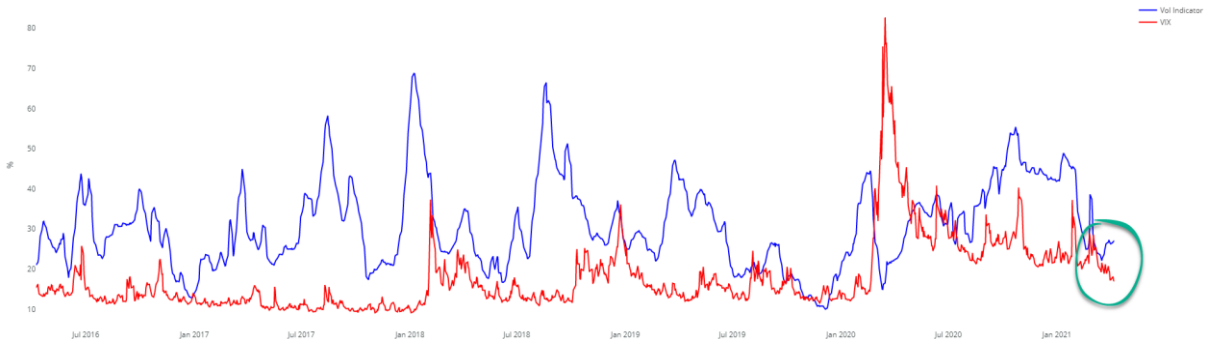




Mind the gap

- VIX closed at its lowest level since February 2020 last night. The “fear gauge” is signalling all is well in the world of US equities.
- Qi’s macro valuation shows **the S&P500 as largely in line with macro fundamentals**. A $+0.4\sigma$ (+2.4%) Fair Value Gap suggests it is only very modestly elevated versus its key macro drivers.
- One cautionary note, however, is the divergence between VIX (red line) & Qi’s Vol Indicator (blue).



- The Qi Vol Indicator captures the ability of macro to explain price action across some key global benchmark instruments in equity, rates & FX markets.
- **When macro’s explanatory power falls, markets are more vulnerable** to other factors like positioning & sentiment; both of which can cause sharp price swings. Hence, low macro model confidence equates to a higher Qi Vol Indicator which can, in turn, signal a period of elevated volatility.
- There are some ‘false dawns’ but **overall the Qi Vol Indicator has done a good job of leading sharp spikes in VIX** over the last 5 years - summer 2016, “Volmageddon” early in 2018, Jan 2019 & most recently the Covid shock of February/March 2020.
- Neither the absolute level, nor the rate of change in our Vol Indicator is currently giving any cause for concern. That said, **the divergence versus the VIX is notable & worth monitoring**.

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