Macro Divergence Study & Tactical Trade Blueprint

2-Year Treasury Yield Spikes vs. Russell 3000 Performance Decoupling

Analysis Period:	July 2023 – July 2026	**Prepared By:**	Quantitative Macro Strategy Desk
Assets Evaluated:	TVC:US02Y (2-Year Treasury Note), IWV (iShares Russell 3000 ETF)	**Date:**	July 13, 2026

1. Executive Summary & Core Finding

This quantitative study examines the structural decoupling between short-term fixed income yields and broad US equity valuations. Historical precedent shows that the 2-Year Treasury Note (***US02Y***) and the Russell 3000 Index (***IWV***) maintain a powerful negative correlation of $\rho = -0.76$ over the full three-year horizon. When the cost of short-term capital expands, equity multiples typically contract.

However, since the first week of March 2026, this relationship has completely fractured. The 2-Year Treasury Note surged from its cyclical low of **3.556%** to the current print of **4.269%**—a tightening shock of **+71.3 bps**. Concurrently, the Russell 3000 Index defied this headwind, gaining **12.0%** to rise from ***380.76*** to ***426.43***. This study details the mechanics of this decoupling and outlines an options overlay engineered to exploit the inevitable mean reversion.

> **The Macro Divergence Hypothesis:** The equity market has treated the recent yield surge purely as growth confirmation, unsustainably ignoring the structural liquidity drain. Either short-term yields must rapidly unwind lower, or broad equities face a sharp valuation adjustment to reflect the higher cost of capital.

2. Quantitative Baseline & Horizon Analysis

Evaluating the current macro picture against the 3-year baseline provides necessary structural context. In July 2023, the 2-Year Note peaked near **4.950%**. While the current yield of **4.269%** remains structurally lower than that multi-year peak, the rate of change since March 2026 represents a severe intermediate policy and credit shock.

Period Baseline	2-Year Treasury Yield (US02Y)	Russell 3000 ETF (IWV)	Macro Correlation (ρ)
July 2023 Baseline	4.950%	243.39	**-0.7605**
March 2026 Cyclical Low	3.556%	380.76	
Current (July 2026)	4.269%	426.43	

Period Baseline	2-Year Treasury Yield (US02Y)	Russell 3000 ETF (IWV)	Macro Correlation (ρ)
Net Delta (March – July 2026)	+71.3 bps	+11.99%	DECOUPLED

3. Trade Structuring & Options Blueprint

To exploit this rubber-band effect without exposing capital to the decay of standard short equity positions, we construct a relative-value, market-neutral options sandbox targeting a 60–90 day window.

Leg 1: The Valuation Squeeze Overlay (Bearish IWV)

Financed Bear Put Spread designed to profit from multiple contraction while mitigating theta decay.

- **Action:** Buy 1x IWV $415 Put (~2.5% out-of-the-money)
- **Action:** Sell 1x IWV $395 Put (Target catching-up zone)
- **Financing:** Sell 1x IWV $445 Call (Fully subsidizes the put spread premium)
- **Net Premium Cost:** Near-Zero / Net Debit Neutral

Leg 2: The Yield Curve Normalization Play (Bullish SHY / Fixed Income)

A pure long play on bond prices appreciating as the 2-year yield unwinds back toward its 3-year downtrend.

- **Action:** Buy 1x SHY $82.50 Call
- **Action:** Sell 1x SHY $84.00 Call
- **Net Premium Cost:** Low Debit

4. Execution & Risk Management Protocols

Strict risk bounds protect the structure against the "No Landing" economic expansion risk, where corporate productivity outpaces credit costs:

- **The Structural Macro Stop:** If the 2-Year Treasury Yield breaks above **4.50%** on a weekly closing basis, close the entire structure. This invalidates the downward unwind thesis.
- **Upside Call Management:** If IWV breaks above ***440.00***, buy back the short $445 Call to remove unlimited tail risk, keeping the put spread as a low-cost hedge.
- **Profit Realization Target:** Exit both legs simultaneously when the strategy achieves **65% of max aggregate value**.