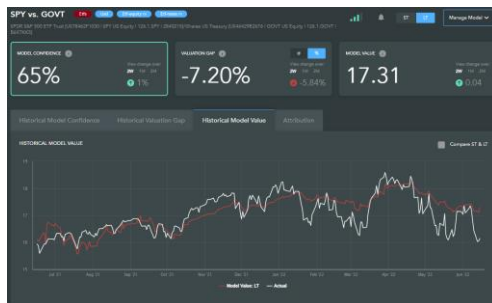




16.06.2022

SPY vs. GOVT

- Model confidence for [SPY vs. GOVT](#) is 65%. The relationship between US equities & bonds is back in a clearly defined macro regime.
- On Qi, SPY is 1.9 sigma (7.2%) cheap to GOVT relative to prevailing macro conditions. This is a historically significant level – we have only been in regime & this cheap to model once before going back to 2009.
- That FVG has arisen because recently equities have significantly underperformed Treasuries, but macro-warranted model value has moved sideways.



- Qi has not been constructive on US equities of late. Stripping things back to basics, macro fair value has been in a clear downtrend throughout 2022.
- [S&P500](#) model value bounced yesterday, rising 2.6%. The first meaningful improvement in macro conditions in June. As per “[Zone defence](#)” the biggest reason for that was the ~25bp narrowing in BTP-Bund spreads yesterday. Domestic US equity managers need to keep an eye on the fall-out from ECB policy, not just the Fed.
- Given the strong drop in SPX macro model value in recent months, prudence suggests we need to see **a material trend reversal** higher before trying to call a bottom in this US equity bear market.
- That said, as we move towards month & quarter end, traditional market commentary will increasingly focus on quarterly re-balancing flows & the extent to which they’ll be equity supportive. Early reports suggest the flows could be substantial; Qi suggests that, relative to GOVT, SPY is cheap. Tactical asset allocators take note.

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