MacroVantage

1. XLB – Valuation Fatigue?
2. Run It Hot — But Pick the Right Cyclical
3. Aussie fx Upside. Right story, Wrong price.

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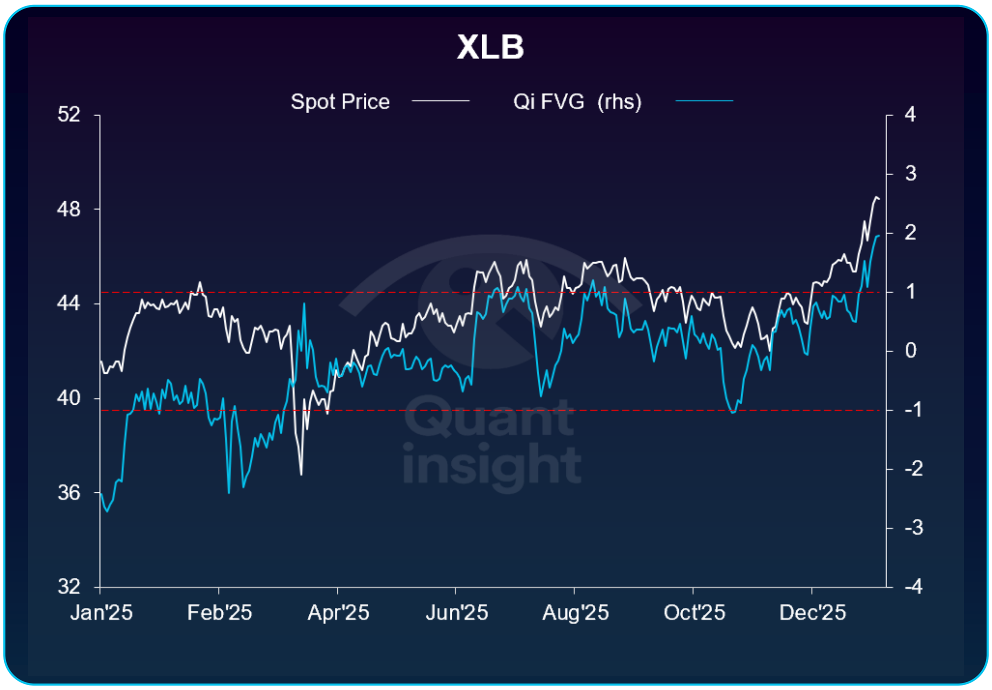
1. XLB – Valuation Fatigue?

Materials have led US sectors over the past month. Tailwinds are plentiful: defence spend, AI build-out, gold, critical minerals.

But it's stretched:

- XLB sits **+1.9σ** rich vs Qi fair value — near cycle extremes
- Gold RSI at **94** says positioning is crowded
- Valuation at **20.5x forward PE**, close to prior peaks (22–23x)

The momentum is strong, but history says **mean reversion still matters.** Over the last year, XLB spot has tracked its Fair Value Gap closely. Extremes have marked turning points and therefore need to be respected.



2. Run It Hot — But Pick the Right Cyclical

Cyclicals are a consensus 2026 trade under Trump's run-it-hot policy mix. The question is which sector offers the best value?

The proposed credit card cap and a poor reaction to JPM earnings has resulted in a sharp sell-off in US banks; **XLF now sits 1.6σ cheap (-4.3%) versus XLI**.

Clearly idiosyncratic policy directives have the power to hurt but, from a macro perspective, we'd observe:

- Macro has **strong explanatory power** of the XLF/XLI RV trade – model confidence is 78%
- Macro conditions support XLF outperformance - **model value is up 2.25%** over the last month
- The current **FVG sits at the bottom** of historical ranges

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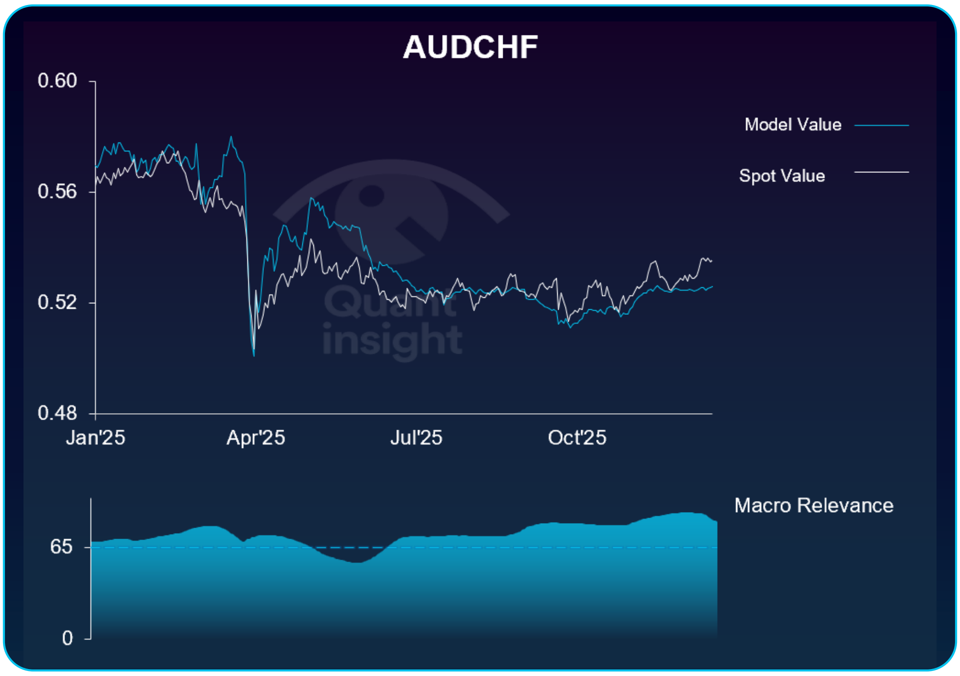
3. Aussie fx Upside. Right Story, Wrong Price.

Long AUD is a popular "Year Ahead" trade, driven by China optimism, Japanese stimulus and RBA rate hike expectations.

But while most crosses (including AUDUSD) are at fair value, the rally has critically overshot in two specific pairs. On both **EURAUD and AUDCHF, the Aussie Dollar screens as 1.6σ rich.**

Macro drivers are flatlining while spot price has rallied to range highs. The RBA repricing and the move in metals are tailwinds but other factors, notably relative yield curve shape, have offset.



Of the two, short AUDCHF looks the better setup. It's a high-probability signal: since 2009, fading AUDCHF at these levels has a 79% hit rate with an average return of +1.8%. Long AUDCHF is a popular carry trade for the year ahead but, right now, the risk reward suggest downside offers an attractive "risk off" hedge.

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