Qi Market Spotlight: "Attributing this pullback - is macro back?"

Qi equity model momentum has stalled across markets – SPX in particular has definitively rolled over with non-US indices also following suit

The bounce from the October 2023 lows was initially driven by macro but YTD 2024 has been prinicipally a fundamentals/idio story with macro sensitivities at low levels, as we have reported

However, this has begun to change in the last two weeks with the risk attributable to macro heading upwards from multi-year lows. The concerns around macro have been exacerbated by the continuing uptrend in US inflation and geopolitical events stoking oil price worries

The key Qi macro factors leading to this re-emergence of macro are risk aversion, credit spreads and the USD

A lot of money has been made this year in risk assets – US equity L/S YTD in the US is up in the high single digits but it might be time to be more circumspect on positioning as the macro impact on markets increases

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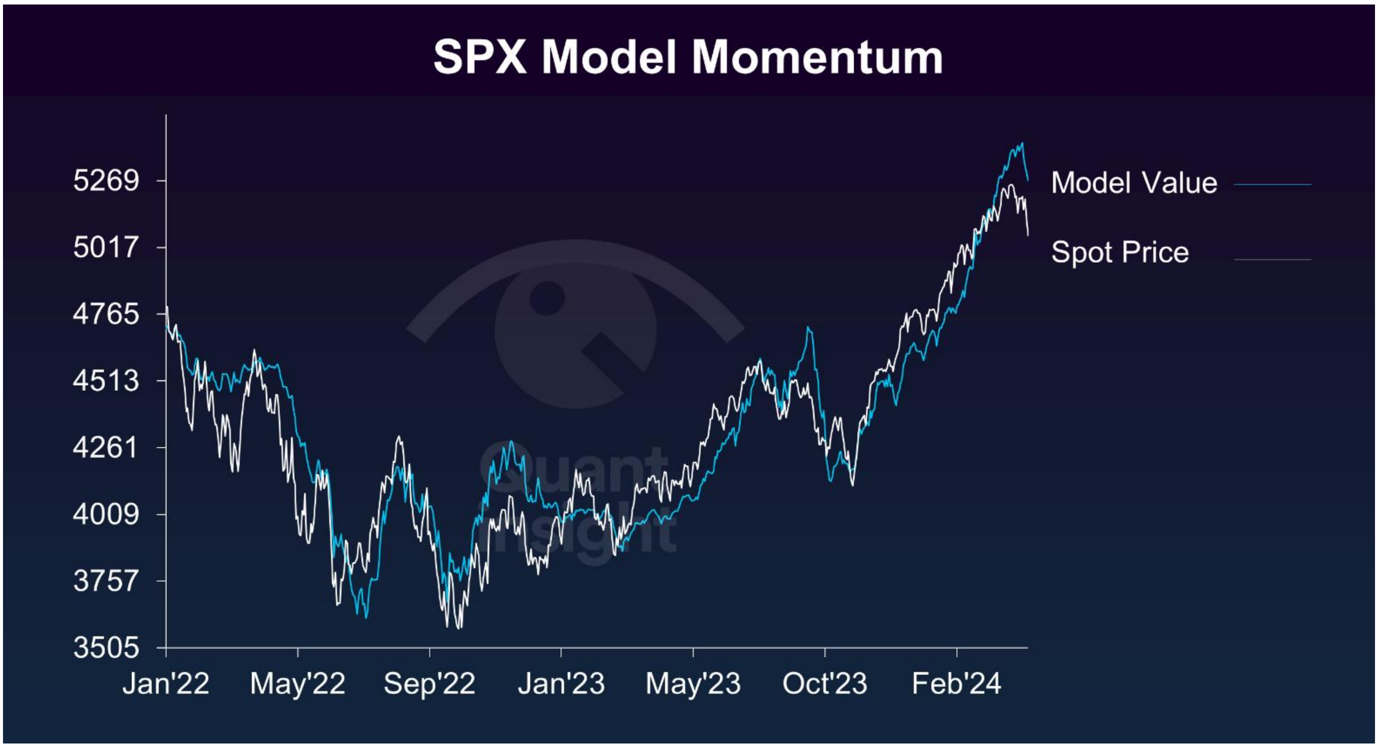
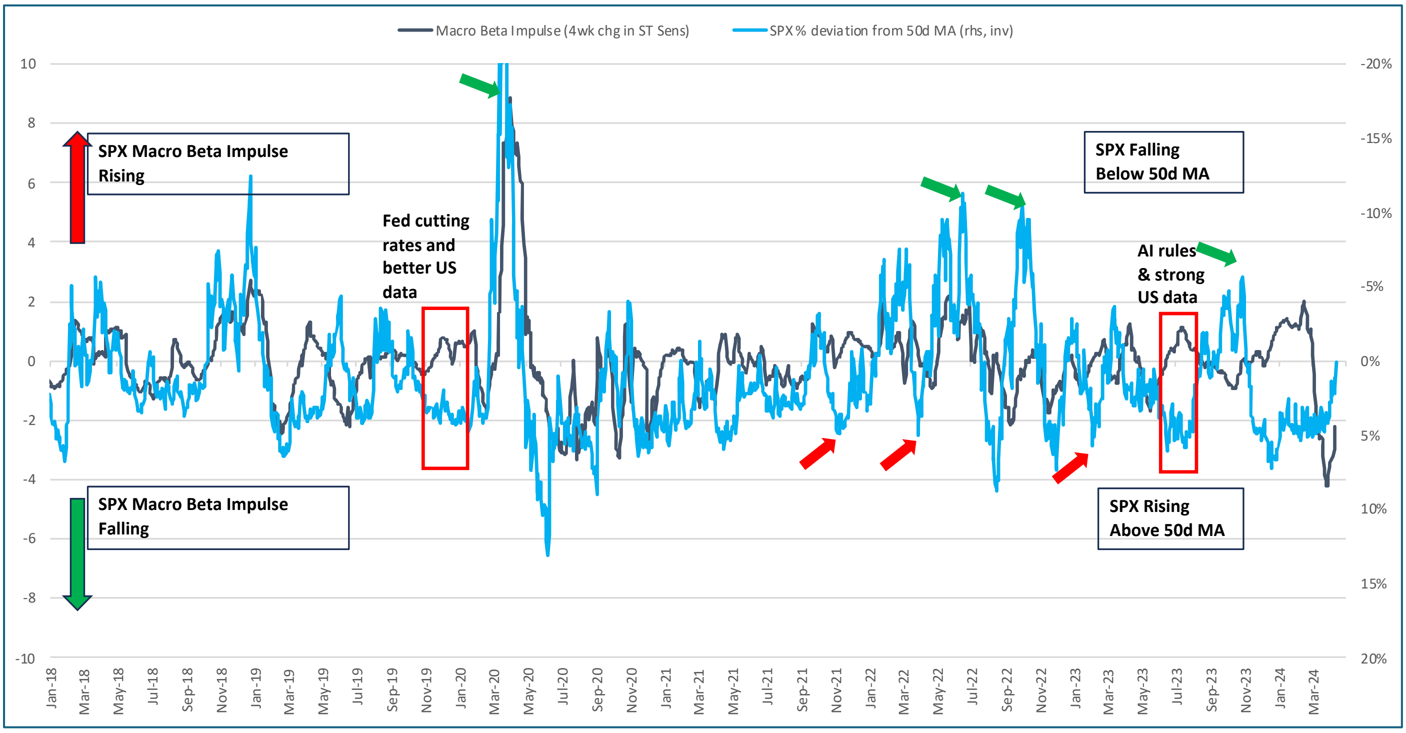
- **Qi equty model momentum has stalled across markets** -- SPX, DAX, Nikkei



- Risk asset model uptrends that had been holding on are now also being challenged – the USD model in Qi is strengthening over EUR, JPY and Asian currencies, the high yield credit model is also getting hit with spreads widening, among commodities the Copper model has rolled over but oil and precious metals are still holding up well in Qi

- Overall though, there appears to be a definitive shift downwards in our risk models – the first we have seen since the October bottom

- Qi returns attribution shows that **the bounce from the October 2023 lows was initially driven by macro** but much of the YTD 2024 move in SPX has been prinicipally a fundamentals/specific story **but now macro is re-asserting itself** from low levels. This time around, further mean-reversion of the impulse may well coincide with an elevated risk of the Fed comprising its inflation-fighting credibility.

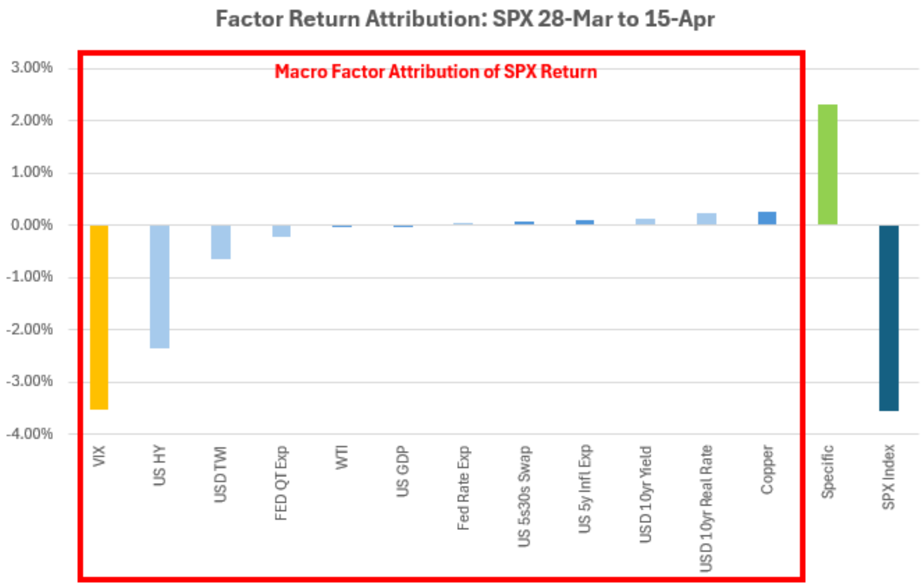


- **The key Qi macro factors** driving SPX since the end of Q1 are risk aversion, credit spreads and the strengthening dollar, specific risk has countered this downtrend making the coming earnings season yet more important:

Factor Return Attribution: 28-Mar to 15-Apr

Financial Conditions	FED QT Exp	-0.22%
	Fed Rate Exp	0.06%
	USD 10yr Real Rate	0.25%
	USD 10yr Yield	0.13%
	USD TWI	-0.64%
	US HY	-2.35%
		-2.78%
Growth Expectations	US GDP	-0.01%
	US 5s30s Swap	0.09%
	Copper	0.25%
	WTI	-0.02%
	US 5y Infl Exp	0.10%
		0.41%
Risk Aversion	VIX	**-3.51%**
Idiosyncratic	Specific	2.32%
	SPX Index	**-3.56%**

% Return Attributable to Macro	*-5.88%*
% Return Attributable to Specific	*2.32%*



- **The sector implication of the latest CPI release** is pressure on (1) the most inflation sensitive sectors which are the classic domestically-geared sectors of regional banks, construction, homebuilders and real estate and (2) the sectors most sensitive to the tightening of financial conditions which are more speculative tech like ARK, long duration like BioTech, renewables and small caps. If we start to see financial conditions tighten in earnest then also Momentum longs will come under pressure. Below we show the screen of the most vulnerable sectors / ETFs to both higher inflation AND tighter financial conditions