

## 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. US Curve Steepeners: too far, too fast?

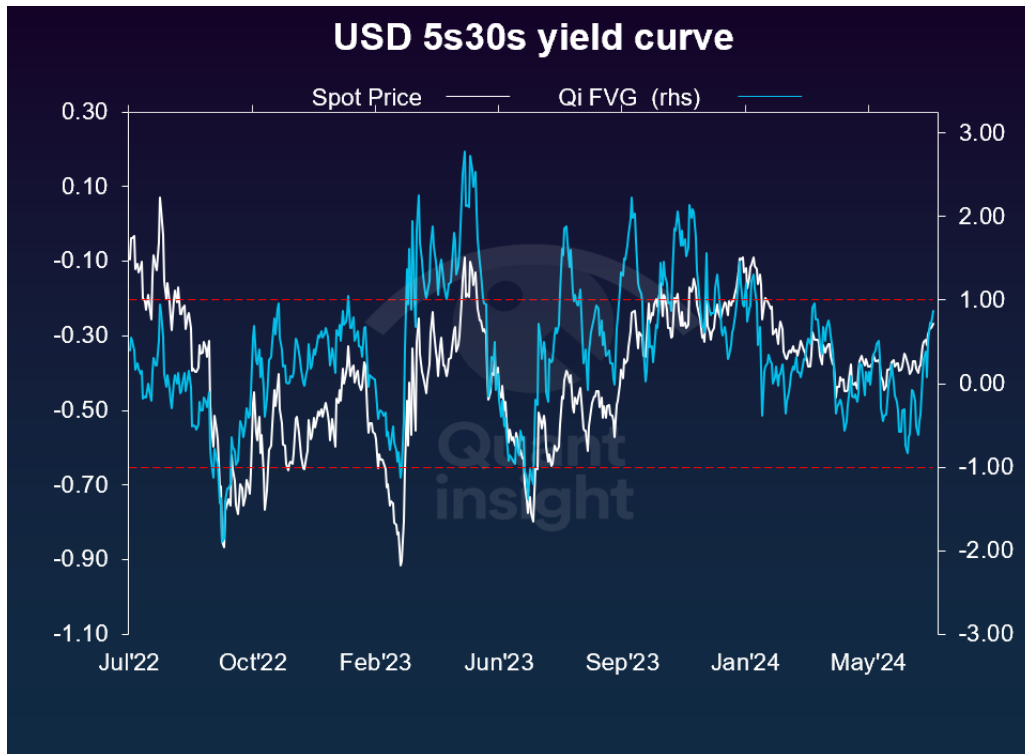
Bond bulls & bears can agree on one thing. Between Fed rate cuts & deficit concerns, the risk-reward favours a steeper yield curve from here. In the last week alone, weak economic data & the post-debate bump in Trump's polling odds have given curve steepening fresh momentum.

For one section of the yield curve, however, there are signs the move has moved too-far-too-fast in the near term. Qi now shows 5s30s as 1 sigma (almost 10bp) too steep relative to prevailing macro conditions.

That's the most extended our Fair Value Gap has been in 3mths. In fact, 5s30s has only been in regime & 1 sigma rich to model 19x since 2009, so this is a comparatively rare occurrence.



Finally, note a strong correlation between spot 5s30s & Qi's FVG over the past 2 years. This suggests the mean reversion has tended to happen the "right" way, i.e. the market correcting back to macro fundamentals.

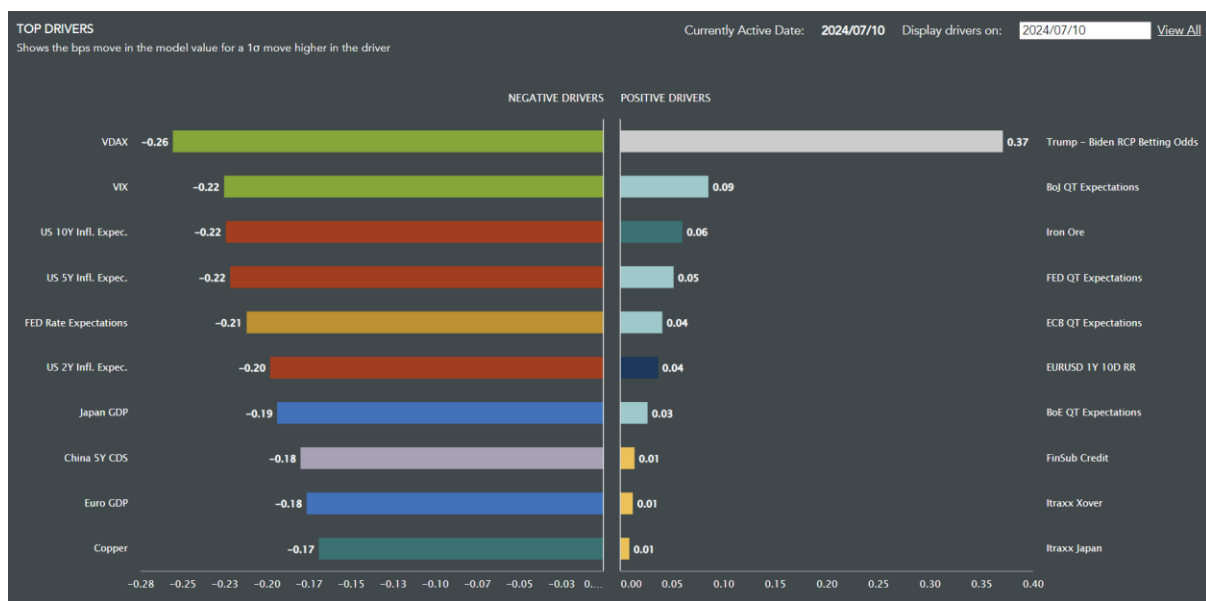


## #2. US Yield Curve II – the Trump effect

The flexibility of the Qi framework means we can add additional variables into our models to stress test certain hypothesis.

As mentioned above, tax cuts, tariffs & possible threats to Fed independence mean many see a Trump win in November as inflationary & therefore a curve steepening trade.

Therefore we introduced the Real Clear Politics Trump less Biden betting odds as a new factor in our 5s30s US yield curve model. It is the biggest positive driver of our ST model, i.e. a Trump win does indeed imply a steeper yield curve.



Statement of the obvious? Intuitively, yes. But there is clear value in having the ability to quantifiably demonstrate the fact; the ability to measure the size of the political impact; a means to see how important the factor is over time. Custom models like these will be increasingly important as move closer to the election.

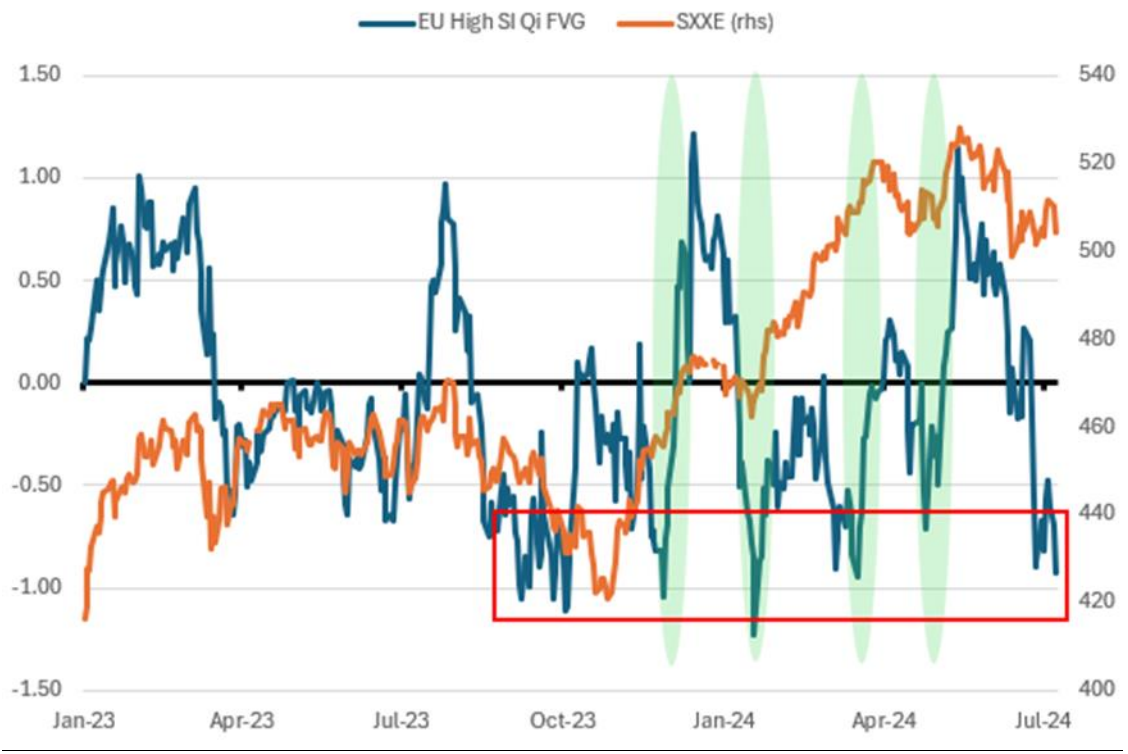
**#3. EU High Short Interest names are 1 sigma cheap to Qi model value – vulnerable to a squeeze?**

Like in the US, economic data surprises in Europe have fallen into negative territory, GDP Nowcasts have faded and policy uncertainty has been rising. Notably, the Euro Stoxx 50 is down over the last 3mths in sharp contrast with the US i.e. sentiment for the region has sharply deteriorated since Q1.

With that said, we note that Qi FVG of the GS EU High Short Interest basket stands at almost -1 sigma. This is at the low end of the FVG range since January 2023. See the first chart below. This is an interesting observation given it may well reflect sentiment for the region i.e. when the high SI basket is deemed cheap to macro, has sentiment become too bearish and a short squeeze is possible, or vice versa?



The following chart compares the Qi FVG for this basket to the broader Euro Stoxx market itself. The last few occasions where the FVG was heading towards -1 sigma, it was better tactically to be buying market dips as opposed to fading rallies.



**#4. No room for disappointment this earnings season, especially for mega cap Tech; The most expensive stock in the S&P500 based on Qi's model – no surprise, Tesla:**

We are approaching the 6 week window where we will see 90% of major global companies report, with the last 2 weeks of July being the focal points with around 30% of S&P500 companies reporting each week. Consensus is expecting ~9% y/y growth for the S&P500, which would be the strongest quarter since 4Q 2021. The biggest six tech companies (AMZN, AAPL, GOOGL, META, MSFT, and NVDA) are expected to see earnings grow 30% y/y, compared with 5% for the rest of the market.

6 of the Mag7 stocks are trading above Qi's macro-warranted fair value, albeit macro explanatory power (Model RSq) averages only 54% across the names. We highlight the table below – Tesla is trading at its 100<sup>th</sup> 1yr percentile on Qi FVG; Apple at its 73<sup>rd</sup> percentile; NVDA at its 71<sup>st</sup>. Indeed, across the whole index, no surprise that Tesla has the highest FVG – the stock has rallied almost 40% in the last 2 weeks. See the over-extension in the second chart below.

**Magnificent 7 - Qi FVGs**

Stock	LT RSq	LT FVG	FVG 1yr Percentile
TSLA	57	1.63	100%
AAPL	69	0.70	73%
NVDA	44	0.42	71%
META	53	0.66	71%
MSFT	56	0.47	66%
AMZN	53	0.42	59%
GOOGL	49	-0.11	17%

While we have no edge on earnings, the above table would imply a lot has been priced in - any disappointments are likely to be heavily punished. NDX is trading 0.6 sigma above Qi model value; SPY is 0.3 sigma above Qi model value.

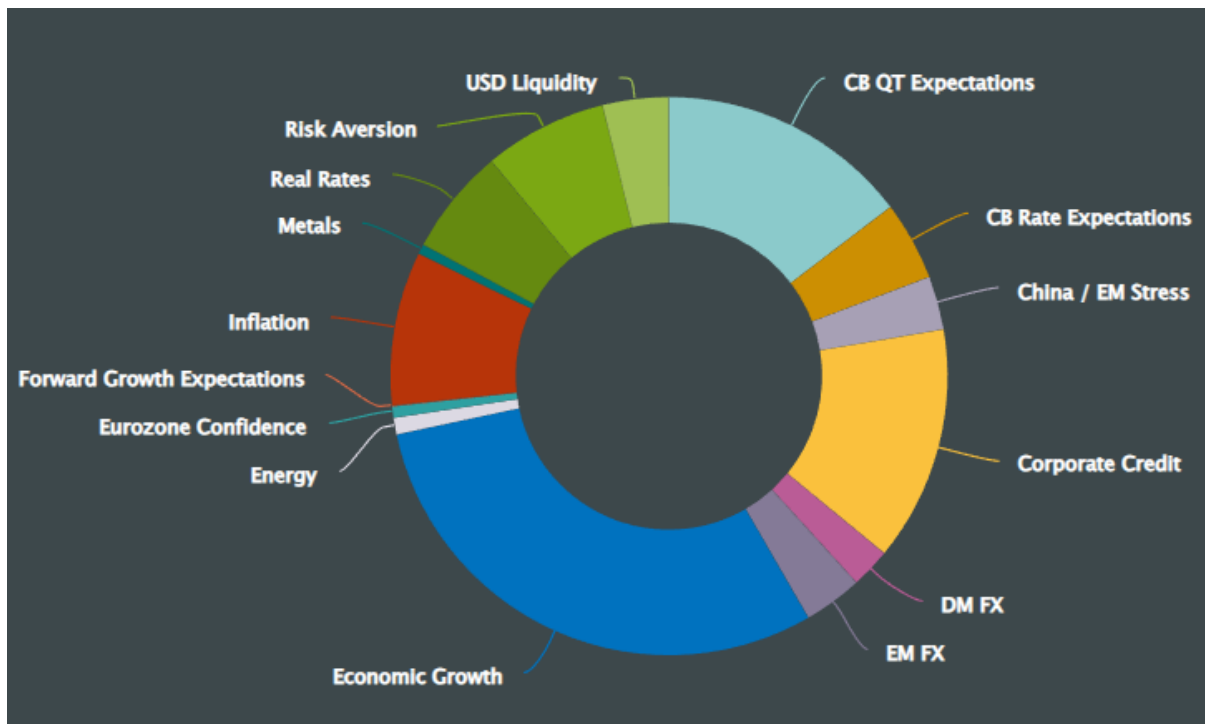
# TSLA



### **#5. Nikkei 225 – Overexcitement over the last month relative to growth expectations?**

The Nikkei has hit an all time high. Indeed over the last month, the index has been among the strongest major indices globally (in local currency terms). Even in dollar terms, it has been outperforming the S&P500 over the last 3 weeks. Strength over the last month has been led by Topix Banks and Insurers, alongside higher domestic bond yields. Yet over the last month, Nikkei's Qi model value has seen a sharp drop!

According to Qi's machine, the largest macro driver of the Nikkei is not the level of JPY or bond yields, but rather global economic growth. See the first chart below.

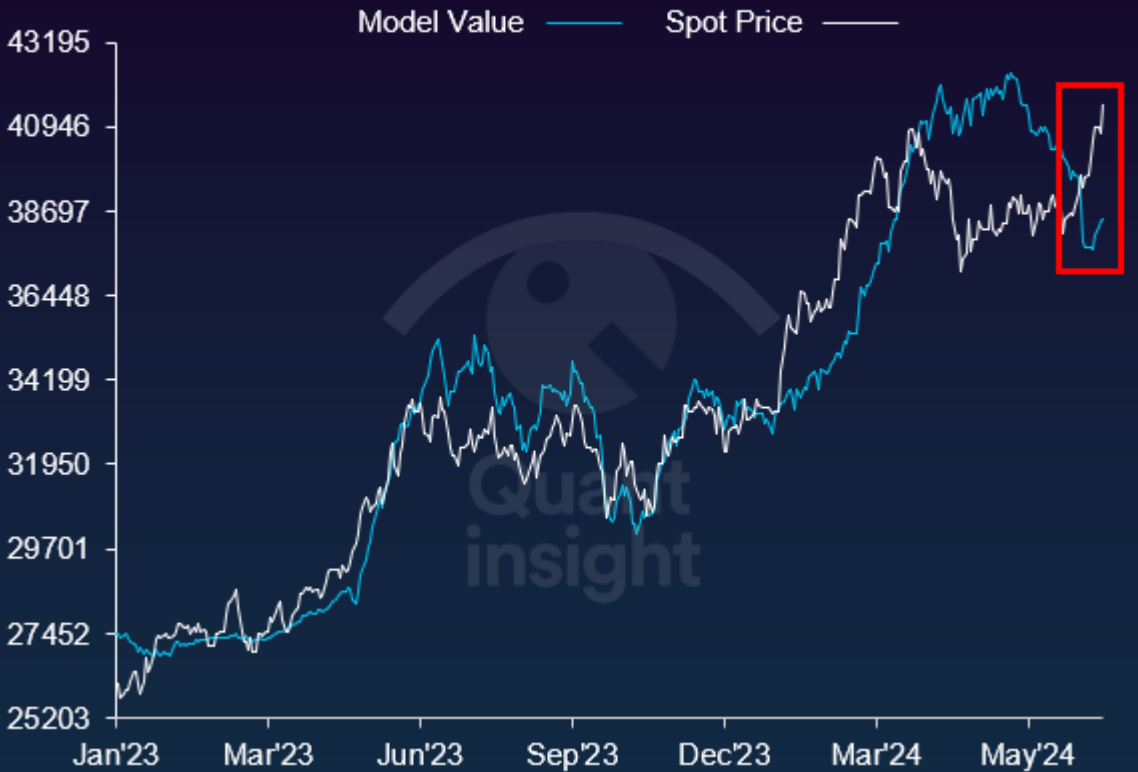


Our "Economic Growth" driver accounts for nearly 30% of explanatory power in our Nikkei model. Over half the recent fall in macro-warranted model value comes from the downward re-rating in Now-Casting's tracking GDP estimates.

The Nikkei is today trading at +1 sigma above Qi macro-warranted fair value. While Qi's model value has started to move higher, the dislocation to spot price is large – see the chart below. We wonder if the recent excitement has gotten ahead of itself, if especially investors are concerned on economic growth slowdown into Q3.



# Nikkei 225



# Nikkei 225 vs. S&P500

