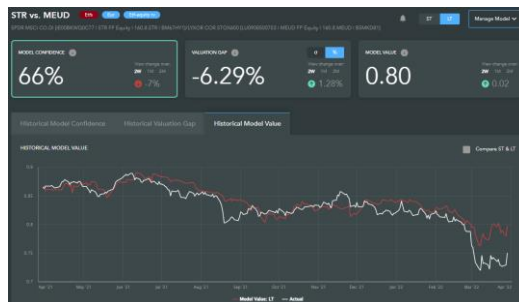




30.03.2022

A protected European long

- RETINA™ has a high conviction signal on European Consumer Discretionary versus the Euro Stoxx 600.
- State Street's tracking ETF for the MSCI European Discretionary sector [STR](#) is now 1.4 sigma (6.3%) cheap relative to the broader Euro Stoxx 600 (using tracking ETF [MEUD](#)).
- Moreover, we now have a bullish inflection signal – after a period of divergence, over the last 3 days model & spot price have both turned higher.
- The combination of historical back-tests, model value gradient & the trend / momentum picture all conspire to make this a 4-bar signal - the highest conviction signal on RETINA™. Focusing just on back-tests, the [STR / MEUD ratio](#) has only been this cheap & in regime nine times since 2009. The hit rate on that as a buy-the-dip signal is **88.9% for an average return of +1.2%**.



- The drivers are highly intuitive. **To outperform, Consumer Discretionary needs a Goldilocks environment** – stronger global growth (Now-Casting tracking GDP plus higher commodities), healthy risk appetite (low VIX etc), easy financial conditions (especially tight credit spreads).
- Such a position will only appeal to investors with a certain macro view - to those who have faith in the economic cycle &, by extension, probably believe (hope) the worst of the war in Ukraine is behind us.
- But as a relative value play that contains long one sector versus a short in the broader Stoxx 600, it does at least offer a comparatively protected upside trade expression.

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