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.

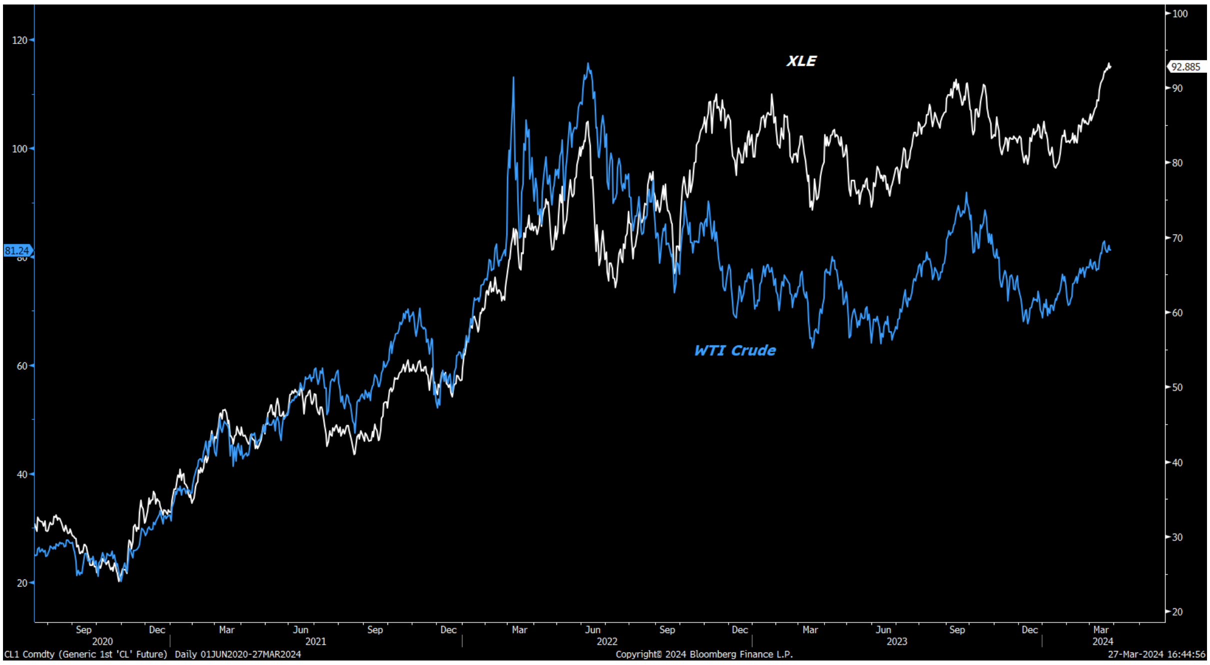
1 Commodity equities – From agriculture, to precious / base metals, to energy – all trading macro-rich

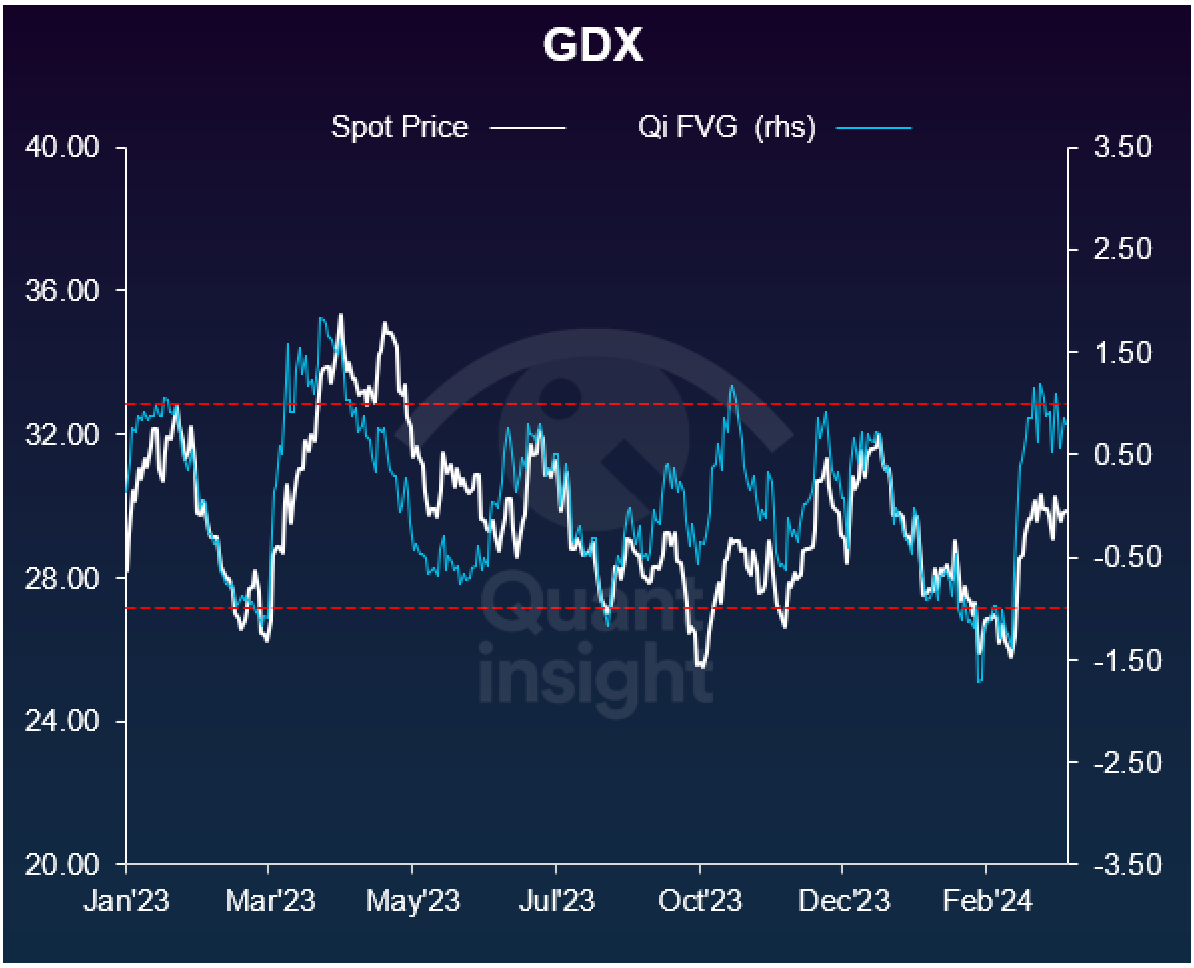
Consider the following:

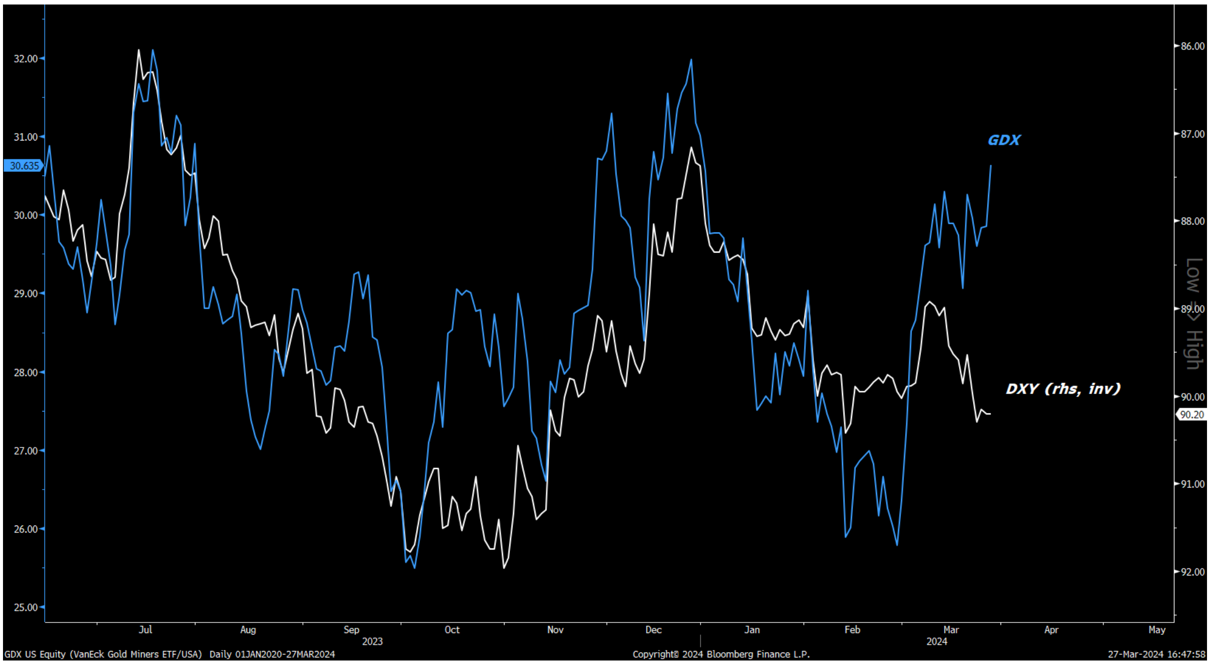
- DBA – Invesco DB Agriculture: +2.1 Sigma FVG
- SXEP – EU Energy: +1.5 Sigma FVG
- GDX – Gold Miners: +1.5 Sigma FVG
- S5ENRS – US Energy: +1.4 Sigma FVG
- COPX – Global Copper Miners: +0.9 Sigma FVG

While DBA's fate seems dependent on the fortunes of cocoa, energy equities have been rallying ahead of crude itself. See the first chart. Both in the US and Europe, the FVG for the Energy sector is close to 12mth highs. While Qi's analysis from earlier this week showed real asset exposure would outperform in the event of a perceived Fed error where inflation expectations harden, at this juncture commodity equities are at profit taking levels as opposed to long entry levels.

The second chart shows the GDX FVG vs. spot price. Qi shows an inverse relationship between GDX and the dollar – and currently there is a dislocation. See the third chart.




GDX
Spot Price
Qi FVG (rhs)
40.00
36.00
32.00
28.00
24.00
20.00
3.50
2.50
1.50
0.50
-0.50
-1.50
-2.50
-3.50
Jan'23
Mar'23
May'23
Jul'23
Oct'23
Dec'23
Feb'24
Quant insight


GDX
DXY (rhs, inv)
Low <> High
32.00
31.00
30.635
30.00
29.00
28.00
27.00
26.00
25.00
86.00
87.00
88.00
89.00
90.00
90.20
91.00
92.00
Jul
Aug
Sep
2023
Oct
Nov
Dec
Jan
Feb
Mar
2024
Apr
May
GDX US Equity (VanEck Gold Miners ETF/USA) Daily 01JAN2020-27MAR2024
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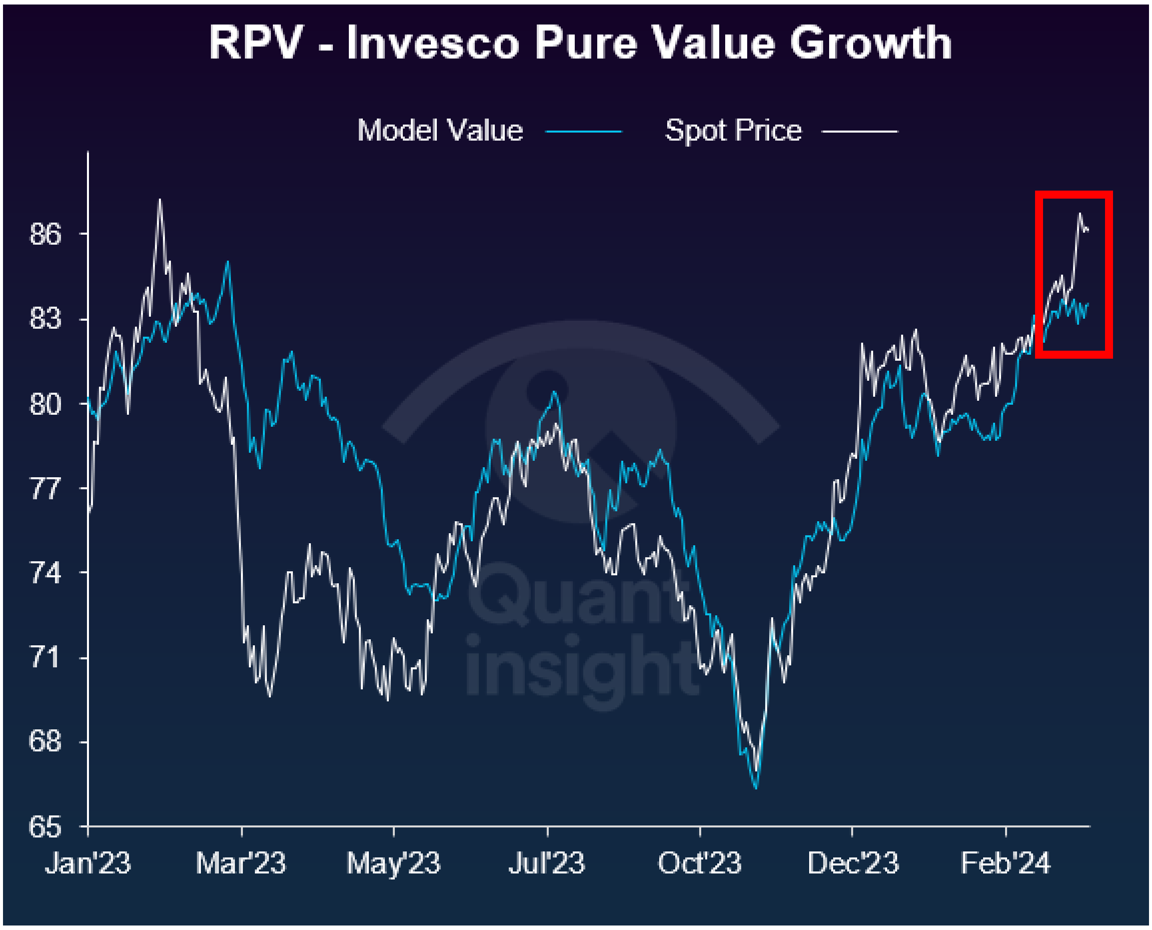
2 US Value is no longer cheap to macro, in contrast to beginning of March

At the start of March, we wrote a note “Value in Value”. We highlighted that US Banks and US Energy were among the cheapest sectors relative to the macro backdrop. Since then both of these typical value sectors have strongly outperformed. Today, they both trade macro-rich on Qi’s models.

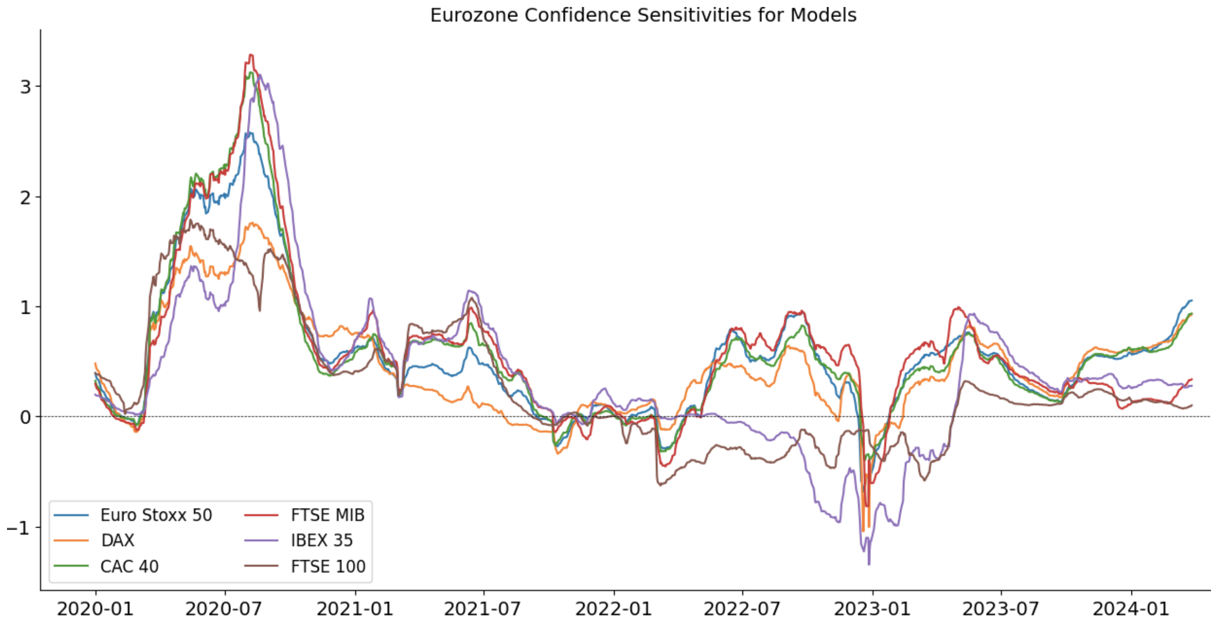
This is perhaps best illustrated looking at RPV – the Invesco Pure Value ETF. The fair value gap is only +0.6 sigma but still large relative to recent history. See the chart below.

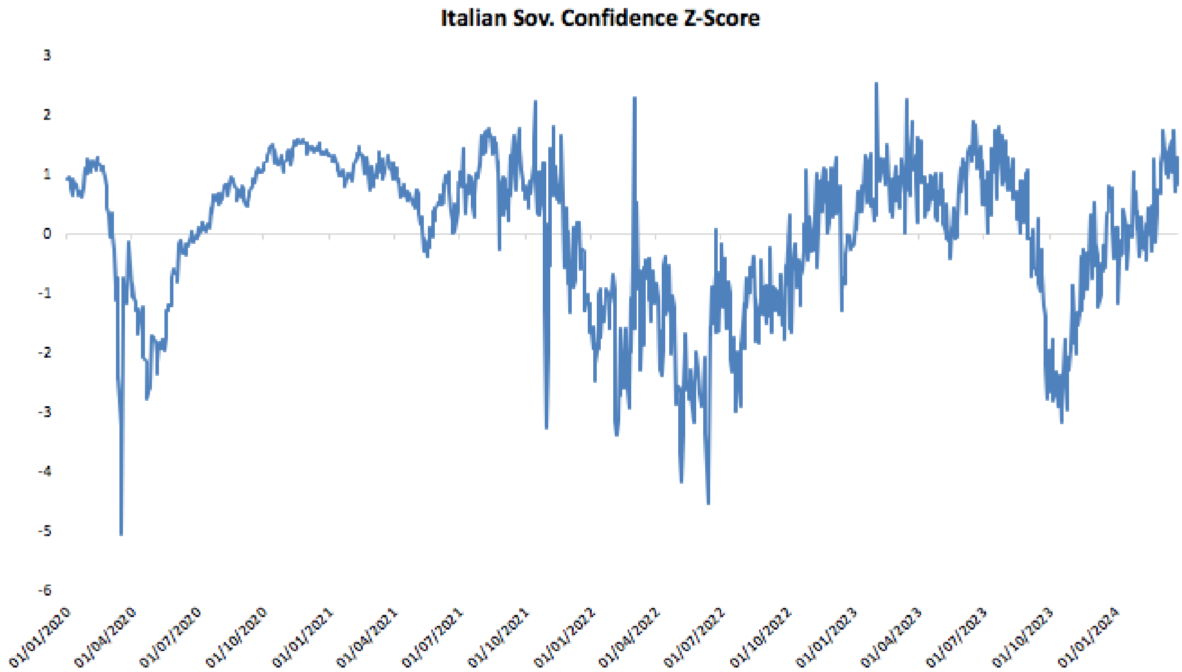


3 Periphery-core bond yield spreads in Europe currently dictating equity risk appetite

Periphery Eurozone bond spreads feature as a key driver across Qi’s equity models, globally. Given the prevalence in Qi’s models, we view this measure of Eurozone confidence as a key barometer of risk appetite. After all, European equities have outperformed the S&P500 ytd. The Sharpe of the rally of the last five months is a stand-out compared to the last few years.

With this in focus, we note that the sensitivity of European equities to this macro driver is at post Covid highs. See the first chart below. The second chart shows the z-score of the BTP-Bund spread – any loss of momentum would likely imply caution for risky assets. The sector flagbearer of Europe, EU Banks (SX7P) is already trading rich to macro at a FVG of +1.2 sigma.



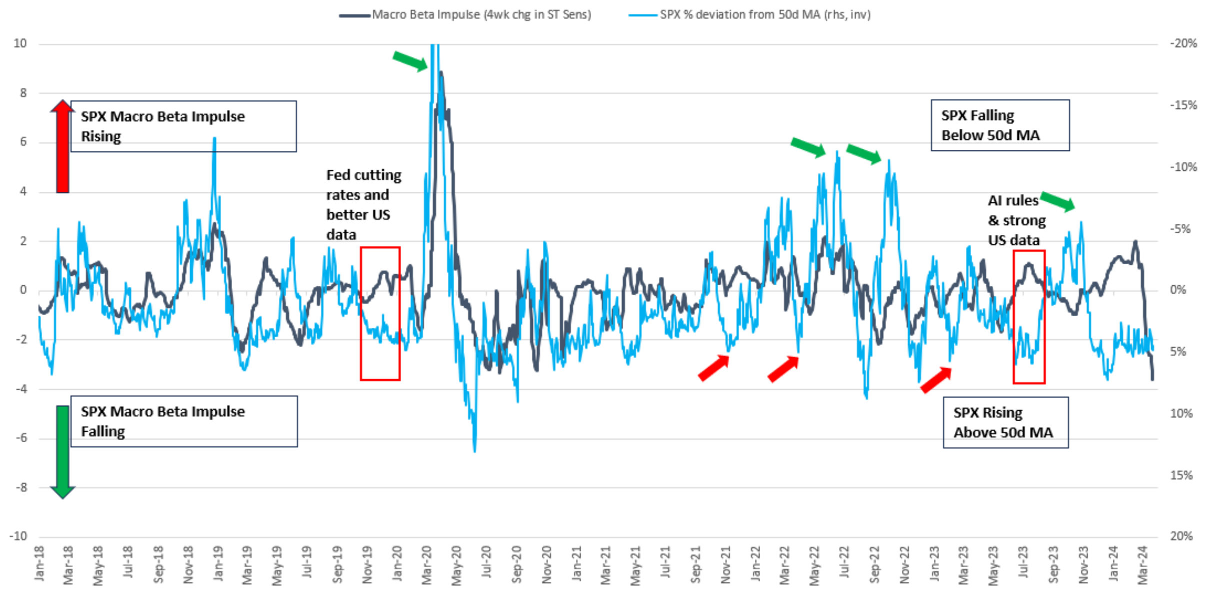


4 S&P 500 Macro Beta Impulse has collapsed potentially reflecting complacency – beware when it mean-reverts

The macro beta impulse shows how the sensitivity of the S&P 500 to macro drivers is changing, using our short term model. Sensitivities to macro have collapsed. Indeed, the sensitivity to real yields is almost positive. Similarly, the sensitivity to risk aversion has sharply diminished. Real yields were previously such a focal point (as a drag) from late last year into February – no longer.

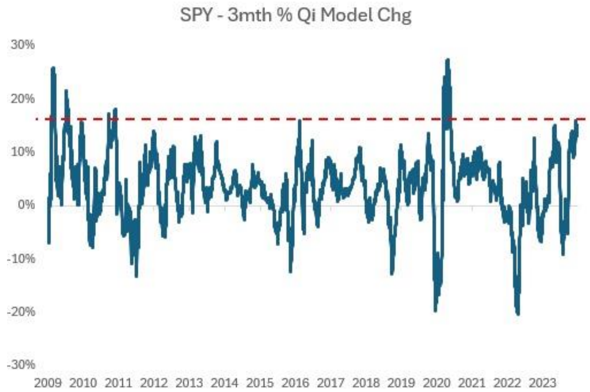
The below chart shows the relationship between the macro beta impulse vs. the S&P500 deviation from its 50d MA – it is negative. Our hypothesis is that Mr. Market is a neurotic patient that would prefer a backdrop of macro factor stability / low beta to macro over a backdrop of increasing macro factor volatility / high beta to macro. Now that hasn't been the case in recent months – the macro beta has been rising BUT in favour of the index.

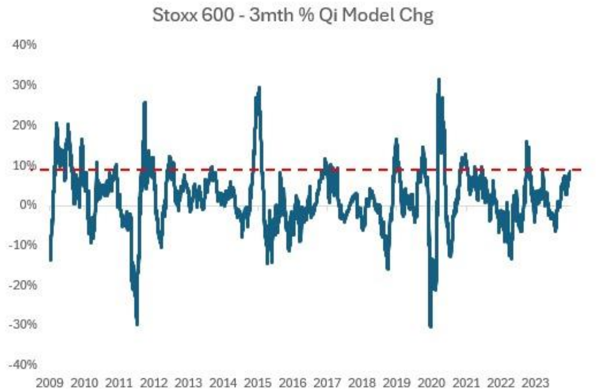
We are at a point now where the beta impulse sits at multi-year lows. This indicator does not trend; rather, it mean-reverts. Mean-reversion from current levels would likely coincide with a more choppy market.

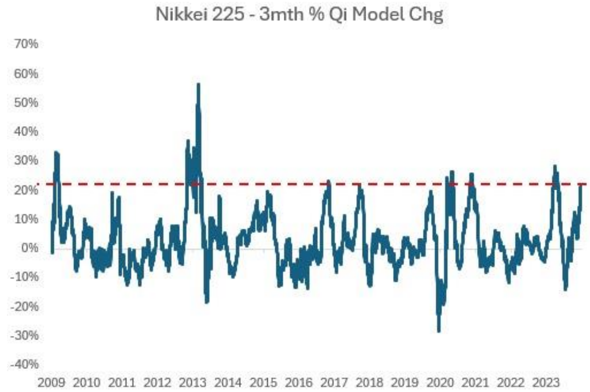


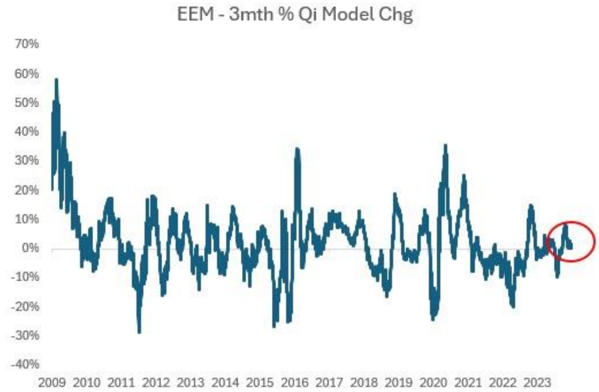
5 Qi Model Price Momentum across regions – EEM the laggard but the divergence has scope to narrow

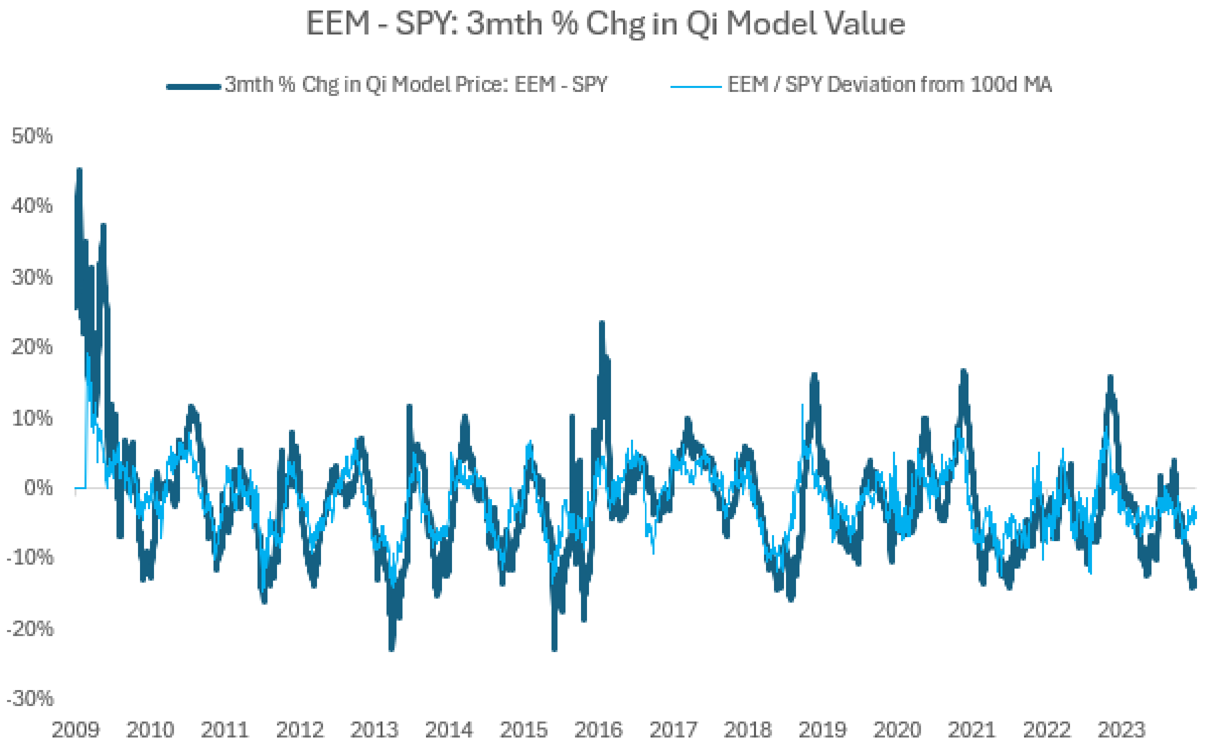
We have been highlighting the strong Qi model price momentum across developed market equities. See the charts below. Note that the 3mth change in the model price is close to the highs of their multi-year ranges. The outlier is EEM. Qi model price momentum has risen only 1% over the last 3mths. Further, relative to the S&P500, the divergence looks particularly wide relative to history. Under the assumption that the elastic is unlikely to stretch much further, EEM underperformance likely sees some respite from here.


SPY - 3mth % Qi Model Chg
30%
20%
10%
0%
-10%
-20%
-30%
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023


Stoxx 600 - 3mth % Qi Model Chg
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023


Nikkei 225 - 3mth % Qi Model Chg
70%
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023


EEM - 3mth % Qi Model Chg
70%
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023


EEM - SPY: 3mth % Chg in Qi Model Value
3mth % Chg in Qi Model Price: EEM - SPY
EEM / SPY Deviation from 100d MA
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023