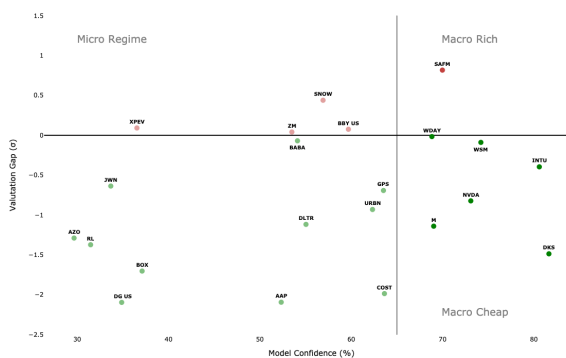




24.05.2022

Bottom Up meets Top Down - US Retailers

- Last week Walmart & Target spooked the equity market. This week a number of additional US retailers report earnings & the fear is they provide further evidence that soaring inflation is hurting margins.
- The chart below captures macro model confidence & Qi's Fair Value Gap for some of this week's reporting companies. It enables stock pickers to firstly identify where bottom up analysis of company fundamentals is key; & which stocks are more of a macro play.
- And then, when a stock is a macro trade, is the stock rich or cheap versus the macro environment?



- In most cases, idiosyncratic risks dominate macro. Amongst this week's reporters, [Best Buy](#), [Nordstrom](#), [Dollar General](#), [Gap](#), [Dollar Tree](#), [Ralph Lauren](#) & [Urban Outfitters](#) all show model confidence below our 65% threshold. It's business as usual for stock pickers.
- But equity managers need to know that [Macy's](#) & [Dick's Sporting Goods](#) are the two reporting retailers with a strong macro story.
- In fact, DKS model confidence is not only strong (82%) but rising. The macro regime echoes that of the broader S&P500 – a desire for reflation & easy financial conditions.
- It is currently 1.5 sigma or 25% cheap to model value. That is the bottom of the 1y Fair Value Gap range. Indeed, it has only been this cheap to model & in regime 6x since 2009. Back-testing this FVG produces a 67% hit rate & +10.7% average return. Back-testing Macy's current FVG & the equivalent stats are 57% & +5.5%.

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