The S&P500 in Q2: A Tale of Both Macro & Idio

Since the April 8th low, the S&P 500 is up +26% - technically, it's back in a bull market.

Quant Insight's Risk Model attribution for that return suggests a split of almost two halves:

- 56% macro
- 44% idiosyncratic (the bit macro could not explain)

Relationships are shifting - from a singular focus on the end of US Exceptionalism to Goldilocks Vibes.

Consider the following: In Q1, US equities underperformed. In Q2, it outperformed — despite a weak dollar both times...

So what does Qi's Risk model show:

- Sensitivity to GDP growth = multi-year highs
- Sensitivity to inflation & real rates = multi-year lows
 → Citi US Eco vs. Inflation surprises say it all: growth is holding up, inflation's cooling
 → Real rates are down 45bps from YTD highs
- Sensitivity to Dollar flipping from positive to now small negative...

Looks like Goldilocks: Fed opening up possibility of cuts, but in a backdrop where growth / inflation trade-off is benign.

Coming up: Trump's tariff call (July 9) + CPI (week after)

What about that large idio component? US Tech doing its thing

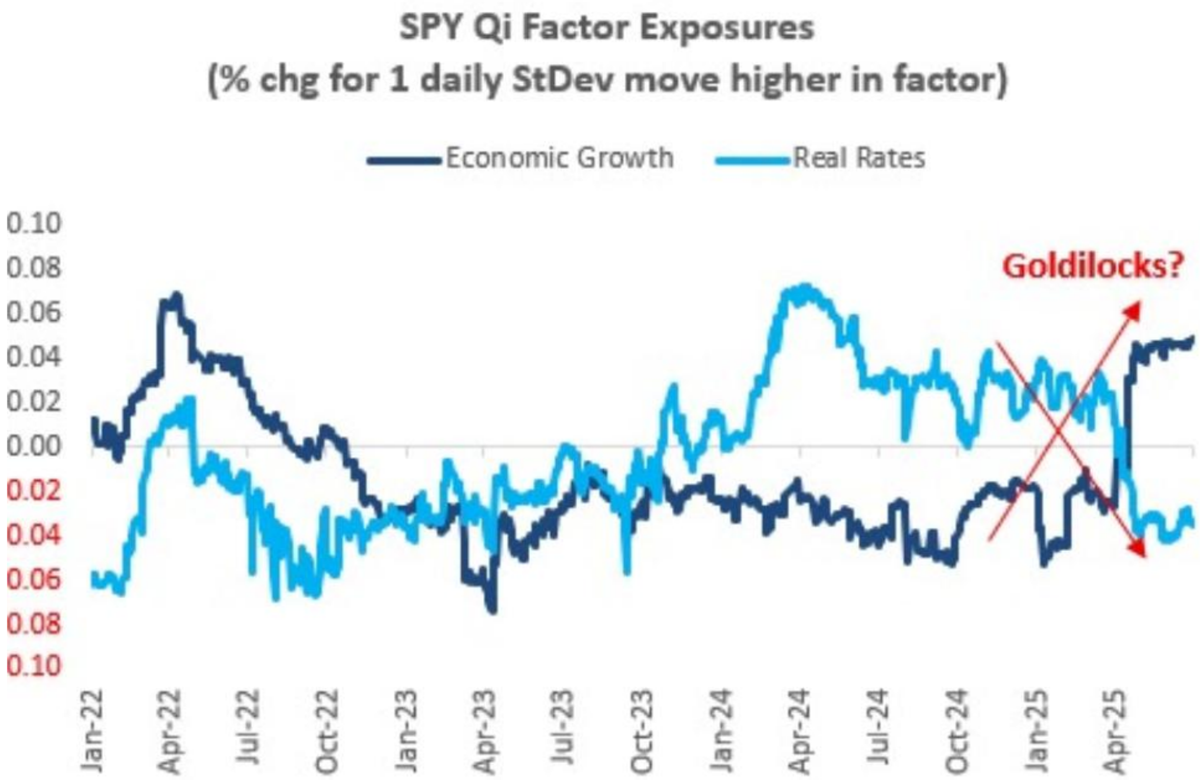
You buy Tech for secular growth, not macro.

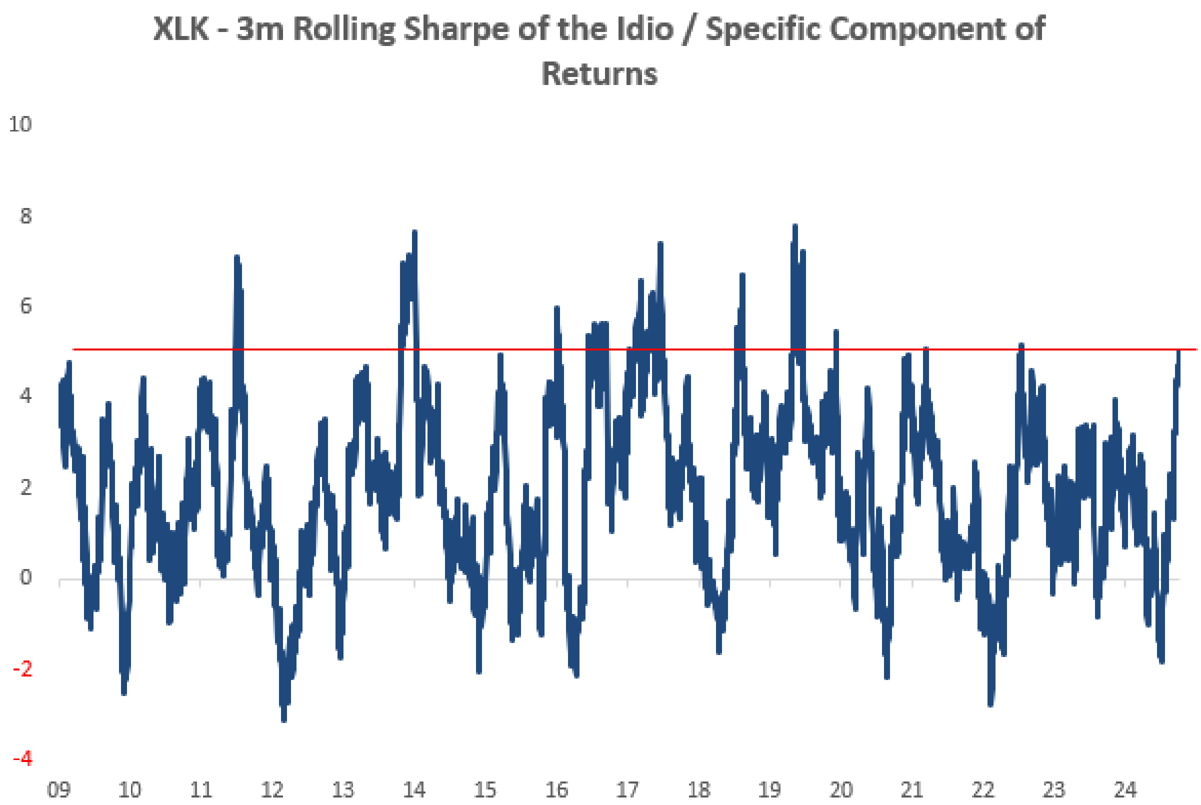
Over the last 3 months, the idiosyncratic return (what our model can't explain via macro) for Tech (XLK) has jumped dramatically:
- 3M Sharpe of idio component = 5
 → Near the top of its range in recent years

Coming up: Q2 earnings kick off next week, with Tech heavyweights report soon after.

Needless to say, the market pricing provides less of a cushion against disappointment than it did. Our S&P500 Qi total risk indicator is not quite at "macro complacency" but it has climbed a long way from "macro fear"

Charts below.


SPY Qi Factor Exposures
(% chg for 1 daily StDev move higher in factor)
Economic Growth
Real Rates
Goldilocks?
0.10
0.08
0.06
0.04
0.02
0.00
0.02
0.04
0.06
0.08
0.10
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Jan-25
Apr-25


XLK - 3m Rolling Sharpe of the Idio / Specific Component of Returns
10
8
6
4
2
0
-2
-4
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24