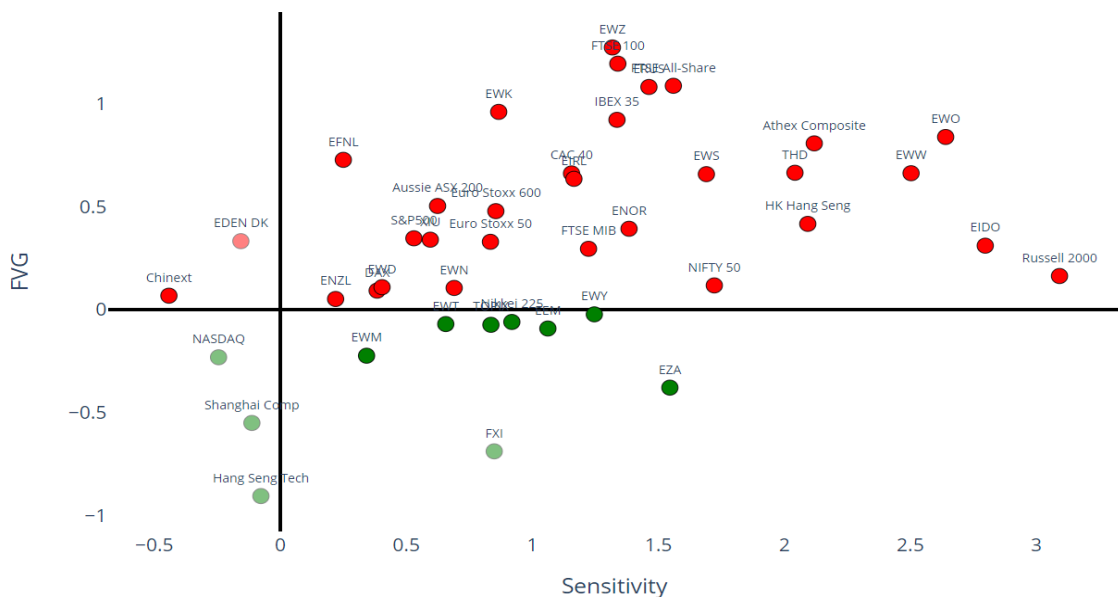




## Mixed messages

- Falling real yields suggest the bond market is signalling peak economic growth. But the commodity market is shouting loudly that inflation is the number one threat. For now, **equity markets seem to be listening to commodities rather than bonds**. Hence the cyclical versus tech split in performance this week.
- But, if commodities are the main driver, what's the empirical snapshot – which equities are most sensitive to the commodity complex, & what do macro valuations look like?



- The chart shows equity indices & their sensitivity to metals (copper, iron ore) & energy (crude oil); plus a macro valuation (Qi Fair Value Gap). The further to the right a model is, the bigger the benefit it gets from rising commodity prices.
- **Russell 2000 is the winner** but there is a diverse mix – Indonesia [EIDO](#), Austria [EWO](#) & Mexico [EWW](#). The common factor is all are rich to macro already; albeit the Russell only marginally so.
- Looking for the equity market with the strongest sensitivity to commodities but a cheap valuation suggests **South Africa [EZA](#) has lagged & offers an attractive entry level.**

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