

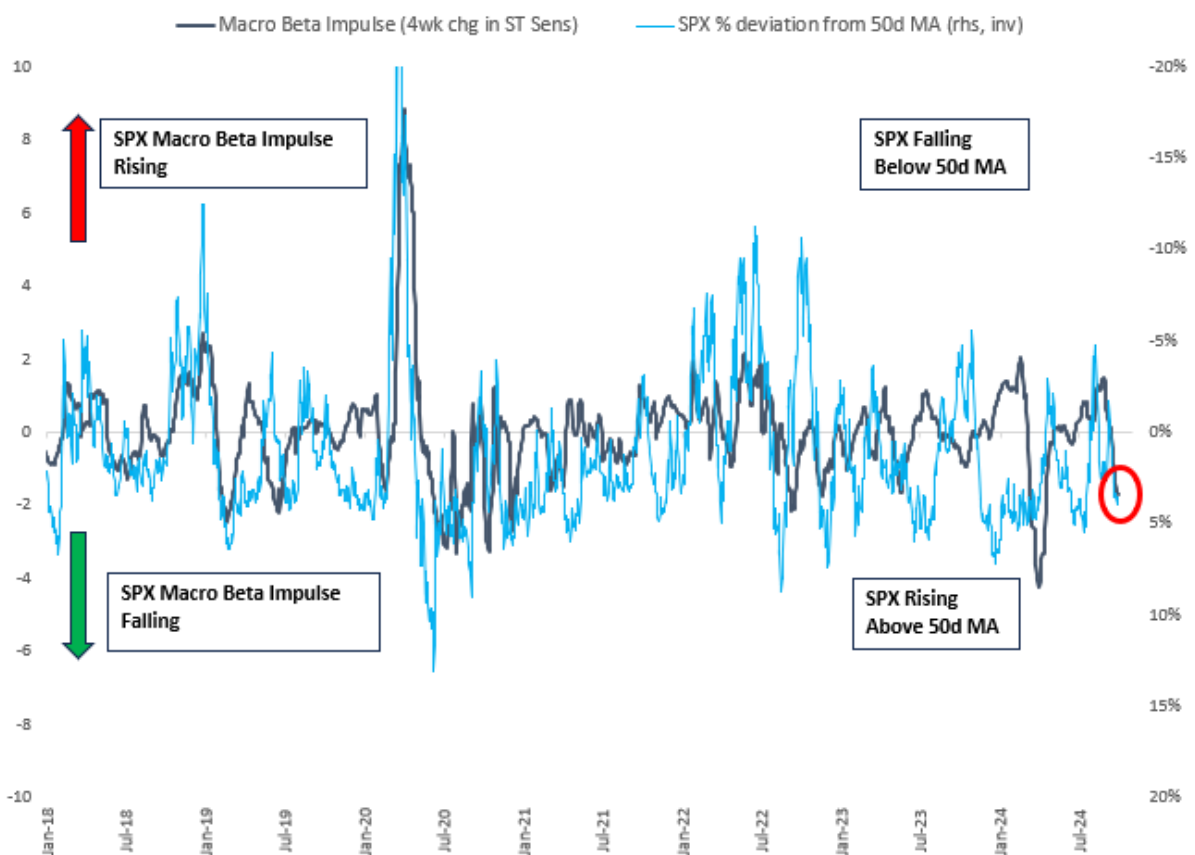
# MacroVantage



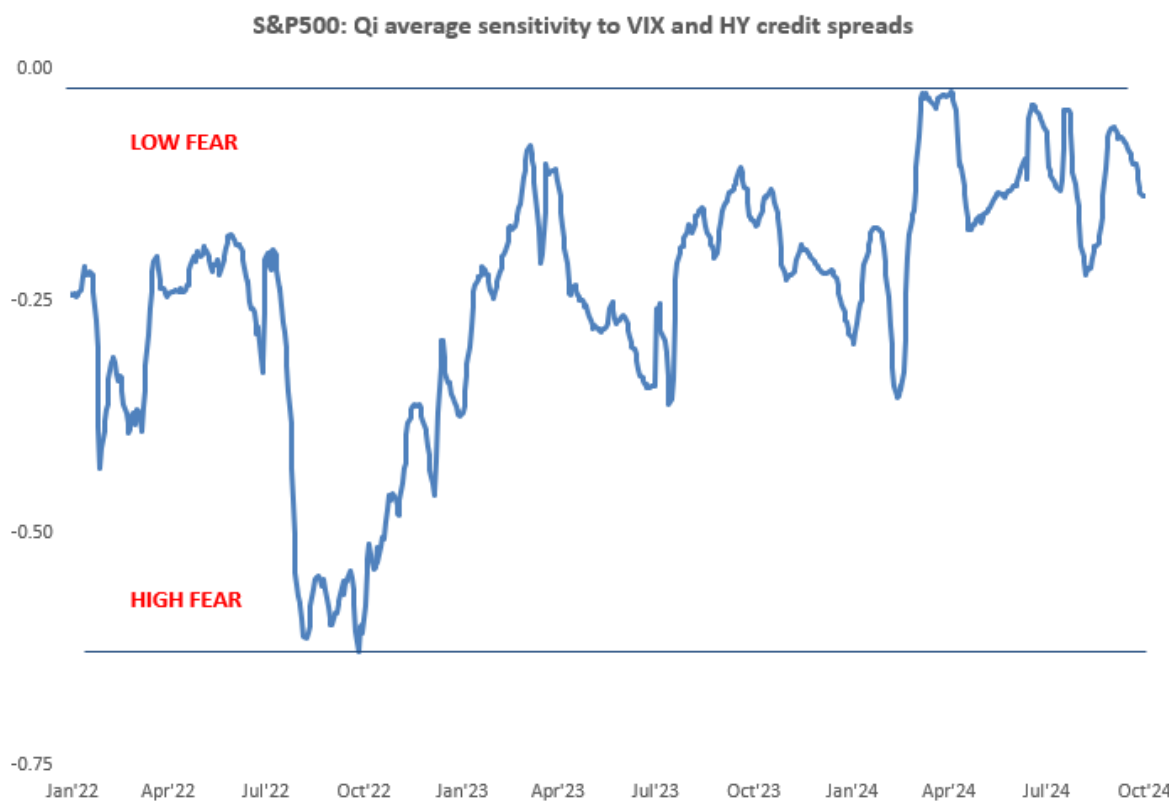
Uncover price dislocations, trade opportunities, regime shifts and sensitivity analysis across asset classes

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
3. Amber warning in credit
4. Amber warning in Asia
5. A Trump surge is underpriced by equities

## 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.

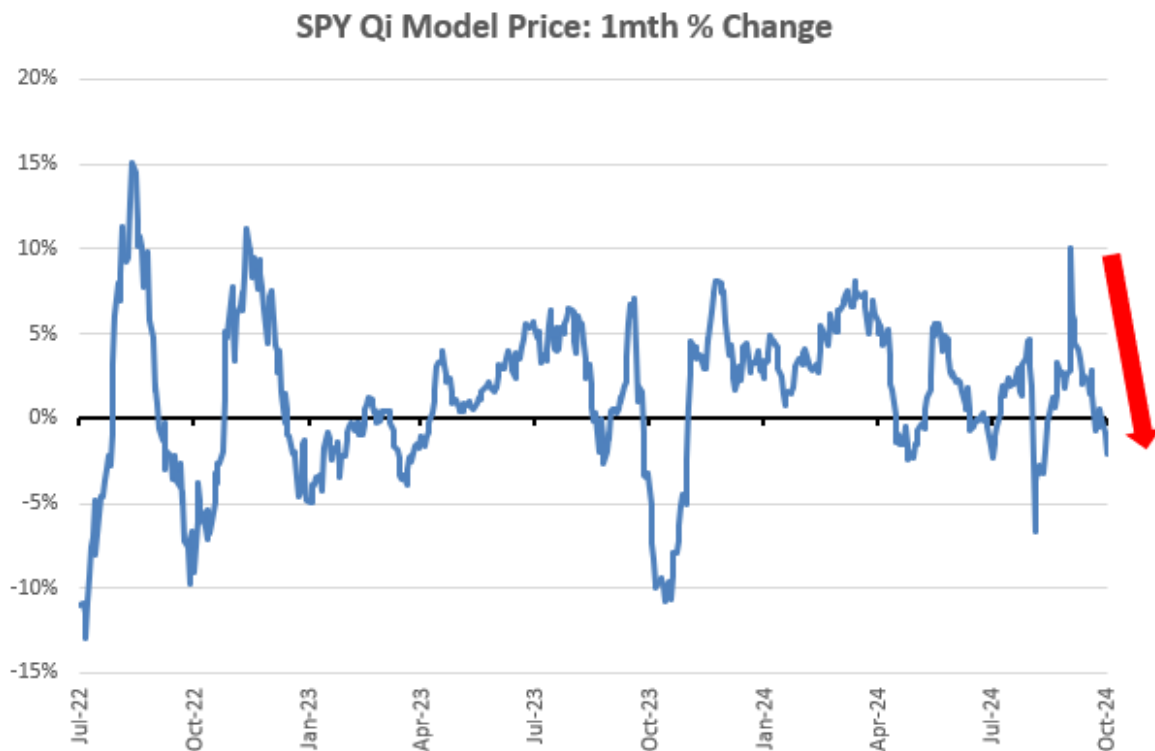


In similar vein, we show the S&P500 Qi sensitivity to the average of VIX and HY credit spreads (ST model) as a fear gauge proxy. We are clearly in period of lower macro fear, relative to the last few years.

## 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.

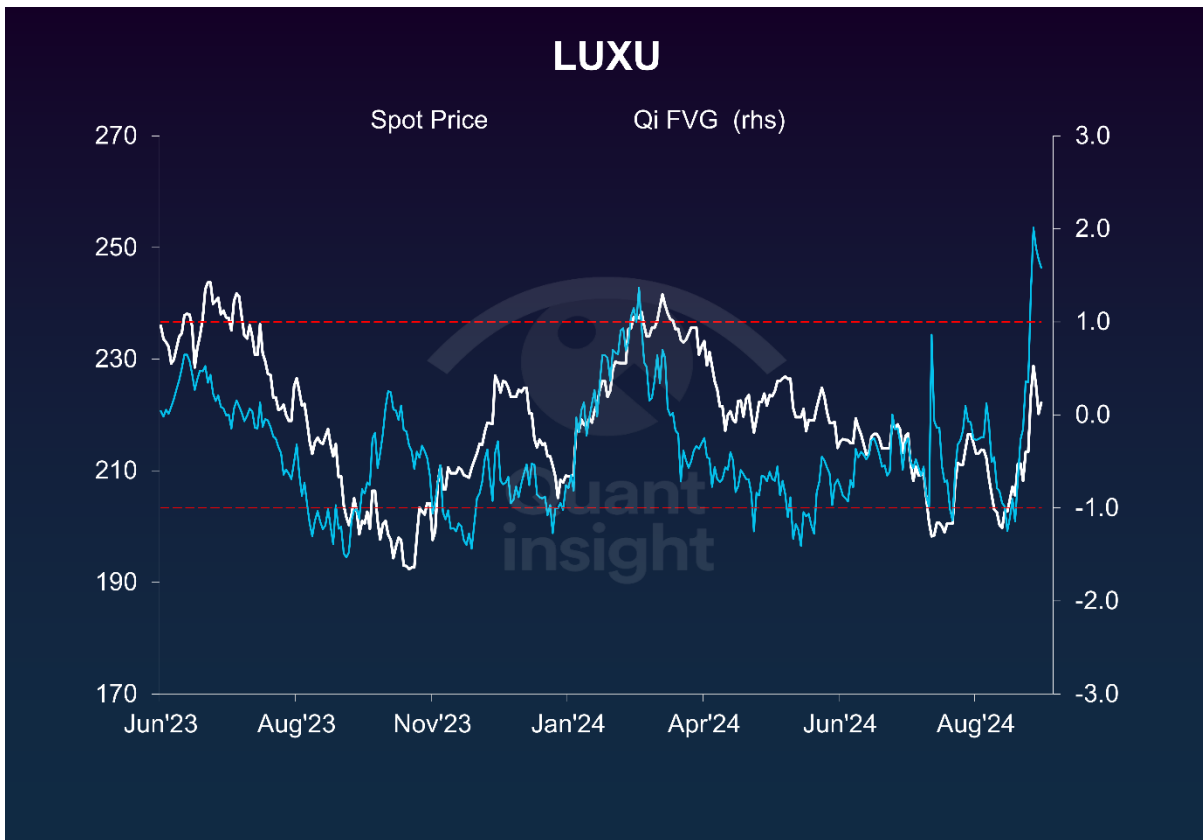
The same bearish divergence formation is evident elsewhere too. Still in the US, the **ANGL** ETF captures firms that were rated investment grade at the point of issuance, but have since been downgraded to High Yield. It sits 1.4 sigma rich to macro with Qi model value approaching the September lows.

**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



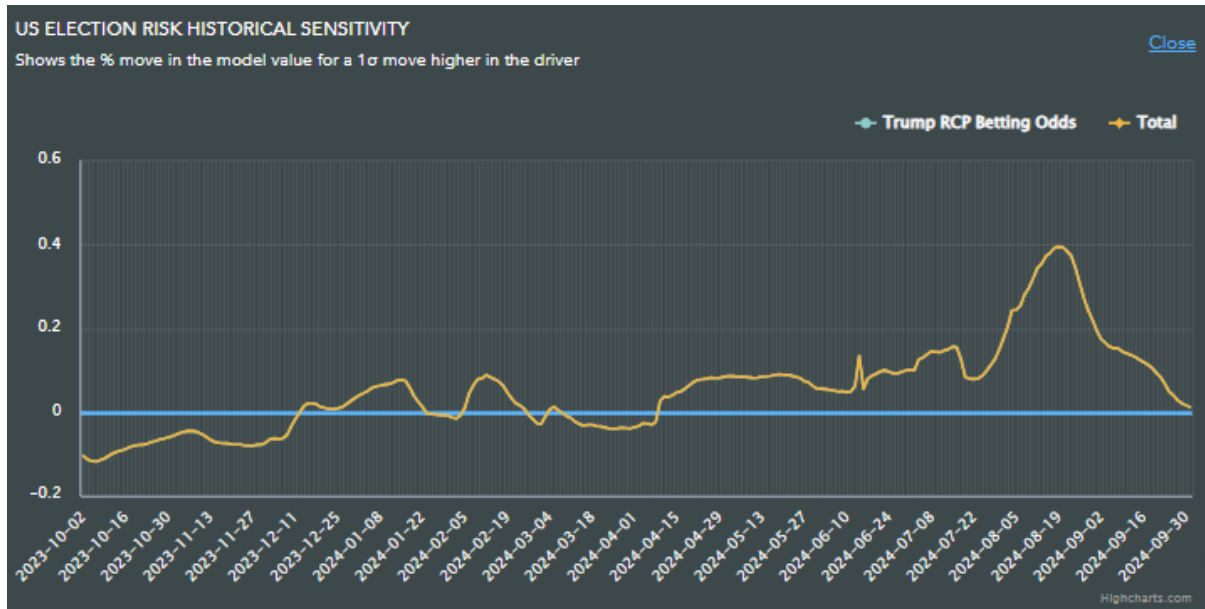
Qi is firing warning signals on several China related plays. **AIA** (iShares Asia 50; 40% China weighting), **AAXJ** (iShares All Country Asia ex Japan; 29% China weighting) and **VWO** (Vanguard FTSE Emerging Markets; 23% China weighting) are all over 1 sigma rich to macro-warranted model value.

**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.

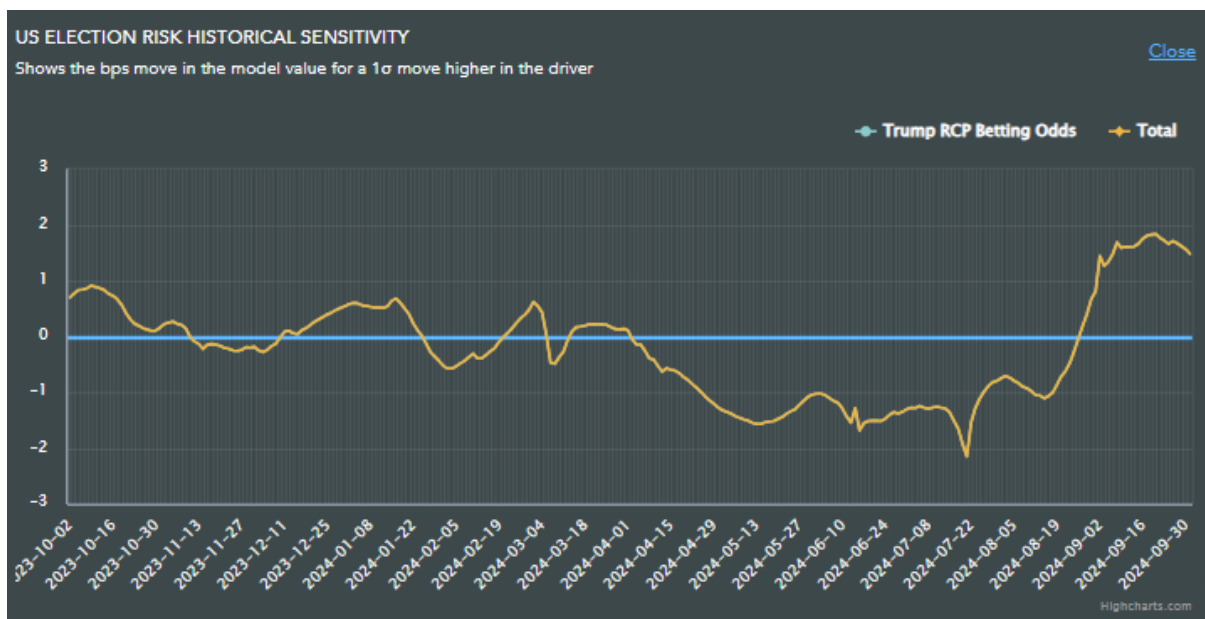
Yes there's a large element of a positioning squeeze driving current price action. But, from a macro perspective, the tradeable bounce has already happened to a fair degree. The risk-reward suggests these are not great levels to chase.

## 5. A Trump surge is underpriced by equities

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 fallen 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.



Disclaimer

This document is being sent only to investment professionals (as that term is defined in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FPO")) or to persons to whom it would otherwise be lawful to distribute it. Accordingly, persons who do not have professional experience in matters relating to investments should not rely on this document. The information contained herein is for general guidance and information only and is subject to amendment or correction. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

This document is provided for information purposes only, is intended for your use only, and does not constitute an invitation or offer to subscribe for or purchase any securities, any product or any service and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document does not constitute any recommendation regarding any securities, futures, derivatives or other investment products. The information contained herein is provided for informational and discussion purposes only and is not and, may not be relied on in any manner as accounting, legal, tax, investment, regulatory or other advice.

Information and opinions presented in this document have been obtained or derived from sources believed to be reliable, but Quant Insight Limited (Qi) makes no representation as to their accuracy or completeness or reliability and expressly disclaims any liability, including incidental or consequential damages arising from errors in this publication. No reliance may be placed for any purpose on the information and opinions contained in this document. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this document by any of Qi, its employees or affiliates and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. Any data provided in this document indicating past performance is not a reliable indicator of future returns/performance. Nothing contained herein shall be relied upon as a promise or representation whether as to past or future performance.

This presentation is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person under any circumstances without the express permission of Quant Insight Limited.