ALPHAQUERY INTELLIGENCE · QUANTITATIVE REGIME STUDY · STORM FRAMEWORK

The Small-Cap Turn: When the RTY/SPX Spread Remembers 2000

A 15-month rate-of-change swing into positive territory, confirmed by the 3-month — the fourteenth such signal since 1995, only the third from a drawdown deep enough to matter — and now confirmed by a daily-timeframe pattern seen only once before: the year 2000.

DATA **CAPITALCOM RTY/SPX · MONTHLY & DAILY · 1990–2026** SIGNAL DATE **MARCH 2026** PUBLISHED **JULY 2026**

15-MO ROC (CURRENT)	3-MO ROC (CONFIRM)	5-YR DRAWDOWN AT SIGNAL	DEEP-COHORT 36-MO RETURN	DAILY FINGERPRINT
+14.2%	**+3.2%**	**−29.5%**	**+23.2%**	**2000 only**
Crossed positive Mar-2026	Positive since Jan-2026	Deep cohort: only 2000 & 2001 comparable	Avg of Jan-2000 / Jun-2001 analogs	Deep-crush recovery: 4th episode began Mar 31, 2026

S Situation

WHAT THE TAPE SAYS

The Russell 2000 has spent five years being the market's designated disappointment. From its 2021 peak relative to the S&P 500, the RTY/SPX spread fell roughly 40% — a de-rating so persistent it stopped being a trade and became furniture. Then, in March 2026, the 15-month rate of change on the spread crossed from negative to positive for the first time since the 2020 episode, and the 3-month rate of change confirmed. As of the July print, the 15-month ROC sits at +14.2% and the spread has rallied four of the last six months.

Since 1995, this exact configuration — 15-month ROC swinging positive with 3-month confirmation — has fired fourteen times, including the current signal. The raw record is unremarkable: roughly half the signals worked, half didn't, and the average forward return across all horizons rounds to zero. That is the honest headline, and it would be an unremarkable study if it ended there.

T Tension

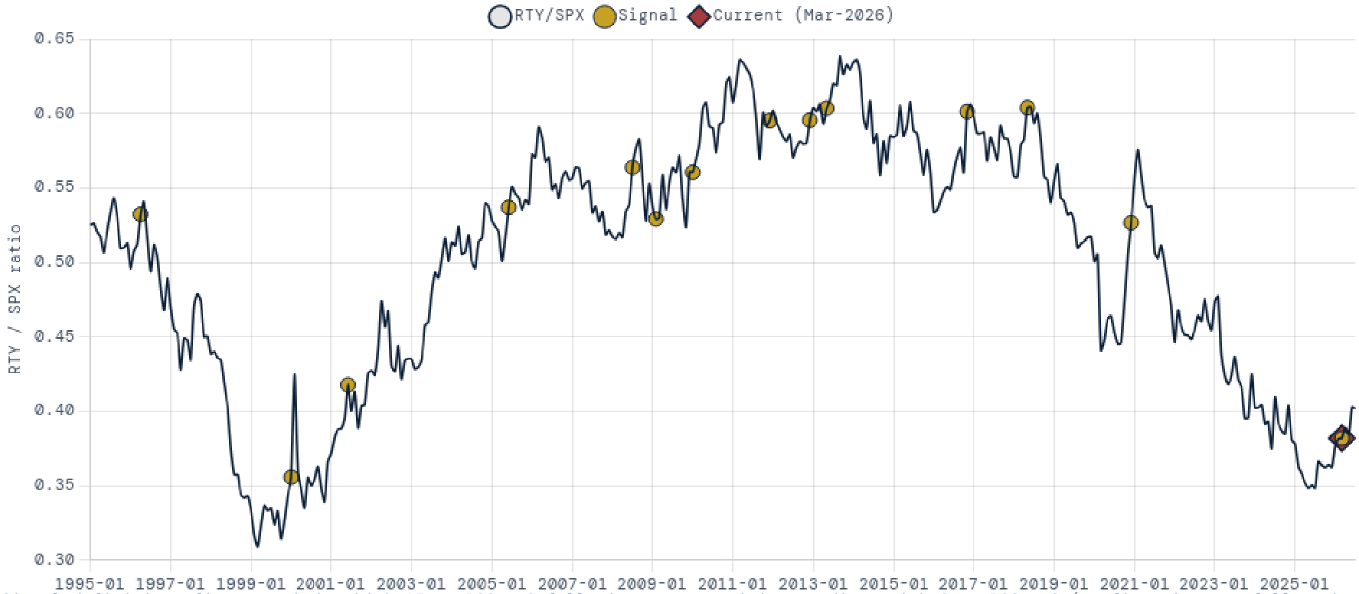
WHY THE AVERAGE LIES

The tension is that the sample is not one population. It is two. Signals that fired from *shallow* consolidations — 1996, 2016, 2018, 2020 — were momentum head-fakes inside an ongoing large-cap regime, and they failed badly: the 2018 signal lost 23.5% over two years; the 2020 signal lost 19.4% over three. Signals that fired after the spread had been *crushed* — down more than ~18% from its 5-year high — were regime turns. There are exactly two of those before now: January 2000 and June 2001. Both returned over +20% across the following three years as the great 2000–2006 small-cap/value rotation played out.

The current signal fired from a 29.5% five-year drawdown — deeper than June 2001, approaching January 2000. It belongs to the cohort that worked, not the cohort that didn't.

RTY/SPX Spread with Signal Events, 1995–2026

MONTHLY CLOSE · GOLD MARKERS = SIGNAL FIRES · DIAMOND = CURRENT SIGNAL (MAR-2026)



Signal definition: first month in which 15-mo ROC > 0 following a non-positive reading, with 3-mo ROC > 0 (confirmation may follow the cross within the same positive-15M regime). One signal per regime.

Forward Return Progression — All 14 Signals Since 1995

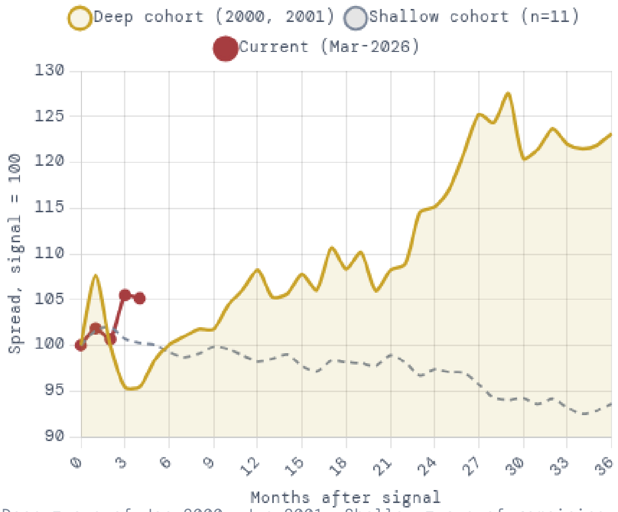
SPREAD RETURN (%) AT EACH HORIZON · GOLD ROWS = DEEP-DRAWDOWN COHORT · NAVY ROW = LIVE SIGNAL

SIGNAL	5Y DD	1M	3M	6M	12M	18M	24M	36M
1996-04	-6.3%	+1.6	-7.3	-9.3	-19.6	-11.0	-18.4	-39.1
2000-01	-34.5%	+19.4	-2.3	-1.7	+4.6	+12.5	+20.1	+22.2
2001-06	-18.4%	-4.2	-6.9	+1.8	+11.9	+4.2	+10.1	+24.1
2005-06	-0.6%	+2.6	+1.2	+0.4	+6.3	+3.4	+3.3	+0.3
2008-07	-4.6%	+2.3	-1.6	-4.7	+0.0	-0.6	+4.7	+9.4
2009-02	-10.4%	+0.1	+1.3	+5.9	+7.5	+8.4	+17.2	+12.2
2010-01	-5.1%	+1.5	+7.7	+5.3	+8.4	+10.0	+7.4	+7.7
2011-12	-6.4%	+1.2	-1.0	-1.5	+0.1	+2.2	+5.8	-1.7
2012-12	-6.4%	+1.4	+1.8	+2.2	+5.7	+2.2	-1.7	-5.8
2013-05	-5.1%	+0.8	+2.6	+4.9	-2.3	-6.2	-2.0	-8.8
2016-11	-5.8%	+0.8	-2.4	-5.5	-3.0	+0.4	-7.6	-14.0
2018-05	-5.4%	+0.1	-0.6	-8.0	-11.9	-14.4	-23.5	-11.0
2020-12	-13.1%	+5.4	+6.0	+2.2	-10.6	-14.9	-13.7	-19.4
2026-03	-29.5%	+1.9	+5.5	—	—	—	—	—

Deep cohort = 5-yr drawdown at signal ≤ −18%. Win rates, all signals: 1M 93% · 6M 54% · 12M 54% · 24M 54% · 36M 46%. Deep cohort only: 12M 100% · 24M 100% · 36M 100% (n=2 — see Mechanics on sample size).

The Path: Deep Cohort vs. Shallow Cohort vs. Now

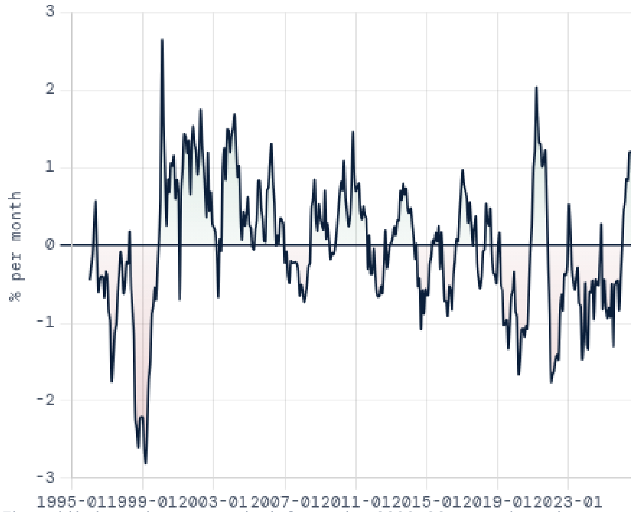
SPREAD INDEXED TO 100 AT SIGNAL · 36 MONTHS FORWARD



Deep = avg of Jan-2000, Jun-2001. Shallow = avg of remaining 11 completed signals. Current signal is 4 months old.

Rolling 12-Month Avg Monthly Return, 1995–2026

MEAN MONTHLY SPREAD RETURN (%) · TRAILING 12 MONTHS



The additive view you asked for: the 2000-06 rotation shows as a sustained positive plateau (~+0.7%/mo). The current reading has just crossed +1.0%/mo — its highest since early 2021, and structurally resembling mid-2000.

The rolling-monthly-return series is where your early-2000s intuition earns its keep. The 1995–99 era averaged −0.66%/month on the spread (large-cap mania), then flipped to +0.66%/month for 2000–06 — a seven-year regime, not a bounce. The 2021–26 era has averaged −0.35%/month, the worst sustained stretch since the late-90s. Regimes in this spread are long, and the setup rhymes: extreme index concentration, an extended mega-cap capex narrative, small caps priced for irrelevance.

D The Daily Confirmation

AN INDEPENDENT LENS, SAME ANSWER

The monthly cohort study rests on two precedents. A fair objection is that n=2 is an anecdote with a regression line. So we rebuilt the question from scratch on daily data with an entirely different signal construction: find every day since 1995 on which the spread was down at least 25% over a rolling 1000 trading days while simultaneously up at least 10% over the trailing 250 — a three-year crush meeting a one-year recovery.

That condition has been true on *34 days in thirty-one years, all of them in calendar year 2000*, in two clusters. Both resolved +41% over the following 1000 trading days. It never fired in 2009, 2016, or 2021. The configuration is not a "small caps bounce" pattern; it is a fingerprint of exactly one thing — the unwind of a concentration mania.

One disclosure, because the honest version of this study is the useful one: the current cycle *narrowly misses* the literal condition. The 1000-day leg was satisfied continuously from November 2023 through November 2025, bottoming near −35% — but throughout that window the 250-day recovery hadn't yet matured. By the time the trailing year reached +10% (June 2026), the 2023 plunge had rolled out of the 1000-day lookback, healing it to −13%. The two legs missed each other by roughly six months of window arithmetic, not regime character. Replacing the rolling-return leg with drawdown from the 5-year high — the same economic idea without the base-effect distortion — resolves it cleanly:

Deep-Crush Recovery Episodes: ≥25% Below 5-Yr High, +10% Trailing Year

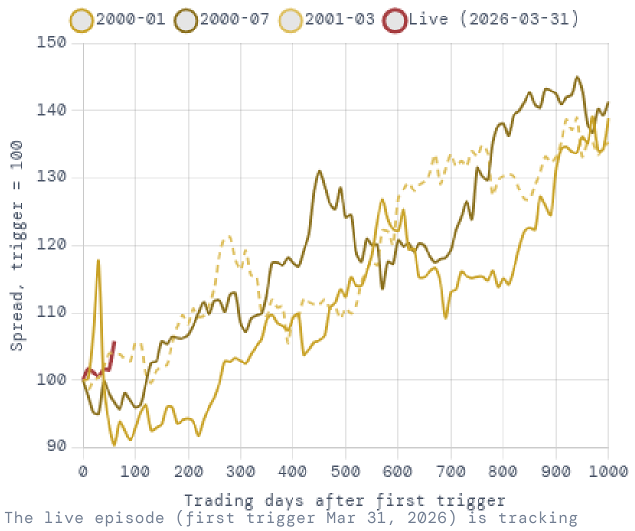
DAILY DATA · FOUR EPISODES IN 31 YEARS · FORWARD RETURNS IN TRADING DAYS

EPISODE	DAYS	DD-5Y	250D	+63D	+125D	+250D	+500D	+750D	+1000D
2000-01-24 → 2000-04-10	39	-32.0%	+10.1%	-12.2	-5.3	-2.5	+12.4	+15.4	+38.9
2000-07-12 → 2000-11-08	17	-34.1%	+10.4%	-4.0	-1.4	+11.8	+24.2	+31.5	+41.3
2001-03-30 → 2001-05-31	37	-28.3%	+13.3%	+7.6	-1.6	+13.7	+10.7	+33.2	+35.3
2026-03-31 → 2026-06-08	13	-31.0%	+10.1%	+6.8	–	–	–	–	–

Episode = cluster of qualifying days separated by >60 trading days. Forward returns measured from first qualifying day. 250d ≈ 1 year, 1000d ≈ 4 years. Literal spec (rolling 1000d ≤ -25% + 250d ≥ +10%) fires only in the two 2000 clusters, +41.4% / +41.3% at 1000d.

Episode Paths: 2000–01 Analogs vs. Live Episode

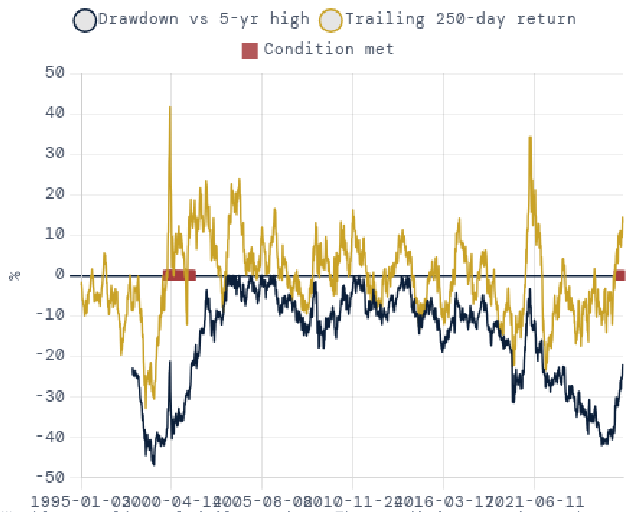
SPREAD INDEXED TO 100 AT FIRST QUALIFYING DAY · 1000 TRADING DAYS



The live episode (first trigger Mar 31, 2026) is tracking ahead of all three analogs at the same age. All three analogs chopped negative in their first 3-6 months before resolving.

The Two Legs, 1995–2026

DRAWDOWN FROM 5-YR HIGH (NAVY) & TRAILING 250-DAY RETURN (GOLD) · SHADED = CONDITION MET



Weekly sampling of daily series. The condition requires the navy line below -25% while the gold line exceeds +10% — visible only around 2000-01 and now.

Two tactical facts fall out of the daily record and feed directly into Mechanics below. First, all three 2000–01 episodes were choppy-to-negative for their first three to six months — the January 2000 episode was −12% at 63 trading days before finishing +39% — so early adverse movement is the analog behaving normally, not failing. Second, the analogs arrived in *waves*: three distinct trigger clusters over sixteen months, and each re-trigger was a re-entry point, not an invalidation. Pullbacks that refresh the condition added to forward returns in every historical case.

O Options

WAYS TO EXPRESS IT

Three structures, ordered by capital intensity and convexity. All are spread expressions — the thesis is *relative*, so nothing here should carry naked market beta.

STRUCTURE I · CORE / LINEAR

Beta-Neutral Cash Pair: Long IWM / Short SPY

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LONG IWM notional 1.00x · SHORT SPY notional ~0.85–0.90x
(IWM beta to SPX ≈ 1.10–1.15; neutralize beta, not dollars, or you're short the market)
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The clean expression of the study itself. Monthly rebalance to beta-neutral. This is the position the backtest actually describes, and the one the 24–36 month horizon belongs to. Financing drag on the short leg is the main cost; dividend differential is minor.

STRUCTURE II · CONVEX / DEFINED-RISK

Call Spread Risk Reversal in Ratio: Long IWM Calls, Financed by SPY Calls

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BUY IWM Dec-2027 ~105% calls · SELL SPY Dec-2027 ~110% calls in beta-adjusted notional
Target: structure at or near zero net premium; max loss = capped SPY upside participation
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Expresses "small caps outperform" with defined risk and positive skew to the analog scenario. If both rally but IWM leads (the 2000–06 pattern), both legs pay you. The failure mode — SPY melts up while IWM lags, i.e., the 2018/2020 cohort — is exactly the risk you sold. You are being paid to take the other side of the failed-signal cohort.

STRUCTURE III · TACTICAL / FUTURES OVERLAY

RTY / ES Futures Spread, Kelly-Sized

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LONG RTY / SHORT ES, ratioed by contract notional × beta · roll quarterly
Size via AQ Kelly Sizer: p≈0.60 (deep-cohort-weighted), avg win +20%, avg loss -12% over 24M → full Kelly ≈ 20% of book; run quarter-Kelly ≈ 5%
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Capital-efficient and clean for adding/trimming around the monthly signal state. This is also the sleeve to trade tactically around: your own behavioral-stress-reversal framework applies at the monthly level, since the deep-cohort paths chopped hard in months 1–6 (Jan-2000 was −2.3% at three months before running +22%).

R Recommendation

THE HOUSE VIEW

Run Structure I as the core at quarter-Kelly (~5% of risk capital), and overlay Structure II for convexity, targeting zero-premium entry. The evidence supports the rotation thesis *conditionally*: the momentum signal alone is a coin flip, but the momentum signal fired from a −29.5% five-year drawdown has only two precedents, both of which were the early-2000s rotation you're pattern-matching to. That's a real edge with an honest caveat — n=2 is a cohort, not a law.

The asymmetry favors action anyway: the shallow-cohort failure mode (−10% to −20% over 2–3 years) is survivable at quarter-Kelly and partially hedged by the option structure, while the deep-cohort success mode (+20%+ over 2–3 years, sustained for most of a decade in the 2000 case) is the kind of regime return you only capture by being positioned before it's consensus.

M Mechanics

ENTRY

Scale in over 2–3 months rather than at once — deep-cohort paths were choppy through month 6 (Jan-2000 signal drew down before working). Half now, half on any 3–5% pullback in the spread.

RE-ENTRIES

Per the daily record, the 2000–01 analog triggered in three waves over 16 months; each re-trigger of the deep-crush condition (≥25% below 5-yr high, +10% trailing year) was a re-entry point. Treat condition refreshes as adds, not warnings — invalidation is defined by the monthly 15-mo ROC, nothing faster.

SIZING

Quarter-Kelly ≈ 5% of risk book on the core pair. Deep-cohort-weighted parameters: p=0.60, W=+20%, L=−12% at the 24-month horizon. Do not size off the n=2 win rate of 100% — that's overfitting to two observations.

INVALIDATION

Hard: 15-month ROC closes back below zero on a monthly basis (regime negation — this is the study's own definition of the regime ending). Soft: spread makes a new 5-year low, which would break the deep-cohort analogy entirely.

REVIEW CADENCE

Monthly, on the close. This is a monthly-bar study; intramonth noise is not signal. Re-run the 3-mo/15-mo ROC pair and the rolling 12-month return each print.

HORIZON

24–36 months for the core. The 2000–06 precedent suggests optionality to extend well beyond if the rolling 12-month return holds a positive plateau (>+0.4%/mo sustained).

KNOWN WEAKNESSES

n=2 in the deep cohort; index composition drift (RTY quality is worse today than 2000); the short leg is short the most profitable companies in history; financing/borrow costs compound over a 3-year hold; TradingView spread data splices contract series. None fatal, all real.