Quant insight

MacroVantage

1. USTs. Flows > Macro

Bonds are rallying on flows, not fundamentals.

2. EM ex-China – Amber sign ?

EMXC is stretched — the first casualty of rising rate volatility?

3. NZDJPY downside for the "buy Japan" trade

NZDJPY is the clear outlier among Yen crosses — and the cleanest expression of the "buy Japan" trade.

19th February 2026

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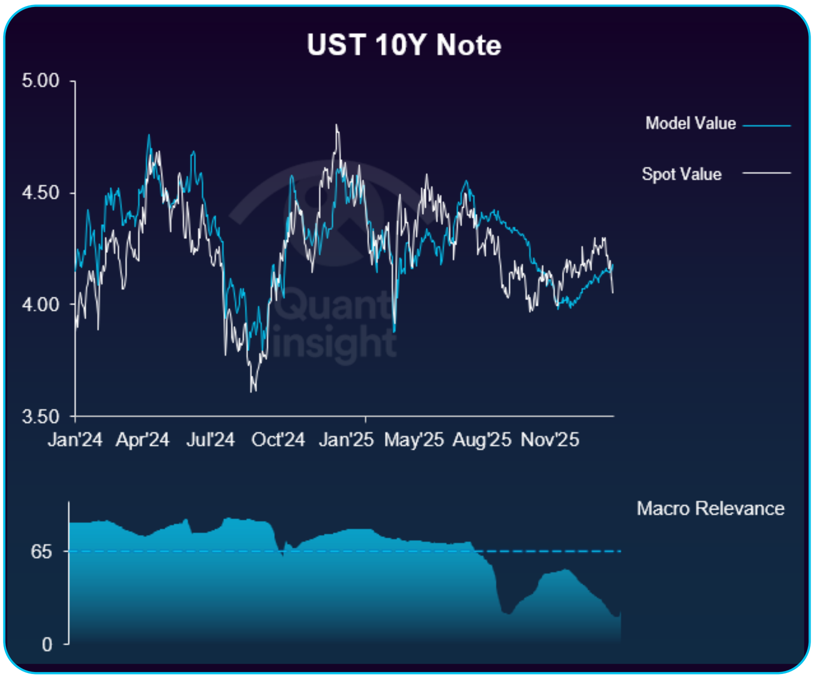
1. USTs. Flows > Macro

Bonds are rallying on flows, not fundamentals.

Thus far, AI has been treated as a relative value rotation story. Not a systemic threat. That's why the re-pricing in the bond market is so significant.

Stronger US data and Takaichi's super majority in Japan should have pushed yields higher. Instead, govvies have rallied re-discovering their safe haven status in an AI-driven deflationary world. In contrast, Qi's model value for 10y USTs – which includes tracking GDP growth and inflation expectations - points to rising yields. At the same time, Qi model confidence has fallen sharply.



When RSq collapses, macro isn't in charge. Something else is. Today that could be positioning, flows, hedging demand. Bonds have been under-owned. A scramble for duration hedges could explain the squeeze, and the disconnect with Qi model value.

In short, macro hasn't validated this rally. If yields keep falling and RSq rebuilds, it's a genuine growth scare; if not, this is just a positioning squeeze.

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2. EM ex-China – Amber sign ?

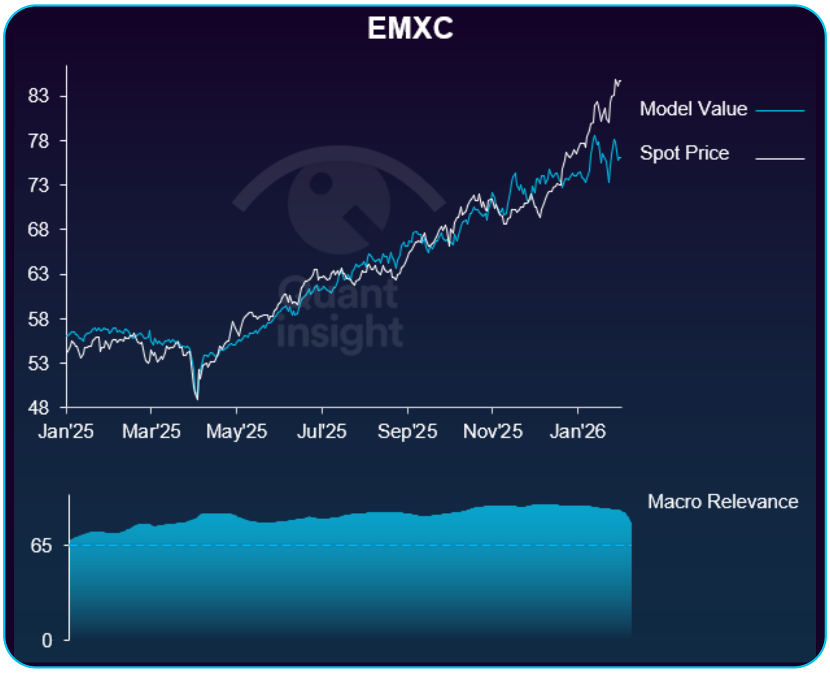
EMXC is stretched — the first casualty of rising rate volatility?

Emerging markets are the strongest region globally YTD (EEM +12%), *despite* Chinese equities - the largest index weight - being flat on the year.

Beneath the headline strength, dispersion is growing. EMXC is trading +1.3σ rich versus Qi's model fair value, while FXI sits -1σ cheap.

EMXC's dominant factor sensitivity is rate volatility — the ETF historically performs best when rate vol is trending lower. This year, rate vol has risen, even as EMXC has pushed to new highs.

Since 2009, EMXC has only reached this level of fair-value stretch five times. In four of those episodes, EMXC subsequently delivered a profitable fade.



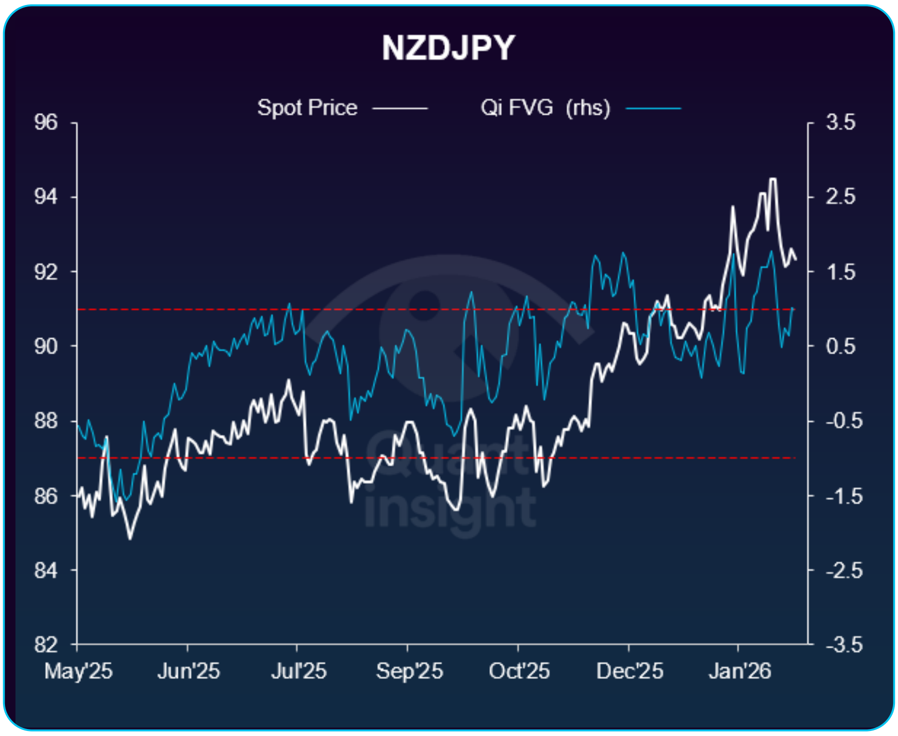
3. NZDJPY downside for the "buy Japan" trade

NZDJPY is the clear outlier among Yen crosses — and the cleanest expression of the "buy Japan" trade.

As the dust settle post elections, most Yen G7 crosses are close to Qi macro-warranted fair value. The outlier is NZDJPY which sits 1 sigma (2.3%) rich to macro.

Kiwi Dollar has continued to rally, ignoring the fact that macro momentum has stalled in February. Primarily because VIX > 20 has become a headwind for this famously "risk on" fx pair.

Post Liberation Day, the correlation between spot NZDJPY and Qi's FVG is high suggesting the mean reversion occurs via spot catching down to macro fundamentals.



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