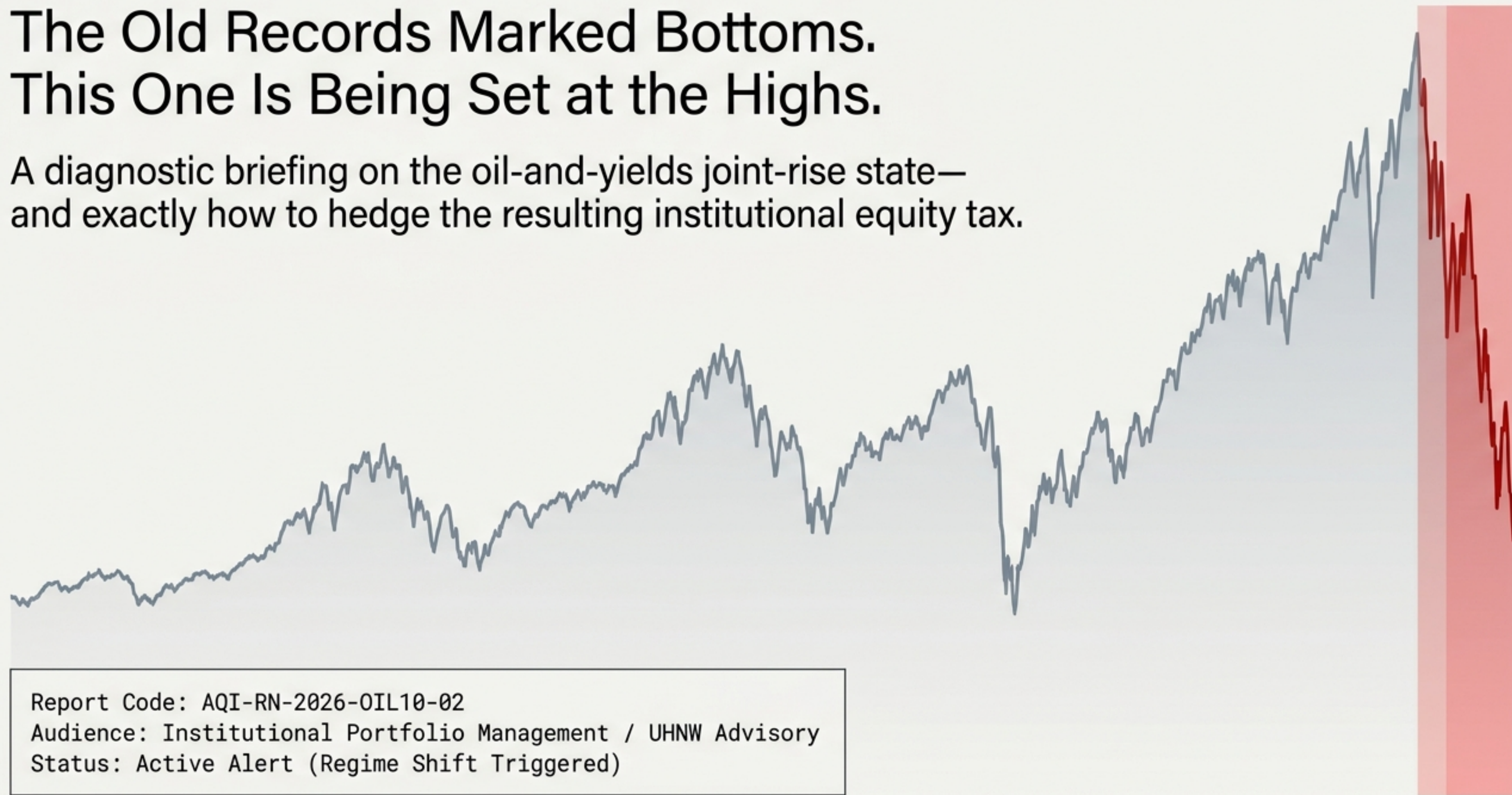


The Old Records Marked Bottoms. This One Is Being Set at the Highs.

A diagnostic briefing on the oil-and-yields joint-rise state—
and exactly how to hedge the resulting institutional equity tax.



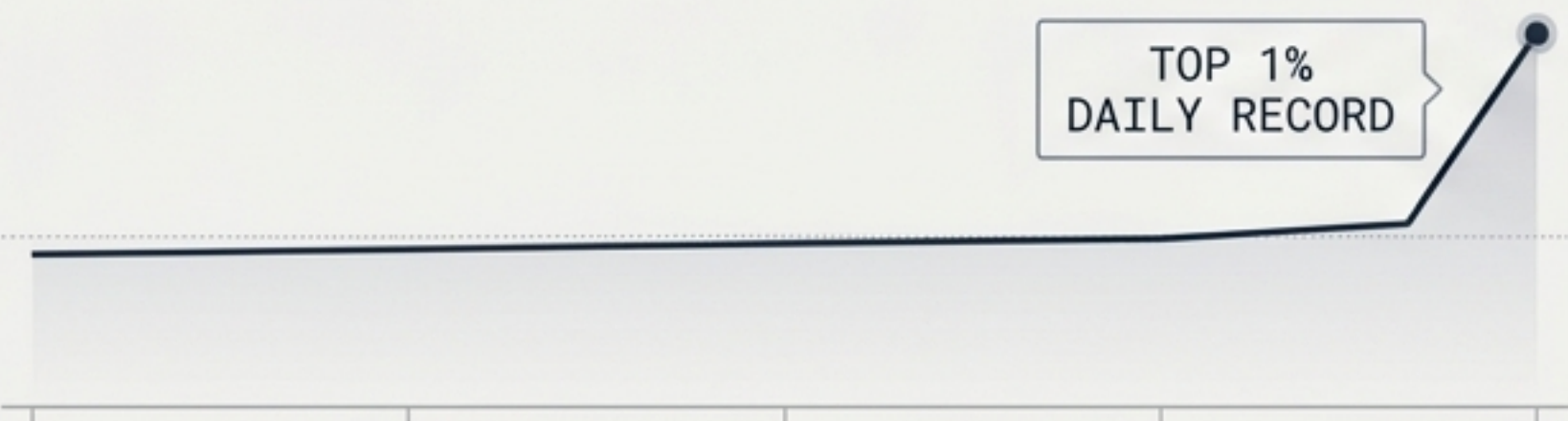
Report Code: AQI-RN-2026-OIL10-02

Audience: Institutional Portfolio Management / UHNW Advisory

Status: Active Alert (Regime Shift Triggered)

The Baseline

Oil and rates coupling is in the **top 1%** of the daily record.



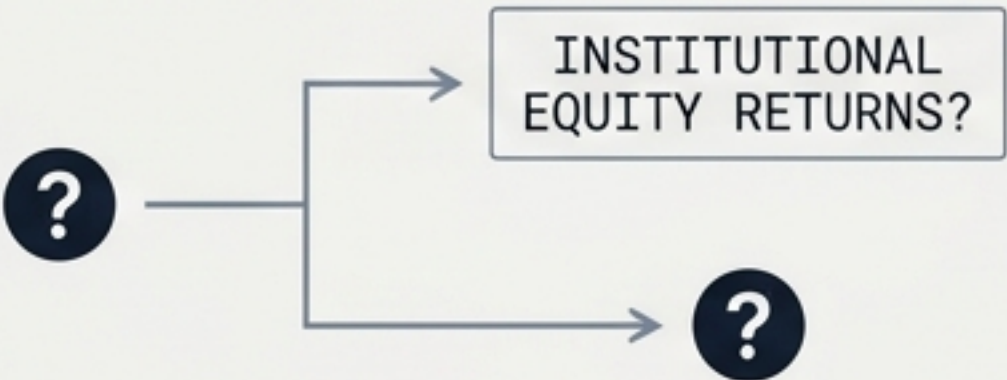
The Friction

A correlation coefficient pools windows where series fall (bond rallies/equity bottoms) with windows where they rise. Today, both are rising rapidly while the S&P 500 sits at all-time highs.



The Dilemma

What does the joint-rise state do to institutional equity returns?



The Resolution

It acts as the market's most reliable slow tax. At all-time highs, it has preceded four of the last five genuine market accidents. Correlation is sign-blind; the sign is the whole story.

ALERT: SLOW TAX DEPLOYED	
!	PRECEDED 4 OF LAST 5 GENUINE MARKET ACCIDENTS
	CORRELATION IS SIGN-BLIND; THE SIGN IS THE WHOLE STORY

Where We Stand: Inside the State, Tightly Coupled, at the High

Terminal Data Box

As of September 9, 2026
(Trailing 126-day metrics):

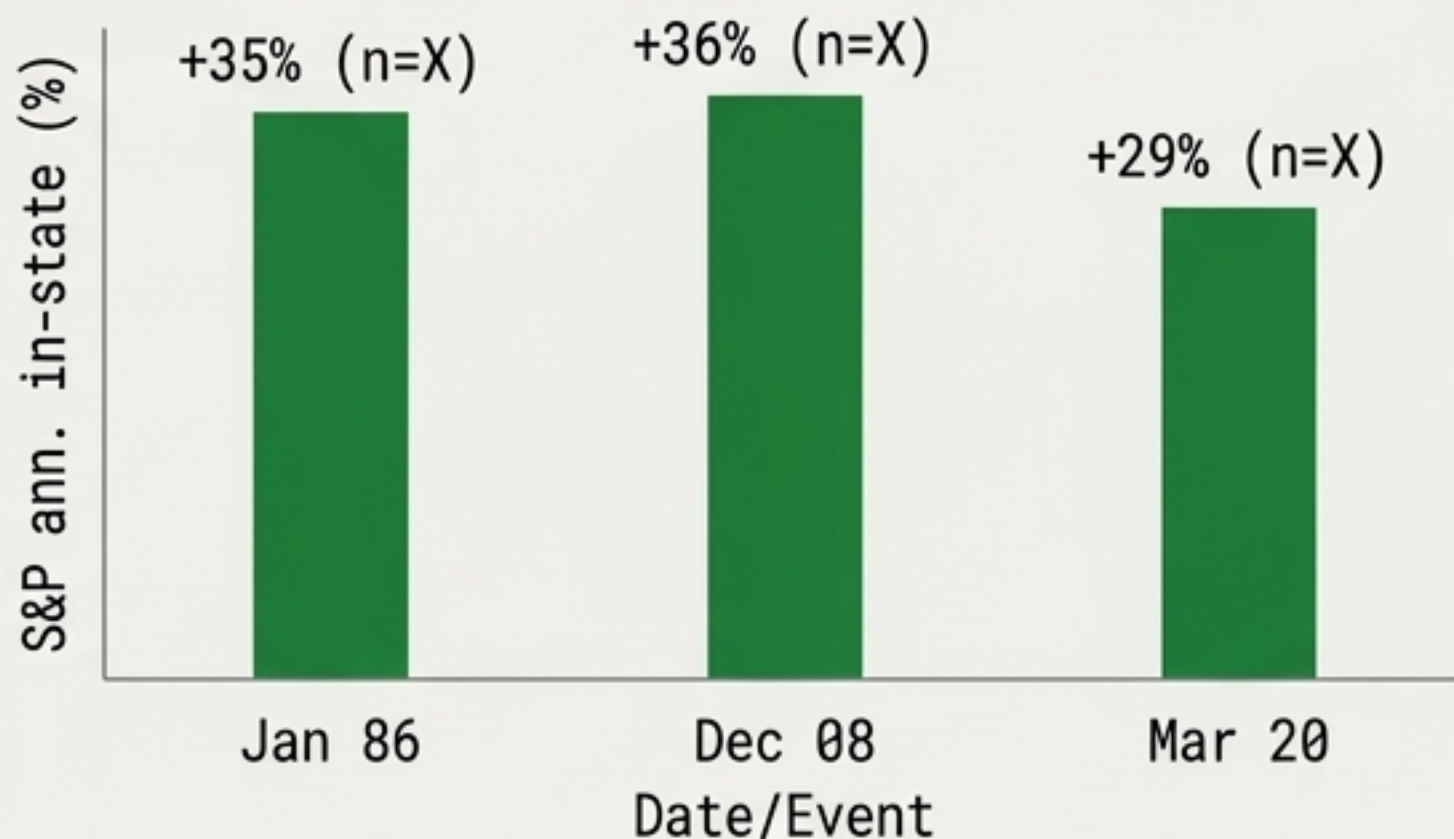
WTI: +15.0%; $\Delta 10y$: +68bp;
Changes-Correlation: +0.55;
S&P 500 Position: Rounding
error of All-Time High

Takeaway: The monthly machine
(Feb→Aug: oil +26%, yields +55bp)
agrees. Today sits inside both the
the joint-rise state (R) and the
tight-coupling version of it (R+C).



Correlation is Sign-Blind. Previous Records Marked Bottoms.

The Anecdote: Joint-Fall State



- Past records (Oct 2011, March 2020) occurred when oil and yields collapsed together.
- S&P annualized +22.5% inside this state.
- Functionally a market bottom-marker (7 of 11 episodes followed by double-digit years).

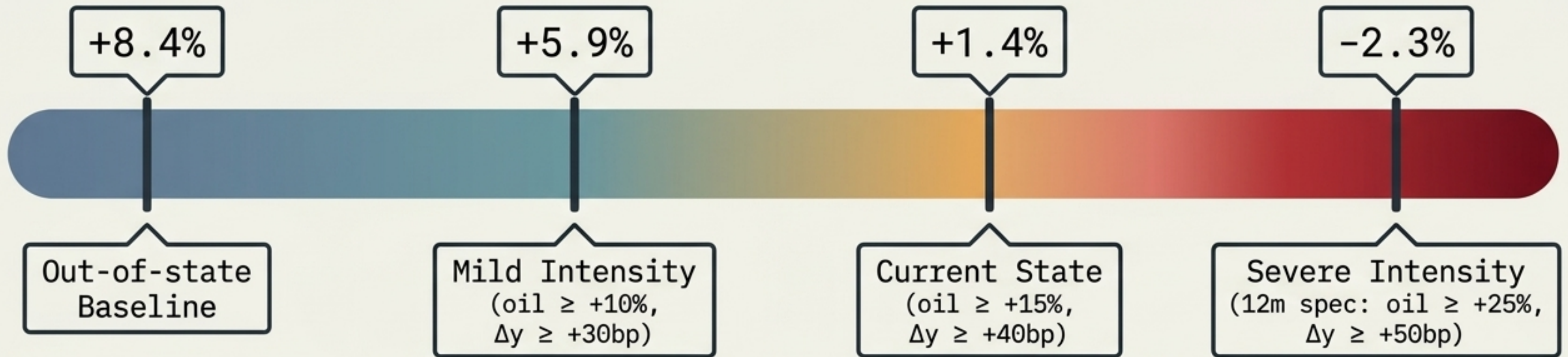
The Current Reality: Joint-Rise State



- When both rise together (current state).
- S&P annualizes a mere +1.4% inside this state (vs +8.4% baseline).

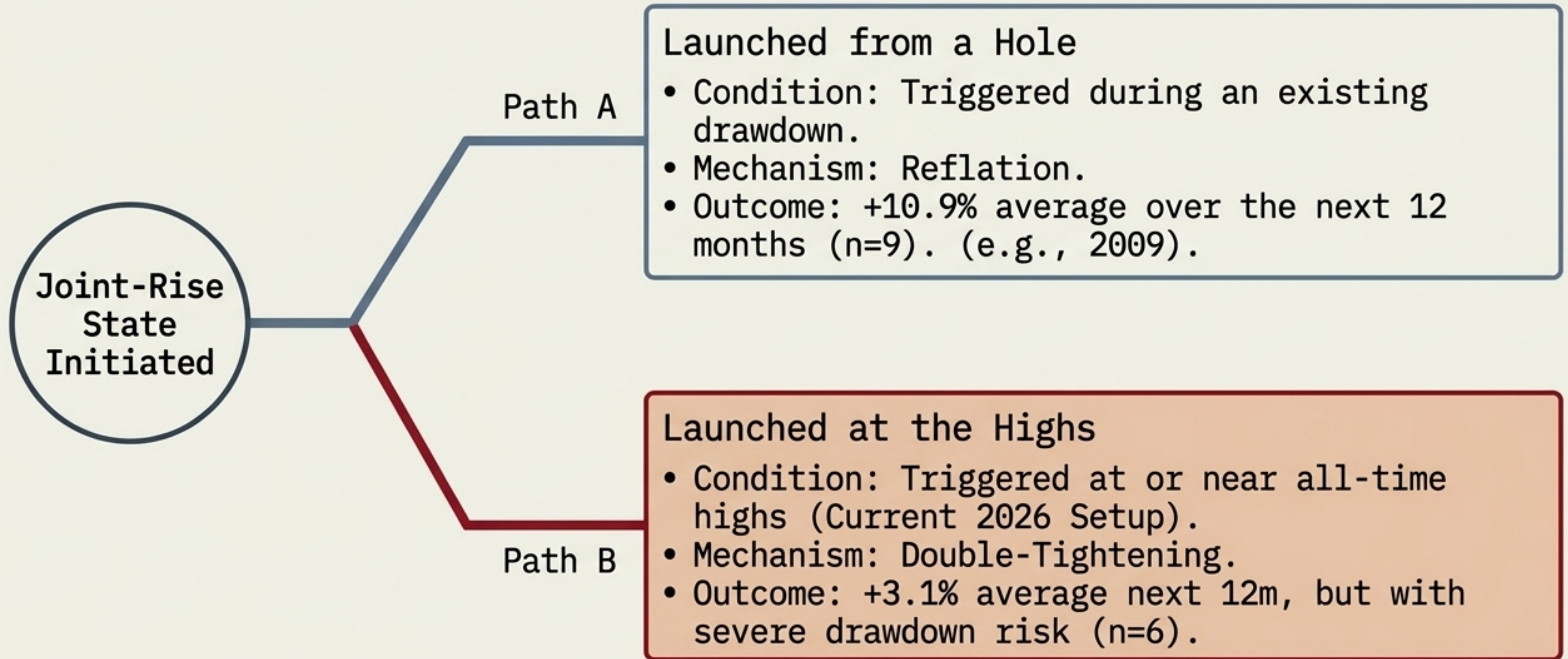
The Equity Tax is Monotone: The Harder Both Rise, The Worse The Tape.

Thermometer of Intensity



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.

Two Species of the Same State: The Onset Decides the Sequel.



The 'At-the-Highs' Cohort: Asymmetric Downside Risk.

Episode	SPX at Onset	Forward 12m	Max Drawdown (18m)
Apr-Jun 1987	+4%	-10%	-30% (The Crash)
Apr-May 1996	At high	+27%	-5% (Benign exception)
Apr 99-Feb 00	+6%	-9%	-18% (Tech Bear)
Jan-Feb 2017	At high	+15%	-4% (Benign exception)
Feb-Jun 2018	-4%	+8%	-14% (Q4 2018)
Jan-Jun 2021	+14%	-12%	-21% (2022 Bear)

Average Max Drawdown: -15.2%. 4 of 6 episodes resolved in drawdowns of -14% to -30% within 18 months.

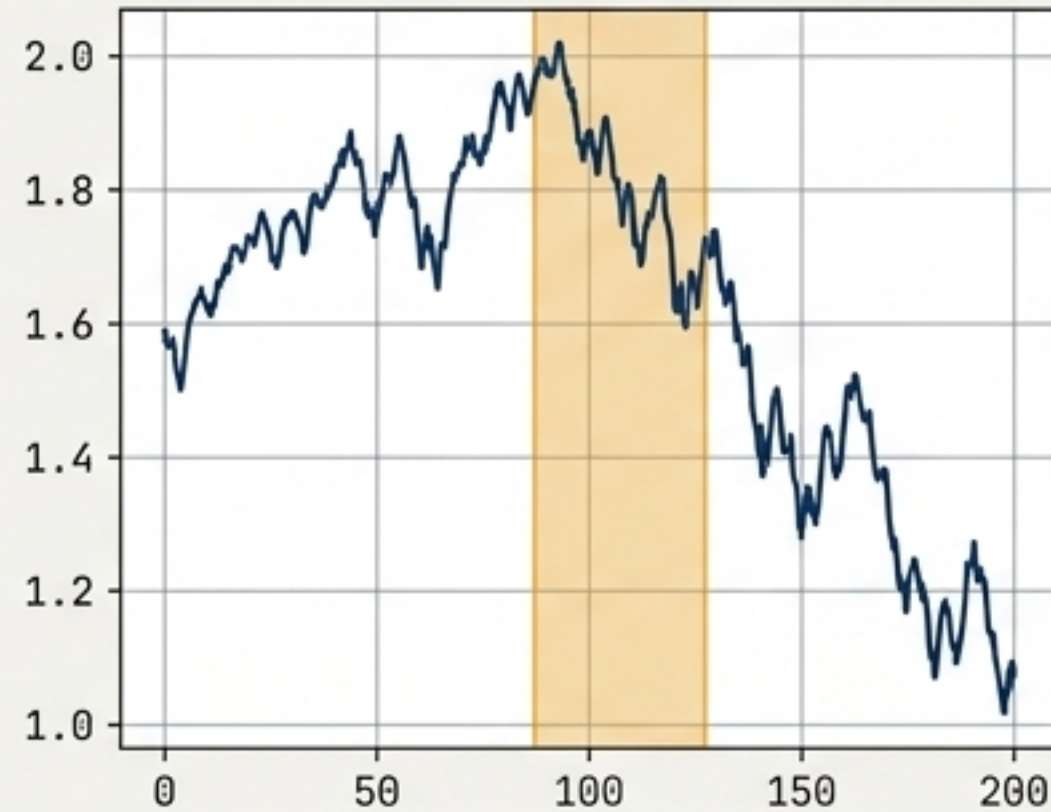
Add Tight Coupling, and the Precedent List Shrinks to One.

2009



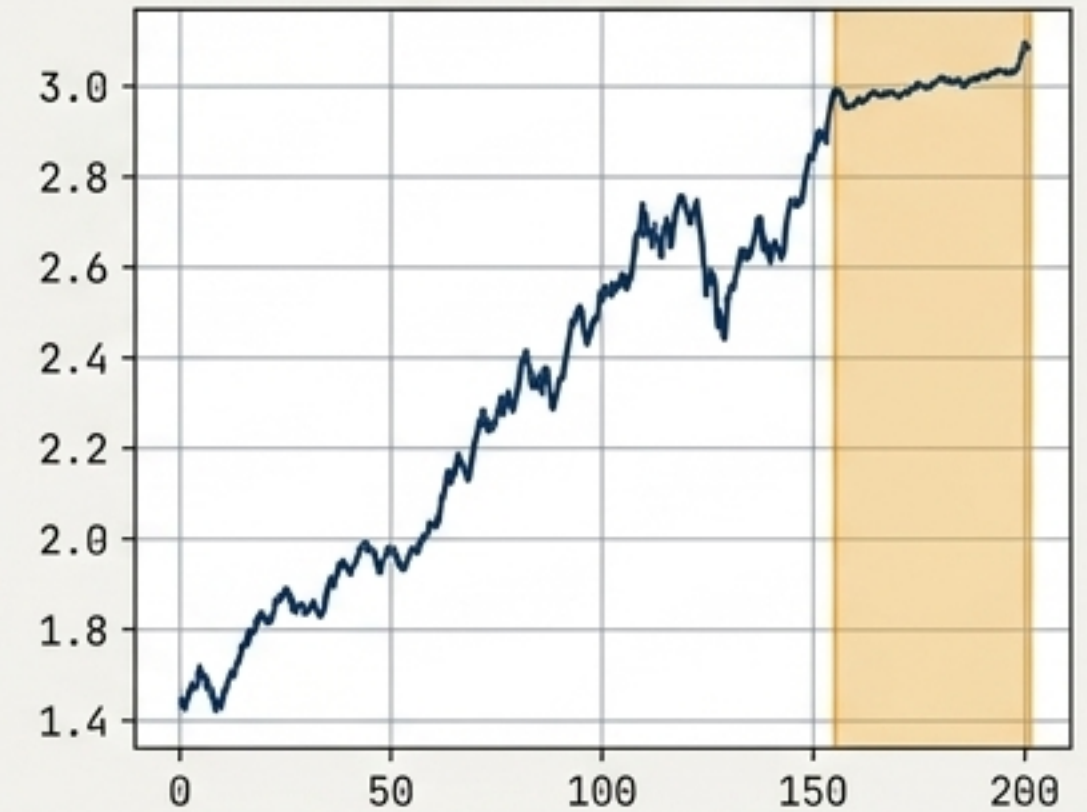
Onset 43% below ATH.
Result: +22% in 12m.

2022



Onset 5% off ATH.
Result: -12% in 12m.
(Bear market began 8 days
into episode).

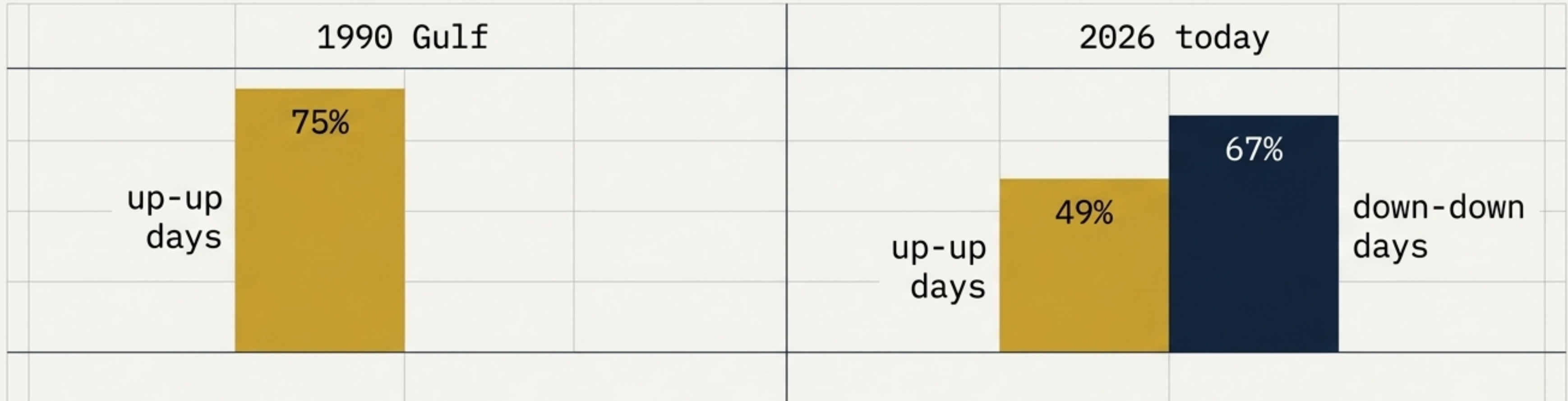
2026 Today



Onset exactly AT the ATH.
Result: Open.

Out of 117 daily occurrences since 1986, there is exactly one completed at-the-highs precedent (Jan 2022). It is not a comfortable one.

The Honesty Check: The Correlation Cuts Both Ways.



Today's 126d covariance is balanced: 49% earned on up-up days (oil↑, yields↑) and 67% on down-down days. By contrast, in 1990, 75% of the coupling was earned only on the way up.

The coupling is genuinely two-sided. It is the mechanism by which real geopolitical resolution transmits to yields, but also the mechanism by which higher crude acts as a tax on bonds and equities.

Portfolio Construction: The State Is the Position.

A



Core Equity Hedge

Action: Upgrade equity hedge from optional to core.

Mechanics: SPX or NDX put spreads (3-4 month tenor).

Sizing: Size for the historical -15% to -30% drawdown profile, NOT the +1.4% in-state drift. The state's message is asymmetry, not forecast.

B



OIL10-01 WTI Put Spread

Action: The Double-Duty State Breaker.

Mechanics: Dec-26/Mar-27 put spread. One position, both books.

C

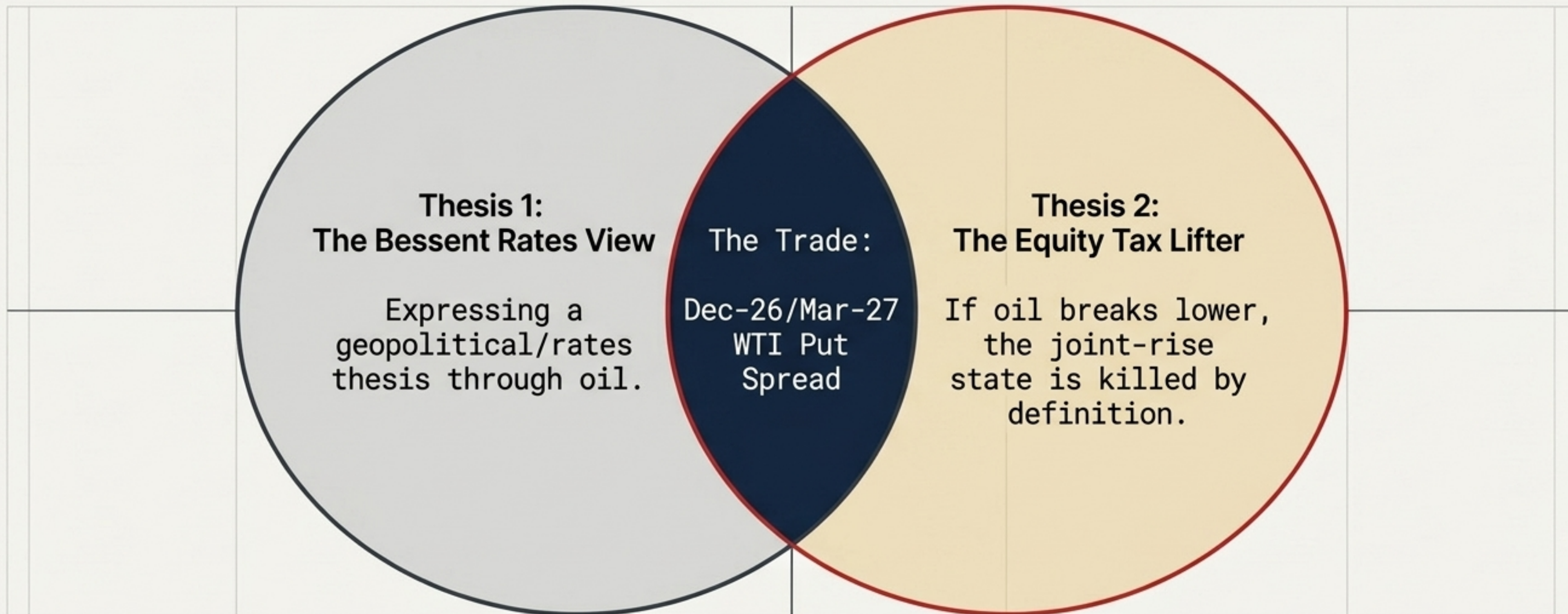


Crude Call Spreads

Action: Duration-book hedge.

Mechanics: Up-up quadrant is where long bonds and equities lose together—this is exactly when crude calls print.

The Elegant State-Breaker: OIL10-01 WTI Put Spread.



By holding this specific spread, a PM automatically captures the upside when the equity tax lifts, while efficiently expressing the rates view.

Quantitative Governance: Exit Rules & Tripwires

Tripwire	Reading	Action
Tripwire 1 (State Exit, Oil Leg)	If WTI < +15%	Tax lifts. Unwind equity hedges into strength.
Tripwire 4 (The 2022 Analog Marker)	If SPX closes below 65d MA while in-state	The 2022 sequence began exactly here. Escalate equity hedges to full size.
Tripwire 5 (Escalation Tail)	WTI monthly close > \$115	State intensifies at highs. Roll equity hedges up.
Tripwire 7 (Benign Resolution)	State exits with SPX within 3% of high	The 1996/2017 outcome. Stand down.

The Busy-CEO Stress Test.

The correlation’s sign regime, not its level, is the signal.

Rising-together at the highs has a one-name precedent list (2022) and it demands hedging.

Defense vs Verdict

The Pushback:

Six at-the-highs episodes is a small sample size. Two were benign. Does this rely on hindsight?

The Quantitative Defense:

The monotonic robustness of the tax. The return penalty shrinks smoothly through zero as intensity rises—proving it is a structural market tax, not a statistical fluke.

The Verdict:

Act on equity hedges at half size now; full size on Tripwire 4. The Treasury Secretary’s talking point is now a regime classification with a live exit rule.