Quant insight

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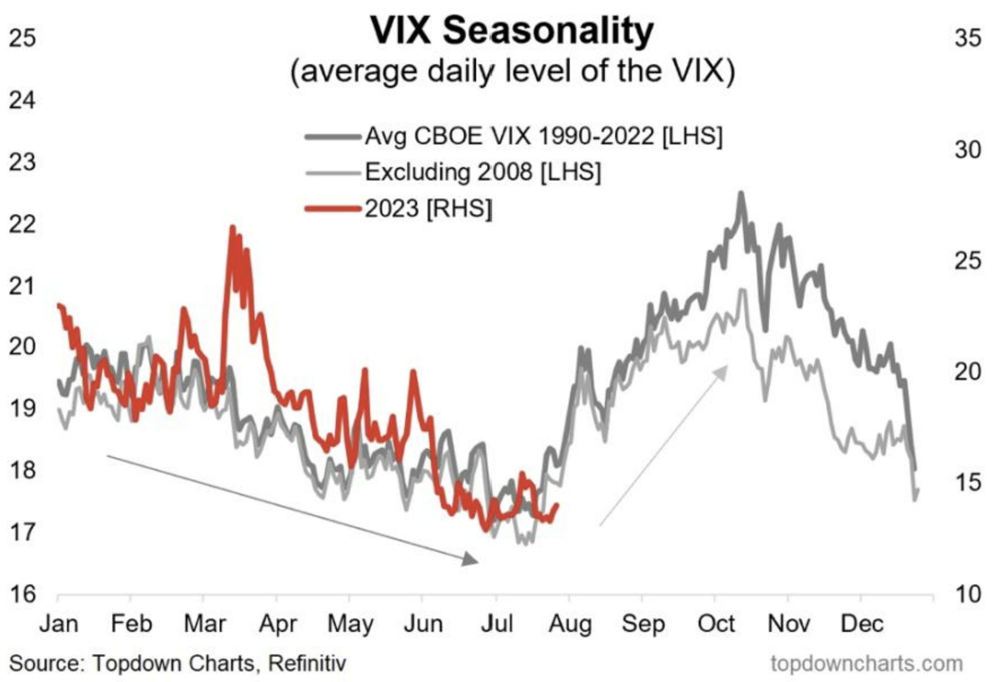
Beware a summer vol spike?

VIX has been below 20 for four months now, but there are tentative signs that **equity volatility may be on the rise**. Seasonal patterns certainly point that way. Given the latest positioning surveys suggest **CTAs and vol targeting strategies are running long risk**, it is imperative equity managers have a good handle on which of their names are most vulnerable to "risk off".

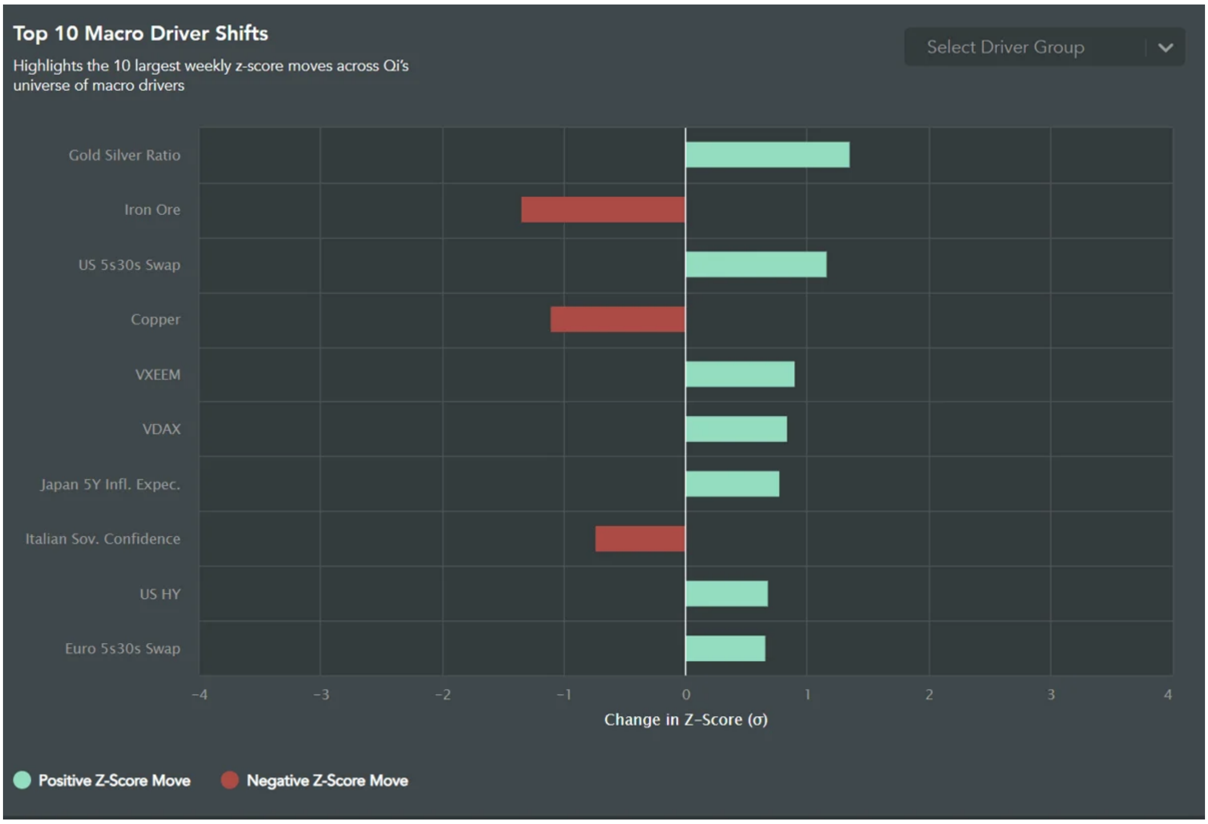
There are several charts doing the rounds showing the typical seasonal pattern for VIX. The message is unequivocal - over the last 30 years, US equity volatility tends to bottom in July and accelerate higher from August through to October.

This is the version from the excellent Topdown Charts.



On Qi, we provide daily updates on the biggest shifts in macro factors. Right now, spikes in risk aversion metrics show the largest weekly moves (with falls in industrial metals - trade numbers the latest disappointing economic data from China - running second).

The gold/silver ratio, Emerging Market plus German equity volatility have all spiked.



The chart above captures the biggest shifts in macro factors over the last week. The one below shows a one year history of those factors.

Qi distils everything into z-score terms. The gold/silver ratio and EM VIX have now risen back above trend.

What does this mean for equity investors?

Qi's optimise trade selection function enables you to screen across single stocks or sectors for sensitivity to any given macro scenario.

Below we show the results when searching US sector ETFs in macro regimes for sensitivity to VIX, EM VIX and the gold/silver ratio. The number in the "Total" column on the far right shows the percentage change in each sector for a one standard deviation shift higher in these measures of risk aversion.

Model Name	Asset Class	Confidence (%)	Change 1M	Valuation Gap σ	Change 1M	Total ▼
IYR	ETFs	81%	↑ 14%	-0.08	↓ -0.51	-0.25
USRT	ETFs	85%	↑ 9%	0.08	↓ -0.26	-0.26
REET	ETFs	88%	↑ 5%	0.06	↓ -0.2	-0.31
XLB	ETFs	91%	↑ 0%	0.46	↑ 0.3	-0.33
XLI	ETFs	90%	↑ 2%	0.39	↑ 0.15	-0.38
XLF	ETFs	77%	↑ 2%	0.46	↑ 0.81	-0.38
IYT	ETFs	89%	↑ 4%	0.04	↓ -0.77	-0.46
RSPT	ETFs	90%	↑ 3%	-0.35	↓ -0.5	-0.50
XLC	ETFs	92%	↑ 1%	0.15	↓ -0.73	-0.63
XLK	ETFs	92%	↑ 1%	-0.54	↓ -0.93	-0.73
XHB	ETFs	90%	↑ 0%	0.19	↓ -0.21	-0.92
SOXX	ETFs	90%	↑ 1%	-0.18	↓ -0.44	-1.02
ITB	ETFs	93%	↑ 0%	0.26	↓ -0.13	-1.27

Unsurprisingly, all sectors want healthy risk appetite but there are noticeable discrepancies in the magnitude of sensitivity.

- **Real Estate** is comparatively immune. IYR, USRT and REET all display relatively modest sensitivity experiencing around a 0.25% move lower when global equity vol and the gold/silver ratio move up by one standard deviation, every other macro factor held constant.

- **Tech** and **housing sector** related plays sit at the other end of the spectrum. The same 'risk off' episode produces a 1.27% drag on home construction stocks ITB, and a 1.02% hit to semiconductors SOXX. XLK, XLC and XHB are not far behind in sensitivity terms.

Running the same exercise across European sectors has a pronounced skew to cyclicals. The three sectors most reliant on healthy risk appetite are Retail, Banks and Travel & Leisure.

Equity managers can run this sensitivity analysis across the stocks they hold in their own portfolios.

Qi #nextgenerationscenarioanalysis.

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