



## Transitory a ‘dirty word’

- Governor Bostic has revealed he & his staff at the Atlanta Fed have a swear jar labelled “transitory”, & they have to forfeit \$1 each time they use the “t” word. A neat story that captures how far the debate has swung away from the idea inflation is temporary.
- As we enter earnings season **it is evident that the inflation dynamic continues to deteriorate for US single stocks.** [“US equities & inflation - a regime shift?”](#) first flagged the shifting pattern by isolating individual stocks independent sensitivity to inflation expectations.
- The orange line showing the number of stocks with positive sensitivity to US inflation expectations has fallen to a fresh low. Just 117 S&P500 stocks in macro regimes now see rising inflation as a tailwind for performance. That’s around a third of the total that were enjoying the reflation bounce in Q1.



- Back in March, the number of stocks in regime with a negative relationship (“headwind”) was effectively zero - **the reflation narrative was all encompassing**. Now that number is 41.
- That total of 158 stocks shows the degree to which US equities remain out of regime. Currently non-macro factors are bigger drivers of price action than economic fundamentals, financial conditions or risk appetite. Qi has repeatedly demonstrated that leaves the market more vulnerable to transient factors like positioning, flow & sentiment – all of which are inherently more susceptible to bouts of volatility.
- At the index level, model confidence for the [S&P500](#) is now back at 50%, up 34% in the last 2 weeks alone. A new macro regime appears to be forming & sensitivity to inflation has just edged into negative territory. A major macro shift appears to be on the cusp of confirmation.

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