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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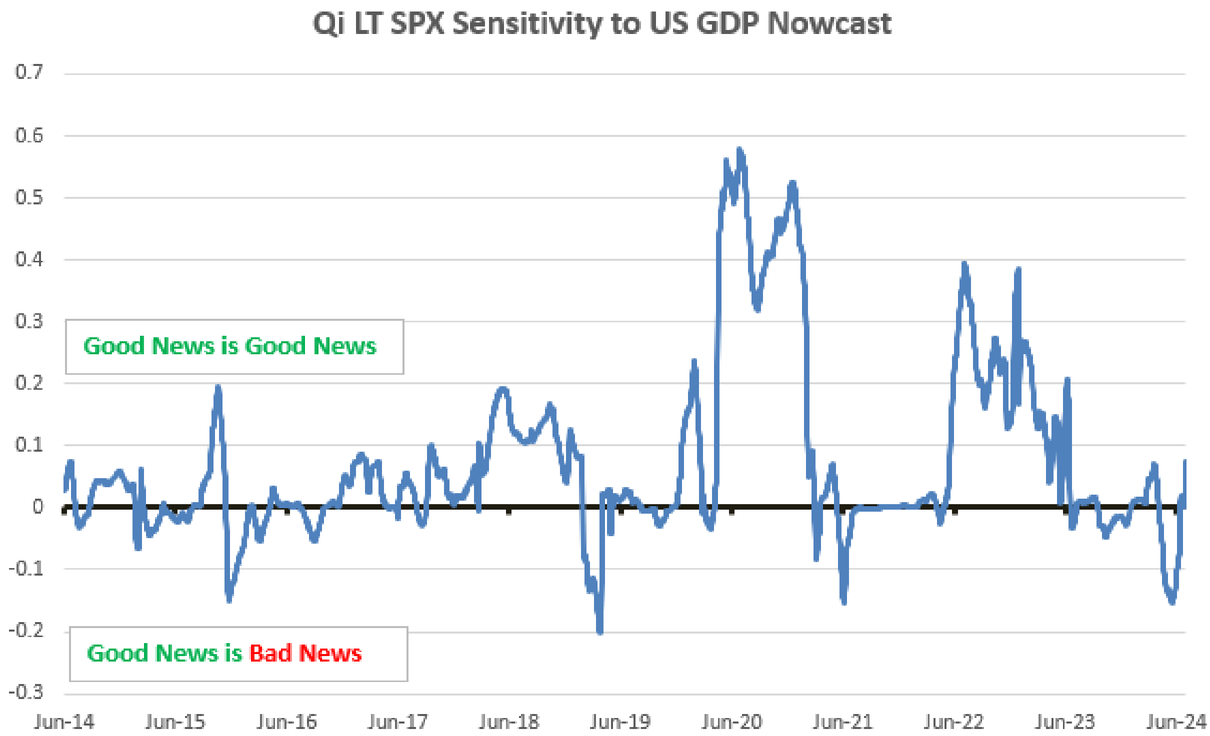
1. ***SPY – harder to sustain Qi model price momentum when macro vol more likely to rise than fall***

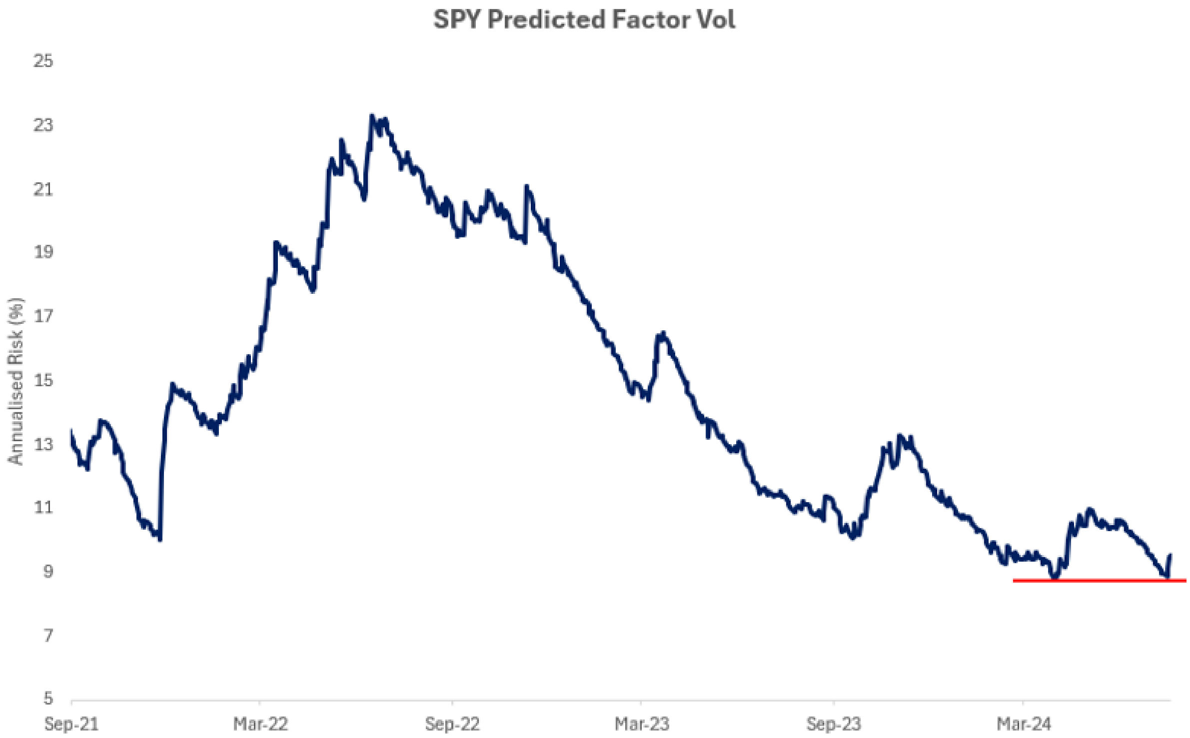
At the beginning of July, we wrote why macro vol was likely higher in H2. (***Qi Market Spotlight: Why Macro Factor Vol is likely higher in H2 – 2nd Jul***) SPY was no longer cheap to Qi's macro-warranted fair value and we noted that according to SPY's sensitivity to growth expectations, bad news was now bad news going into H2. See the chart below.

Two weeks later, we noted that the Mag7 12mth fwd PE was particularly extended vs. Qi's model (***Qi Market Spotlight: Zone of Uncertainty for Mag7 – 16th Jul***). With the implication that broader market rotation was unlikely to sustain the headline level without higher growth expectations.

Fast forward to the last 2wks, we have noted that despite the Russell 2000 rotation, VIX has risen, energy / metals have fallen and CDX HY spreads have struggled to tighten further. Just as macro factor vol has hit multi-year lows. (***Qi Market Spotlight: RTY Rotation – All bark and less macro bite – 23rd Jul***).

Qi's risk model predicted annualised macro factor driven vol for the S&P 500 is shown in the chart below – by the 16th July (local SPY high) we had hit the lows in macro factor vol in the last 3.5yrs. It is now starting to turn higher. With soft landing / disinflation tailwinds now well priced, and the geopolitical / growth uncertainty ahead, macro vol is more likely to be turning higher than lower from here.


Qi LT SPX Sensitivity to US GDP Nowcast
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
-0.1
-0.2
-0.3
Good News is Good News
Good News is Bad News
Jun-14
Jun-15
Jun-16
Jun-17
Jun-18
Jun-19
Jun-20
Jun-21
Jun-22
Jun-23
Jun-24

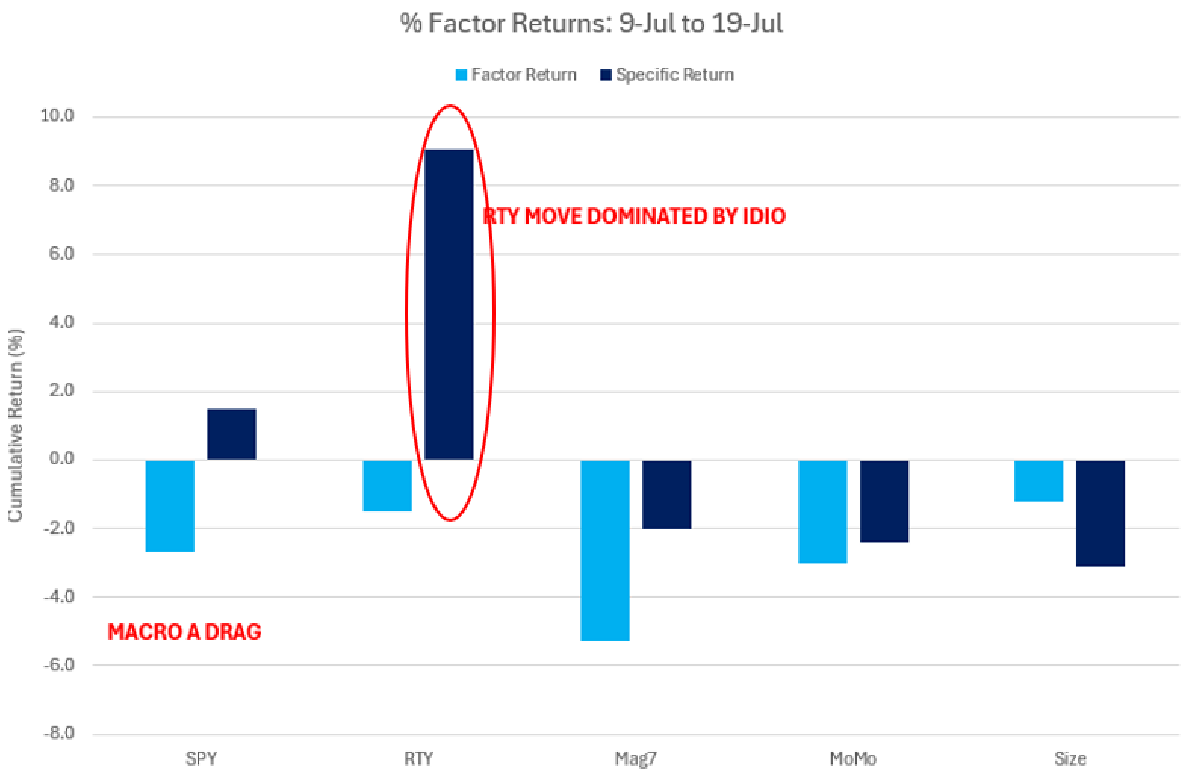

SPY Predicted Factor Vol
Annualised Risk (%)
25
23
21
19
17
15
13
11
9
7
5
Sep-21
Mar-22
Sep-22
Mar-23
Sep-23
Mar-24

2. The size of the Russell 2000 move – more idio than macro-driven – and still +0.9 sigma rich

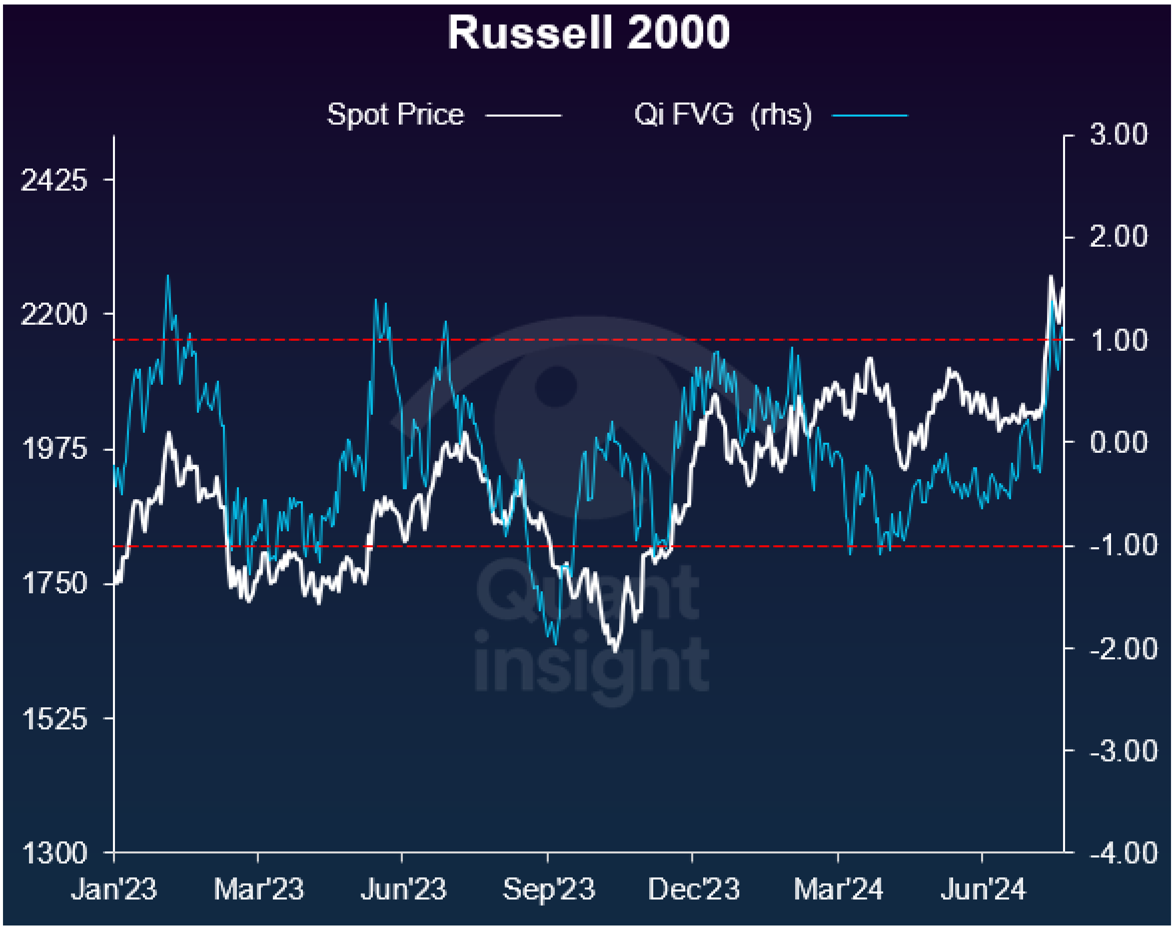
Qi's MFERM (Macro Factor Equity Risk Model) shows that the size of the Russell 2000 rally we have seen can not be explained by macro. The dip in 10yr yields, and the dollar, alongside the steeper 5s30s was indeed supportive of the index. However, over the same period VIX rose, energy / copper fell and CDX HY spreads are little changed.

This speaks to this move perhaps reflecting more a re-assessment of lop-sided positioning – but this does the raise the ante into earnings season. See the chart below.

In aggregate, the macro backdrop has actually been a drag across SPY, Mag7, Russell 2000 over this period. Risk aversion, followed by growth expectation factors have been drags across the indices – most in the case of the Mag7



The Russell 2000 is currently trading +0.8 sigma rich to Qi model value. Since 9th July, the index has risen 10.5% but Qi model price only 1.7%. In other words, **we may be seeing exuberance that soft landing has been accomplished**.

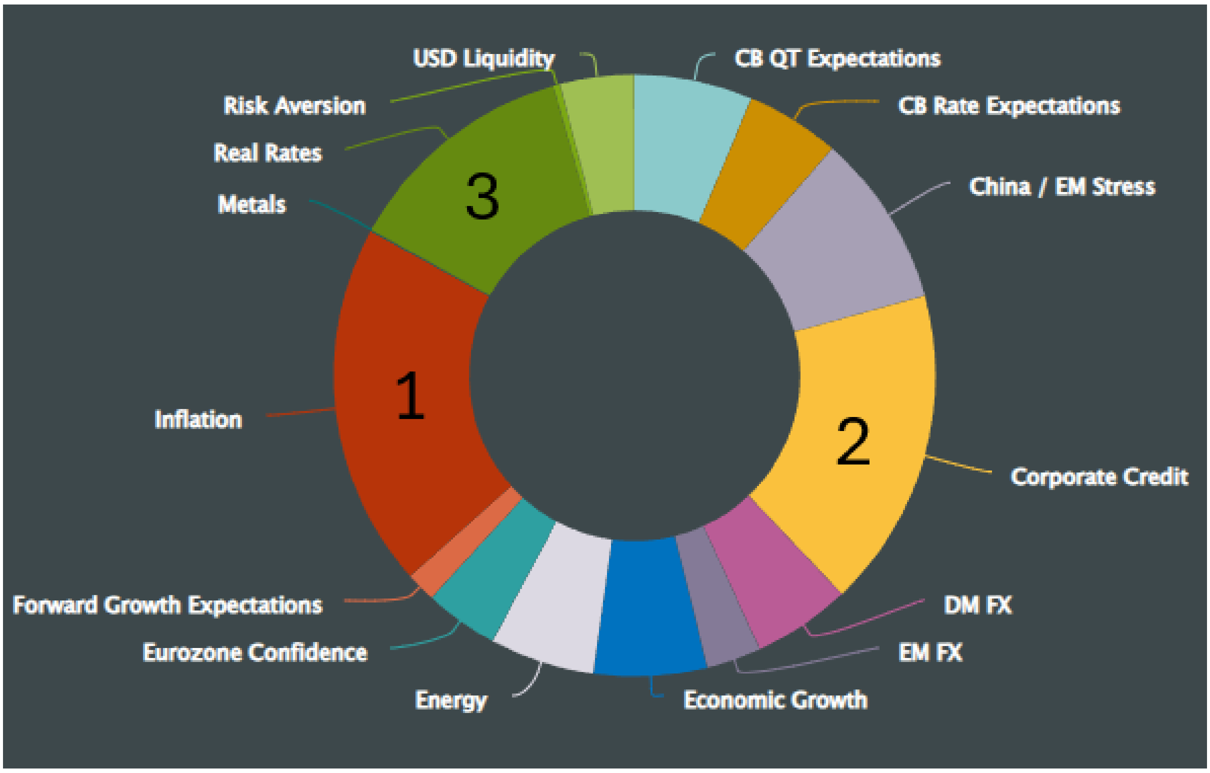

Russell 2000
Spot Price
Qi FVG (rhs)
2425
2200
1975
1750
1525
1300
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
Jan'23
Mar'23
Jun'23
Sep'23
Dec'23
Mar'24
Jun'24
Quant insight

3. *KRE – the biggest beneficiary of falling inflation & easier finance conditions – also +1.4 sigma rich, the most expensive US sector ETF*

The recent >25% rally in KRE (regional banks) is a very similar story to the Russell 2000 – the primary driver of the rally has been idiosyncratic rather than macro – see the chart below – only ~5% of the move can be explain by macro.

Regional banks are among THE most sensitive sectors to falling inflation expectations and easier financial conditions – as highlighted below falling inflation, tighter credit spreads and lower real rates are the top 3 drivers.

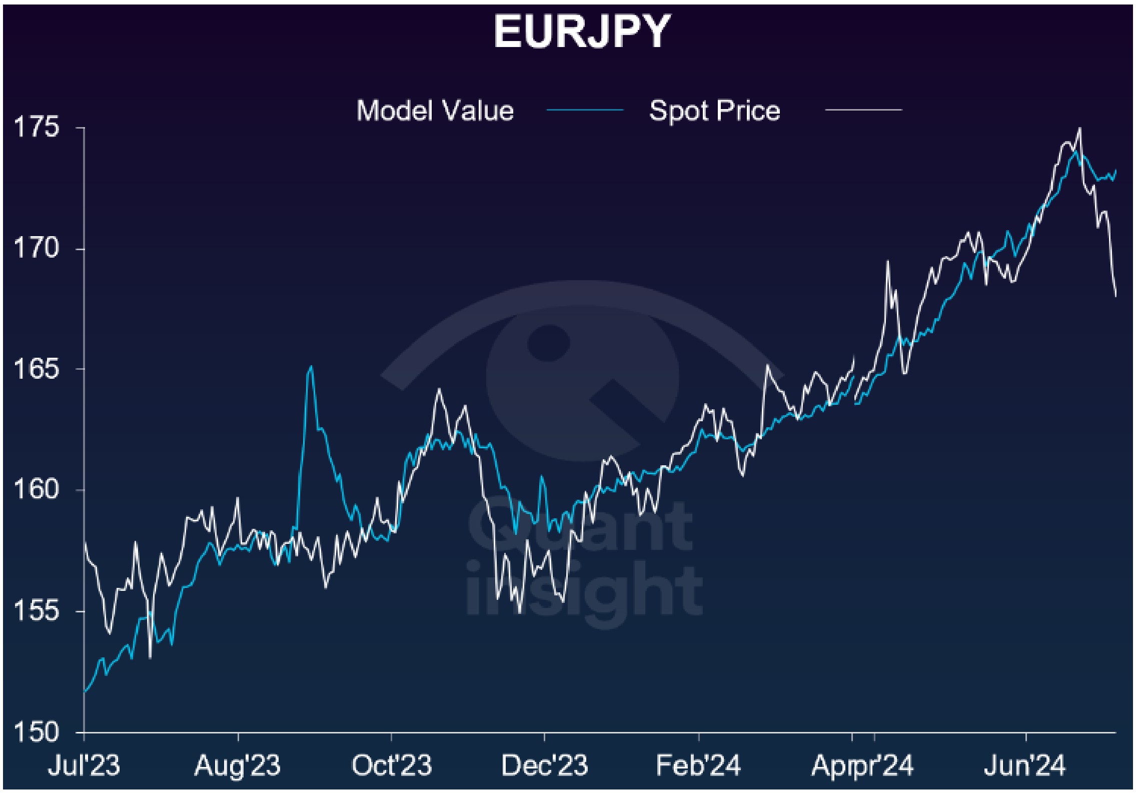
With the domestic focus of the regional banks, Visa results commentary on the US consumer was interesting – they have rarely missed revenue expectations: "In the U.S., while growth in the high-spend consumer segment remained stable compared to prior quarters, we saw a slight moderation in the lower-spend consumer segment"



KRE is now the most expensive US sector ETF, according to Qi's macro warranted fair value. See the charts below showing the dislocation between spot price and Qi's model:

4. Squeeze in short JPY positions has prompted a bullish signal in EURPY

EURJPY macro-warranted model value is flat-lining. This latest sell-off leaves EURJPY 1.6 sigma (5%) cheap. For EURJPY to be in regime & this cheap is particularly rare.

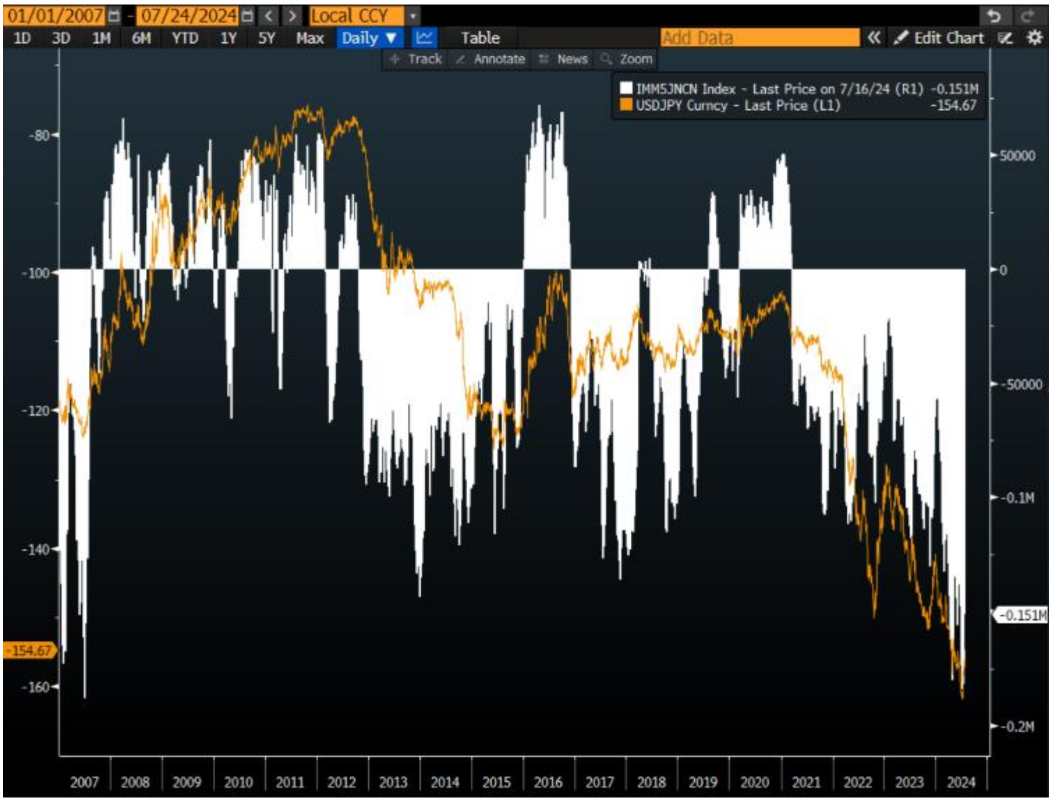


The 1y correlation between spot EURJPY & Qi FVG looks good suggesting the recent pattern has been for the mkt to mean revert back to macro fundamentals.

Two health warnings:

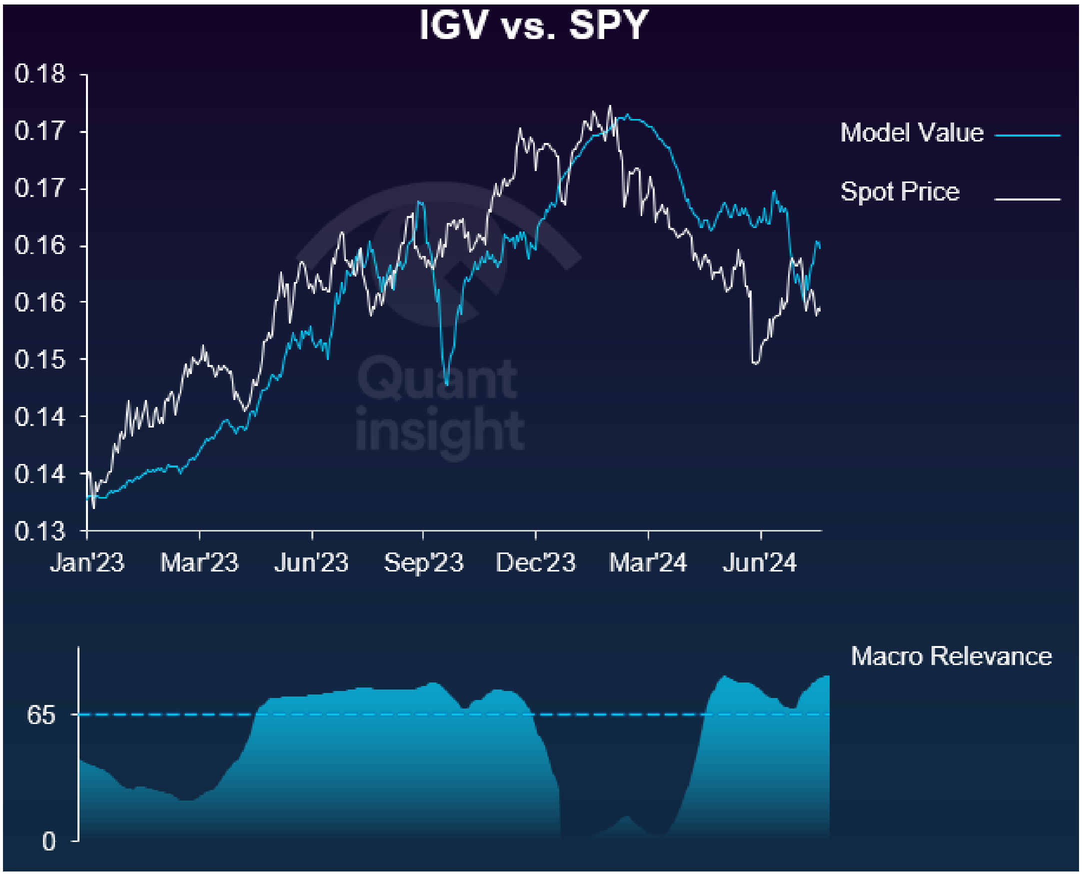
(1) BoJ next week. One of the catalysts for this fx move is speculation of a possible bigger (15bp instead of 10bp) rate hike.

(2) Positioning is heavily skewed. The chart below shows spec net shorts in Yen futures as per the CFTC data. Short Yen has been one of the most popular trades out there. There are a lot of positions to potentially unwind.



5. Within Tech, US Software attractive relative to the broader market

At the other end of the sector spectrum, the IGV ETF (US Software) is showing signs of relative value. IGV has been underperforming the broader market through July, despite model value moving higher.



The major macro driver of the IGV / SPY ratio is a steeper 5s30s curve, which has been driving the model value higher. Alongside, the pair is beneficiary of an improving growth / inflation trade-off. The regime can be well explained with 85% RSq.