

Qi Market Spotlight: The Dollar Juggernaut – what will it break?

Thus far, equity markets have largely taken the re-pricing of Fed rate cuts in their stride. The narrative has simply shifted onto strong economic growth & healthy earnings.

That removal of rate cuts has, however, had a profound effect on the US Dollar which is back near recent highs. The path to a lower Dollar is narrow, given on the one hand US exceptionalism and divergence in Central Bank monetary policies, and / or safe haven demand given lingering uncertainty in risky assets.

If a strong Dollar is here to stay, how much of a headwind is that for equities? The perceived wisdom is it's bad news for risky assets, but that's too broad an assertion & the reality is more nuanced. The impact of the Dollar shifts over time; there will be winners & losers within equity internals. Capturing different parts of the equity market's sensitivity to the Dollar is the Qi value-add.

Our analysis sees the Dollar increasing in importance for risky assets – the negative sensitivity of the Dollar to SPY is high relative to history and high relative to the importance of other macro factors

Qi shows the indices, sectors and themes most exposed continued dollar strength:

A. **Bearish** – what does the Dollar hurt?

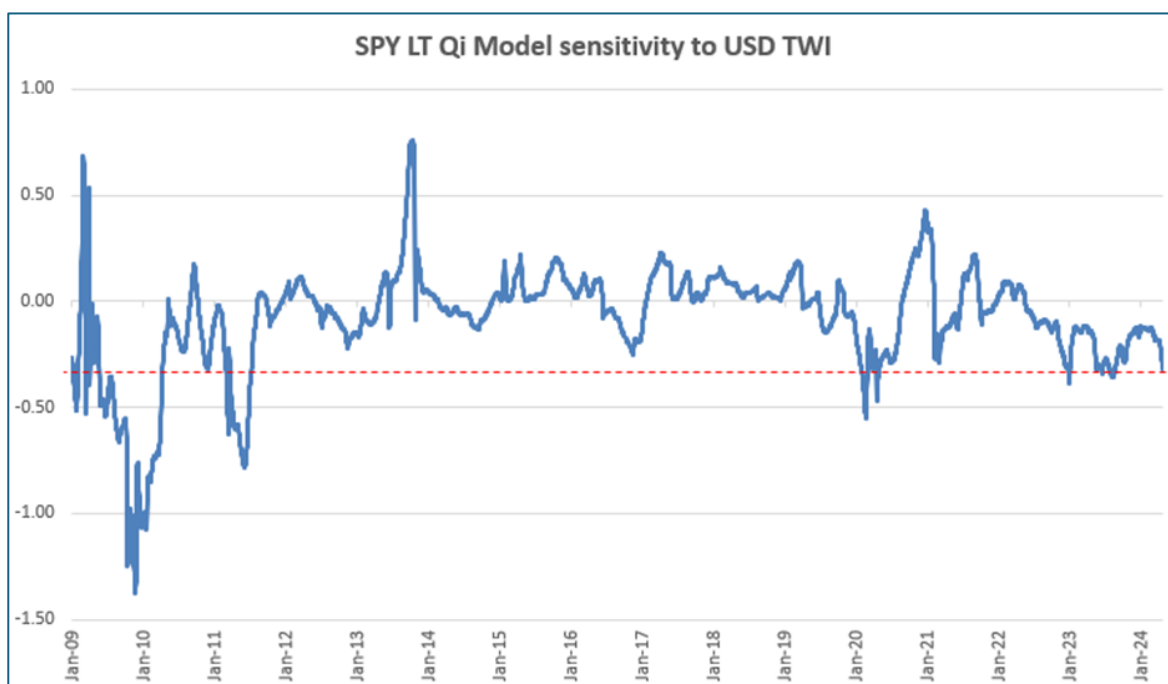
- AsiaPac & US Indices
- Tech, Biotech, Retail, Real Estate
- Growth/innovation

B. **Bullish** – what does the strong Dollar help?

- Europe indices
- Precious Metals and Commodity Equities
- Value / Growth RV

S&P500 has become more negatively sensitive to USD strength at the moment

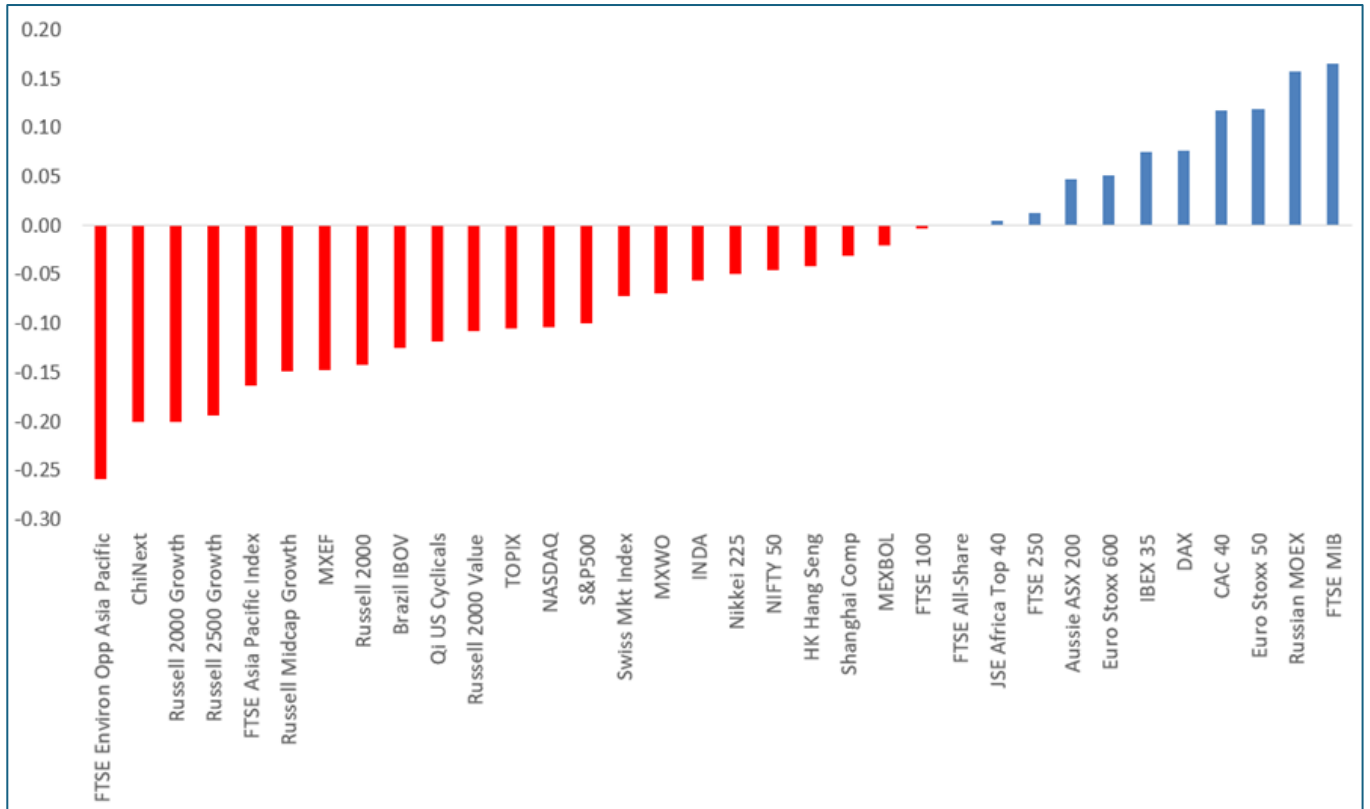
In the Qi model, a one standard deviation up move in the USD hurts the SPX by 33bps



Lets look across indices at USD exposures (we use our shorter term model to better get at these emerging relationships):

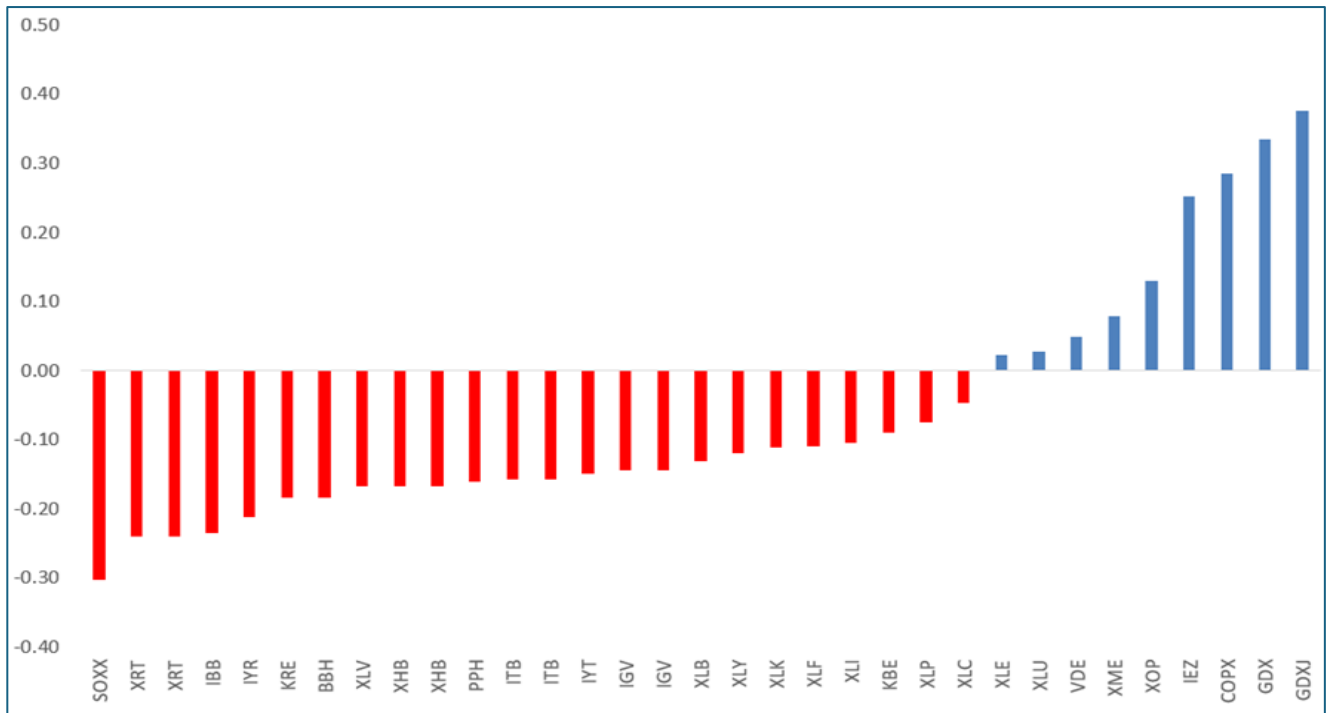
1. Indices:

- Asia-Pacific along with growth stocks in the US are the clear losers in stronger dollar scenario
- Europe is the clear winner – Italy in particular



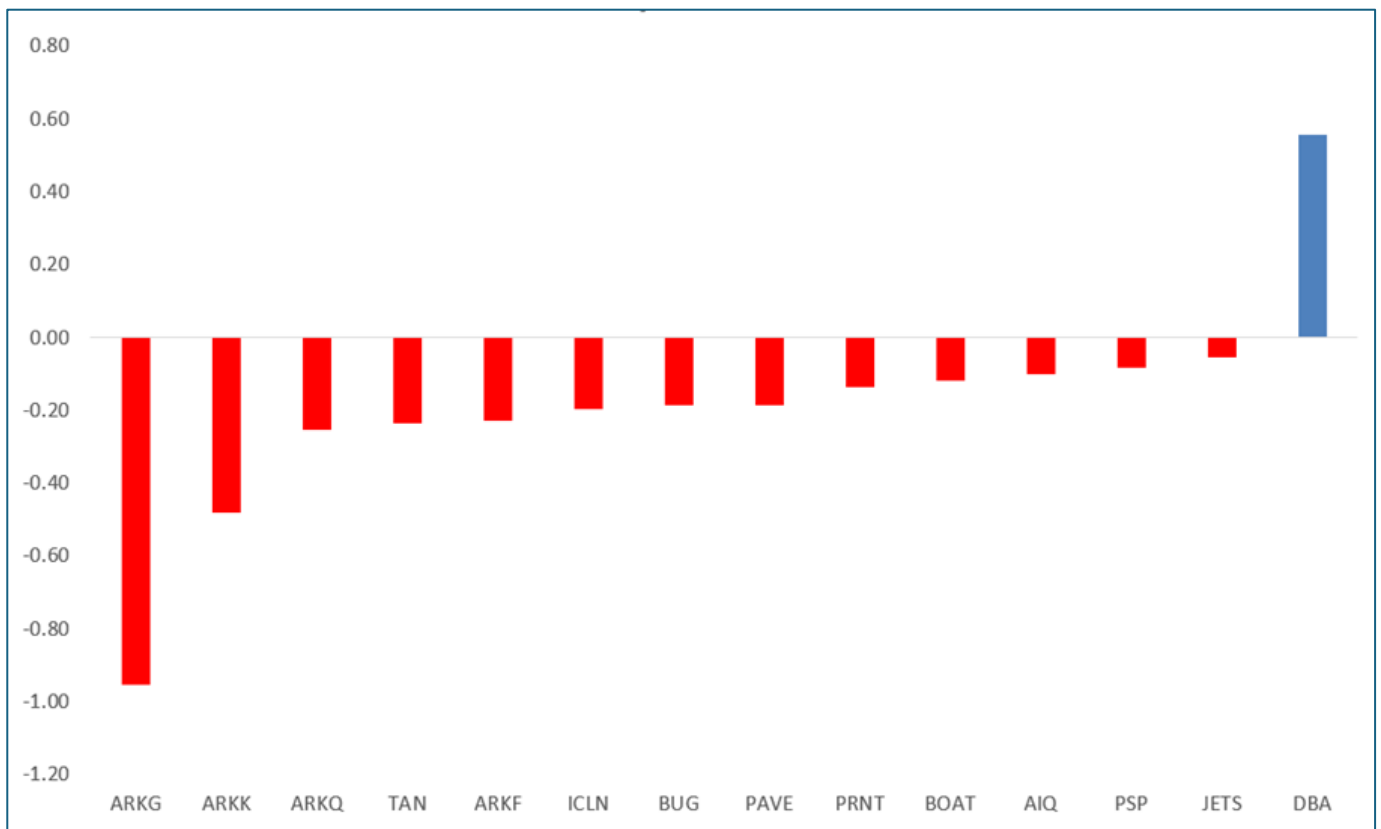
2. Sectors:

- Strength is precious metals ETFs, energy and base metals is a surprise given historically negative relationships but this reflects the recent trend of strong dollar, strong commodities
- Growth sectors such as tech and biotech, along with retail/real estate are hurt by the strong Dollar



3. Themes:

- Tech/Growth/Innovation significantly negatively impacted
- Agriculture is the stand-out winner from a strong Dollar



4. Risk Premia:

- Value over growth
- Momentum and Quality also hurt

