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.

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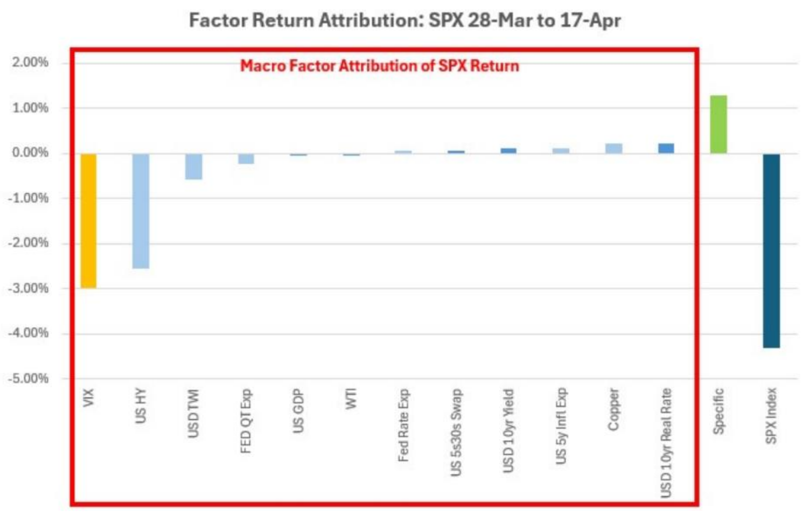
1. *Attributing the pullback to macro – financial conditions and risk aversion are front & centre*

The S&P500 index has fallen 4.3% from its local peak on 28th March. Qi's macro return attribution model is able to reveal the macro components of the drawdown thus far - important for any risk manager to understand as cross-asset vol rises, alongside any traditional style / industry exposure analysis.

Through a macro lens, the largest drags have come from risk aversion and financial conditions. Risk aversion is proxied by VIX; while the primary drag within financial conditions comes from wider HY credit spreads, dollar strength and higher Fed QT expectations (i.e. rate vol). The pullback thus far has NOT been about growth concerns - indeed, in aggregate the component of returns from our growth expectations bucket has been positive. Specific returns are the residual of returns that cannot be explained by macro - this component is also positive. In other words.

Factor Return Attribution: 28-Mar to 17-Apr

Financial Conditions	FED QT Exp	-0.23%
	Fed Rate Exp	0.06%
	USD 10yr Real Rate	0.23%
	USD 10yr Yield	0.12%
	USD TWI	-0.57%
	US HY	-2.54%
		-2.93%
Growth Expectations	US GDP	-0.05%
	US 5s30s Swap	0.07%
	Copper	0.22%
	WTI	-0.04%
	US 5y Infl Exp	0.12%
		0.32%
Risk Aversion	VIX	**-2.98%**
Idiosyncratic	Specific	1.28%
	SPX Index	**-4.31%**
	% Return Attributable to Macro	*-5.59%*
	% Return Attributable to Specific	*1.28%*



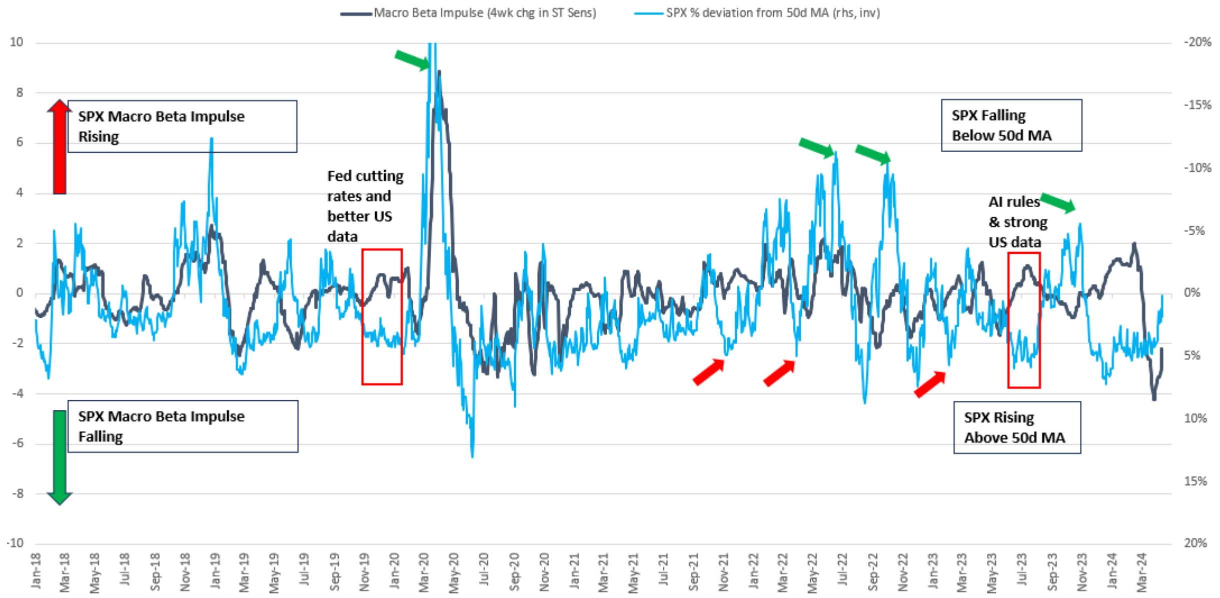
2. *The S&P500 Macro Beta Impulse is also starting to rise led by sensitivity to real yields and the dollar*

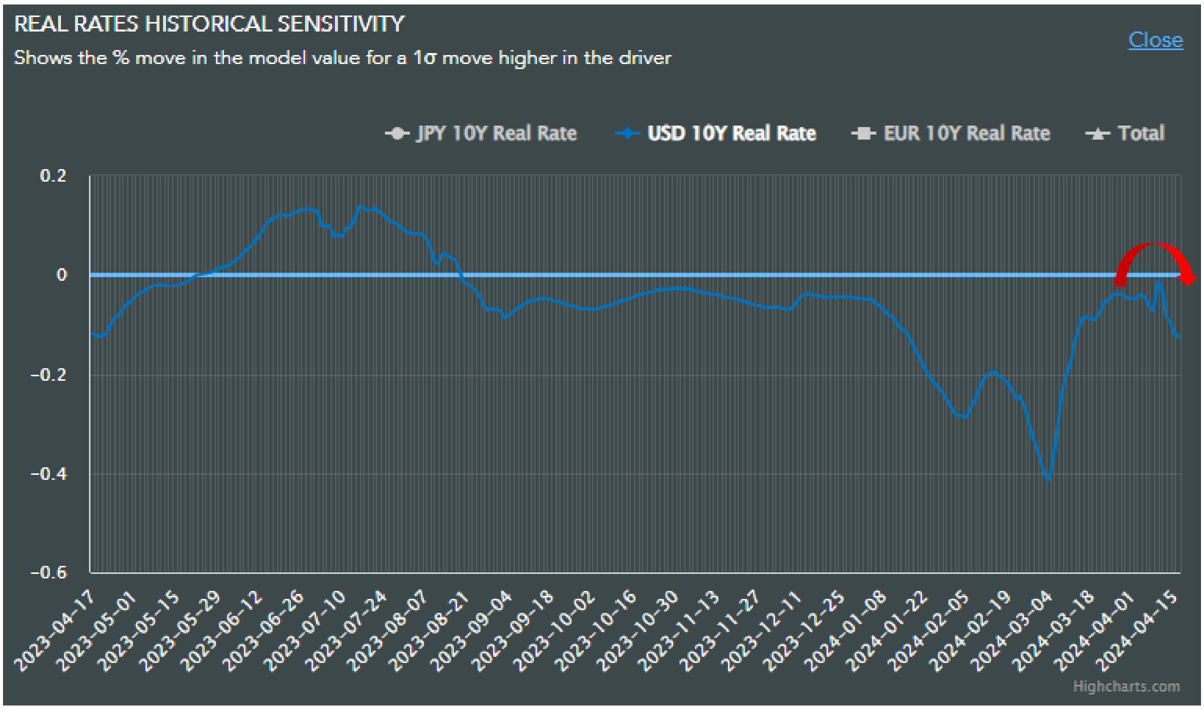
Had apathy grown about the ability of equities to rally regardless of the news?

We have said in several recent reports that risky asset vulnerability would be reflected in 1) falling model price momentum and b) a rising macro beta impulse. Both of those boxes are now ticked.

Further, we are seeing signs that financial conditions are starting to matter – it is not merely about the growth outlook.

We had previously commentated that in Q1 the S&P500 sensitivity to real yields almost turned positive – a reflationary mindset. That is now changing into Q2 where we see the sensitivity to real yields turning more negative – a sign of market nervousness.





3. *All eyes on Janet Yellen*

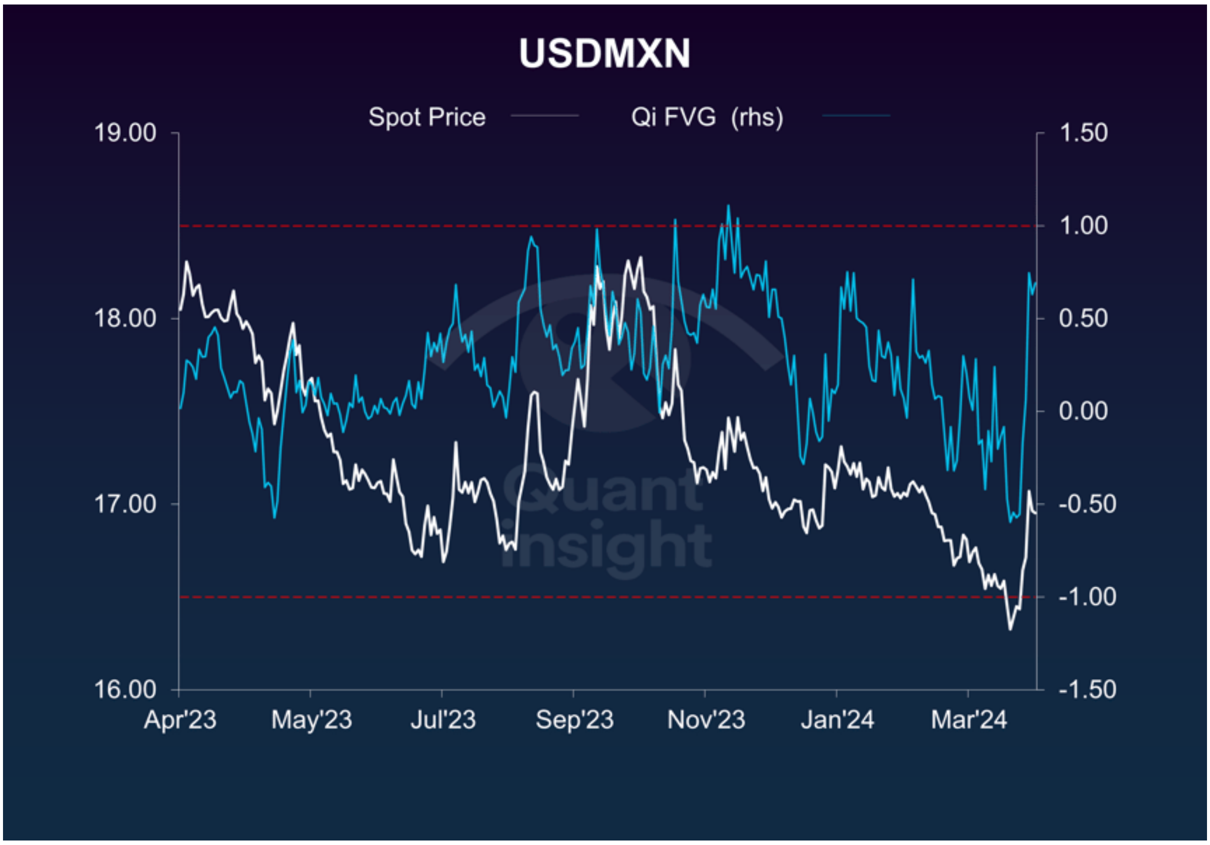
Her "serious concerns" comment effectively gives the Japanese a green light to intervene in USDJPY. She is also in charge of the Quarterly Refunding Announcement due in 2 weeks time.

Aside from earnings season, these are arguably the two most important bits of event risk facing markets today. The preferred scenario for risky asset bulls is:

1.) MoF intervention - it has marked the top in the Dollar & US yields on the previous two occasions they've stepped in
2.) a repeat of November's QRA that skewed US debt issuance from bonds to bills &, alongside the Fed pivot, was the catalyst for the "everything rally" over the last 5 months.

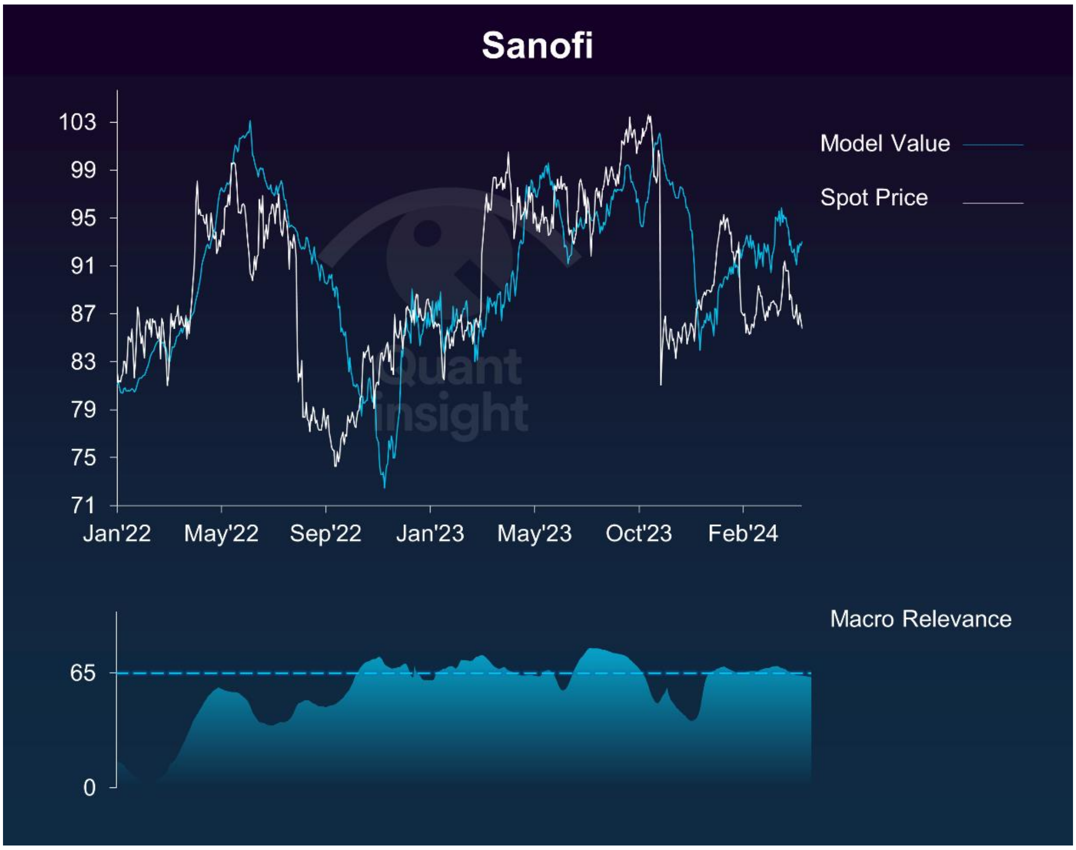
If that transpires, FX players will be back seeking strategies that work in a low vol, high carry environment. On Qi, USDMXN looks the most interesting for believers in a Dollar reversal.

It's been 0.8 sigma (1.9%) rich to macro & in regime just 8x since 2009. Back-testing that FVG as a sell signal elicits a 63% hit rate & +1.5% average return. Over the last year Qi's FVG & spot price have posted a strong correlation suggesting there's good risk-reward on the current gap closing the 'right' way.



4. SANOFI – Cheap with Interesting Macro Exposure Characteristics for Portfolio Construction

- Sanofi is cheap to the Qi macro warranted model price by 1.2 standard deviations or 8.4%
- This is close to the cheapest it's been in the last year on macro model valuation while macro has been significant in terms of explanatory power of share price
- The drivers are also interesting for portfolio construction purposes as they are fairly opposite to the SXXP index, Sanofi wants
    1. Higher inflation
    2. Higher real rates/credit spreads
    3. Lower GDP and a flatter curve
- Stock was hit in Q4 last year owing to concerns about further R&D spend and Q124 earnings are out next week



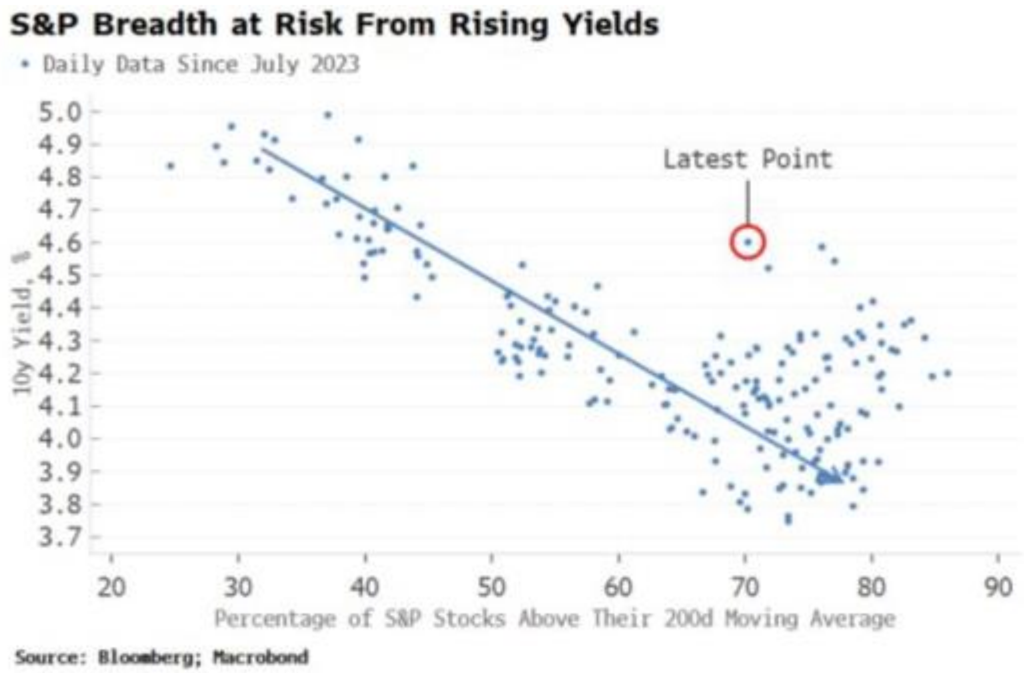

TOP DRIVERS
Shows the % move in the model value for a 1σ move higher in the driver
Currently Active Date: 2024/04/18
Display drivers on: 2024/04/18
View All
NEGATIVE DRIVERS
POSITIVE DRIVERS
USD Liquidity – JPY
-0.97
USD Liquidity – EUR
-0.85
Euro GDP
-0.66
Euro 5s30s Swap
-0.60
US GDP
-0.60
VIX
-0.40
VXEEM
-0.39
VDAX
-0.36
Gold Silver Ratio
-0.32
WTI
-0.18
1.07
Euro 10Y Infl. Expec.
0.90
Euro 5Y Infl. Expec.
0.69
Euro 2Y Infl. Expec.
0.63
Japan GDP
0.63
USDCNH
0.62
Italian Sov. Confidence
0.61
EUR 10Y Real Rate
0.54
US HY
0.48
Itraxx Xover
0.45
USD 10Y Real Rate

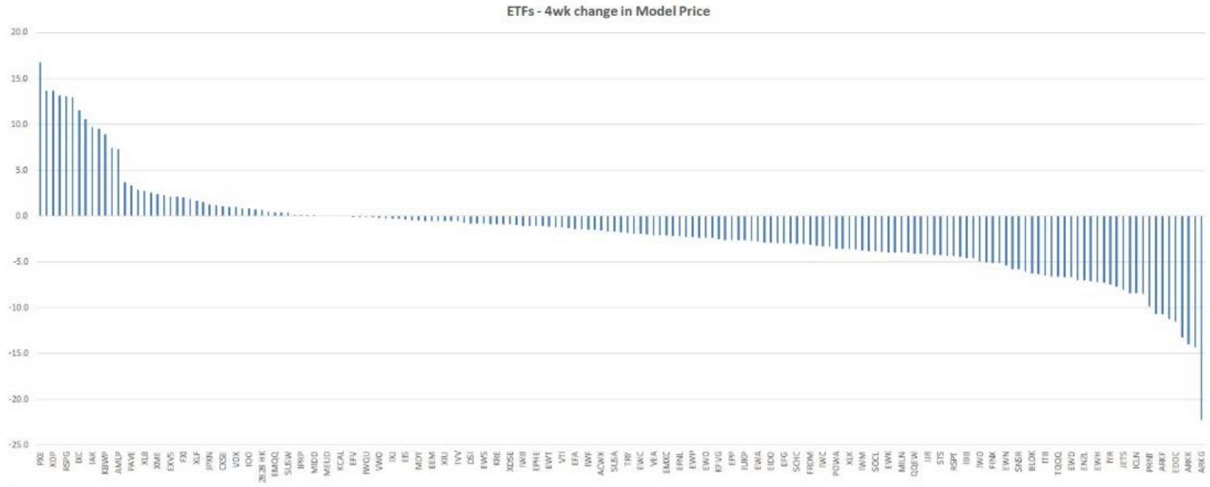
5. ***Market breadth stifled - US Technology model momentum now waning, led by the more speculative end i.e. ARKK***

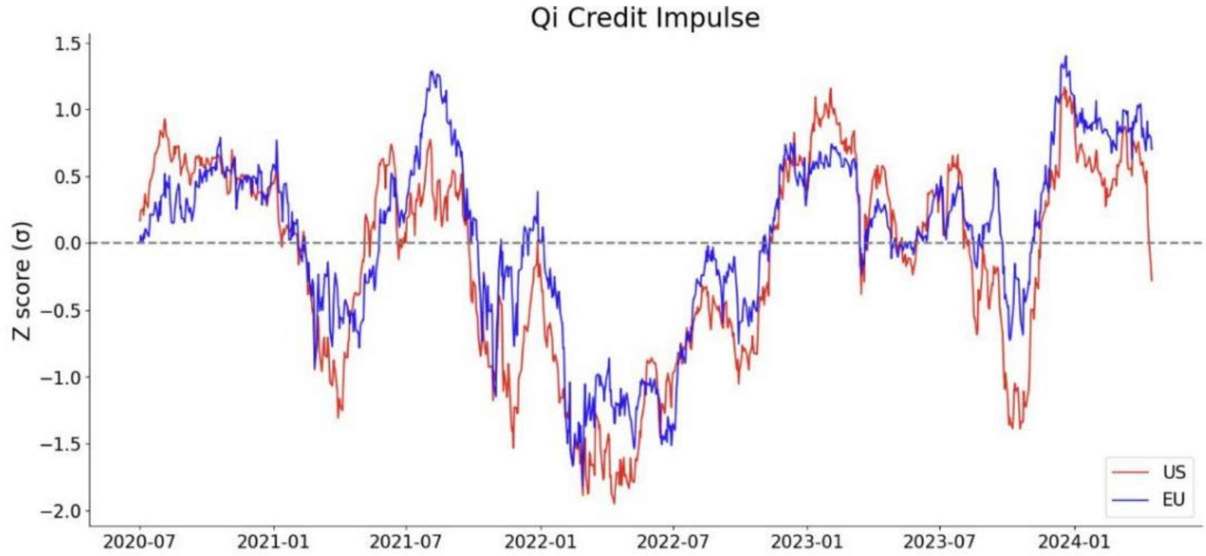
In a sticky inflation world, the improvement in S&P500 breadth is now stifled and folk will try to hide in quality, mega cap tech over small caps and bond proxies. However, this isn't really a great recipe for a risk-on market. For breadth, we need speculative areas to outperform. See the first chart.

We track Qi model price momentum across all securities. Zooming in on our universe of 179 equity ETFs, we note that only 25% of this subset have seen their macro warranted model value rise over the last 4wks. See the second chart below. Digging further into where macro momentum has been weakest, we see the more speculative end of Technology as the biggest laggards e.g. ARK Innovation, Biotech, ARK Next Generation Internet, Global Autonomous and Electric Vehicles etc. Indeed, these pockets are the most sensitive to financial conditions.

Qi has constructed a measure of the US credit impulse which speaks to financial conditions relative to trend. Be aware that credit has now turned a net headwind for markets / the economy. See the third chart.





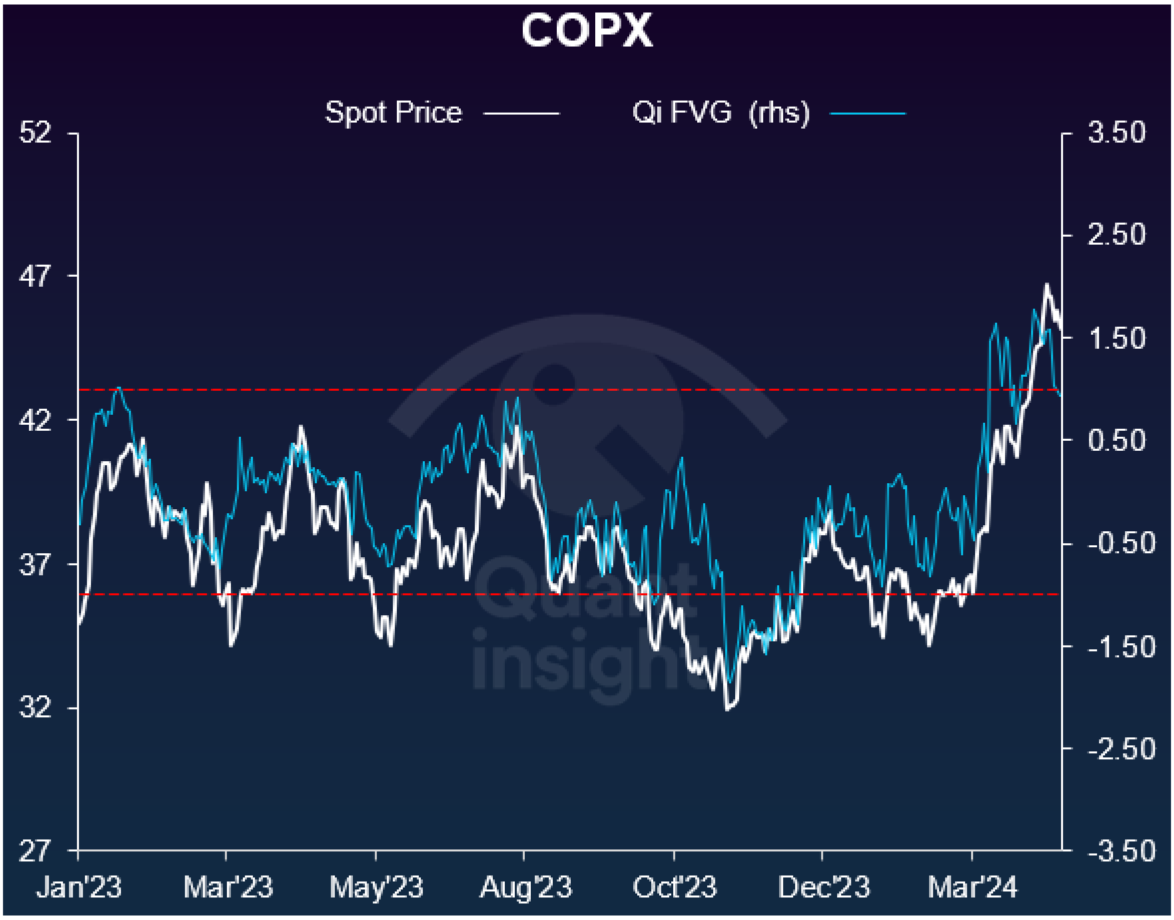


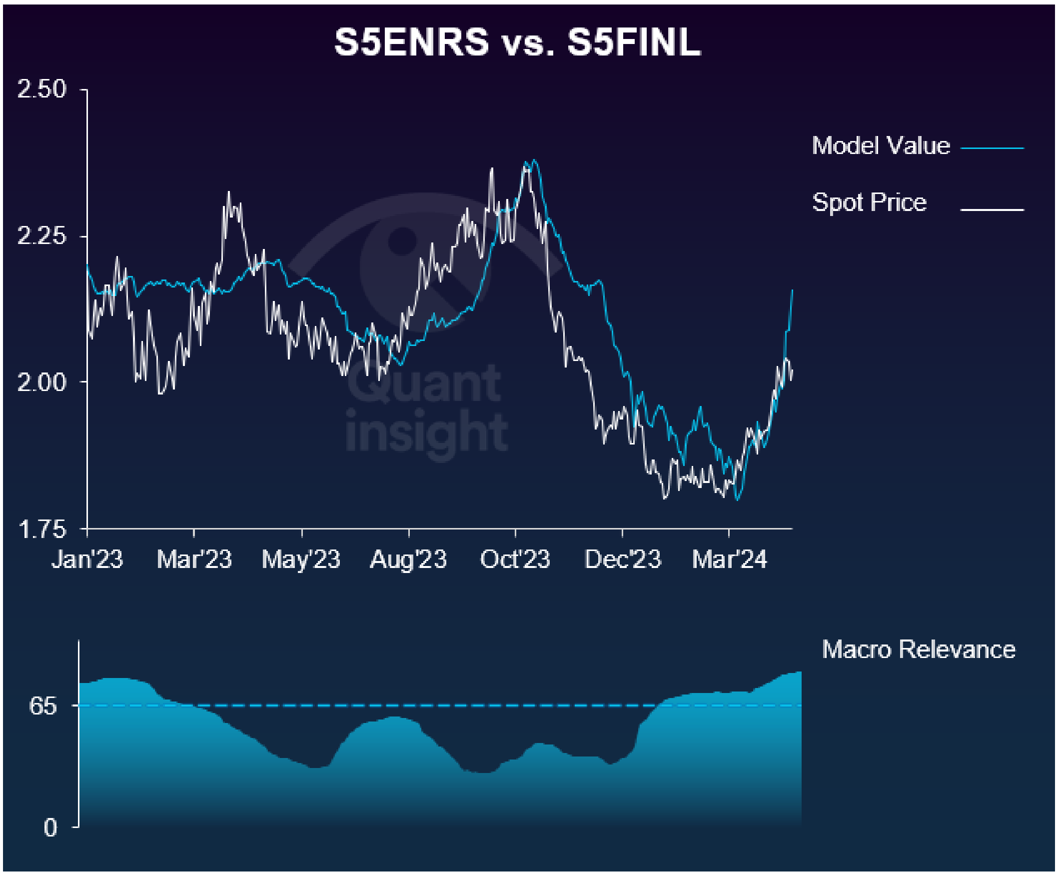
6. ***Across commodity equities, energy still cheap to macro model value but precious / base metal equities still rich***

In the scenario of a Fed policy error actually manifesting, the dollar would ultimately succumb to weakness. The equity market destination would be commodity sensitive equities, in the desire to increase exposure to real assets.

However, there is a distinction to be made within commodity equities. Recently, we highlighted GDX as a sell idea – dislocating from higher real yields and dollar strength. While GDX has started to weaken, it is still 1.7 sigma rich to Qi's macro-warranted fair value. Alongside, COPX (Global Copper Miners) is still 0.6 sigma rich (first chart below). Copper itself is particularly sensitive to financial conditions, namely rate vol and CDX HY. Copper is 2 sigma rich to its Qi macro-warranted fair value.

The flipside is that US Energy equities trade cheap to their Qi model value and at the cheaper end compared to its US sector peers. Particularly, on an RV basis to US Financials (see the second chart below).


COPX
Spot Price
Qi FVG (rhs)
52
47
42
37
32
27
3.50
2.50
1.50
0.50
-0.50
-1.50
-2.50
-3.50
Jan'23
Mar'23
May'23
Aug'23
Oct'23
Dec'23
Mar'24


S5ENRS vs. S5FINL
Model Value
Spot Price
2.50
2.25
2.00
1.75
Jan'23
Mar'23
May'23
Aug'23
Oct'23
Dec'23
Mar'24
Macro Relevance
65
0