



Summary:

- Ahead of Trump's inauguration & possible clues on the policy stance around tariffs, taxes, deregulation & immigration, what are the risks from a US sector perspective?
- Qi's Macro Factor Equity Risk Model (MFERM) untangles the relationship between the daily returns of an asset and a suite of major macro factors. We show the heatmap of pressure points
- Evidently, market focus remains on FCIs to support the market multiple, not economic growth – our models highlight that "good news is still bad news"
- A risk off move that drags credit spreads wider would hurt Technology the most
- If the economic data is strong, Consumer Discretionary is the most vulnerable to "good news is bad news"
- Alternatively, if the net effect from Trump 2.0 is easier financial conditions & a bounce in risk appetite, then Real Estate appears to be the prime beneficiary

Details:

Uncertainty ahead of Trump's inauguration on the 20th will likely continue to weigh on stocks this week. Qi's MFERM can help dissect the sector impacts from the impending macro volatility.

Below, we show the sensitivity across the 12 major macro factors in our model for the 11 major sector ETFs. Sensitivity represents the percentage change for a 1 daily standard deviation move higher in the factor e.g. for CDX HY that equates to 5.7bps. That rise would imply a -0.65% decline in XLK. A 100bps rise in credit spreads would imply an ~11.4% decline. Our 12 macro factors can be aggregated into 3 major buckets – Financial conditions, growth expectations and risk aversion.

For each individual macro factor, we highlight the sectors most positive (green) / most negative (red) impacted by a 1std move higher in the factor.

Sector Sensitivity Heat Map (% Change for a 1std daily move higher in factor)

SECTOR	Financial Conditions						Eco Growth					Risk Aversion
	CB QT Exp	CB Rate Exp	CDX HY	USD TWI	10y Real	10y Nom	GDP Now	WTI	5s30s	Infl Exp	Copper	VIX
IYR	-0.131	-0.107	-0.145	-0.27	-0.232	-0.078	-0.062	-0.108	0.078	0.062	-0.058	-0.21
XLI	-0.008	0.1	-0.523	-0.022	0.008	-0.071	-0.087	0.035	0.031	-0.027	-0.019	-0.19
XLB	-0.009	0.026	-0.357	-0.085	-0.061	-0.073	-0.016	-0.013	0.104	0.035	0.171	-0.159
XLY	0.016	0.082	-0.596	-0.052	0.064	-0.109	-0.138	-0.094	-0.055	-0.075	0.039	-0.328
XLE	-0.029	0.029	-0.177	-0.019	0.045	-0.025	0.107	0.547	0.057	-0.026	-0.016	-0.169
XLF	0.016	-0.018	-0.493	0.043	0.023	0.004	0.028	-0.049	0.038	-0.03	-0.084	-0.217
XLC	-0.055	0.089	-0.445	0.027	0.014	-0.088	0.012	-0.061	-0.032	0.047	0.024	-0.196
XLK	0.217	0.036	-0.648	0.022	0.147	-0.118	-0.091	0.084	0.077	-0.103	0.109	-0.462
XLV	-0.033	-0.066	-0.133	-0.055	-0.087	-0.033	-0.108	-0.08	0.039	0.045	-0.014	-0.154
XLP	-0.058	-0.077	-0.032	-0.094	-0.109	-0.061	-0.073	-0.081	0.022	0.03	-0.018	-0.107
XLU	-0.095	-0.023	-0.046	-0.194	-0.208	-0.044	0.023	-0.071	0.006	0.051	-0.026	-0.126

Some examples:

- Higher CDX HY spreads? XLK, XLY hurt most; XLP, XLU least
- Stronger Dollar? IYR, XLU hurt most; XLF, XLC least
- Higher real rates? IYR, XLU hurt most; XLK, XLY least

We stated earlier that a 1std daily move in CDX HY spreads was 5.7bps. Therefore, for a 100bps move wider credit spreads, Technology would fall 11.4% but Staples only ~0.6%, all else equal.

If we next aggregate the sensitivities into the 3 buckets cited above, we can start to draw some conclusions on potential impacts. See the tables below.

Sector Aggregated Sensitivities

SECTOR	FCI	Eco	Risk
IYR	-0.963	-0.088	-0.21
XLU	-0.61	-0.017	-0.126
XLY	-0.595	-0.323	-0.328
XLB	-0.559	0.281	-0.159
XLI	-0.516	-0.067	-0.19
XLC	-0.458	-0.01	-0.196
XLP	-0.431	-0.12	-0.107
XLF	-0.425	-0.097	-0.217
XLV	-0.407	-0.118	-0.154
XLK	-0.344	0.076	-0.462
XLE	-0.176	0.669	-0.169

Sector Beneficiaries Ranking

SECTOR	Easier FCI	Higher Eco	Less Risk
IYR	1	7	4
XLU	2	5	10
XLY	3	11	2
XLB	4	2	8
XLI	5	6	6
XLC	6	4	5
XLP	7	10	11
XLF	8	8	3
XLV	9	9	9
XLK	10	3	1
XLE	11	1	7

With respect to **economic growth expectations**, 8 out of the 11 sectors have a negative sensitivity i.e. “good” news is still deemed as “bad” news – most negative for consumer discretionary. The focus remains on FCIs to support the market multiple not growth. Remember, we have CPI on Wednesday which will likely keep risk tentative. The 3 sectors with a positive relationship are Energy, Materials and Technology.

With respect to **risk aversion**, no surprise that the most vs. least exposed is a reflection of market beta. The sectors most hurt by a vol shock higher would be Technology, Consumer Discretionary and Financials. In a risk-off scenario, as we saw last Friday, the relative winners would be Staples, Utilities and Healthcare.

Now the presumption is that IF Trump is less onerous on tariffs (confirmation Xi will attend the inauguration would be a positive), **financial conditions** would ease (dollar, rates, credit

spreads) but also risk aversion dissipate. Solely based on financial conditions, Real Estate / Homebuilders, Utilities, Consumer Discretionary, Materials would be relative winners. However, below we rank the sector on the combination of easier FCIs and lower risk aversion. Our analysis would see Real Estate, Consumer Discretionary, Technology as relative winners and Energy, Staples, Healthcare as relative laggards.

FCIs + Risk Aversion

SECTOR	Sensitivity
IYR	-1.173
XLY	-0.923
XLK	-0.806
XLU	-0.736
XLB	-0.718
XLI	-0.706
XLC	-0.654
XLF	-0.642
XLV	-0.561
XLP	-0.538
XLE	-0.345

*Biggest Beneficiaries if
Inauguration sees FCI
pressure dissipate*

With Real Estate seen as a top beneficiary of any easing in FCIs, it is worth highlighting that within the sector homebuilders (ITB) looks particularly oversold on Qi's valuation models.

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