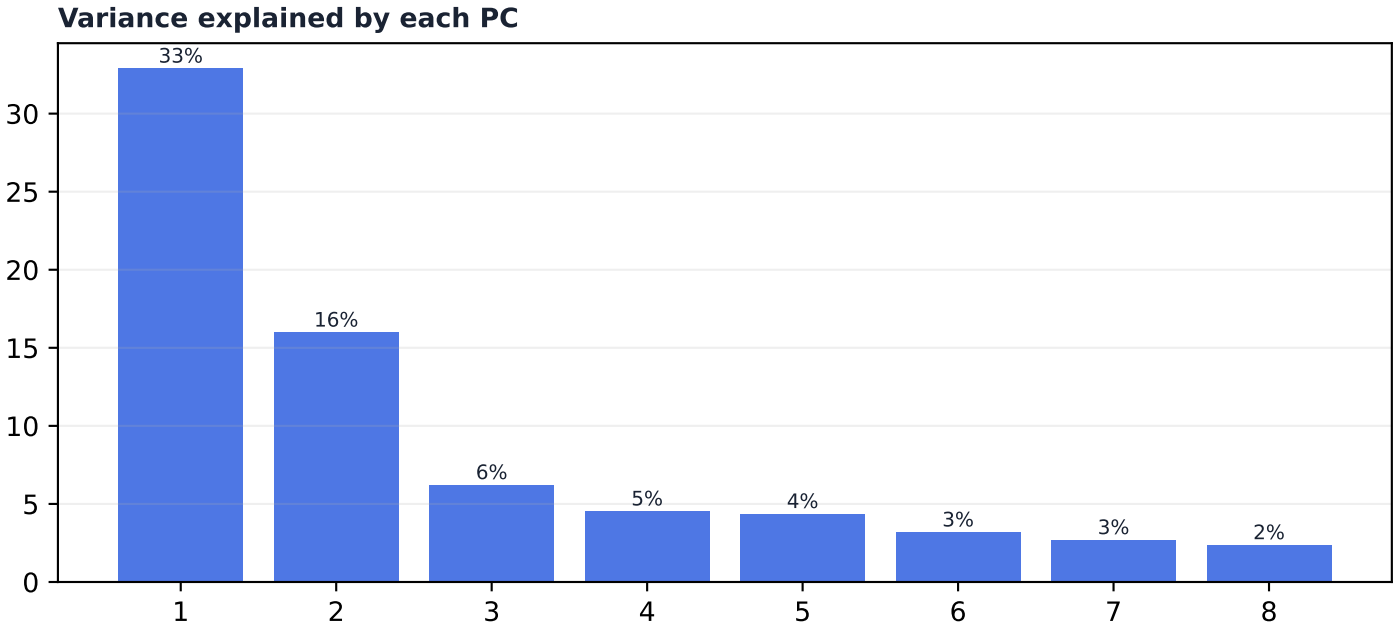
S&P/Nasdaq/Russell vs bonds, credit, dollar, gold, oil, copper, VIX.



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CROSS-ASSET FACTOR STRUCTURE (PCA)

Independent forces driving the 89 instruments (156 weeks)



PC1 — Risk (S&P 500)

32.9% of variance (cum 33%) · marker corr +0.92

+ S&P EqualWt +0.17, Wilshire 5000 +0.17, NYSE Comp +0.17, S&P 500 +0.17, Value +0.17

– VIX3M -0.16, VIX -0.15, VIX9D -0.15, HY OAS -0.14, VVIX -0.13

PC2 — Rates (10Y)

16.0% of variance (cum 49%) · marker corr +0.94

+ US 10Y +0.25, US 5Y +0.25, US 30Y +0.23, US 2Y +0.23, 10Y real +0.22

– 7-10y Tsy -0.25, Agg Bond -0.24, Long Bond -0.24, MBS -0.23, IG Corp -0.21

PC3 — Energy (WTI) (inverse)

6.2% of variance (cum 55%) · marker corr -0.67

+ Tech +0.15, Nasdaq-100 +0.15, Growth +0.15, Nasdaq +0.15, Internet +0.13

– Energy -0.34, Oil E&P -0.33, Brent -0.29, WTI -0.28, Oil Svcs -0.26

PC4 — Energy (WTI)

4.5% of variance (cum 60%) · marker corr +0.39

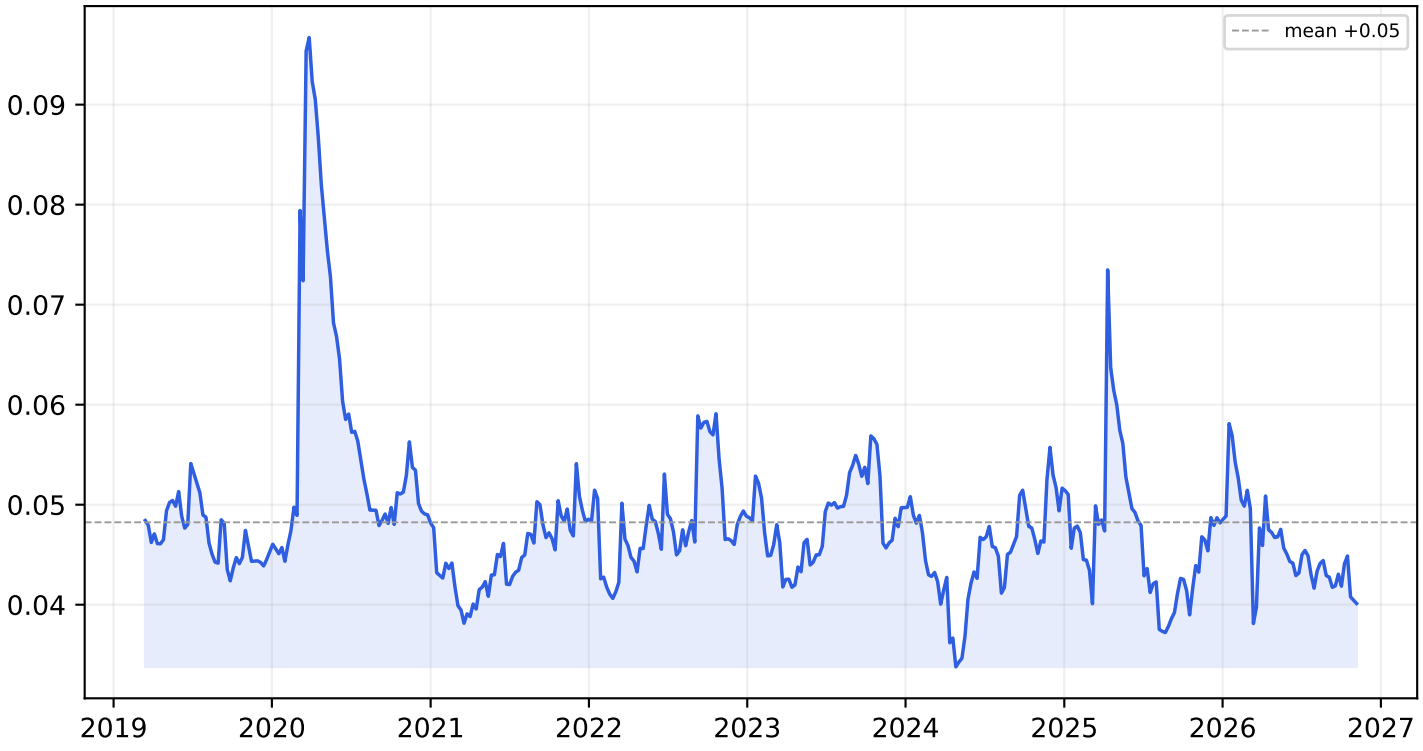
+ Gasoline +0.22, Brent +0.20, WTI +0.20, DXY +0.18, Software +0.18

– Staples -0.22, Materials -0.21, Health -0.20, EURUSD -0.17, Gold Miners -0.16

Principal components are the uncorrelated factors explaining the most joint variance. A high PC1 share means one force (usually broad risk) dominates — diversification is thin.

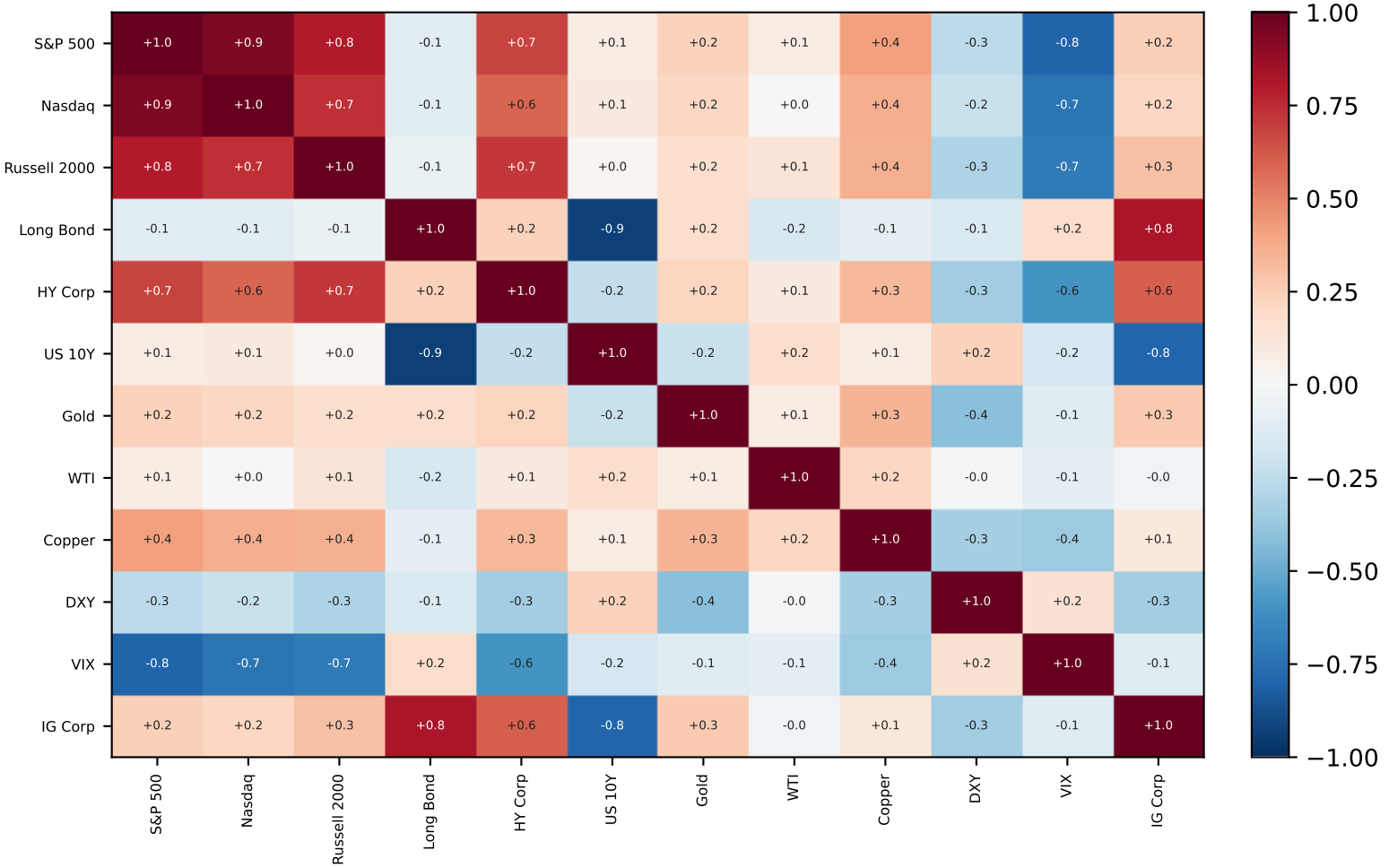
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Average pairwise conditional correlation (multivariate DCC-GARCH)



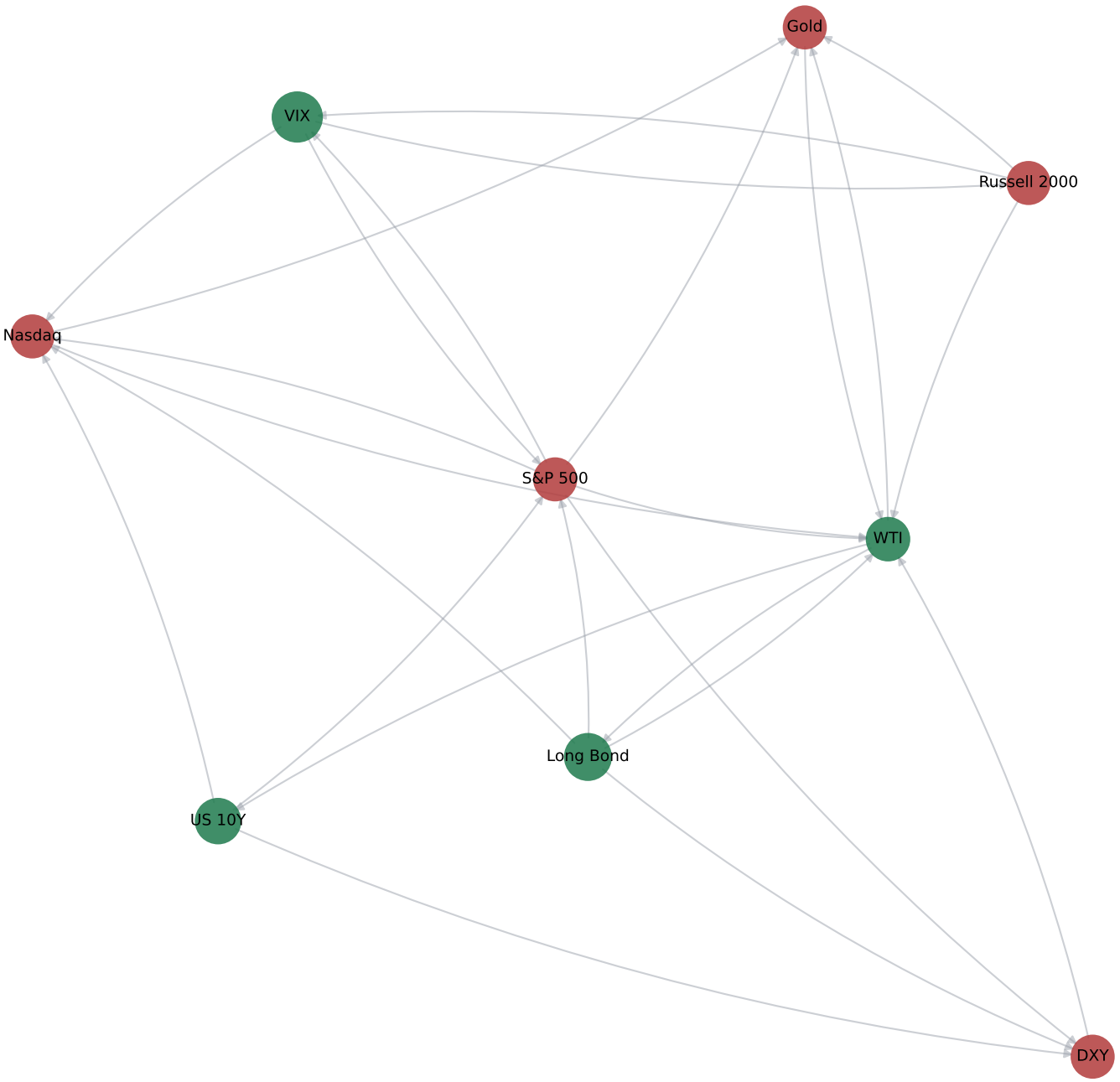
N=12 · persistence 0.8838 · now +0.04 · rising = diversification failing in real time

Latest conditional-correlation matrix



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Directional lead-lag — Granger causality network

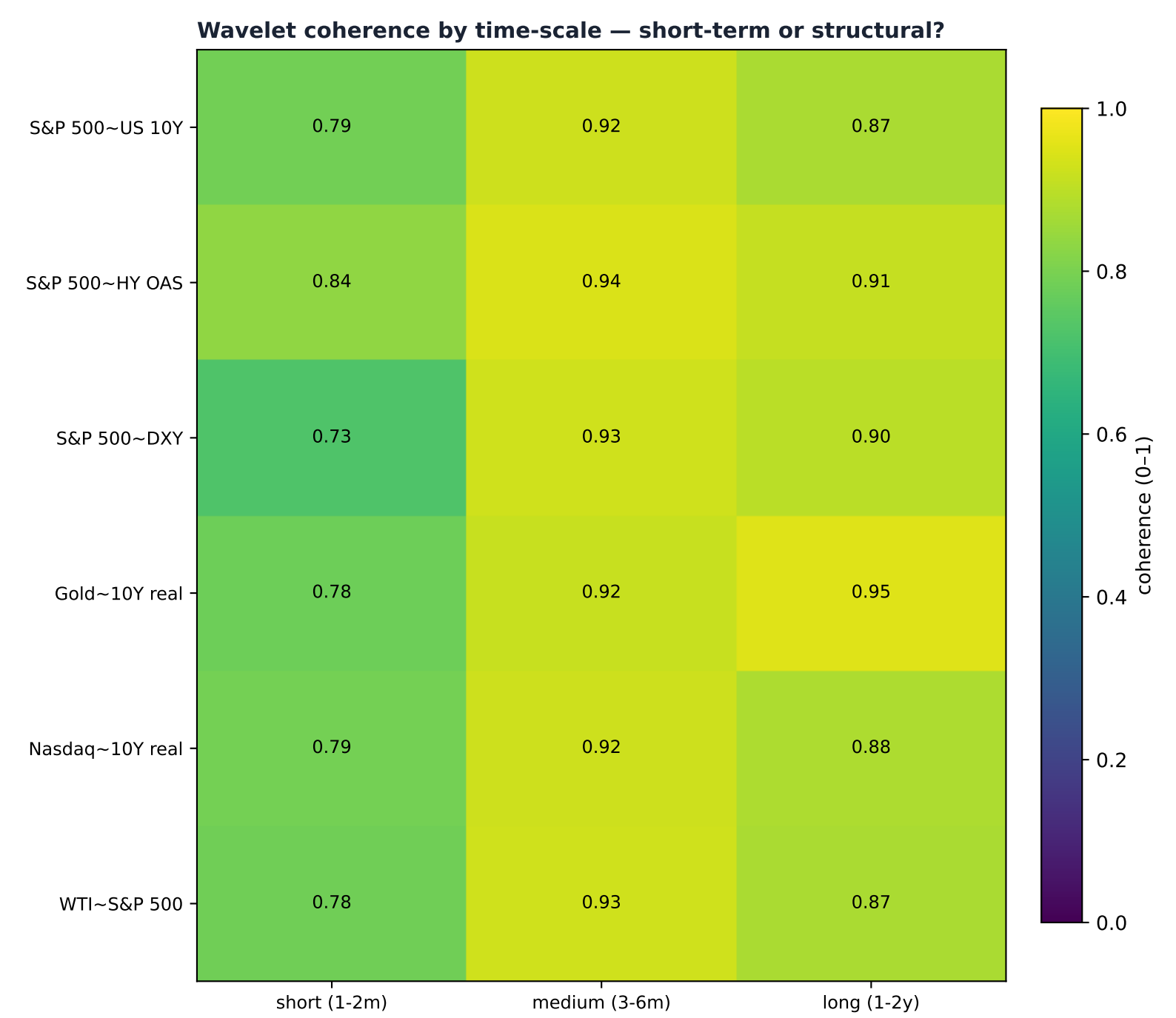


arrow = X Granger-causes Y (p<0.05); green/large = net information EXPORTER (leader)

LEADERS: VIX +0.03, Long Bond +0.02, US 10Y +0.01, WTI +0.00, Semis +0.00

FOLLOWERS: Gold -0.02, DXY -0.02, Nasdaq -0.01, S&P 500 -0.00, Russell 2000 -0.00

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STATISTICAL RELATIVE VALUE (cointegration)

Mean-reverting US spreads and how stretched each is now

Pair	Coint?	p-val	Hedge	Half-life	Spread z
Growth vs Value	no	0.950	0.55	55w	+3.07
S&P vs Equal-Weight	yes	0.047	0.61	7w	+1.92
WTI vs Brent	no	0.282	0.98	1w	+1.56
2Y vs 10Y	no	0.949	0.70	44w	+1.35
S&P vs Nasdaq	yes	0.006	1.24	7w	-1.22
HY vs IG credit	yes	0.000	0.29	2w	-1.01
Large vs Small (R2K)	yes	0.036	0.66	10w	+0.70
Semis vs Nasdaq	no	0.290	0.52	15w	-0.62
VIX vs VIX3M	yes	0.023	0.85	2w	-0.44
Gold vs Silver	no	0.183	1.20	13w	-0.44
S&P vs Dow	yes	0.003	0.73	7w	+0.43
Long vs Short Tsy	no	0.308	0.05	20w	-0.13

Low p-value = the spread is statistically mean-reverting. Half-life = weeks to close half a dislocation. |z|>2 (red) flags a historically wide gap. Pairs shown NOT cointegrated: the long-run link has broken — the z is informational only.

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PART III

Rotation, Momentum & Fair Value

Sector/factor rotation, trend and what is rich or cheap versus its drivers.

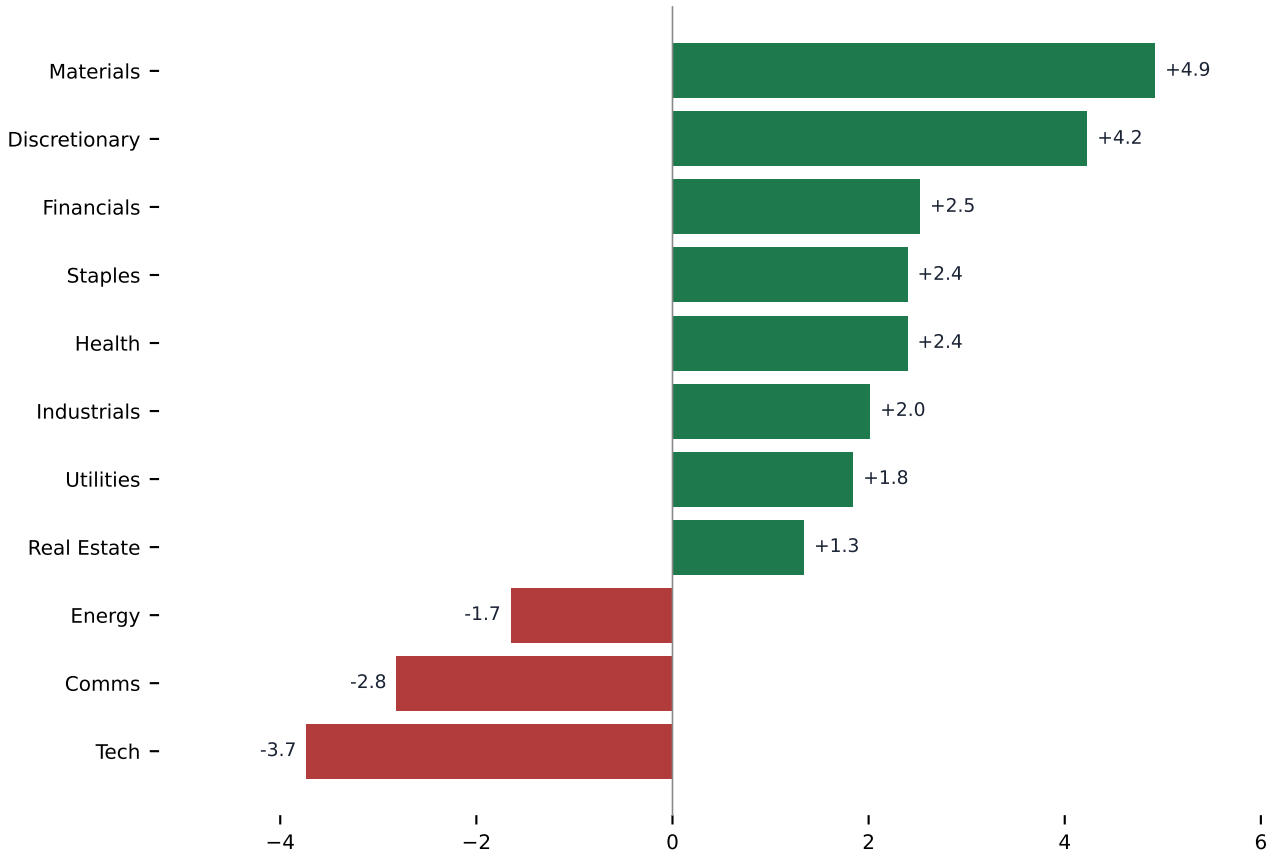
- Sector & factor rotation, momentum & trend battery, factor-beta attribution
- Fair-value residual models (rich/cheap vs economic drivers)

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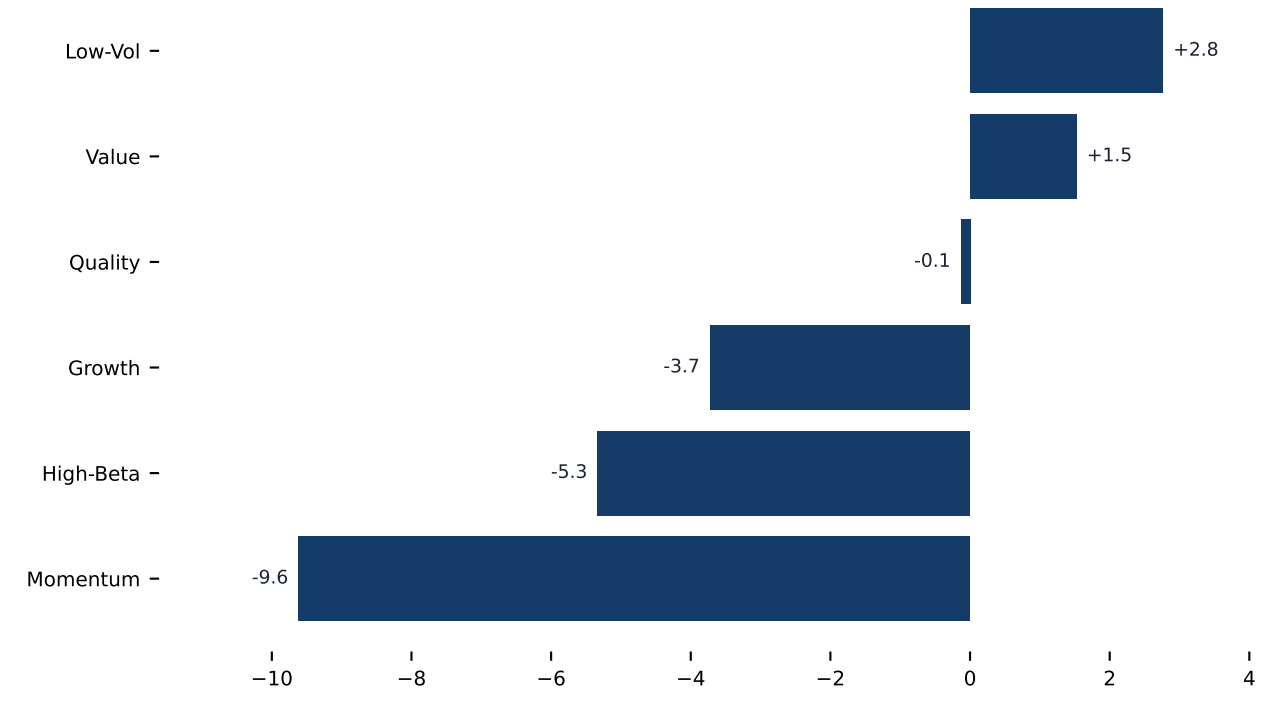
Sector & Factor Rotation

Weekly sector return; factor 3m return. Sector breadth 73% up. Growth-Value 3m -5.2%.

Sectors — weekly return %



Factors — 3-month return %



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MOMENTUM & TREND

Time-series momentum, trend state and distance below the 52-week high

Instrument	13w	26w	52w	Score	vs40wMA	<52wHi
S&P 500	-2%	+3%	+13%	**+0.00**	+4%	-2%
Nasdaq	-4%	-2%	+12%	**-0.50**	+2%	-6%
Russell 2000	-6%	-1%	+17%	**+0.00**	+1%	-7%
Tech	-5%	+2%	+24%	**+0.00**	+5%	-10%
Financials	-0%	+12%	+9%	**+0.50**	+7%	-1%
Energy	+19%	+23%	+53%	**+1.00**	+15%	-2%
Health	+11%	+28%	+26%	**+1.00**	+15%	-1%
Semis	-10%	-7%	+51%	**-0.50**	+0%	-20%
Reg Banks	-3%	+6%	+21%	**+0.50**	+4%	-5%
Gold Miners	-11%	-16%	+10%	**-0.50**	-11%	-31%
Gold	-10%	-16%	-1%	**-1.00**	-11%	-24%
WTI	+25%	+2%	+63%	**+1.00**	+10%	-13%

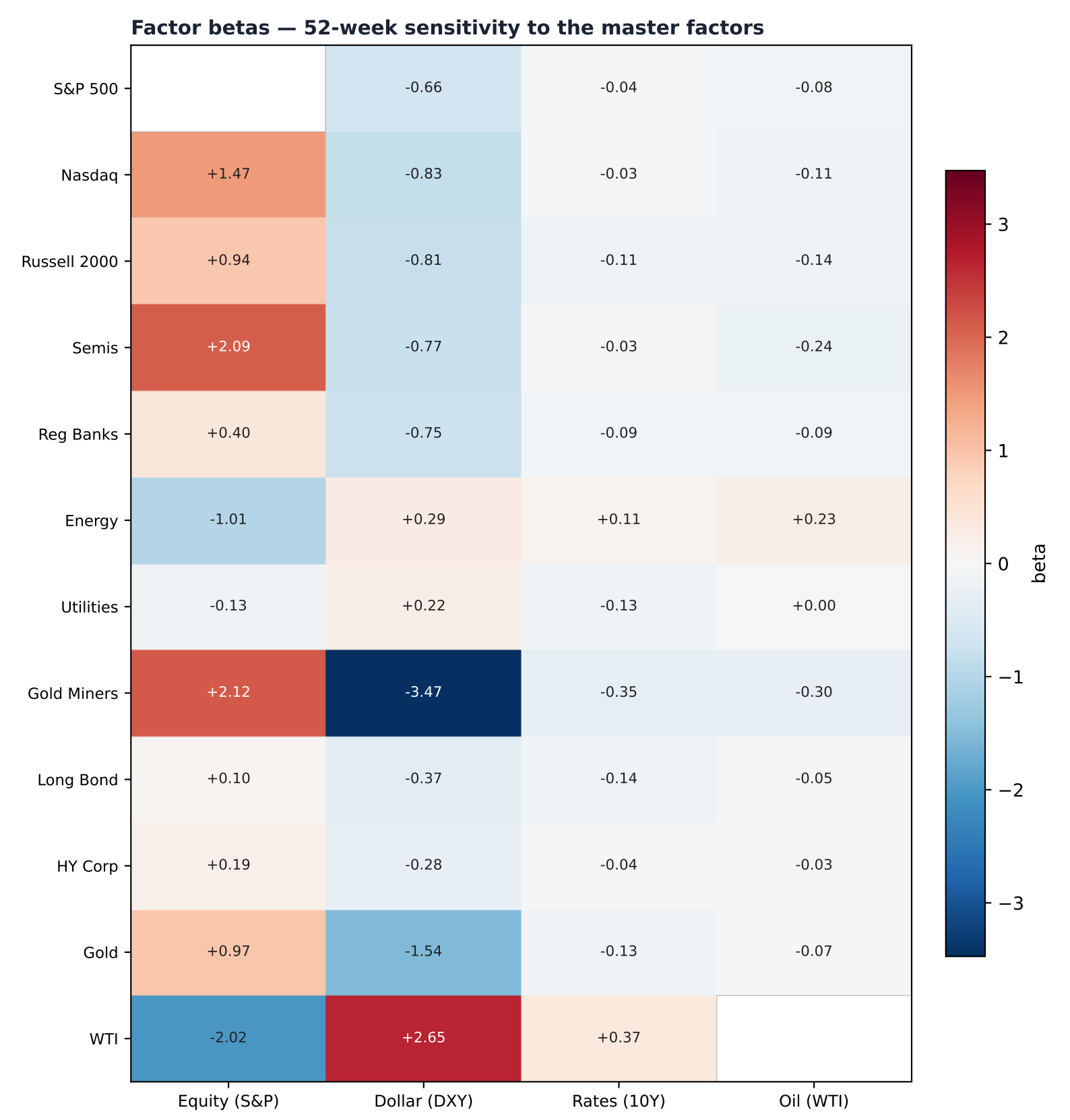
Sector 26-week relative strength:

LEADERS: Health +28%, Energy +23%, Financials +12%, Staples +7%, Materials +4%, Tech +2%

LAGGARDS: Comms -14%, Utilities -3%, Real Estate -2%, Industrials -2%, Discretionary -1%, Tech +2%

Score = mean sign of the 4/13/26/52-week returns (+1 = uptrend across all horizons). 'Golden' vs 'death' = 10w vs 40w MA cross.

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FAIR VALUE — RICH / CHEAP vs DRIVERS

Each asset regressed on its economic drivers; the residual is the rich/cheap signal

Nasdaq vs real yield & S&P

cheap z -1.17

actual 25669.32 · model-fair 26363.26 · gap -2.6% · R² 0.99



S&P vs liquidity & rates

RICH z +1.10

actual 7633.27 · model-fair 6239.67 · gap +22.3% · R² 0.32



HY spread vs equity vol

RICH z +1.00

actual 3.44 · model-fair 3.10 · gap +0.3 · R² 0.11



Semis vs Nasdaq

RICH z +0.95

actual 526.26 · model-fair 475.96 · gap +10.6% · R² 0.96



Gold vs real yield & dollar

RICH z +0.48

actual 3967.80 · model-fair 3619.88 · gap +9.6% · R² 0.70



Model-fair value is what the drivers justify; the gap is how far actual sits from it. |z|>1.5 flags a stretched dislocation. Trust in proportion to R² — a low-R² model is a weak anchor, stated honestly.

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PART IV

Volatility & Risk

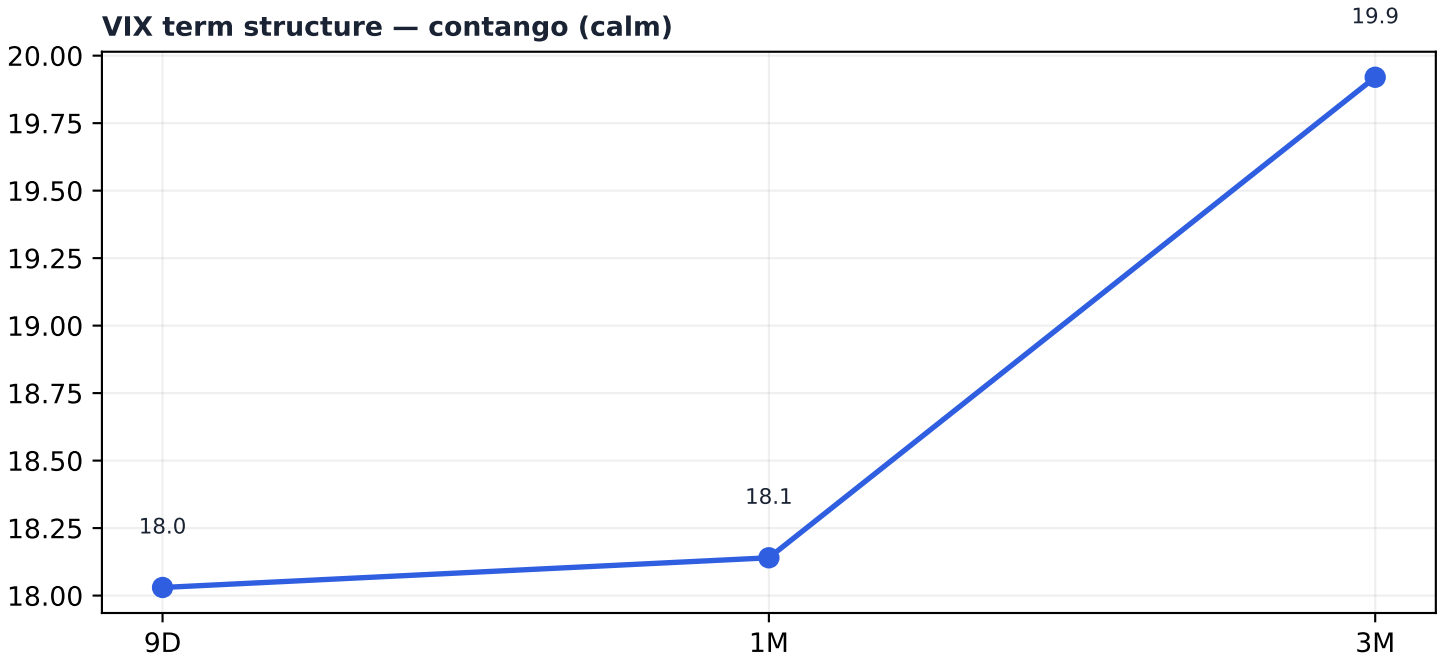
The volatility complex and downside risk.

- VIX term structure, vol-risk premium, SKEW and cross-asset vol
- Tail risk: VaR / expected shortfall, drawdowns, tail dependence

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VOLATILITY COMPLEX

Term structure, the vol-risk premium, tail skew and cross-asset volatility



VOL RISK PREMIUM

+11.3 pts

VIX 18.1 − realised 6.8

positive (implied > realised, carry cushion)

CBOE SKEW (tail risk)

150

77th %ile of 5y — elevated crash-hedging demand

CROSS-ASSET VOLATILITY (level, 5-year percentile)

Bond vol (MOVE)	101	53th
Oil vol (OVX)	60	91th
Vol-of-vol (VVIX)	101	66th

A positive vol-risk premium (implied > realised) is the usual carry cushion; a negative one flags realised stress. Backwardation (near > far) signals acute fear. SKEW is the cost of crash protection.

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TAIL RISK

Downside: 5% VaR / expected shortfall, drawdowns and fat-tailedness (5-year weekly)

Instrument	VaR5	ES5	DnVol	MaxDD	CurDD	Skew	Kurt
S&P 500	-3.2%	-4.8%	11%	-25%	-2%	-0.2	+1.4
Nasdaq	-4.6%	-5.9%	13%	-36%	-6%	-0.1	+0.3
Russell 2000	-4.3%	-6.4%	13%	-30%	-7%	-0.2	+0.5
Semis	-7.6%	-10.2%	22%	-45%	-20%	-0.2	+0.5
Reg Banks	-6.3%	-9.7%	21%	-54%	-6%	-0.6	+2.3
Energy	-5.5%	-8.6%	21%	-23%	-2%	-0.7	+3.4
HY Corp	-1.6%	-2.3%	5%	-18%	-11%	+0.2	+2.8
Long Bond	-3.6%	-4.7%	10%	-50%	-47%	-0.1	+0.4
Gold	-3.6%	-4.7%	11%	-26%	-24%	-0.1	+1.2
WTI	-9.7%	-11.9%	26%	-53%	-19%	+0.6	+3.3

Lower-tail dependence WITH the S&P 500 (P both crash together):

Nasdaq 0.77 Russell 2000 0.60 HY Corp 0.49 Long Bond 0.17 Gold 0.11

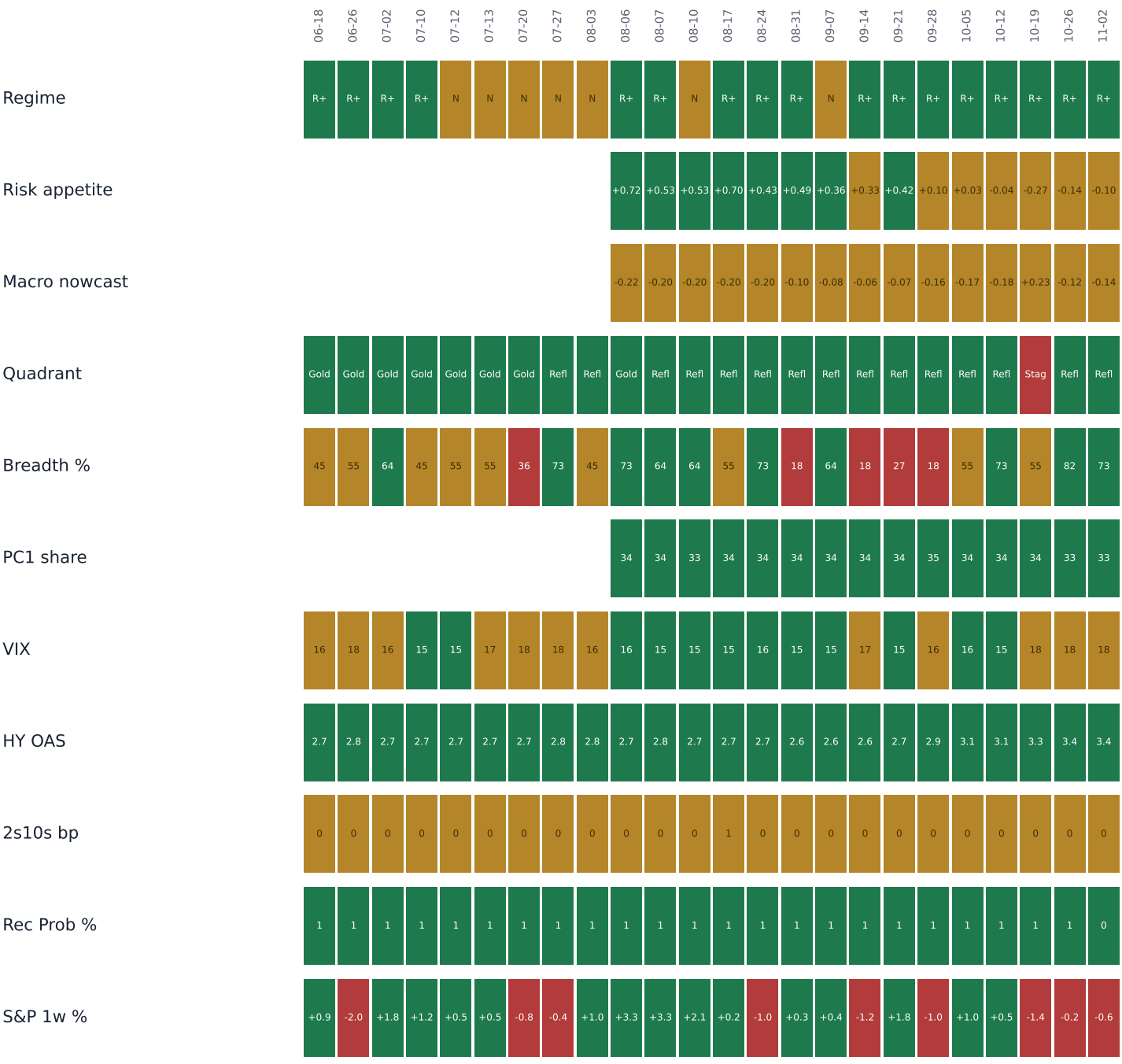
VaR5 = the typical bad-week loss (5% quantile); ES5 = the average loss BEYOND it. Lower-tail dependence near 1 = crashes together; near 0 = a genuine diversifier when it matters.

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Historical Trend - Key Metrics

Key readings from every weekly report, most recent on the right. Cells are colour-coded green (favourable / risk-on), amber (neutral) and red (adverse / risk-off) so the multi-month trend is readable at a glance.

R+ risk-on / favourable N neutral R- risk-off / adverse



Each column is one weekly report - read left (older) to right (latest) for the trend over the past months.

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