Quant insight

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Worried about stagflation?

- There are a couple of standouts on Qi's Tactical Asset Allocation quadrant for global equity markets. That the Russian MOEX is cheap is hardly new news. Similarly, that European equities are bearing the brunt of sanctions blow-back fears is well established.

- The biggest green dot is actually a combination of the DAX (2.9σ or 7.4% cheap to macro), & MSCI Italy with a FVG of -3.1σ, -8.3%. The S&P500 and NASDAQ are also cheap though the FVGs are more modest. What is striking is that all the above are in macro regimes – even with this geopolitical shock, **macro fundamentals retain strong explanatory power.**

- And secondly all are **flirting with a stagflation regime**. Remember, where each equity market resides on the investment clock is not a subjective decision. It is the quantitative relationship between that equity index & growth (measured by Now-Casting tracking GDP) & inflation expectations (measured by the inflation swap market).

- Currently, **US technology looks an efficient defensive bet** – in a stagflation regime (it wants rising inflation but has negative sensitivity to global growth) & is 1.1 sigma (6.0%) cheap to macro fair value.

- Finally, it is worth noting the Goldilocks quadrant. Brazil IBOV & MSCI South Korea ETF EWY are both in regime & want strong growth & benign inflation. The opposite to what many fear will be the prevailing macro environment in the months ahead.

- Moreover, both are currently rich to macro. The commodity angle & geography may explain their initial resilience, but they look potentially vulnerable if you fear a protracted conflict & stagflation episode.

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