

**Executive Take** - Markets rallied on the Supreme Court's rejection of broad tariffs, removing an immediate inflationary and trade overhang. Risk assets stabilized, cyclicals outperformed, and global equities advanced. However, this is relief within a slowing macro regime. Growth is decelerating. Inflation remains sticky. Liquidity is constrained. Credit is no longer tightening. This is not the start of a new expansion cycle. It is a late-cycle rebound driven by policy relief.

**Macro Regime** - Economic momentum continues to slow. Fourth-quarter GDP growth decelerated to 1.4% annualized, and while payroll gains remain positive, the labor market is no longer accelerating. Inflation pressures have moderated at the headline level, but core dynamics remain sticky, with recent PCE readings complicating the path toward easing. The tariff reversal removes one inflationary vector, yet renewed levy threats sustain policy uncertainty. Markets continue to price a June rate cut, though persistent inflation could delay that timeline. The macro backdrop remains late-cycle, characterized by slowing growth, constrained policy flexibility, and a neutral-to-negative bias.

## Liquidity

Liquidity conditions remain constrained. The Treasury General Account remains elevated near \$907 billion, continuing to suppress reserve expansion despite modest stabilization in the Fed's balance sheet around \$6.6 trillion. Reverse repo usage is near operational lows, yet standing repo activity indicates intermittent funding sensitivity. The yield curve has steepened modestly, driven more by growth concerns than reflation dynamics, with the 2-year near 3.47% and the 10-year around 4.10%. Overall, liquidity has not meaningfully expanded, leaving markets structurally vulnerable to funding shocks despite orderly surface conditions.

## Credit

Credit markets are beginning to show early signs of repricing. High-yield spreads near 3.0% remain historically tight but have widened modestly from cycle lows, while BBB spreads around 0.96% reflect persistent demand for higher-quality paper. The move is not disorderly, and there is no indication of systemic stress; however, spread compression has stalled. In a slowing growth environment, tight risk premia offer limited cushion should macro data deteriorate further. Credit is no longer confirming equity strength and is gradually shifting from complacency toward caution.

## Positioning

Positioning has rotated rather than broadened. Cyclicals and exporters benefited from tariff relief, and European equities have outperformed, while energy, materials, and industrials remain year-to-date leaders. Mega-cap technology continues to dominate index weight but remains concentrated and sensitive to rates volatility. Fund flows have re-entered risk assets, yet overall market leadership remains narrow. The rotation beneath the surface reflects tactical repositioning rather than the emergence of a durable breadth-driven advance.

## AUTHOR

Rodrigo Jiménez  
Macro Market Strategist

## CE DASHBOARD

L. LIQUIDITY		The Engine
Fed Balance Sheet - Total Assets WALC - Billions USD	6.61T	Feb 28, 25 <span>▲ +0.00</span>
Treasury General Account (TGA) WTRZSD - Billions USD	912.7B	Feb 28, 25 <span>▲ +2.65</span>
Overnight Reverse Repo - Total RORR01D - Billions USD	0.5B	Feb 28, 25 <span>▲ +0.15</span>
Reserve Balances with Fed RESBAL - Billions USD	2.80T	Aug 1, 25 <span>▲ +45.25</span>
Secured Overnight Financing Rate SOFR - Percent	3.66%	Feb 28, 25 <span>▼ -0.05%</span>
C. CREDIT		Spread
ICE BofA US Corporate OAS (IG) BBLCORP - Percent	0.78%	Feb 28, 25 <span>▼ -0.01%</span>
ICE BofA US High Yield OAS BBLHYG - Percent	2.86%	Feb 28, 25 <span>▼ -0.02%</span>

D. RATES		Yield Curve
3-Month Treasury CMT W3TCMT - Percent	3.69%	Feb 27, 25 <span>▼ -0.05%</span>
2-Year Treasury CMT W2TCMT - Percent	3.47%	Feb 27, 25 <span>-</span>
10-Year Treasury CMT W10TCMT - Percent	4.08%	Feb 27, 25 <span>▼ -0.05%</span>
10Y-2Y Treasury Spread TSP2Y - Percent	+0.60%	Feb 28, 25 <span>▼ -0.05%</span>
10Y-3M Treasury Spread TSP3M - Percent	+0.39%	Feb 28, 25 <span>-</span>
E. MACRO CONFIRMATION		
Unemployment Rate UNRATE - Percent	4.30%	Jan 1, 25 <span>▼ -0.10%</span>
Effective Federal Funds Rate EFFR - Percent	3.64%	Feb 28, 25 <span>-</span>
S&P 500 Index SP500 - Index	6,910	Feb 28, 25 <span>▲ +40</span>

## Cross-Asset Pulse

### Equities:

Relief rally following tariff ruling. Breadth improving marginally but leadership remains narrow.

### Rates:

Long-end yields firm. Front-end anchored to cut expectations. Curve modestly steeper on growth concerns.

### Credit:

Spreads drifting wider from cycle lows. No stress, but no further compression.

### Commodities:

Gold bid on macro hedge demand. Oil range-bound. Industrial metals mixed.

### FX:

Dollar slightly softer post-ruling but structurally firm. EM FX remains sensitive to liquidity conditions.

### Crypto:

Tracking equity beta. No independent leadership signal.

### Volatility:

MOVE remains elevated relative to VIX, signaling continued bond-market tension beneath equity calm. Equity volatility suppressed relative to rates volatility. This divergence suggests complacency in equities while macro uncertainty remains embedded in fixed income.

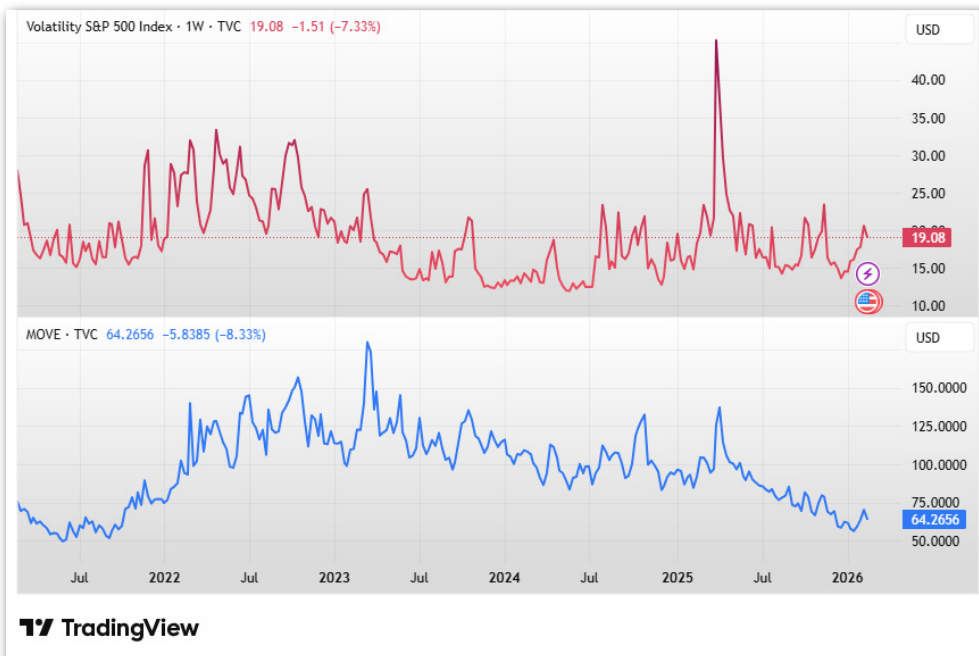
### Cross-Asset Tone:

Stabilization, not acceleration. Rates volatility remains the underlying risk transmission channel.

## Theme of the Week

### Volatility Divergence

The compression in equity volatility following the tariff ruling has reinforced a sense of stability, with the VIX returning to mid-cycle territory near 19. However, rates volatility tells a more cautious story. While MOVE has declined from its tightening-cycle extremes, it remains structurally elevated relative to pre-tightening norms, suggesting that bond markets continue to price macro uncertainty even as equities discount relief. This divergence is characteristic of late-cycle regimes, where sentiment improves faster than underlying liquidity conditions. Sustained equity advances typically require confirmation from declining rates volatility; until that confirmation materializes, the current rally should be viewed as tactical rather than structural.



## TACTICAL VIEW

<b>Rates</b>	Maintain intermediate duration exposure as growth slows.
<b>Credit</b>	Favor higher-quality investment grade credit.
<b>Equities</b>	Reduce mega-cap concentration. Selectively rotate into global cyclical and exporters.
<b>Commodities</b>	Maintain gold as policy hedge. Neutral oil.
<b>FX</b>	Selective EUR exposure vs USD on trade stabilization theme.
<b>Liquidity</b>	Hold T-bills and cash-equivalents. Avoid leverage.

**Contrarian Decoder** - Markets are interpreting the tariff reversal as a reset of the risk cycle and a renewed opportunity for equity upside. However, beneath the surface, liquidity has not expanded, credit spreads remain tight, and rates volatility continues to signal unresolved macro tension. The risk is not immediate stress, but rather the asymmetry created by elevated concentration and limited spread compensation in a slowing environment. Without confirmation from broader liquidity improvement or sustained credit tightening, the rally should be viewed as fragile rather than foundational.

**Final Signal** - The macro backdrop remains late-cycle, characterized by slowing growth, constrained liquidity, and credit spreads that are no longer tightening. While trade relief has stabilized sentiment, the underlying structural drivers of risk have not materially improved. The CE Regime Score of 3.11 reflects elevated concentration in mega-cap leadership and limited compensation in credit markets relative to macro uncertainty. In this environment, upside participation remains possible, but the balance of risk is asymmetric. Positioning should favor discipline over expansion, emphasizing diversification, quality balance sheets, and risk management until liquidity conditions and credit confirmation provide stronger evidence of a durable expansion phase.

Macro: Slowing  
Liquidity: Constrained  
Credit: Mildly widening  
Volatility: Divergent

CE Regime Score: 3.11  
Regime: Defensive

# CE Risk Matrix

BUBBLE RISK MATRIX					
Asset / Segment	Valuation Risk	Liquidity Risk	Positioning Risk	Risk Score	CE Read
US Mega-Cap Tech / AI	High	Rising	Crowded	4	Late-cycle leadership; vulnerable if rates volatility remains elevated
US High Yield Credit	High	High	Crowded	4	Spreads near cycle tights with limited margin for macro disappointment
US Investment Grade Credit	Elevated	Medium	Crowded	3	Carry intact but asymmetric downside if growth slows further
US Small-Cap (Quality/Value)	Moderate	Medium	Light	2	Relative opportunity vs mega-caps
Equal-Weight US Equities	Moderate	Medium	Improving	2	Beneficiary of rotation and breadth repair
Long-Duration Treasuries	Low	Low	Crowded	2	Defensive hedge, but sensitive to policy disappointment
Gold	Moderate	Low	Balanced	2	Structural hedge against policy and liquidity missteps
Commodities ex-Energy	Moderate	Medium	Light	2	Selective upside tied to supply, not growth
Oil / Energy	Low	Medium	Neutral	2	Not a bubble, but growth-sensitive
Crypto	Very High	High	Fragile	5	Liquidity-dependent, high-beta tail-risk asset

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

## Matrix Interpretation

### Highest Risk Concentrations

- High Yield credit with historically tight spreads
- Investment Grade with minimal spread buffer
- Residual concentration risk in global risk-on positioning

### Relative Value Zones

- Emerging Markets equities vs expensive Developed Markets
- Gold as macro hedge
- Selective cyclicals benefiting from trade stabilization

### Portfolio Implication

- Reduce exposure where spread compensation is thin.
- Maintain defensive hedges.
- Favor relative value over outright beta expansion.
- Avoid leverage in a late-cycle liquidity regime.

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