MacroVantage

Uncover price dislocations, trade opportunities, regime shifts and sensitivity across asset classes

Quant insight

1. **S&P500 12mth fwd PE in-line with Qi model**
2. **Trump tariffs hurt the Euro –** but which cross?
3. **Take profits in KRE outperformance**
4. **Time for respite in Value? -** Energy will struggle unless geopolitical risk premia rises further
5. **Internationally, Nifty offering value should dollar strength wane**

1. Qi's macro model value for SPX 12mth fwd PE in-line with spot – Rates deemed a non-issue in Trump World

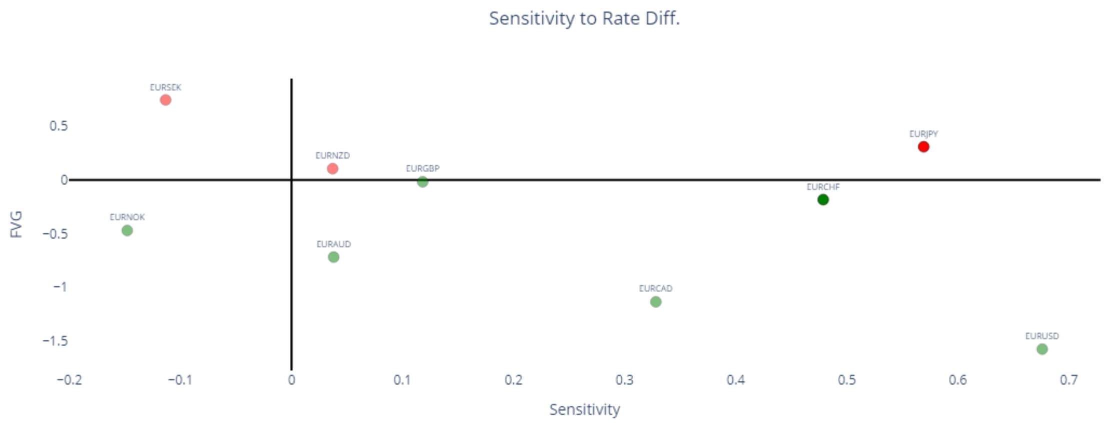
The initial reaction to Trump's win is now becoming more complex – higher rates, higher inflation expectations and stronger dollar vs. higher expectations of a US corporate friendly backdrop of de-regulation, tax cuts and America first. The price for higher valuations is a fatter downside tail if the nominal growth narrative can not be sustained.

However, Qi suggests the 12mth fwd PE today is warranted by macro. The below chart show the S&P500 12mth fwd PE through the lens of Qi's macro-relational model. The rise in model value to ~22x 12mth fwd PE has reflected the compression in vol and credit spreads alongside a positive sensitivity to inflation expectations. Meanwhile, sensitivity to real rates remains small – there is less worry about rates. These observations highlight that markets are giving Trump the benefit of the doubt. The baseline is that markets can take advantage of positive seasonals into year end.

Big picture, as long as the rate market does not break down (and we note that the 5y5y USD forward inflation swap is back to where it was pre-election), equities will try to stick to the script into year end. Lending credence to this view is that Qi's model momentum for the UST 10yr yield is waning, with a ST / LT model value now of between 4.3%-4.4%.

2. **<u>Trump tariffs hurt the Euro – but which cross?</u>**

The chart below shows Qi's long term models for EUR FX developed market crosses – the Fair Value Gap plus each pair's sensitivity to interest rate differentials.

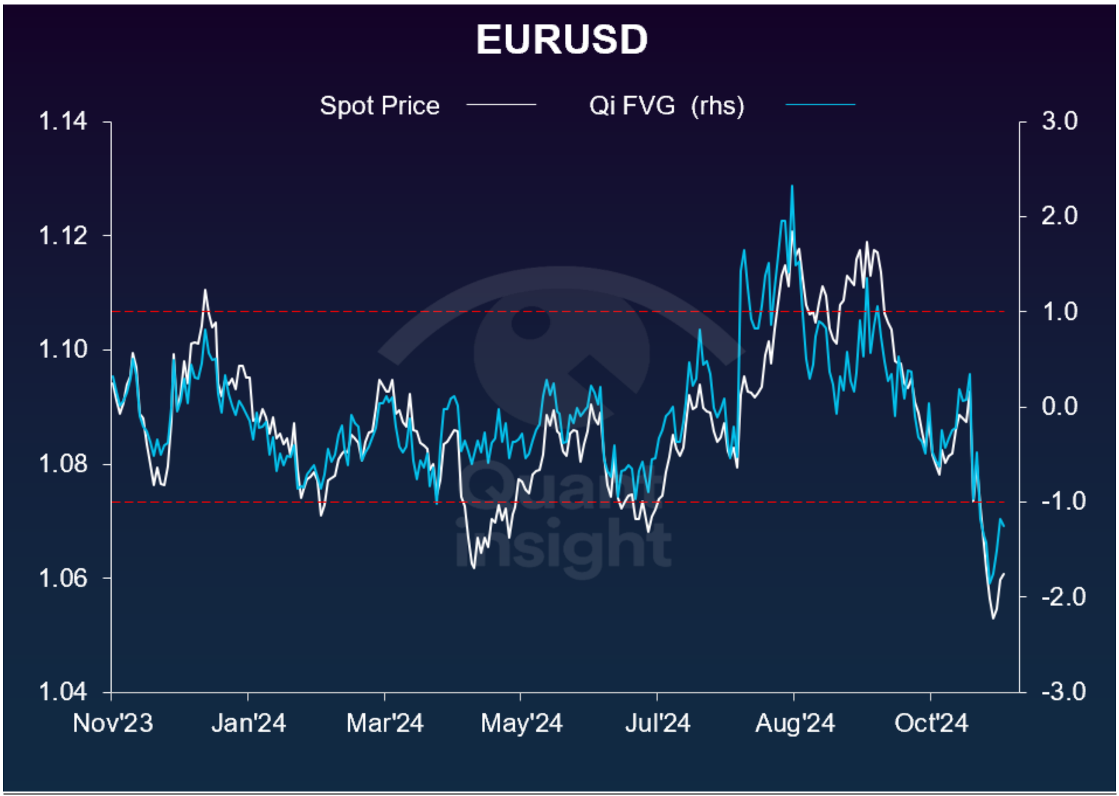


EURUSD is the standout. It has the biggest Fair Value Gap sitting 1.7 sigma or 2.4% cheap to aggregate macro conditions.

And it is also the most sensitive cross to interest rate differentials – current patterns show, all else equal, a one standard deviation shift lower in European yields across the curve (relative to US yields), drags EURUSD 0.7% lower.

This suggests a lot of the relative dovishness of the ECB (higher-for-longer from the Fed) is priced into EURUSD at these levels. Back-tests over the last 15yrs aren't great but, over the last year, the correlation between spot EURUSD & Qi's FVG is 84%.

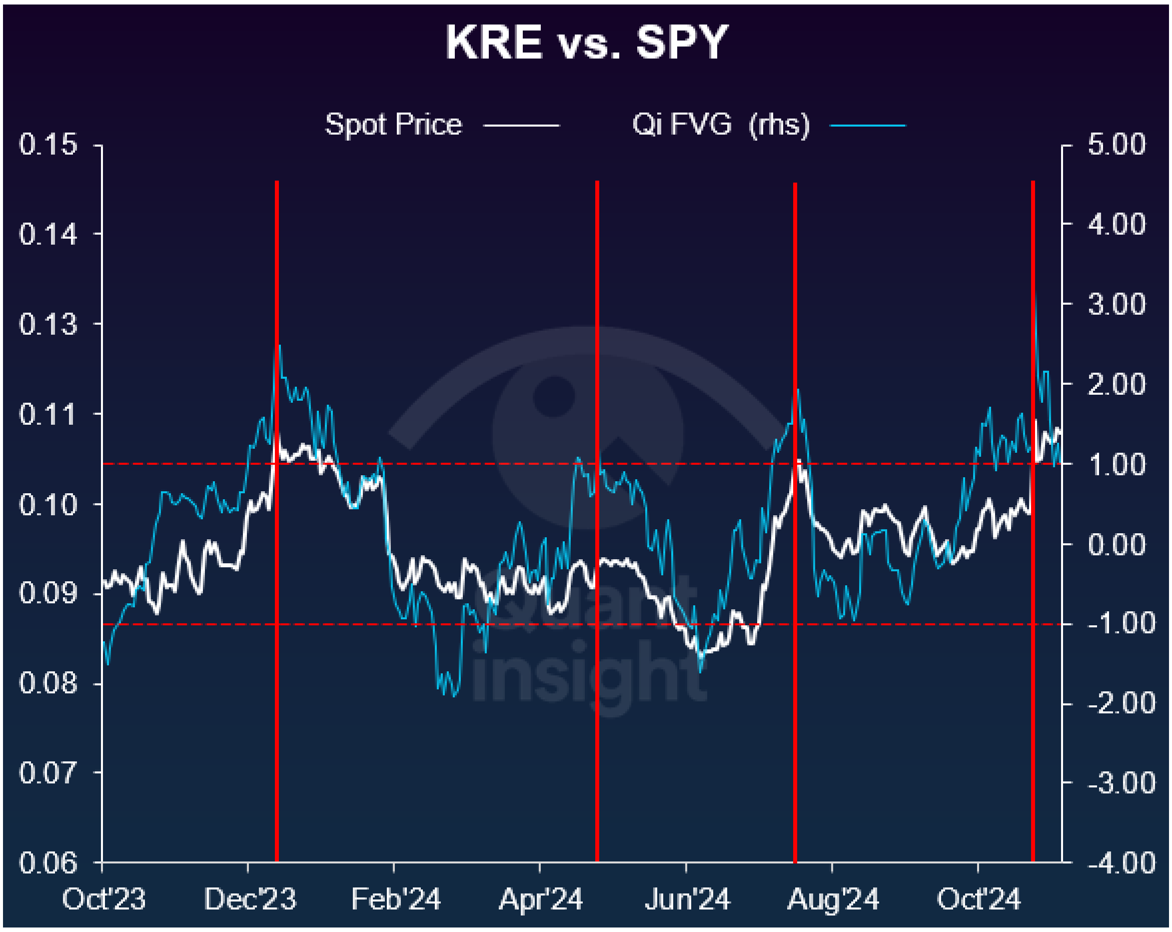
That suggests the mean reversion more recently has happened via the fx market correcting back to Qi model value. At a minimum, even with significant headwinds over the medium to long term, these aren't great entry levels for EUR downside bets.



3. **<u>Take Profits in KRE Outperformance</u>**

In the election aftermath, Financials have been among the best performing sectors – a thesis based on a combination of a steeper yield curve, financial de-regulation and M&A tailwinds. Screening Qi across the US sector universe, the RV pair of KRE vs. SPY is a stand out at +1 sigma (+5.5%) rich to Qi model value. As can be seen in the chart below, the Qi fair value gap exhibits a good correlation to spot price – on the last few occasions where the value gap exceeded 1 sigma, it was an opportune time to take profits.

As cited, KRE outperformance would like to see a steeper 5s30s, and stronger Dollar. However, as highlighted in this note Dollar strength may see some respite - EURUSD is cheap to model, USDCNH is rich to model and model price momentum for USDJPY has been waning. Meanwhile10yr UST yields average a short term / long term model value of ~4.4% - model value momentum seems to have stalled here also (reflecting drift lower in inflation expectations / drift wider in credit spreads).

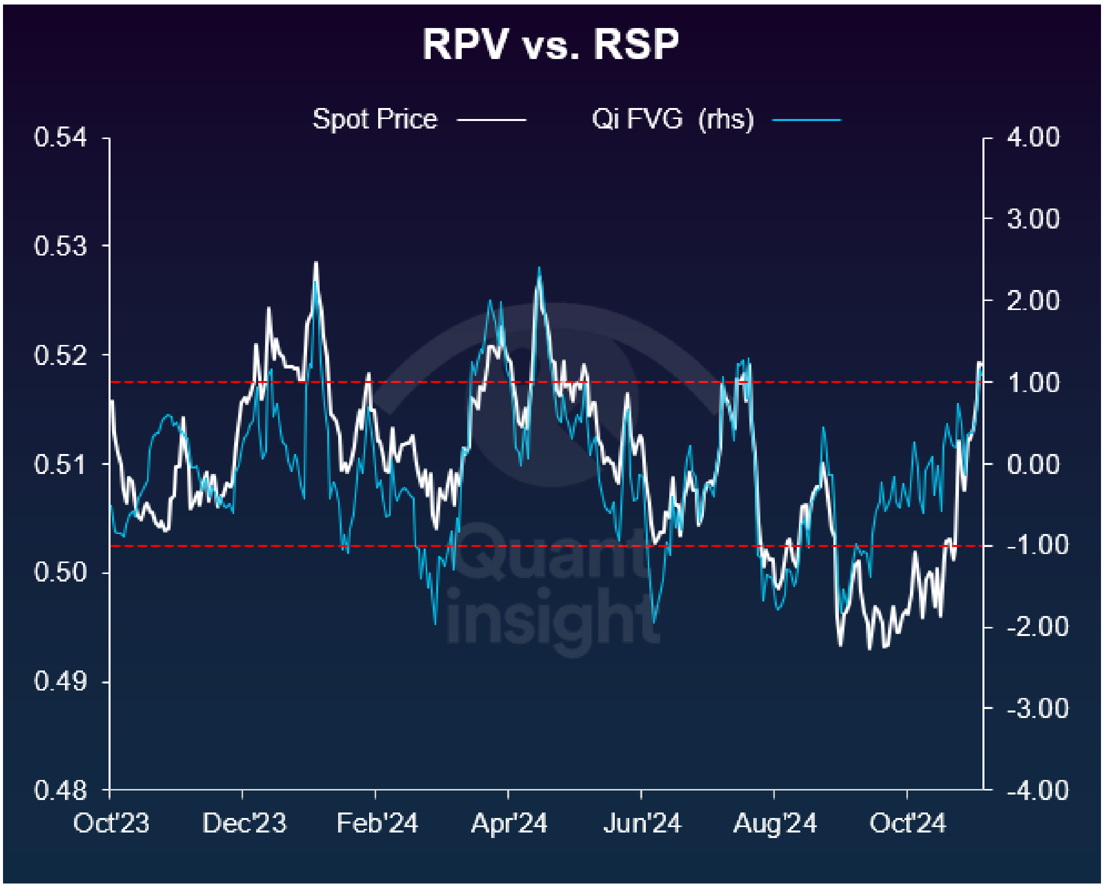


4. **Time for respite in Value? Energy will struggle unless geopolitical risk premia rises further**

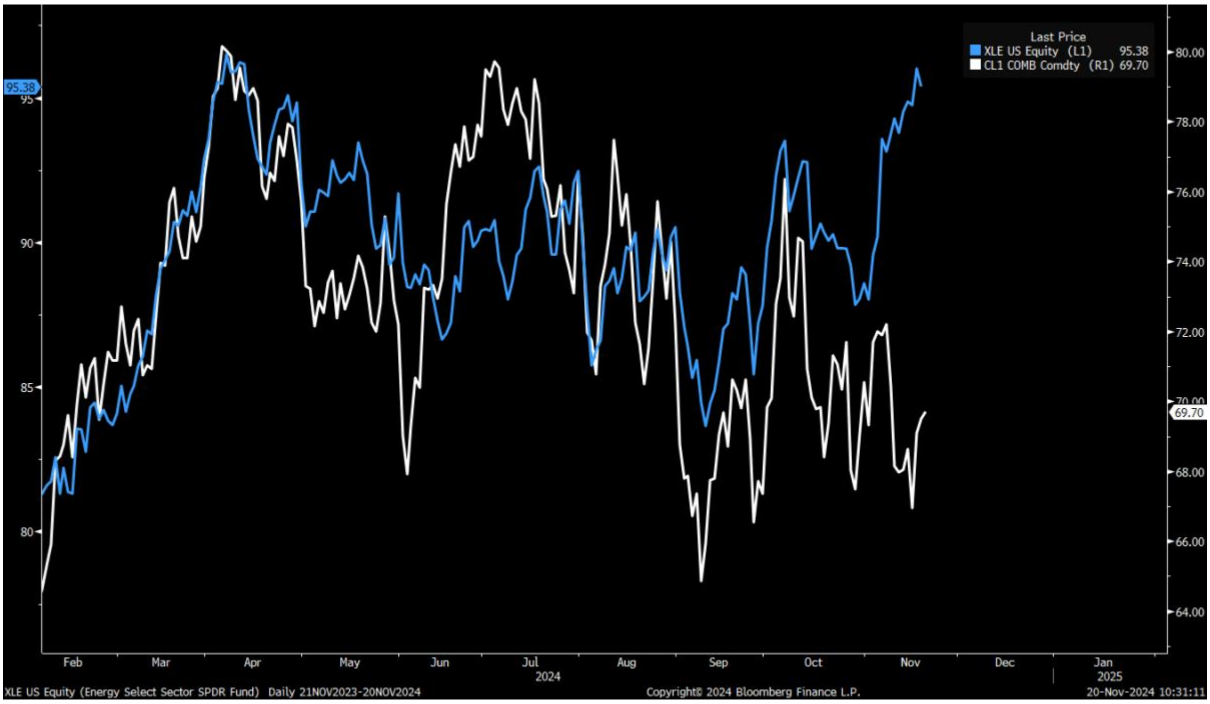
Value has outperformed the broader market through this month. Commentators have highlighted that history suggests Republican wins are associated with Value outperformance. Indeed, Financials and Energy have been among the strongest performing sectors post the election.

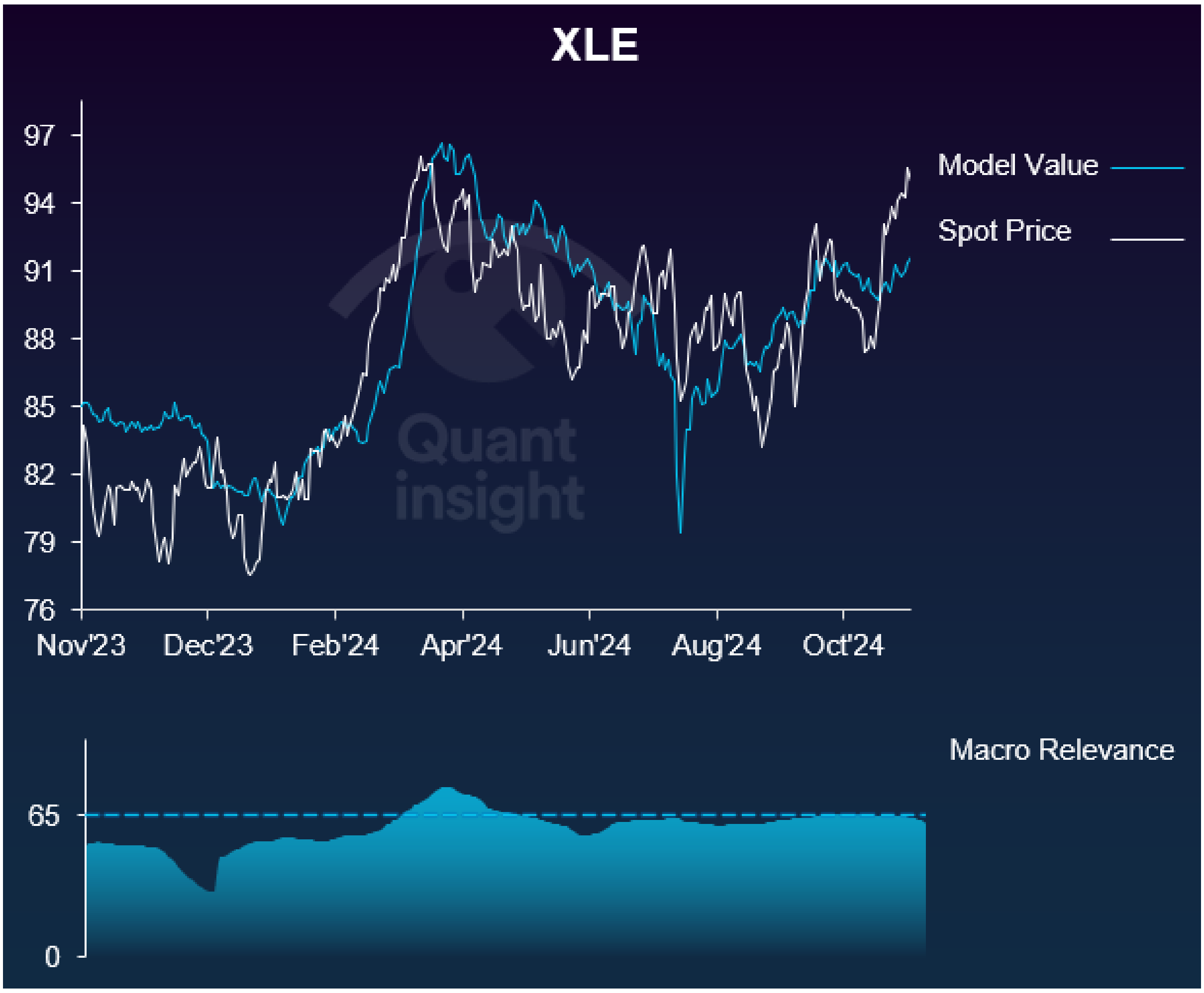
Scanning Qi's models across the risk premia landscape, Value is the standout. RPV (Invesco S&P500 Pure Value ETF) vs. RSP (Invesco S&P500 Equity Weight ETF) is +0.9 sigma rich to Qi model value on both ST and LT models.

The below chart shows the strong relationship between the Qi FVG and spot price of this pair. The current level would advocate curtailing a bias to Value. The last few occasions the FVG hit > 1 sigma, it was a time to be fading the styles relative to the broader market.



Note the size of divergence between Energy stocks and oil is unusual – see the first chart below. If there is little reason to think that oil will rally to close the gap, Energy will likely find it tough going. The sector is the most rich on Qi's US sector models, on both ST and LT time horizons. See the second chart below.

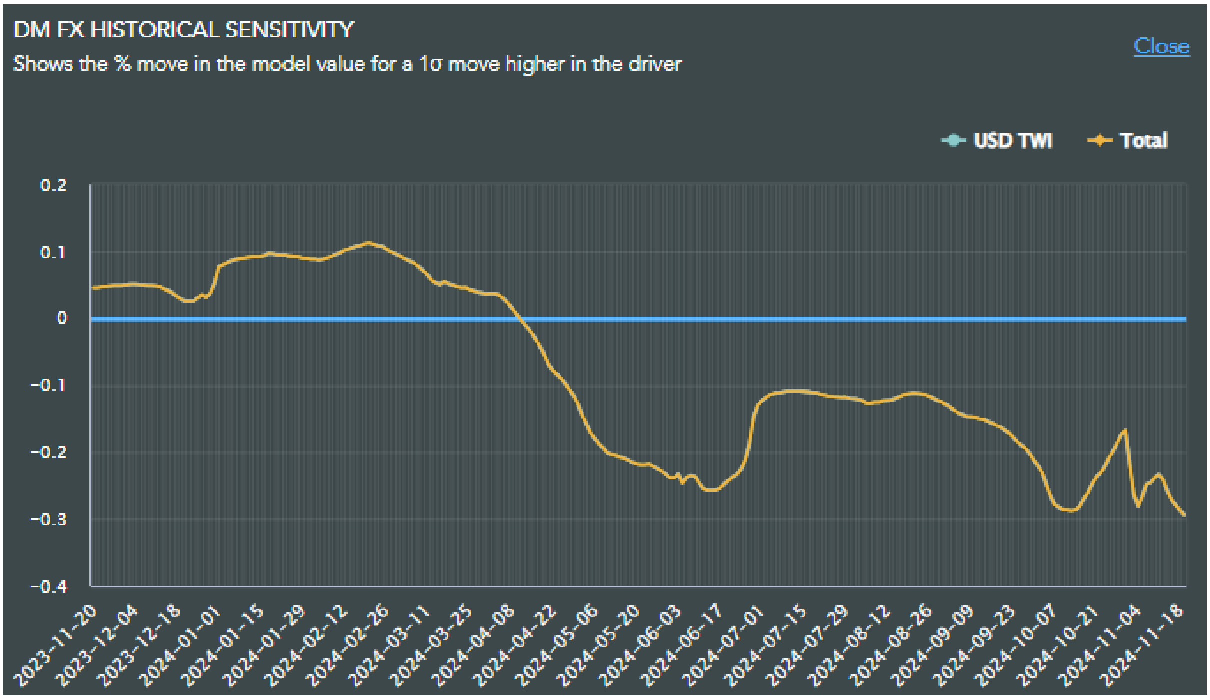



XLE
97
94
91
88
85
82
79
76
Nov'23
Dec'23
Feb'24
Apr'24
Jun'24
Aug'24
Oct'24
Model Value
Spot Price
Quant insight
Macro Relevance
65
0

5. Internationally, Nifty offering value should dollar strength wane

The Nifty 50 Index has seen a 10% correction from its September highs and currently hovering around its 200d MA. Qi's long term model, where macro explanatory power has been rising over the last month, shows the index now ~4% cheap to Qi model value – in sigma terms -0.8 sigma. Qi model value over the last week is shown tentative signs of stabilisation.

Among the largest upside drivers for the Nifty through Qi's lens are lower US inflation expectations and a weaker trade-weighted dollar. Indeed, scanning the major indices, internationally it is one of the bigger beneficiaries if dollar strength was to wane. See the first chart below.



Running backtest to see the efficacy of going long at the current FVG reveals a 60% trade win ratio. The caveat is that dollar strength must wane.

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In [7]: FVG_Back_Test(['NIFTY 50'],0.9,0,60,'2009-01-01','2024-11-19'
Out[7]:
```

	Results
Hit Rate	60.000000
Avg. Rtrn	0.497339
Ann. Rtrn	8.922032
Median Rtrn	1.490089
Avg. Max Gain	3.028839
Avg. Max loss	-3.468489
Avg. Holding Period	14.628571
Median Holding Period	12.000000
No. of Trades	35.000000
Avg. Win	3.852184
Avg. Loss	-4.534928
Win/Loss	0.849448