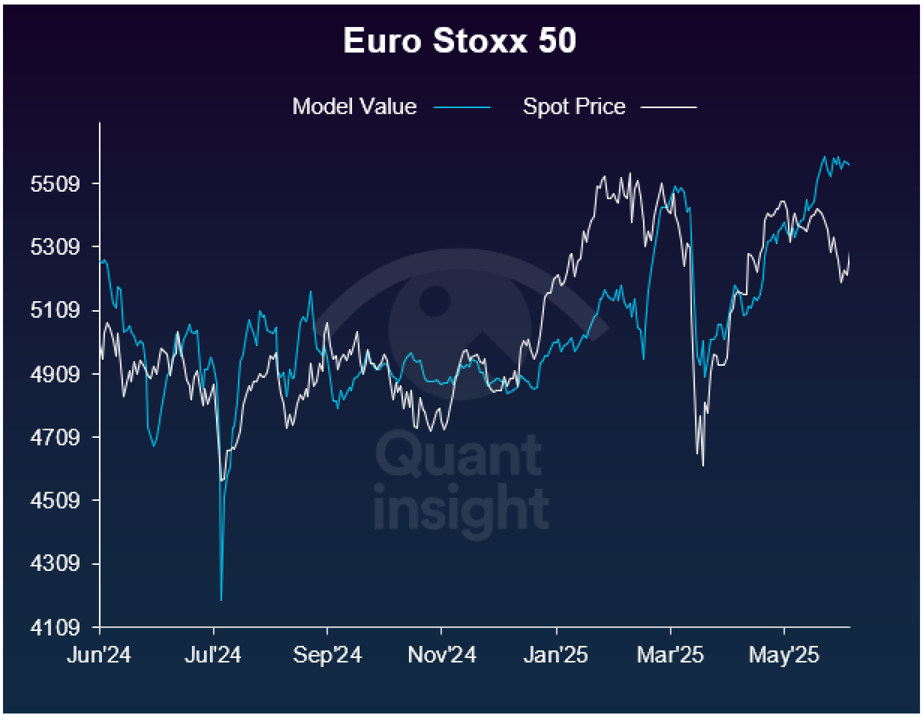

**1. <u>Euro Stoxx 50 – 1 sigma Below Qi Model Value</u>**

1/ News this week that Germany will borrow about 20% more than planned in the coming months to fund a surge in spending. The fiscal policy shift is looking real.

2/ Germany's Ifo Business Climate Index rose for a sixth straight month in June. The Expectations Index of business conditions has reached its best level since April 2023. Is Germany's economic recovery is starting to gather pace?

An interesting juncture where the Euro Stoxx 50 sits 1.1 sigma below Qi model value – close to 1yr lows. According to Qi, the index benefits from a stronger Euro, higher global GDP growth, higher commodities and higher Eurozone inflation expectations i.e. reflation.




Furthermore, historically there have been 17 events historically since 2009 where the Euro Stoxx has hit -1.1 sigma. 14 of those 17 events (82% hit rate) have delivered a positive return, with a median holding period of 1mth.

| | Results |
|---|---|
| Hit Rate | 82.352941 |
| Avg. Rtrn | 3.443525 |
| Ann. Rtrn | 36.879934 |
| Median Rtrn | 3.595096 |
| Avg. Max Gain | 4.639459 |
| Avg. Max loss | -2.561264 |
| Avg. Holding Period | 27.176471 |
| Median Holding Period | 22.000000 |
| No. of Trades | 17.000000 |
| Avg. Win | 4.835944 |
| Avg. Loss | -3.054433 |
| Win/Loss | 1.583254 |

2. **EURJPY already priced in expansive fiscal policy?**

While Euro Stoxx appear to have lagged a German fiscal boost, the opposite is true in FX where the Euro appears to have front run much of the good news.

EURJPY now screens 2 sigma (3%) rich to Qi's macro fair value—a rare dislocation seen just 5 times in 15 years when model confidence is high, & only 7 times when the RSq threshold is completely relaxed.


This time, confidence is low (45%) and the model is out of regime. But the message remains - spot has run ahead of macro.

Model value is rising (helped by sub-20 VIX and firm Eurozone GDP) but only gradually, as the mid-June widening in credit and peripheral spreads provides an offsetting counter-weight.

Net-net, the macro picture is improving, but not fast enough to justify current spot levels.

Again, there are strong reasons to suggest the Euro can enjoy a secular re-rating as an alternative to the Dollar in the years ahead. The observation from Qi is these aren't the best entry levels to chase EURJPY upside.

### 3. US Secular Growth / High Beta relatively stretched

The US secular growth theme has been a dominant outperformer in this rally. Consider ARKK which has rallied 73% from its April lows – it is now sitting +2 sigma rich to Qi model value – that is close to multi-year highs.

This is closely followed by high beta – the S&P500 high beta ETF (SPHB) has rallied ~42% from the April lows. Relative to the min vol / beta ETF USMV, SPHB sits +1.35 sigma rich to Qi model value.


Secular growth vs. defensives wants reflation - stronger economic growth, higher inflation expectations, stronger dollar. Note the tight relationship below to the Atlanta Fed GDP Nowcast in the chart below.

Looking ahead, will a wall of worry start to build again? Jul-3 we have NFP; Jul-4 Big Beautiful Bill deadline; Jul-9 onwards we have tariff deadlines; Jul-15 US CPI. There is a need to be more discerning from here.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