Quant insight

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Noise

- The aftermath of a Fed meeting always brings out an outpouring of opinion. A surplus of talking heads labelling the Fed's latest decision a success or failure.

- Opinions are going to be even more diverse when equities rally, seemingly believing the Fed can engineer a soft landing; while the flattening of the yield curve suggests the bond market fears a hard landing. What do Qi models show?

- US equities were cheap going into the FOMC. Even after yesterday's squeeze, they remain modestly below macro-warranted fair value.

- NASDAQ was the cheapest before the Fed & remains over one sigma below fair value today. Amongst its peers it remains the best stagflation play & RETINA™ continues to throw out bullish signals on various tech instruments – QQQ, XLK, Growth etc.

- More broadly, current patterns suggest that, for now, US equities are comfortable with a degree of tightening in financial conditions. Fed rate hikes & a stronger Dollar are positives. Rising real yields, wider credit spreads hurt.

- Just as well. Last night showed the Fed are intent on moving policy beyond neutral, but the nature of that move is key. **A Fed glide path that ensures real yields stay negative & credit default rates stay low is critical**.

- Indeed, it is worth noting that both HYG & the 5s30s curve are showing tentative signs of an inflection in macro model value. Neither move is yet definitive but improving macro conditions here would be critical. Wider credit spreads & yield curve inversion remain the two best signals that the Fed is moving too fast & breaking things.

- Finally, the China news is arguably as important & equally noisy. Model confidence is low across several Chinese equity sectors – regulation dominates. But macro still matters & shows all sectors as cheap to fundamentals. Of those in regime, financials CHIX looks the most efficient expression for those thinking the shift in Beijing's policy stance provides a green light to buy the dip.

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