

Executive Take | Macro Regime

Executive Take

Markets are interpreting post-year-end normalization as stability. The plumbing says otherwise. Temporary Fed support has been removed, but structural buffers remain depleted. Liquidity is no longer deteriorating aggressively, but it is still tight. Credit markets are pricing calm while funding indicators quietly re-tighten. This is stabilization, not easing ; a late-cycle regime where risk assets can hold up, but fragility rises beneath the surface.

Macro Regime

Late-cycle dynamics remain dominant.

Growth expectations are softening at the margin while inflation remains sticky enough to limit policy flexibility. The Fed has shifted from balance sheet contraction to **maintenance**, not stimulus. Markets continue to price an aggressive easing path that policymakers have not endorsed.

Regime: Late-cycle, funding-sensitive, volatility-prone.



Liquidity | Credit | Positioning

Liquidity

What Changed

- The Fed officially ended QT and began **Reserve Management Purchases (RMPs)** of roughly \$40B per month in T-bills to stabilize reserves.
- This marks a shift from contraction to balance sheet maintenance, with total assets near **\$6.6T**.

What Didn't

- **ON RRP is effectively exhausted** at ~\$3–5B. The system's shock absorber is gone.
- Policy rates remain anchored at 3.50–3.75%.
- Liquidity buffers have not been rebuilt.

What's Diverging

- Credit spreads remain near cycle lows, signaling confidence.
- The 2-year yield has fallen sharply below the Fed funds rate, signaling expectations of emergency-style easing.
- This divergence reflects market hope, not plumbing reality.

Interpretation

Liquidity is no longer actively tightening, but it is not expanding in a way that supports durable risk-taking. This is a **high-sensitivity regime** where small shocks matter more.

Credit

Credit Stress Monitor

- HY OAS: ~2.7–2.8%
- IG OAS: ~0.95–1.0%
- CDX IG / HY: Near multi-year lows

Credit markets are pricing **perpetual calm**. There is little margin for error if liquidity tightens or growth disappoints. This is not stress – it is **complacency**.

Positioning

Positioning & Market Internals

- Cash levels among fund managers are near record lows.
- Equity exposure remains crowded, particularly in large-cap growth.
- Options markets show rising hedging activity beneath calm index levels.
- Breadth is holding but no longer improving meaningfully.

Signal: Offense is crowded. Hedging is quietly rising.

The Buffer Problem (Key Risk)

- In 2023, a \$2T+ ON RRP absorbed Treasury cash swings.
- In 2026, that buffer is gone.
- **Every dollar flowing into the TGA now comes directly out of bank reserves.**

With April tax payments approaching, reserve pressure is a real tail risk.

Charts | Dashboard

Overnight Reverse Repurchase Agreements: Treasury Securities Sold by the Federal Reserve in the Temporary Open Market Operations - 1D - Federal Reserve Bank of New York 1,223 -781 (-38.99%)



TradingView

Balance Sheet: Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level - 1D - Federal Reserve 6,587 -8.18 (-0.12%)



TradingView

ICE BofA US High Yield Index Option-Adjusted Spread - 1D - KE 2.71 -0.05 (-1.81%)



TradingView

US Government Bonds 2 YR Yield - 1D - TVC 01.560% H1.611% L1.557% C1.594% -0.026 (-0.73%)



TradingView

Positioning and Risk Dashboard

POSITIONING AND RISK

• SPX	S&P 500	6,940.01	-0.06%		1.54%	4.14%	1.38%	12.82%	5,996.66
• NDX	NASDAQ 100	25,529.26	-0.07%		0.72%	2.87%	1.11%	14.47%	21,441.15
• RTY	Russell 2000 Index	2,677.74	0.12%		5.86%	9.20%	7.89%	4.48%	2,275.88
• VIX	CBOE SPX Volatility Index	15.84	0.00%		6.24%	-23.66%	5.39%	-7.39%	15.95
• GC1	Gold	4,581.95	-0.73%		6.47%	5.86%	6.07%	20.17%	2,714.50
• HG1	Copper	5.84	-2.51%		7.62%	18.32%	3.56%	9.97%	4.33
• CL1	WTI Crude Oil	59.42	0.38%		5.18%	3.24%	3.44%	2.32%	77.99
• USYC10Y2Y	United States Yield 10Y-2Y	0.635%	-2.46%		-2.91%	17.16%	-7.84%	-7.96%	0.339%
• USYC10Y3M	United States Yield 10Y-3M	0.581%	1.22%		9.83%	591.67%	8.60%	-10.36%	0.323%
• T5YIE	5-Year Breakeven Inflation	2.39	1.27%		6.22%	4.37%	5.75%	2.72%	2.51
• T10YIE	10-Year Breakeven Inflation	2.33	1.75%		4.48%	2.19%	3.56%	2.10%	2.42

Tactical View | Contrarian Decoder | Final Signal

Tactical View

- **Equities:** Stay selective. Favor quality and balance sheets over beta.
- **Fixed Income:** Maintain duration exposure but expect volatility at the front end.
- **Credit:** Reduce exposure to lower-quality HY. Focus on upper-tier IG.
- **FX:** USD vulnerability remains, but funding stress favors episodic strength.
- **Commodities:** Precious metals retain hedge value; energy remains tactical.
- **Liquidity:** Preserve dry powder. This regime rewards flexibility.

Contrarian Decoder

Consensus:

"The Fed ended QT. Liquidity is improving. The risk-on cycle resumes."

Reality:

QT ended because the system could not absorb further tightening. RMPs are a reactive defense, not proactive stimulus.

The Edge:

Markets are celebrating intent and ignoring mechanics. "Less tight" liquidity supports prices temporarily, but without expanding momentum, upside is fragile and downside convex.

Final Signal

The system has moved from "actively supported tight" to "structurally tight."

Markets are calm because the emergency passed. The plumbing remains strained because the buffers never came back.

This is not the start of a new easing cycle.

It is a late-cycle regime where pricing looks fine until it suddenly isn't.

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