Quant insight

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Smart Beta meets Macro
➤ cheap downside protection

- Given all the uncertainty around the Fed's March rate hike & Russia / Ukraine, prudent equity investors will be on the look out for **cheap defensive hedges.**

- Low Vol plays are often seen as an integral part of a smart beta approach. The constituents of ETFs like iShares' USMV are typically cash flow positive, have healthy balance sheets & together they are seen as a defensive strategy that outperforms during drawdowns.

- USMV's profile is similar to several of Qi's equity models. Recently **back into regime** (model confidence up 42% over the last month to 70% now) with a driver mix that shows a desire for reflation, low risk aversion, tight credit spreads & low real yields.

- What is noticeable with US Min Vol though is the recent move lower has diverged from macro fair value – the red line above which is tracking sideways. That divergence has opened up a **-0.75 sigma (-2.2%) Fair Value Gap.**

- That FVG, whilst not extreme, is getting towards the wide end of recent ranges. In fact, USMV has only been in regime & this cheap to model 13 times since January 2009. **The hit rate on that as a buy signal is 84.6% for an average return of +2.4%.**

- History never repeats. But, aligned with Qi's framework, it does generate interesting hedging ideas for the age old dilemma of how to find cheap downside protection for your asset allocation mix.

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Quant insight

Quant Insight Limited
42-46 Princelet Street
London E1 5LP
United Kingdom
Tel: +44 203 9941310
www.quant-insight.com