14th January 2025


**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)

| | Financial Conditions | | | | | | Eco Growth | | | | | Risk Aversion |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SECTOR | 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.