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Qi Market Spotlight - Nothing lasts forever

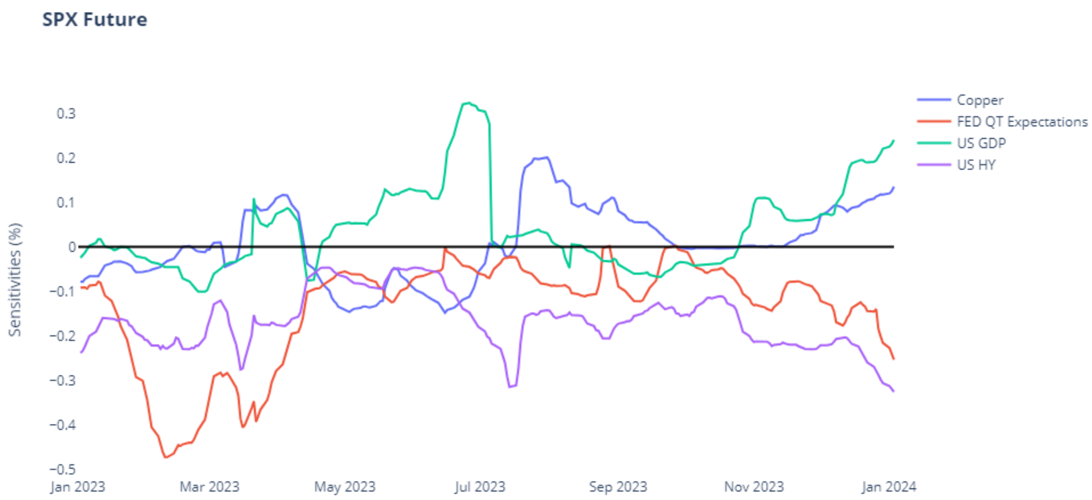
Qi's macro sensitivities to GDP Nowcast and high yield credit spreads stand at 1 year highs.

These sensitivities have accelerated higher through Nov / Dec, leaving Qi's macro beta impulse at multi-year range highs.

In other words, the resilience of risky assets will be tested if macro factors do not continue to move in their favour.

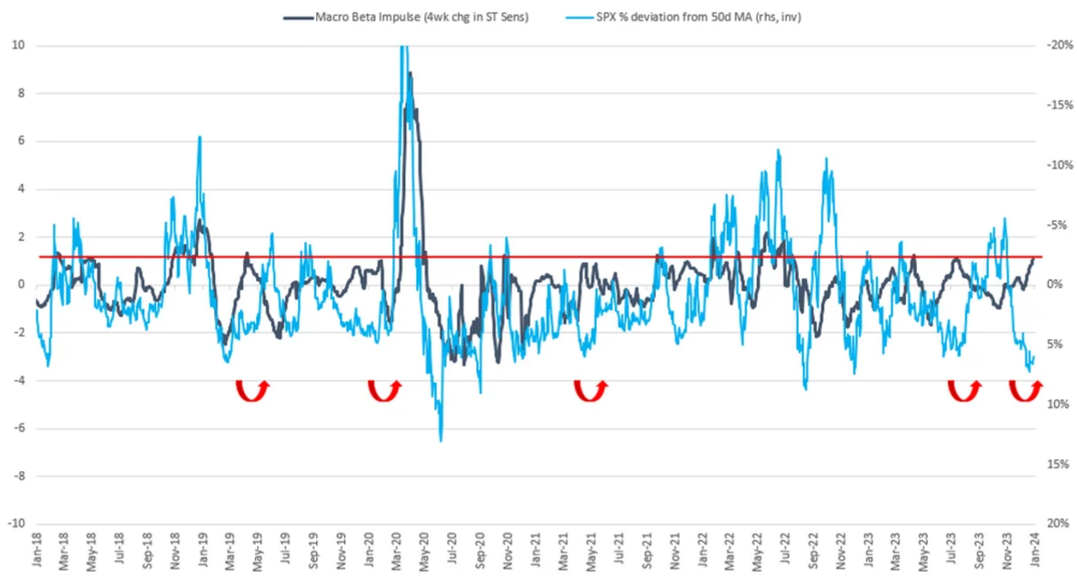
Our studies suggest a large dislocation between the overbought S&P 500 index and our measure of the macro beta impulse is vulnerable to re-convergence.

The **S&P500**'s Qi factor sensitivity to growth (GDP Nowcast, copper) and financial conditions (Fed QT expectations, HY credit spreads) to SPX stands at 1yr highs. Equities are increasingly reliant on what we saw late last year to continue. This picture is similar for other major indices. The Nasdaq 100 sensitivity to HY credit spreads and economic growth is also both at 1yrs highs – the two biggest drivers of the index.



The Qi S&P500 macro beta impulse is defined as the sum of the 4wk change in absolute sensitivities across all our macro factors, based on ST models. We plot that against the percentage deviation of the S&P500 from its 50d MA and invert that axis. See the chart below.

The premise is simple - as the gradient of macro factor sensitivities accelerates, the beta of the market to macro factors is rising. That is fine when the macro backdrop is moving in your favour but ordinarily Mr. Market struggles to digest the macro gyrations.



Note the dislocation that occurred over the most recent 8wk rally – the improving growth / inflation trade-off supported by the Fed “pivot” saw macro drivers move in favour of Qi’s models. The Beta Impulse rose but this time around S&P500 model price momentum was rising alongside this.

This backdrop creates vulnerability as the impulse rises ever further. Over the last few years, there appears to be a natural limit beyond which the beta impulse has peaked (ex-Covid). This is marked by the red line. Periods where have seen such as dislocation between price action and the beta impulse tend to re-converge, marked in the chart.

Consider the Qi short term model of the S&P 500 – 93% model explanatory power and the model price starting to show signs of fatigue. We view model price as offering a true / less noisy representation of the market value than the spot price. Has the improvement in the growth / inflation trade-off already been priced?

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