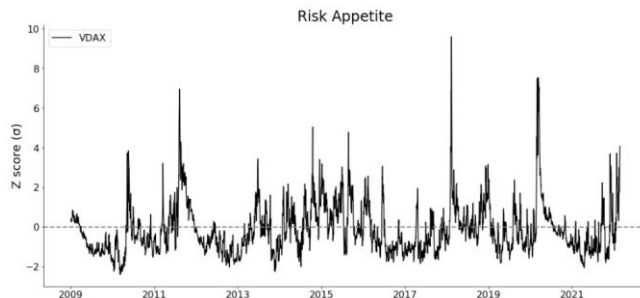


22.02.2022

The European ‘risk off’ trade

- The latest Russian headlines have prompted a significant spike in German equity volatility.
- The chart provides some historical context. VDAX is now 4 standard deviations above trend – a level only surpassed on a handful of occasions including the initial Covid lockdowns in March 2020, the 2018 Powell ‘policy error’ & the EuroZone sovereign debt crisis.



- Qi’s [Optimise Trade Selection](#) function suggests the European sector most vulnerable to spikes in risk aversion is Travel & Leisure.
- With a valuation gap of +0.5 sigma (+3.5%) [EU Travel & Leisure](#) is also slightly rich to macro. While it is true that the FVG was 1.6 sigma, +11.3% just a week ago, it is also striking that it is the only sector with a rich valuation on Qi metrics.
- The critical point is that macro-warranted fair value appears to be heading lower. With risk aversion alone accounting for 30% of model value, further geopolitical stress means the sector is the one most susceptible to macro conditions deteriorating still further.

Model Name	Confidence (%)	Change 1M	Valuation Gap σ	Change 1M	VDAX
EU Travel & Leisure	72%	↓ -5%	0.45	↑ 2.19	-1.11
EU Technology	84%	↑ 36%	-1.32	↓ -0.76	-0.60
EU Retail	87%	↑ 1%	-0.70	↑ 0.85	-0.48
EU Financial Services	79%	↑ 31%	-1.69	↓ -1.48	-0.37
EU Industrials	80%	↑ 10%	-1.81	↓ -1.66	-0.24
EU Chemicals	66%	↑ 37%	-1.77	↓ -2.32	-0.20
EU Construction	75%	↑ 11%	-1.59	↓ -1.63	-0.19
EU Media	72%	↑ 27%	-0.94	↓ -0.68	-0.16
EU Real Estate	76%	↑ 53%	-1.34	↓ -0.69	-0.15
EU Telecommunications	67%	↓ -1%	-0.49	↑ 0.49	-0.12

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