

MacroSpotlight



In-depth coverage on specific assets, markets, or thematic topics. Explore trends, challenges, and opportunities via the Qi perspective

ITB through the lens of the Qi Macro Factor Equity Risk Model (MFERM)

Qi Sector Spotlight: ITB through the lens of Qi's Macro Factor Equity Risk Model (MFERM)

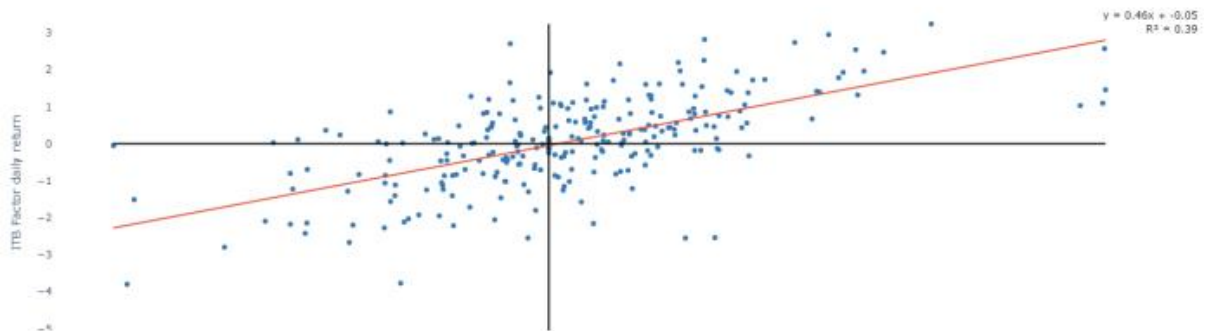
Homebuilders have delivered among the strongest returns over the last year of any US industry. Qi's MFERM reveals the macro anatomy of the ITB Home Construction ETF and concludes the macro backdrop has now become a drag to performance. At the heart is whether FCIs have now seen their floor – thus far, ITB has been a beneficiary of a weaker dollar, lower real rates, tighter HY corporate credit and bull-curve steepening.

1. **If FCIs have seen their floor ITB is at risk of rolling over.** Over the last 1yr, the ITB Home Construction ETF has delivered a 61% return – among the best across all US industry groups.



- Macro matters for ITB** – There is 62% correlation (39% RSq) between daily ITB returns and macro factor driven daily returns over the last year.

ITB Actual daily return vs. ITB Factor daily return - 2023-10-06 to 2024-10-07



- Over the last week, the drag from macro factors has been particularly large.** Qi's MFERM model dissects the return of ITB into its macro factor & idiosyncratic / specific return components. Note the recent divergence between the spot return and factor return in the chart below.

ITB: Return Attribution (%) - 2024-01-01 to 2024-10-07



ITB: Return Attribution (%) - Multiperiod Table

	1w	1m	3m	6m
Factor	-5.11	-0.29	-1.79	11.14
Specific	2.55	5.64	15.67	9.77
Total	-2.56	5.36	13.88	20.91

4. **Where does this recent factor drag stem from? FCIs.** USD TWI, forward growth expectations (5s30s), rates, HY corporate credit and CB QT expectations have all been drags for ITB over the last week.

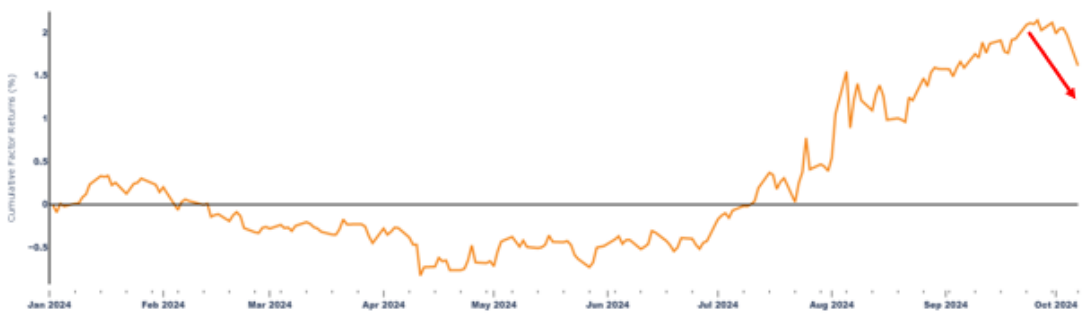
	1w
CB QT Expectations	-0.39
CB Rate Expectations	0.16
Corporate Credit	-0.54
DM FX	-2.36
Economic Growth	-0.08
Energy	-0.13
Forward Growth Expectations	-0.49
Inflation	0.06
Metals	-0.06
Real Rates	-0.12
Risk Aversion	-0.64
10Y Yield	-0.41
Total Factor	-5.11

5. **From propellers to drags:** Indeed, for rates, 5s30s and USD TWI the factor returns have switched from propellers to drags over the last 1mth

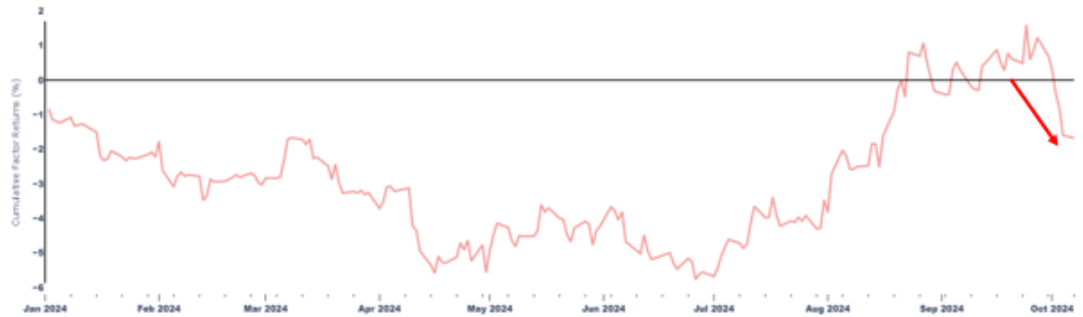
ITB: 10Y Yield Return Attribution - 2024-01-01 to 2024-10-07



ITB: Forward Growth Expectations Return Attribution - 2024-01-01 to 2024-10-07

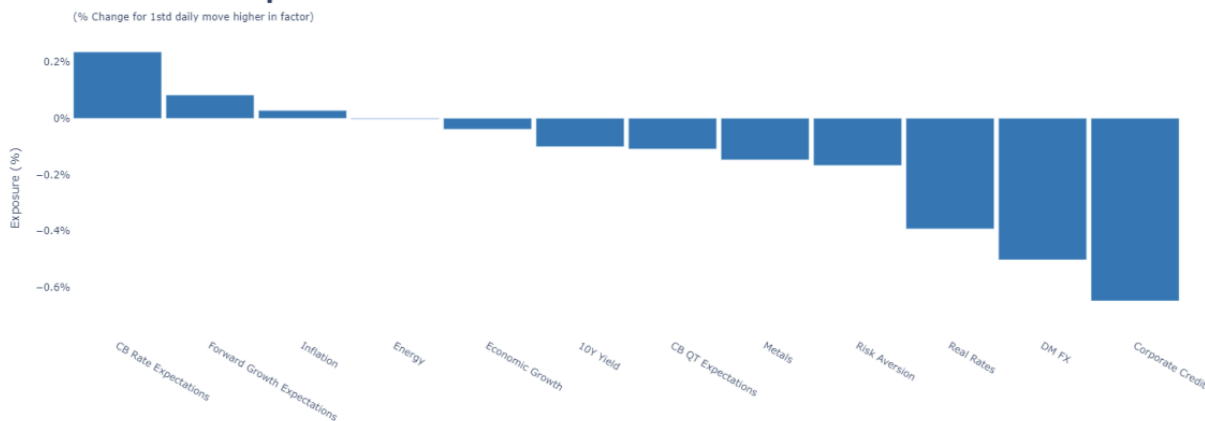


ITB: DM FX Return Attribution - 2024-01-01 to 2024-10-07



6. **So what is ITB most exposed to today?** HY Credit, the dollar, real rates and it would prefer bull curve steepening.

ITB: Factor Exposures - 2024-10-07



7. **Across industry groups ITB is among the most sensitive to real rates, DM FX and corporate credit:** Notable, as wait for inflation numbers this week - a beat would be troublesome.

ITB: Factor Exposures - Sectors Comparison - 2024-10-07

(% Change for 1std daily move higher in factor)

	CB QT Expectations	CB Rate Expectations	Corporate Credit	DM FX	Economic Growth	Energy	Forward Growth Expectations	Inflation	Metals	Real Rates	Risk Aversion	10Y Yield
ITB	-0.109	0.235	-0.648	-0.502	-0.039	-0.002	0.082	0.028	-0.147	-0.392	-0.167	-0.1
XLI	0.012	0.101	-0.427	-0.165	-0.048	0.039	0.043	0.01	-0.077	0.04	-0.227	-0.09
XLB	-0.032	0.076	-0.321	-0.246	-0.066	0.003	0.045	0.078	0.157	-0.046	-0.145	-0.104
XLV	0.1	0.101	-0.515	-0.185	-0.133	-0.051	0.063	-0.058	0.064	0.03	-0.362	-0.121
XLE	-0.051	0.066	-0.13	-0.12	0.132	0.57	0.052	0.106	0.039	0.069	-0.117	-0.055
XLF	-0.037	0.004	-0.333	-0.098	0.072	-0.02	0.055	0.047	-0.027	0.054	-0.231	-0.028
IYR	-0.14	0.002	-0.258	-0.332	-0.051	-0.101	0.102	0.087	-0.104	-0.305	-0.172	-0.079
XLC	0.049	0.074	-0.43	-0.031	0.043	-0.043	-0.064	-0.057	0.015	-0.015	-0.251	-0.087
XLK	0.3	0.07	-0.638	-0.033	-0.078	0.086	0.046	-0.203	0.049	0.075	-0.513	-0.081
XLV	-0.005	-0.01	-0.138	-0.092	-0.068	-0.107	0.005	0.039	-0.056	-0.082	-0.159	-0.017
XLP	-0.104	-0.026	-0.076	-0.102	-0.088	-0.09	-0.008	-0.01	-0.045	-0.037	-0.099	-0.033
XLU	-0.241	0.094	-0.093	-0.192	0.006	-0.065	0.055	0.041	-0.054	-0.234	-0.082	0.02

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