

# SSGA Market Regime Indicator Update

The Market Regime Indicator (MRI) is a proprietary macro indicator developed by State Street Global Advisors' Investment Solutions Group (ISG). Based on forward-looking market information, it is designed to identify the level of risk aversion/appetite in the market. The factors utilized to generate the signal include implied equity and currency volatility as well as spreads on fixed income.

ISG uses the MRI as one of the inputs into its global Tactical Asset Allocation decision-making process.

The MRI is the result of over 12 months of rigorous testing by the Investment Solutions Group. The test results show that the MRI tracked historical market stress events and trading strategies based on the level of outperformance generated by the indicator. By design, the MRI signal varies between 0% and 100%. On this scale, a high level is often characterised by market tensions, such as a significant increase in volatility and a drop in risky asset prices.

## We Have Identified Five Different Market Regimes

**Crisis (level close to 100%)** — Extreme risk aversion ('Fear/Panic')

**High Risk Aversion (level above the average)** — Aversion toward risky assets

**Normal (level oscillating around the mean)** — Characterized by neutral market sentiment

**Low Risk Aversion (level below the average)** — Appetite toward risky assets

**Euphoria (level close to 0%)** — Extreme risk appetite ('Greed/Complacency')

Figure 1 **Market Regime Indicator**

Market Regime Indicator	30/12/2022	31/03/2023
Average — Equity Implied Volatility	Low	Low
Average — Risky Debt Spreads	Normal	Normal
Average — Currency Implied Volatility	Normal	Low
MRI Level	Normal	Low

Source: State Street Global Advisors Investment Solutions Group, 31 March 2023.



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The Implied Volatility on Currencies factor started the year in Normal regime, and, as in the previous quarter, was broadly the most elevated of the three MRI inputs due to considerable central bank uncertainty.

The Japanese yen was central to this in January as early in the month the currency strengthened amid speculation that the Bank of Japan (BoJ) would allow interest rates to rise even further. However, the Japanese currency later slumped against the US dollar after the BoJ surprised markets by keeping its yield curve tolerance band unchanged. February saw the factor move lower, into Low Risk regime, where it remained until the banking turmoil of March, which resulted in the factor moving back to Normal regime. In late March, with rate hikes in line with expectations from the ECB, the Fed and the Bank of England,

and some optimism broadly returning to markets, the factor moved lower into Low Risk regime, where it remained till the end of the period.

The Risky Debt Spread factor entered the quarter in Normal regime before moving into Low Risk regime in early January, largely due to a compression in high yield (HY) spreads. The factor continued to trend down, reaching a low in early March, at which point both emerging market debt (EMD) spreads and HY spreads were at their tightest levels since last spring. However, the rapid fall of SVB triggered a broad reassessment of credit risk and pricing across the range of corporate credit quality, with HY and EMD spreads moving to their widest levels of the year and the factor moving quickly into High Risk regime. The quarter closed with the Risky Debt Spread factor in Normal regime, having moved marginally lower.

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