Quant insight

MacroSpotlight

Is GDP Growth Really All About Oil?
What the Macro Correlation Matrix Is Signaling

13th March 2026

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Atlanta Fed GDPNow model just cut its Q1 estimate from 3.0% to 2.1% in four days.

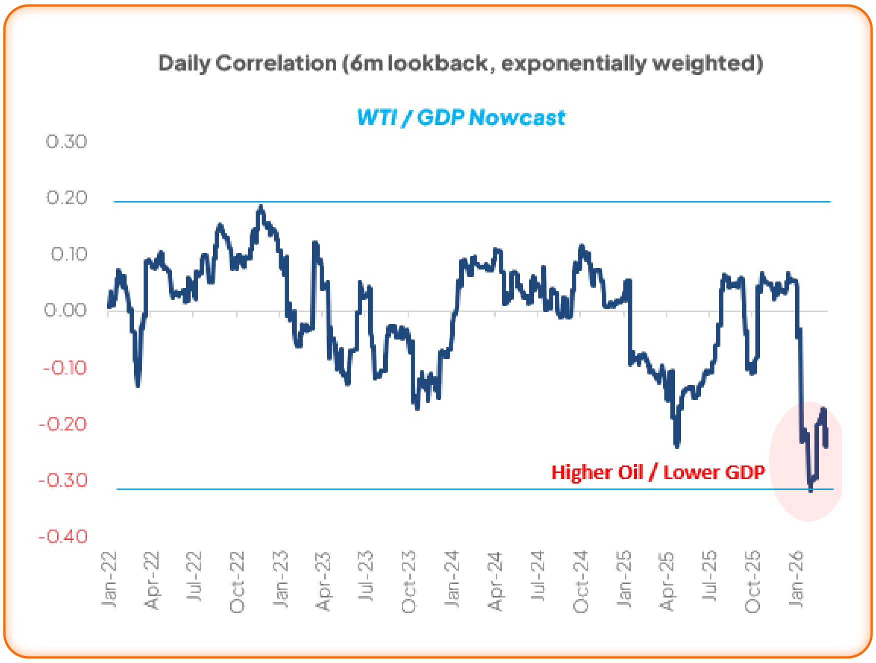
Most commentary blames oil. But the macro factor data suggests the more important signal sits one layer deeper.

We are seeing sharp, simultaneous shifts in macro factor correlations that look more like stagflation-lite than reflation.

1. **The Energy–Growth relationship has indeed flipped**

   Qi's Risk Model monitors daily the pair-wise correlation matrix across macro factors (6m lookback, exponentially weighted).

   Energy's correlation with GDP Nowcast is near its most negative level in 5 yrs. Historically oil had a small positive correlation with growth. Right now it looks more like a tax on growth.

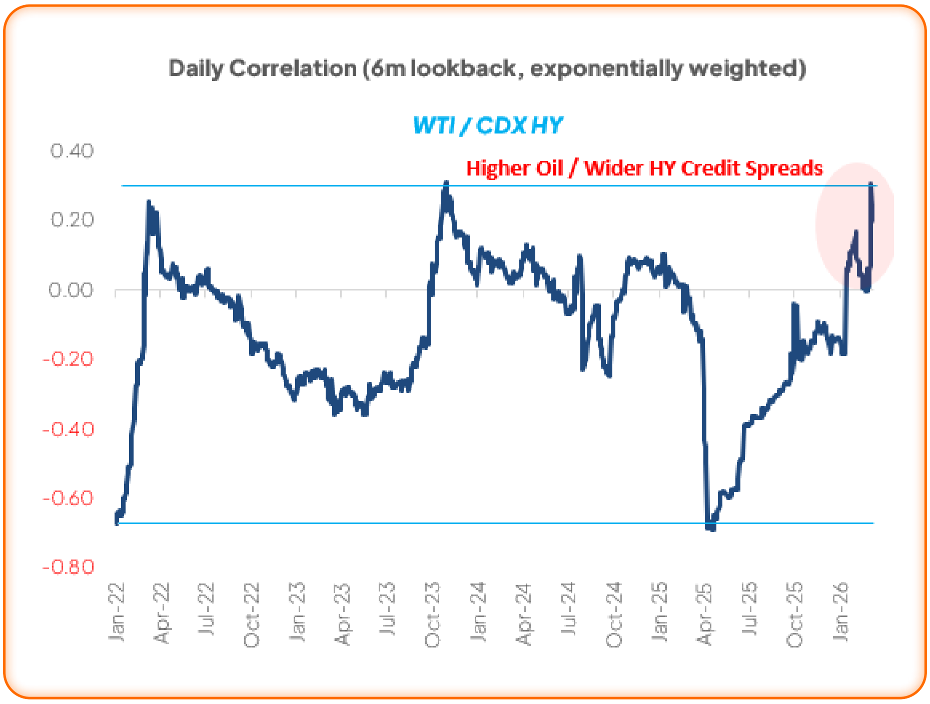


2. But credit is the Bigger Signal

In the latest macro factor correlation matrix, all the below cited factor pair correlations are close to their 5yr extremes.

- WTI vs GDP Nowcast: -0.21
- WTI vs. HY Corp Credit Spreads: +0.30
- WTI vs. Risk Aversion: +0.31
- HY Corp Credit Spreads vs GDP Nowcast: -0.34

This suggests markets are interpreting the growth downgrade primarily through a financial conditions channel, with oil acting as the trigger rather than the driver.



3. The Real Risk is the Amplification Chain

These factors don't move independently.

Oil spike → wider credit spreads → higher risk aversion → weaker growth expectations.

This looks more like "stagflation-lite" than reflation.

If higher oil were simply reflecting stronger demand, growth would remain positively linked to cyclical factors and credit would stay orderly.

So watch the second-round effects. CDX HY spreads and the crude forward curve will tell you whether this is a temporary scare or a tightening impulse.

4. Regime Shifts Show Up in Factor Correlations First

Most factor risk frameworks treat the covariance matrix as static.

But correlations move quickly during regime shifts.

When multiple factor correlations hit 5-year extremes simultaneously, that's usually macro regime change — not noise.

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