

# MacroVantage

## 1. Banks underpricing risks

*Banks are pricing a benign macro backdrop. The data isn't.*

## 2. The Yield Curve is lagging the oil move

*If crude oil has peaked, the 5s30s yield curve's next move is steeper.*

## 3. Credit: Good News Fully Priced?

*Credit is betting on a lasting ceasefire with minimal economic fall-out  
Macro has yet to confirm.*

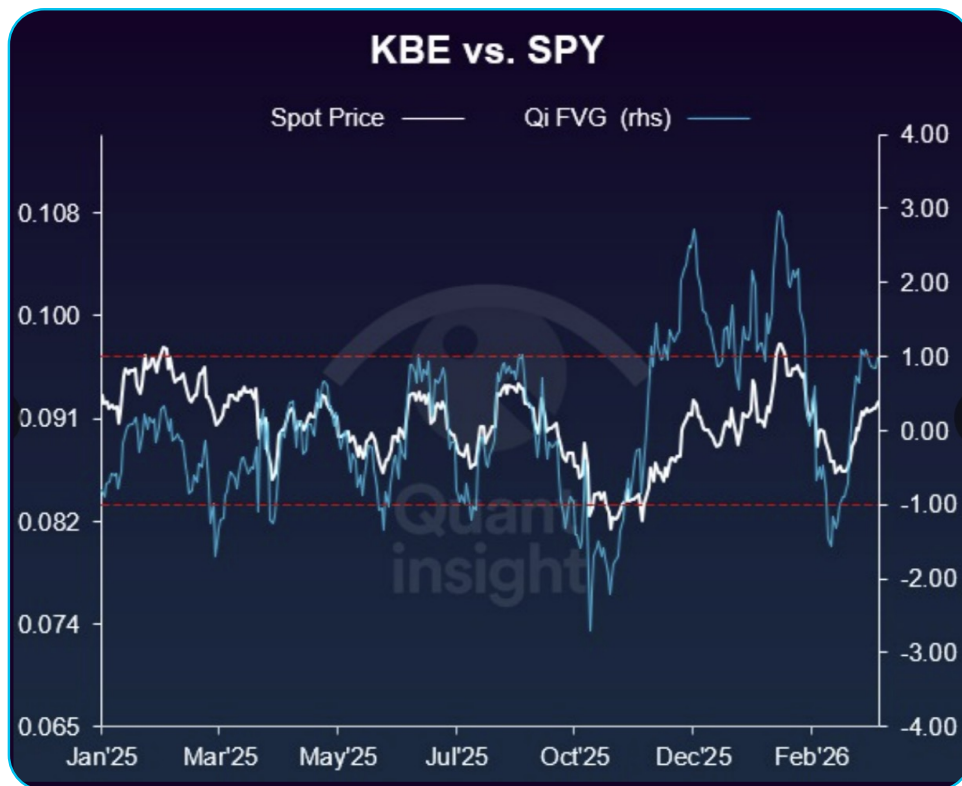


## 1. Banks underpricing risks

Higher energy, fiscal drag and tighter conditions could herald risks for H2 — a bad mix for loan growth, credit and ultimately earnings.

Lending standards are tightening, delinquencies are picking up and credit risk is creeping higher. Yet KBE vs SPY is  $\sim 1\sigma$  rich on Qi, with a strong history of mean reversion when FVG gets stretched. See the chart below.

Bottom-line, stagflation + credit risk look underpriced in banks. The top two upside drivers on Qi's valuation model for the sector is lower inflation expectations and tighter HY credit spreads.



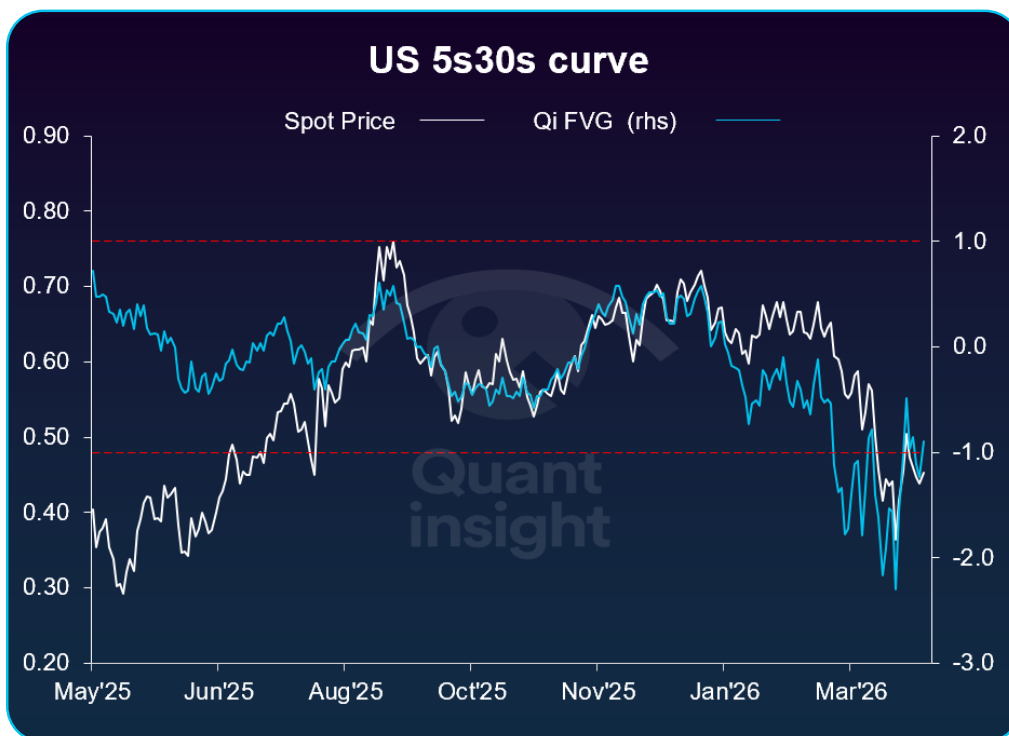


## 2. The Yield Curve is lagging the oil move

The spike in crude oil was the main driver of the ~20bp flattening in Qi's model for the US 5s30s swap curve over March. But fair value bottomed at the start of this month & has subsequently started to re-steepen thanks again to the moves in oil. Macro fair value now sits at 58bp.

Even with the snap steepening after the ceasefire announcement, the spot 5s30s curve is lagging the macro re-pricing. The Fair Value Gap is nearing the 1 sigma level.

Since last summer the spot curve shifts & Qi FVG have moved in tandem suggesting any FVG typically closes by the market re-rating towards macro fundamentals.





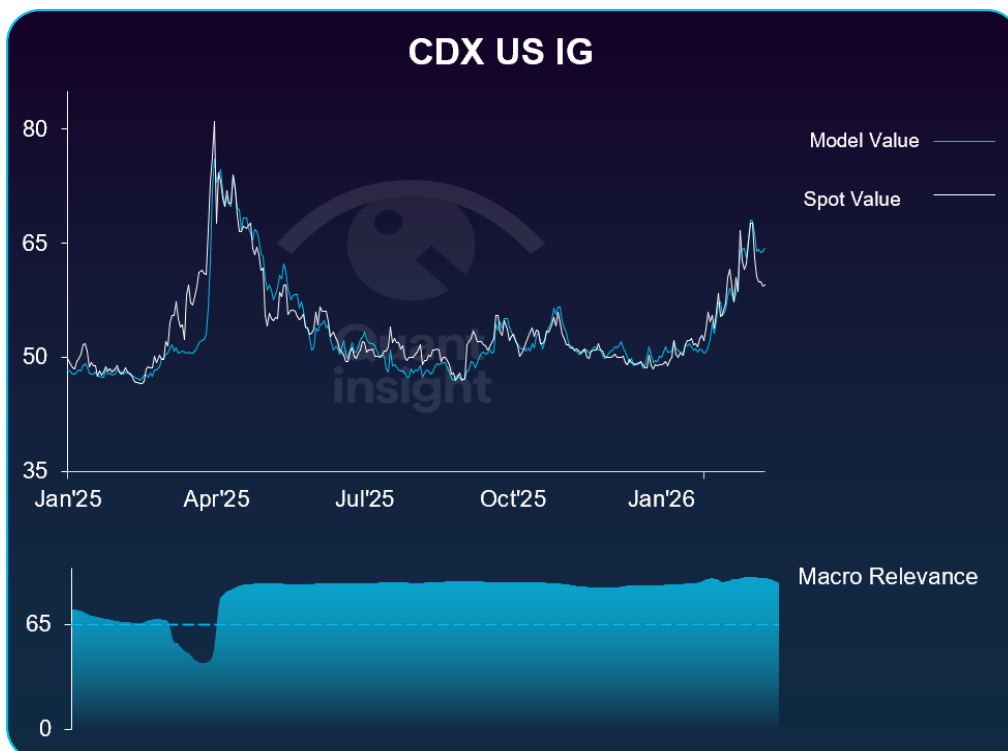
### 3. Credit: Good News Fully Priced?

US IG credit spreads are back around the levels that prevailed before war in Iran broke out. Credit seems to have decided the ceasefire will prove durable & the economic fall-out will be modest.

Qi's macro-warranted model value for CDX IG has stopped widening but has yet to show a meaningful move tighter. Lower VIX & rate volatility have helped, but what we need for a bigger, more sustainable move tighter in spreads is for oil & inflation to settle at lower levels.

It could be this is a situation where credit is leading / macro is lagging. But Qi's Fair Value Gap is over  $1\sigma$  (9bp).

At a minimum, credit has discounted a lot of good news already, doesn't offer great risk-reward to chase & is vulnerable if oil/inflation doesn't follow the same benign script.





## Disclaimer

This document is being sent only to investment professionals (as that term is defined in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order RSQ005 ("FPO")) or to persons to whom it would otherwise be lawful to distribute it. Accordingly, persons who do not have professional experience in matters relating to investments should not rely on this document. The information contained herein is for general guidance and information only and is subject to amendment or correction.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This document is provided for information purposes only, is intended for your use only, and does not constitute an invitation or offer to subscribe for or purchase any securities, any product or any service and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document does not constitute any recommendation regarding any securities, futures, derivatives or other investment products. The information contained herein is provided for informational and discussion purposes only and is not and may not be

relied on in any manner as accounting, legal, tax, investment, regulatory or other advice. Information and opinions presented in this document have been obtained or derived from sources believed to be reliable, but Quant Insight Limited (QI) makes no representation as to their accuracy or completeness or reliability and expressly disclaims any liability, including incidental or consequential damages arising from errors in this publication. No reliance may be placed for any purpose on the information and opinions contained in this document. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this document by any of QI, its employees or affiliates and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions.

Any data provided in this document indicating past performance is not a reliable indicator of future returns/performance. Nothing contained herein shall be relied upon as a promise or representation whether as to past or future performance. This presentation is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person under any circumstances without the express permission of Quant Insight Limited.