Qi MacroVantage

MacroVantage scans all asset classes globally, looking for timely observations from Qi's AI driven framework.

Where an asset price has become divorced from macro fundamentals and offers a potential trade opportunity; where factor leadership may be changing or regimes shifting; employing Qi factor sensitivities to run scenario analysis on critical themes.

Topical, timely, machine-driven signals and observations

#1 Good news is still bad news – Qi sensitivity of S&P500 to US GDP growth is negative.

#2 Rate cuts today versus economic growth tomorrow – FX implications.

#3 Dollar dictating risk assets – regional banks & EEM caution – they want a weaker dollar but also trading macro-rich.

#4 Macro + Politics. **USDZAR.**

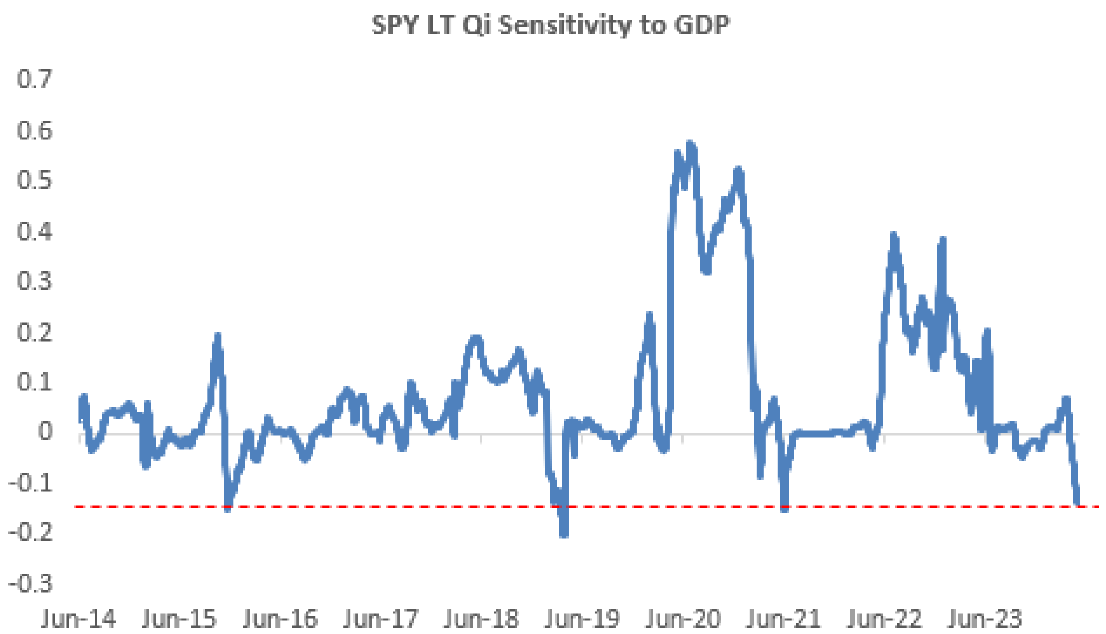
#5 Trading **inflation tails ahead of CPI.**

1. ***Good news is still bad news – Qi sensitivity of S&P500 to US GDP growth is negative***

Through April, Qi has shown the rising sensitivity of risky assets to financial conditions (rather than growth expectations). The S&P 500 Macro Beta Impulse has been rising. Last week also showed that the enemy (unemployment) of my enemy (inflation) is my friend and FCIs subsequently eased.

The bigger question going forward may well be when do growth concerns replace the soft landing / rate re-pricing narrative? We are not there yet – indeed, there is no straight path from no landing to recession concerns. Consider that as the Citi US economic surprise index has fallen below zero, stocks have rallied and VIX is at13. Economic growth expectations is a small share of the SPY macro sensitivity pie currently.

Through the Qi lens, a few observations (1) the majority of US GICS level 1 sectors want lower GDP not higher (2) SPY sensitivity to GDP growth is close to long term range lows (3) currently the top driver for the Qi short term model of UVXY ETF (VIX) is higher US GDP growth!

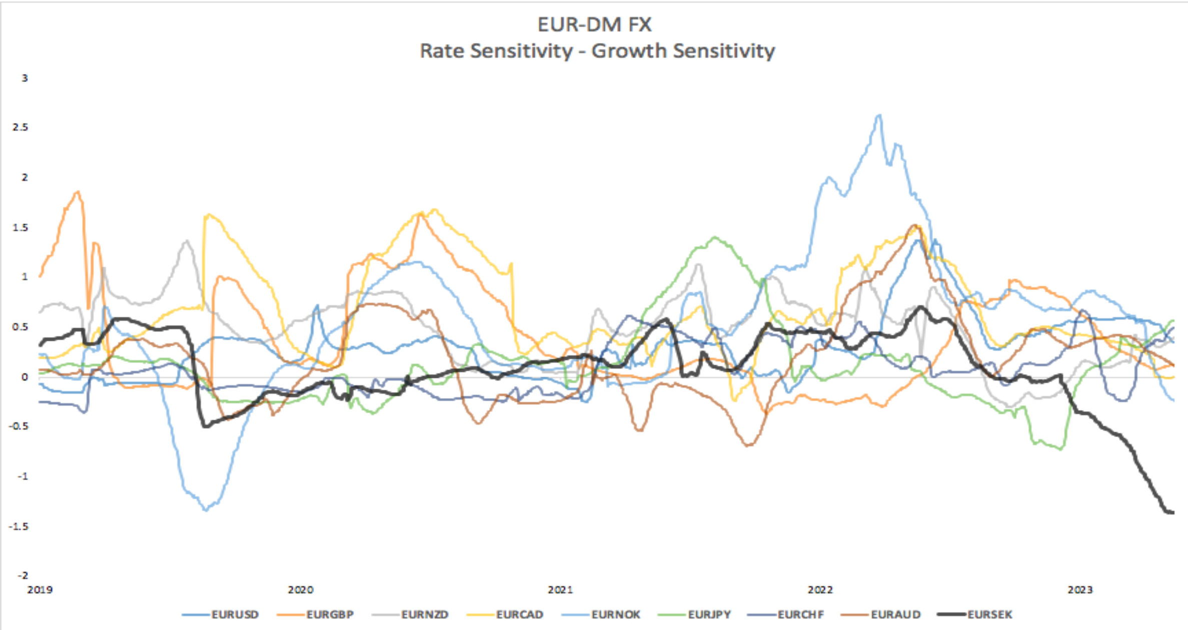


2. ***Rate cuts today versus economic growth tomorrow – FX implications***

The same question can be asked in FX markets. For a long time now the only game-in-town has been comparing the different reaction function amongst Central Banks - which Western Central Bank cuts rate first? Which cuts rates the furthest?

Relative interest rates will always be critical for currencies but, as above, investors need to be on guard for when the narrative shifts to forward growth prospects. Put another way, is there a point where FX markets move away from exclusively focusing on respective interest rate levels; & possibly towards rewarding currencies with improved growth projections?

The chart below takes EUR-DM crosses & looks at the spread between Qi's "Interest Rate Differentials" factor (1y1y, 2y2y & 5y5y x-mkt yield spreads) & Qi's "Growth Expectations Differential" (the shape of the 5s30s yield curve in each currency) factor.



As you'd expect most of the time that spread is positive – the default pattern is currencies trade off interest rate differentials. And the majority of crosses still show that default pattern today.

But EURSEK is a clear standout. The move deep into negative territory suggests the cross has become more sensitive to the relative economic fortunes of the EuroZone versus Sweden.

Maybe the Krona's weakness reflects Sweden's position as one of the G10 country's with the largest private sector debt levels & therefore most vulnerable to a housing shock.

Does it matter?

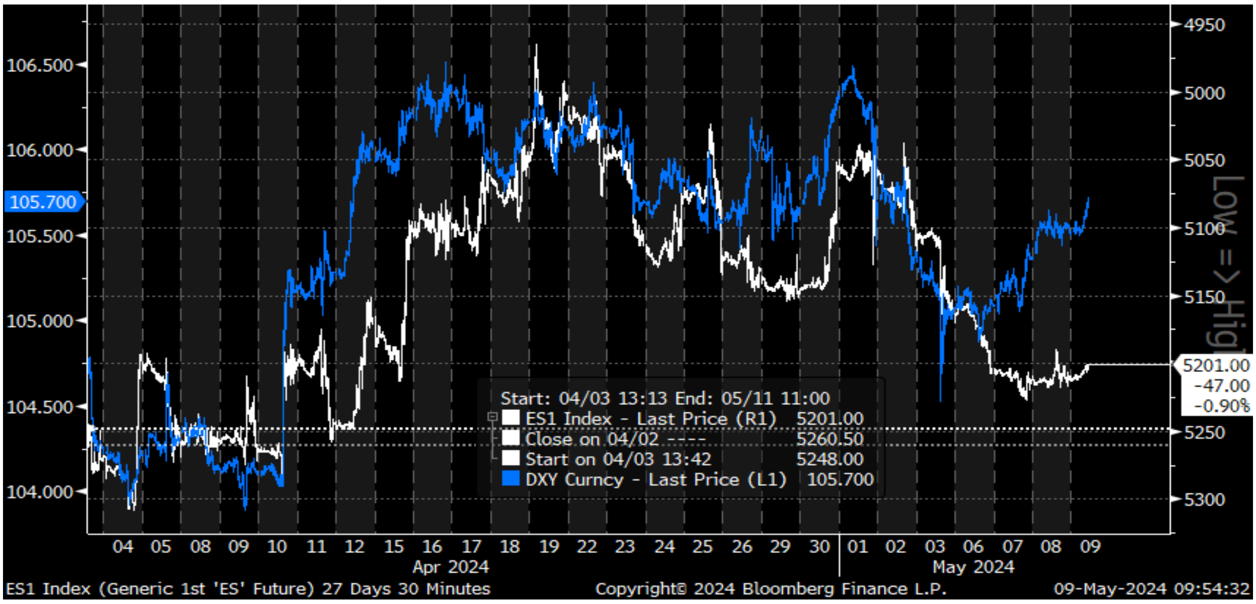
If more FX crosses start to see a shift in emphasis, investors need to re-think their approach. Fortunately, Qi captures these sensitivities every day & can alert you to such a regime change.

3. ***Dollar dictating risk assets – regional banks & EEM caution – they want a weaker dollar but also trading macro-rich***

In an earlier note ("The Dollar Juggernaut", 24th April), Qi stated the importance of the Dollar was increasing for risky assets – the negative sensitivity of the Dollar to SPY is high relative to history and high relative to the importance of other macro factors. See the first chart below showing the inverse relationship between SPY and the dollar over the last month. Tactically, note that dollar has yet to breach 3rd May lows while risky assets have made headway since – orange signal?

We highlighted in that note the winners & losers from the scenario of a stronger dollar. If the dollar remains on the backfoot, the winners would be Asia Pac, Growth (Tech / BioTech) and domestic-geared sectors (retail, real estate, banks).

However, we would highlight KRE and EEM as two weaker Dollar beneficiaries that are trading rich to the Qi model at 0.75 sigma and 0.93 sigma, respectively. Optimism looks over-extended. Below see EEM – the FVG is in fact the highest since Jan-23. Since 2009, selling EEM at +0.9 sigma has yielded a 65% win rate across 20 trades.

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FVG_Back_Test(['EEM'],0.9,0.25,65,'2009-01-01','2024-05-07',['Short'],'Long Term')
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	Results
Hit Rate	65.000000
Avg. Rtrn	1.458378
Ann. Rtrn	26.255265
Median Rtrn	1.162532
Avg. Max Gain	3.001488
Avg. Max loss	-2.853691
Avg. Holding Period	15.650000
Median Holding Period	12.500000
No. of Trades	20.000000
Avg. Win	3.938941
Avg. Loss	-3.148381
Win/Loss	1.251100

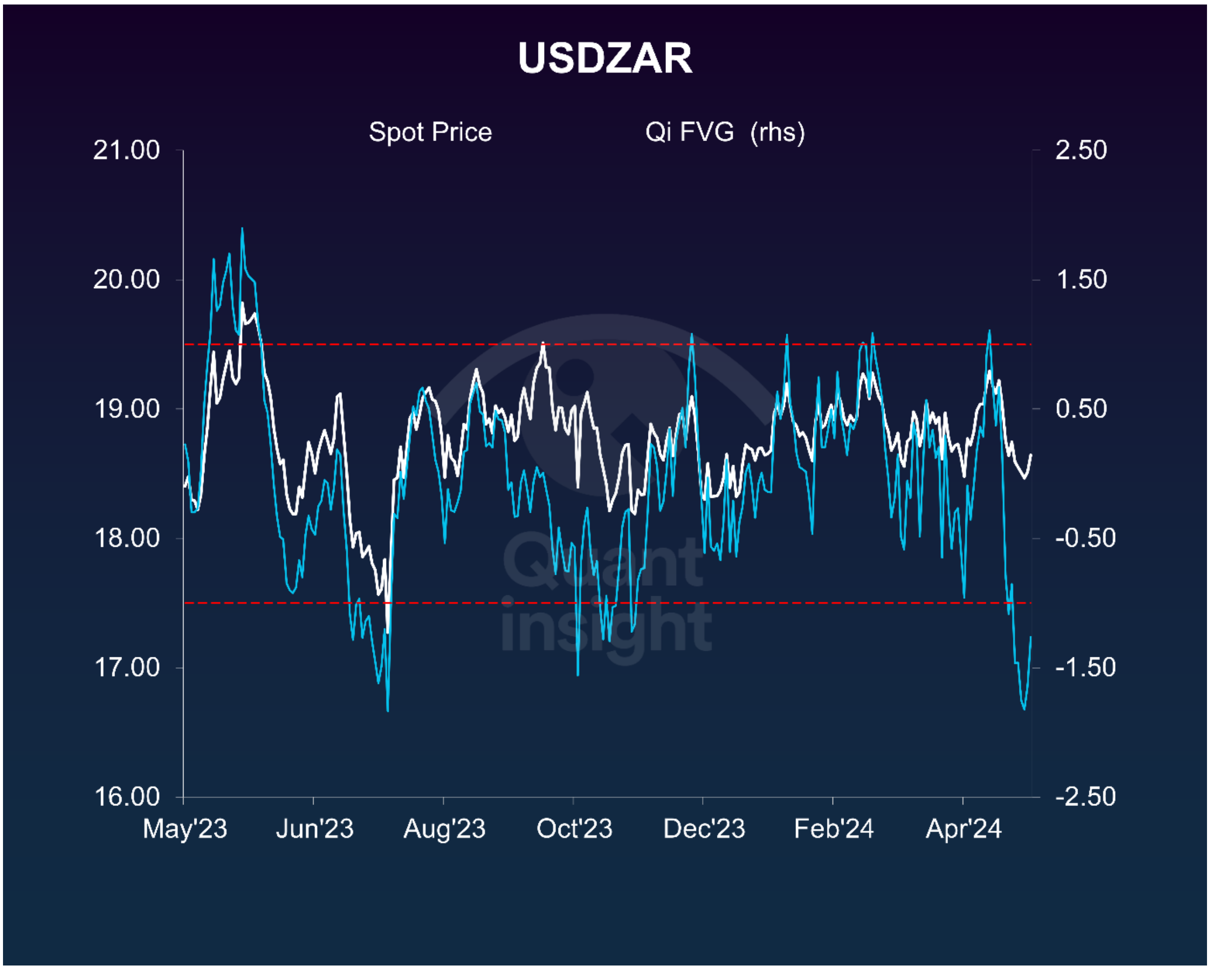
4. ***USD – EM***

If the strong Dollar is to prompt a pause in recent Emerging Market outperformance, is there an FX angle?

The cheapest Dollar-EM cross on Qi is USDZAR. It is 1.6 sigma or 2.3% cheap versus macro-warranted fair value. The caveat is model confidence is only 25% but, as the chart below shows, Qi's FVG has done an effective job recently at calling local turning points.

Moreover, one potential explanation for low model confidence is the upcoming South African election. A case of politics outweighing macro conditions.

If true, then at these levels the onus is on a decisive & market-friendly result from the general election. Absent that, the risk-reward for the Rand is not great in either political or macro terms.



5. ***Trading inflation tails ahead of CPI***

With market focus on FCIs as opposed to growth expectations, next week's CPI print will likely be pivotal to determine near-term market direction. With this in mind, we show the winners vs. losers on a hotter or softer than expected reading.

We have screened on the basis of both sensitivity to inflation expectations and Qi fair value gap. On a soft print, the winners would be speculative tech, SPY vs. FXI. Likely also domestic interest rate sensitive sectors e.g. KRE, S5REAL, as well in part bond proxies like Utilities. On a hot print, winners would be commodity equities and fuelling China equity strength.

	Soft Print	Hot Print
Winners	Speculative Tech (e.g. ARKK, ARKG) SPY vs. FXI	Commodity equities - XLE, XLB Shanghai Comp, Hang Seng
Losers	XLE	Bond proxies e.g. S5UTIL vs. S5ENRS Domestic sectors - KRE vs. SPY, S5REAL