SPY/RSP REGIME SHIFT ANALYSIS

Q1 2026 | Long/Short Desk Briefing

As of: February 17, 2026 | Prepared for: Long/Short Equity Desk | Classification: Alpha Query Internal

EXECUTIVE SUMMARY

The SPY/RSP ratio has entered a period of extreme historical weakness. The current decline of -4.81% from the start of Q1 2026 to the halfway point (Feb 17) ranks as the 2nd most severe halfway-point decline in the past 23 years across 92 quarters. The 65-day rolling return of -6.43% sits in the bottom 2% of all historical readings — nearly double the 5th-percentile threshold of -3.69%.

Conviction: HIGH | Thesis: Structural Rotation from Market-Weight to Equal-Weight | Horizon: 40–65 Trading Days

1. Rolling Returns Performance

The table below shows the acceleration of SPY/RSP relative weakness across all time frames as of February 17, 2026. The pattern of deepening losses at every lookback window is characteristic of structural regime breakdown rather than a short-term mean-reversion event.

Lookback Period	Rolling Return (%)
2-Day	-0.62%
5-Day	-1.67%
10-Day	-3.46%
21-Day (1 Month)	-2.80%
65-Day (3 Months)	-6.43% ⚠ Bottom 2%

The 65-day rolling return threshold for extreme weakness (5th percentile) is -3.69%. The current reading of -6.43% is nearly double that severity, indicating this is more than a standard mean-reversion move. This is consistent with a structural shift in the underlying regime.

Chart 1 — Distribution of Quarterly Halfway-Point Returns

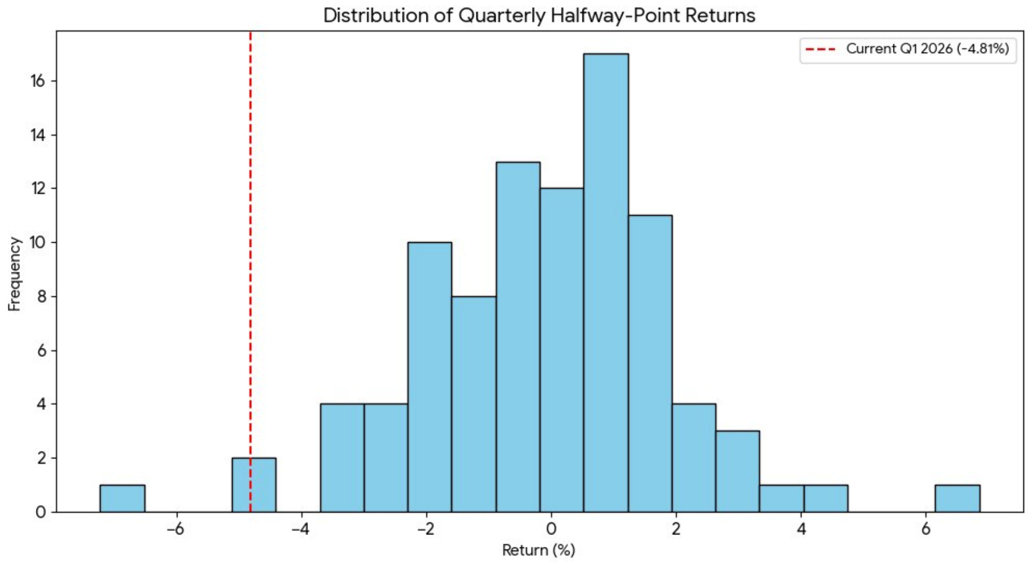

Figure 1: Histogram of all quarterly halfway-point returns (Q1 2003 – Q1 2026). The red dashed line marks the current Q1 2026 value of -4.81%, placing it in the far left tail of the distribution.

The histogram confirms the statistical rarity of the current event. The distribution of quarterly halfway-point returns is roughly normal, centered near 0%, with the vast majority of observations clustered between -2% and +2%. The current Q1 2026 observation at -4.81% is a clear left-tail outlier — only 2 other instances in 92 quarters have been worse.

2. Quarterly Performance & Severity Comparison

Every quarter since Q1 2003 has been analyzed, calculating the cumulative return of the SPY/RSP ratio from the first trading day of the quarter to its halfway point (approximately 33 trading days in). The table below ranks the top three most severe quarterly starts.

Rank	Quarter	Halfway-Point Return
#1	Q2 2009 — Post-GFC Breadth Recovery	-7.22%
#2	**Q1 2026 — Current Period ← TODAY**	**-4.81%**
#3	Q4 2020 — Post-COVID Vaccine Rotation	-4.77%

In most quarters, the ratio moves less than ±2% in the first six weeks. The magnitude of the current move — ranked #2 out of 92 quarters — signals that the market is actively de-concentrating from mega-cap market weights. The three "red" quarters (2009, 2026, 2020) are not random; each represents a discrete pivot point from concentration to breadth.

3. Historical Context & Regime Change

The SPY/RSP ratio (Market-Weight vs. Equal-Weight) has historically trended higher during periods of mega-cap dominance, most recently the 'Magnificent 7' era of 2023–2025. However, the speed and severity of the current reversal closely mirrors two previous structural regime transitions:

Chart 2 — SPY/RSP Ratio Spread (2003–2026)

Figure 2: Full-history SPY/RSP ratio from April 2003 through February 2026. The ratio has reached multi-year highs near 3.65 before the current reversal — a level exceeding even the 2008 peak.

The ratio chart reveals the cyclical nature of market concentration. Each peak has been followed by a multi-year period of equal-weight outperformance. The current ratio of ~3.65 is at an all-time high, exceeding even the 2007–2008 mega-cap peak. This structural excess increases the probability that the current breakdown is the start of a sustained rotation, not a transient dip.

The Two Historical Analogues

Catalyst	2009 Post-GFC	2020 Post-COVID
Event Type	End of bear market	Vaccine announcement
Rotation Type	Cyclicals / Mid-Cap / Value	Value / Breadth / Small-Cap
Duration	6–8 quarters	3–4 quarters

4. Velocity Analysis: 65-Day Rolling Return

Chart 3 — SPY/RSP 65-Day Rolling Return (2003–2026)

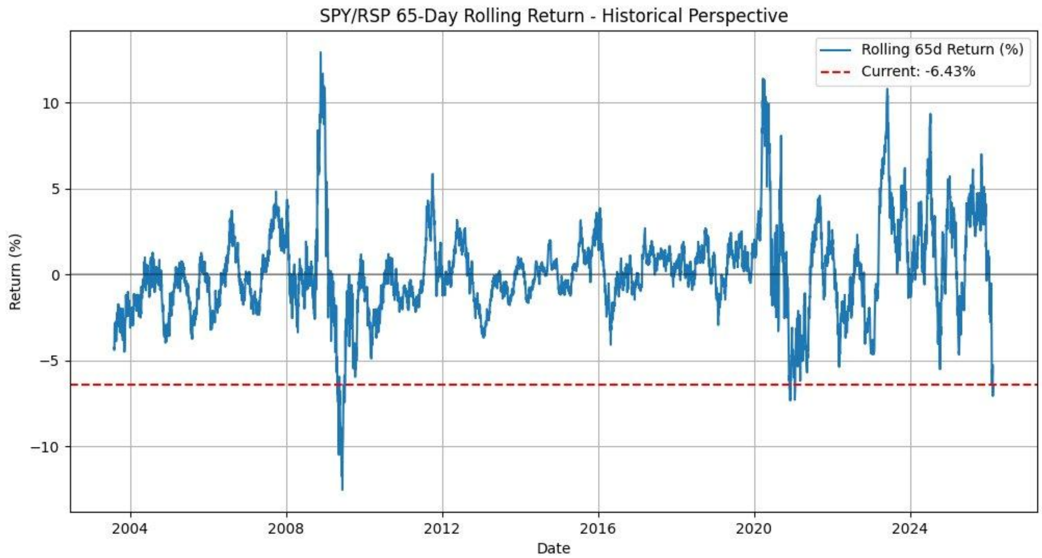

Figure 3: 65-day rolling return of the SPY/RSP ratio. The current reading of -6.43% (red dashed line) has only been reached a handful of times in 23 years, each associated with a regime transition.

The rolling 65-day return chart places the current -6.43% in stark relief. The chart shows that readings at or below this level have historically occurred only during major structural inflection points. Critically, in all prior instances where the rolling return breached this level and sustained it, subsequent RSP outperformance over the following 1–3 quarters was consistent.

- 2008–2009: The post-GFC recovery saw equal-weight names surge as the financial system normalized and credit spread to a wider set of companies.
- 2020: The vaccine announcement triggered an immediate rotation out of mega-cap tech and stay-at-home stocks into reopening and value names.
- 2026 Current: The breakdown began in late Q4 2025 and has accelerated in Q1 2026, coinciding with AI capex concerns and high-valuation compression in the top-10 S&P names.

5. Forward Expectations & Trade Implications

The fourth chart (see attached PDF briefing) models the 'What happens next?' scenario by overlaying all 11 historical instances where the SPY/RSP ratio broke down by more than 6% within a quarter. The mean historical path (red line) continues to decay for the remainder of the quarter.

Time Horizon	Signal Strength	Directional Bias
5–10 Trading Days	HIGH	Short SPY / Long RSP
40–65 Trading Days	HIGH	Asymmetric RSP Outperformance
2–4 Quarters	MEDIUM	Structural Breadth Expansion

The 'No Recovery' rule is critical here: historically, there is a lack of any upward-sloping paths following a breakdown of this magnitude. Short-term bounces in the SPY/RSP ratio should be treated as opportunities to re-establish or add to Short SPY / Long RSP positions, not as indicators that the old trend is returning.

DESK SUMMARY: HIGH-CONVICTION TRADE SETUP

The four charts and supporting data collectively point to a high-conviction signal: market concentration is unwinding. The combination of extreme velocity and structural breakdown places this event in the top 2% of historical severity. The analogues from 2009 and 2020 confirm that such readings do not resolve quickly — they mark the beginning of multi-quarter regime shifts.

Primary Trade: Short SPY / Long RSP | Horizon: 40–65 trading days | Conviction: HIGH

Risk: Macro shock that re-concentrates flows into defensively perceived mega-caps (e.g., a sharp risk-off event). Monitor for any reversal in the 10-day velocity Z-score back above the -2σ threshold.

Disclaimer: This analysis is for internal informational purposes only and does not constitute investment advice. All historical analysis is based on SPY/RSP daily price data from April 2003 through February 2026.