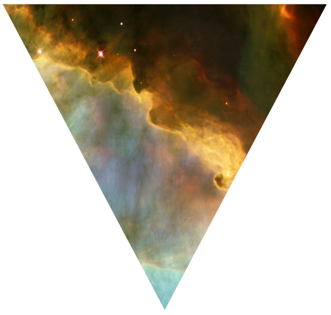
Quant insight



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Don't fear the Fed (yet) II

- Yesterday's *insight* observed that measures of Fed monetary policy tightening are positive drivers for the S&P500 on Qi's Short Term model. Yet the gunshot reaction to a hawkish set of Fed Minutes was a sharp sell-off.

- Yesterday, the ST Fair Value Gap on the S&P500 model was negligible: -0.2 sigma or 0.6%. Spot was effectively at macro-warranted fair value. That FVG now stands at -0.75 sigma or -2.2%.

- The ST model is inherently more noisy & a tactical rather than strategic tool. But how significant is that discrepancy between where the market is now & model value? Below we show the efficacy of using different FVGs as a buy-the-dip signal.

	-0.75σ	-1.0σ	-1.25σ
Hit Rate	81.8%	66.7%	80.0%
Avg Return	+1.69%	+1.59%	+3.77%
Holding period*	6	8	8
No of Trades	37	18	10
Win/Loss ratio	1.22	2.17	2.20

* business days

- A key premise of Qi is to use quantitative techniques to help guide your investment process. Use the factor moves & valuation gaps to provide signals about what is driving asset prices, & what the balance of risks are.

- The back-test results above suggest the balance of probabilities favour a bounce. Individual investors may emphasis poor sentiment, or a 'this time is different' mentality. History may not repeat itself but as it often rhymes, it is worth embracing a framework to help try & skew risk-reward in your favour. The above provides a roadmap which can provide an additional input into the discretionary process.

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Quant Insight Limited
42-46 Princelet Street
London E1 5LP
United Kingdom
Tel: +44 203 9941310
www.quant-insight.com