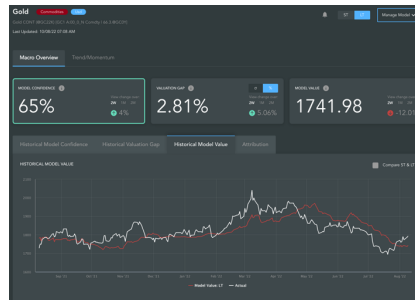




10.08.2022

Integrating systematic signals into a discretionary process ► Gold

- On one level, Qi is a simple productivity tool.
- Portfolio managers have multiple distractions competing for their time. Qi can quickly signal when a security is in a macro regime, & when there is a valuation story.
- It's US CPI day & analysis around the inflation outlook will flow thick-&-fast. Qi has a few simple observations.



- Gold is back being a macro play. Model confidence is now 65%, our threshold for a new regime.
- The new regime is diverse but gold's role as an inflation hedge is evident with rising positive sensitivity to global inflation expectations.
- Model fair value has stopped falling but is yet to display any new highs consistent with trend reversal. But spot has rallied of late & that has created a +0.7 standard deviation (+2.8%) valuation gap. Gold is modestly rich to macro conditions.
- API users can back-test the efficacy of Qi FVGs as a signal. From here to +1.25 σ looks like a coin toss – hit rates of around 50%. For potential bears, history suggests waiting for valuation gaps of +1.5 σ where the hit rate rises to 60%.
- Three quick steps – check model confidence, identify FVG, back-test the efficacy of that signal. In short, from a macro perspective, another upside inflation surprise & this doesn't look the optimal entry level to buy gold as an inflation hedge. It's not the optimal sell level either but, at these valuations, risk-reward suggests a downside surprise hurts more.

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