The Divergent Summit

Event Study & Trade Construction: S&P 500 Value vs. NDX.

SVX close ≥ running ATH ∧ NDX drawdown ≤ -4% ∧ NDX ATH within trailing 90 trading days ∧ SPX below ATH

SIGNAL CODE: DSS-01 | EPISODES SEPARATED BY >30 DAYS

The Signal Fingerprint

Core Thesis: On July 16, 2026, S&P 500 Value (SVX) hit an all-time high while the NDX sat -5.7% below a high set just 26 days prior. The cap-weighted index was caught in between.

Historical Rarity: This specific setup is exceptionally rare. The 90-day filter specifically excludes the 2000–2007 secular post-bubble regime, isolating true rotational divergence.

The Bottom Line: Over 29 years, seven prior discrete episodes say the first month belongs to value—with one severe regime exception.

Cohort Comparison: The Regime Bifurcation

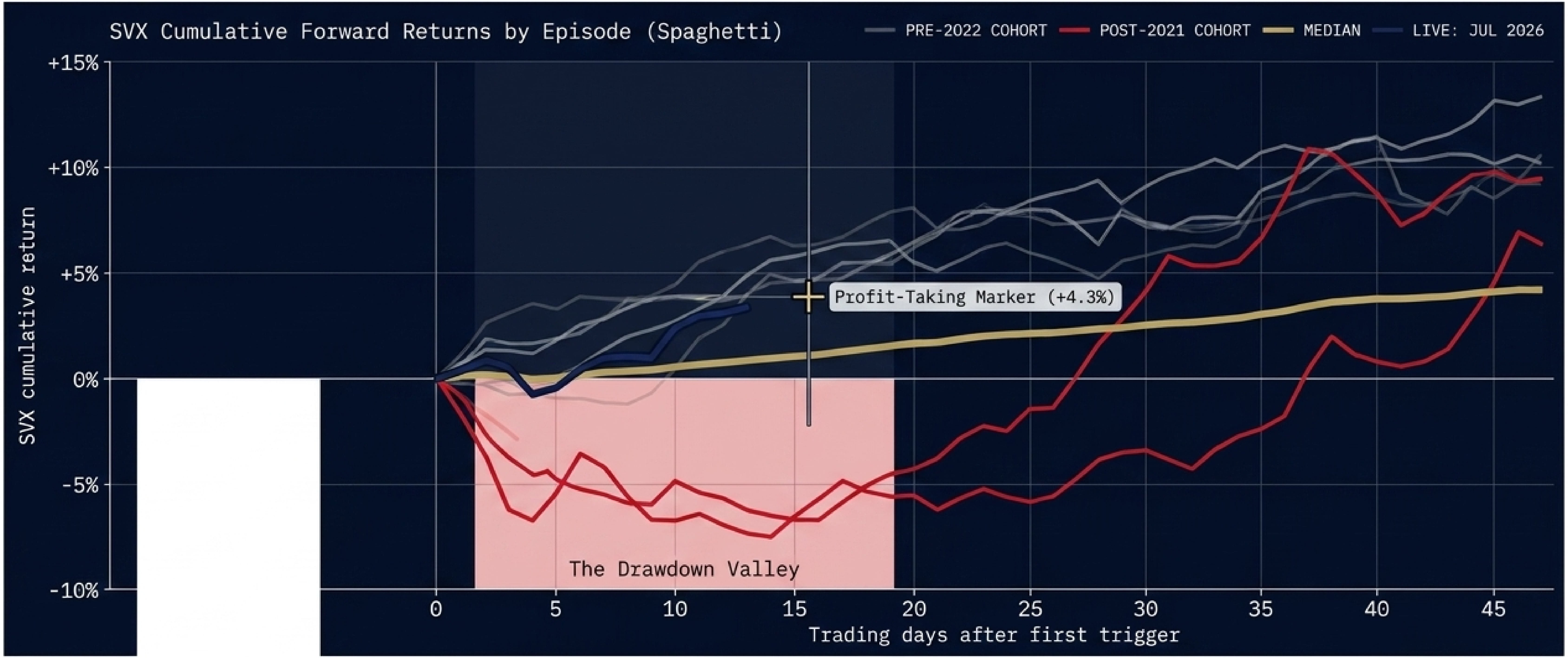
The signal's character has migrated from near-riskless resolutions to deep adverse excursions. January 2022 remains the single total failure.

Comparison Matrix

The Pre-2022 Cohort	The Post-2021 Cohort
Jun 1997 | Max Path DD: -0.44% | +21D: +5.88% | Theme: Melt-up, both legs	Jan 2022 | Max Path DD: -7.05% | +21D: -4.26% | Theme: Regime change - bear
Apr 1999 | Max Path DD: -0.41% | +21D: +3.70% | Theme: Old-economy catch-up	Jul 2024 | Max Path DD: -4.32% | +21D: -0.56% | Theme: Carry unwind, recovered
Nov 2016 | Max Path DD: +0.07% | +21D: +4.48% | Theme: Reflation rotation	Feb 2026 | Max Path DD: -6.05% | +21D: -2.77% | Theme: Chop, late recovery
Feb 2021 | Max Path DD: -1.28% | +21D: +2.55% | Theme: Duration shock, value led	
RESOLUTION THEME: NEAR-RISKLESS VALUE CARRIES	RESOLUTION THEME: ADVERSE EXCURSION & CHOP

Path Dynamics: Averages Flatter, Paths Tell the Truth

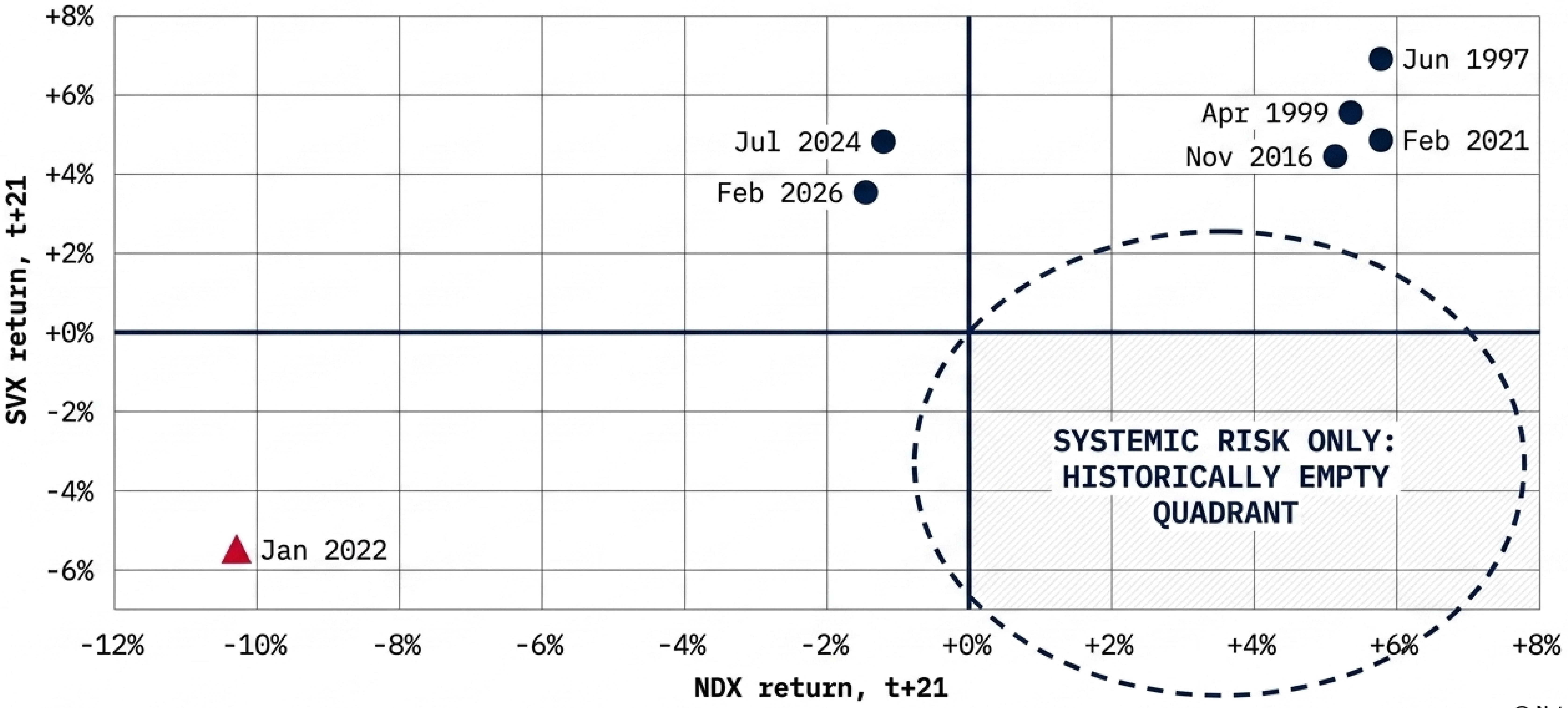
Averages hide the risk. Recent episodes spend the majority of the early window underwater. This **structural valley** dictates our **delayed tranche entry spacing.**



NotebookLM

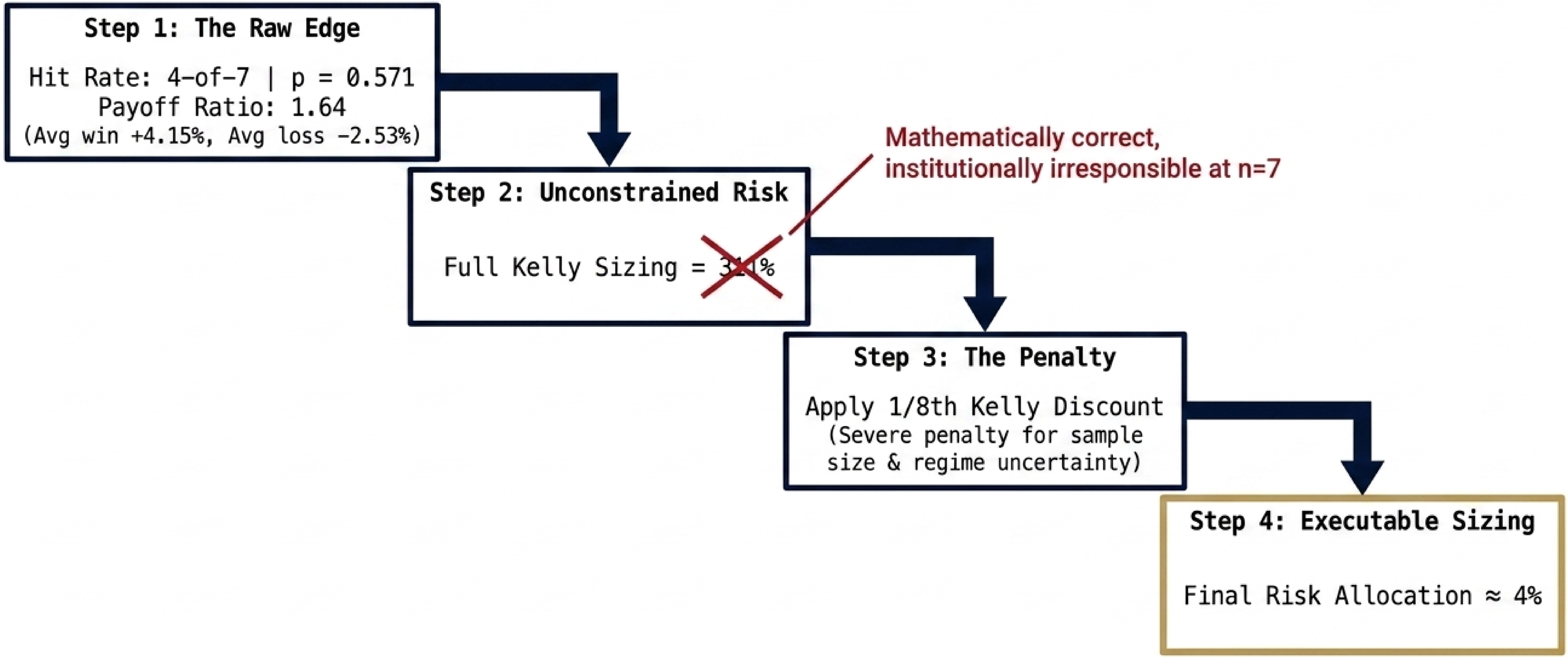
The +21-Day Outcome Quadrant

In no historical episode did growth recover at one month while value bled. The signal's downside is entirely systemic—justifying a hedged spread expression.



Trade Construction & Quantitative Humility

SVX’s median 21-day forward return is **roughly double its baseline.** However, n=7 demands **severe** discounting. We do not respect a 31% Kelly allocation on a small sample size.



Execution Plan: S&P 500 Value (SVX)

TRADE TICKET - DSS-01 LONG VALUE | AQI-ES-2026-002

INSTRUMENT: SPYV (primary) / IVE	**DIRECTION/HORIZON:** LONG • 45 trading days (Target ~Sep 18, 2026)
REFERENCE LEVEL: SVX 2,290.52 (07/16/26 close)	**SIZING:** ~3.9% risk capital (1/8-Kelly)

TRANCHE EXECUTION PLAN

Tranche 1 (40%): At market	Tranche 2 (35%): -2.5% from ref (Recent cohort median pullback)	Tranche 3 (25%): -4.5% from ref (Only if breadth intact)

PROFIT-TAKING

Scale 1/2 at +4.3% (day-16 median peak); trail remainder

HEDGED VARIANT (THE ROBUST EXPRESSION)

Long SPYV / Short QQQ (Beta-neutral). Converts the Jan-2022 tail risk into a +6.0% win. Appropriate for mandates penalizing path over terminal.

Risk Management: The 2022 Problem

Every quant signal has an episode it wants to ignore. The January 12, 2022 setup was identical in price, but mechanistically different under the hood. A standard price stop catches a regime failure too late; we require a macro-override.

The January 2022 Analog (The Regime Failure)	The Current Setup & The Two-Headed Stop
Price Fingerprint	**Context**
Identical to today. SVX ATH, NDX -4% off peak. Result: SVX dropped 7% over two months.	Current NDX drawdown is a positioning unwind (memory/semi capex) against stable rates. Value's bid is rotational, not defensive.
Macro Fingerprint (The Cause)	**Mechanical Override Checkbox**
Rising real yields + deteriorating equal-weight breadth. Value won by default because the discount rate broke growth.	[ ] Monitor 10y TIPS trajectory [ ] Monitor CWB equal-weight breadth oscillator ACTION: If real yields rise while breadth breaks, **OVERRIDE PRICE STOP AND EXECUTE HARD EXIT.**

Methodology & Institutional Caveats

|---------- [JAN 1995] ----------- STUDY BOUNDARY --------- [JUL 16, 2026] ---------|

Methodology Block

Close-basis daily data, SVX / SPX / NDX. Signal screen restricted to 1997–present. Episode clustering enforced at >30 trading-day gaps to prevent observation overlap. Block-bootstrap confidence bands (B=10,000) are reserved for a dedicated follow-up study. All point estimates herein represent raw historical medians.

The n=7 Constraint

The signal's character has visibly migrated from historical “buy and sleep” dynamics to deep adverse excursions. n=7 is n=7. No amount of chart furniture, geometric formatting, or statistical manipulation alters the fundamental small sample size limitations. The 1/8th-Kelly sizing discount reflects this explicitly.

Disclaimers & Compliance

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