



MacroSpotlight

The 'Broadening' IWM Trade is Running on One Engine

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IWM, the iShares Russell 2000 ETF, is +10% YTD. Impressive headline. But decompose those returns through Qi’s MFERM and the picture is far less comfortable.

The entire YTD gain has been fuelled by idiosyncratic drivers. Macro is recovering from peak Iran escalation but hasn’t clawed all the way back:

- May oil futures trade at \$91 vs. \$65 pre the Iran Conflict. Oil is the biggest IWM factor drag YTD.
- Corporate HY credit spreads at 336bps vs. 288bps tightens back in late Jan. The next biggest drag.
- Rate vol & equity vol are back to levels at the start of the Iran Conflict but not at YTD lows.
- 10yr real yields remain notably above YTD lows.

Yes, stocks are a discounting mechanism and it has been noted that earnings revisions have remained robust in the face of peaking macro fear. IWM’s Macro Share of Risk spiked during the crisis — and the subsequent decline in MSR fuelled a recovery in risk-adjusted returns. Classic pattern: fear dissipates, Sharpe recovers. The squeeze from peak macro fear was the trade.

But here’s the question: can MSR continue to fall?

For MSR to keep declining, macro headwinds need to genuinely clear. Oil at \$91, HY at 336bps, real yields well above YTD lows — these aren’t clearing. Michigan Consumer Sentiment is at record lows. The lower half of the K-economy is struggling.

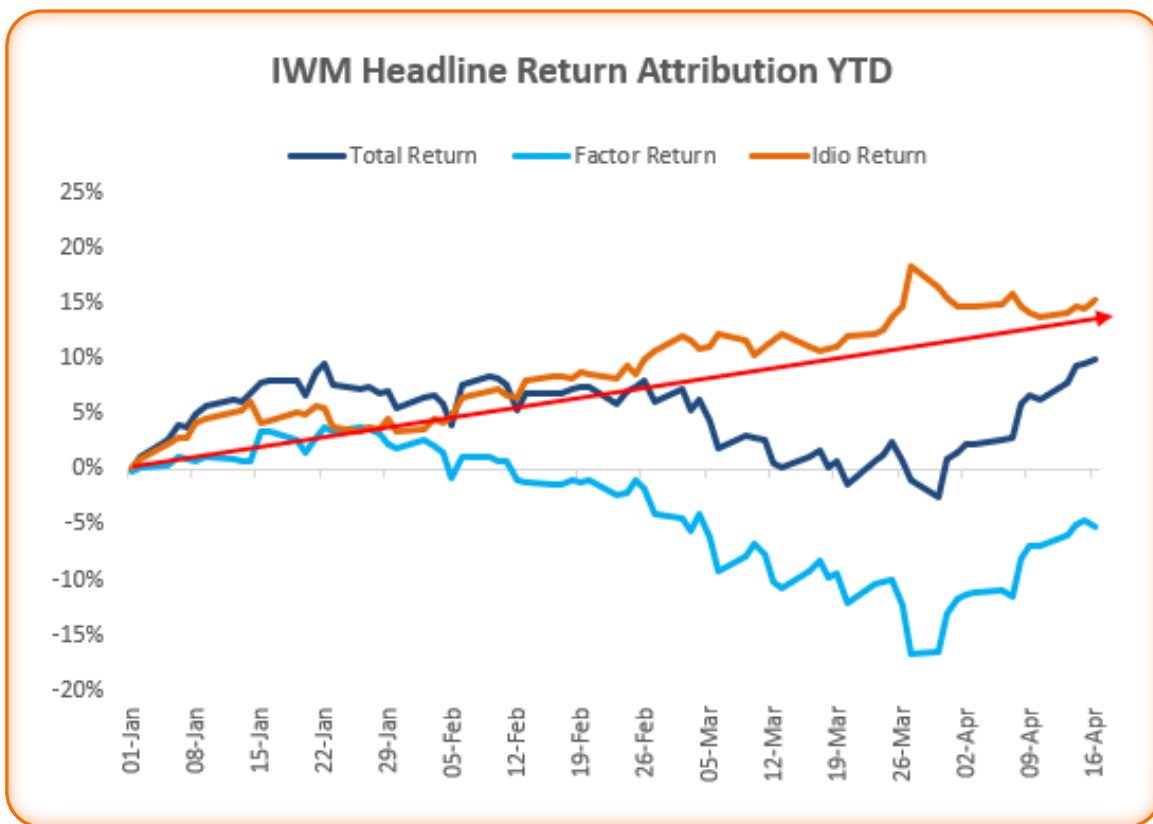
The start-of-year narrative was a “broadening” trade driven by a stronger consumer,



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above-trend growth, below-trend inflation, a friendly FOMC backdrop, and a rotation out of Mag7. The macro data says that narrative is broken. The broadening is alive in idio — earnings revisions have held — but it has no macro floor underneath.

The broadening trade is running on one engine. As we go into earnings season, if idio stalls, there's nothing to catch it.





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