Quant insight

MacroSpotlight

SPY's Dynamic Relationship with GDP Growth & Why it Matters Today

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The way risky assets react to growth isn't constant. Markets regularly flip between pricing for growth and pricing for risk.

Plenty of history backs this up:

- 1990s: P/Es tracked Fed policy more than the ISM
- 2009: Massive PE expansion despite negative earnings
- 2012: Draghi's "Whatever it takes" turned the Eurozone around while it was still in recession

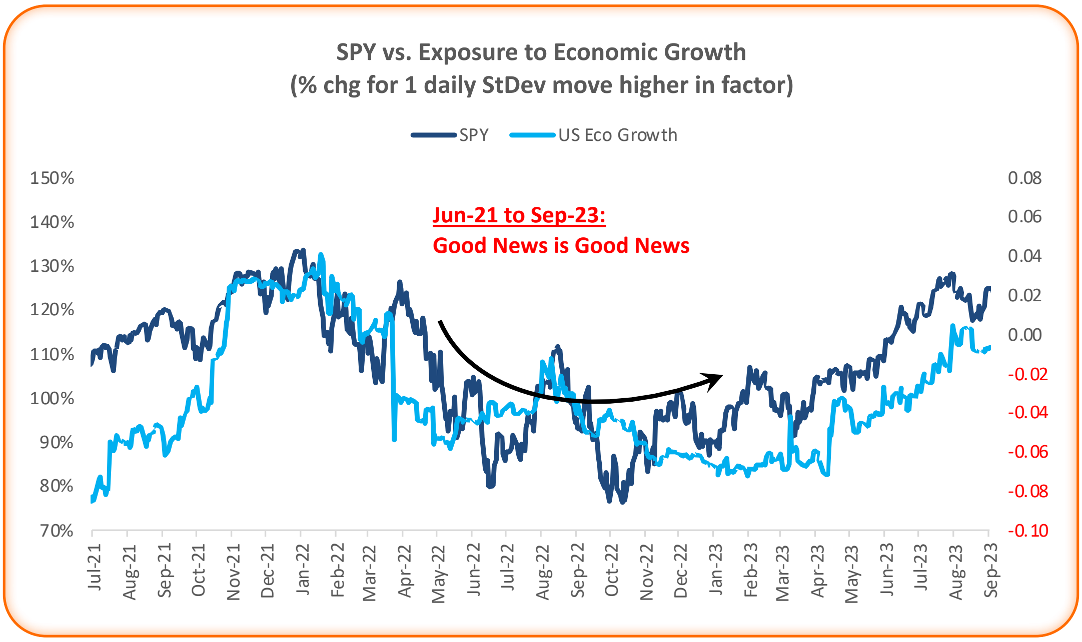
The point: equities discount the future, so PE expansion can offset weak growth data.

This is exactly why Qi's risk-model framework matters — it helps you spot when markets switch regimes across macro factors.

Since 2021, there have been 3 distinct phases in SPY's relationship with US GDP growth expectations.

1. Jun 21 → Sep 23: Good news = good news

A clean macro regime. Stronger GDP → better earnings outlook → supportive for equities.

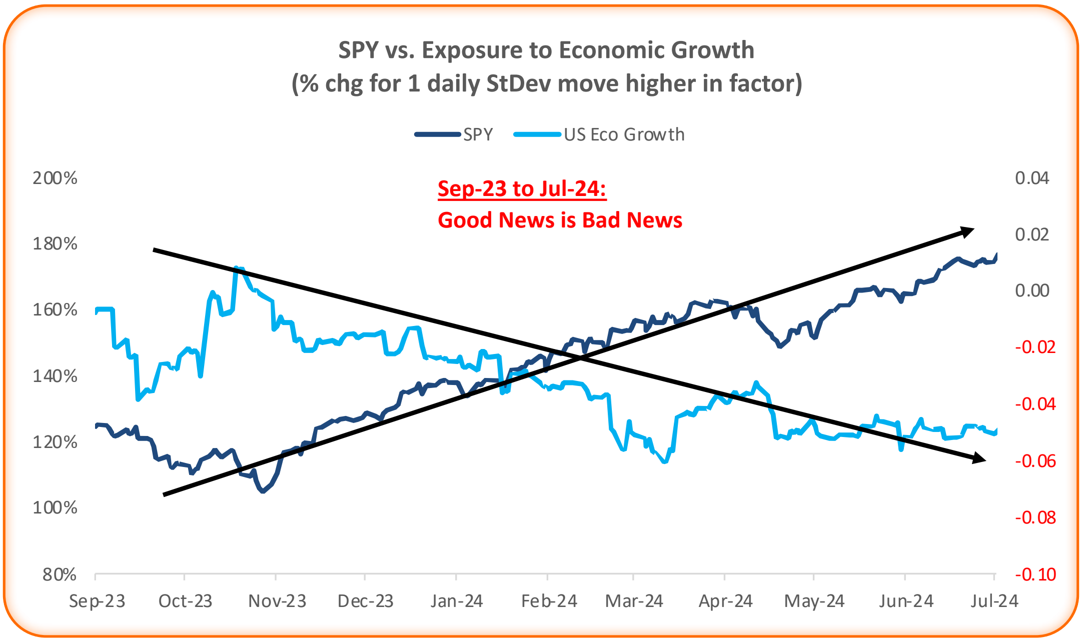


2. Sep 23 → Jul 24: Bad news = good news (policy-driven)

Sticky inflation kept the Fed on alert. Growth became a double-edged sword:

- Strong data = tighter policy risk, higher real yields → equity drag
- Weak data = earlier easing hopes → equity support

The policy channel overwhelmed fundamentals.



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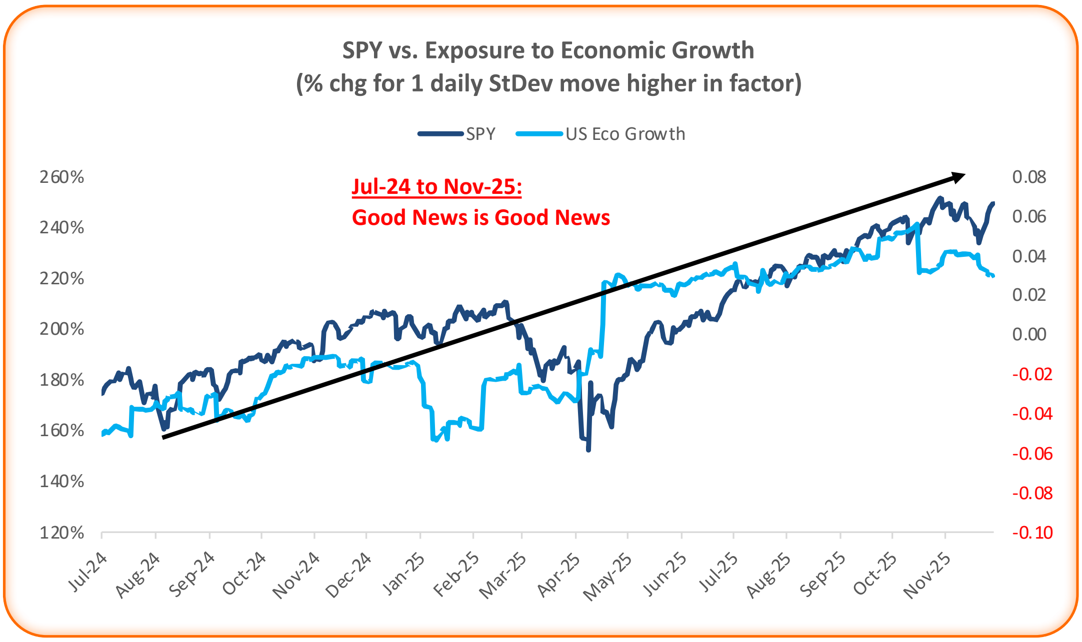
3. Jul 24 → today: Back to good news = good news

Inflation is deemed moderating, and weak growth now signals real earnings risk, not policy relief. Fundamentals are back in charge.



So where are we now?

- SPY's sensitivity to GDP growth is at 5-year highs.
- Cyclical pockets — regional banks, transports, small-biz-exposed sectors — are already sniffing this out.

Bottom line: a solid payrolls report would go a long way toward stabilising risk sentiment into year-end.

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