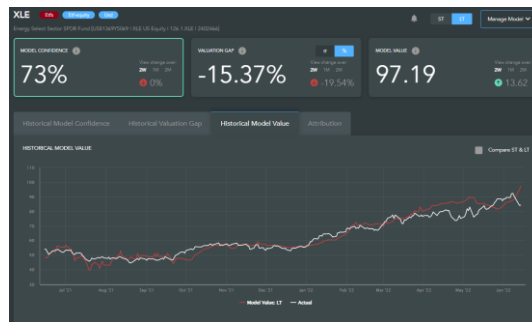




15.06.2022

XLE – buy the dip

- Qi remains negative on risky assets. Macro-warranted model value continues to point lower for critical benchmarks like the [S&P500](#) and US corporate credit. In fact, both Investment Grade [LQD](#) & High Yield [HYG](#) US credit are lagging the deterioration in macro conditions & trade more than one sigma rich to model fair value.
- **Energy** has already proven a star performer in 2022 but, on Qi, it's **outlook is improving again**. The chart shows [XLE](#) falling in this recent risk off rout. But macro fair value has risen 16.3% over June. That divergence has opened up a 1.1 sigma (15.4%) Fair Value Gap &, on RETINA™, a bullish divergence pattern.
- The improvement in macro model value reflects some of Energy's defensive qualities. Unlike many of its peers, Energy benefits from rising real rates, wider credit spreads & tighter Dollar liquidity.



- It's a **3-bar signal**, in large part because it back tests so well. Since 2009, when in regime, buying XLE when 1.1 sigma cheap produces a **81.8% hit rate & +2.5% average return**. This is a comparatively **rare signal** – there have been 11 trades only.
- That should appeal to long only managers but note it's a similar story in relative value terms too; especially versus technology plays. [XLE vs. XLK](#), [XLE vs. XLC](#), [XLE vs. XLY](#) all show Energy as over one sigma cheap to tech (counting Consumer Discretionary as tech given Amazon & Facebook are almost 50% of XLY).
- That's consistent with the RETINA signals pointing to Value outperforming growth. Something we see at the index level (QQQ vs. SPY), risk premia level & across both large cap & small cap strategies.

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