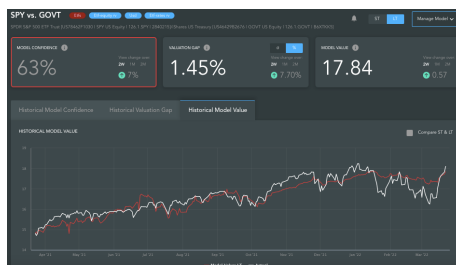




23.03.2022

The return of TINA?

- There's a lot of head scratching in mainstream media on why equities rallied again yesterday, even after Powell doubled down on his hawkish rhetoric.
- The glib response would be Qi shows US equities in strong macro regimes, narrowing their valuation gaps relative to last week's oversold levels, but still catching up with rising model value. Check out the *Historical Model Value* chart for [SPY](#) or re-read "[Catch up](#)".
- Another explanation doing the rounds is the relative value facing asset allocators when deciding between stocks & bonds. Bonds are selling off because of inflation, & equities are a better inflation hedge goes the narrative. The 'there is no alternative' mantra is back.
- Qi's [SPY vs. GOVT](#) model is on the cusp of a new macro regime. Having traded sideways for much of 2022, the macro model value now points to a new uptrend – S&P500 to outperform US Treasuries. Having been cheap to bonds, stocks have played catch up.



- The new regime is dominated by rising inflation, Fed rate hikes, low risk aversion & tight credit spreads - together they explain two thirds of the model & point to equities outperforming bonds. On current patterns, equities are enjoying a relative sweet spot. If the Fed can pull off the balance between tightening policy without prompting "risk off", equities can continue to 'climb the wall of worry'.
- But bears worry that rising equities undermine Fed efforts to tighten overall financial conditions. Under this scenario rising equities sow the seeds of their own downfall by provoking a more hawkish Fed. On Qi watch the Fed rate expectations & inflation expectations factors. If those relationships turn negative, that downside scenario is panning out. Also watch Qi's FVG. Currently just +0.4 sigma (+1.5%) but it's a tight distribution: +0.8 sigma is the high for the last year.

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