MacroSpotlight

US Small Caps: From Macro Complacency to Stranglehold

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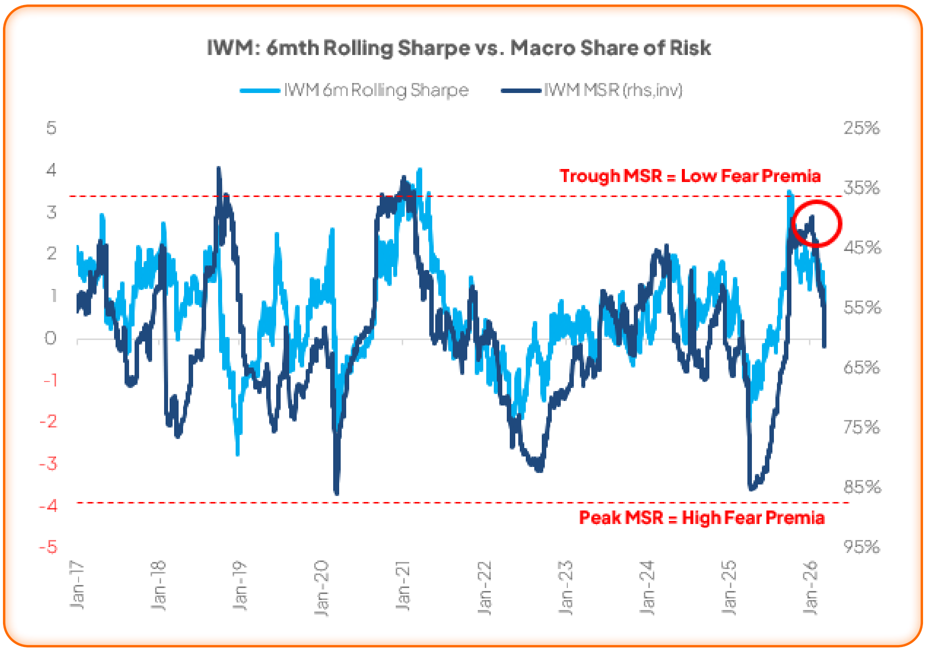
In mid-January, we flagged IWM's Macro Share of Risk (MSR) at range lows — a classic complacency signal. Sharpe ratios at multi-year highs. The Goldilocks consensus in full swing.

That was the peak.

Since 22-Jan, IWM is down 7%. But Qi's macro factor model shows the macro drag is nearly double that: -12.7%.



The damage? Precisely the factors that powered the rally:

- CDX HY spreads wider: -4.2%
- Risk aversion higher: -2.7%
- Rate vol spiking: -2.7%
- WTI surging: -2.5%

The warning was there. Through early Feb, total returns held up while the macro underpinning deteriorated — a textbook divergence. When the macro floor drops away, price follows unless there is conviction on the idio narrative.

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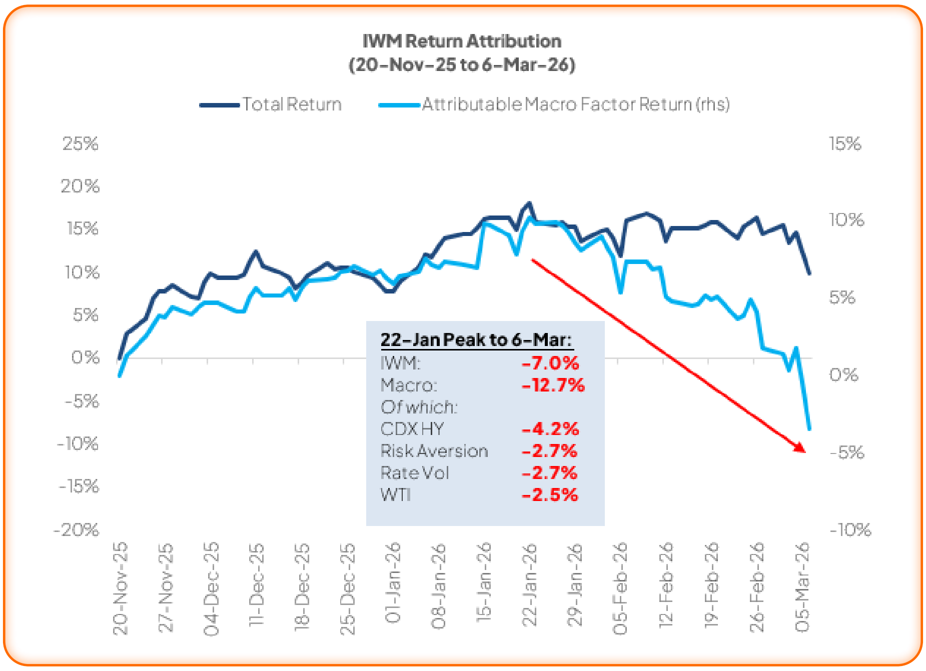

IWM's exposure profile tells you everything: its biggest sensitivities are credit, risk aversion, rate vol, energy, and real rates. It needs them all lower.

Iran didn't create these vulnerabilities — it exposed them. The macro divergence was building weeks before the geopolitical escalation. The shock simply hit every pressure point at once.

Start of year: strong growth, falling inflation, Fed easing optionality. Today: oil upside risk, widening credit, spiking vol, softening labour market.

MSR has risen but isn't at panic highs yet. Friday's payrolls were noisy but UE ticking to 4.4% ups the ante for the next print. Uncertainty bands are expanding and this doesn't look done yet.

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