

The Old Records Marked Bottoms. This One Is Being Set at the Highs.

Conditioning the Bessent correlation on its sign: what oil-and-yields-rising-together has meant for the S&P 500 across 73 years — and why every prior correlation record was set in the other direction.

The answer first. Correlation is sign-blind, and the sign is the whole story: since 1953 the S&P has earned **+1.4% annualized inside the joint-rise state** (6m oil $\geq +15\%$ and 6m $\Delta 10y \geq +40bp$) against **+8.4% outside it**, the tax deepening monotonically with intensity (-2.3% on the 12-month spec). Split the fifteen episodes by where the index stood at onset and the state splits into two species: launched from a drawdown it is reflation ($+10.9\%$ next 12m); launched from the highs it is double-tightening ($+3.1\%$, average max drawdown -15% , with 1987, 2000, and 2021 in the cohort of six). Today's episode is running with tight coupling, from the all-time high — a combination with exactly one completed daily precedent, January 2022 (-12% over the next year). The high correlations of falling tapes — 2011's record, 2020 — marked bottoms ($+13\%$ to $+36\%$ forward) and are retired here to the status of anecdote. The finding upgrades the equity hedge from optional to core, and makes the OIL10-01 WTI put spread a double-duty position: it is both the Bessent rates view and the state-breaker.

Situation → Complication → Question → Answer

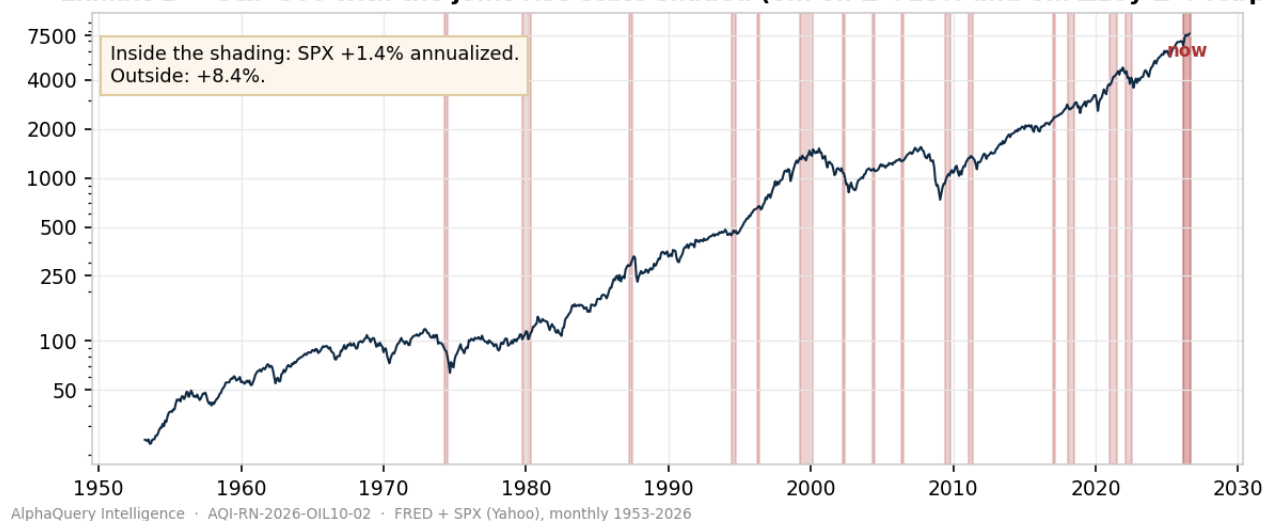
Situation. OIL10-01 established that the oil–rates coupling is top-1% of the daily record and largely a story about pricing speed. **Complication.** A correlation coefficient pools windows earned when both series fell — bond rallies, equity bottoms — with windows earned when both rise, and today both are rising with the S&P at its all-time high.

Question. What has the joint-rise state, specifically, done to equities? **Answer.** It is the market's most reliable slow tax, and at the highs it has preceded four of the last five genuine accidents.

1 · Where we stand: in the state, tightly coupled, at the high

As of September 9: trailing 126-day WTI **+15.0%**, trailing 126-day $\Delta 10y$ **+68bp**, 126-day changes-correlation **+0.55**, S&P within rounding error of its all-time high. Today therefore sits inside both the joint-rise state (R) and the tight-coupling version of it (R+C), and has since July 10. The monthly machine (Feb → Aug: oil $+26\%$, yields $+55bp$) agrees.

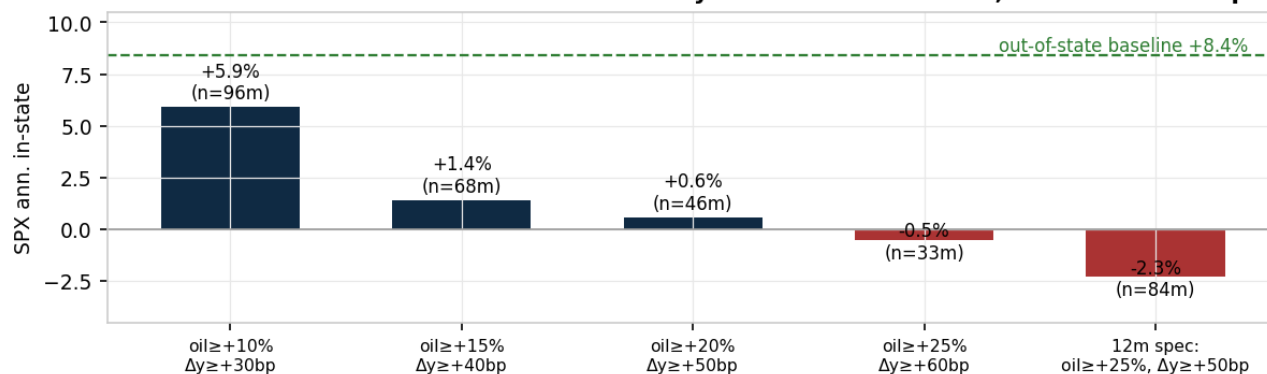
Exhibit 1 — S&P 500 with the joint-rise state shaded (6m oil $\geq +15\%$ and 6m $\Delta 10y \geq +40bp$)



2 · The state is an equity tax, and the tax is monotone

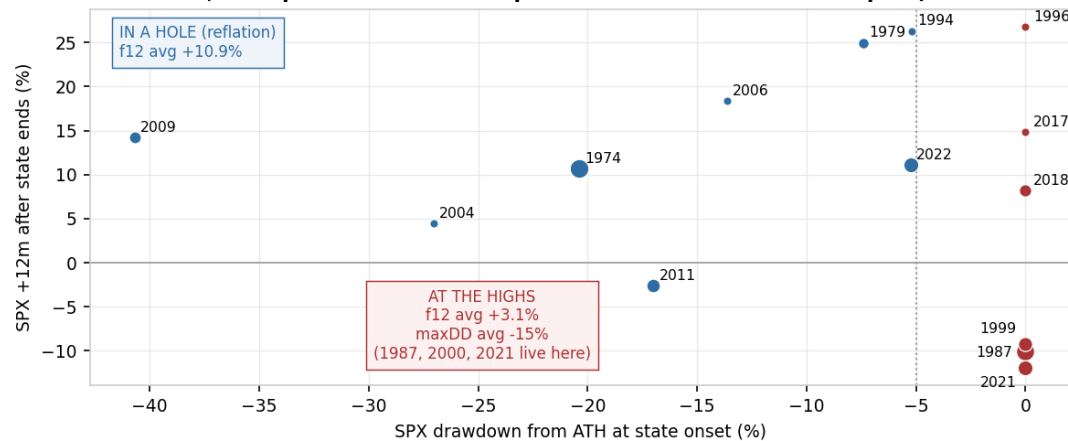
Sixty-eight months since 1953 — 8% of the sample — qualify. The S&P annualized +1.4% inside them and +8.4% everywhere else, and the gap is not a threshold artifact: tighten the definition and the in-state return falls in a straight line, through zero, to -2.3% on the 12-month specification. Restrict to state months beginning within 5% of the index high and the in-state return is **0.0%**. The market does not crash in this state; it stops being paid. The crashes come from what the state sets up.

Exhibit 2 — The tax is monotone in intensity: the harder both rise, the worse the tape



3 · Two species of the same state: the onset drawdown decides the sequel

Exhibit 3 — Same state, two species: where the tape sits at onset decides the sequel (bubble = max drawdown)



AlphaQuery Intelligence · AQI-RN-2026-OIL10-02 · 15 episodes, 1953-2026

Episode	Onset vs ATH	Species	SPX during	SPX +12m after	Max DD (18m from onset)
Apr–Jun 1974	–20%	Reflation/hole	–8%	+11%	–32%
Oct 79–Apr 80	–7%	Hole	–3%	+25%	–11%
Apr–Jun 1987	at high	Highs	+4%	–10%	–30% (the crash)
Jun–Sep 1994	–5%	Hole	+1%	+26%	–5%
Apr–May 1996	at high	Highs (benign)	+4%	+27%	–5%
Apr 99–Feb 00	at high	Highs	+6%	–9%	–18%, then the bear
Apr–May 2002	–24%	Hole (failed)	–7%	–10%	–29%
May–Jun 2004	–27%	Hole	+3%	+4%	–5%
May–Jun 2006	–14%	Hole	–3%	+18%	–3%
Jun–Oct 2009	–41%	Reflation	+13%	+14%	–13%
Feb–May 2011	–17%	Hole	+5%	–3%	–17%
Jan–Feb 2017	at high	Highs (benign)	+6%	+15%	–4%
Feb–Jun 2018	at high	Highs	–4%	+8%	–14% (Q4 2018)
Jan–Jun 2021	at high	Highs	+14%	–12%	–21% (2022 bear)
Feb–Jul 2022	–5%	Boundary	–9%	+11%	–21%

The averages: **at-the-highs onsets (n=6): +3.1% over the following twelve months, average max drawdown –15.2%**; onsets in a hole (n=9): +10.9%. Four of the six at-the-highs episodes — 1987, 1999–2000, 2018, 2021 — resolved in drawdowns of –14% to –30% within eighteen months. The two that didn't, 1996 and 2017, were mid-cycle melt-ups where the Fed was not tightening into the state. The current episode's onset drawdown is zero.

4 · Add the coupling, and the precedent list shrinks to one

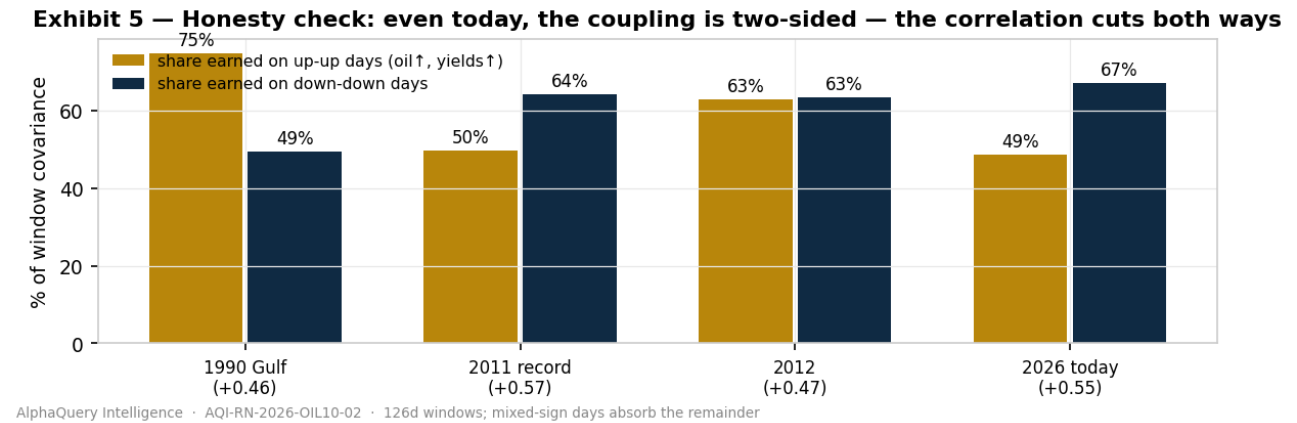
Demand the full analog of today — joint-rise *and* 126-day correlation $\geq +0.35$ — and the daily record since 1986 contains just **117 days in four episodes**: mid-2009 (launched 43% below the high; +22% over the next year), **January 2022** (launched 5% off the high; -12% over the next year, the bear market beginning eight trading days into the episode), and the two 2026 episodes, May-June and the current July 10-present run, both launched at the high. The completed at-the-highs precedent set is a set of one, and it is not a comfortable one.

Exhibit 4 — Tight-coupling + joint-rise (daily): 117 days since 1986, four episodes, one at-the-highs precedent



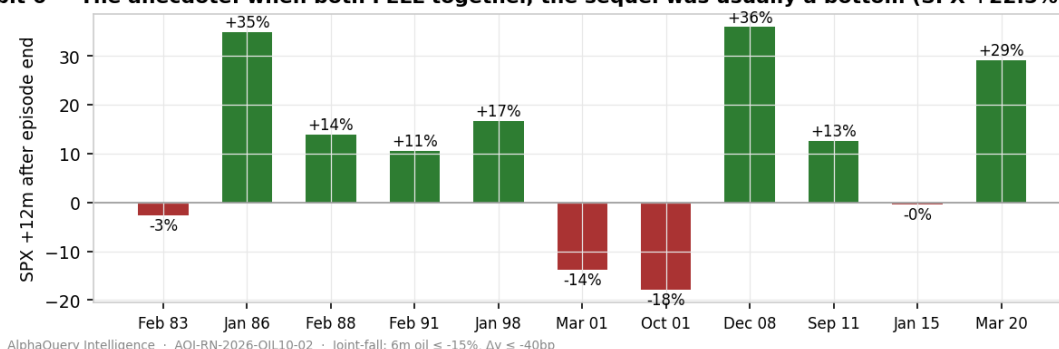
5 · The honesty check: the coupling still cuts both ways

Decompose today's 126-day covariance by quadrant and 49% is earned on up-up days but 67% on down-down days (mixed days absorb the remainder) — the June round trip lives inside the window. The coupling is genuinely two-sided: it is simultaneously the mechanism by which a real Iran resolution transmits to yields (the Bessent hope, and the OIL10-01 beta math: ~-53bp at \$40 WTI) and the mechanism by which the next leg higher in crude taxes both bonds and, per Sections 2–3, the equity market. What the decomposition rules out is the comfortable reading that the correlation is "just" an artifact of one direction. Compare 1990, when 75% of the Gulf War coupling was earned on the way up — and the S&P was in a -20% drawdown two months later.



The anecdote (formerly the headline). Every prior correlation landmark was set on the way down. The October 2011 all-time 126-day record (+0.57): oil and yields collapsing together, S&P +13% over the next year. The 2020 breakeven-correlation record: set in the crash, +29% follows. The joint-*fall* state as a whole — 46 months since 1953 — saw the S&P annualize **+22.5%** while inside it, and seven of eleven episode endings were followed by double-digit years (1986 +35%, 2008–09 +36%, 2020 +29%), the failures clustering in 2001 when falling oil and falling yields were the recession, not the cure. High oil–rates correlation was, for forty years, functionally a bottom-marker. That is precisely why its appearance at an all-time high deserves a note of its own.

Exhibit 6 — The anecdote: when both FELL together, the sequel was usually a bottom (SPX +22.5% ann. in-state)



6 · Construction: the state, not the coefficient, is the position

(a) Equity hedge upgraded from optional to core. While the R+C state persists from the highs, carry index downside — SPX or NDX put spreads, 3–4 month tenor, financed per the RUT-01 structure — sized to the –15% average / –30% worst-case drawdown profile of the at-the-highs cohort, not to the +1.4% in-state drift. The state's message is asymmetry, not forecast.

(b) The OIL10-01 WTI put spread becomes double-duty. Oil breaking lower kills the state's oil leg by definition: the same Dec-26/Mar-27 put spread that expresses the Bessent scenario is now also the instrument that pays when the equity tax lifts. One position, both books.

(c) Crude call spreads remain the duration-book hedge (per OIL10-01 (b) / SUPPLY-01): the up-up quadrant is where long bonds and long equities lose together, which is exactly when the crude calls print.

What would change the read: the state dying quietly — oil drifting below the trailing threshold with yields stable — is the benign 1996/2017 path and retires (a) without drama. The state intensifying with the index holding the high is the 1987/2021 shape and argues for rolling (a) up, not out.

7 · Tripwires

#	Tripwire	Reading that fires	Action
1	State exit, oil leg	Trailing 126d WTI < +15%	Tax lifts; unwind (a) into strength, keep (b) if Bessent scenario still live
2	State exit, rates leg	Trailing 126d $\Delta 10y$ < +40bp	Half-exit (a); reflation-without-rate-pressure is the benign fork
3	Coupling break	126d corr < +0.30	R+C degrades to R; downgrade (a) sizing to standard overlay
4	Jan-2022 analog marker	SPX closes below its 65d MA while in-state	The 2022 sequence began here; (a) to full size
5	Escalation tail	WTI monthly close > \$115	State intensification at the highs; roll (a) up, DSL-02 governor on (c)
6	Correlation record	126d corr > +0.575	First all-time record ever set in a rising tape; publish the addendum
7	Benign resolution	State exits with SPX within 3% of high	1996/2017 outcome; stand down, re-grade cohort odds
8	Iran resolution	Verified cessation	(b) pays; expect state exit via tripwire 1 within ~2 months

Sources: FRED (WTISPLC, GS10, DGS10, DCOILWTICO), S&P 500 daily via Yahoo (1927–), monthly joins from 1953. State definitions: joint-rise R = trailing 6m (monthly) or 126d (daily) oil log return $\geq +15\%$ and $\Delta 10y \geq +40bp$; R+C adds 126d changes-correlation $\geq +0.35$; joint-fall mirrors R with signs flipped. Forward returns from episode end (monthly) or episode onset (daily), as labeled. Companion: AQI-RN-2026-OIL10-01 (spec audit, embargo lag structure, breakeven/real decomposition, Bessent beta math). Related: SUPPLY-01, DUR-01, RUT-01, CL-01/02, DSL-02. © 2026 AlphaQuery Intelligence. For informational purposes only; not investment advice.