Cracks Under the Surface

Is the US equity rally really just about AI? Or are there cracks forming under the surface? A few things Qi is watching:

1/ Inflation expectations creeping higher

- 5y breakevens are back above 2.5%. Real yields falling. Equities still climbing.
- 30y yields back >5%, but credit spreads remain near record tights.

➤ Equities believe higher costs can be passed to consumers? For how long? **Quant Insight**'s risk model shows higher inflation as one of the biggest impediments to risky assets

2/ Tariffs starting to bite

- Core goods CPI has turned after quarters of drag.
- 2018/19 playbook says tariffs take 3–4 months to pass through. This time, inventory front-loading may delay impact.

➤ Do we hit an air pocket in demand later this year? What gives — consumer, margins, hiring? Economic growth is a top driver for risky assets on Qi’s model

3/ Trump’s tariff talk & the August 1st deadline

➤ Does the lack of equity market trepidation lower the probability of any pivot?

4/ The high bar for Earnings season

- The S&P 493 now trades > 20x 12mth fwd PE

➤ To judge by what happened to banks and NFLX last week, the bar is quite high this earnings season. Any signs of margin pressure or softening demand could test investor confidence

5/ Sentiment

- In the recent BoA Global Fund Manager Survey investor sentiment was the most bullish since February 2025 and cash levels fell to 3.9% triggering a "sell signal"

➤ Who’s left to buy?

6/ Seasonality

- Worth remembering, history suggests August and September are some of the weakest months for equities

And through the lens of Qi’s Risk Model? Anxiety likely to build

1/ Multiple expansion has accelerated BUT macro's grip on equity risk has not faded to the same extent (chart 1)

2/ S&P500 return acceleration over the last month has been dominated by idio drivers – macro factor momentum is waning (chart 2)