Qi Market Pulse: Value in Value?

Despite US bond yields moving higher ytd, the S&P500 is making fresh highs – The Qi sensitivity of the S&P500 to financial conditions is tentatively fading, as consensus GDP forecasts have marched higher

The strongest major index globally is not the Nasdaq, but the Nikkei 225 with Europe's performance almost on par with the US. In the last month, the CSI 300 has rallied almost 10%. IF this is a sign of a better global growth backdrop, will broadening market breadth come with a Value tilt?

Where does Qi find a Value tilt? Despite the S&P500 at new highs, cyclicals relative to defensives are not screening as macro-rich in this backdrop. At the sector level, Healthcare, Utilities and Staples all trades as rich to macro warranted fair value. However, Banks and Energy trade at a discount.

Value vs. Growth itself is trading at a particularly large discount: Value trades 2 standard deviations cheap to Growth within the S&P500

At the global level, the Nikkei and Euro Stoxx 50 are now trading rich to their Qi model fair value, but model price momentum has been strong. It is Brazil's Ibovespa which screens as the cheapest index globally today

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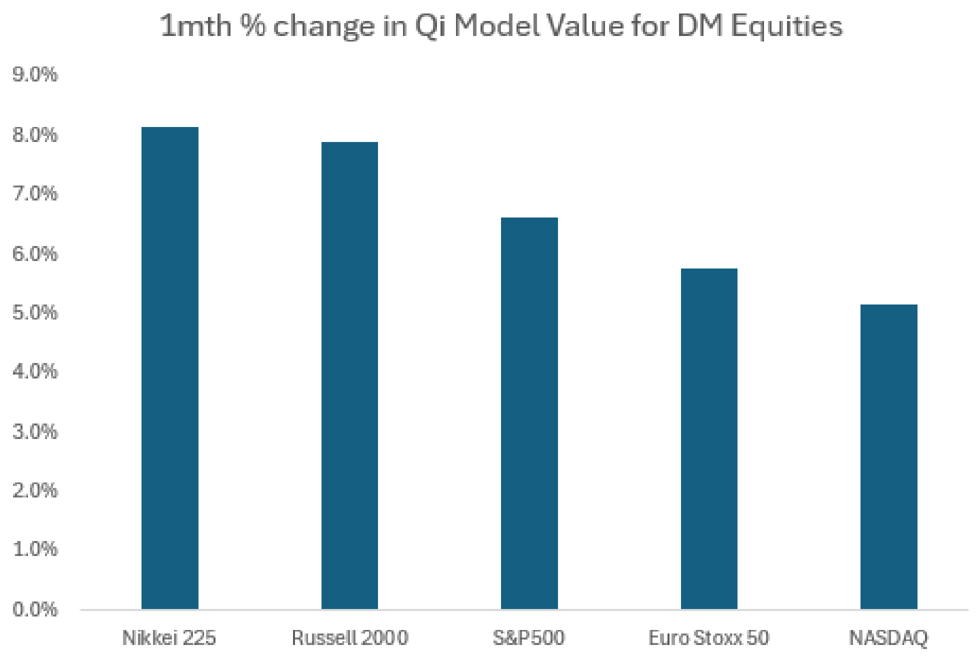
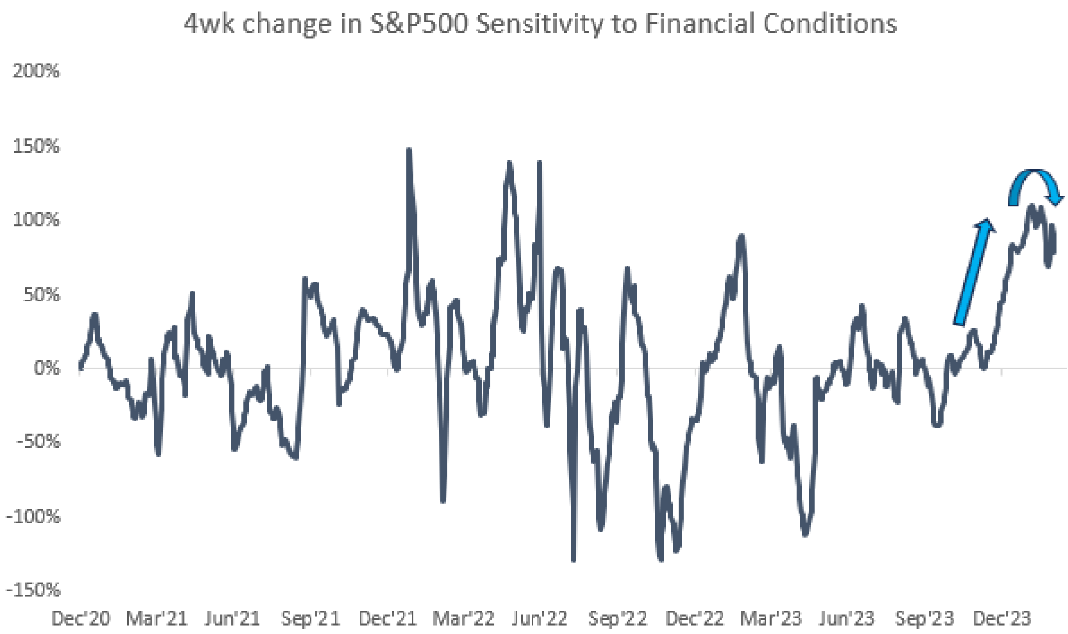
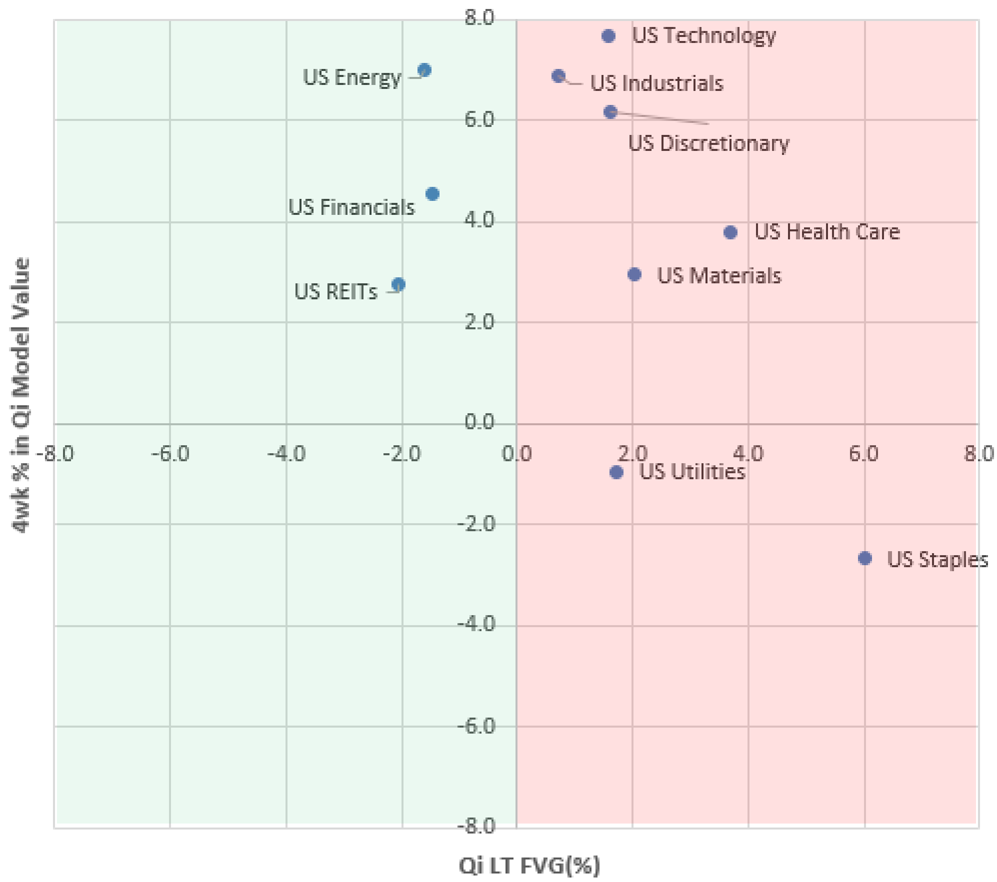
- **A value tilt is emerging at the global index level:** Equities have benefited from a backdrop of firm growth – reflected in the fact that as bond yields have moved higher so has the S&P500 ytd. This is true even if we exclude the Mag 7. It is notable that particularly over the last month, global growth optimism has risen. The best global indices over the last month in order are the CSI 300, Nikkei, Euro Stoxx 50, Nasdaq and then S&P500. Below we show the 4wk % change in the Qi model price across the major DM indices – the point is that this is not being led by the Nasdaq.



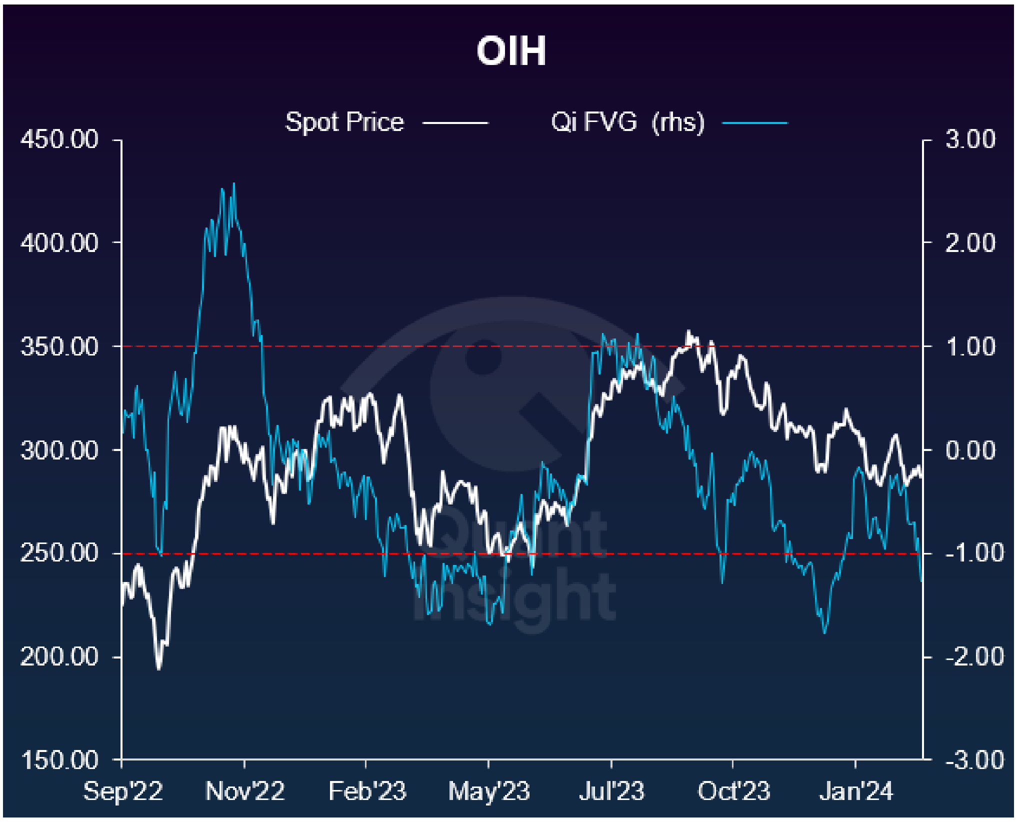
- **S&P500 sensitivity to financial conditions is fading:** From Qi's perspective, model price momentum for the index has remained strong. Secondly, the sensitivity of the S&P500 to financial conditions is tentatively fading, as economic data surprises and consensus GDP forecasts have marched higher. Below, we show the 4wk change in S&P500 financial condition sensitivity i.e. the beta impulse, rolling over during the last month.



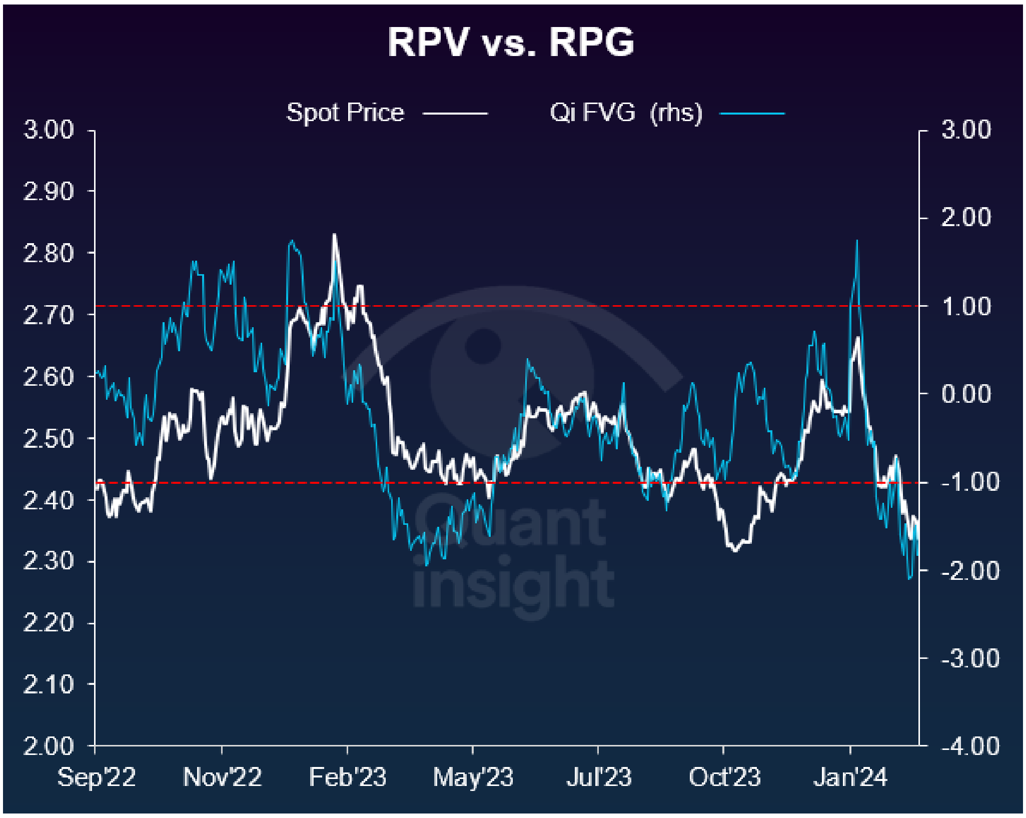
- **Despite the overall market at highs, there is more value in select cyclicals than defensives:** Among the more expensive sectors in the S&P500, relative to their Qi macro-warranted model, are Staples, Utilities and Healthcare. Staples and Utilities have also seen their Qi model value move lower over the last month. See the quadrant chart below where we compare the Qi FVG across the US sectors to model price momentum over the last month.



- **Staples, Utilities, Healthcare screen macro-rich, but Energy and Banks screen macro-cheap:** Under the hood, Qi is saying that defensive sectors are expensive but there is emerging value in the value-orientated sectors of Energy and Banks. Within Energy, we show the FVG vs. spot price of OIH (Oil Services) below, trading at -1 sigma. Regional banks have been treading water of late relative to the broader market. We have persistently highlighted the regional banks as the MOST SENSITIVE to inflation expectations. Perhaps better to wait for the next CPI release, but if we get calmer prints it is perhaps THE biggest beneficiary



- **The Value style itself is trading at a particularly large discount to growth:** Perhaps this is not surprising given the excitement and expected earnings growth from AI beneficiaries / tech. However, the Invesco S&P500 Pure Value ETF is trading at -2.1. sigma relative to the Invesco Pure Growth ETF. This discount is particularly large relative to recent history. The point is this, if you believe in better global cyclical news, more breadth beyond the mega-cap techs will more likely be seen in the value space.


RPV vs. RPG
Spot Price
Qi FVG (rhs)
3.00
2.90
2.80
2.70
2.60
2.50
2.40
2.30
2.20
2.10
2.00
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
Sep'22
Nov'22
Feb'23
May'23
Jul'23
Oct'23
Jan'24

- **At the global level, where is there value? Brazil:** The IBOV screens as 1-sigma cheap to Qi macro-warranted value. While, EWZ vs. EEM screens at -1.4 sigma. Major drivers of the IBOV are higher commodity prices, higher inflation expectations, a stronger dollar and strength in global GDP. Both outright and RV vs. EEM look like interesting entry levels given the relationship between Qi fair value gap and the spot price in recent years.