

MacroVantage

1. UST Rally – Made in Japan?

Japan is exporting lower yields to the US but Treasuries have now overshot macro fair value.

2. Macro Gravity – XHB vs XLF

Homebuilders have detached from macro reality and rates hold the key to reversal.

3. Cockroach Watch

US HY spreads have moved back to macro fair value; now it's IG spreads that are looking stretched, but this time by widening beyond macro fundamentals.



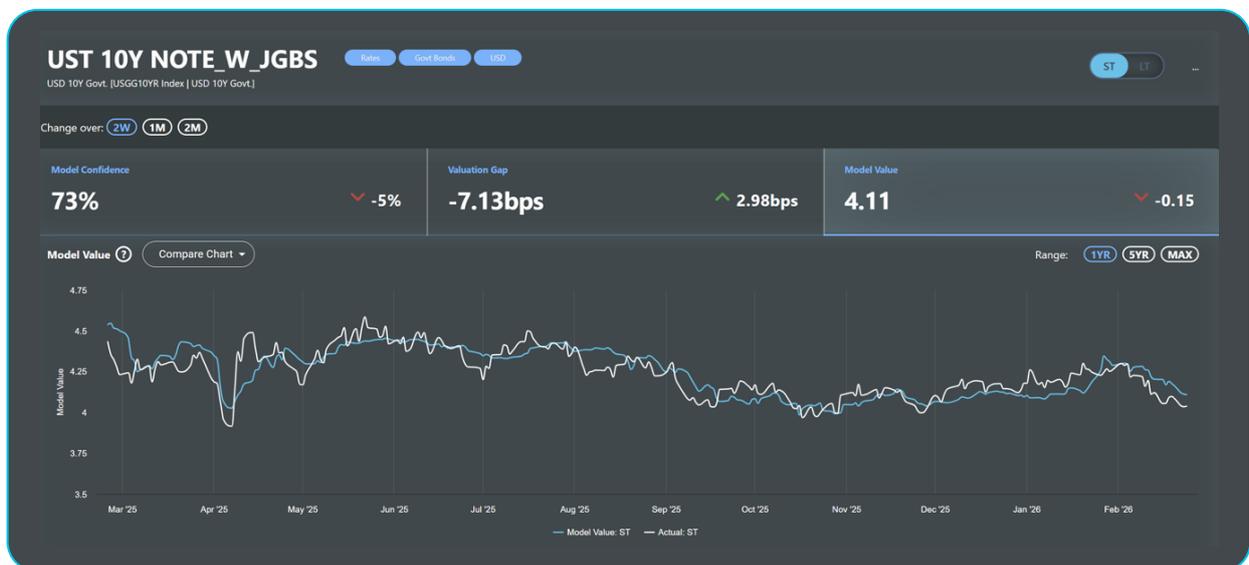
1. UST rally – made in Japan?

Japan is exporting lower yields to the US but Treasuries have now overshot macro fair value.

The UST rally isn't domestic; it's imported from Japan.

Qi's custom ST model for 10y UST yields including 30y JGB yields has 73% confidence and shows JGBs as the second-largest positive driver. The ~50bp collapse in JGB yields has been instrumental in dragging Treasury yields lower.

Fair value sits at 4.11% versus 4.24% on our core model. So the Japan influence is very real but, even so, spot has still overshot by ~7bp.



Custom models are Qi's sandbox to road test difference hypothesis. In this case, they reframe the US's decision to rate-check USDJPY fx last month. If you want lower UST yields, you need calm in JGBs.



2. Macro Gravity – XHB vs. XLF

Homebuilders have detached from macro reality and rates hold the key to reversal.

Year-to-date, a 21% performance gap has emerged between US Homebuilders (+14%) and Financials (-7%), driven by two distinct macro narratives:

XHB Momentum: Fuelled by a “perfect storm” of 30-year mortgage rates hitting three-year lows (~6.1%), robust housing starts, and pre-midterm policy speculation.
XLF Malaise: Weighted down by falling long-end yields and a structural AI-driven re-rating of traditional banking.

The XHB/XLF ratio has decoupled from macro fundamentals, now sitting at +2.5 sigma above fair value—an extreme right-tail event not seen since 2009.

Historically, price action and the Qi Fair Value Gap move in lockstep. If Treasury yields have overshoot their rally, any backup in rates will likely trigger a sharp mean reversion.



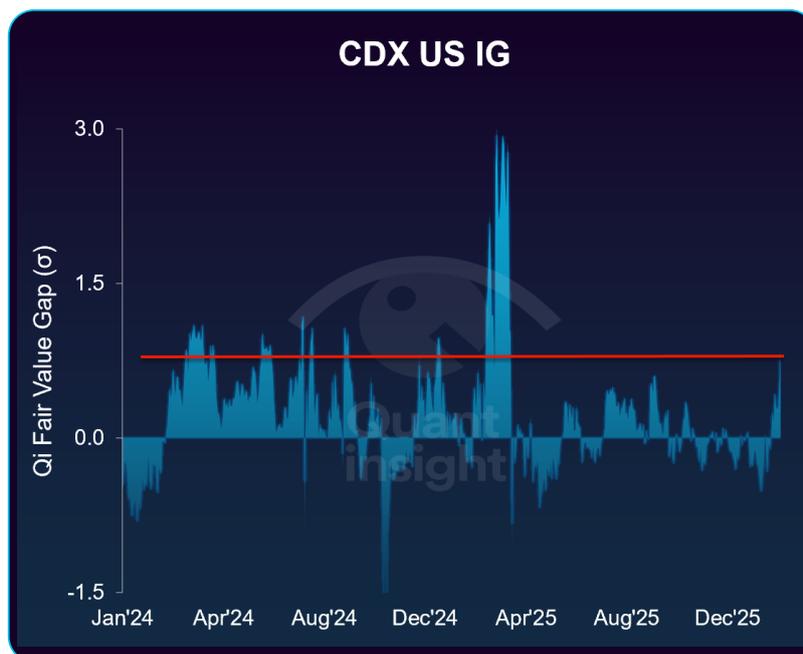


3. Cockroach Watch

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Four weeks ago CDX US HY spreads sat under 300bp. Qi's Fair Value Gap was almost -1σ warning spreads looked too tight. HY spreads have subsequently bounced back to around our 313bp macro fair value.

Now IG is the outlier. AI issuance fears and credit quality concerns have pushed CDX US IG's FVG close to $+1\sigma$ suggesting the opposite – spreads are too wide versus macro.



Outside last April's 3σ tariff shock and the 2024 Yen carry unwind, such extensions are rare.

There are reasons to fear a credit reckoning. But Qi's IG model has 93% stable explanatory power, and macro fair value has held near 50bp for over two months.

At the index level, macro still points to benign credit – for now.



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