AQI-RN-2026-DUR-01 | SEP 7 2026 | Fiscal-Dominance Series

SYSTEM: AUDIT ACTIVE

The Twist Isn’t the Trade. The Correlation Is.

A STORM Assessment of Gavekal’s Long-Duration Allocation Recommendation.

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The Answer First: Neutral at 10y, Gate the Hedge

No Outright Overweight.

The non-supportive ledger scores –18 vs +11. The long end is cheap in exactly one scenario.

Neutral at the 10-year.

4.77% is fair on both frameworks' middle band (4.5–5.3%). Express duration here.

Gate the Hedge.

Stock-bond correlation is +0.58. Fund the 20-30y sleeve only on strict macro triggers.

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Reporting: A-
Mechanism: B
Hedge Claim: C
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One factual error (a 'September 31' fiscal year-end); no fatal ones.

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The Catalyst: Gavekal's Three-Pillar Structural Long Thesis

Node 1 (Left)

PART I - Policy Flow

The "Treasury Twist" uses the Aug 19 buyback and Jul 31 yen op to structurally support the long-end, financed with bills, while the Fed untwists (MBS to bills).

Node 2 (Center)

PART II - Public Capital Demand

Tariff refunds abate ($100bn paid out). Iran war spending remains open-ended. Interest costs hit their early-1990s peak share without a discretionary-cut playbook.

Node 3 (Right)

PART III - Private Capital Demand

AI hyperscaler capex hits $1.1trn annualized (+64% y/y). Wicksellian spreads sit 60bp above the slowdown threshold. The verdict: go neutral, treat bonds as the AI-rollover hedge.

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Fact Audit: The Arithmetic Checks, But Valuation is an Assumption

Claim (Gavekal)	AQI Data Check	Verdict	Signal
Fed OT $44bn/mo, 2011-12)	$400bn announced + $267bn extension	VERIFIES	
Treasury Twist (~$11bn/mo)	Internally consistent	VERIFIES	
Market Shrug on Buyback	30y: 5.28 → 5.19 → 5.27 (2 sessions)	VERIFIES	
10y fundamentally priced	Trailing nominal GDP YoY is 6.6%	CONDITIONAL	
Denyer 2% base vs partners' 6% drift	Bear case is modal house view	DISCLOSED SPLIT	

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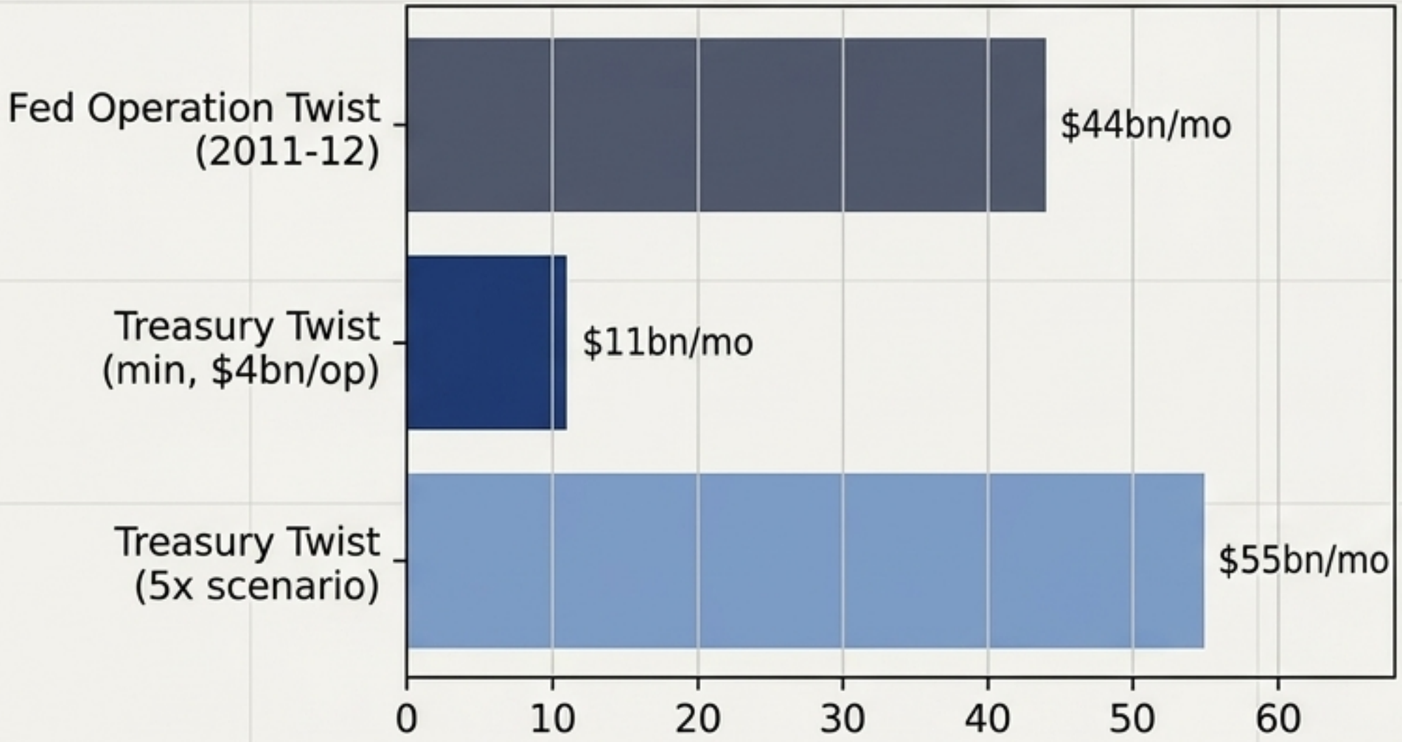
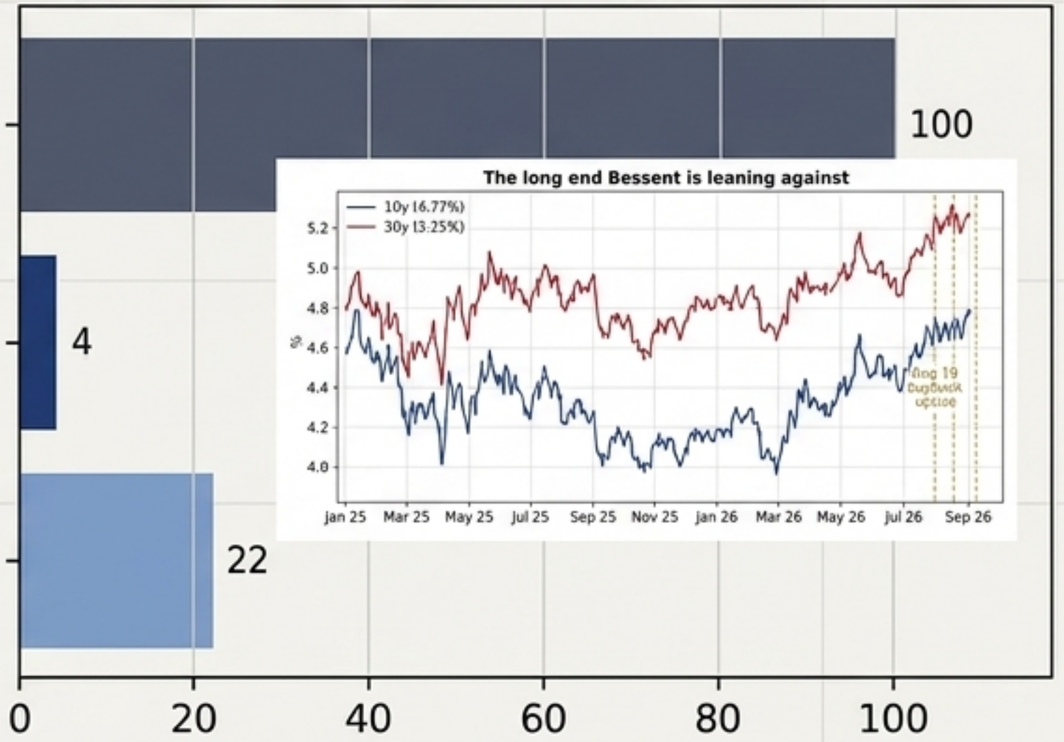
Tension 1: The Treasury Twist is 4.5% of the 2011 Precedent

Monthly long-end purchases



Supply-adjusted intensity (Fed OT = 100)



Flows per Gavekal Part I ($44bn/mo Fed 2011-12; $11bn/mo announced minimum; 5x = $20bn+ offered per op). Long-end stock >10y now 5.6x 2011. AQI calculation.

SUPPLY MISMATCH: Long-end (>10y) stock is now 5.6x its 2011 size. The near-term bullish leg is a discretionary act Bessent hasn't taken yet. That's a gate, not a position.

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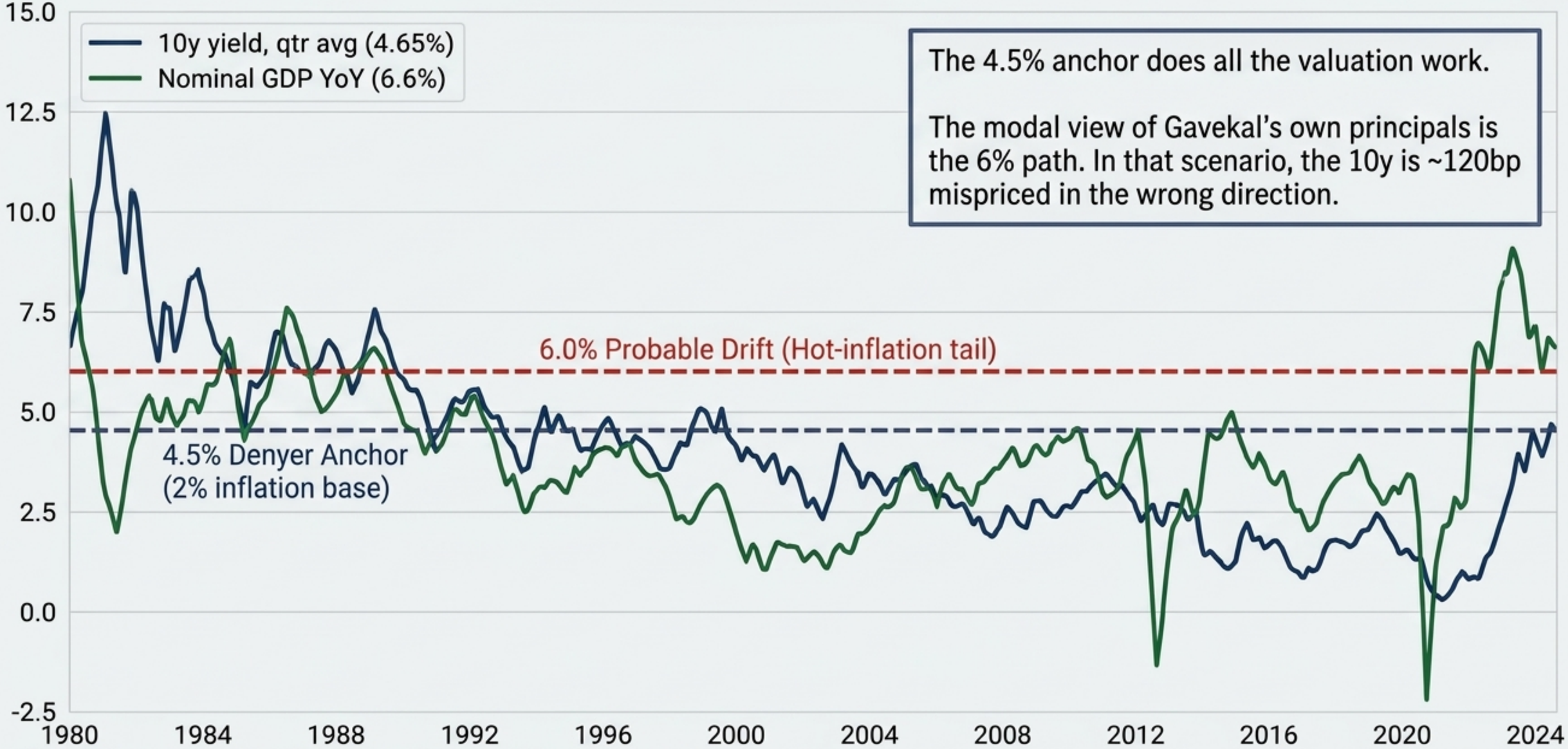
Tension 2: The "Cheap 30y" Relies on a Single 4.5% Growth Anchor



Source: FRED, AlphaQuery Intelligence (GDP, DGS10). Pandemic-quarter GDP swings truncated for scale.

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Tension 3: The +0.58 Correlation Regime Makes Bonds a False Hedge

2026 IS A RATE-SHOCK TAPE: YIELDS UP, STOCKS AND BONDS DOWN TOGETHER. THE LONG BOND TODAY IS A SECOND EQUITY POSITION WEARING A HEDGE'S BADGE. IT ONLY PAYS IF THE SHOCK ROTATES TO GROWTH (AI ROLLOVER).

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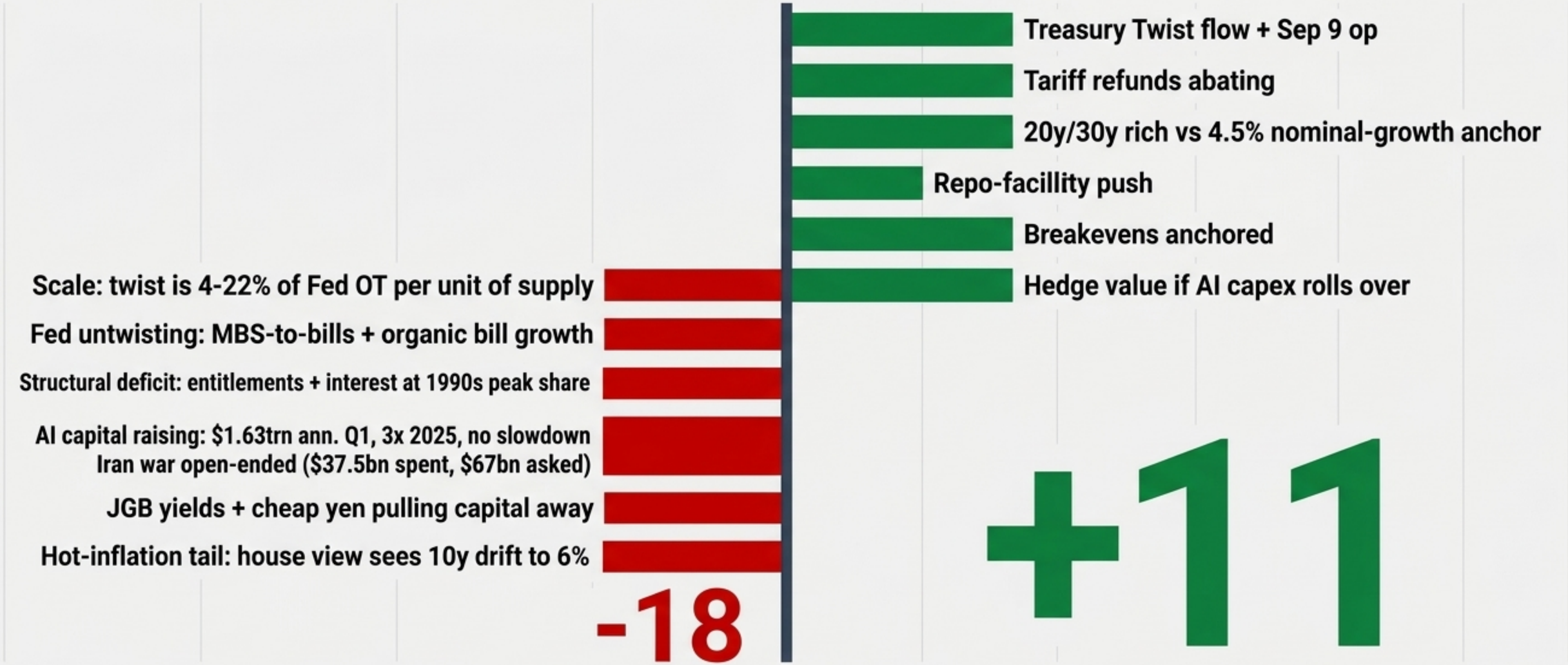
The Structural Ledger: The Outright Long Fails to Clear



NET SCORE = -7. Outright structural long allocation rejected.

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Duration Strategy Options: Two Survive the Ledger

A. Structural overweight 20-30y

[REJECT]

"Yields too high" valuation trade into a -18 ledger.

B. Neutral duration at the 10y

[ADOPT NOW]

Own the tenor both frameworks price as fair (4.77%).

C. 20-30y hedge sleeve vs equities

[ADOPT ON GATES]

The correlation-flip trade. Cannot be funded until the regime turns.

D. Keep FD-02 (long long-end vol)

[RETAIN]

MOVE index at 22nd percentile vs term premium at 92nd. Direction-agnostic.

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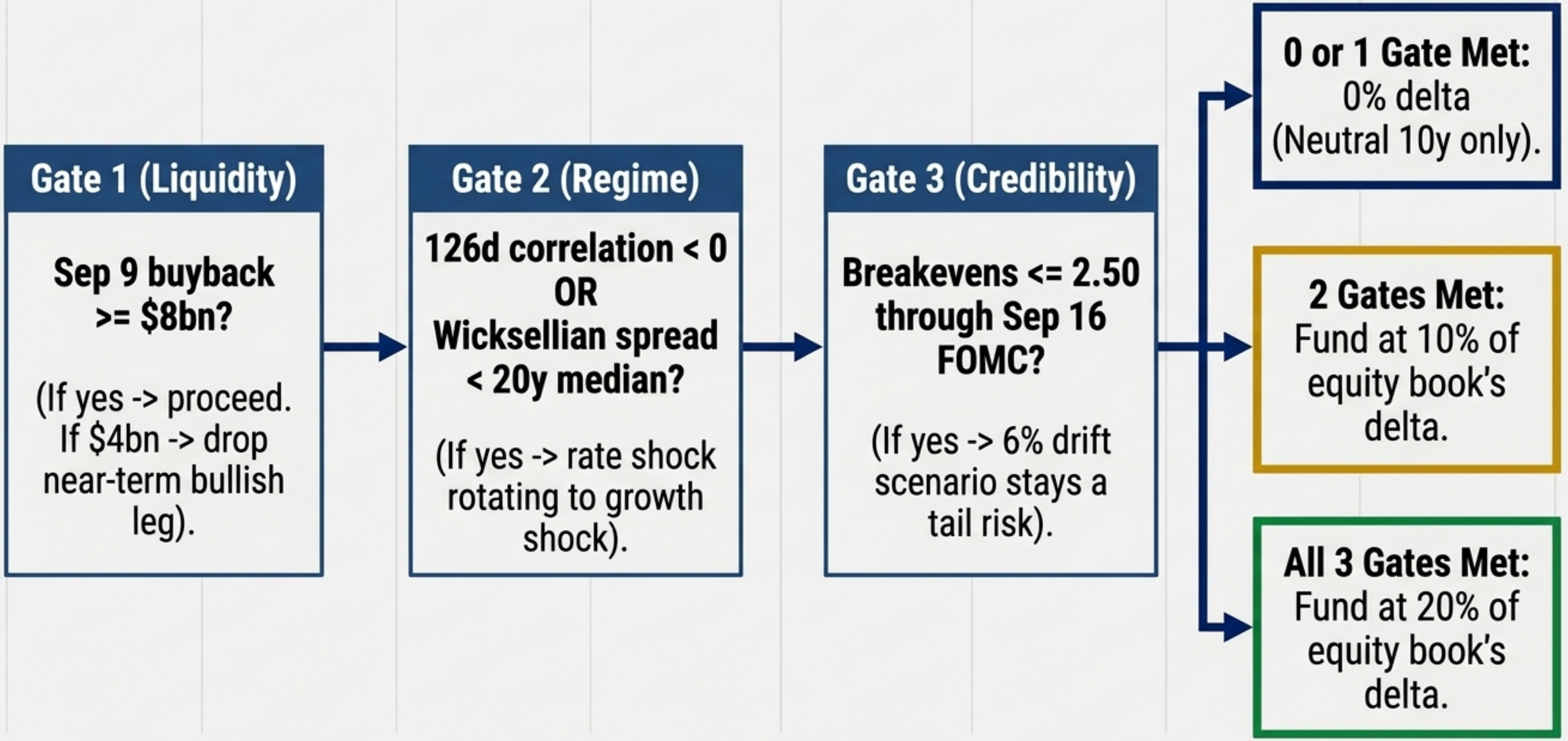
Execution Logic: Gating the 20-30y Hedge Sleeve



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Book-Consistent Mechanics & Instrument Selection

The Core (Neutral 10y)

Instruments: On-the-run 10y notes or ZN futures ladder to benchmark-neutral duration. No leverage. No stop.

The Sleeve (Gated Hedge)

Instruments: Jan-2027 TLT calls (not cash 30y). Defined premium caps cost of being early in hostile correlation. Convert to cash 20-30y only after Gate 2 holds 21 sessions.

Book Escalation & Stops

Consistency: 10y close > 4.93% escalates SPX-02 collar.
Stop Loss: 30y monthly close > 5.40%. This is the FD-02 escalation level and explicitly kills the sleeve (rate regime is intensifying, not rotating).

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The Tripwire Radar: Eight Immediate and Structural Triggers

IMMEDIATE (NEXT 7 TRADING DAYS)

1. Sep 9 buyback op >= $8bn
(Validates Twist-class program)

2. Sep 11 Z.1: Q2 capital raising > $2trn ann.
(Deepens AI demand ledger)

3. Sep 16 FOMC hikes, breakevens <= 2.50
(Gate 3 met).

STRUCTURAL (MONITORING)

4. 126d stock-bond correlation
crosses below 0 (Gate 2 met).

5. Wicksellian spread crosses
below 20y median (AI-rollover live).

6. Iran war resolution
(Tactical long-end add)

7. QRA WAM drops < 5.7y
(Upgrades medium-term bullish weight)

8. ABORT SIGNAL: 30y monthly close > 5.40% (Kill sleeve).

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Strategic Mandate

The buyer is real. The scale isn’t. The correlation isn’t either — yet.

Hold neutral at the 10-year. Retain FD-02 long-end vol. The 20–30y sleeve waits for the correlation flip.

A 30y monthly close above 5.40 retires the entire thesis. Execute accordi

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