

# Qi MacroVantage

September 19<sup>th</sup>, 2024

1. **European Miners** – one of the **cheapest** sectors in Europe
2. **Qi's GDP Growth Basket** stabilizing alongside Citi US Economic Data Surprise Index
3. **US Rotation** – Energy cheap to Consumer Discretionary
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## 1. European Miners – One of the Cheapest Sectors in Europe



Crude may be close to 3yr lows but other commodities have been holding up better. Copper has risen ~8% from its August lows. Data at the end of last week showed copper inventories on the Shanghai Futures Exchange fall 14% on the week – the largest weekly decline this year – and the LME spot price may have now turned the corner after sinking

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20% from a high in May. Today SXPP, the EU Basic Resources sector, is still close to its lowest level since late 2020. See the chart above.



Earlier this week, we note in our MacroHub publication, how depressed sentiment was in Europe (a quarter of the Dax stocks are trading below book value). On Qi's model, the sector is trading  $-0.8$  sigma ( $\sim 5\%$ ) below Qi model value, hovering close to the 1yr range lows. It is one of the cheapest of the Stoxx sectors in Europe.

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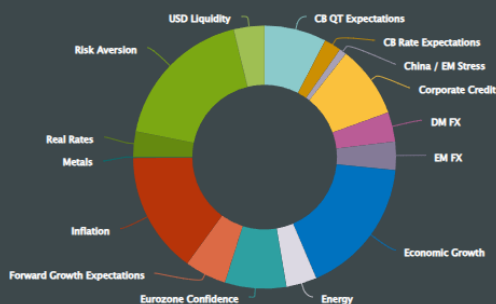
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### DRIVER GROUPS

Shows the importance of each driver group

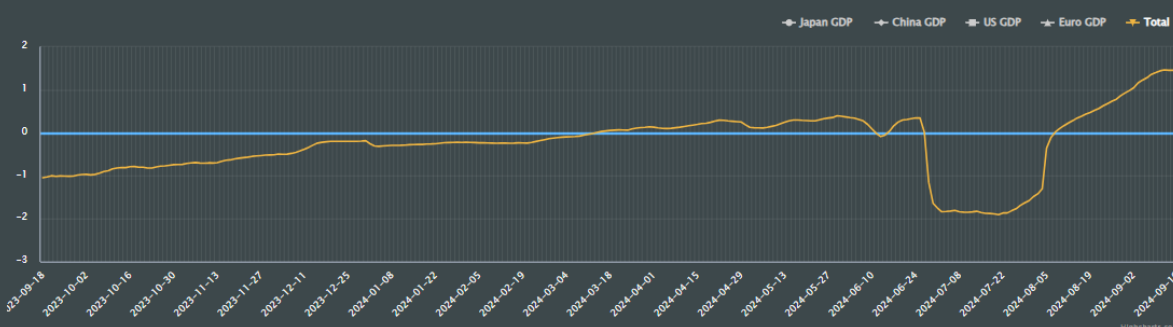


highcharts.com

### ECONOMIC GROWTH HISTORICAL SENSITIVITY

Shows the % move in the model value for a 1σ move higher in the driver

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Global GDP growth is one of the top macro drivers of the sector. Since July, that sensitivity has accelerated higher firmly into positive territory. If there is belief in a soft landing any sign of a pick up in global growth confidence, owing upside in this space make sense given how depressed sentiment is.

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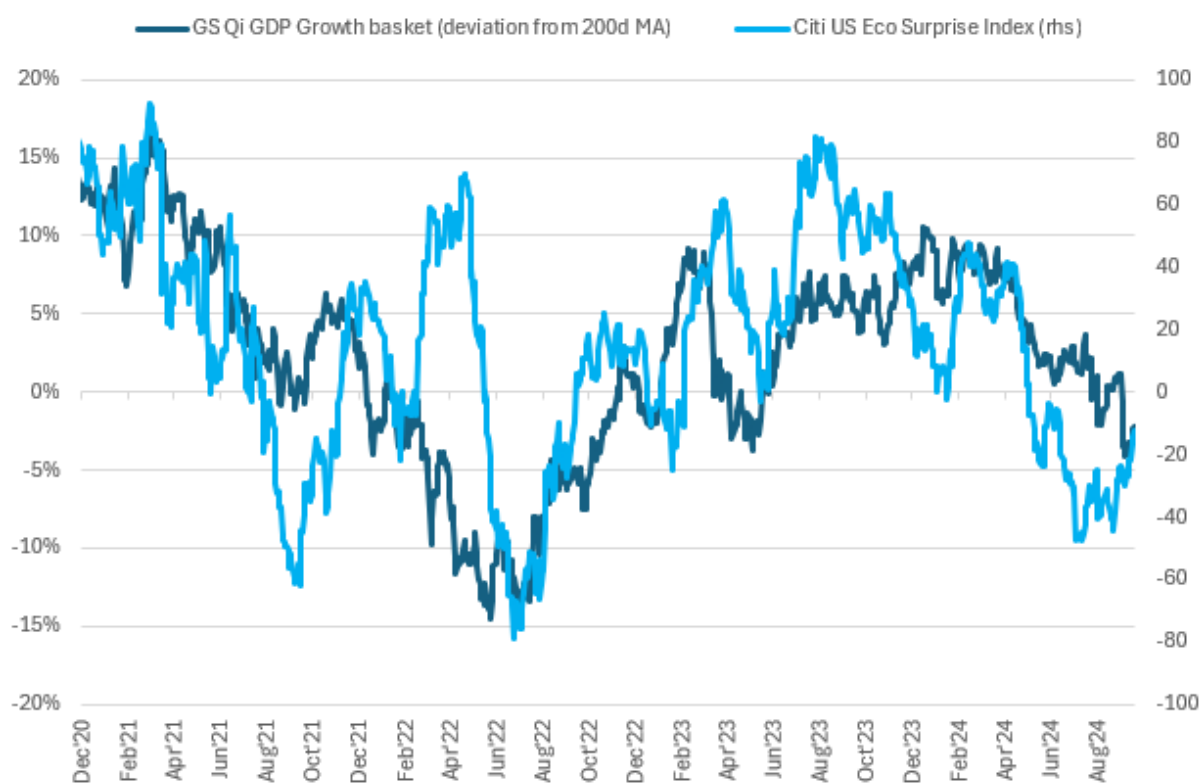
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## 2. Qi's GDP Growth Basket stabilizing alongside the Citi US Eco Surprise Index



Whatever the extent of the Fed rate cutting cycle, ultimately it is all about soft landing for the economy. The below chart shows the GS Qi long / short basket pair tracking US GDP growth. The dark blue line shows the deviation of that basket from its 200d MA i.e. the deviation from trend as measure of optimism / pessimism. Indeed, shown in this way, there is good relationship with the Citi US economic surprise index. Cyclical re-acceleration may well be a pain trade.

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Model Name ▲	ST/LT ▲	Asset Class ▲	Confidence(%) ▲	Val Gap	Val Gap (σ) ▼
<a href="#">GS US Staples</a>	LT	Baskets	90%	1.18%	0.55
<a href="#">GS US Industrials</a>	LT	Baskets	79%	1.05%	0.34
<a href="#">GS US Utilities</a>	LT	Baskets	81%	-0.06%	-0.01
<a href="#">GS US REITs</a>	LT	Baskets	88%	-0.06%	-0.01
<a href="#">GS US Health Care</a>	LT	Baskets	85%	-0.42%	-0.18
<a href="#">GS US Technology</a>	LT	Baskets	77%	-0.97%	-0.22
<a href="#">GS US Financials</a>	LT	Baskets	86%	-1.00%	-0.23
<a href="#">GS US Discretionary</a>	LT	Baskets	84%	-0.69%	-0.25
<a href="#">GS US Energy</a>	LT	Baskets	59%	-3.23%	-0.58
<a href="#">GS US Materials</a>	LT	Baskets	83%	-2.12%	-0.60

Defensives have been among the best performing sectors recently and relative to their sector peers are more expensive on Qi's macro fair value models.

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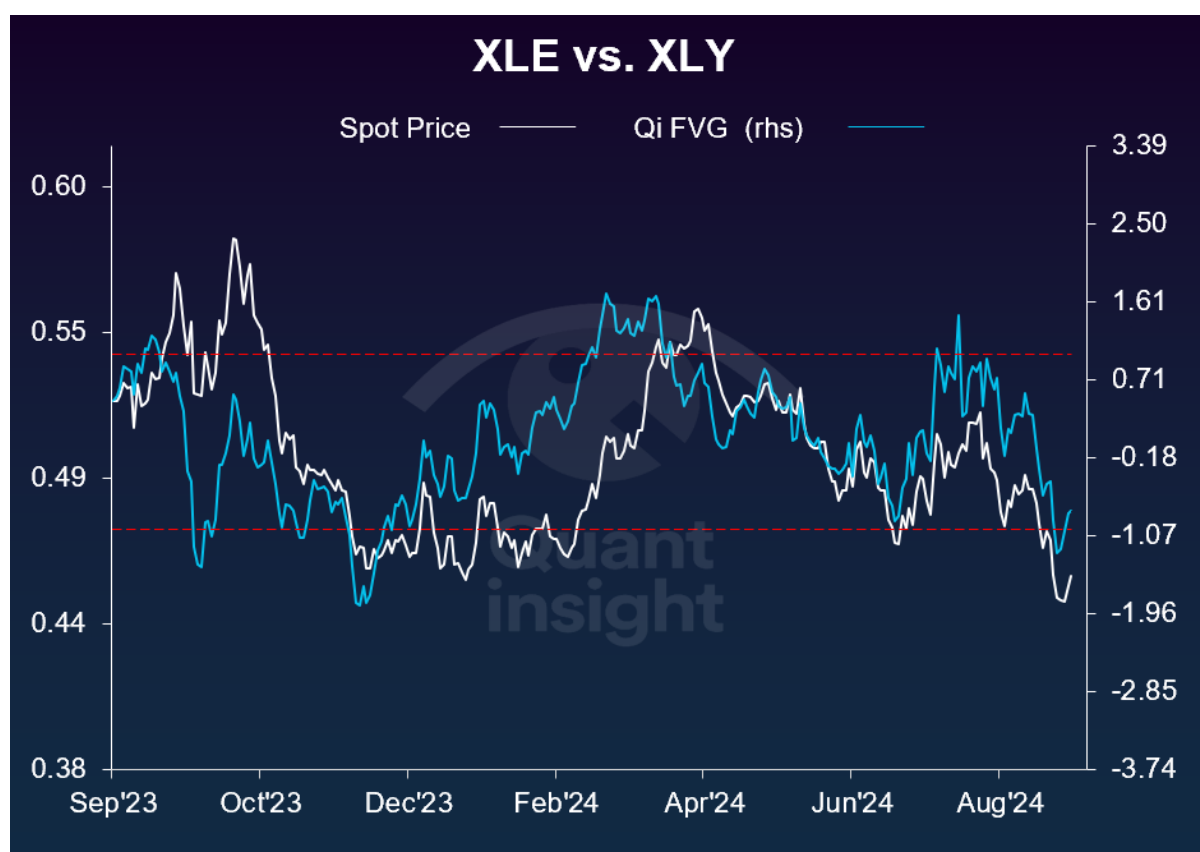
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### 3. US Rotation – Energy cheap to Consumer Discretionary

Thus far, the recent rotation trade has favoured defensives and certain cyclicals, but not all. Energy has missed out because of the drag from crude oil prices.

But now we note US Energy XLE sits as 0.8 sigma (4.6%) cheap to Consumer Discretionary. Qi’s macro-warranted model value for the RV pair has been flat-lining since mid-August. Put another way, XLE has overshot to the downside relative to *broad* macro conditions.

Over the last year extremes in Qi’s Fair Value Gap has done a good job of marking local lows and highs in the actual XLE / XLY RV pair trade. If a 50bp rate cut from the Fed helps negate recession fears, maybe its time to be looking for cheap cyclicals that have lagged.



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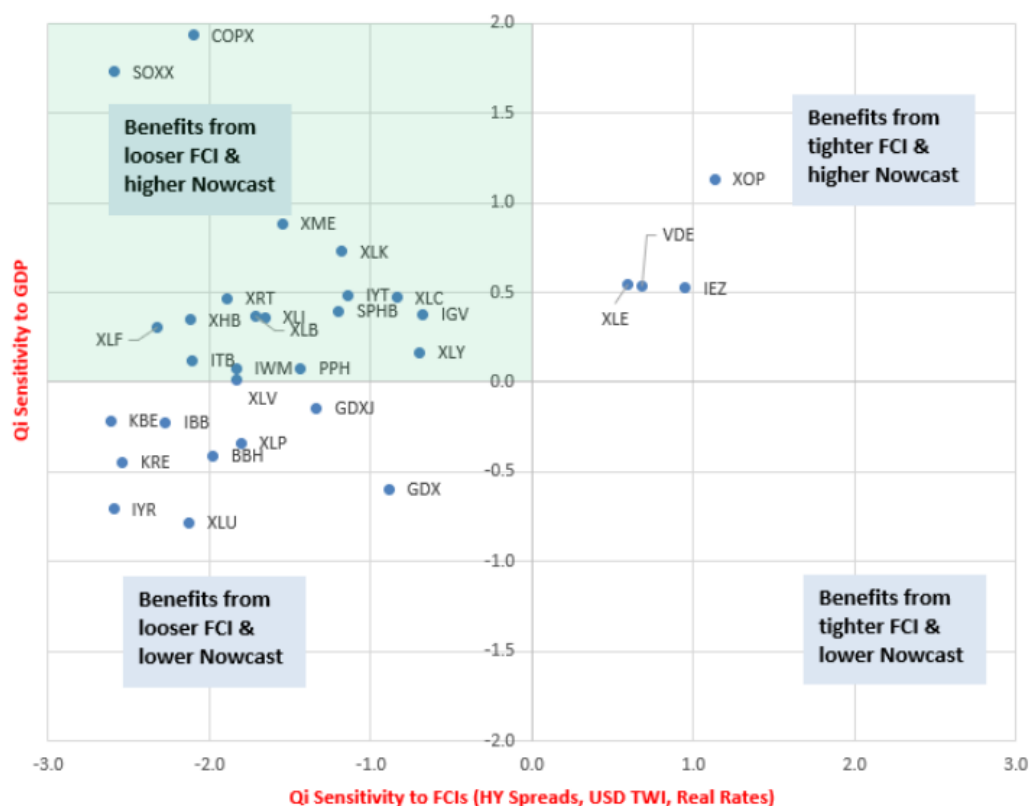
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#### 4. Tech Momentum into Year End?



Tech has been a laggard in the recent SPX rally. Positioning is now also cleaner in the space. Further, we know the strength of Q4 seasonality. SOXX is one of the cheapest sector ETFs at -1.3 sigma. The technology sector in general is a beneficiary of loose financial conditions. See the chart above highlighting the sector ETF sensitivities to FCIs (HY Credit spreads, USD TWI, real rates) vs. sensitivities to GDP. SOXX, COPX, XME, XRT, XLB, IWM, SLF, XLB are all sectors which relatively benefit from loose FCIs alongside trading below.

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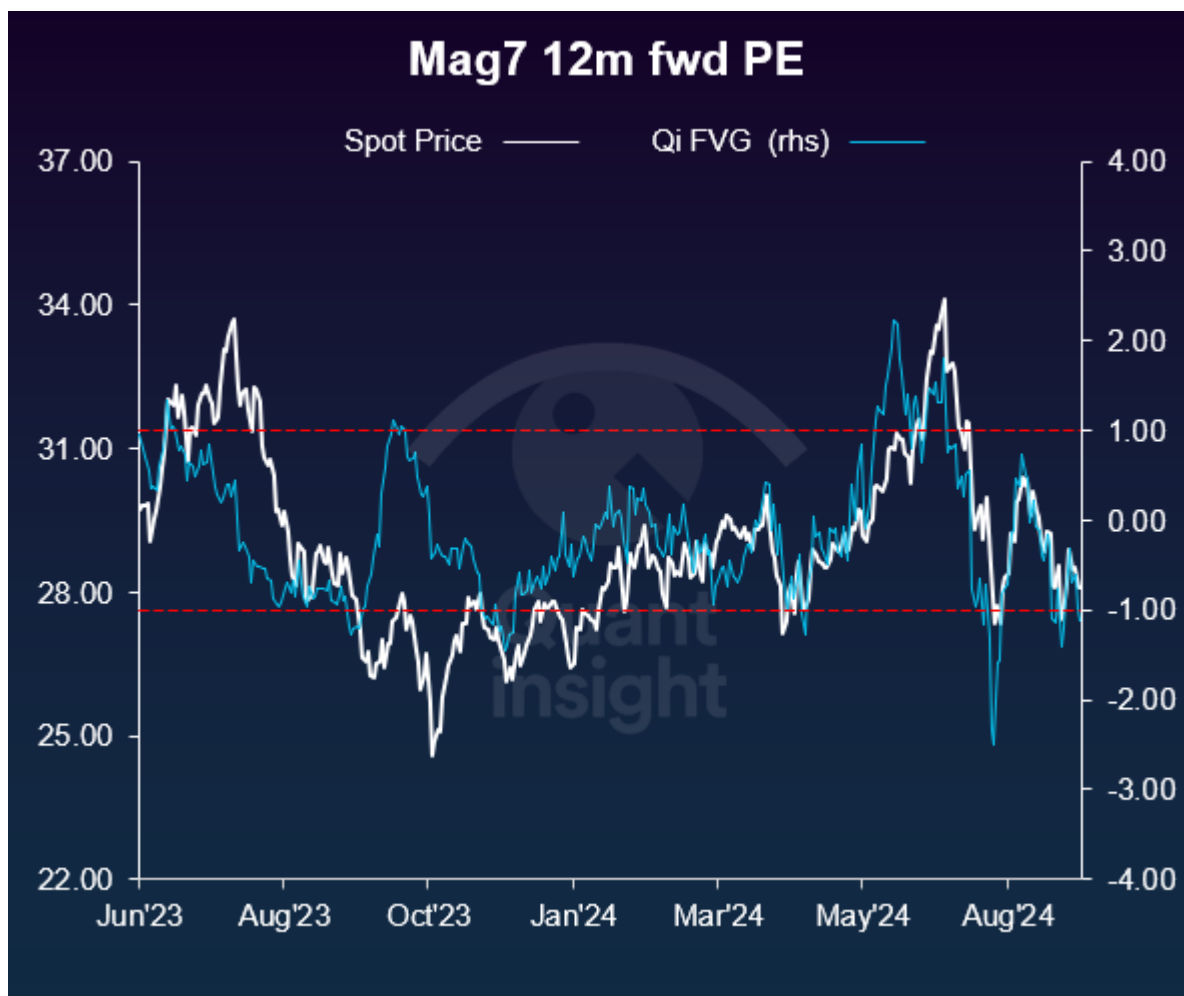
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Above we show the Mag7 12mth fwd PE vs. Qi's model FVG of the PE. On this basis, the 12mth fwd PE of the Mag7 stands ~1 sigma cheap to model value. That is close to the lower end of the valuation range of the last 1yr. A return to Mag7 leadership into year-end is a possibility if we see re-risking into YE.

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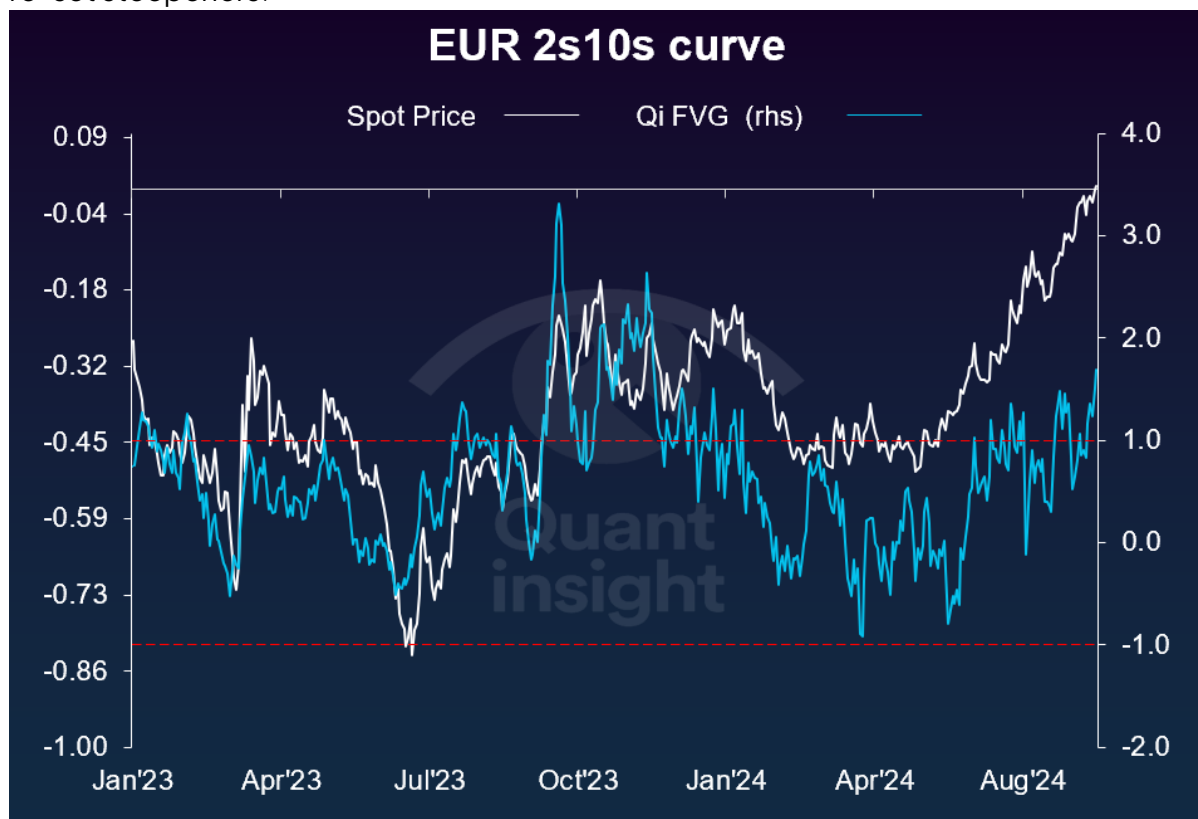
## 5. EUR yield curve – a pause in the steepening?

The European 2s10s yield curve was almost 60bp inverted as recently as May. Today it is almost back to flat.

There remain good reasons to think the risk-reward favours further curve steepening over the medium to long term. A hard landing means more rate cuts and a bull steepening; cutting when an economy is slowing but growing risks re-awakening the bond vigilantes who will bear steepen the curve.

But Qi's model which has a high (72%) and stable R-Squared is suggesting this move may have too-far-too-fast. Relative to aggregate macro conditions, the curve sits 1.6 sigma (21bp) too steep.

The chart below shows there are times when the FVG becomes even more extended – last October around the Fed pivot, the gap reached 3 sigma. Even so we're getting into thin air. Some consolidation could be healthy and offer better re-entry levels to re-set steepeners.



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