

MacroVantage

1. Rate sensitive vs. bond proxy stocks – too far, too fast?
2. EURGBP – upside risks
3. EM bonds – trend break or pause that refreshes?

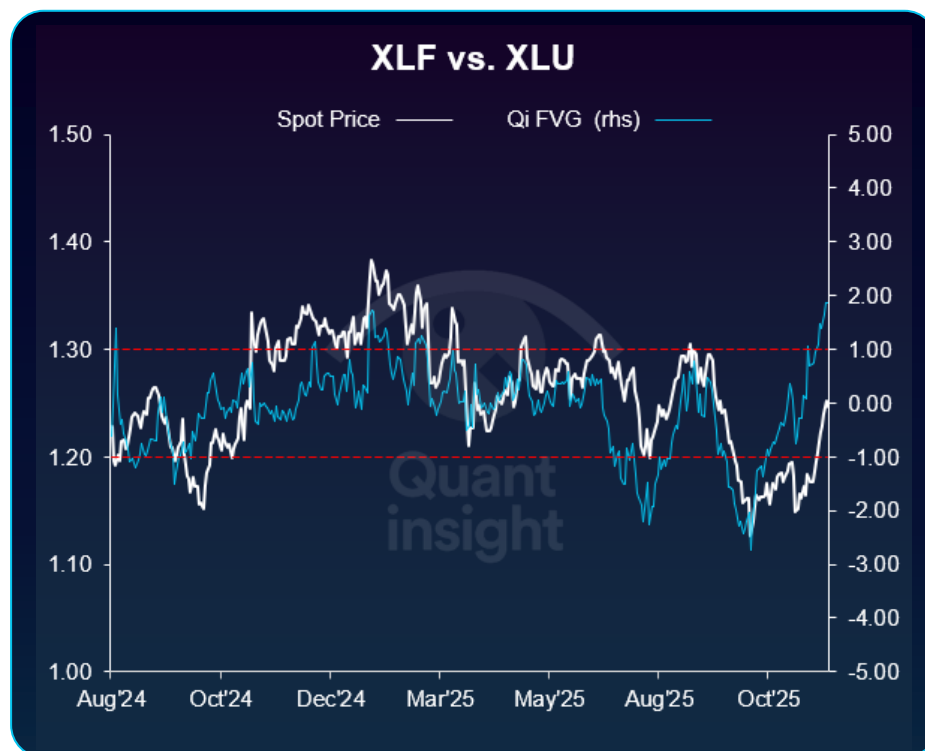


1. Rate sensitive vs. bond proxy stocks – too far, too fast?

The RV pair XLF vs. XLU (US Financials vs. US Utilities) has today a Qi fair value gap of 1.9 sigma / 7.1% rich to its macro-warranted fair value.

Typically this pair has moved with long-end rates given their differing duration features and the recent sell-off in US rates has provided support. US Financials outperformance requires reflationary backdrop where both inflation-expectation and rates move higher. Indeed, it appears the market is excited about growth acceleration in Q1.

However, the fair value gap sits at almost 5yr highs. This must be respected given the close recent correlation with price action and the Qi FVG.

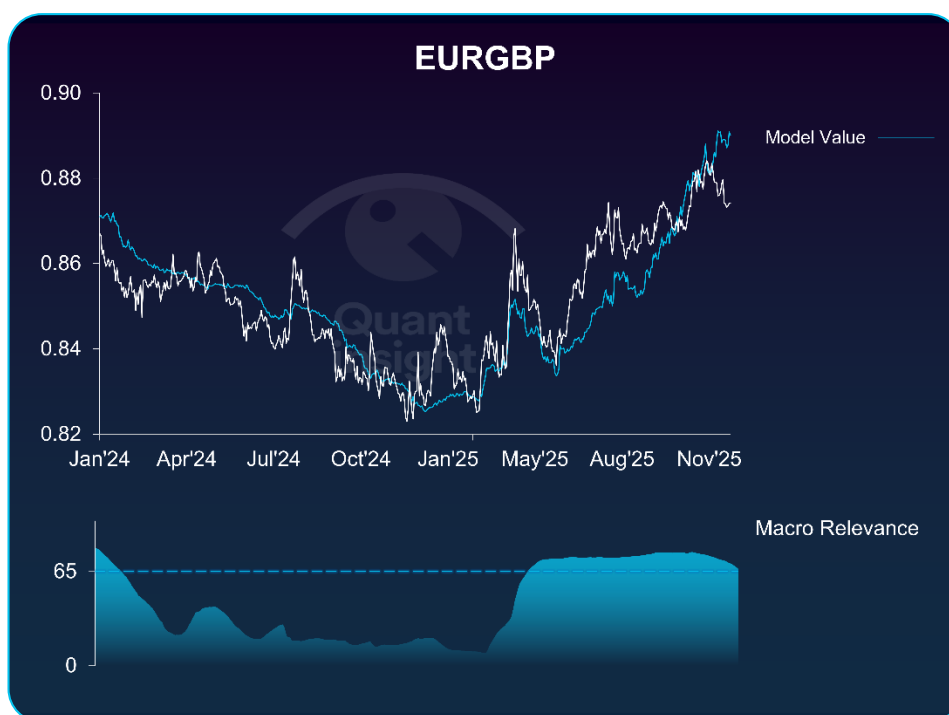




2. EURGBP – upside risks

Between them nominal and real yield differentials account for nearly 40% of Qi's EURGBP model. There are other drivers of course. For example, current relationships show the Euro is seen as the more defensive bet – weaker UK & European GDP growth help the single currency appreciate.

But the recent re-pricing of 2026 ECB rate expectations after Gov Schnabel's comments on rate hikes should have been supportive for EURGBP. Whether a function of GBP short covering post Budget or something else, the market has thus far ignored the shift in interest rate differentials.



That divergence leaves the cross 1.2 sigma (1.8%) cheap to macro-warranted fair value. The cross has only been in regime & this cheap to Qi model 11x since 2009. Back tests reveal a 82% hit rate suggesting decent risk-reward on EURGBP upside from here.



3. EM bonds – trend break or pause that refreshes?

There's a narrative that Emerging Markets continue to look attractive; several strategists suggest both EM equities & bonds deserve a decent allocation into 2026.

Qi's model for EMB, the iShares ETF tracking JP Morgan's Hard Currency EM bond index looks interesting. After a long period out of regime, macro relevance is now 79%. Model value has been trending strongly higher since April.

But, more recently, it has stalled. Qi's model shows strong economic growth, healthy risk appetite (low VIX, tight credit) are still tailwinds. But the re-pricing of Western Central Banks is starting to impact. EMB wants DM rate cuts & Quantitative Easing (low rate vol). The recent wobble in G7 bond markets has become an offsetting headwind.



The good news is markets have already priced some of that bad news in. EMB sits 0.5 sigma (1.8%) cheap to aggregate macro conditions. Nothing to do right now but watch Qi model value to see which way macro momentum breaks next.



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