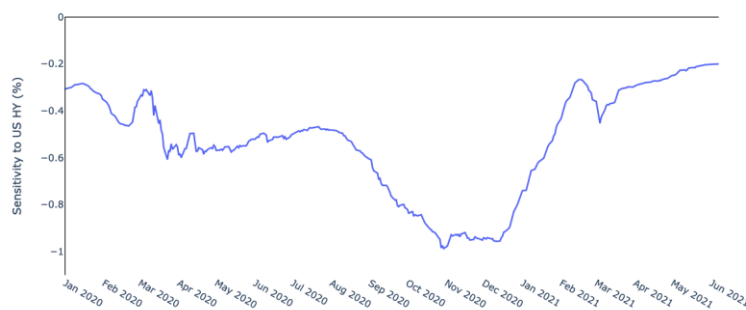




## Credit

- Last Wednesday the Fed announced it will unwind the corporate bonds it bought as part of its emergency policy response to last year's initial Covid lockdowns. How has the dust settled since that announcement?
- **Qi's credit models are in strong macro regimes & valued in line with macro fundamentals.** Our [Credit](#) Watchlist shows all but two (EM High Yield & US Municipals) have high model confidence; & all are essentially within 0.5 sigma of macro-warranted model value.
- High Yield spreads in both [US](#) & [Europe](#) are especially notable – macro explanatory power of 90% plus & almost exactly in line with fair value.
- No valuation edge in credit itself then, but what about other asset classes?



- The Fed's aggressive policy response in March 2020 resulted in a significant rise in credit's importance as a factor for risky assets. Given its role as a primary driver, a **core Qi theme throughout last year was that, as long as the Fed back-stopped credit markets, any pullback in US equities was a dip buying opportunity.** Is the opposite true now?
- The chart above shows the S&P500's *independent* sensitivity to US High Yield spreads. In Q4'20, a one standard deviation tightening in US HY spreads (in isolation, every other factor held constant), was consistent with a 1% rally in SPX.
- The equivalent move today is just a 0.2% gain. **On this metric, equities still want tight credit spreads but the sensitivity is a fifth of what it was. Last week's announcement isn't the huge game changer it would have been in 2020.**

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