Qi MacroVantage

MacroVantage scans all asset classes globally, looking for timely observations from Qi's AI driven framework.

Where an asset price has become divorced from macro fundamentals and offers a potential trade opportunity; where factor leadership may be changing or regimes shifting; employing Qi factor sensitivities to run scenario analysis on critical themes.

Topical, timely, machine-driven signals and observations.

#1 Are we any the wiser post the FOMC? **SPX Sensitivity to FCI rising**

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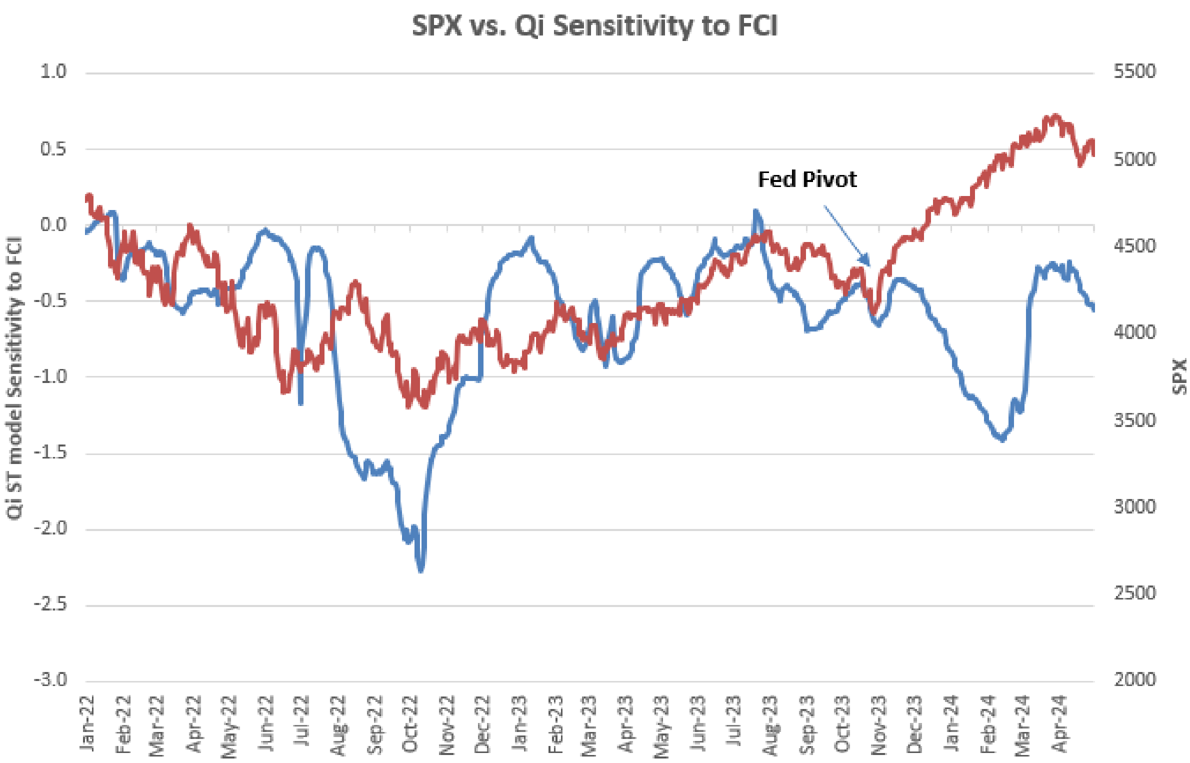
1. ***Are we any the wiser post the FOMC? SPX Sensitivity to FCI rising***

Chair Powell stuck to the narrative that the inflation surprises this year are just bumps in the road, rather than taking the Fed to a different route. Does this tell us anything new? What strikes us is how much uncertainty there is – whatever the Fed pricing is, the uncertainty band around it has expanded a lot. Lest we need a reminder, at the start of the year markets were convinced we would see a series of cuts. At the end of end of the day it is the data that will drive sentiment and whether we can thread the needle for a soft landing. Apple reports tonight followed by payrolls (which have been stronger than forecast for each month so far this year).

Financial conditions (real rates, HY credit spreads, DM FX, inflation expectations) have been primary drag to SPY's Qi model value over April, spilling over to higher risk aversion also. Qi's SPY sensitivity to financial conditions can be seen as a barometer of the market's fear of the Fed's policy reaction function. With this in mind, we note in the first chart that the SPY sensitivity to financial conditions is becoming more negative again. Stocks navigated Q1 well despite the rise in sensitivity precisely because FCIs eased post the Fed pivot (alongside a reflationary mindset). If there is rising uncertainty it is more likely SPX moves more in line with FCI.

The second chart plots major indices and sector ETFs across two variables – their Qi fair value gap vs. their Qi macro-warranted value and their sensitivity to US FCI (as defined above). Clearly, the vast majority risky asset benefit from easier FCI, some more than others (see Observation # 2).

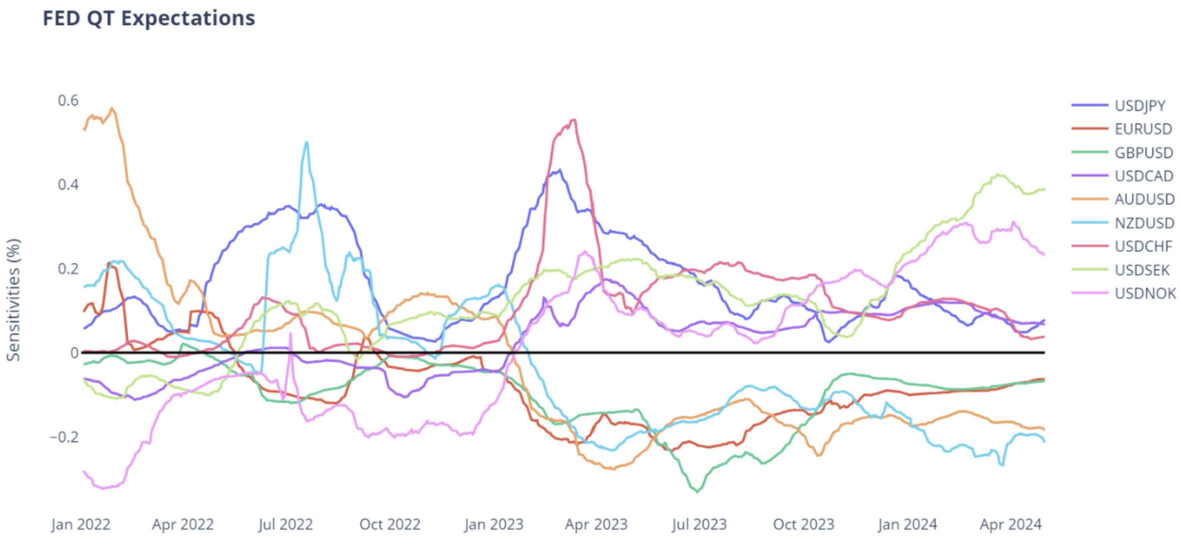


2. ***Any Taper Tantrum for FX?***

At the margin, the Fed's QT taper was more aggressive than anticipated.

The new monthly ceiling of $25bn is only modestly below what was expected. But, to the extent it removes some of the pressure on the bond market in terms of how much UST duration it needs to take down, it can also be seen as helping limit the upside in US yields & therefore a potential headwind for the Dollar.

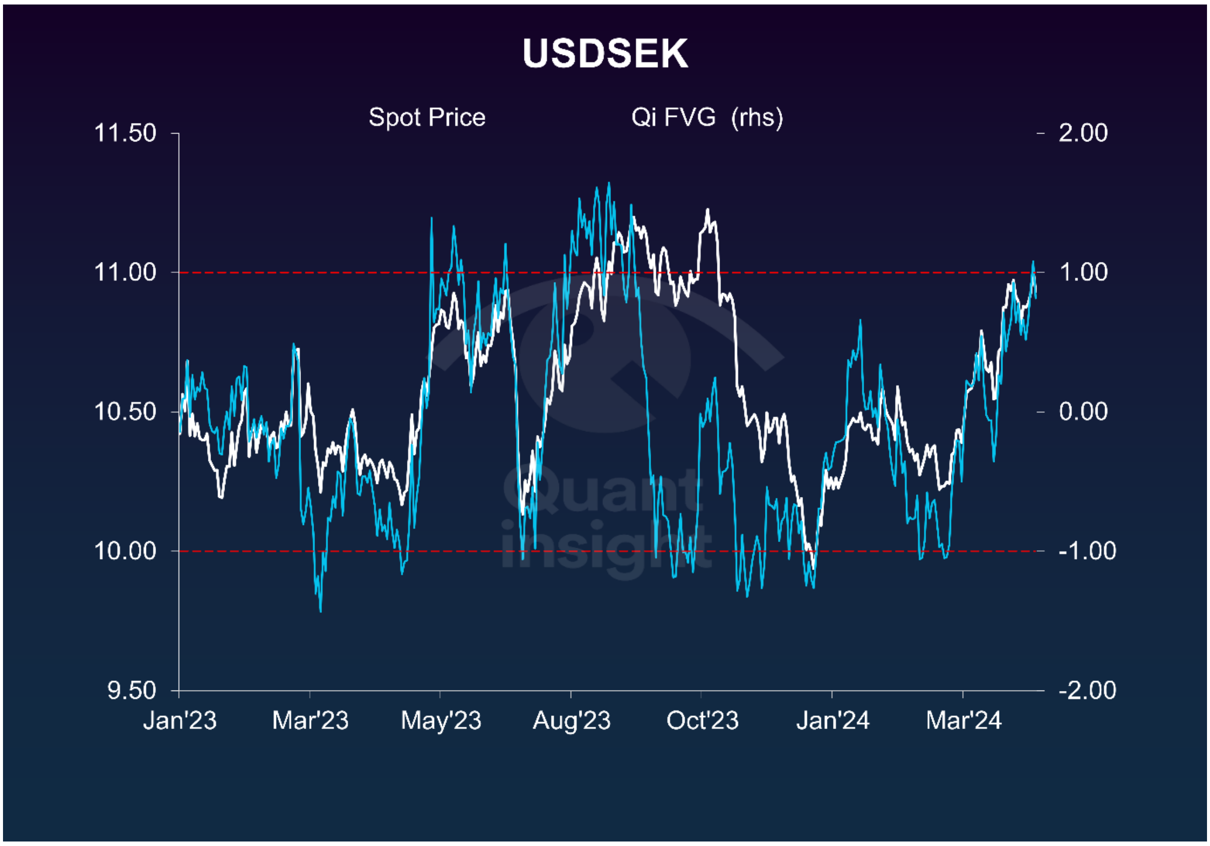
Qi employs rate volatility as a proxy for Fed QT expectations & it is a factor in every G10 Dollar model. The chart below shows the percentage impact on each $ pair for a one standard deviation increase in our Fed QT factor holding other factors stable.



The cross most sensitive to the Fed's balance sheet right now is USDSEK. On current patterns, the Dollar appreciates 0.39% for every one sigma increase in US rate vol (Fed QT expectations).

Put another way, USDSEK is the pair most vulnerable to a dovish shift in the Fed's balance sheet policy. USDSEK is also the richest $ cross amongst G10 pairs on Qi. It is 0.8 sigma or 2.4% above macro-warranted model value.

A level that back-tests well (65% hit rate) as a bearish signal & one where recent history vindicates the idea that the mean reversion happens via spot catching up or down to Qi model value. In short, for anyone believing last night's taper announcement was big news, USDSEK looks the most efficient expression.



3. ***Rising concerns on US consumer? XRT is the most sensitive US sector to financial conditions***

Amazon's CFO said: "Customers in the US are being very thoughtful about their spend. They look for deals, they trade down and look for lower ASP (average sale price) products."

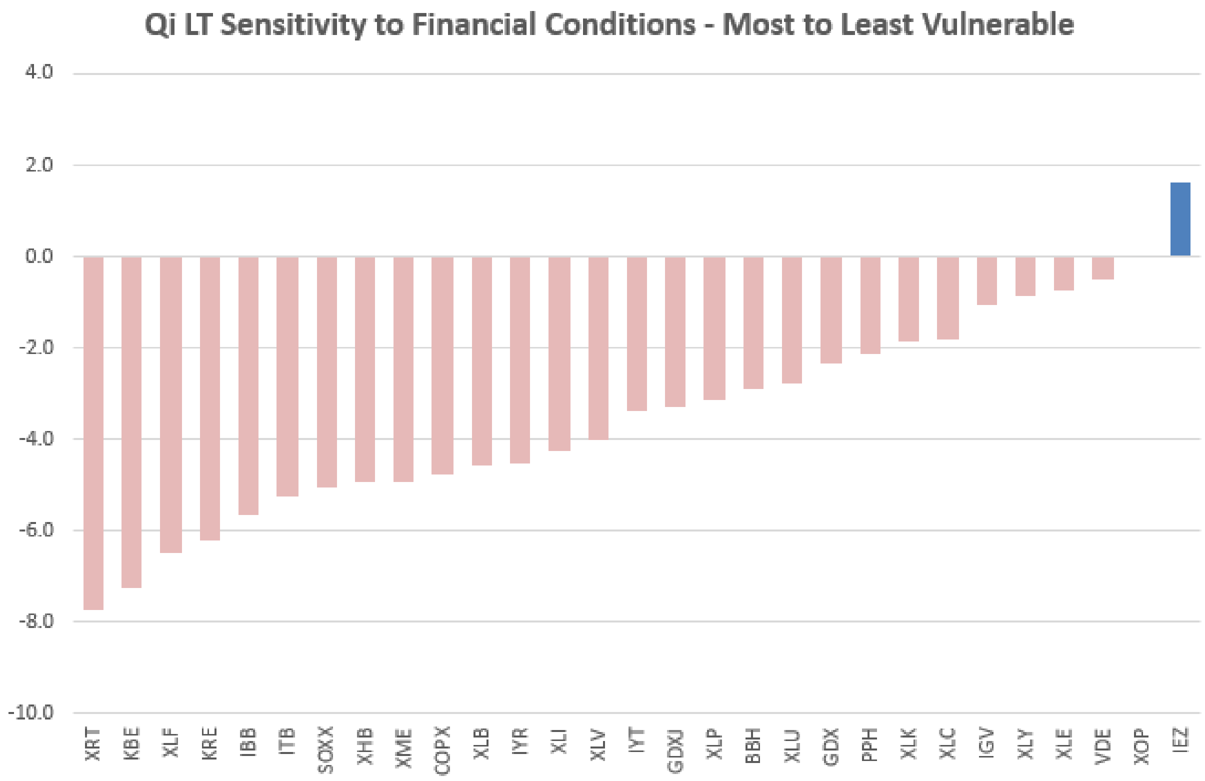
Starbuck's CEO said: " We continue to feel the impact of a more cautious consumer, particularly with our more occasional customer and a deteriorating economic outlook has weighed on customer traffic and impact sales broadly across the industry"

Meanwhile Harley Davidson sharply fell last week on rising dealer inventories.

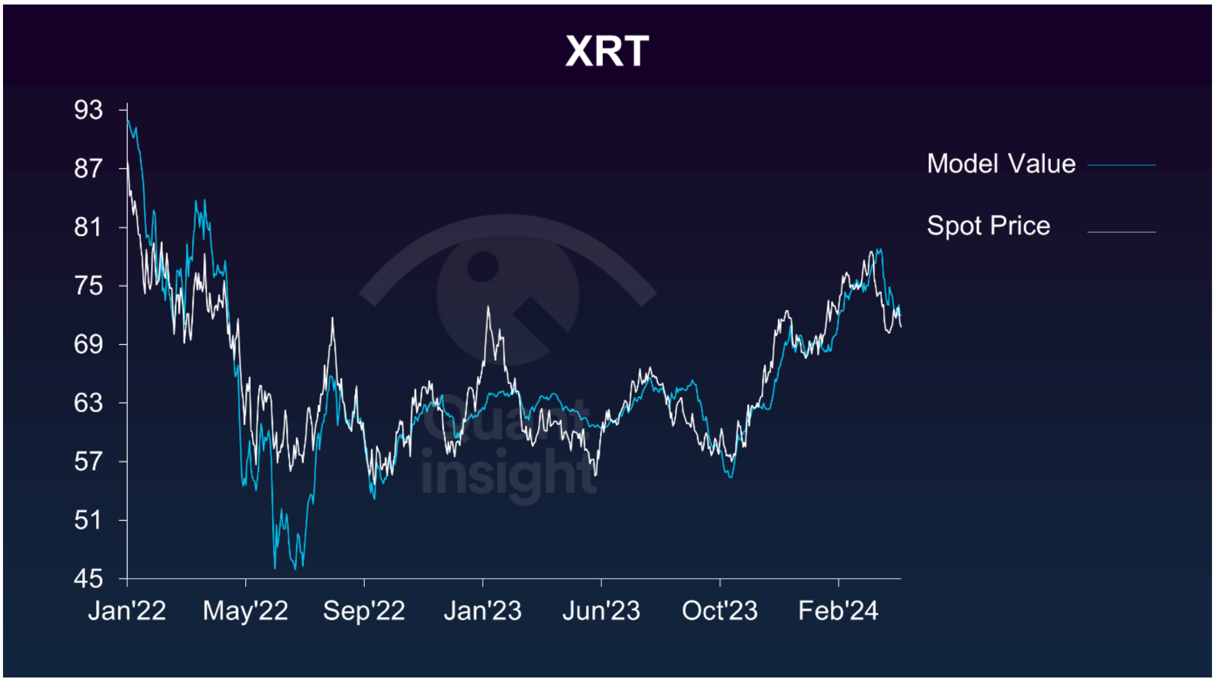
Together, signs that consumers are becoming more cautious.

With this is mind, below we show US sector ETF sensitivity to FCIs (the

, CDX HY corporate credit spreads, real rates, and rate vol). The most vulnerable sector to tighter financial conditions is XRT (which excludes Amazon & Tesla). This is followed by banks, long duration (biotech), homebuilders / construction and real estate.



And XRT macro momentum has decidedly rolled over...

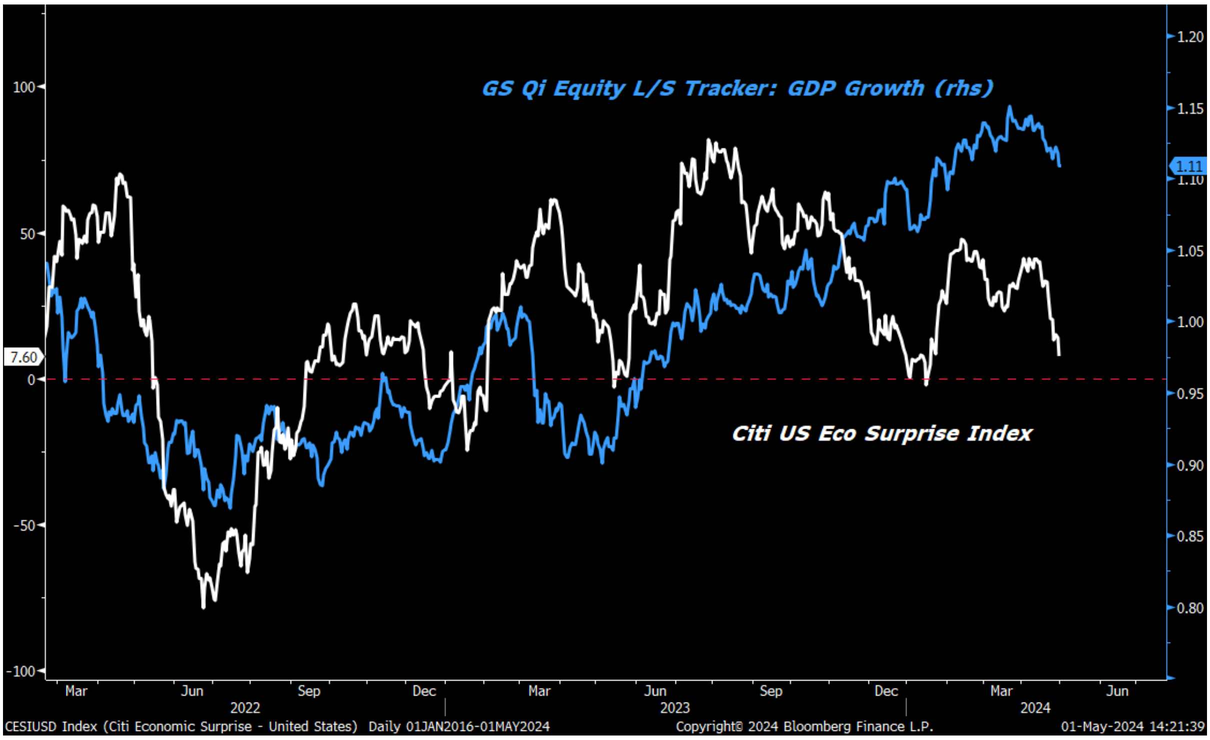

XRT
93
87
81
75
69
63
57
51
45
Jan'22
May'22
Sep'22
Jan'23
Jun'23
Oct'23
Feb'24
Model Value
Spot Price
Quant insight

4. ***Any disappointment is being pounced on; same goes for any cracks in the growth outlook – watch Qi GDP Growth Basket and US Industrials***

We previously said that the onus on this earnings season was high – if the Fed policy reaction function has now become uncertain any cracks in reflationary narrative would be pounced on. This earnings season has shown that poor messaging is being punished. Likewise, if the FCI outlook has just become more uncertain, risky assets will want supportive economic news i.e. not for talk of stagflation to take hold. Note just this week we saw a dip in ISM Mfrg back below 50, but a jump higher in prices paid to 60.9 (55.8 expected). With this in mind, two observations:

1/ Qi's GDP growth tracking basket has started waning over the last month, alongside a fading Citi US Eco Surprise Index. See the first chart.

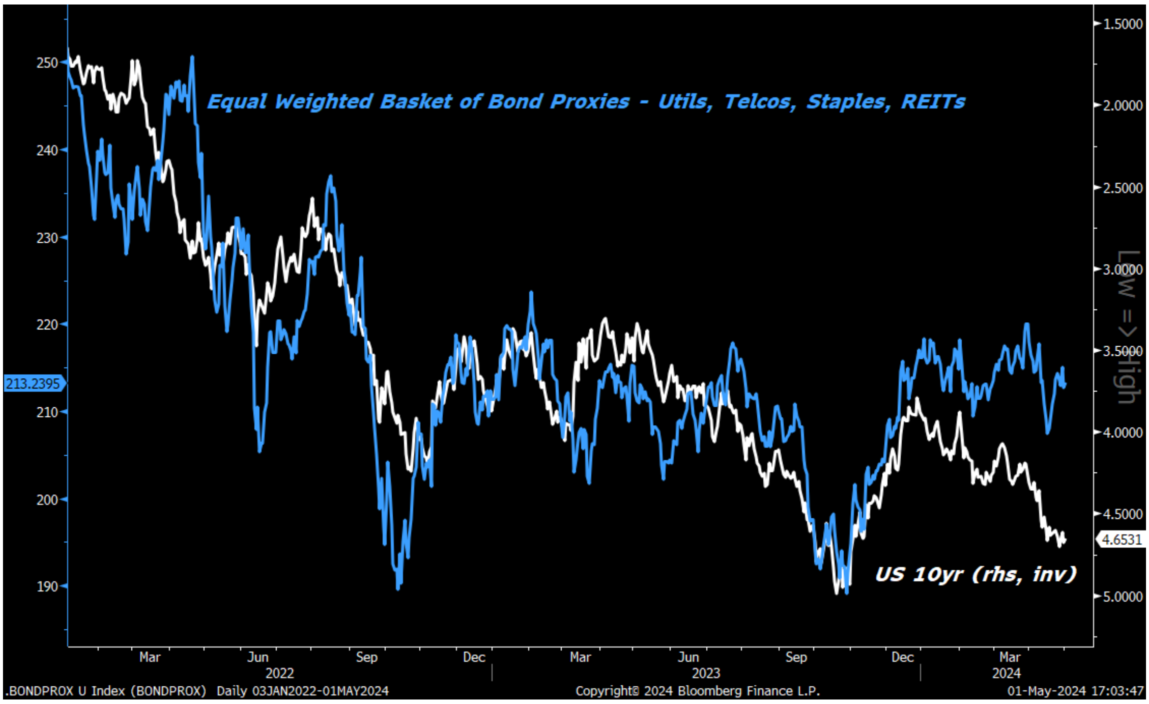
2/ US Industrials have been outperforming the broader market since the start of February. From a Qi perspective, the price relative of S5INDU vs. SPY screens rich to it macro-warranted fair value at +1.3 sigma.



5. ***Stay away from "Bond Proxies" are among the richest sectors to Qi macro-warranted fair value in the US:***

Qi shows utilities and staples as the richest sectors in the US. A simple overlay of these classic bond proxies (below we show an equal-weighted basket of XLU, XLP, IYZ, USRT) vs. the 10yr US bond yield highlights the reason why.

Ordinarily, these sectors would favour lower US rates. However, this year they have not traded like traditional bond proxies. Given their rich status, a hawkish Fed will challenge the ability of these sectors to act a defensive hedge. While a dovish Fed message does will not offer further impetus. In our view, this make convergence in the jaw gap below compelling.



6. ***But if you are looking for something that goes with a lower dollar…***

MNST (Monster Beverages) is trading cheap to its macro warranted fair value **ahead of earnings today** and among its largest factor exposure is to a lower USD.