MacroSpotlight

When to Press Shorts, When to Fear the Squeeze

11th May 2026

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Low MSR is when shorts pay. High MSR is when shorts get squeezed.

BOTTOM LINE

Six of the last eight ≥15% drawdowns in the GS Most Short basket began with Qi's Macro Share of Risk (MSR) in the bottom 30th percentile.

The mirror image: squeezes — short covering that forces the basket higher — cluster at the top of the MSR range, when macro fragility is fully priced. End-March 2026 is the live example: MSR peaked and the basket has rallied since.

Today: MSR sits at 50% (60th pct), fading from the late-March peak. Outside the fragility zone. Patience **required for shorts**.

If you're short these names	If you're worried about squeeze
Low MSR is your favoured regime. Bottom-30th-percentile MSR carries **61% drawdown probability vs 37% baseline (1.65x lift)**.	**A squeeze = shorts cover, basket rallies.** It happens at the top of the MSR range. Top-decile MSR cuts forward drawdown probability to **4%** — there's no macro pressure left to feed the short.
Today: MSR 50% (60th pct), fading from the late-March peak. Forward drawdown probability below baseline. Wait.	**Today: Squeeze underway. Basket has rallied since end-March as MSR rolls over from the peak.**

WHY THIS BASKET? HIGH MACRO SENSITIVITY BY CONSTRUCTION

Constituent selection in this basket biases toward names with embedded macro vulnerability: high cash burn, leveraged balance sheets, governance concerns.

Real-rate, credit-spread and growth sensitivity come bundled in. The basket can drift for months as if those exposures didn't exist. When macro re-engages, the unwind lands on the names where vulnerability was embedded but ignored.

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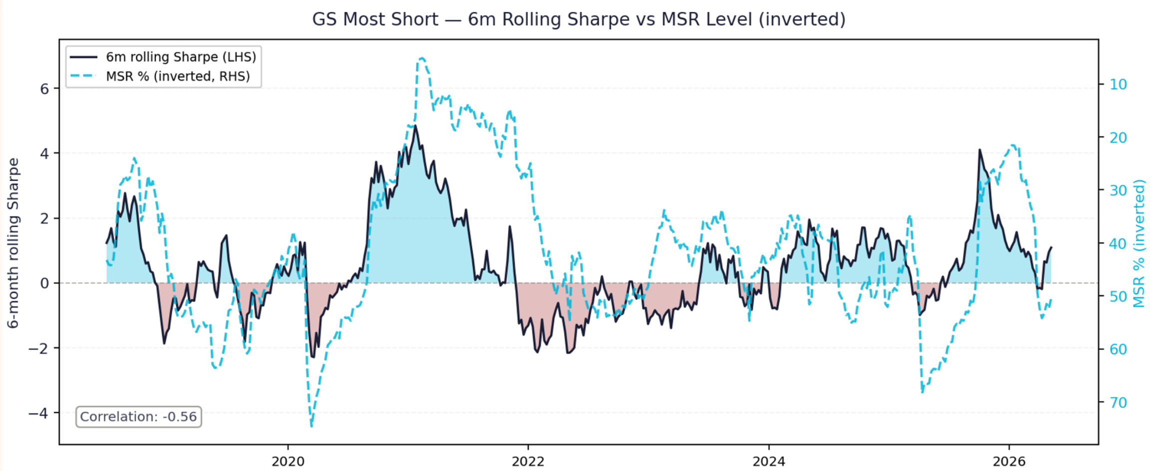
SHARPE FALLS WHEN MSR RISES FROM LOW TO HIGH

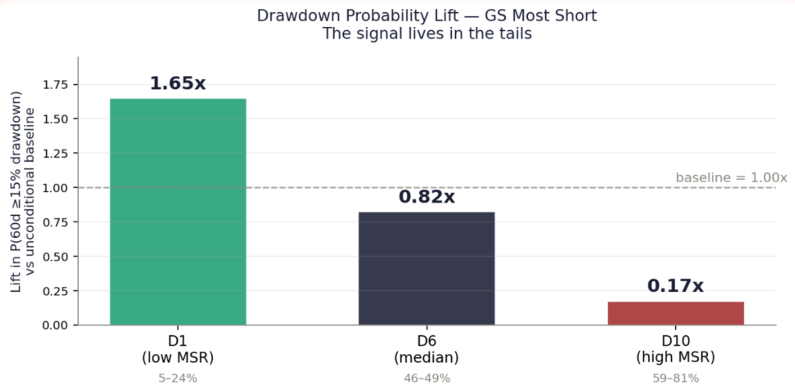


Sharpe vs MSR — 6m rolling Sharpe vs MSR level (RHS inverted), Jan 2018 – May 2026

Source: Quant Insight MFERM.

DRAWDOWN PROBABILITY: 1.65X AT LOW MSR, 0.17X AT HIGH MSR

60-day drawdown threshold = -15% (37% baseline probability). Lift = conditional probability ÷ baseline.



Drawdown probability lift by MSR decile

Source: Quant Insight MFERM. GS Most Short, 2 Jan 2015 – 7 May 2026.

Tails do the work. *Decile 1 (lowest MSR) lifts to 1.65x baseline. Decile 10 (highest MSR) collapses to 0.17x — the squeeze regime, where macro fragility is fully priced and the short thesis is exhausted.*

EPISODE CROSS-CHECK: 6 OF 8 MAJOR DRAWDOWNS STARTED AT LOW MSR

Every ≥15% drawdown since 2015. Six began with MSR in the bottom 30th percentile (highlighted). **The two exceptions are explainable:** Aug 2016 is the smallest in the set, and Jan 2025 is the Trump tariff macro shock — an event where MSR was already rising and continued to rise into the drawdown.

#	Peak date	DD size	MSR rank	Regime
1	23 Jun 2015	-47.5%	25th pct	**Low MSR**
2	15 Aug 2016	-15.4%	91st pct	**High MSR**
3	27 Aug 2018	-53.8%	13th pct	**Low MSR**
4	27 Jan 2021	-22.6%	1st pct	**Low MSR**
5	28 Jun 2021	-67.6%	3rd pct	**Low MSR**
6	6 Jan 2025	-34.3%	62nd pct	**High MSR**
7	15 Oct 2025	-25.8%	12th pct	**Low MSR**
8	22 Jan 2026	-18.6%	9th pct	**Low MSR**

IMPLICATIONS FOR TODAY

MSR sits at 50.4% (60th percentile) — outside the fragility zone. MSR peaked at the end of March. The basket has rallied as MSR has faded; forward drawdown probability is below baseline. The short press thesis is hard here — patience required.

The signal to watch: MSR drifting back into the bottom 30th percentile (~ sub-40%) before the basket has given back the rally. That's when macro fragility rebuilds against a stretched short basket — and the unwind risk returns.

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