

Qi Market Spotlight: The Global Value Play on Qi - Japan

Qi shows that a weak Yen is no longer a big positive for the Nikkei

Japan GDP (absolute & relative strength) is now the bigger driver – a rarity in the last 10 yrs

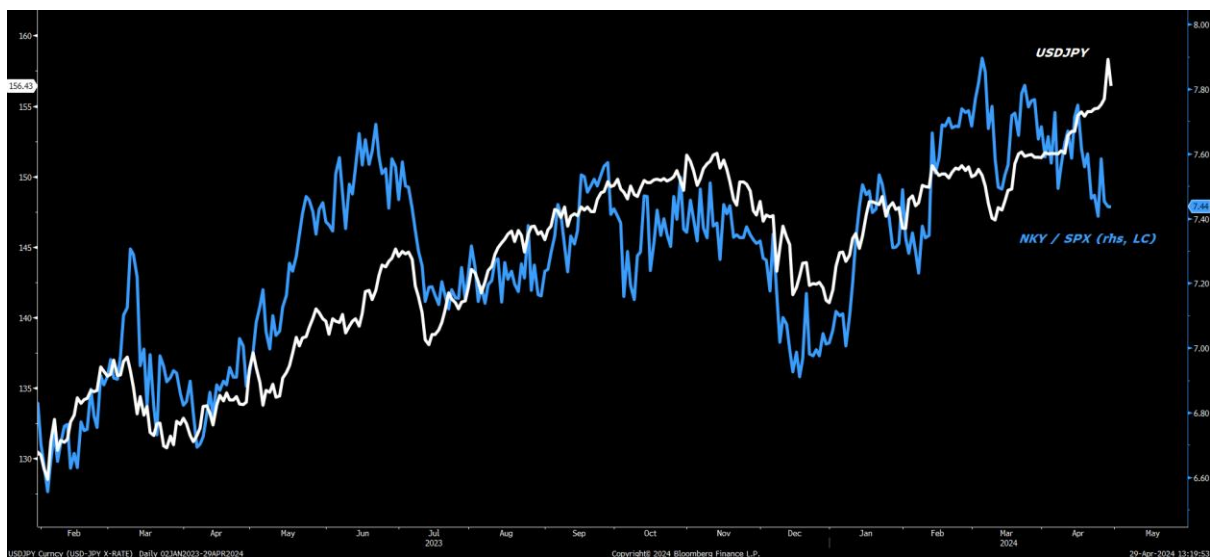
In fact, this is what has driven the Nikkei rally since last summer

On Qi, Nikkei is cheap on an absolute basis (in both local currency and USD common currency terms) and on a relative to SPX basis. Bear steepening being the key risk

Qi is showing that the weak Yen is no longer a positive for the Nikkei – global investor reluctance appears to be rising as JPY weakens.

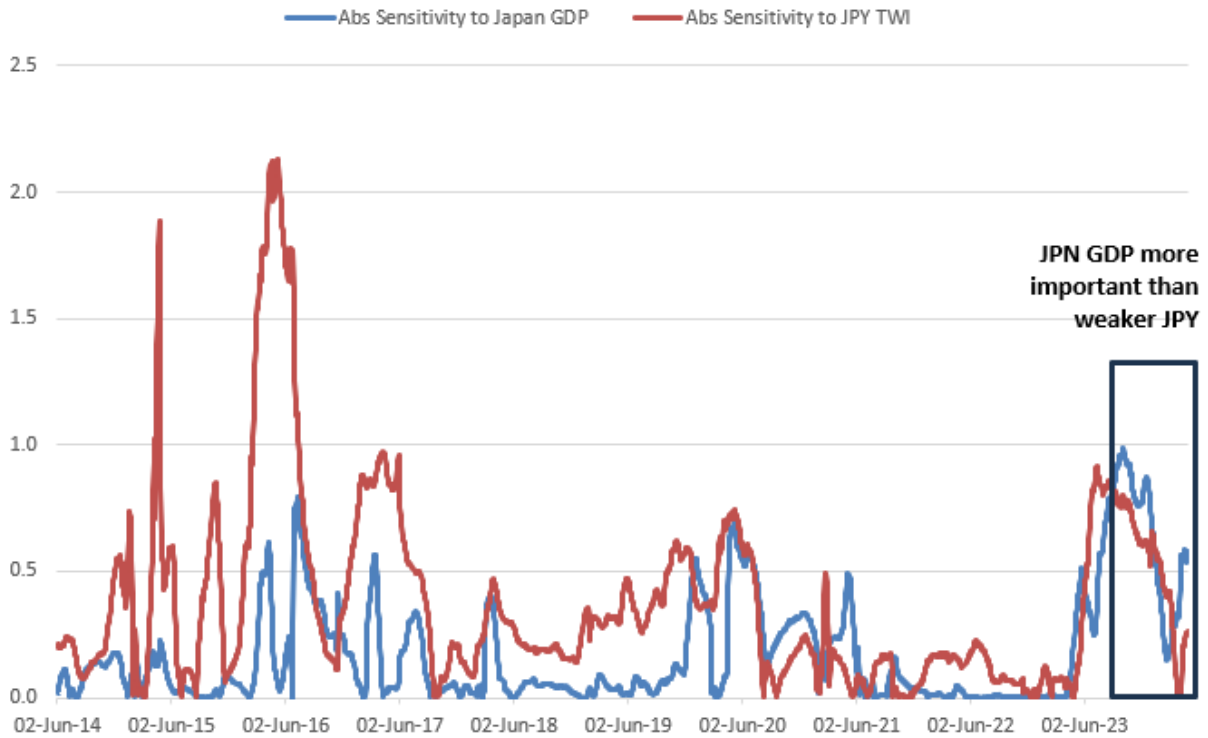
Some commentators have argued we are now in a secular bull market for Japan, similar to 1960s into early 70s when Japan strongly outperformed the rest of the world. This case is made on the basis of geopolitics - Japan is fast becoming the high-tech production hub for the Western hemisphere; political pressure to create demand-driven inflation; an acceleration in corporate reforms. A byproduct of this has been a weakening JPY which has been encouraging greater inbound tourism also.

Over the last 1yr, the Nikkei has returned 31.5% in local currency terms (vs. 30% for the Nasdaq), setting a new ATH. In USD terms, performance has been more disappointing – in fact, YTD the Nikkei has underperformed SPX by ~ 4% in USD terms. **On Qi the weak Yen/ strong Nikkei relationship is also waning:**

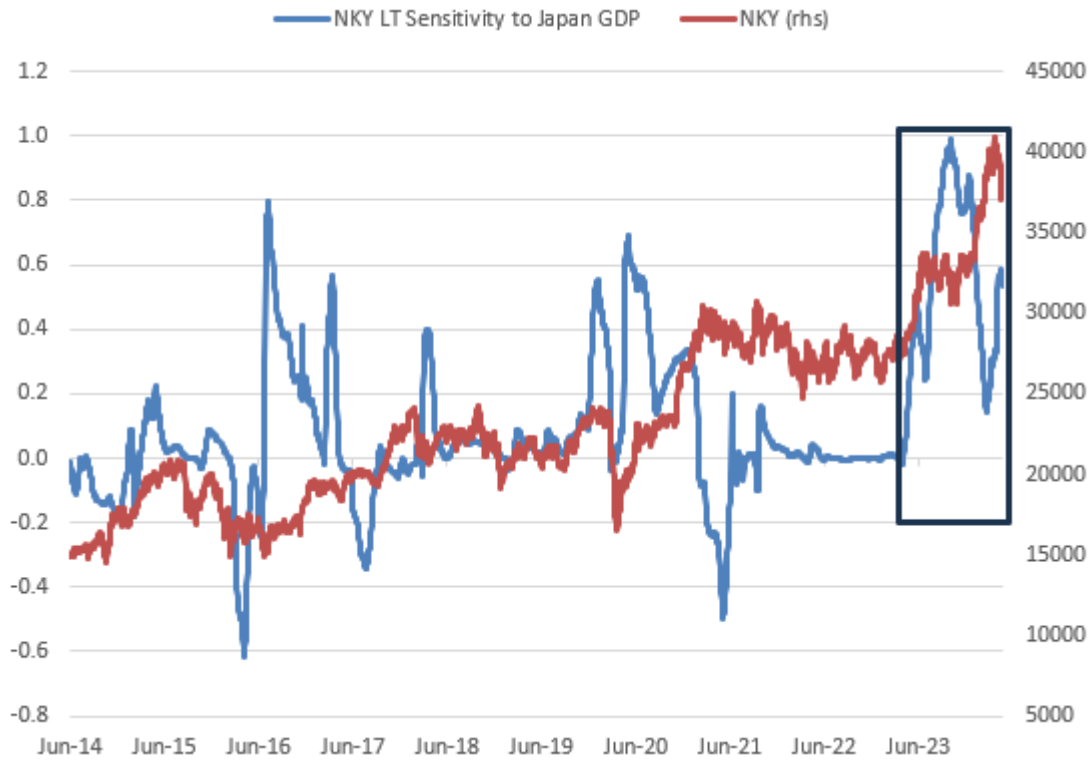


In fact, **today Japan GDP Nowcast is a bigger driver than JPY – that is a rare occurrence** on Qi's models.

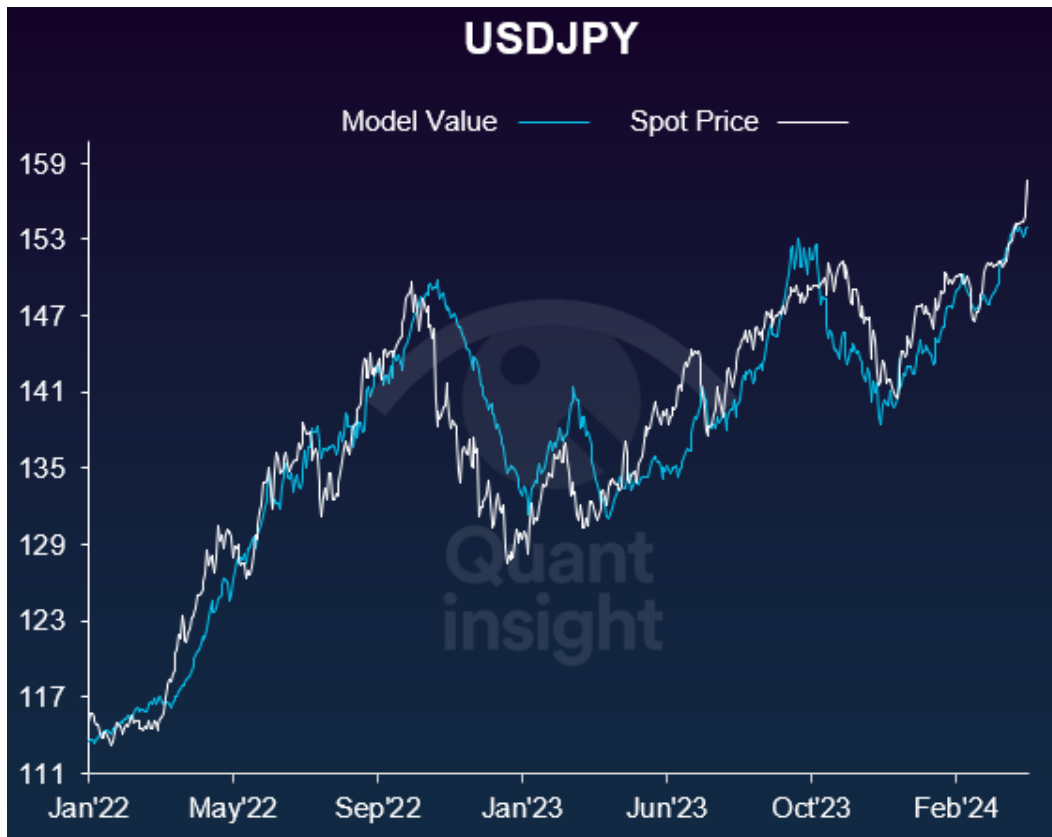
Nikkei 225 Qi LT Model Macro Sensitivities



The Nikkei's strength since summer 2023 has coincided with the rising importance of Japan GDP
Nowcast:

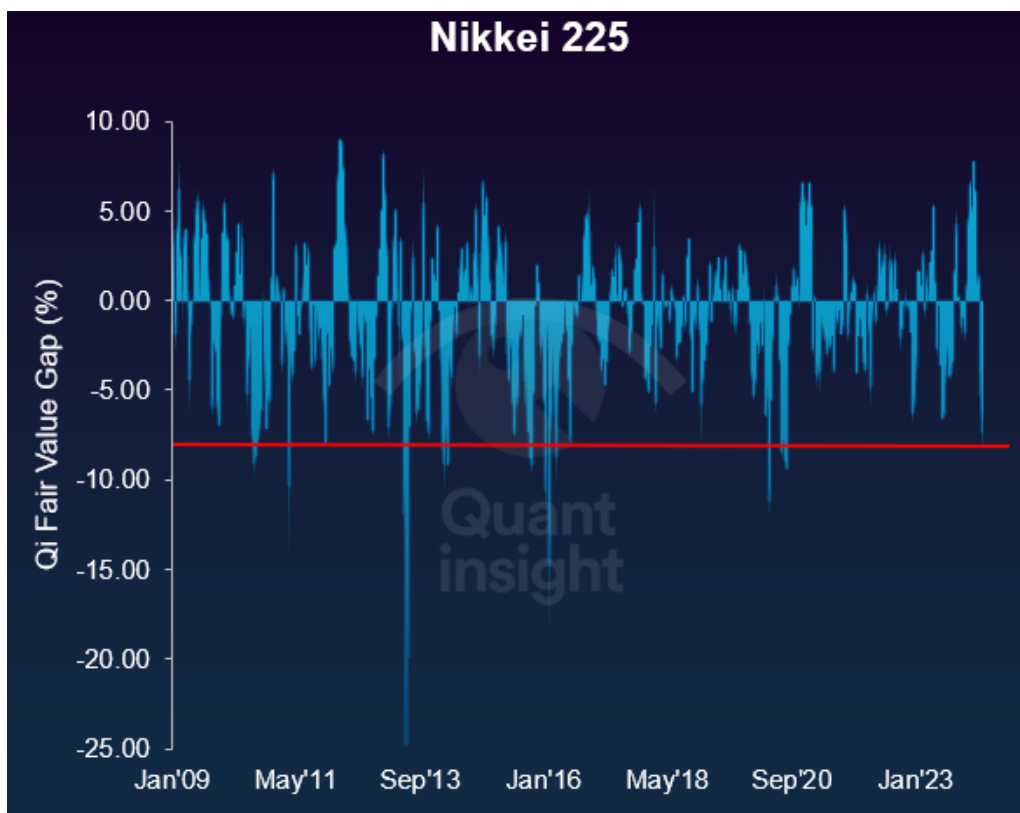
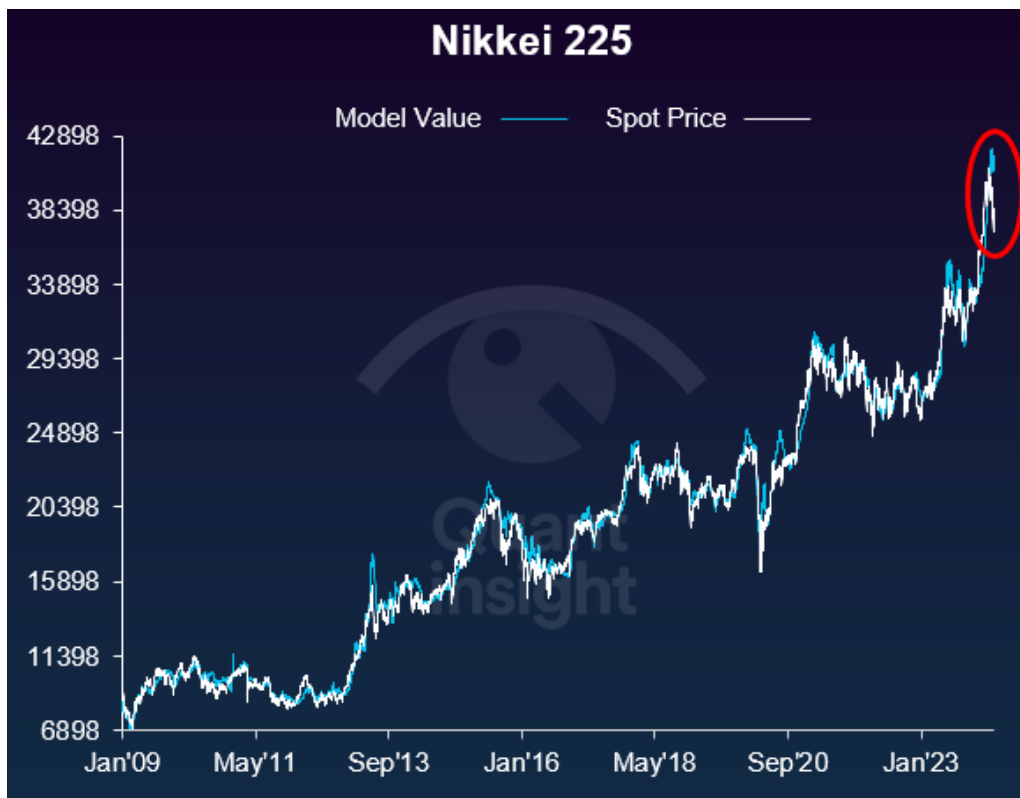


Qi macro-warranted fair value for USDJPY is struggling to get past 154-155. However, this is not a core tenet of the Nikkei thesis.



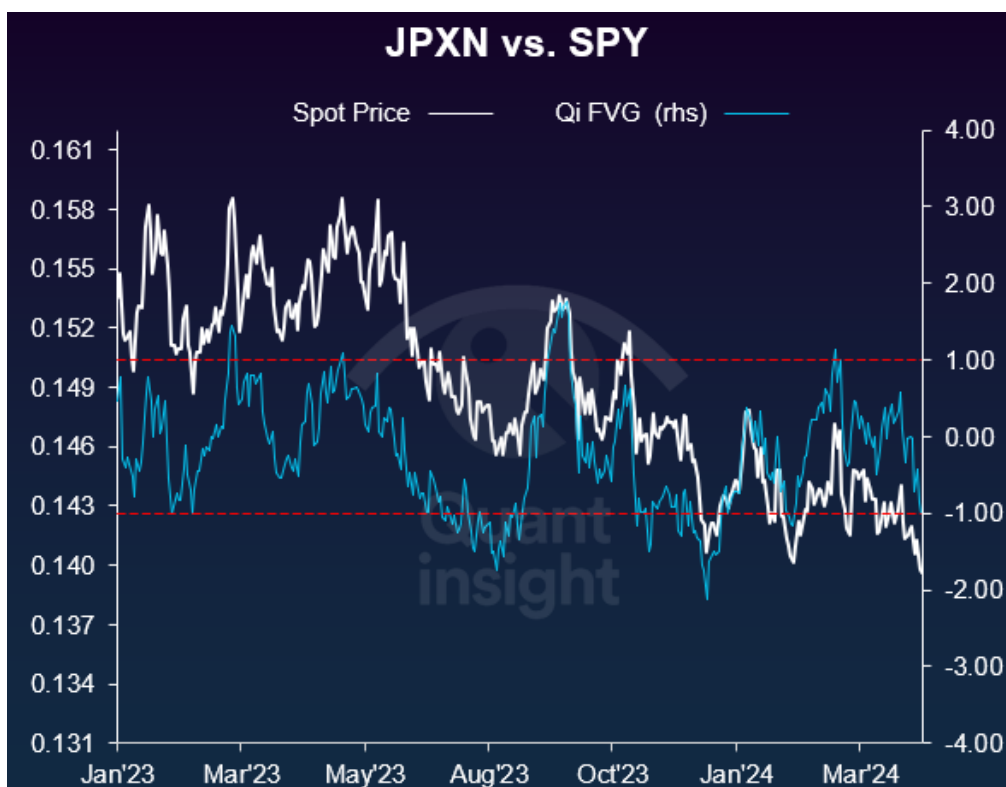
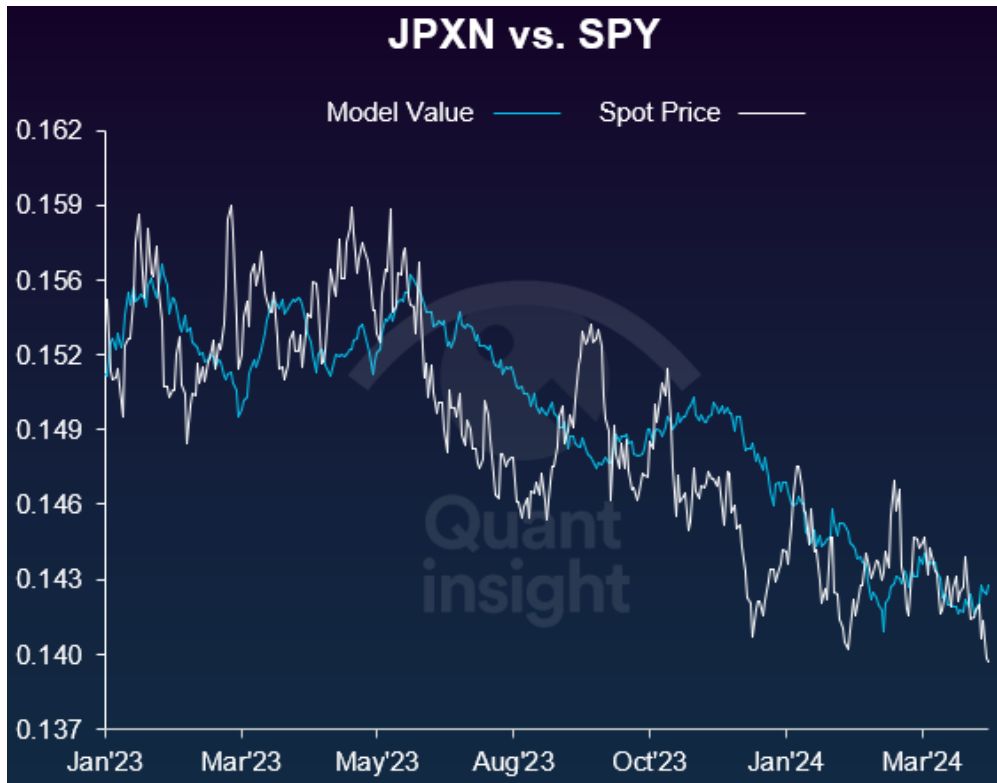
While the sensitivity to USDJPY is still negative, Japan GDP Nowcast, DM economic confidence (proxied by tightening peripheral European govt bond spreads), copper and falling rate vol have been dominant drivers of Qi model value over the last 2mths. **Nikkei strength does require a reflationary narrative.**

This has left investors with the question of whether the current dip is seen as a buying opportunity. At the global index level, **the Nikkei is the global value play using Qi's framework. It is currently the cheapest index globally on Qi's framework.** The Nikkei is trading at -1.2 sigma (-10%) to Qi's LT model value. That gap is particularly large vs. history, especially as macro confidence starts to rise from the decline over Q4 2023



Qi sees this value also on an RV basis – BOTH in local currency and USD common currency terms. A key driver of this value of later has been the **higher sensitivity of SPY to US FCI / wider credit spreads**. It has been noted that several global indices have been outperforming the US, even the almighty Nasdaq (in LC terms) – the FSTE A50, Nikkei, Euro Stoxx 50 etc. Europe, Japan,

China are all seen a reflationary, value plays if we are remain in a world where growth remains robust but where the US potentially has a stickier inflation outlook.



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FVG_Back_Test(['Nikkei 225'],1.2,0.25,65,'2009-01-01','2024-04-26',['Long'],'Long Term')
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Results	
Hit Rate	85.714286
Avg. Rtrn	3.992466
Ann. Rtrn	50.233253
Median Rtrn	3.458612
Avg. Max Gain	4.951250
Avg. Max loss	-2.983035
Avg. Holding Period	24.238095
Median Holding Period	25.000000
No. of Trades	21.000000
Avg. Win	5.038940
Avg. Loss	-2.286377
Win/Loss	2.203897