1. Time to fade European equities

European equity indices have screened as rich to aggregate macro conditions for a few weeks now. But now there are two new developments:

- Fair Value Gaps have extended well over 1 sigma rich. SX5E is 1.5 sigma (3.1%) above fair value
- Qi model confidence is rolling over

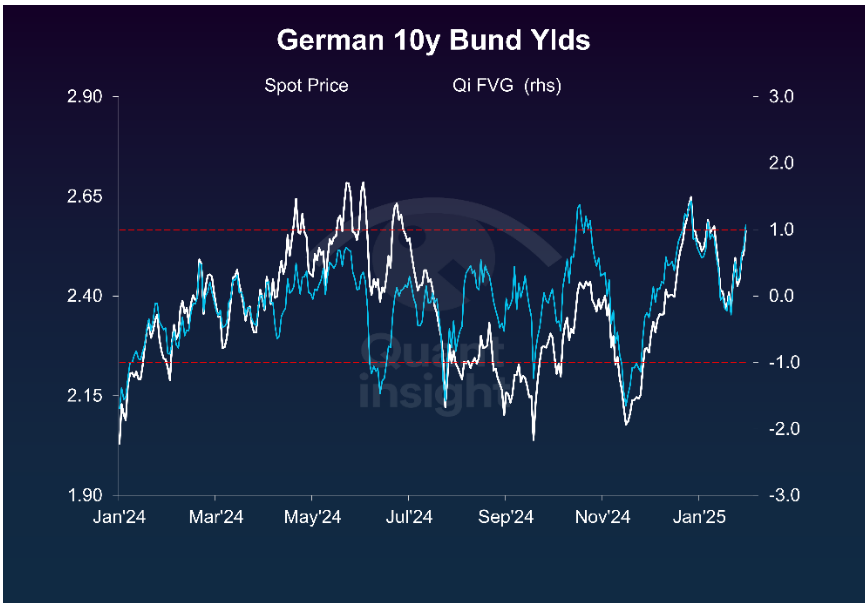
The fall in model confidence suggests macro cannot explain the last part of this rally. That could refer to excessive positioning/sentiment, or perhaps greater political influence ahead of Germany's election on Sunday.

Either way, at least from a tactical macro perspective, the risk-reward around the strong start to 2025 for European equities has shifted lower

2. <u>Time to fade 10y BUND yields</u>

The flip side of the recent rally in European stocks is a back-up in Bund yields; nominal yields have risen over 10bp this week, while real yields are at 2025 highs.

The assault is coming from both monetary (hawkish ECB speak dialling back rate cut expectations) and fiscal (greater bond issuance to meet future defence commitments) policy.

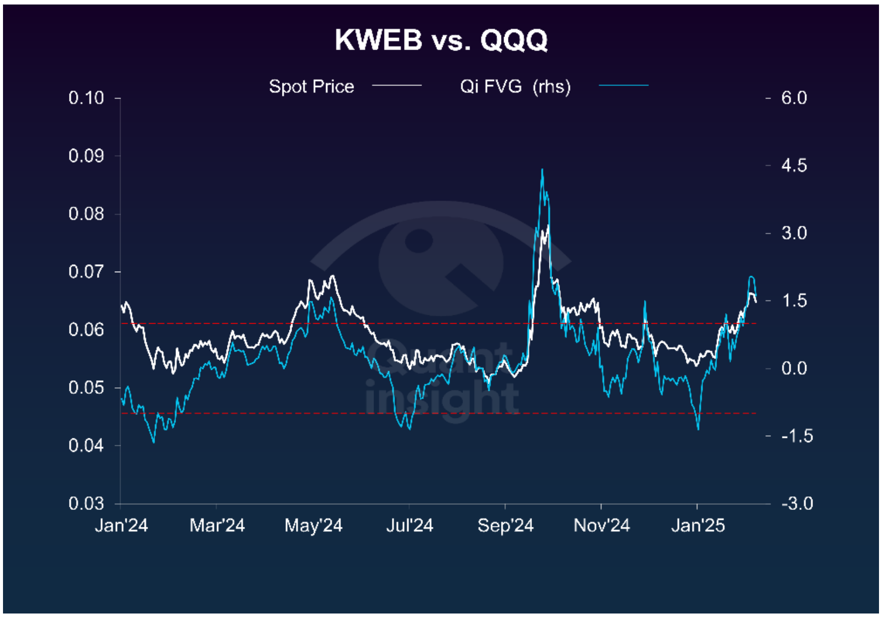


That combination has taken spot yields 1.1 sigma (16.5bp) above Qi model value. Model confidence is low but there are two additional warning flags.

- Qi's tactical Short Term model has exactly the same Fair Value Gap - yields sit 1.1 sigma & 14bp above aggregate macro conditions.
- The correlation between the Long Term model's FVG and spot 10y yields is high. The suggestion being the gap closes by yields catching up/down to prevailing macro conditions.

3. KWEB also vulnerable

The European equity example above suggests there's potential for the early 2025 momentum trade that favoured the RoW, to flip to a mean reversion strategy back towards US exceptionalism. The same holds for Chinese tech that's enjoyed a great run since DeepSeek.



On Qi, KraneShares China Internet ETF KWEB now sits 1.6 sigma (12.6%) rich relative to the NASDAQ ETF QQQ.

There's a health warning - Qi model confidence is low (17%) but the counter to that is there's very strong (85%) correlation between the spot RV pair & Qi's FVG. A sign that overshoots have tended to correct via spot prices mean reverting back to model fair value.