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.

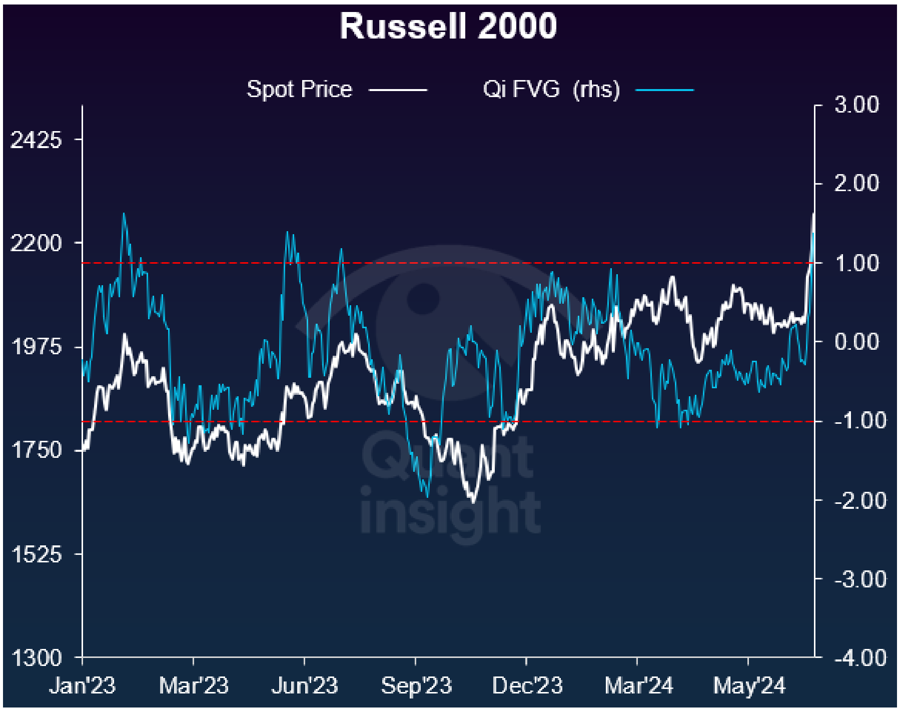
1/ Small Cap Rotation - Qi macro-rich: Focus on "Growth" in Growth / Inflation Trade-Off

The Russell 2000 was up 11.5% in five days. In the last 30 years that acceleration has only been exceeded after major crises: LTCM, Dot Coms, GFC, 2011 US debt downgrade and the pandemic. The rotation we have seen post the June CPI release has been seen across a broad range of factors across the market – small vs. large, value vs. growth, domestic vs. international, high leverage vs. low leverage, high short interest vs. low short interest – but the common feature is that all the ytd laggards have rallied.

In our note "Qi Market Spotlight – Zone of Uncertainty for Mag7", we highlighted that a focus on easing FCIs alone as driver for small caps would be myopic – Qi's model of IWM relative to SPY shows a **rising focus on growth expectations**. See the first chart below. It is fair to say that enactment of the tariffs proposed by Trump would likely boost stocks with domestic revenues and supply chains relative to internationally-exposed peers.

Today, **the Russell 2000 is +1.4 sigma rich to Qi model value – a rare event**. Subject to a 65% RSq, this has only occurred 5 times since 2009. Unless GDP Nowcast resumes its ascent, small caps have likely gone too far, too fast on the post CPI / Trump narrative.

While explanatory power is low, **QQQ now stands as tactically macro-cheap to IWM** (Qi's ST model).



Russell 2000
Spot Price
Qi FVG (rhs)
2425
2200
1975
1750
1525
1300
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
Jan'23
Mar'23
Jun'23
Sep'23
Dec'23
Mar'24
May'24

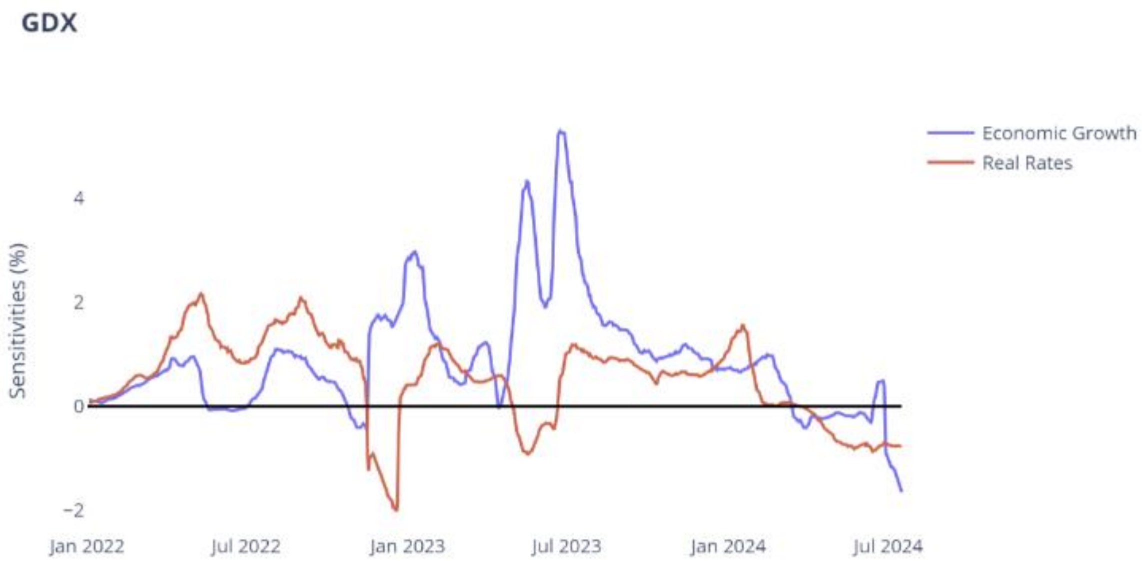
2/ Aggressive Short Squeeze – more signs of over-exuberance?

As discussed in the prior observation, we have seen a squeeze in market laggards – a proxy for this is the squeeze we have seen in the most shorted stocks. The GS most short rolling basket is +1.4 sigma on Qi's LT model and +1.8 sigma rich on Qi's ST model.

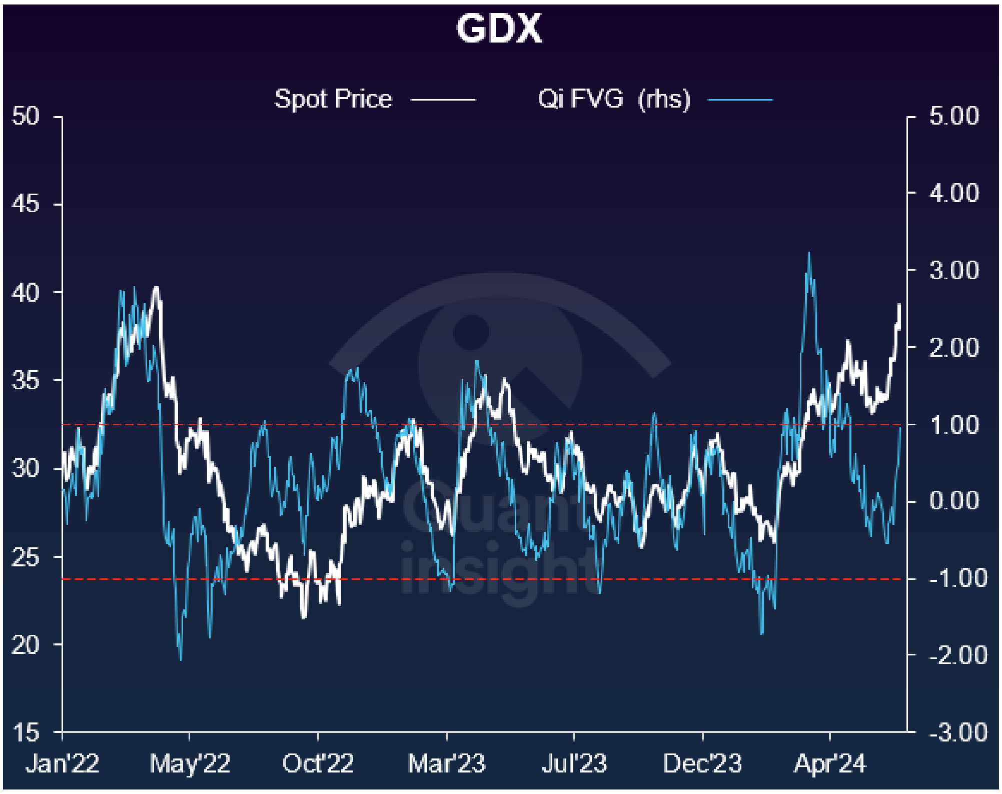
Again, Qi sees this as opportunity to fade. See the chart below where we overlay Qi's FVG vs. GS Most Short Rolling basket spot price. **Fading the short squeeze also highlights the vulnerability, tactically, of the broader market**.

3/ GDX - a play on lower real yields / slowdown but Qi rich here

Gold is enjoying a great July. The popular narrative is Fed rate cuts plus a Trump Presidency offer a potent mix for the precious metal - less competition from bond yields, plus geopolitical uncertainty / trade wars fueling a flight-to-quality bid. That all makes sense, but it's always reassuring when Qi's orthogonal relationships vindicate the story of the day. Looking at the Gold Miners (GDX), two of the biggest drivers of the ETF are indeed negative sensitivity to real yields & tracking GDP growth rates.



That helps explain why Qi's macro-warranted model value has risen nearly 3% in July. But spot GDX has rallied more like 16%. As a result, it screens 1 sigma (7.7%) rich on Qi. And Qi's FVG has done a good job of capturing local high & lows in the recent trading range.



4/ UK equities: buy-the-rumour-sell-the-fact?

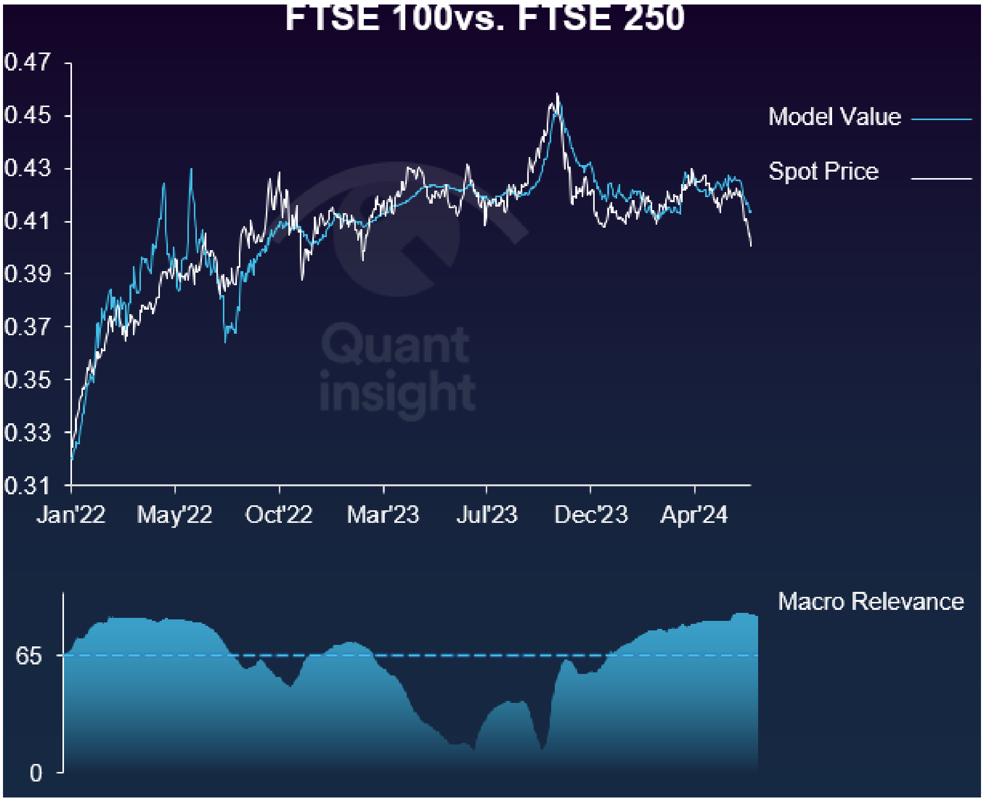
After years of being unloved, UK equities are having a moment. The "UK as a beacon of stability" argument is getting a lot of airplay amidst hopes the UK economy can turn a corner, & the contrast with political turmoil in France. The result has been strong performance, especially for the domestically-focused FTSE 250.

Macro justifies this move. Qi model value has moved 2.6% in the FTSE 250s favour over the last month. There are signs, however, that the initial post-election euphoria may be due a pause given how far we've already travelled since the election. The FTSE 100 / FTSE 250 ratio (using the tracking ETFs ISF / MIDD) is now 1.1 sigma (3%) cheap on Qi. That's the cheapest the FTSE 100 has been in relative value terms in 2024.

This model has only ever been this cheap when in a macro regime 25 times since 2009, i.e. crudely we only see extreme valuations like this twice-a-year. And back-tests reveal using this FVG as a level to favour ISF over MIDD elicits a 72% hit rate & a +0.9% average return.

This is not a fade the UK observation. But it is a warning that the initial euphoria for the FTSE 250 specifically has started to look stretched.

Finally, note Qi's model shows a weaker Pound hurts the FTSE 250 more than the FTSE 100. Unsurprising given 250 companies are more vulnerable to a weaker currency & imported higher costs. Which makes Qi's Cable model especially interesting....




```
FVG_Back_Test(['ISF vs. MIDD'],1.1,0.25,0,'2009-01-01','2024-07-16',['Long'],'Long Term')
```

✓ 4.4s

	Results
Hit Rate	72.000000
Avg. Rtrn	0.868868
Ann. Rtrn	11.664481
Median Rtrn	1.258953
Avg. Max Gain	1.897598
Avg. Max loss	-1.886344
Avg. Holding Period	19.760000
Median Holding Period	16.000000
No. of Trades	25.000000
Avg. Win	2.231457
Avg. Loss	-2.634932
Win/Loss	0.846875

5/ Cable – risk reward suggests fade the rally

After the debate & last weekend's shooting, the market is fixated on trying to identify the best Trump trades. But some trade expressions are more obvious than others. Perhaps the most contested area is the Dollar.

Many of his policies imply a stronger Dollar but Trump is vocal about wanting a weaker Dollar.

From Qi's perspective there are no standout G10 fx crosses where the Dollar screens as excessively rich right now. But, for the bulls, Cable is interesting.

The two biggest drivers are interest rate differentials & credit spreads. And trends in both have been pushing Qi model value higher recently. Increased hopes of Fed rate cuts versus a dialling back of BoE cuts after sticky service inflation data, have combined with credit spreads near the tights to push macro-warranted model value 1.6% higher in the last month.

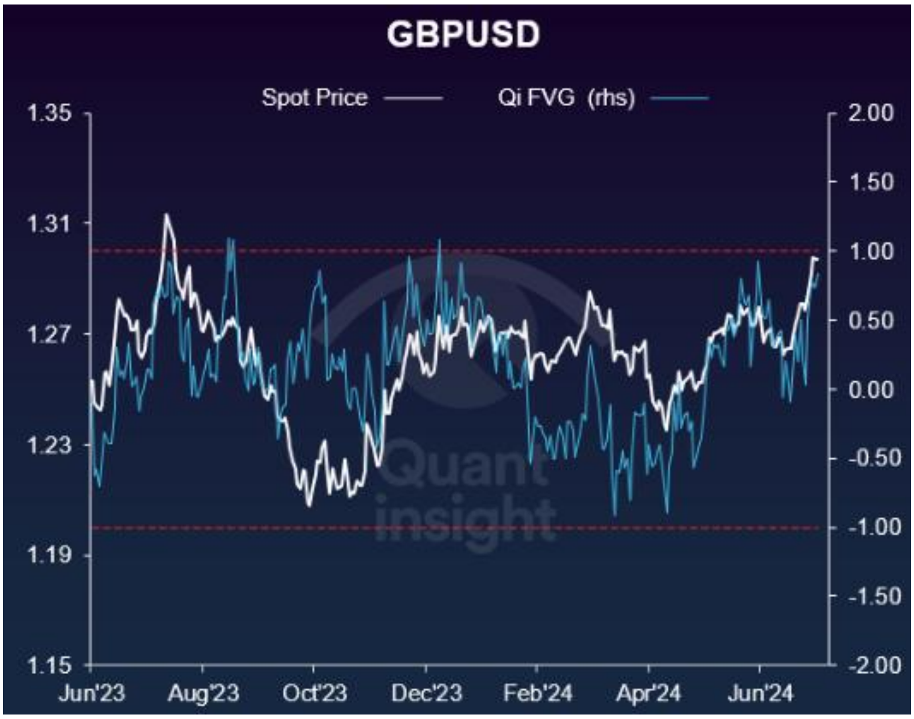
But, on current patterns, even with the respective Fed/BoE policy stance & the tightness of credit spreads, cable should sit around 1.2850 according to Qi's model. That means the recent rally has taken it 1 sigma (1.4%) rich to overall macro conditions. Back-testing this FVG reveals strong results (67% hit rate, +0.5% average return).

Plus, the 1y correlation between spot Cable & Qi's Fair Value Gap is strong suggesting the recent pattern is for the market to mean revert to macro fundamentals.

```
FVG_Back_Test(['GBPUSD'],1.0,0.25,65,'2009-01-01','2024-07-16',['Short'],'Long Term')
```

✓ 3.6s

	Results
Hit Rate	66.666667
Avg. Rtrn	0.556432
Ann. Rtrn	8.617182
Median Rtrn	0.971554
Avg. Max Gain	1.292162
Avg. Max loss	-1.403210
Avg. Holding Period	16.916667
Median Holding Period	12.500000
No. of Trades	24.000000
Avg. Win	1.564542
Avg. Loss	-1.459788
Win/Loss	1.071760



6/ Tighter than normal distribution of Qi Equity FVGs - on edge for earnings season

It is striking at the moment how many Qi equity models are hovering around macro-warranted model value. US sectors show only 3 models are more than 1 std dev away (Biotech ETFs IBB & BBH are both > 1 sigma rich; OIH similarly rich). There isn't a single sector that is more than 0.5 sigma cheap.

To emphasize this point, see the chart below - across 306 global indices, ETFs, sectors the average FVG is zero. 79% of that universe within +/- 0.4 sigma - 0.4 sigma being the 1 standard deviation away from the cross-sectional universe FVG mean today i.e. we have thinner tails compared to a normal distribution. Perhaps a sign of waiting for the cue into earnings season...