

The Liquidity Signal

Market Regime & Portfolio Playbook



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| CE Regime Score: **4.0** | Regime: **Risk Off** | Prior Week: 3.86 | Liquidity: **Expanding** | Credit: **Deteriorating** | Volatility: **Surging (MOVE 91)** |

CE Regime Score History

Date	Score	Regime
Feb 2026	3.1	Defensive
March 9 2026	3.86	Risk Off
March 16	4.0	Risk Off

CE Regime Score Drivers

Component	Score
Liquidity	2
Credit	4
Volatility	5
Positioning	4
Weighted CE Score	4.0



Portfolio Blueprint

Asset Class	Allocation	Change
Equities	15%	↓10%
SD Treasuries	15%	—
*Cash/T-Bills	50%	↑10%
Gold	20%	—

Reversal Triggers

Signal	Current	Trigger	Action if Triggered
MOVE Index	91.2	<65	Re-add duration
VIX	27.2	<22	Increase equities 10%
HY Spread	3.17%	<2.8%	Reduce cash, add credit
10Y Yield	4.28%	Stable<4.0%	Consider duration

MOVE at 91 means bonds are volatility assets, not hedges. We hold cash until this passes

Executive Take

Markets have shifted into a Risk Off regime driven by three forces:

- Bond volatility surged (MOVE 91)
- Oil shock raised stagflation risk
- Credit spreads began widening from tight levels

Despite expanding liquidity, financial conditions are tightening as rates volatility dominates macro pricing.

The portfolio remains defensive until volatility stabilizes.

*Cash acts as volatility hedge and optionality while rates markets stabilize.

THE EVIDENCE

Macro Regime – Stagflation Risk Confirmed

Signal	Data	Implication
Payrolls	-92k vs. +150k expected	Labor market cracking
Unemployment	4.4%	Highest since 2021
Oil	\$91/bbl, +12% on week	Supply shock
Straits of Hormuz	Effectively closed	War risk price

Bottom line: Jobs contracting + oil spiking = stagflation setup. The "soft landing" narrative is dead for now.

Credit Stress – CRITICAL DETERIORATION

Metric	Value	Signal	Threshold
MOVE Index	▲91.2	Crisis	>80 = crisis
HY Spread	▲3.17%	<2.8%	>3.0% = stress
IG Spreads	▲0.91%	Widening	> 1.0% = recession pricing

CE Credit Stance: Credit conditions are deteriorating rapidly, with MOVE above 90 indicating significant stress across fixed income markets. (Fig. 2)

Liquidity Snapshot

Metric	Value	Change	Signal
Fed Balance Sheet	\$6.65T	▲ Rising	Adding liquidity
TGA	\$838B	▼ Drawing	Adding liquidity
RRP	\$.4B	Minimal	Neutral
Bank Reserves	\$2.80T	▲ Rising	Adding liquidity
SOFR	3.65%	Stable	Calm

Fed Balance Sheet	+20B
TGA Change	-54B
RRP	-1B
Net liquidity impulse	+75B

Net liquidity increased approximately \$75B this week, yet risk assets weakened as rates volatility dominated macro conditions

CE Liquidity Stance: Liquidity is expanding, driven by TGA drawdown and Fed balance sheet growth—yet markets ignore it as credit and volatility dominate.

Net Liquidity Calculation: \$6.65T - \$0.838T - \$0.0004T = \$5.81T (new high)

Volatility & Positioning

Metric	Value	Signal
VIX	27.2	Elevated
MOVE	91.2	Crisis
VIX + MOVE <small>(Fig. 1.1)</small>	Both surging	Systematic fear
Equity flows	Negative	Selling broad
Hedge fund positioning	Reduced net long, added energy/gold	Defensive pivot

The Charts

Fig.1 MOVE vs VIX

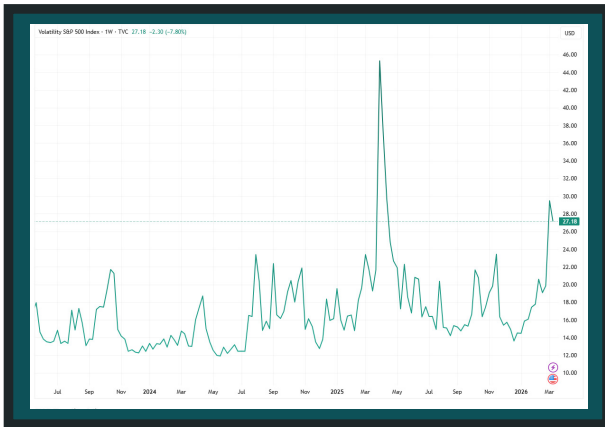
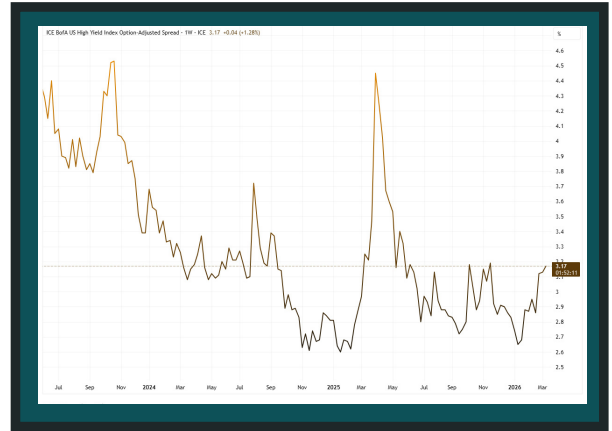
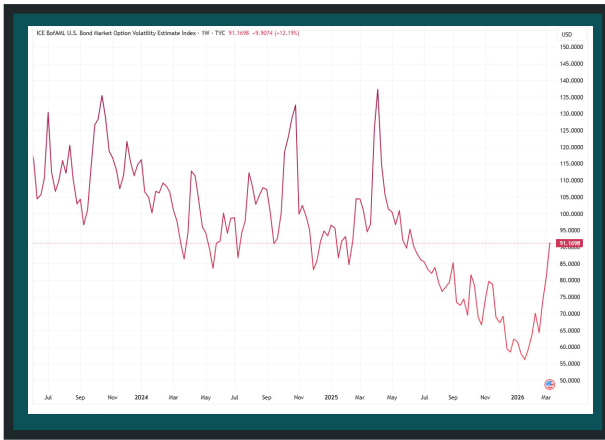


Fig.2 HY and IG



THE CONTRARIAN EDGE

LIQUIDITY		The Engine	
Fed Balance Sheet - Total Assets WALCL - Millions USD	6.65T	Max 11, 26	▲ +17.4B
Treasury General Account (TGA) WTRGEN - Millions USD	838.2B	Max 11, 26	▲ +6.1B
Overnight Reverse Repo - Total RRPNTSYD - Billions USD	0.4B	Max 13, 26	▲ +0.3B
Reserve Balances with Fed RESBALNS - Billions USD	2.80T	Aug 1, 29	▲ +81.2B
Secured Overnight Financing Rate SOFR - Percent	3.65%	Max 12, 26	▲ +0.01%
CREDIT		Spreads	
ICE BofA US Corporate OAS (IG) BAMLBOACH - Percent	0.91%	Max 12, 26	▲ +0.03%
ICE BofA US High Yield OAS BAMLH0AGHYMZ - Percent	3.17%	Max 12, 26	▲ +0.06%

RATES		Yield Curve	
3-Month Treasury CMT D63M0 - Percent	3.72%	Max 12, 26	▲ +0.01%
2-Year Treasury CMT D652 - Percent	3.76%	Max 12, 26	▲ +0.12%
10-Year Treasury CMT D6510 - Percent	4.27%	Max 12, 26	▲ +0.06%
10Y-2Y Treasury Spread T10Y2Y - Percent	+0.55%	Max 13, 26	▲ ++0.04%
10Y-3M Treasury Spread T10Y3M - Percent	+0.56%	Max 13, 26	▲ ++0.01%
MACRO CONFIRMATION			
Unemployment Rate UNRATE - Percent	4.40%	Feb 1, 26	▲ +0.16%
Effective Federal Funds Rate EFFR - Percent	3.64%	Max 12, 26	-
S&P 500 Index SP500 - Index	6,632	Max 13, 26	▼ -40

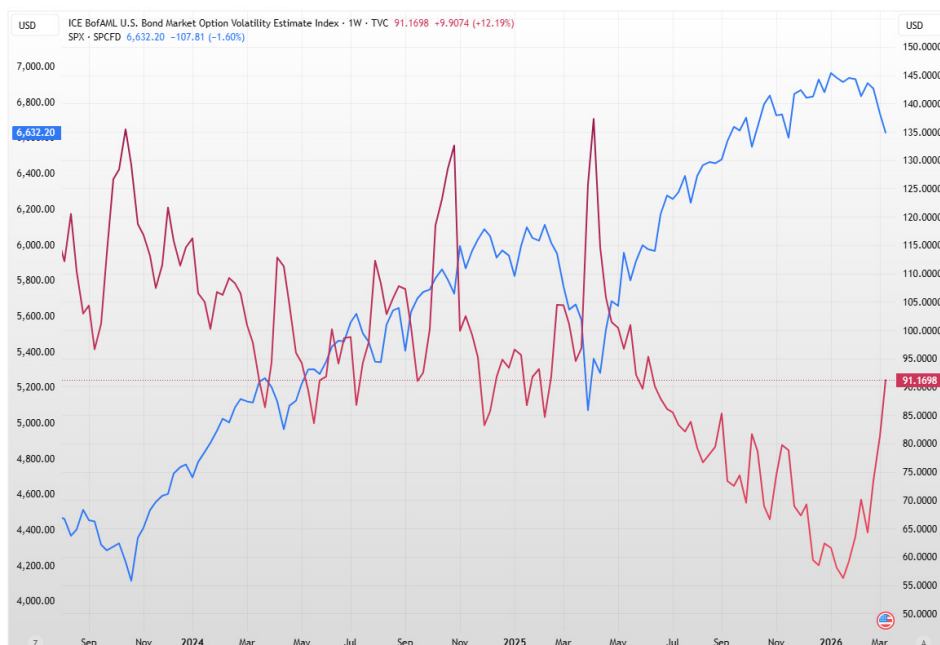
The Contrarian Edge PLAYBOOK

Tactical Asset Class Views

Asset Class	CE View	Rationale
Equities	Underweight	Breadth weakening, VIX elevated, no catalyst
• Energy	Overweight	Only green sector, supply shock, geopolitical
• Tech/Discretionary	Underweight	High beta, rate sensitive, crowded
• Staples/Healthcare	Neutral	Defensive, but not cheap
Fixed Income	Duration Zero	MOVE 91=bonds are volatile, not safe
• Short Duration Treasuries	15%	Liquidity buffer, no duration risk
• Long Duration	Avoid	MOVE crisis makes them un-hedgeable
• High Yield Credit	Avoid	Spreads widening from tight levels
Gold	20% (Overweight)	Macro hedge, inflation hedge, safe haven
Cash	50%(Overweight)	Cash acts as volatility hedge and optionality while rates markets stabilize.
Currencies	Long Swiss Franc	Safe haven, hedge geopolitical risk

CE Trade Ideas – For Active Managers

Trade	Rationale
Long Energy vs. Short Consumer Discretionary	Higher oil hits consumers, benefits producers
Long 2Y Treasury vs Short HY	Capture duration rally, hedge credit widening
Long Gold vs. Short S&P 500	Stagflation hedge, safe haven flows
Long Swiss Franc vs. USD	Safe haven demand, potential Fed dovishness
Sell Call Options on Nasdaq 100	Monetize elevated vol, reduce tech exposure



When MOVE rises above 80, equity draw-downs accelerate.

The Contrarian Edge Risk Map

Risk	Scenario	Probability	Impact
Iran War Escalation	Gulf exports halt, oil \$100-\$150	Rising	HIGH
FOMC Hawkish Surprise	Fed prioritizes inflation, no cuts	Medium	HIGH
FOMC Dovish Pivot	Relief rally, but credibility risk	Medium	Mixed
Weak Data Spillover	Retail sales, housing confirm slump	Rising	HIGH
Credit Event	Private credit/CRE stress	Rising	HIGH
Election Rhetoric	Tariffs, industrial policy noise	Medium	Moderate

The FED Meeting - Two Scenarios

Scenario	Market Reaction	Our Response
Hawkish (inflation focus)	yields rise, equities fall	maintain defensive positioning
Dovish (growth focus)	relief rally, inflation concerns remain	wait for volatility to fall before adding risk

CE View: Fed is trapped. Can't cut with oil at \$91. Can't hike with payrolls -92k. Expect muddle-through language, volatility spikes.

THE SYSTEM

Component	Status	Signal
Liquidity	Expanding	Bullish mechanics, ignored
Credit	Deteriorating rapidly	CRITICAL
Volatility	Surging	CRISIS (MOVE 91)
Positioning	Crowded unwinding	Vulnerable
Conviction Score	8/10	Deteriorating from 6.5

CE System Conclusion:

The system is in **Risk Off**. MOVE at 91 and HY at 3.17% will trigger further forced liquidation across risk assets. The tactical implication is maximum defense-reduce equities, avoid duration, hold gold and cash, and wait for volatility to peak.

What Changed	MOVE surged to 91+ (highest in dataset); VIX to 27; payrolls -92k; oil +12%; equities sold off
What Didn't	SOFR stable at 3.65%; RRP minimal; funding markets calm
What's Diverging	Nothing. MOVE, VIX, credit, and equities now aligned to the downside.

Key insight: The previous divergence has fully resolved. The system has broken in one direction. That's cleaner and more dangerous.

CE Regime Model – Historical Behavior

The Contrarian Edge (CE) Regime Model is a systematic framework designed to identify shifts in market risk conditions by monitoring four core drivers of financial markets:

- Liquidity
- Credit conditions
- Volatility
- Market positioning

Each component is scored on a scale from 1 (Risk On) to 5 (Crisis). The weighted average produces the CE Regime Score, which defines the prevailing market environment and informs portfolio positioning.

The objective of the model is not to predict short-term market moves, but to identify macro regime shifts that historically correspond with changes in volatility, credit stress, and cross-asset correlations.

Regime Definitions

Score 1–2 | Risk On

Liquidity is expanding, volatility is declining, and credit spreads are tightening.

Markets typically experience strong equity performance, improving breadth, and higher risk appetite.

Typical behavior:

- Equities trend higher
- Credit spreads tighten
- Volatility remains subdued
- Cyclical sectors outperform

Score 3 | Defensive

Market signals become mixed as volatility begins to rise or credit conditions stabilize at tight levels. Liquidity may still be supportive, but risks begin to build beneath the surface.

Typical behavior:

- Markets become more volatile
- Leadership narrows
- Sector rotation increases
- Portfolio diversification becomes more important

Score 4 | Risk Off

Volatility rises significantly and credit spreads begin widening. Liquidity signals may still appear supportive, but risk assets become increasingly sensitive to macro shocks.

Typical behavior:

- Equity drawdowns become more frequent
- Credit conditions deteriorate
- Volatility rises across asset classes
- Correlations between stocks and bonds become unstable

Portfolio positioning typically shifts toward defensive allocations, including higher cash balances, gold exposure, and reduced equity risk.

Score 5 | Crisis

Liquidity conditions deteriorate sharply and volatility reaches extreme levels. Credit markets experience severe stress and forced deleveraging becomes widespread.

Typical behavior:

- Rapid equity drawdowns
- Credit spreads widen aggressively
- Liquidity evaporates across markets
- Safe-haven assets dominate performance

During crisis regimes, portfolio management typically prioritizes capital preservation and liquidity.

Historical Regime Examples

Period	CE Score	Market Environment	Market Outcome
March 2020	5.0	Global liquidity shock (COVID)	Rapid global equity collapse
June 2022	4.2	Inflation tightening cycle	Global bear market in equities
October 2023	3.6	Rates volatility shock	8–10% equity correction
March 2026	4.0	Stagflation risk and energy shock	Elevated volatility environment

These historical examples illustrate how rising regime scores often correspond with increasing financial stress and declining market stability.

Portfolio Behavior by Regime

The CE framework translates macro signals into portfolio positioning guidelines.

Risk On (1–2)

Favor equities, cyclical sectors, and higher beta exposure.

Defensive (3)

Maintain diversified exposure and begin reducing concentrated risk.

Risk Off (4)

Increase defensive positioning, raise cash allocations, and favor safe-haven assets such as gold.

Crisis (5)

Prioritize liquidity and capital preservation while reducing exposure to risk assets.

Key Insight

Markets are rarely driven by a single factor.

The CE Regime Model focuses on the interaction between liquidity, credit, volatility, and positioning.

When these signals diverge, markets typically move sideways.

When they align, regime shifts occur and market trends accelerate.

The objective of the model is to identify those alignment points early, allowing portfolios to adjust before broader market repricing occurs.

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