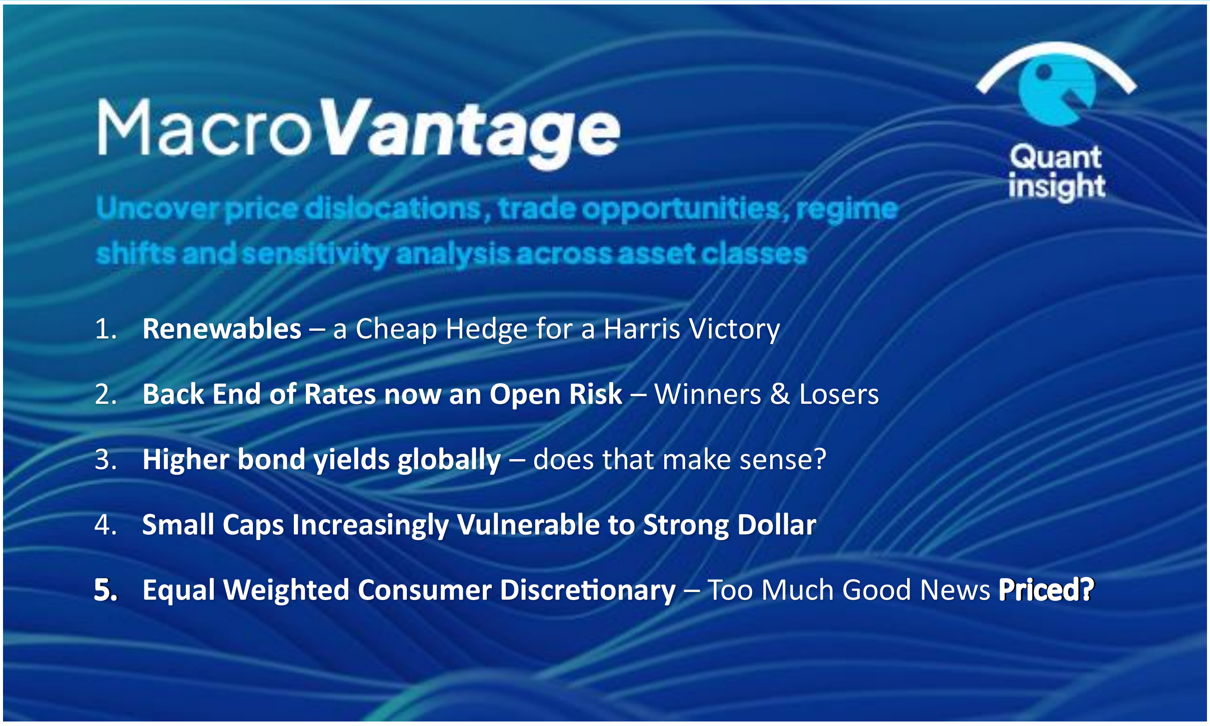
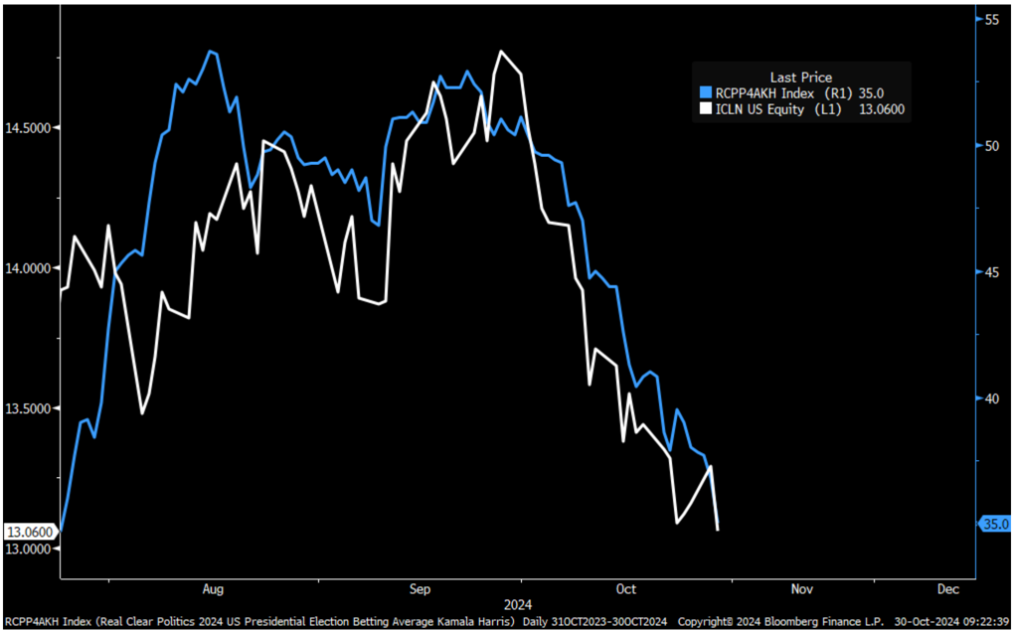
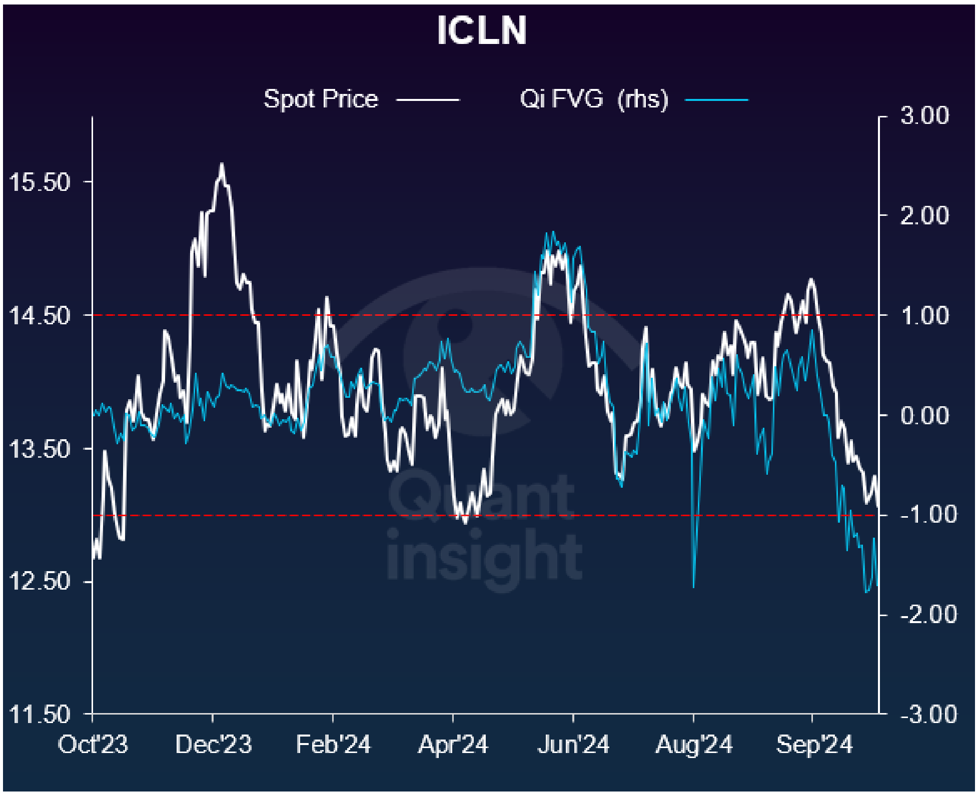


1. Renewables – a Cheap Hedge for a Harris Victory

Harris would be expected to continue and expand on Biden's climate policies, prioritising investments in the renewable energy sector. With this in mind, we note that the performance of ICLN (Global Clean Energy ETF) has closely tracked the RCP Harris betting odds – see the first chart below.



However, Qi's model for ICLN shows the sector now trading at a 1.7 sigma discount to model value. Model explanatory power has been falling into October because our standard model does not factor in the recent excitement around Trump and his policies. With that said, consider the chart below – this is the largest discount ICLN has been vs. Qi's model value for some time. Only 3 times since 2009 has it been at this discount. 2 of those 3 occasions were buying opportunities.




```
FVG_Back_Test(['ICLN'],1.7,0.25,65,'2009-01-01','2024-10-29',['Long'],'Long Term')
```

✓ 4.2s

	Results
Hit Rate	66.666667
Avg. Rtrn	0.751809
Ann. Rtrn	12.803477
Median Rtrn	0.161218
Avg. Max Gain	2.445817
Avg. Max loss	-3.032380
Avg. Holding Period	15.666667
Median Holding Period	11.000000
No. of Trades	3.000000
Avg. Win	1.681584
Avg. Loss	-1.107742
Win/Loss	1.518029

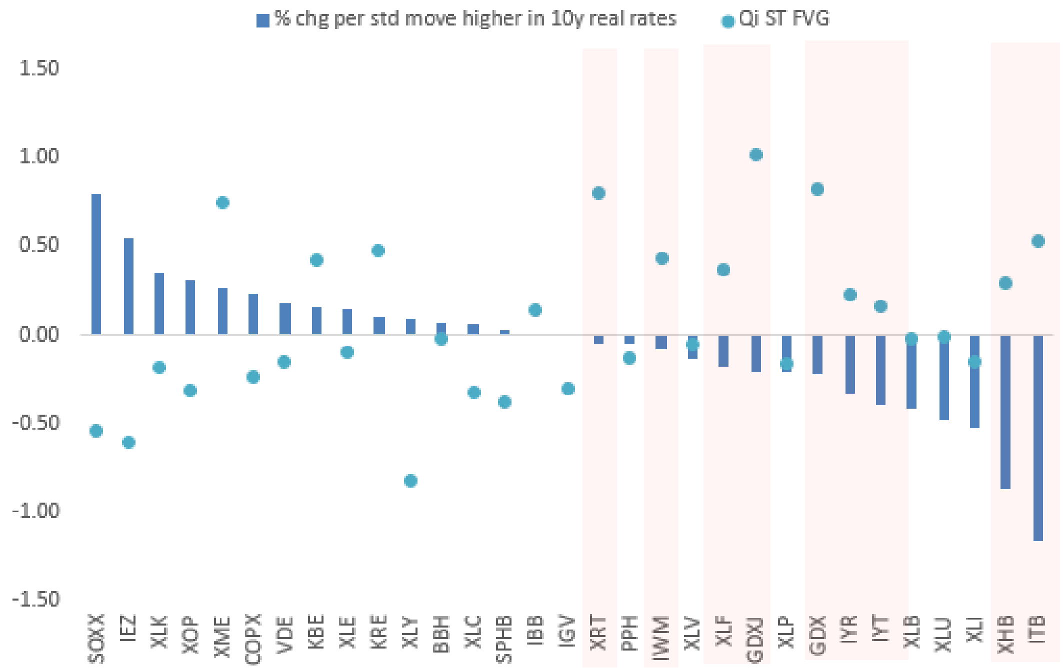
2. <u>Back End of Rates now an Open Risk – Winners & Losers</u>

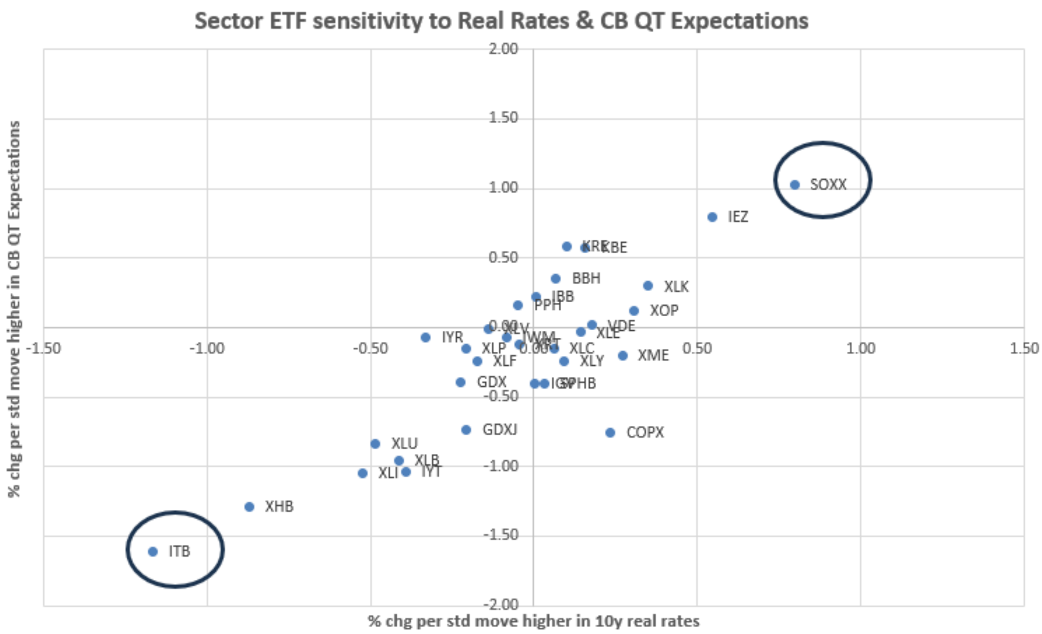
A Republican sweep risks resulting in higher deficits and a pickup in inflation, hitting fixed income even harder than we have seen in recent weeks. Even under a Harris victory, there is almost no prospect of any deficit reduction plan. In other words, the back end of rates now seems like an open risk. Longer term treasury yields broke out of a forty-year downtrend in 2021 and show no sign of returning anytime soon. Bond vol represented by the MOVE index and proxied by CB QT Expectations in our models has ramped higher into October.

The equity market would posit that the backup in bond yields is more of a reflation trade. However, Qi's model would suggest the move in rates is more about inflation fears than growth hopes.

With this in mind, the first chart below shows sector sensitivities to real rates based on our multi-month relational model alongside the spot vs. model fair value gap. We note that Tech (SOXX, XLK) and Energy (IEZ, XOP, XLE) are not perturbed by higher real rates and are still deemed cheap to Qi model. In contrast, homebuilders / real estate (ITB, XHB, IYR), Retail (XRT), Small Caps (IWM) and gold miners (GDX) would be hurt by further rises in real rates AND are trading rich to Qi model.

The second chart plots those sensitivities to both real rates and rate vol – a similar picture emerges.





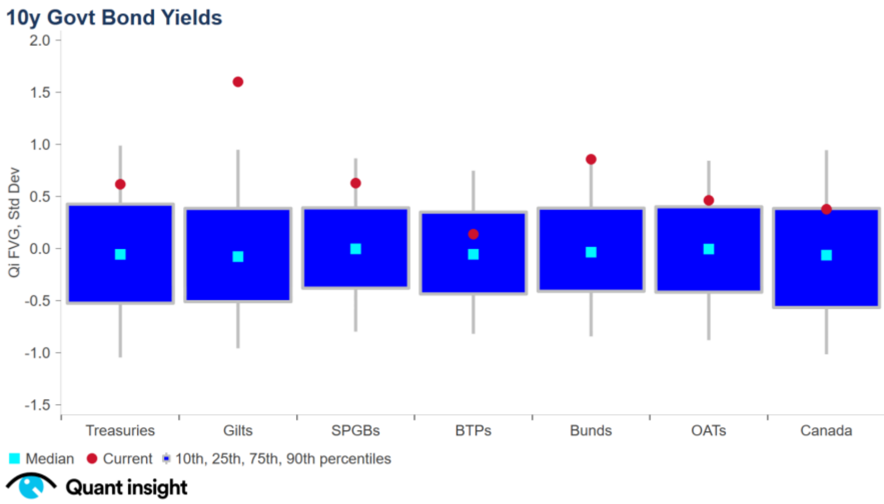
3. Higher bond yields globally – does that make sense?

Last week we noted it's been unusual for US Treasury yields to trade above Qi's macro-warranted model value in 2024.

At the time, the Fair Value Gap was a modest +0.5 sigma. This week's 4.33% yield high equated to a +0.9 sigma FVG. Close, but not quite sufficient to trigger an official bullish signal on Qi. What is equally striking is the fact that this has been a global move.

The magnitude of recent yield moves differ across countries, but the bearish repricing has been universal. Yet the consensus is that the European growth outlook for example is significantly more challenged than in the US.

So, should dip buyers in bonds focus on opportunities away from US Treasuries?



Source: Macrobond

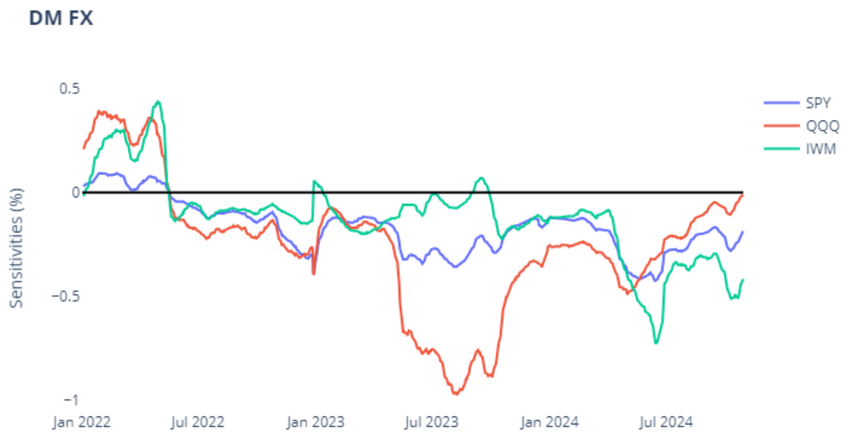
The chart uses the Macrobond platform to show Qi Fair Value Gaps across 10y yields in several different countries, plus the 1y historical percentiles of those FVGs.

The standout are 10y gilt yields which are now 1.8 sigma (25bp) above Qi model value. That's an extreme relative to recent history & clearly reflects market fears following the UK budget.

Bunds also stand out – now 1.2 sigma (17bp) cheap to macro at a time when most are bearish economic growth and this results season is seeing forward 12mth earnings roll over aggressively.

4. Small Caps Increasingly Vulnerable to a Strong Dollar:

The Dollar has become the biggest negative driver of both Qi's SPY and IWM models. QQQ has become indifferent. See the snapshot below showing the % change for a 1 standard deviation move higher in the dollar.



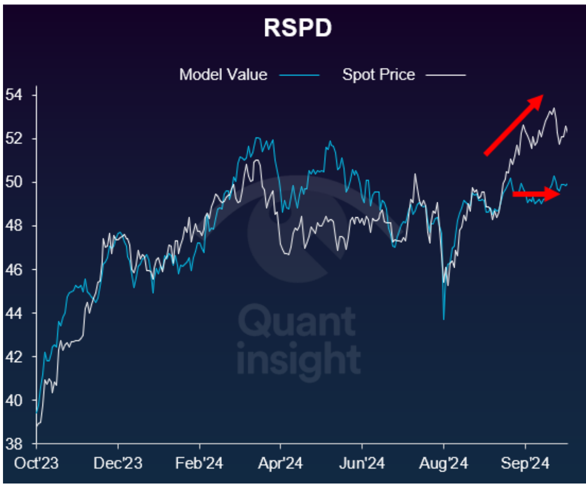
While the caveat is all 3 model explanatory powers are rolling over, anyone believing in a rotation out of tech into small caps, needs to know that IWM is increasingly vulnerable to a strong $ (& screens as 0.7 sigma rich).

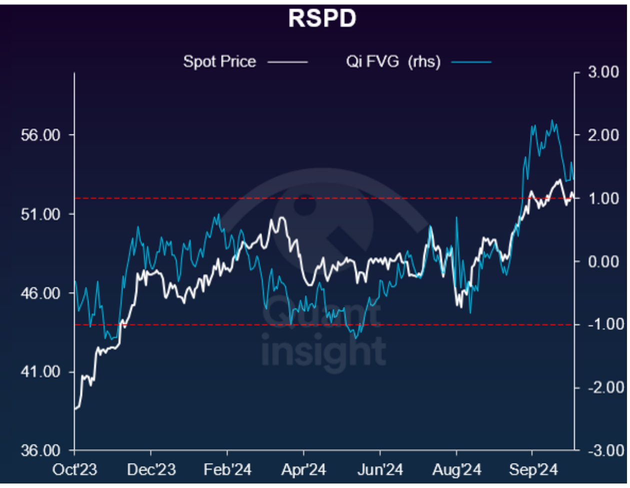
5. Equal-Weighted Consumer Discretionary (RSPD) – Too Much Good News Priced In?

Among the largest FVGs we see at the sector level is for equal-weighted consumer discretionary (RSPD). This ETF includes the likes of Amazon, Tesla but maintains an equal weight across all holdings (quarterly rebalance). The recent excitement around Trump beneficiaries like Tesla and General Motors (not dependent on China for EV batteries) is understandable, but this equal-weighted version tries to adjust for that.

According to Qi's model, RSPD wants stronger global GDP growth (the largest driver in aggregate), a steeper 5s30s curve (would prefer to see short term rate cuts), a weaker dollar and lower real rates. See the snapshot below.

However, the last month has seen Qi model value flat-line, leaving the FVG extended at +1.3 sigma.


RSPD
Model Value
Spot Price
54
52
50
48
46
44
42
40
38
Oct'23
Dec'23
Feb'24
Apr'24
Jun'24
Aug'24
Sep'24
Quant insight


RSPD
Spot Price
Qi FVG (rhs)
56.00
51.00
46.00
41.00
36.00
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
Oct'23
Dec'23
Feb'24
Apr'24
Jun'24
Aug'24
Sep'24
Quant insight