Quant insight

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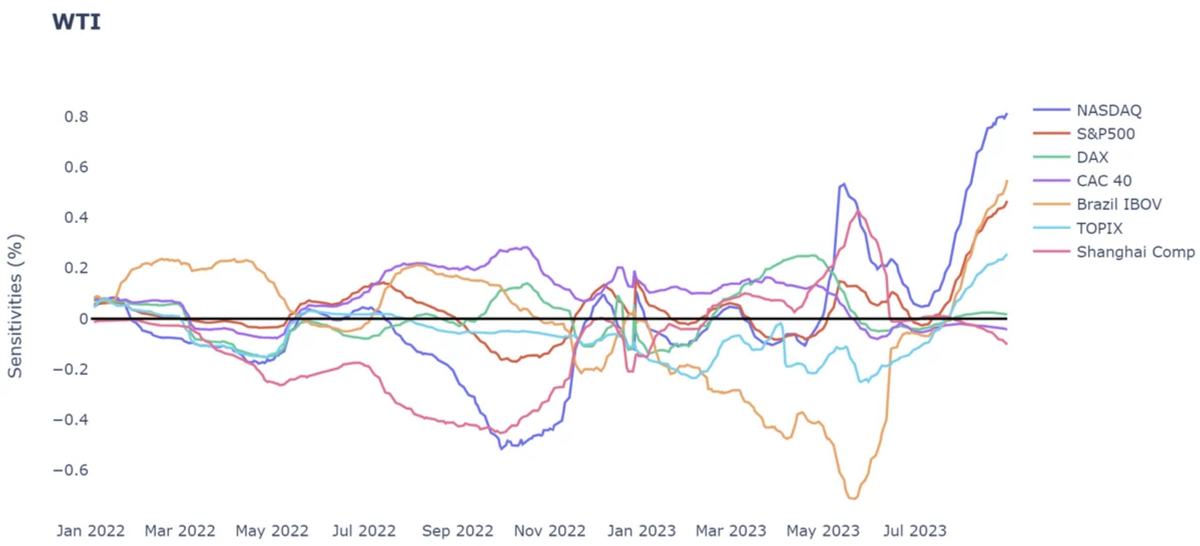
Crude oil at 10mth highs
- what does it mean for you?

Crude's rally is starting to attract attention. Most equity analysis immediately focuses on XLE, but how are managers supposed to marry a macro story like energy with their fundamental stock picks?

Different parts of the equity market have very different relationships with crude oil. It is essential these are understood.

The chart below takes a look across global equity indices in developed and emerging markets and maps sensitivity to WTI. The y-axis shows the percentage gain/loss in each equity market for a one standard deviation shift in WTI in isolation.



There is a clear geographical split with the Americas the clear beneficiary of higher oil prices. NASDAQ, S&P500 and Brazil's IBOV have all seen sensitivity to crude rise sharply. To a lesser extent TOPIX also benefits.

Some may query those results, especially Japan as a net oil importer. For now, we think this reflects oil's role as a proxy for risk appetite. Some of the gains in crude come from tight supply conditions; but, from the demand side, there are growing hopes global growth will achieve a soft landing.

But if current patterns show US equities enjoying a **Goldilocks** relationship with energy markets, the same cannot be said for Europe or China. Neither the DAX or CAC enjoy the same positive sensitivity.

The Shanghai Composite, where macro explains 75% of price action, has recently seen sensitivity flip into negative territory - higher oil is threatening to become a drag.

Moving away from indices to single names, stock pickers can use Qi's *Optimise Trade Selection* function to screen their holdings for sensitivity to crude oil.

Below we show the results from screening across the S&P500 to find the winners and losers from this energy move.

Model Name	Asset Class	Confidence (%)	Change 1M	Valuation Gap σ	WTI [{WTI I close}]
CCL US	Equity	75%	↓ -6%	-1.03	3.09
TSLA	Equity	72%	↑ 3%	-0.17	2.72
ADBE	Equity	81%	↑ 0%	0.22	1.85
AMZN	Equity	79%	↑ 4%	0.23	1.71
LYV	Equity	70%	↓ -2%	-0.67	1.55

The beneficiaries include a bias to consumer cyclical names - Tesla, Amazon, Carnival and Live Nation.

Carnival stands out. It enjoys a 3.1% gain when crude rallies by one standard deviation. And it screens as cheap to aggregate macro conditions.

Once again, the current pattern is Goldilocks - higher oil is not (yet) a tax on consumption, rather a sign of healthy risk appetite.

The five most vulnerable US stocks are a more eclectic mix. Unlike the retailers cited above, ETSY and Estee Lauder don't enjoy the same positive relationship with energy markets.

Model Name	Asset Class	Confidence (%)	Change 1M	Valuation Gap σ	WTI [{WTI I close}]
MKTX	Equity	78%	↑ 0%	-0.43	-2.33
ETSY	Equity	82%	↑ 2%	-0.51	-2.03
MRNA	Equity	68%	↑ 3%	-0.06	-2.02
FMC	Equity	67%	↑ 7%	-0.39	-2.01
EL	Equity	77%	↑ 10%	0.04	-1.86

Economic orthodoxy states rising crude oil acts as a tax on consumers and businesses. But US exceptionalism means that, for some at least, bad news can be seen as good news. Put another way, crude has yet to rise to that trigger point where it becomes a drag on activity and, for now, **Goldilocks trumps Bust**.

The equivalent search across Euro Stoxx 600 stocks flips the script back to more conventional results and again highlights how, **in Europe, bad news is bad news**.

German power generator Uniper screens as the biggest beneficiary from rising crude oil; and it is slightly cheap to macro conditions.

Meanwhile fashion retailer Zalando stands out as amongst the companies that suffers from higher oil and is slightly rich to Qi model fair value.

Measure your own holdings to get visibility on whether your portfolio see's bad news as a headwind or a tailwind.

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