

04.04.2024

## Qi MacroVantage

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

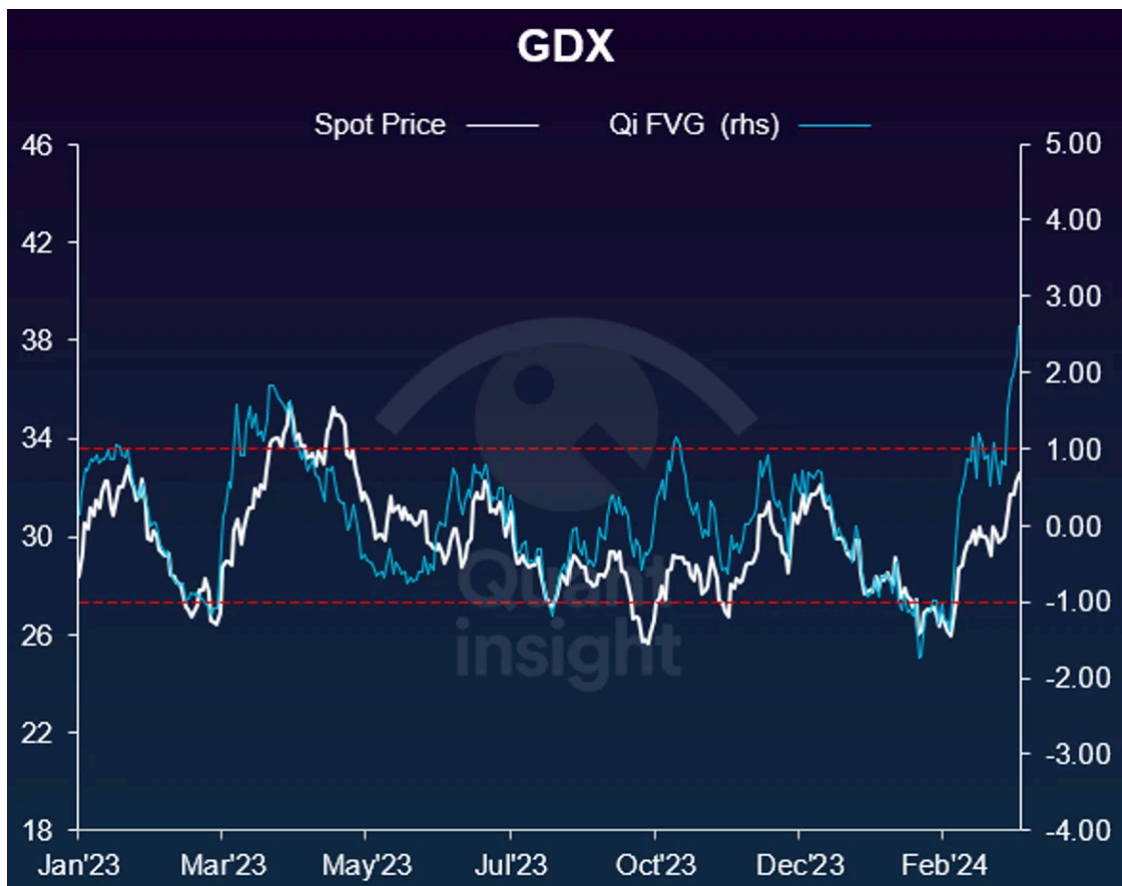
Where an asset price has become divorced from macro fundamentals and offers a potential trade opportunity; where factor leadership may be changing or regimes shifting; employing Qi factor sensitivities to run scenario analysis on critical themes.

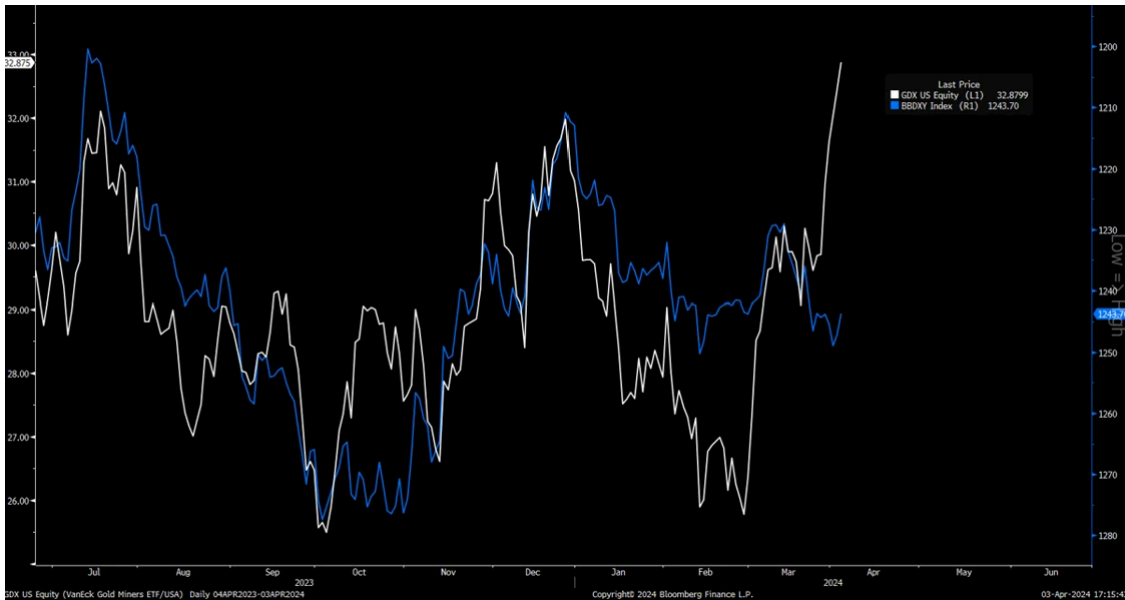
Topical, timely, machine-driven signals and observations.

### # 1 GDX / Gold over-extended

Earlier this week, in the insight "[Gold is talking...What's it Saying?](#)", we highlighted that the diminishing negative sensitivity to real rates possibly reflected investor belief that real assets are a safer bet than US government debt. However, from a valuation perspective, both gold and gold miners are trading well above their Qi macro-warranted fair value.

Consider that GDX is trading +2.2 sigma (10.6% above its Qi model value), at its hundredth percentile over the last 12mths, and Qi model value has flatlined over the last 3 weeks. See the first chart below overlaying GDX to its FVG. GDX is looking for a weaker dollar and lower real yields. However, against these two macro factors GDX is clearly over-extended – see the second chart.





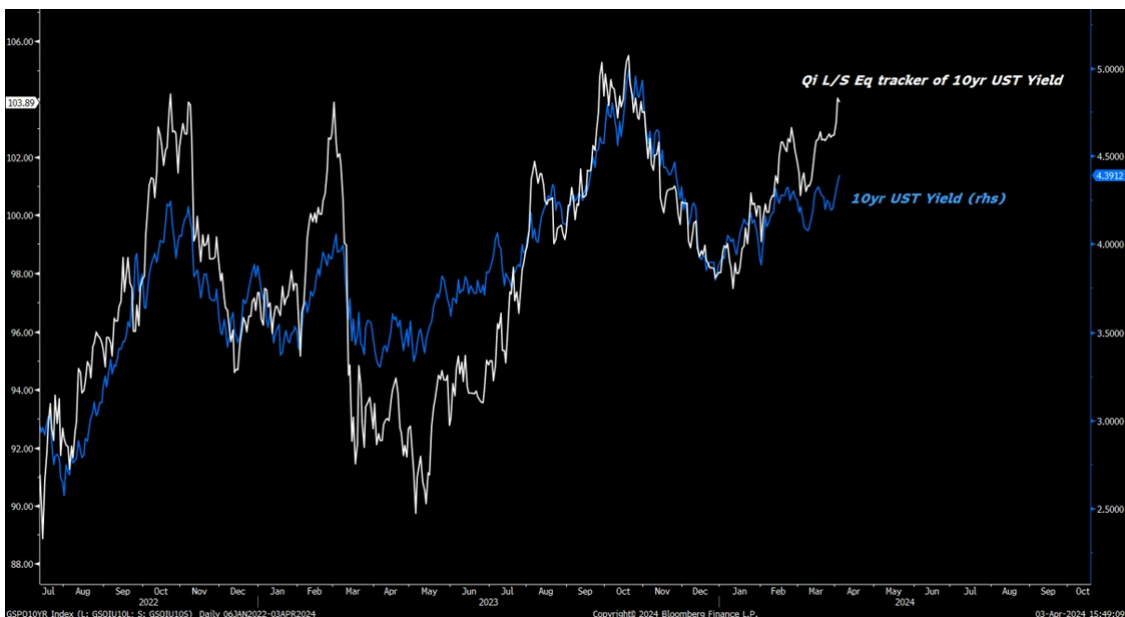
**# 2 Bond proxies (DVY, Utilities) are also over-extended. There has been no discernment yet in the "everything" rally**

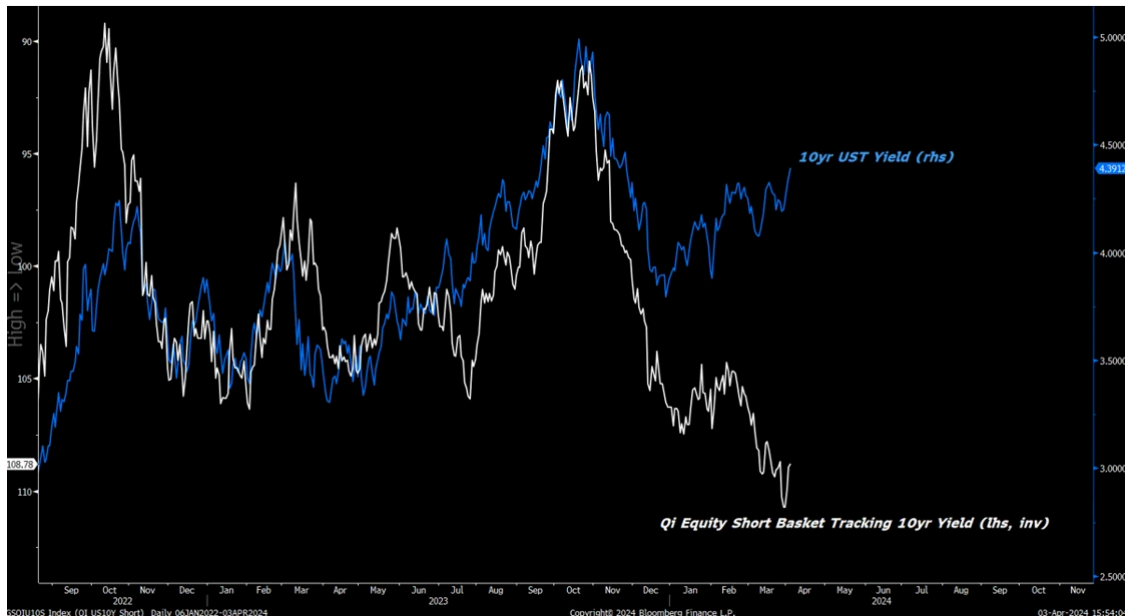
Consider that (1) DVY trades at +0.8 sigma (92nd percentile over last 12mths) (2) US Utilities at +1.4 sigma (100th percentile) (3) an equity basket of bond proxies (GSXUBOND) trades at +1.2 sigma (100th percentile). The message is that income yield plays look over-extended.

Qi has created an equity L/S basket tracking US 10yr yields (GSPQ10YR, available from Goldman Sachs). This tracking is shown below.

The first observation is that the equity tracker has recently been outperforming the 10yr yield level itself, likely reflecting reflation optimism – see the first chart.

The second observation is that while the long leg of this basket has been performing strongly, the short leg has also shown strong performance since mid-February – see the second chart. This short leg is primarily bond proxies, which ordinarily would care more about the possibility of higher long end rates.

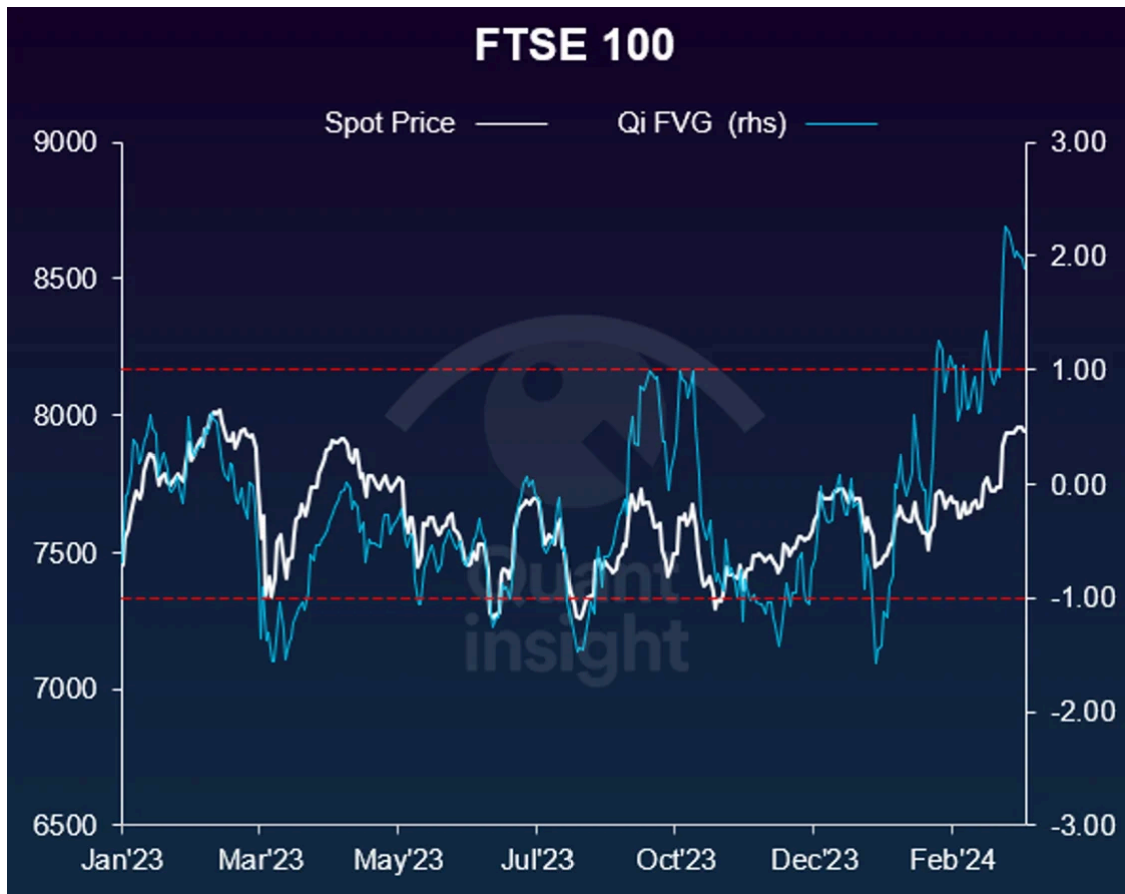




### # 3 FTSE 100. From YtD laggard to tactically over-extended

The fact that the FTSE 100 benefits from a weaker GBP and higher energy / metal prices is well known, given its constituent make-up. Qi shows similar drivers also. The FTSE 100 has been a laggard ytd but an outperformer over the last month as manufacturing / commodity optimism has risen, alongside a weaker Pound.

However, today the FTSE stands at +1.9 sigma (97th percentile over the last 12mths) and has rarely traded much above 2 sigma. See the first chart below. Running a backtest selling when the FTSE 100 is above 1.5 sigma had resulted in an 86% Win Rate, albeit on only 7 trades – it is a rare event.



```
In [16]: FVG_Back_Test(['FTSE 100'],1.5,0,0,'2010-01-01','2024-04-03',['Short'],'Long Term')
```

```
Out[16]:
```

Results	
Hit Rate	85.714286
Avg. Rtrn	1.898467
Ann. Rtrn	14.957339
Median Rtrn	2.179544
Avg. Max Gain	2.405270
Avg. Max loss	-2.962972
Avg. Holding Period	34.000000
Median Holding Period	25.000000
No. of Trades	7.000000
Avg. Win	2.698974
Avg. Loss	-2.904577
Win/Loss	0.929214

#### # 4 CHFJPY - New carry king?

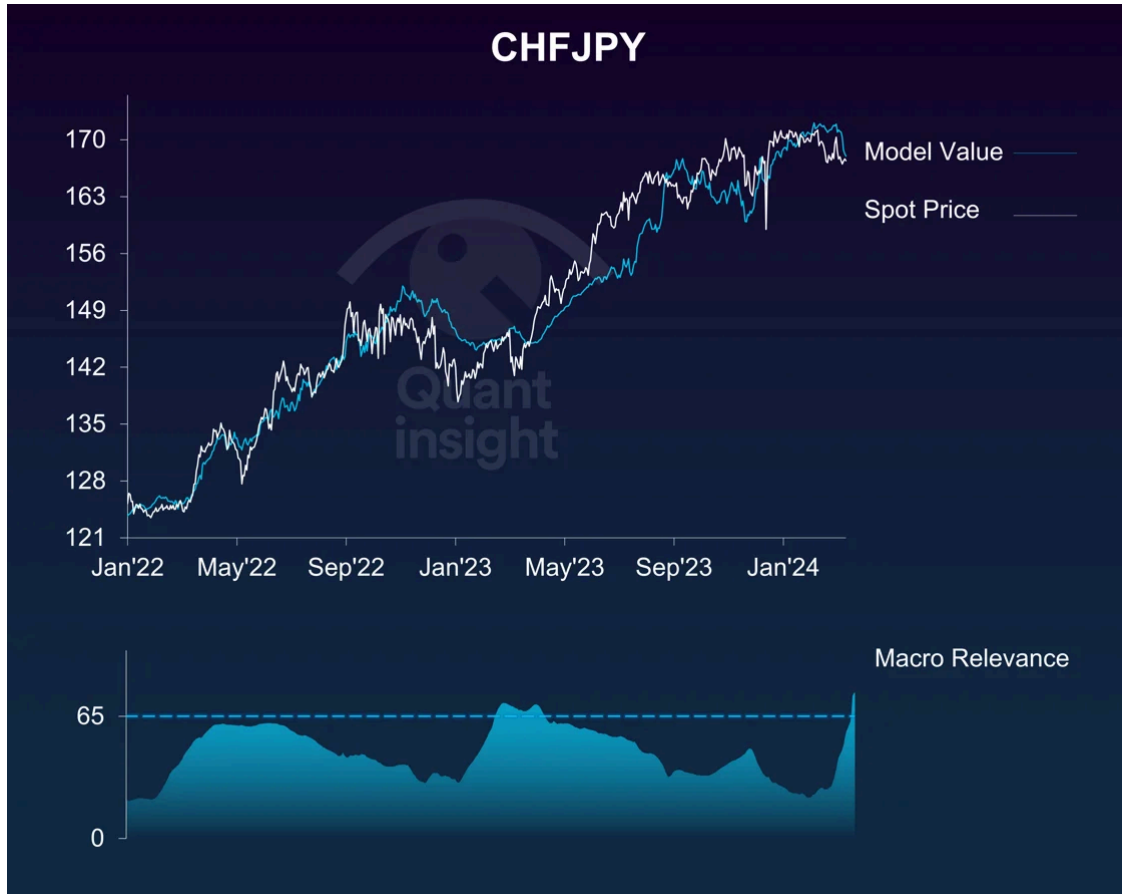
Qi's CHFJPY model has rise 22% in the last 2 weeks and is back in regime for the first time in a year.

There's no valuation edge currently; spot is only slightly below our 168 fair value. The bigger standout is the sharp shift lower in macro momentum.

Macro-warranted model value has fallen 2.25% since March 19th & the BoJ rate hike. Two days later the SNB surprised with a rate cut. That policy divergence has FX investors pivoting to use the Franc as their preferred funding vehicle.

Qi shows interest rate differentials are the main driver of the cross accounting for around a quarter of model explanatory power. Otherwise it is worth noting that, on current patterns, higher crude oil and copper prices are consistent with Swiss Franc depreciation.

For a long time, the Yen has been the sole funding currency in G10 fx. Now, carry dynamics plus the commodity rally point to a new downtrend in macro momentum.

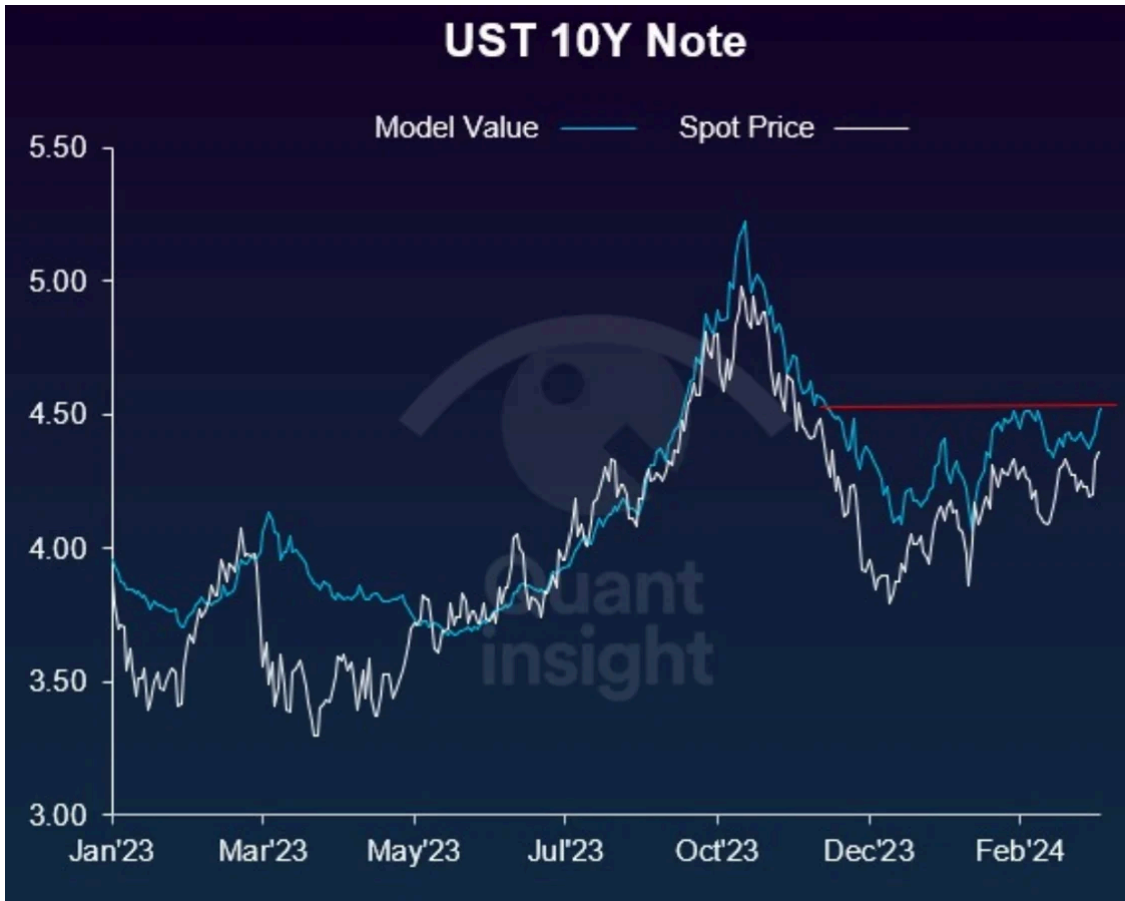


### **# 5 10y US Treasury yields at 2024 highs on Qi**

At the start of March Qi flagged that 10y UST yields were 35bp too low relative to macro-warranted fair value. Since then yields have backed up around 25bp, a move that has helped partially close Qi's Fair Value Gap.

But rising crude oil prices and higher inflation expectations have kept pushing model value higher at the same time. Currently, Qi says 10s should yield 4.48%.

That's the high for 2024. Any break higher would suggest renewed macro momentum in the reflation trade & ongoing pressure in the US bond market.



[Download the PDF](#)



Quant Insight Limited, Dawson House, 5 Jewry St, London, London EC3N 2EX, UK  
[Unsubscribe](#) [Manage preferences](#)