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Qi Stock Spotlight
- will Q4 earnings season support animal spirts?

Qi's models suggest a Q4 earnings season that is more likely to penalise misses than reward beats

No surprise that the overwhelming majority of S&P500 Industry Groups would benefit from a macro backdrop of improving growth expectations alongside disinflation. The most exposed from our screen are Autos, Semis, Biotech, Banks, Consumer Services & Software

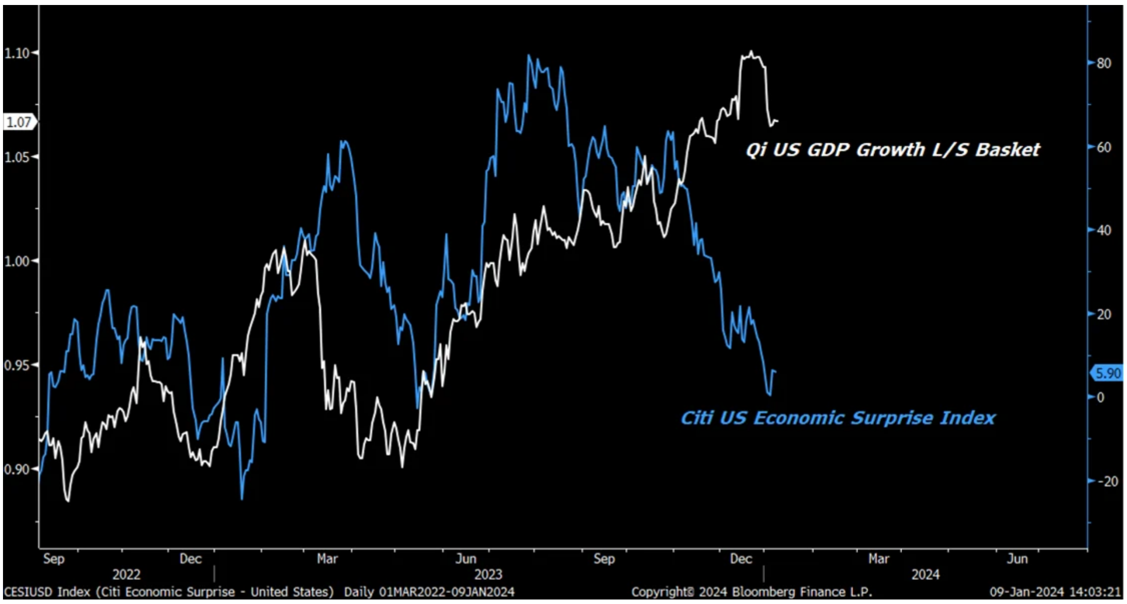
However, we show that into this season, the average stock is trading rich to its Qi macro-warranted valuation across the majority of these industry groups

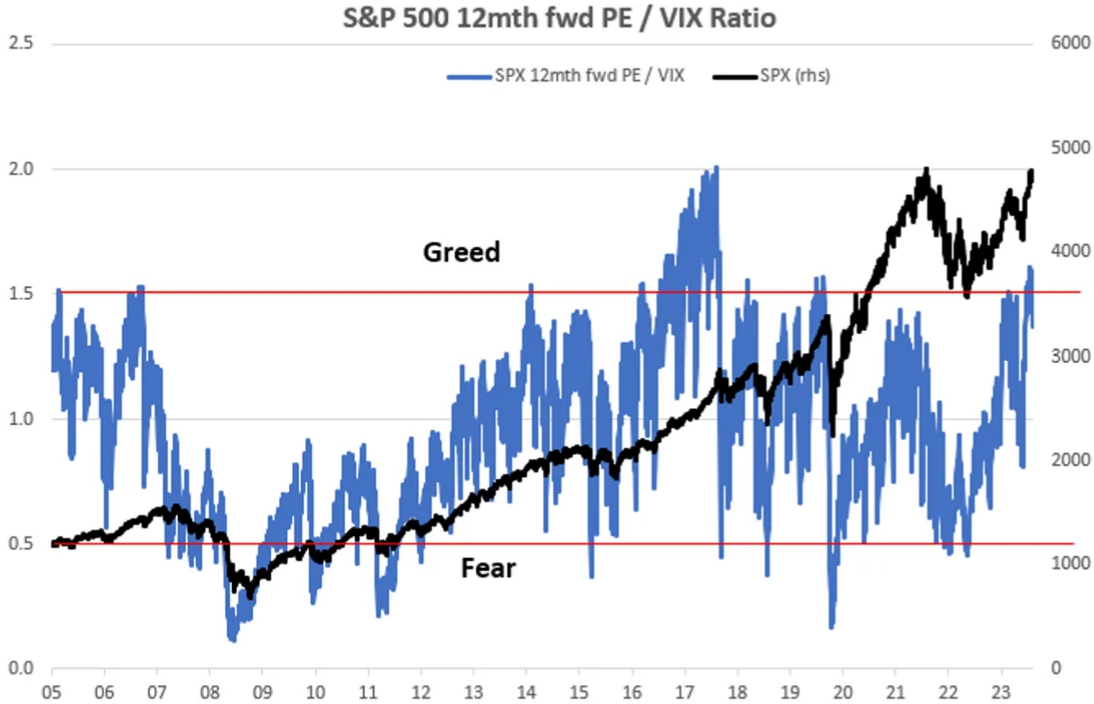
Mapping Qi's fair value gaps (FVG) vs. exposure to the growth / inflation trade-off, Banks, Transportation and Biotech would seem the most vulnerable on an earnings misstep and Software the least

We apply this framework to make distinctions at the stock level - names that have above average exposure to Goldilocks but are most extended on Qi's FVG – RF, DFS, PSA, TMO, LUV, CMA, C, CFG; names that have above average exposure but cheapest on Qi's FVG – UBER, PCAR, PTC, AMAT, FFIV, RHI, INTU, ACN

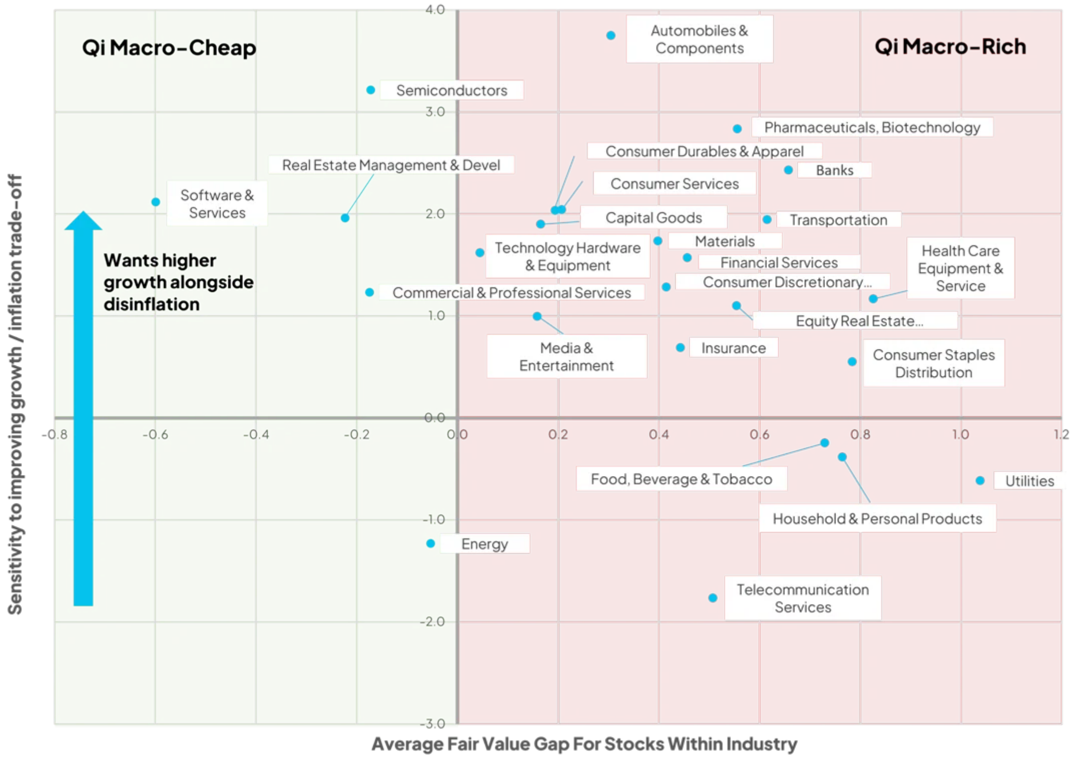
If recent history is any guide, there remains a worrying gap between risky asset expectations and growth expectations – see the charts below showing Qi's US GDP Growth L / S Basket vs. the Citi US Economic Surprise Index and ISM New Orders Less Inventories.

Financial conditions explain almost all of the increase in stock prices with equity valuations expanding by almost 15% over the past 2mths. Indeed, Qi shows outsized risky asset sensitivity to financial conditions. Needless to say, expectations on the growth / inflation trade-off remains high, represented in the third chart.





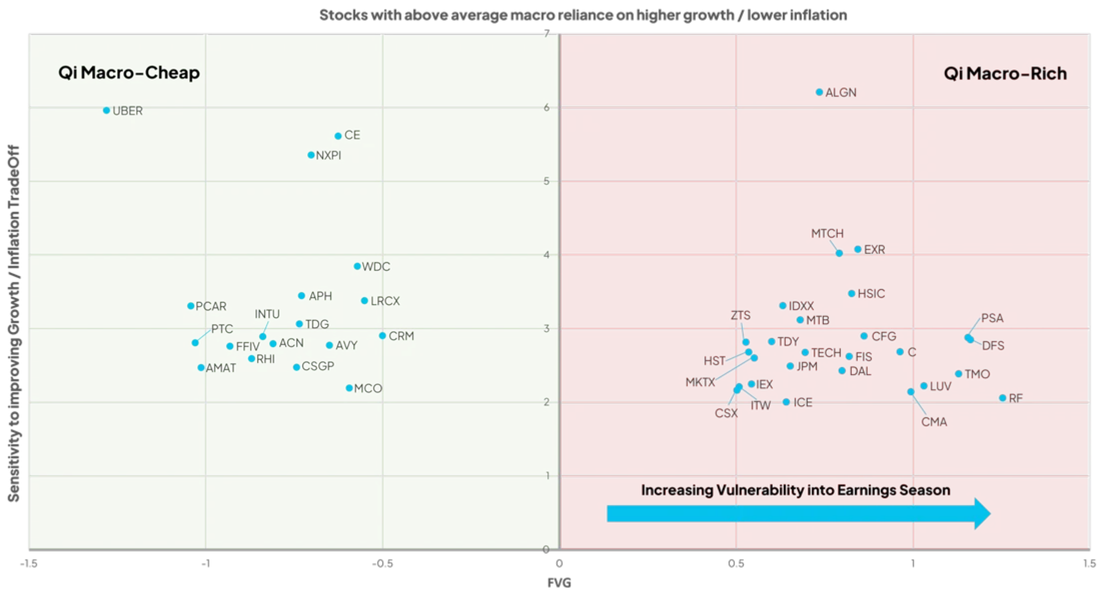
Stock picking will be key as it typically is in a late-cycle market environment where valuations are elevated. Below we first show the FVG for the average stock within each S&P500 industry group (x-axis) vs. their Qi sensitivity to growth (GDP Nowcast and Copper) and inflation expectations (y-axis).



Most industries would benefit from high growth expectations alongside disinflation, BUT most industries are also rich to their macro-warranted valuation (based on the average constituent) e.g. Banks. Interestingly, certain defensive groups e.g. Utilities are also trading rich on Qi's FVG.

As we head into earnings season, we have zoomed in on those stocks that are more reliant on improving growth alongside disinflation (defined as those stocks with higher sensitivity to these themes than the overall market). We ask Qi to show which of these stocks are trading more than 0.5 SD above their model value (Qi macro-rich) and which are trading less than 0.5 SD (Qi macro-cheap). These two groups are shown the in the chart below.

With banks season around the corner, financials screening rich would include Regions Financial, Discover Financial Services, Comerica, Citigroup and Citizens Financial. At the other end of the spectrum, stocks screening below their macro-warranted valuation are a few technology linked names including Uber, PTC, Applied Materials, F5, Intuit and Accenture.



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