



Tactical opportunity in US Tech

- Over the last 10 days the US technology sector has underperformed the broader market by around 2.5%. Yet macro fair value for the XLK / SPY ratio has actually increased slightly over the same period. That has opened up a **Fair Value Gap of 1.7 sigma (2.8%)** & triggered a **Divergence signal**.



- In outright terms, US technology is currently not explained by macro factors. NASDAQ, US IT, XLK, SOXX etc are all below our threshold for a macro regime. However, the relative value model of [XLK vs. SPY](#) is in regime with model confidence at 69%.
- That regime demonstrates tech's resilience in a defensive environment. XLK outperforms when inflation expectations & commodities are falling, when real rates decline & credit spreads widen. **This is a good entry level for those thinking the reflation trade is due further consolidation.**
- Note though that one third of model explanatory power comes from Quantitative Easing expectations. Tech needs ongoing Fed QE to outperform. **Long XLK versus the broader market looks good tactically given the entry level, but there is clear event risk on the horizon** – if the June 16th FOMC does start the clock for a possible taper of Fed asset purchases, on current patterns that will provide a significant headwind to the US tech sector.

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Quant Insight Limited
50 Liverpool Street
London EC2M 7PR

Tel: +44 20 3865 1940
www.quant-insight.com