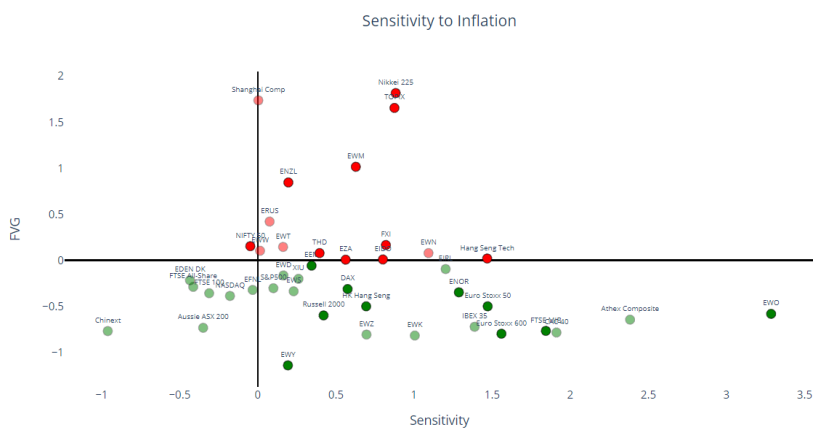




Inflation

- Today's US CPI report will be viewed primarily in the context of the debate over how transitory current inflation really is. But it is worth taking stock of how global equity indices are reacting to inflation pressures. Which view it as healthy reflation, which see it as a headwind ?
- Qi quantifies the *independent* relationship between any equity index & inflation. The chart below captures that sensitivity on the horizontal axis; the further out to the right any market is, the greater the benefit it derives from reflation.
- Then we add a valuation overlay – red dots are rich to macro, green are cheap, faded colours means that model is not in a macro regime. Some standouts:



- The models on the left (with a negative relationship with inflation expectations) are all out of regime. Put another way, **on Qi there isn't a single equity market in a macro regime that see's inflation as a bad thing**. Equities don't fear margin compression or Central Banks being compelled to tighten policy early.
- There is a bit of a **Europe versus Asia split in terms of valuations**. Japanese equities are the extreme with both [Nikkei](#) & [TOPIX](#) over 1.5 sigma rich, although both are seeing model confidence roll over. Malaysia ([EWM](#)) is also one sigma rich while a host of China-related plays are modestly above macro-warranted fair value.
- The majority of green dots are European – notably Austria ([EWO](#)), Italy ([FTSE MIB](#)) & the broader [Stoxx 600](#).

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