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. **Everyone hates China. Time for contrarians to let smart machines do their work.**

Qi recently launched the Qi China Alpha Index (KCAIQI on Bloomberg). This index seeks to outperform the CSI 300 Index by applying a systematic approach. Qi applies a proprietary, machine learning led investment process which algorithmically (i.e. systematically) identifying the appropriate combination of stocks and their weights to meet the investment objective.

Qi’s optimisation process screens all the possible combinations of stocks and weights to seek the most appropriate ~35-50 stocks that minimise tracking error in sample AND minimise over-fitting out of sample. No single constituent security can have more than a 5% weight. This process is repeated monthly.

The table below shows that **the index has outperformed the CSI 300 in 7 out of 9 years** between 2015 – 2023, with the lowest underperformance -3% and largest outperformance +65%.

Annual Return

	KCAIQI	CSI 300	KCAI - CSI 300
2015	17%	-2%	19%
2016	-12%	-17%	5%
2017	39%	30%	9%
2018	-32%	-29%	-3%
2019	61%	34%	27%
2020	101%	36%	65%
2021	-4%	-3%	-1%
2022	-18%	-28%	10%
2023	-10%	-14%	4%
YTD	-3%	-1%	-1%

Active funds are a small but fast-growing area within the ETF market. There is increasing appetite to take advantage of the ETF structure but use active strategies to generate alpha instead of relying on passive funds which simply track a target index or theme.

This week **KraneShares have launched an ETF** to track the Qi China Alpha Index.

2. **EURCHF – macro suggests decent upside**

Two weeks ago, Qi flagged the Swiss Franc as looking expensive relative to macro conditions. The two crosses we highlighted (AUDCHF, GBPCHF) have bounced but only slightly (~0.3%) and both still show the Franc as rich.

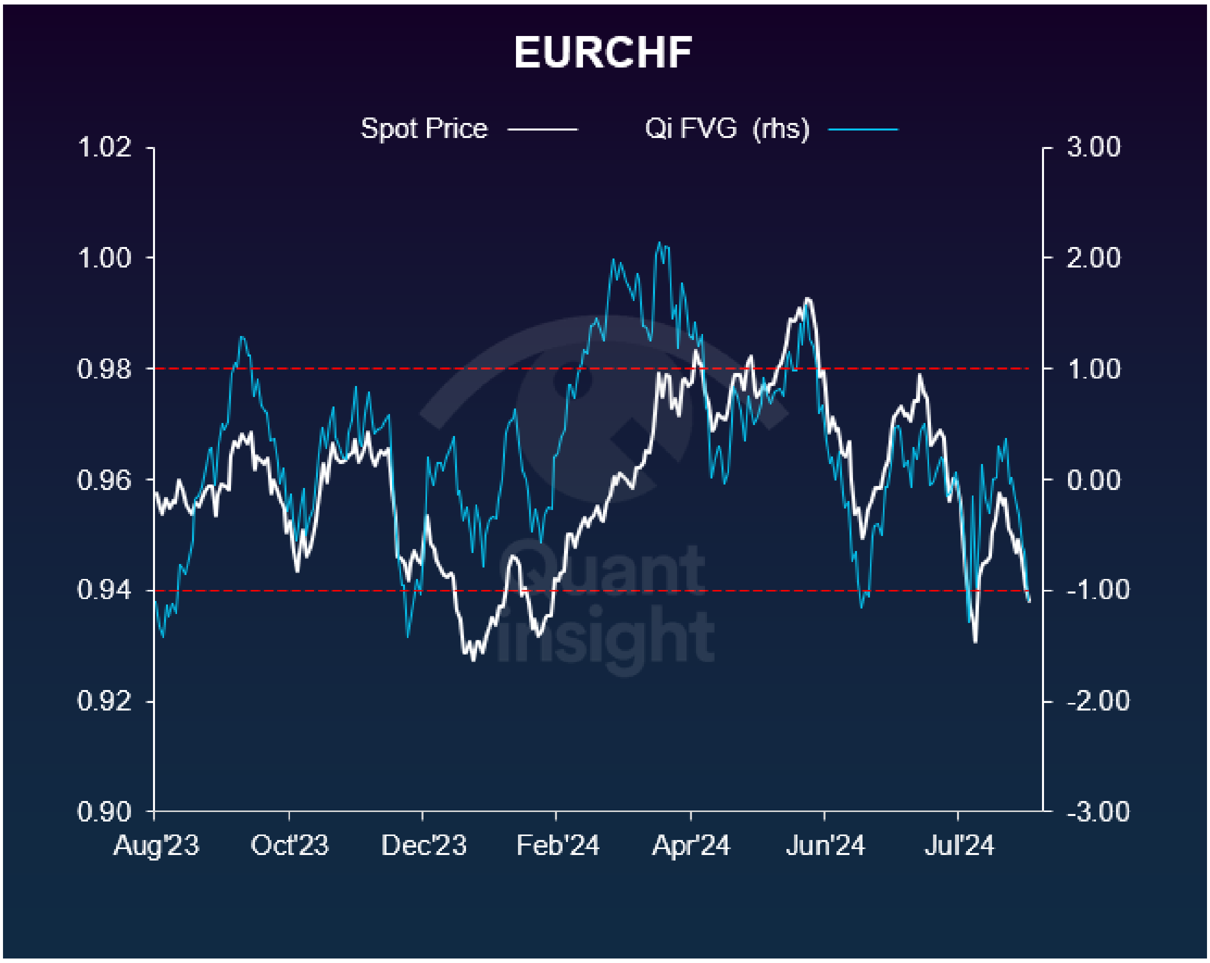
Now we have a bullish signal on EURCHF which screens as 1 sigma (1.8%) cheap on Qi.

The bullish divergence has arisen because spot EURCHF has fallen back towards the early August lows, while Qi's macro-warranted value has risen 1.6% since the Aug 5th 'flash crash' Monday.

Forward growth and interest rate differentials are key drivers but the factors themselves haven't moved hugely in August. Rather, the bigger move has come via risk appetite channels – the fall in risk aversion (VIX < 20) and gains in EuroZone Sovereign Confidence (narrower BTP spreads) have driven the 1.6% gain in macro-warranted model value over the last 3 weeks.

In short, **the Swiss Franc has ignored the recovery in risk appetite** since Aug 5th.

A -1 sigma Fair Value Gap has a strong (71%) hit rate as a buy-the-dip signal. While over the last year the correlation between Qi's FVG and spot EURCHF suggests the mean reversion has occurred via the market correcting back towards macro fundamentals.



EURCHF
Spot Price
Qi FVG (rhs)
1.02
1.00
0.98
0.96
0.94
0.92
0.90
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
Aug'23
Oct'23
Dec'23
Feb'24
Apr'24
Jun'24
Jul'24

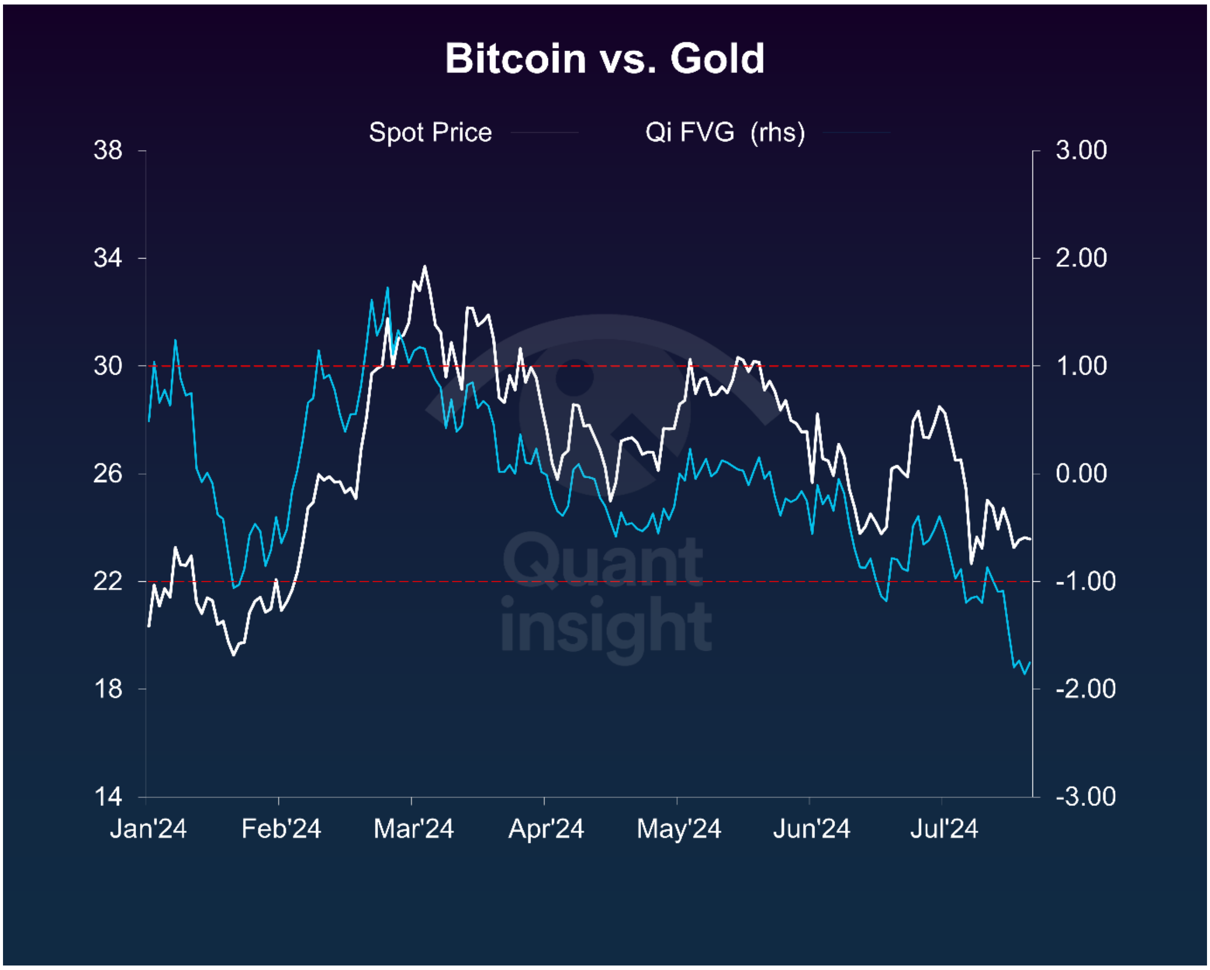
3. *Gold vs. Digital Gold*

For much of 2024 Bitcoin and Gold have traded in tandem. Until the August flash crash. Bitcoin has yet to fully recover from the hit to risk appetite, while Gold has benefitted from the uncertainty.

On Qi, the Relative Value model between the two shows Bitcoin as 1.7 sigma (26.5%) cheap relative to Gold. Such an extended Fair Value Gap is rare; it has only been seen 4x since 2009.

There's a health warning. Model confidence of 50% means our macro factors can only explain half the variance in this pair currently. Other, non-macro factors (such as crypto entering a period of poor seasonals) are as important right now.

Still, it is interesting to note the tight correlation between Qi's FVG & the spot price of the Bitcoin/Gold ratio. That doesn't tell you whether this marks a buying opportunity in crypto, or a sign the air is looking pretty thin for gold. But it does suggest the elastic is stretched and some kind of mean reversion is pending.



4.) **Amazon – a cheap Mag7 stock**

Amazon is back in a macro regime for the first time in 2024. Its macro-DNA is pure Goldilocks: reflation (rising economic growth & inflation expectations), easy financial conditions (tight credit spreads) and healthy risk appetite (low VIX).

The latter has been instrumental in a ~20% rise in model value since August 5th & the flash crash low. And Amazon has lagged in this V-shaped recovery. It is now 1.1 sigma (9.1%) cheap to aggregate macro conditions.

There are other drivers to consider.

Amazon has yet to convince that they can compete in the AI arms race. Their Bedrock tool giving ASW customers access to third party AI models like Anthropic and Meta may turn the tide but, to date, they have lagged OpenAI, Microsoft and Google.

The charts remain damaged – technical analysis suggests the stock needs to close the gap around $180 which was the breakdown point after disappointing earnings at the start of August.

But, from Qi's perspective, the stock is cheap to its macro environment and history shows these are significant levels.

```python
FVG_Back_Test(['AMZN'],1.1,0.25,0,'2009-01-01','2024-08-27',['Long'],'Long Term')
```

✓ 3.3s Python

	Results
Hit Rate	74.074074
Avg. Rtrn	3.738043
Ann. Rtrn	44.136433
Median Rtrn	6.047854
Avg. Max Gain	7.615461
Avg. Max loss	-5.466572
Avg. Holding Period	25.296296
Median Holding Period	21.000000
No. of Trades	27.000000
Avg. Win	8.132621
Avg. Loss	-8.817895
Win/Loss	0.922286