

## Qi Stock Spotlight: Is the porridge too hot? Screening Inflation Sensitivities

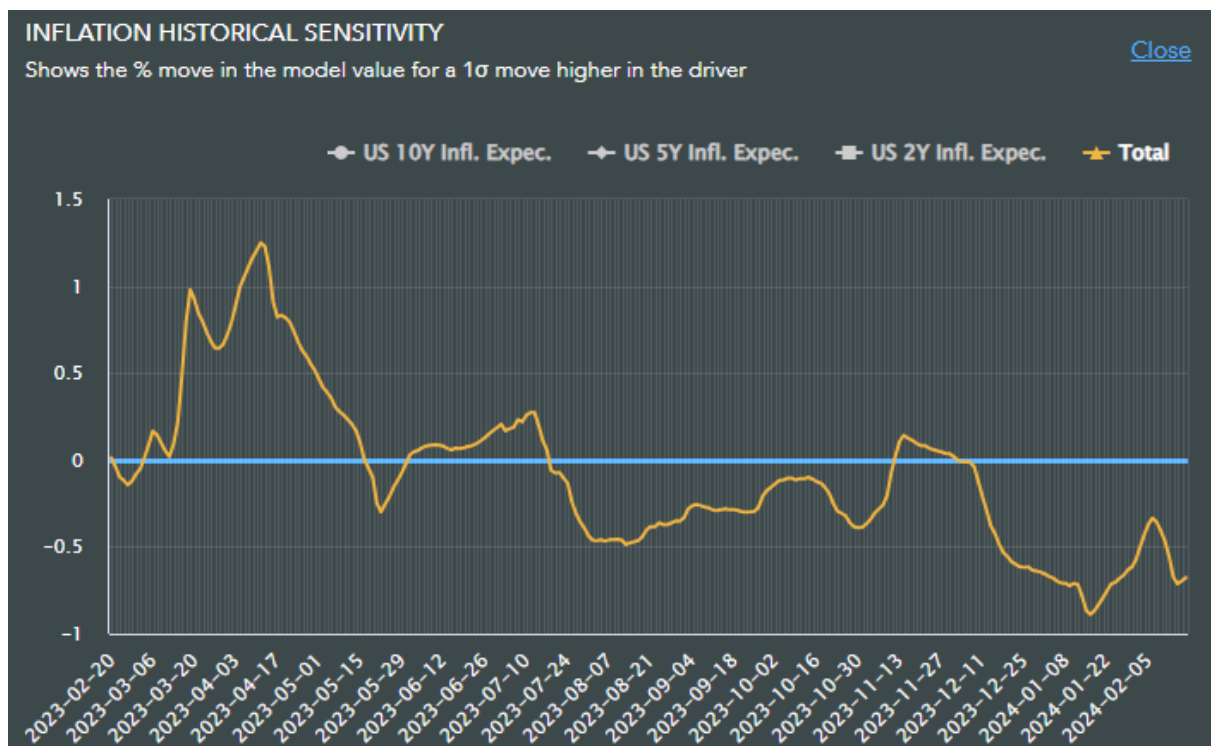
Following the hotter than expected January CPI report and the cyclical upturn we have seen in global manufacturing (global PMI back at 50), are we reaching an inflection point in the disinflation narrative?

If we are in a market regime where there will remain a structural concern on inflation, the positive correlation between equities and bond prices will be hard to shake off.

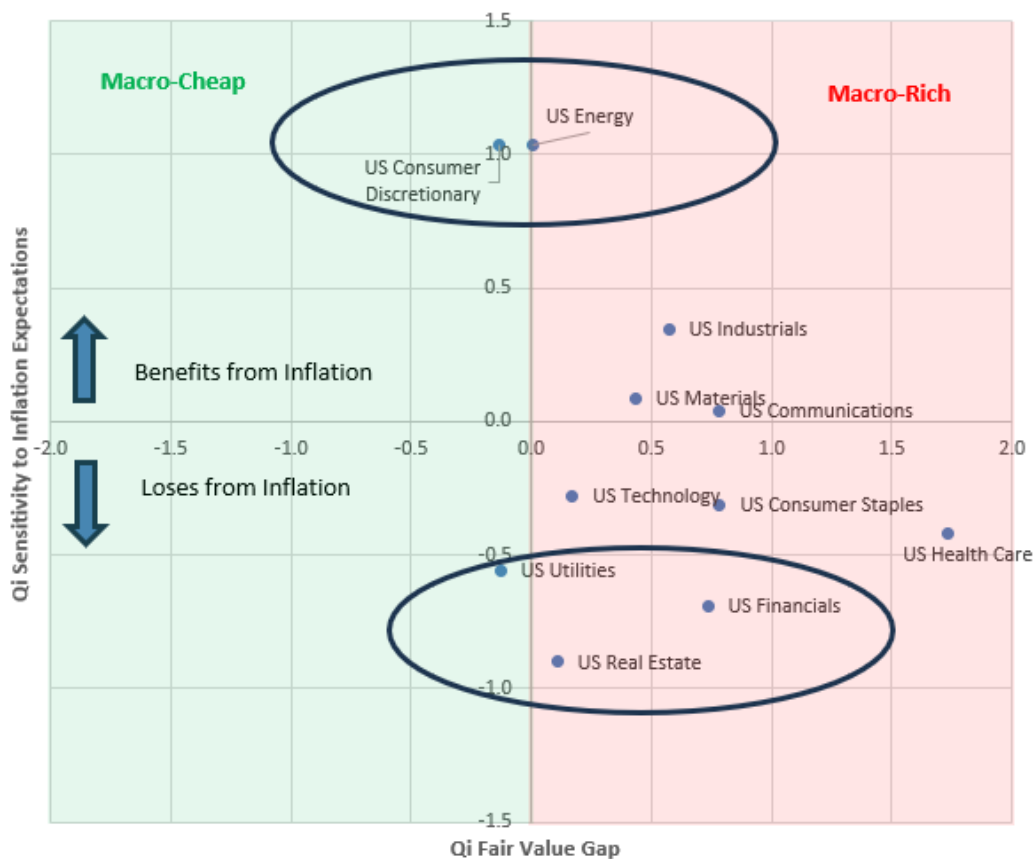
Using Qi's analytics, relative beneficiaries from inflation re-acceleration are dominated by Energy; relative losers are dominated by Financials and Real Estate.

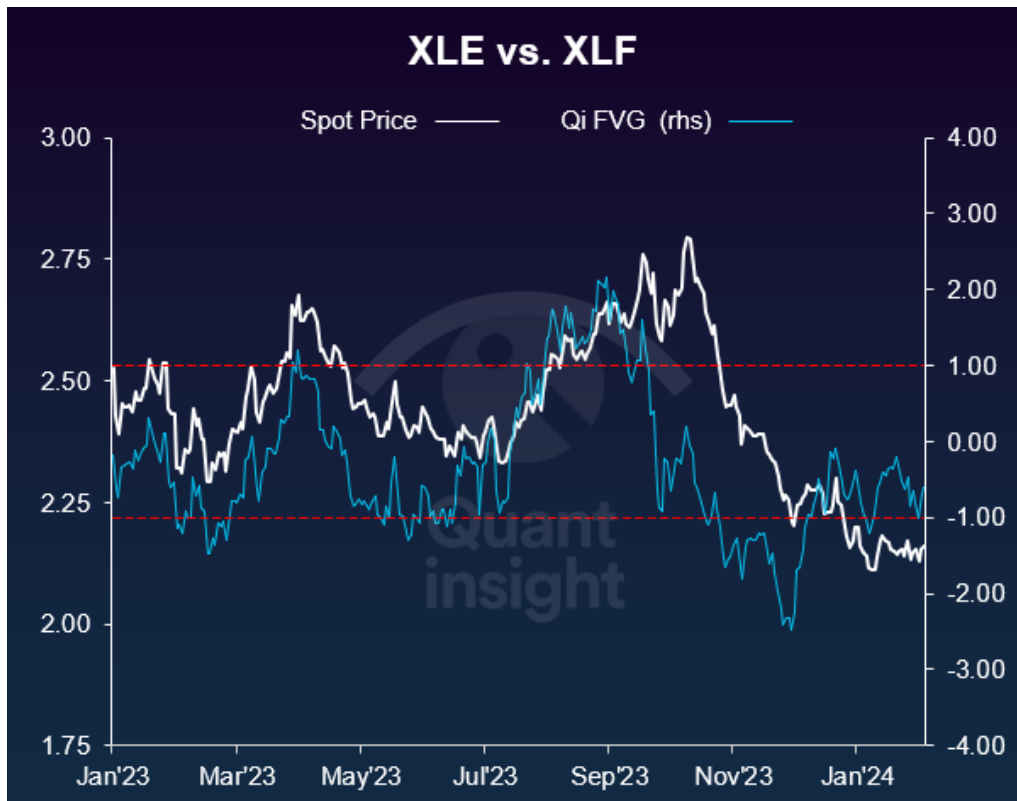
Screening with Qi, the relative performance of the 20 biggest inflation winners vs. 20 biggest losers peaked in Oct-23, and have since underperformed by 27%. The former group also stands at an average Qi fair value gap of -0.7 sigma. The latter at +0.6 sigma.

- **Recent data has raised concerns on whether the battle against inflation has truly been won:** It is now the second straight month that core and headline CPI has come in hotter than expected. January core services less shelter inflation saw the biggest MoM jump since September 2022; ISM Services Prices Paid has jumped to 64; and NFIB small business survey on compensation plans remains elevated. When the global manufacturing PMI is back at 50, alongside easing financial conditions, together these portend the possibility that inflation may be finding a base.
- **Today, the average S&P500 stock has a negative sensitivity to long term inflation expectations** – no surprise, given that the disinflation narrative and financial conditions have been at the heart of the “everything” rally over the last 4mths. Below, we show the SPY Qi sensitivity to US inflation expectations (% change for a 1 standard deviation move higher in the macro driver) – still firmly negative.



- **The positive correlation between equities and bonds will be a hard one to shake off.** While we have NVDA earnings ahead of us and there is medium term excitement on the productivity gains AI could bring, today Qi suggests we are still in a market regime where there is a structural concern on inflation
- **Qi shows the biggest winners from higher inflation are dominated by Energy; the biggest losers Real Estate, Financials, Utilities.** See the first chart below where we compare the sensitivity to inflation expectations to the Qi fair value gap (sigma deviation between spot and model price) for the GICs Level 1 sectors. Aside from noting the relative winners from inflation, we also note that today most sectors are trading macro-rich. The second chart show the Qi FVG for the RV pair XLE vs. XLF, overlaid with the spot price. The XLE / XLF pair is not yet especially cheap but one to keep on the radar. Bear in mind, across the major sectors it is Financials which have seen the largest PE expansion from the October market lows i.e. they have been one of the biggest beneficiaries from the disinflation narrative





- Extending this to the stock level, the relative performance of the 20 biggest inflation winners vs. 20 biggest losers has been stabilizing over the last month, after a steep correction:** We showcase the Qi screen below – identifying those S&P 500 stocks with the largest positive and negative sensitivities, respectively. The chart shows the equal-weighted performance of those names. The winners have underperformed the losers by 27% from their peak. What makes all this more interesting is that inflation winners are 0.6 standard deviations cheap to Qi's macro model while losers are 0.7 standard deviations expensive. There is an expected edge on both sides if inflation keeps nudging higher.

What if Inflation Accelerates? Beneficiaries			
Ticker	Name	Industry Group	Qi FVG (sigma)
APA UN Equity	APA CORP	Energy	-0.88
BKR UN Equity	BAKER HUGHES CO	Energy	-2.22
BDX UN Equity	BECTON DICKINSON AND CO	Health Care Equipment & Svcs	-0.75
KMX UN Equity	CARMAX INC	Consumer Discretionary Distrib	-0.88
CHTR UN Equity	CHARTER COMMUNICATIONS INC-A	Media & Entertainment	-2.68
COP UN Equity	CONOCOPHILLIPS	Energy	-0.78
CTRA UN Equity	COTERRA ENERGY INC	Energy	-1.34
FANG UN Equity	DIAMONDBACK ENERGY INC	Energy	1.57
EQT UN Equity	EQT CORP	Energy	-2.05
HAL UN Equity	HALLIBURTON CO	Energy	-0.82
HAS US Equity	HASBRO INC	Consumer Durables & Apparel	-0.63
MRO US Equity	MARATHON OIL CORP	Energy	-0.62
OXY UN Equity	OCCIDENTAL PETROLEUM CORP	Energy	0.35
ORCL US Equity	ORACLE CORP	Software & Services	-0.75
PSX UN Equity	PHILLIPS 66	Energy	-0.03
PXD UN Equity	PIONEER NATURAL RESOURCES CO	Energy	-0.09
SLB UN Equity	SCHLUMBERGER LTD	Energy	-1.26
SHW UN Equity	SHERWIN-WILLIAMS CO/THE	Materials	-0.41
TRGP US Equity	TARGA RESOURCES CORP	Energy	0.90
WMB UN Equity	WILLIAMS COS INC	Energy	-0.97

What if Inflation Accelerates? Losers			
Ticker	Name	Industry Group	Qi FVG (sigma)
AES UN Equity	AES CORP	Utilities	0.29
ALL UN Equity	ALLSTATE CORP	Insurance	0.97
AMT UN Equity	AMERICAN TOWER CORP	Equity Real Estate Investment	-0.36
BK UN Equity	BANK OF NEW YORK MELLON CORP	Financial Services	0.32
CPB UN Equity	CAMPBELL SOUP CO	Food, Beverage & Tobacco	0.54
C UN Equity	CITIGROUP INC	Banks	1.06
CFG UN Equity	CITIZENS FINANCIAL GROUP	Banks	0.46
CCI UN Equity	CROWN CASTLE INC	Equity Real Estate Investment	0.83
EXR UN Equity	EXTRA SPACE STORAGE INC	Equity Real Estate Investment	0.68
FITB UN Equity	FIFTH THIRD BANCORP	Banks	0.20
HIG UN Equity	HARTFORD FINANCIAL SVCS GRP	Insurance	1.18
DXCM UN Equity	HOST HOTELS & RESORTS INC	Equity Real Estate Investment	-0.05
SJM UN Equity	JM SMUCKER CO/THE	Food, Beverage & Tobacco	0.59
KEY UN Equity	KEYCORP	Banks	0.42
PNC UN Equity	PNC FINANCIAL SERVICES GROUP	Banks	0.25
SBAC UN Equity	SBA COMMUNICATIONS CORP	Equity Real Estate Investment	-1.01
TRV UN Equity	TRAVELERS COS INC/THE	Insurance	1.66
TFC UN Equity	TRUIST FINANCIAL CORP	Banks	0.56
WTW UN Equity	WILLIS TOWERS WATSON PLC	Insurance	2.24
WRB UN Equity	WR BERKLEY CORP	Insurance	1.07

## What if the porridge is too hot? Relative performance of Inflation Beneficiaries

