MacroVantage

6th November 2025

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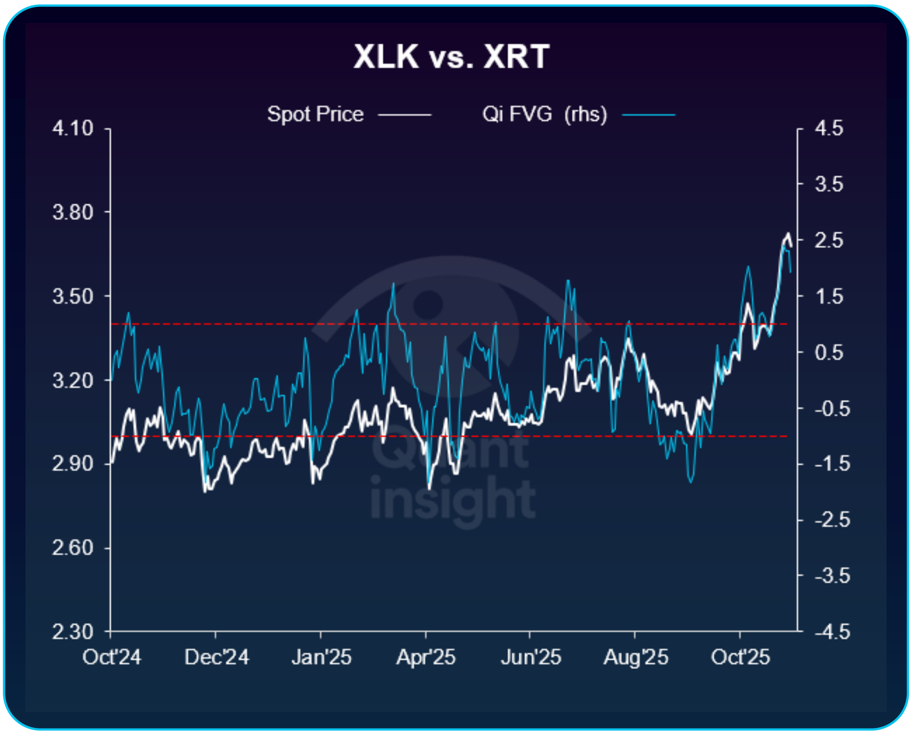
1.K-Shaped Trades Have Run a Long Way

XLK has enjoyed an extraordinary run in risk-adjusted returns. Over the last six months, the Sharpe has approached the highs since 2009 close to a 5 Sharpe.

However, PB data shows gross risk at multi-year highs and net risk at 1-year highs, echoing the long tech / short consumer trade that defines today's K-shaped economy thesis.

This is mirrored in Qi's valuation model. The chart below shows the XLK vs. XRT RV pair is currently +2 sigma above Qi's model value. That is almost the largest Qi valuation gap of the last 5yrs. The FVG has jived closely with spot price action i.e. we should pay attention given we are in the tails of the distribution.



Since 2009, the current FVG has been reached 10 times. 7 out of those 10 times, XLK underperformed XRT over the subsequent month.

Be aware the bifurcation relative to other more defensive compartments of the market. XLP sits 2.7 sigma BELOW Qi model value, which is the 5yr low. Such a rare occurrence that since 2009, this has only occurred 3 times. And all 3 times, XLP made gains over the following 4-6 weeks.

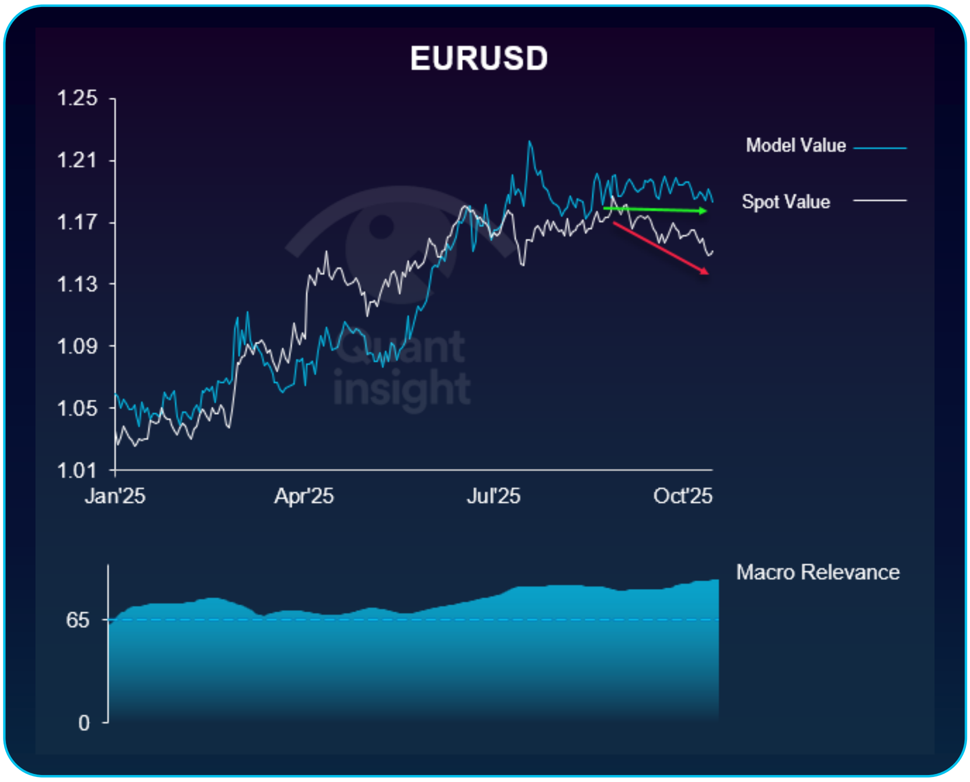
2. EURUSD – Bears Beware the Old Playbook

A simple two-factor lens says the recent EURUSD sell-off is justified. Widening UST–Bund spreads explain the move; the old interest rate differential order is back.

Qi's PCA model tells a deeper story. The pair sits in a strong macro regime and macro fair value has been range-bound between 1.18-1.20 for a month plus.

While yield spreads have been a tailwind for model value, the inflation picture has provided an offset — US breakevens have repriced lower while Euro HICP swaps have held steady.

EURUSD's positive sensitivity to inflation differentials has helped keep model value elevated. On Qi, EURUSD now screens 1 sigma (3.7%) cheap to macro fair value. Since 2009, 64% of similar setups have seen mean-reversion rallies.



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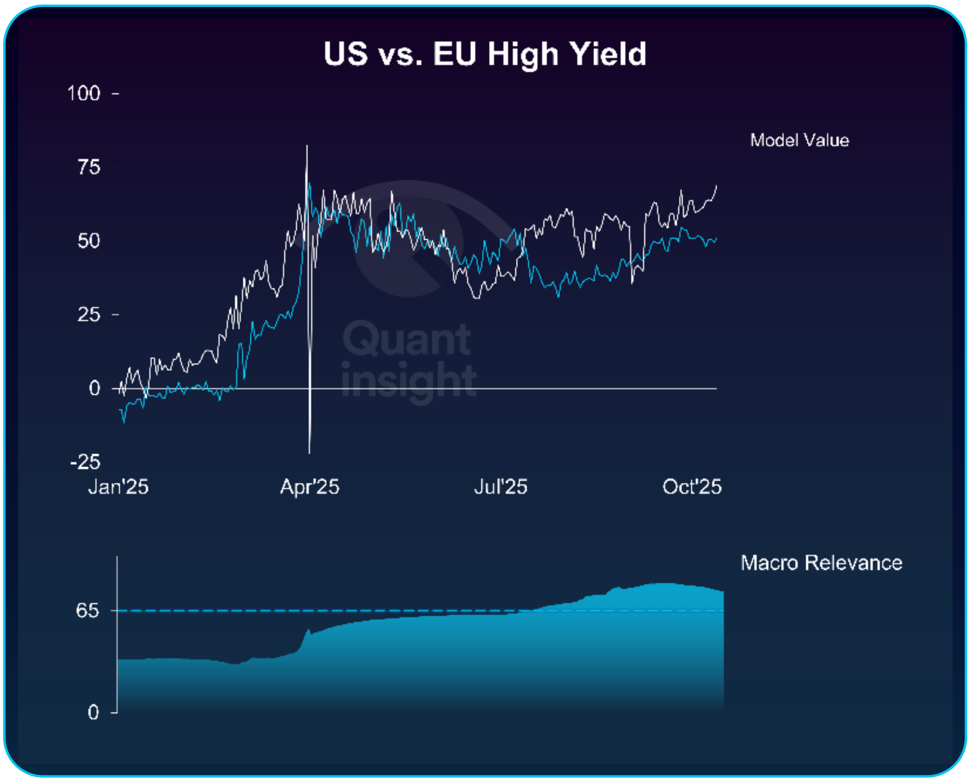
3. Credit's AI hangover – US Too Wide to Europe

What started as a cockroach hunt has morphed into AI indigestion. Thus far the leak wider in credit spreads has been relatively contained in outright terms.

Where it is noticeable is in cross-mkt credit spreads. CDX US HY spreads are now 1 sigma (18bp) too wide to Itraxx XOver spreads according to macro conditions. CDX UG IG spreads are getting close to a +1 sigma FVG.

But interestingly macro conditions haven't budged. Qi suggests US HY should trade 50bp over XOver; IG should trade 3bp through Main. US credit spread widening is starting to look stretched when compared to Europe.



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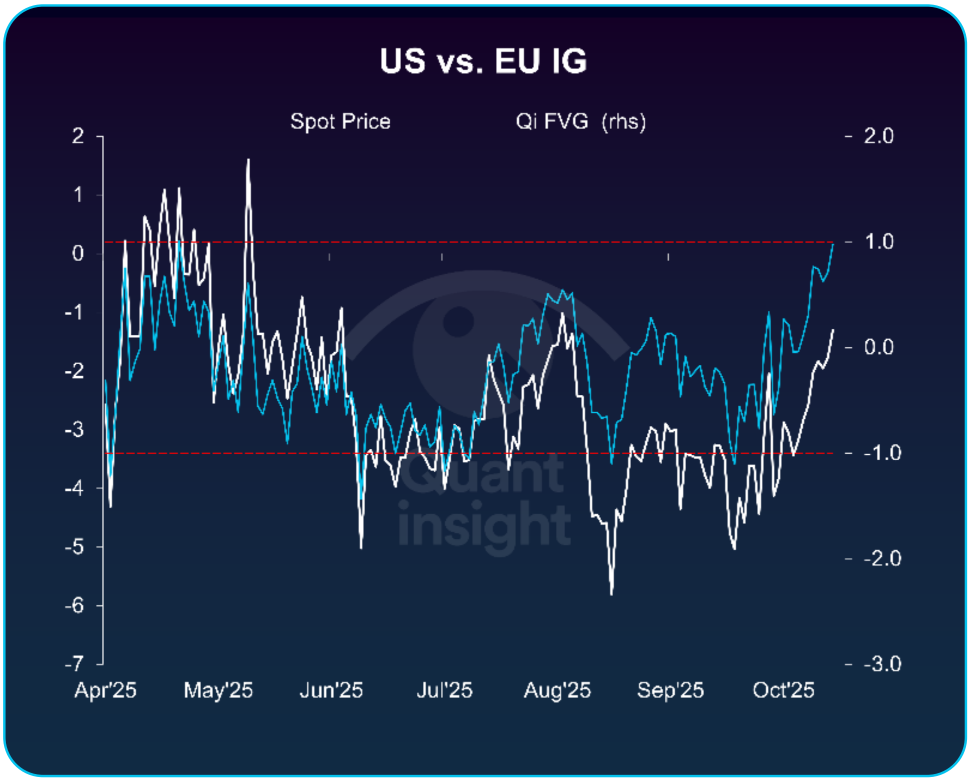
AI issuance has been more of an IG thing & here it is noticeable how tight recent correlations between spot & Qi FVG are, suggesting a greater chance of this gap closing via markets re-pricing to macro.



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