3rd October 2024

MacroVantage

Uncover price dislocations, trade opportunities, regime shifts and sensitivity analysis across asset classes

Quant insight

1. **S&P500 Macro Beta Impulse close to multi-year lows. A sign of complacency**
2. **Despite the rally, SPY Qi model price momentum has been fading over the last month**
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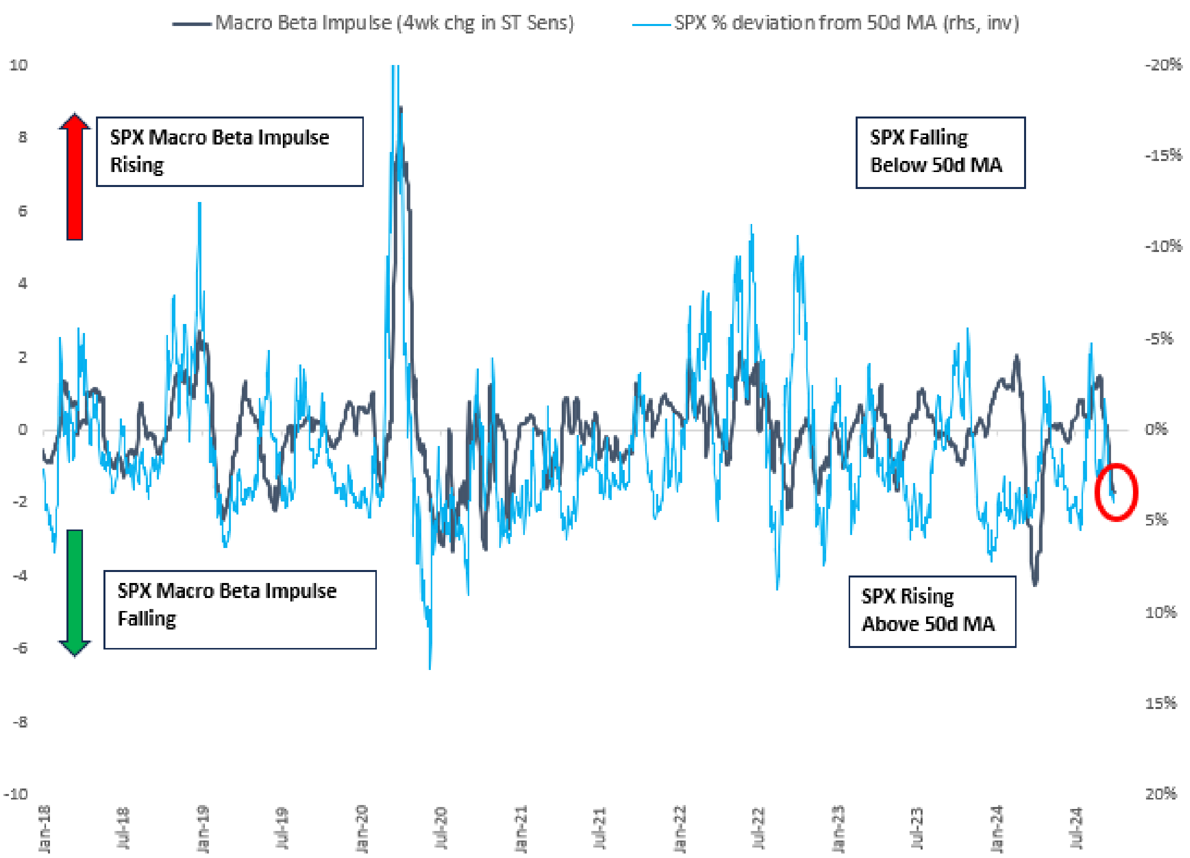
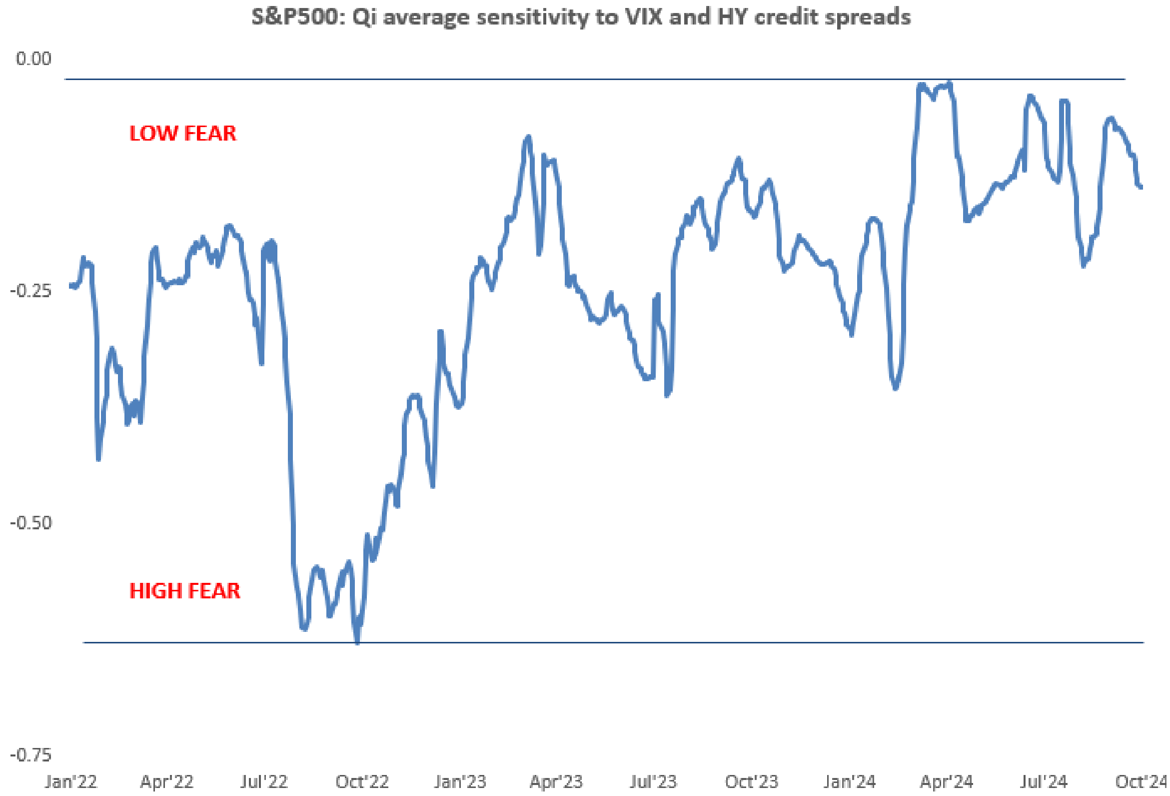
1. S&P500 Macro Beta Impulse close to multi-year lows. A sign of complacency



By the end of last week, the S&P500 had rallied 6 of the last 7 week and sitting 4% above its 50d MA - the world's most important central bank is easing, and the world's most important government is stimulating! No surprise therefore to see this rally coincide with a sharp decline in the S&P500 macro beta impulse i.e. falling macro sensitivities. Recall, our hypothesis is that Mr. Market is a neurotic patient that would prefer a backdrop of macro factor stability / low beta to macro over a backdrop of increasing macro factor volatility / high beta to macro. Therefore, when macro betas are low it is a reflection of low fear on macro. The S&P macro beta impulse has hit the low end of its range post Covid. See the chart above.

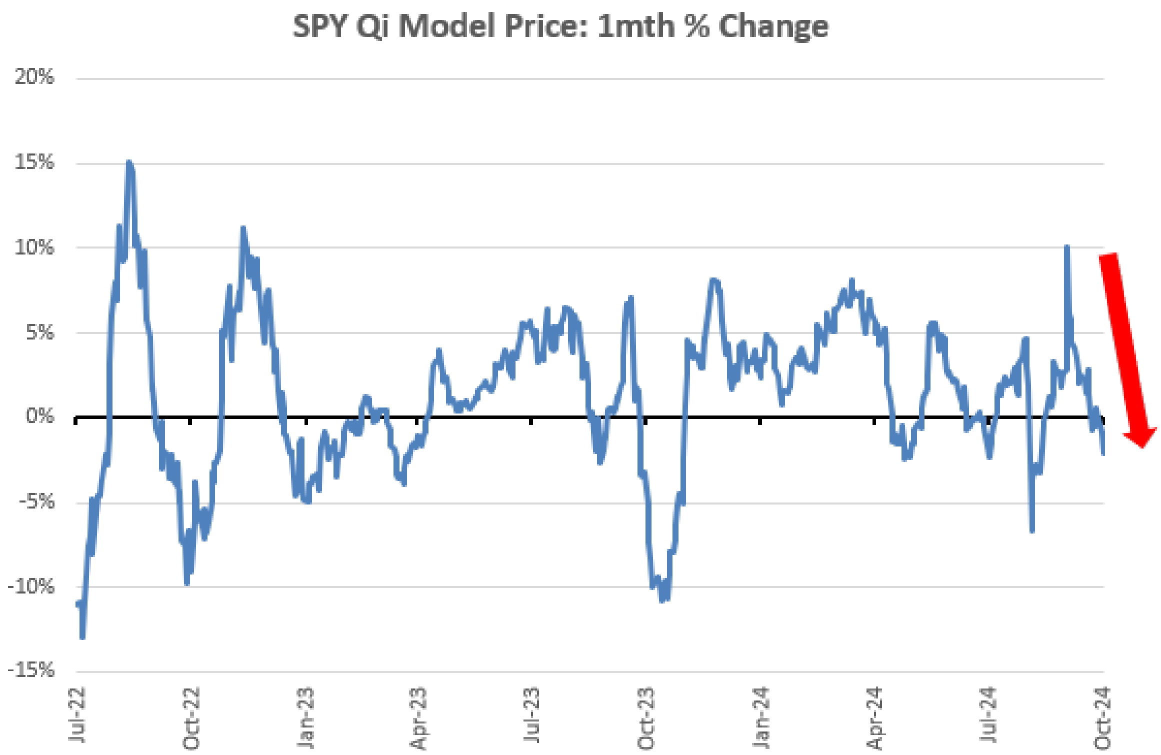


In similar vein, we show the S&P500 Qi sensitivity to the average of VIX and HY credit spreads (ST model) as a fear gauge proxy. We are clearly in period of lower macro fear, relative to the last few years.

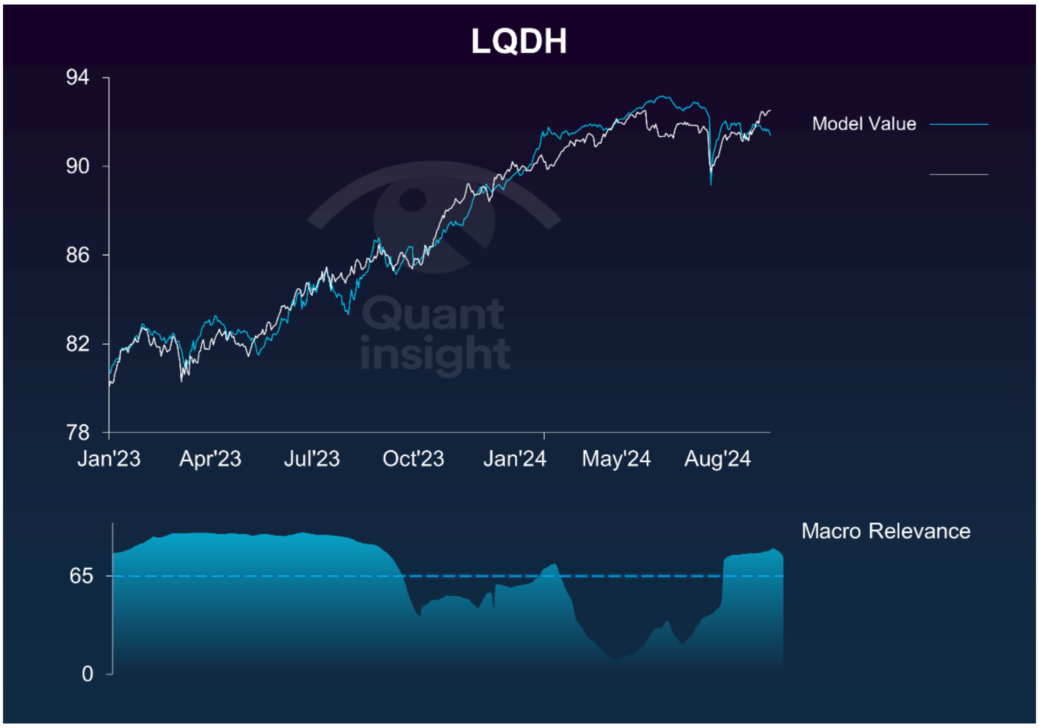
2. Despite the rally, SPY Qi model price momentum has been fading over the last month

Consider also that SPY model price momentum has been fading over the last month. HY credit spreads are little changed while inflation expectations have been rising.

Looking ahead, if the market is increasingly comfortable on the data, we need to look to inflation expectations. This would have an upward impetus on a Trump surge, China stimulus and falling jobless claims.



3. Amber warning in credit



While SPY's sensitivity to High Yield spreads is towards the low end of the ranges, it remains a critical factor. Credit spreads account for 22% of model explanatory power so equity investors need to be aware of some early warning signs that credit is looking extended from a macro perspective.

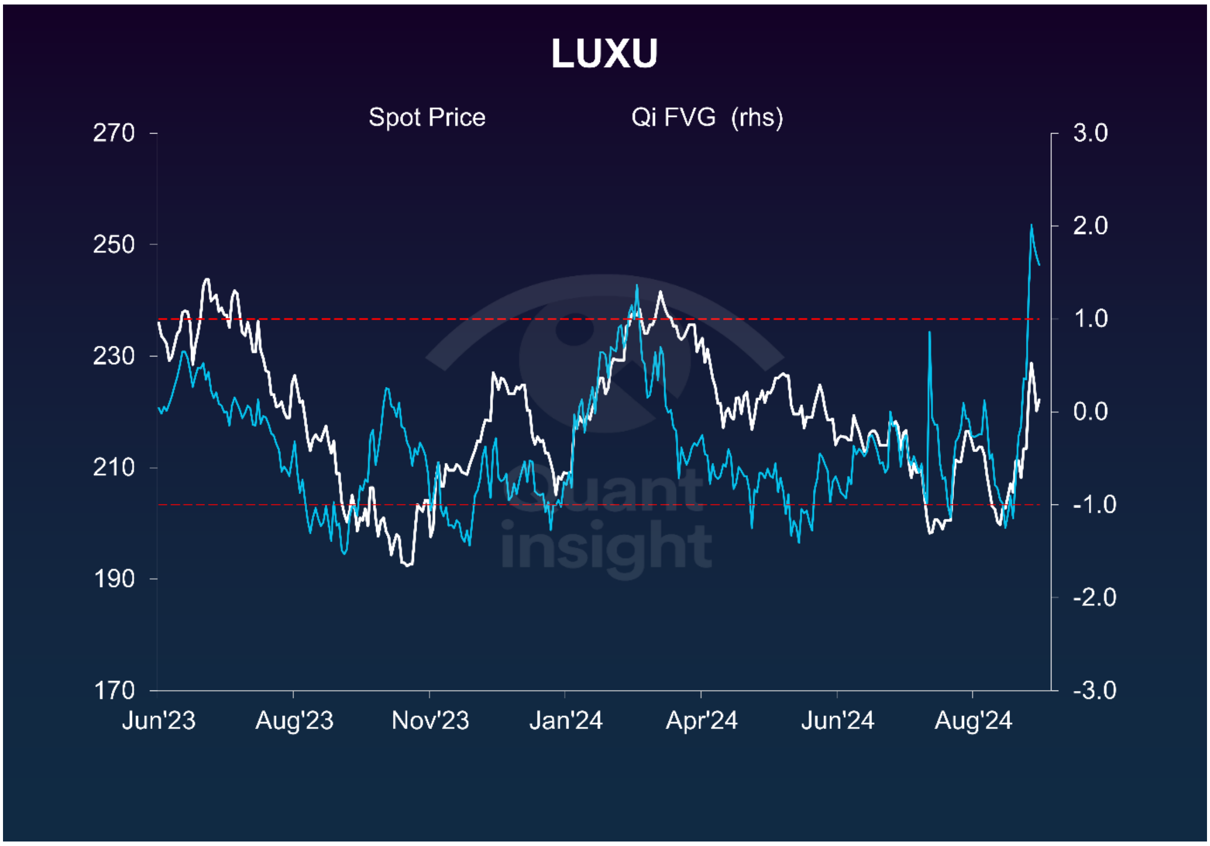
LQDH is the ETF that provides exposure to US Investment Grade credit with the duration element hedged away, i.e. it is a "purer" credit play. A bearish divergence pattern is developing with the recent rally occurring despite macro conditions starting to deteriorate. If Qi model value falls below the early September low of 91.73, we would start to worry macro momentum is potentially turning.

The same bearish divergence formation is evident elsewhere too. Still in the US, the **ANGL** ETF captures firms that were rated investment grade at the point of issuance, but have since been downgraded to High Yield. It sits 1.4 sigma rich to macro with Qi model value approaching the September lows.

EMHY (JP Morgan's EM High Yield ETF) and **EMB** (hard currency EM sovereign bonds) are over 1 sigma rich in FVG terms with model value rolling over.

The local currency Emerging Market bond ETF **LEMB** is also rich but there at least macro momentum is still trending higher. Ideally, a retracement would offer a better entry level, but **soft currency EM bonds look the best bet to global asset allocators on our models**.

4. Amber warning in Asia



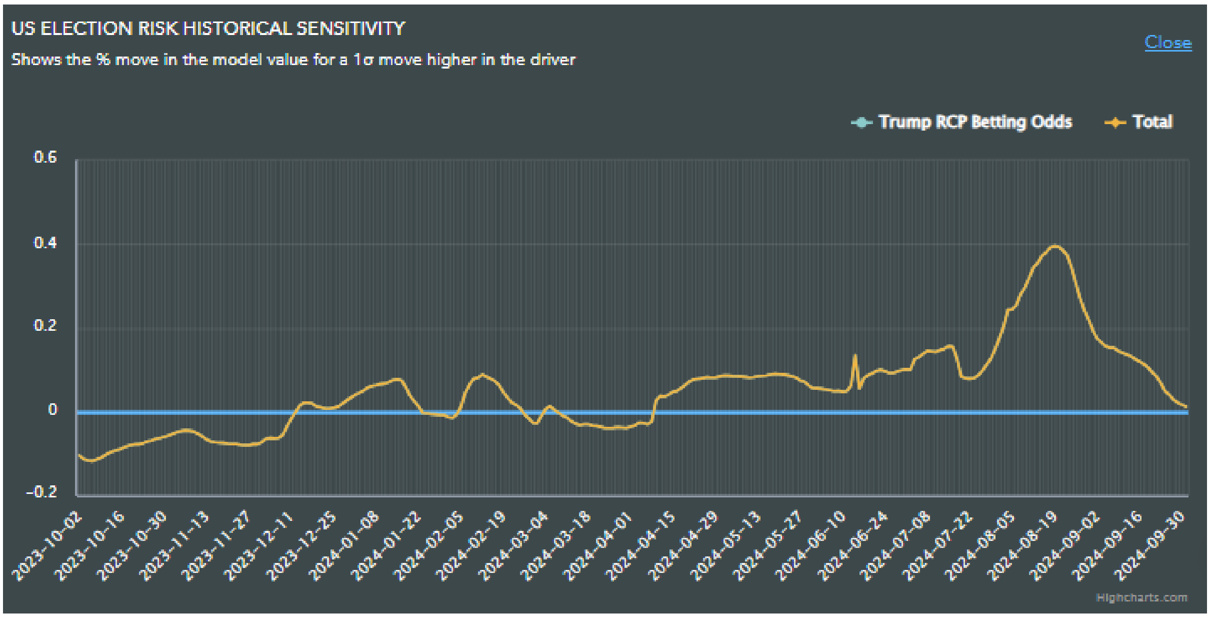
Qi is firing warning signals on several China related plays. **AIA** (iShares Asia 50; 40% China weighting), **AAXJ** (iShares All Country Asia ex Japan; 29% China weighting) and **VWO** (Vanguard FTSE Emerging Markets; 23% China weighting) are all over 1 sigma rich to macro-warranted model value.

Copper is now 1.6 sigma rich to macro. **LUXU** (the Amundi Luxury ETF with Hermes, CIE Richemont and LVMH Moet Hennessy Louis Vuitton as the top 3 holdings) is 1.5 sigma above model value.

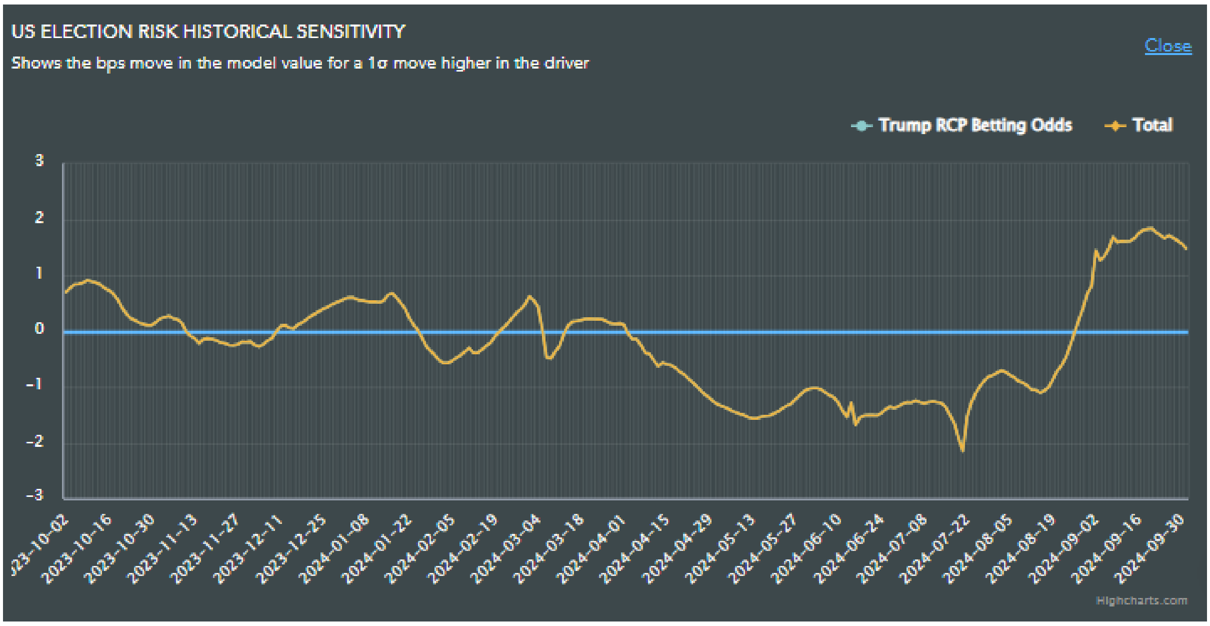
Yes there's a large element of a positioning squeeze driving current price action. But, from a macro perspective, the tradeable bounce has already happened to a fair degree. The risk-reward suggests these are not great levels to chase.

5. **<u>A Trump surge is underpriced by equities</u>**

Betting odds show that the Trump/Harris gap is narrowing at 50% probability for a Trump win and 48% for Harris. However, according to Qi, at least at the equity market level, a sudden Trump surge is clearly not priced. If all Trump's policies were effected, it would be expected to lead to larger inflationary than growth impulse. Yet Qi shows the sensitivity of the S&P500 to Trump betting odds has falling to zero. See the chart below.



In contrast, the **sensitivity to 10yr Treasury yields** is deemed much higher. Higher Trump betting odds point to higher yields – no surprise given the heightened concerns on a ramp up in the fiscal deficit.



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