



MacroVantage

Quant insight

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

1. Climbing a wall of worry – SPY FVG narrows into earnings season
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1. Climbing the wall of worry but SPY FVG narrowing into earnings season

Last week, we said that AAll sentiment and the SPY Qi FVG had hit 1yr lows. So far, post the inauguration, risky assets have given a vote of confidence and climbing that wall of worry. Trump's comments on tariffs are still being seen through the lens of a negotiation tool – more bark than bite. The start of earnings season has also been supportive, critical given Qi's short term model highlighting that FCIs are front and center. This has meant fair value gaps have narrowed – on both Qi's short term and long term models we are approaching model fair value.



In December last year, Qi's short term horizon model for SPY saw macro explanatory power slump to almost zero! Since the turn of the year, it has shot back up to 79% RSq today. No surprise that the top drivers of SPY are real rates, HY corporate credit spreads, CB QT expectations (rate vol) and oil prices. Having been immune to tighter FCIs over the last couple of months, the negative relationship is now resuming. In other words, with profit multiples likely remain constrained by FCIs for now and FVGs closing, this earnings season must shine. Next week is when we start entering the heart of the season.

2. Within commodity plays, XLB better bet than XLE

The best performing sector YTD is Energy. Trump repeated the slogan "Drill, baby, Drill" in his inauguration speech. The reality is that after record crude production under Biden it may be harder to deliver on all the big talk with prices also under pressure from faltering global demand. The sector screen now as the richest relative to its sector peers at +0.8 sigma.



However, where XLE looks most extended is relative to Materials. Above we show the Qi fair value gap of the XLB vs. XLE pair (in blue) and the spot price in white. The FVG sits at 1yr lows. If you believe the market is too bearish on US / China relations and tariff posturing is a prelude to a better deal, this would be bullish the pair.

Our backtest of long signals when reaching -1 sigma FVG, reveals an 64.5% win rate with a positive average return.

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In [6]: FVG_Back_Test(['XLB vs. XLE'],1.0,0,0,'2009-01-01','2025-01-21',['Long'],'Long Term')
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Out[6]:
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Results	
Hit Rate	64.516129
Avg. Rtrn	0.748454
Ann. Rtrn	6.365073
Median Rtrn	1.890772
Avg. Max Gain	3.908509
Avg. Max loss	-4.151428
Avg. Holding Period	30.451613
Median Holding Period	22.000000
No. of Trades	31.000000
Avg. Win	4.708461
Avg. Loss	-6.451560
Win/Loss	0.729817

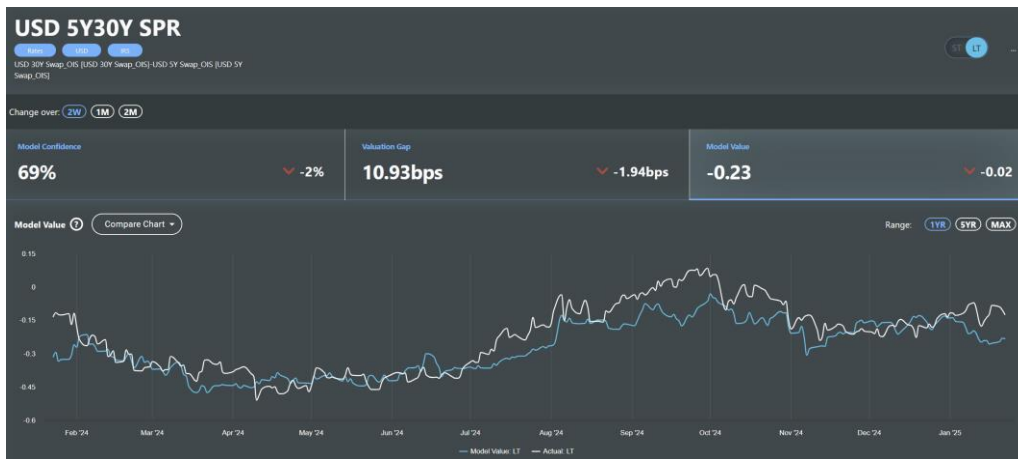
3. Beware US yield curve flattening

Curve steepeners are a consensus trade amongst rate investors. There are strong arguments for that idea but tactically there is potential for the yield curve to flatten in the near term.

On Qi, macro-warranted fair value for the 5s30s US yield curve is -23bp. Fair value was -14bp at the start of 2025. The additional inversion has been driven by the surge in tracking GDP growth & increase in inflation expectations (inverted in yellow below).



On current patterns, higher-for-longer from the Fed should equate to a flatter yield curve. The market has lagged that re-pricing with 5s30s USD swaps curve currently sitting around -11bp.

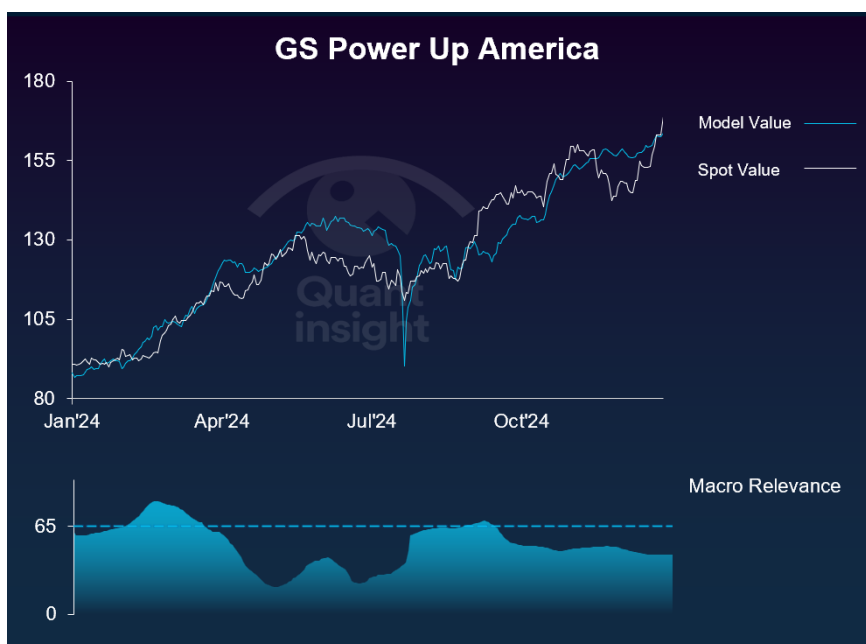


4. How to trade "Stargate"

President Trump's announcement of a joint venture between the US government and tech leaders like Softbank, OpenAI & Oracle is a potentially huge, game-changing event. But how are investors supposed to capture this trend?

Thematic baskets from the sell-side offer you the stock picking skills from their sector analysts, plus the diversification of an ETF.

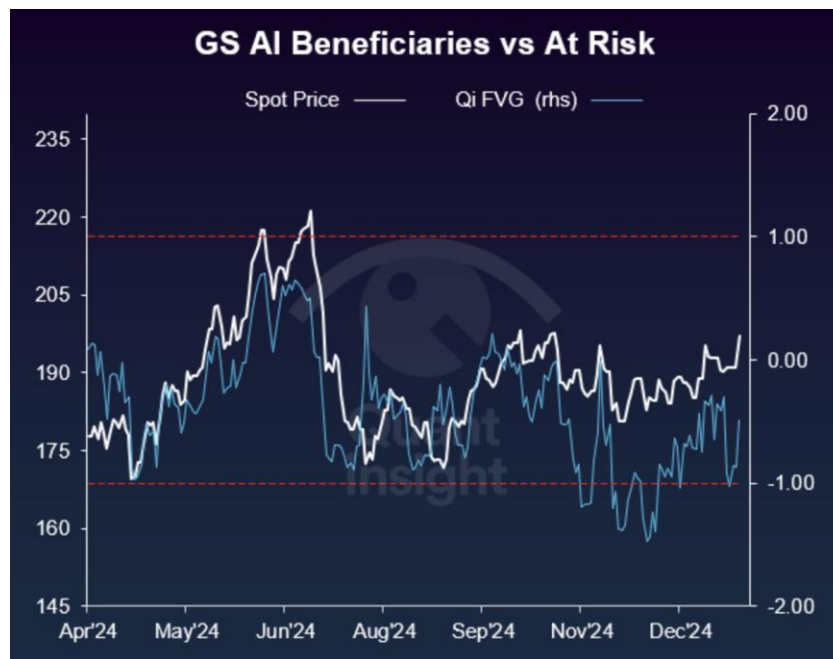
One obvious example would be Goldman's *Power Up America* - a basket of stocks designed to "benefit from the growing demand for power driven by electrification, EVs, data centres & reshoring".



On Qi, there's no valuation edge currently. It was 1 sigma (10.5%) cheap to macro conditions at the end of last year, but has now caught back up. From here it's a case of watching macro momentum (i.e. Qi model value) which is trending firmly higher.

GS's *AI Beneficiaries vs at risk* basket hit 1 sigma cheap as recently as last week. This week's Trump bump has seen the Valuation Gap half but it still sits 0.5 sigma (2.7%) below Qi's macro-warranted model value.

Moreover, that's still a significant level – this FVG has only been seen 5x when the model is in regime & has produced an 80% hit rate. FVG correlation to spot price looks decent of late, i.e. we can trust the mean reversion properties of this signal.



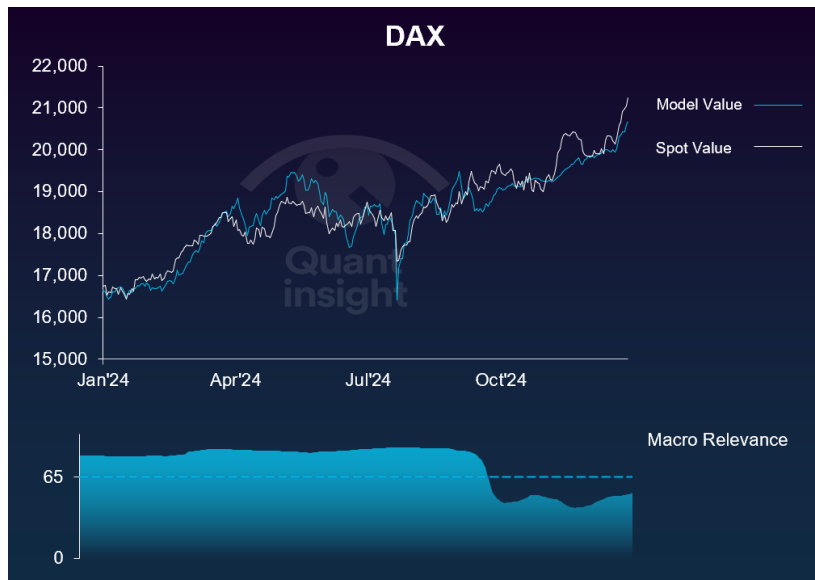
Further afield could something like Goldman's *Japan Semiconductors* basket benefit from such a theme? It sits 0.7 sigma (9.4%) cheap to the broad macro environment. Qi model value has moved up this week but is yet to break above the 4month range. Watch macro momentum for clear signs of a new uptrend.

5. RoW > US equities?

Headline risk is going to be a constant threat under Trump 2.0. Today's Davos address, for example, could spark a "risk off" move if he sounds hawkish on trade. But, thus far, the lack of detail on tariffs has prompted a sigh of relief. That's most evident in FX with volatility falling back from elevated levels.

In equities its most obvious in the rally in European indices. The question facing asset allocators is, if they believe RoW stocks can enjoy a period of catch-up to the US, which international markets offer the best risk-reward? This is where Qi model value & Fair Value Gap can be invaluable. Some examples:

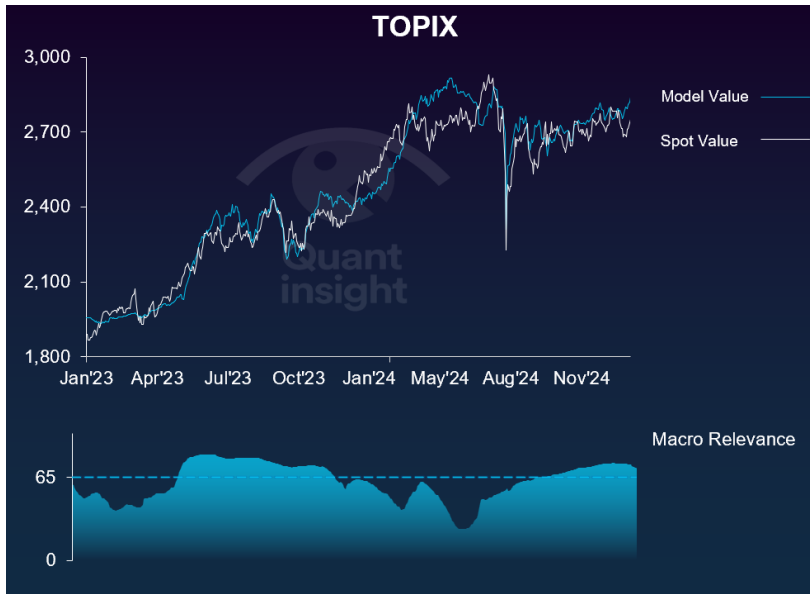
The **DAX** sits 0.7 sigma (2.7%) rich to macro. But note the strength of macro momentum. Qi model value has risen 3.6% in the last two weeks alone. The market is moving further & faster implying this isn't a great entry level. But there's no definitive bear signal here given improving macro conditions.



The **Euro Stoxx 50** screens as 1.5 sigma (3.1%) rich to macro. Macro-warranted model value has risen but not to the same degree as the DAX. A richer FVG plus more modest macro momentum suggests pan-European indices look potentially more vulnerable to any trade shock.



But perhaps the most interesting observation is that asset allocators should be looking east to Asia. The **TOPIX** for example is lagging the early 2025 equity rally. It sits 1 sigma or 3.1% below aggregate macro conditions which again are trending higher.



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