



An efficient 'risk off' play

- Nervous about the re-opening trade? That the rotation trade of the last 3 months is vulnerable to further unwinds?
- Qi Retina has a new signal on US Materials versus Industrials. **The XLB vs. XLI ratio is now **0.9 sigma (1.7%) below macro fair value in pure valuation terms.** Moreover, while the spot ratio has fallen 2.2% over the last 10 days, Qi model value has risen 0.5% thereby flagging a divergence signal.**



- Model confidence is strong & the drivers paint a defensive picture. Materials outperform when crude oil & inflation expectations are falling, when VIX moves higher & credit spreads widen.
- For those who believe the nerves around the reflation trade can continue, **Materials vs Industrials offers a relatively protected & efficient expression. Both are cyclical sectors but one - Materials - is the more geared to 'risk off' & is currently cheap to Industrials relative to the macro environment.**

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