MacroVantage

1. US Cyclicals Rotation in Rich Territory
2. USDJPY – Politics Pushed it Too Far
3. Systemic vs. Idio – Credit is the Biggest Tell

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1. US Cyclicals Rotation in Rich Territory

The Nasdaq 100 is testing its 50d MA and we have seen a sharp cyclical rotation out of Tech to other compartments of the market with markets betting on a Goldilocks backdrop into 2026 alongside greater discernment in the next phase of AI between the winners & losers.

However, we have just seen a weaker payrolls than expectations and the Fed dot plot is projecting only one cut next year (albeit two are priced). This does put into question the cyclical rally.

On Qi's valuation model, XLK is only 0.7 sigma below its macro-warranted fair value – not yet a signal to expect outright relief for the sector.

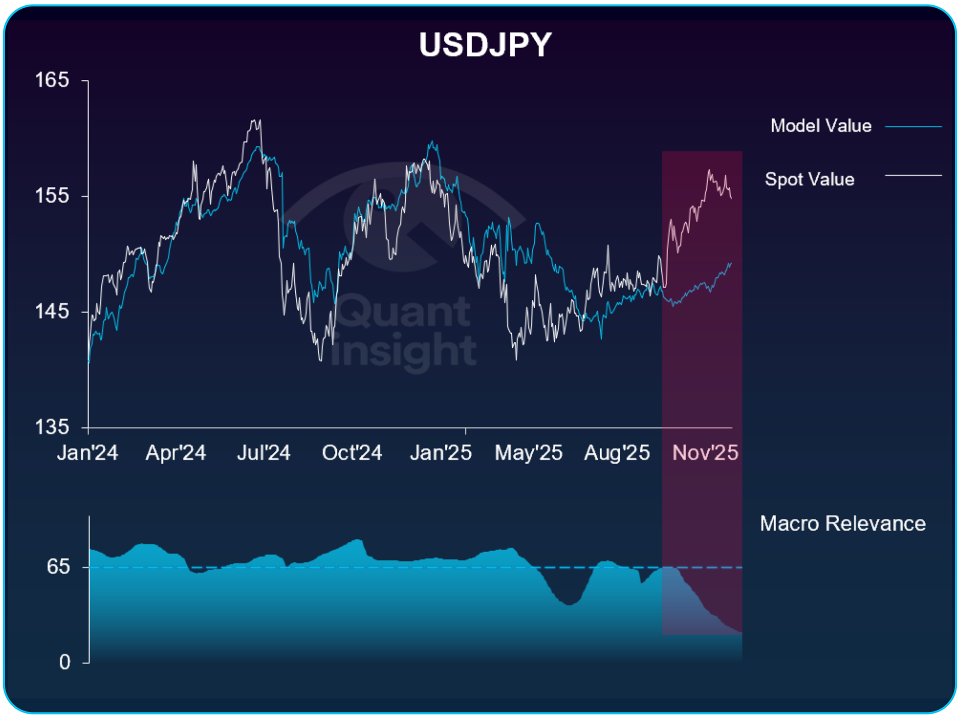
However XLY (Consumer Discretionary) relative to SPY is at +2.3 sigma – close to 5yr highs.

XLK vs. XLY is at -1.7 sigma – at the lower end of its 5yr range. Since 2009, there have been 23 events at this level of dislocation. Two-thirds of the time XLK outperformed over the following 4 weeks. Below, note the tight correlation between the FVG and relative spot price performance – be cautious on the cyclical rotation.

2. USDJPY – Politics Pushed it Too Far

The fall in Qi model confidence and the overshoot in spot USDJPY both began in early October, immediately after Takaichi's LDP leadership win.

In short, politics overwhelmed macro. More specifically, the gunshot reaction pushing the Yen down may now have overshot, especially if you believe the policy mix is shifting.



Heading into tomorrow's BoJ meeting, USDJPY sits +1.3σ (3.6%) rich to macro conditions.
The key driver right now is inflation differentials. Rising Japanese inflation expectations / falling US inflation expectations are driving Yen weakness.

A 25bp hike is largely priced. Guidance matters more. If the Takaichi government wants to tackle the affordability problem, it needs monetary policy to cap Yen inflation swaps, long JGB yields and USDJPY upside. The BoJ may have more room to tighten than markets discount.

As ever with Japan, any shift will be slow. For now, low model confidence and rising model value mean this valuation gap is tactical only. Any pullback toward 149.70 macro fair value should be banked quickly.

3. Systemic vs. Idio – Credit is the Biggest Tell

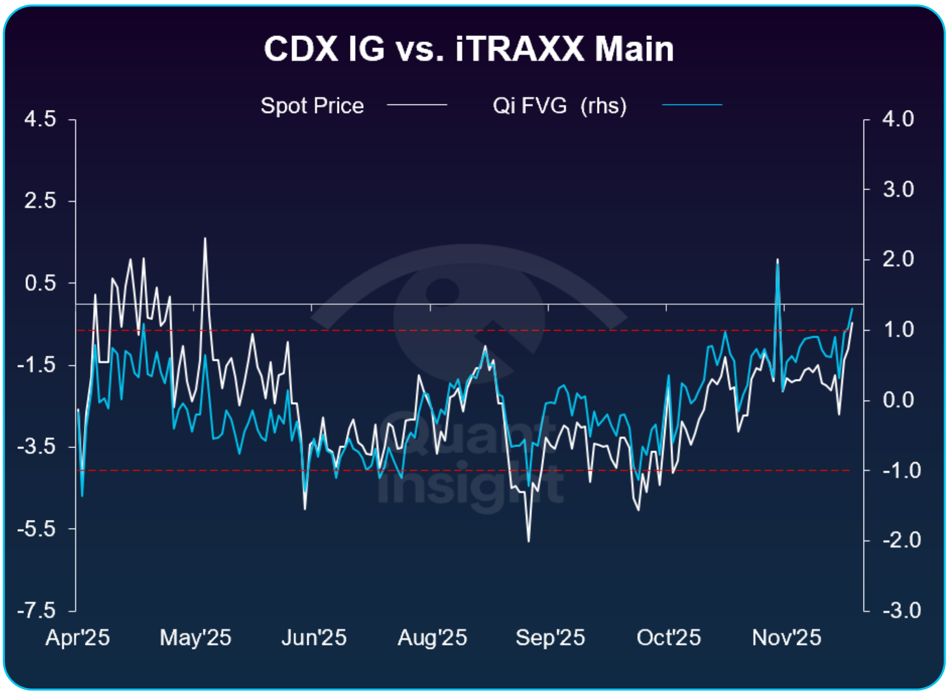
For now, credit spreads remain contained overall – the market continues to view the likes of Oracle as a single name rather than systemic story.

If and when that changes, risky assets more broadly will face a far sterner test. And there are some early warning signs that the AI funding scare is starting to impact.

For example, US IG spreads now trade flat to European IG spreads. Both are trading just over 50bp when Qi suggests macro fair value is actually closer to US spreads trading 3bp through.

That's a 1.3 sigma Fair Value Gap and it is striking how, since April's "Liberation Day", Qi's FVG and the spot CDX IG – iTraxx Main spread have moved in tandem. That would suggest a strong chance the mean reversion occurs via US credit outperforming.

If it doesn't, that would be a big tell that this isn't simply an Oracle story but a bigger issue for all asset classes.



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+44 2037519400
info@quant-insight.com
www.quant-insight.com

Quant Insight Limited
Dawson House, 5 Jewry Street
London, EC3N 2EX