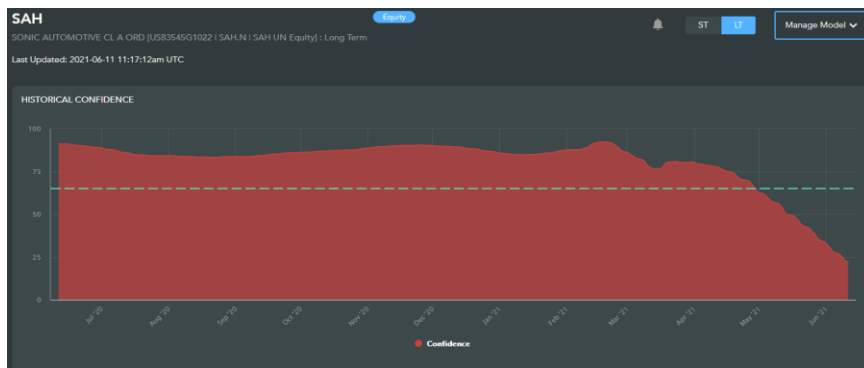


Used cars as a lead indicator

- Used car prices are at the heart of the US inflation debate. They accounted for around a third of last week's upside surprise to CPI.
- The chart below shows macro model confidence for auto company [Sonic Automotive](#). **Macro had strong explanatory power throughout 2020 & Q1'21, but something changed in April.** Model confidence fell sharply &, by the end of the month, SAH was out of regime.
- It isn't quite as aggressive but the profile is the same for [CarMax](#).



- There is an argument that the share price of car companies can be used as a guide for exactly how transitory the current bout of inflation is. **Single stock equities as a potential lead indicator for inflation & hence Fed policy.**
- The sharp fall in model confidence suggests these stock prices became divorced from macro fundamentals; driven instead by other factors, perhaps the extraordinary shocks caused by lockdowns a year ago & the current economic re-opening.
- It is by no means definitive but, **watching Qi's models to see when confidence returns, could be one signal to suggest the current supply/demand imbalances are calming down & fundamentals are re-asserting themselves.**
- It is, at least, a real time quantifiable metric worth monitoring. For both individual stock pickers; & macro types looking for clues on the inflation debate & the timing of monetary policy normalisation.

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Quant Insight Limited
50 Liverpool Street
London EC2M 7PR

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