

## Qi MacroVantage

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

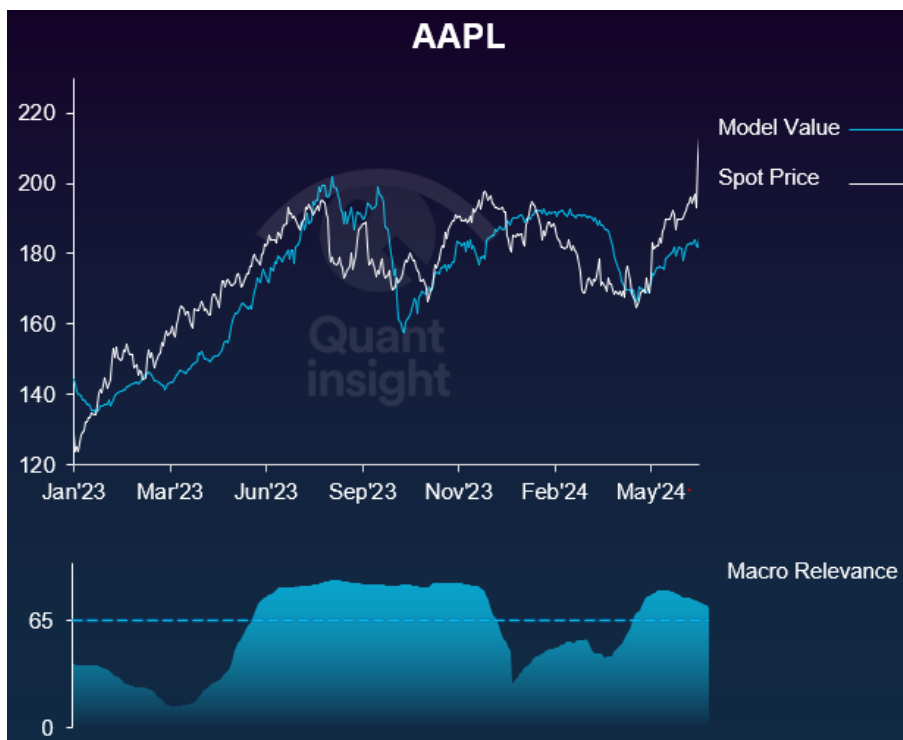
Where an asset price has become divorced from macro fundamentals and offers a potential trade opportunity; where factor leadership may be changing or regimes shifting; employing Qi factor sensitivities to run scenario analysis on critical themes.

Topical, timely, machine-driven signals and observations

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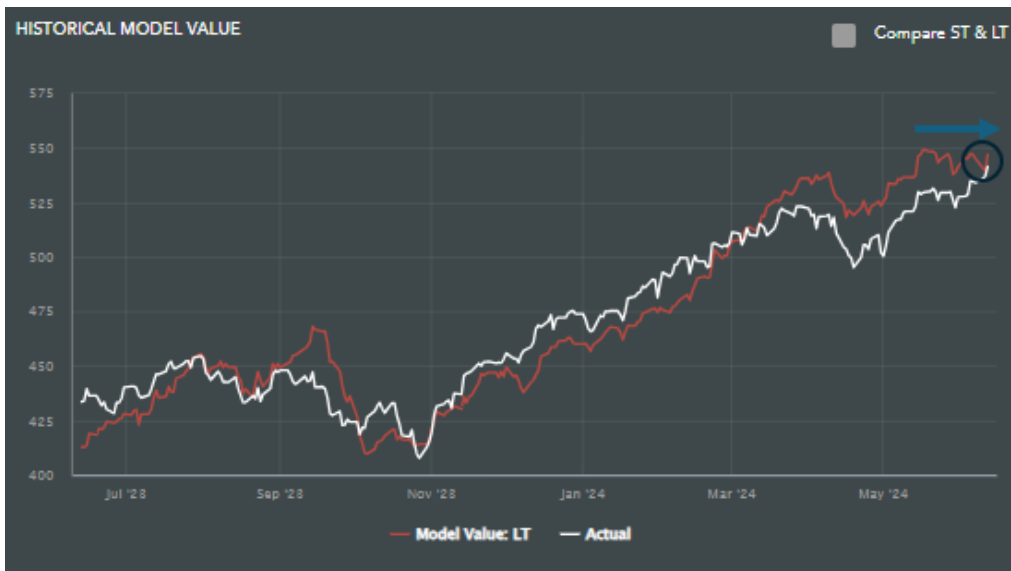
### 1. *SPY has now converged to Qi model value - sector rotation is order of the day*

QQQ is now trading at the top of its Qi FVG range at +1.35 sigma on Qi's ST model. The freight train that is mega-cap Tech has been carrying this market over the last month. Within Tech, following excitement from its WDC event, Apple is the valuation standout now trading at +2.98 sigma above its LT macro-warranted fair value – the highest in recent history and most overbought since 2021.



However, the last month has revealed greater uneasiness under the hood: Cyclical sectors have underperformed defensives; the equal-weighted S&P 500 actually saw its ATH at the end of Q1; crowded themes have been attacked (power / Utilities, Copper) and previously winning factors have been more range-bound (momentum). Couple that with the surge in meme stock trading that may be suggesting froth.

It strikes us that for the first time this quarter SPY has finally converged to Qi model value – see the chart below. At this point, there is a bigger FVG discount in equal-weighted S&P 500 (-0.6 sigma) than the headline S&P 500 index. Until yesterday's CPI release, Qi model price momentum had been trading water over the last month.



**2. Thankfully the CPI miss should support market breadth with value emerging in cyclicals – this was key because FCIs / disinflation remain the arbiter of stocks**

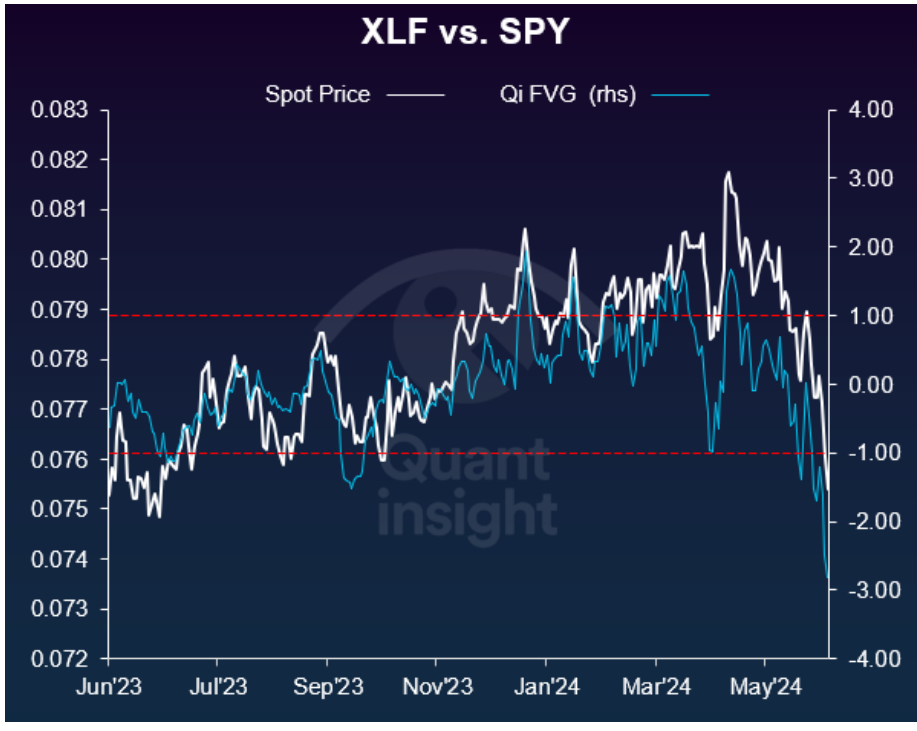
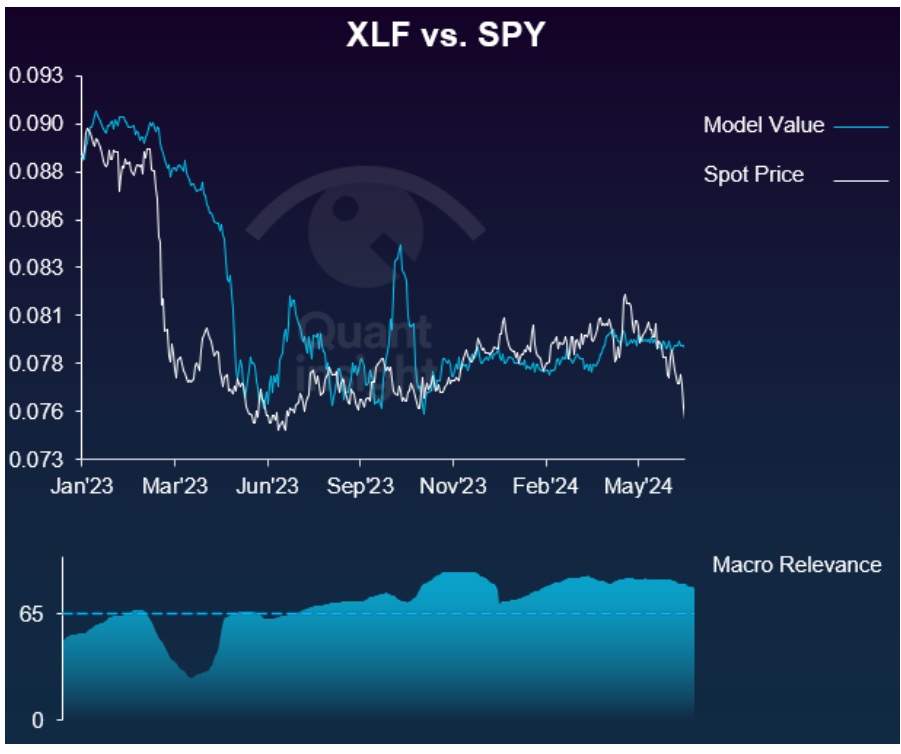
The most important macro upside drivers for QQQ & SPY? Tighter credit spreads, weaker dollar, lower real rates, lower inflation expectations i.e. FCIs remain key for the macro narrative to keep supporting Qi's model value.

In this regard, the CPI miss was welcomed. As a reminder, the below table shows the relative winners / losers from the dovish CPI print. Winners are both tech orientated but also value / domestic cyclicals – financials and homebuilders. Into the summer, there may well be scope to rotate into these laggards.

XLF relative performance should see respite – Qi's LT model for XLF vs. SPY RV is high and stable. FVG has hit -2.8 sigma – the widest valuation gap in recent history. Other large valuation gaps are notable in XLI vs. SPY (-2.7 sigma) and IGV vs. SPY (-1.6 sigma)

**Disinflation**

Winners	Losers
ARKK	S5ENRS vs. S5FINL
VFMO	XOP
ITB	XLE
XRT	Shanghai Comp
KBE	XLB vs. SPY
KRE	XLP vs. SPY
XHB	GDX
XLF	S5TELS vs. S5COND
QQQ	
SOXX	
IBB	
IWM	
IYT	
XME	



**3. What next for OAT yields?**

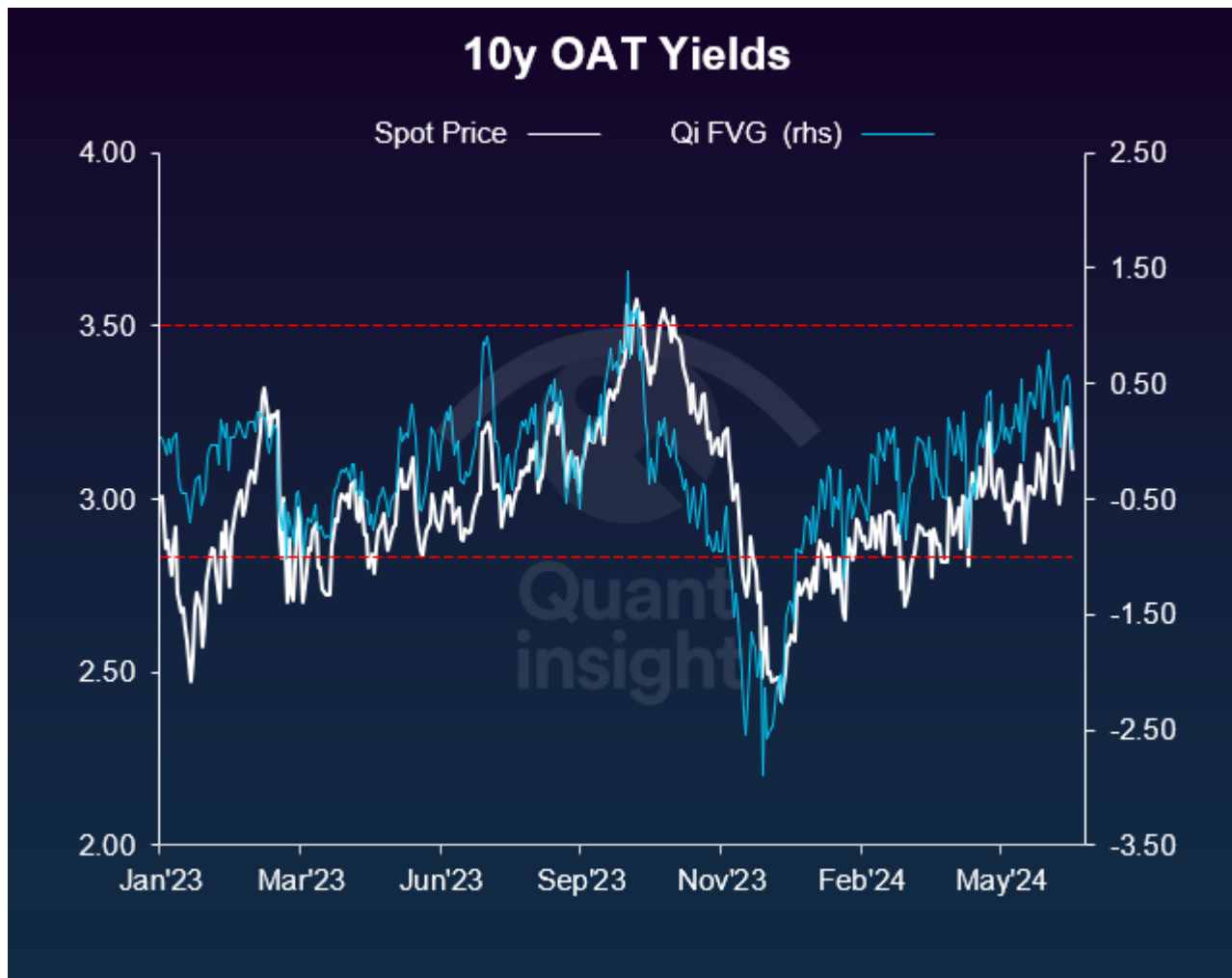
After hitting 3.32% in the initial aftermath of the shock election announcement, 10y OAT yields have fallen around 15bp. That reflects international rather than domestic events. This week US Treasuries have benefitted from a strong auction, soft CPI & an unchanged Fed. Lower US yields have been the catalyst for the move in global bond markets.

It is noticeable though that Qi's model shows 10y OAT yields now sit at macro-warranted fair value. The election spike took yields 0.6 sigma (15bp) above our fair value metric; but that move that has now retraced. What next?

Clearly politics is going to be critical in the weeks ahead. But model confidence of 87% says macro is key too. Qi model value is marching higher. Back in mid-May, aggregate macro conditions 'justified' yields just under 3.00%. Today, model value is some 20bp higher.

Aside from election polls, the next obvious catalyst comes on June 19<sup>th</sup> when the European Commission is likely to place France under the Excessive Deficit Procedure as a result of a deficit that was -5.5% of GDP last year. That will put public finances on the front pages & ensure it becomes a central topic in the election debate. It will also remind markets why there is a good reason to demand an extra risk premium for holding OATs over Bunds.

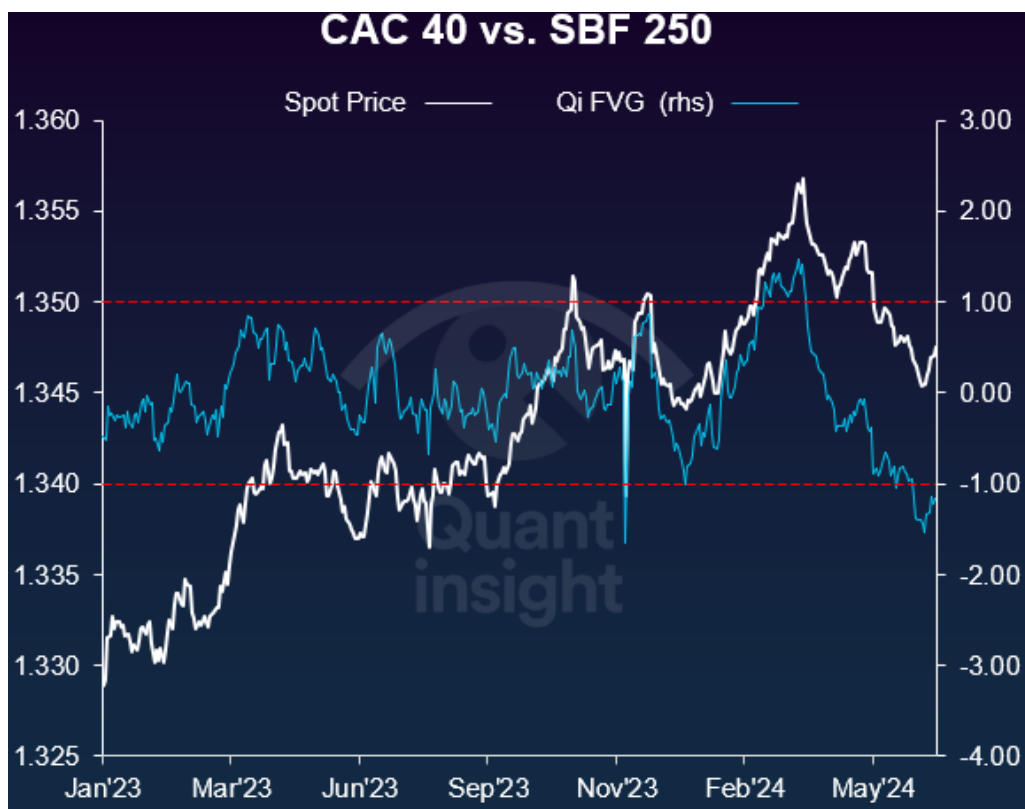
Such headlines will ensure trading conditions remain volatile, but as the chart below shows Qi's FVG has a strong correlation with spot yields suggesting any mean reversion occurs via the market re-pricing to macro fair value. As such, Qi's model for OATs can act as something of an anchor helping investors navigate the weeks ahead.

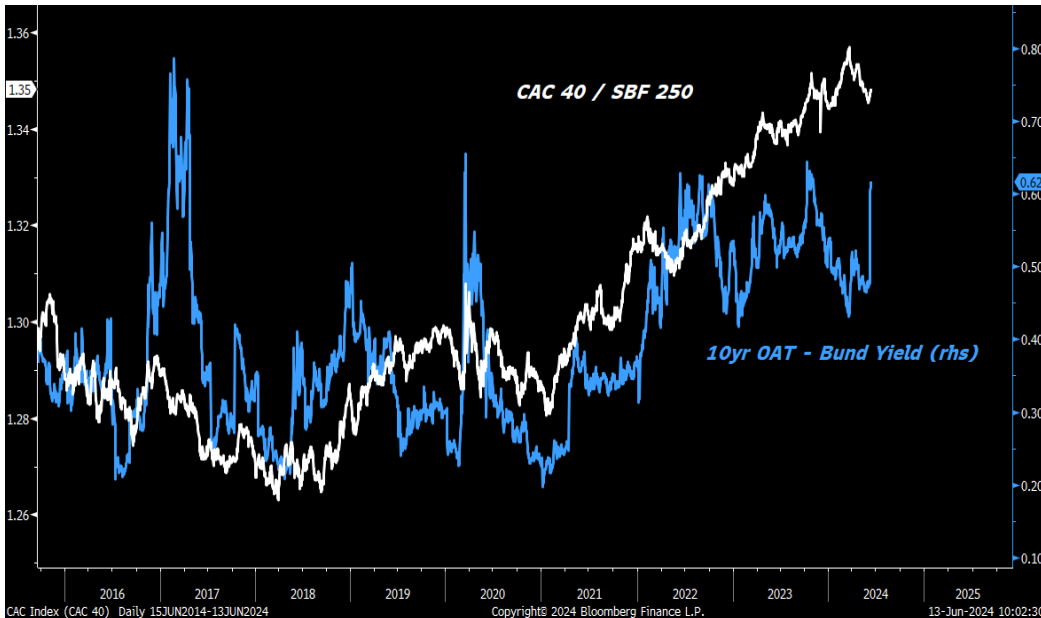


#### 4. French large caps vs midcaps - a more targeted approach to capturing the Gallic risk premium?

We wrote an insight earlier this week - "Pricing the Gallic Risk Premium". Here we screened Eurozone equities and EUR FX crosses to highlight the vulnerabilities. We noted (1) SX5E sensitivity to our Eurozone confidence measure was close to long term range highs (2) Qi's model price for Eurozone equities had already been falling (impacted by falling copper prices / waning China optimism) (3) Screening for most sensitive single stocks, the impact is broader than just the banks.

We also note here that the CAC 40 index itself is not the best proxy for domestic activity given its international exposure. The French Midcap index SBF250 should be a better bearish hedge. We created a Qi model for the CAC 40 / SBF 250 relative value pair. The ST Qi model RSq is 84% and FVG is -1.0 sigma. On the LT model, the RSq is lower but the FVG is -0.9 sigma. See the first chart below. The top driver are lower Eurozone confidence and a higher gold / silver ratio. In other words, this RV pair may offer a more discriminate defensive bet than merely shorting French large caps outright. The second chart shows the close relationship of the pair to the OAT / Bund yield spread.





### 5. Mexico - VaR shock or carry opportunity?

Hello summer carry? The election-driven sell-off has driven the Mexbol index right to the bottom of its Qi fair value gap. Confidence in our Qi model of the index has been stable for the last 12mths. Investors will be hoping that the market reaction acts as a warning shot deterring any unsettling action from the Sheinbaum administration.

EWW, the iShares MSCI Mexico ETF is -2.4sd cheap to Qi model value. Since 2009, it has never been in macro regime (i.e. model confidence > 65%) and this cheap to model value. See the charts below – Extremes in the Qi fair value gap have been a good gauge for price moves in recent years.

Similarly, Qi's models for USDMXN have a current fair value of ~17 vs. 18.8 spot price.



# EWV

