

Executive Take | Macro Regime

Executive Take

Liquidity is tightening again as the Treasury rebuilds its cash balance while the Fed remains on hold. Yields are rising, the curve is flattening, and credit spreads are at cycle tight. Markets remain optimistic, but the plumbing says risk is being under-priced. This is a fragile equilibrium heading into the January Fed meeting.

Macro Regime

Late-cycle, neutral-to-fragile.

- Business activity remains in expansion. January composite PMI held at 52.8, supported by improving new orders.
- Exports and labor markets are soft. Business confidence is slipping.
- GDP data remains strong on paper. Q3 revised to 4.4%, Atlanta Fed tracking ~5.4% for Q4.
- Inflation pressures persist, driven by tariffs and input costs. Price indices remain elevated.

Policy remains restrictive. The Fed is expected to hold rates unchanged at the January meeting. Markets have pushed near-term cuts further out.

Liquidity | Credit | Positioning

Liquidity

Contracting. Quietly.

- TGA rebuilt sharply to ~\$871B on Jan 21, reversing the early-January drawdown and draining bank reserves.
- Fed balance sheet ticked up to \$6.585T via T-bill purchases, but the expansion is modest and insufficient to offset the TGA drain.
- ON RRP remains effectively empty (<\$4B). The liquidity buffer is gone.
- Repo and SRF usage negligible, signaling no acute stress but no cushion either.
- SOFR and EFFR remain pinned around 3.63–3.64%, near the top of the policy range.

Liquidity momentum remains negative despite surface calm.

Credit

Complacent.

- High-yield OAS tightened further to ~2.64%, near cycle lows.
- BBB spreads narrowed to ~0.93%.
- Rising risk-free rates are **not being reflected in credit risk premia**.
- Compensation for duration and credit risk is minimal.

Credit is not pricing liquidity risk.

CE Dashboard

Ticker	Name	Last Price	Price Chg. % (YTD)
CE DASHBOARD			
* WALCL	Assets: Total Assets...	6,640,618.00	-3.09%
* WTREGEN	Liabilities and Capit...	837,306.00	16.31%
* RRPONTSYD	Overnight Reverse R...	1.22	-98.85%
* BTCUSD	Bitcoin - United St...	86,337.00	-1.75%
* DXY	United States Dollar	97.60	-0.74%
* HYG	iShares High Yield ...	81.14	0.63%
* LQD	iShares iBoxx IG C...	110.84	0.59%
* USHYCORPOAS	ICE BofA US High Yi...	2.73	-2.85%
* SPX	S&P 500	6,915.61	1.02%
* NDX	NASDAQ 100	25,605.47	1.41%
* RTY	Russell 2000 Index	2,669.32	7.55%
* VIX	CBOE SPX Volatilit...	15.83	5.32%
* GC1	Gold	4,981.43	15.32%
* HG1	Copper	5.94	5.27%
* CL1	WTI Crude Oil	61.19	6.53%
* USYC10Y3M	United States Yield...	0.561%	4.86%
* USYC10Y2Y	United States Yield...	0.626%	-9.14%
* T5YIE	5-Year Breakeven I...	2.40	6.19%
* T10YIE	10-Year Breakeven ...	2.32	3.11%

Positioning

Crowded for calm.

- Rates positioning still reflects easing later in 2026, though near-term cuts are priced out.
- Heavy open interest in SOFR and Fed funds options suggests crowded convexity around policy shifts.
- ETF flows favor long-duration Treasuries and IG credit.
- Equity flows are cautious, but risk exposure remains elevated via allocations rather than leverage.
- Retail activity persists in crypto and AI themes, though participation is thinning as yields rise.

Cross Asset Pulse | Theme of the Week

CROSS - ASSET PULSE

Equities	U.S. indices rebounded early January. Breadth improved, but leadership rotated away from mega-cap tech.
Rates	Yields rose across the curve. 10Y ~4.26%, 2Y ~3.61%. Curve flattened to ~64 bps.
FX	Dollar firmed to ~98.5, supported by yield differentials.
Commodities	Gold paused after strong 2025 gains. Oil remains soft.
Volatility	Suppressed and complacent. Term structure remains benign.

Theme of the Week

Liquidity rebuild meets policy pause.

The Treasury is quietly draining liquidity just as the Fed signals patience. Markets are interpreting stability as easing. The plumbing says otherwise. This tension between contracting liquidity and resilient risk appetite defines the current setup.



Treasury drains cash while the Fed stands still

The Treasury is rebuilding its cash balance while the Fed maintains its balance sheet, quietly tightening system liquidity even as markets price relief.

Tactical View | Contrarian Decoder | Final Signal

TACTICAL VIEW

Rates	Maintain exposure to high-quality duration, but expect volatility. Curve remains vulnerable to further flattening.
Credit	Reduce lower-quality exposure. Favor IG and agencies over HY.
Equities	Tilt toward value, industrials, and energy. Underweight crowded mega-cap growth.
Commodities	Maintain gold exposure as a policy and liquidity hedge
FX	Prefer JPY and select commodity currencies versus USD.
Liquidity	Hold T-bills and cash-equivalents. Avoid leverage.

Contrarian Decoder

Consensus	Rate cuts signal a new easing cycle.
Reality	The Fed is stabilizing plumbing, not stimulating growth.
Risk	Tight liquidity plus tight spreads leaves markets vulnerable to small shocks.

Consensus	Credit strength confirms economic resilience.
Reality	Spreads reflect positioning and carry, not balance-sheet health.
Risk	Repricing will be nonlinear if funding tightens.

Final Signal

Risk premia are compressed while liquidity is contracting beneath the surface. Credit markets are complacent, positioning is crowded, and yields are rising into a policy pause. The asymmetry favors downside. Stay defensive, prioritize liquidity and quality, and prepare for volatility as plumbing and pricing diverge.

CE Risk Matrix

BUBBLE RISK MATRIX				
Asset / Segment	Valuation Risk	Liquidity Risk	Positioning Risk	CE Read
US Mega-Cap Tech / AI	High	Rising	Crowded	Late-cycle leadership, vulnerable if liquidity tightens further
US High Yield Credit	High	High	Crowded	Spreads at cycle tights with zero margin for error
US Investment Grade Credit	Elevated	Medium	Crowded	Carry trade intact, but asymmetric downside
US Small-Cap (Quality/Value)	Moderate	Medium	Light	Relative opportunity vs mega-caps
Equal-Weight US Equities	Moderate	Medium	Improving	Beneficiary of rotation and breadth repair
Long-Duration Treasuries	Low	Low	Crowded	Defensive hedge, but sensitive to policy disappointment
Gold	Moderate	Low	Balanced	Structural hedge against policy and liquidity missteps
Commodities ex-Energy	Moderate	Medium	Light	Selective upside tied to supply, not growth
Oil / Energy	Low	Medium	Neutral	Not a bubble, but growth-sensitive
Crypto	Very High	High	Fragile	Liquidity-dependent, tail-risk asset

Sources: Fidelity economic outlook, Seeking Alpha asset allocation commentary, credit and spread data from LSEG FTSE Russell and market sentiment indices

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Disclosures & Important Information *General Information*

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