MFERM in Action

Recent Equity Insights

Dec 2025 – Feb 2026

MFERM in Action

11 real-time market commentaries demonstrating how MFERM provides actionable macro intelligence for equity investors. Each commentary identifies a live market question and how MFERM's capabilities deliver an actionable insight.

1. Can Equities & Rates Rise Together?

December 2025

- **MFERM Capability:** Exposure Dynamics
- **Key Insight:** SPY reliance on lower yields increasing

2. The Stakes Have Been Raised

December 2025

- **MFERM Capability:** Regime Analysis
- **Key Insight:** Q4 returns diverge from macro — idio driving, not macro

3. Macro Complacency Indicator

January 2026

- **MFERM Capability:** Revealing Macro Risk
- **Key Insight:** Qi risk indicator in complacency zone entering 2026

4. The Macro Bet Behind Value

January 2026

- **MFERM Capability:** Regime Analysis
- **Key Insight:** Value vs Growth = concentrated reflation macro bet

5. EEM vs SPY: The Coiled Spring

January 2026

- **MFERM Capability:** Relative Exposure Dynamics
- **Key Insight:** USD and curve sensitivity at 9-year highs — trade is coiled

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6. Short Squeeze — Amber Sign

January 2026

- **MFERM Capability:** Return Attribution & Macro Risk
- **Key Insight:** Short squeeze 58% macro-driven; MSR at complacency lows

7. Small Caps: Sharpe at Highs

January 2026

- **MFERM Capability:** Macro Share of Risk (MSR)
- **Key Insight:** IWM multi-year high Sharpe at threat - MSR at range lows

8. Momentum at a Crossroads

February 2026

- **MFERM Capability:** Regime Cycling
- **Key Insight:** Momentum idio tailwind exhausting — needs macro hand-off

9. Hiding in Consumer Staples?

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- **MFERM Capability:** Return Attribution
- **Key Insight:** XLP outperformance is all idio — no macro support

10. Crowding: Kitchen vs Menu

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- **MFERM Capability:** Regime Analysis
- **Key Insight:** VIP vs Most Short regime = curve steepening + disinflation

11. The Great Rotation

February 2026

- **MFERM Capability:** Return Attribution
- **Key Insight:** EW S&P 500 macro fuel stalling— positioning rotation dominance

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What These Insights Reveal

Each case study applies MFERM's three core questions to a live market problem.

1. **Does Macro Matter? — Return Attribution**

   MFERM decomposes returns daily into macro and idiosyncratic components — revealing whether macro is a tailwind or headwind. Posts 1, 2, and 11 show equities rallying while macro-attributable returns turned negative. Post 9 shows XLP outperforming with low macro support. When factor and spot returns diverge, the model is flagging a shift.

2. **Which Factors Matter? — Exposures & Regime**

   MFERM quantifies every macro sensitivity and how it's changing. But exposures are the kitchen; the regime is the dish the market wants served. Post 4 reveals Value vs Growth as a bet on 5s30s steepening. Post 5 shows EEM vs SPY coiled at 9-year USD sensitivity highs. These are implicit macro bets traditional risk models don't surface.

3. **Am I Compensated for taking Macro Risk? — Risk Decomposition**

   The Macro Share of Risk (MSR) measures how much predicted risk comes from macro. Elevated MSR = fear premium embedded. Low MSR = complacency and fragility. Post 3 flags complacency entering 2026. Post 7 shows IWM's MSR at range lows despite peak Sharpe. In each case, the model identified vulnerability early.

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1. Can Equities & Rates Still Rise Together?

December 2025

MFERM Capability: Factor Exposure Dynamics — tracking how macro sensitivities shift over time

Key Insight: SPY rally becoming more fragile as tolerance for higher yields and a strong USD is fading. Alongside, sensitivity to HY credit hits YTD highs.

- **Positive sensitivity to 10Y yields is falling.** Earlier in the year, rising yields signalled growth and reflation. That relationship has broken. SPY strength is increasingly reliant on lower 10Y yields.
- **Positive sensitivity to USD is falling.** The equity market is showing reduced tolerance for a stronger dollar, consistent with tightening financial conditions concerns.
- **HY credit spreads matter again.** Negative sensitivity to wider HY spreads is at YTD highs — a more fragile risk backdrop if any cracks appear in credit markets.
- **Forward P/E capped at ~22.5x since the summer** — rates and credit are still limiting multiple expansion. Equities rising despite, not because of, the macro backdrop.

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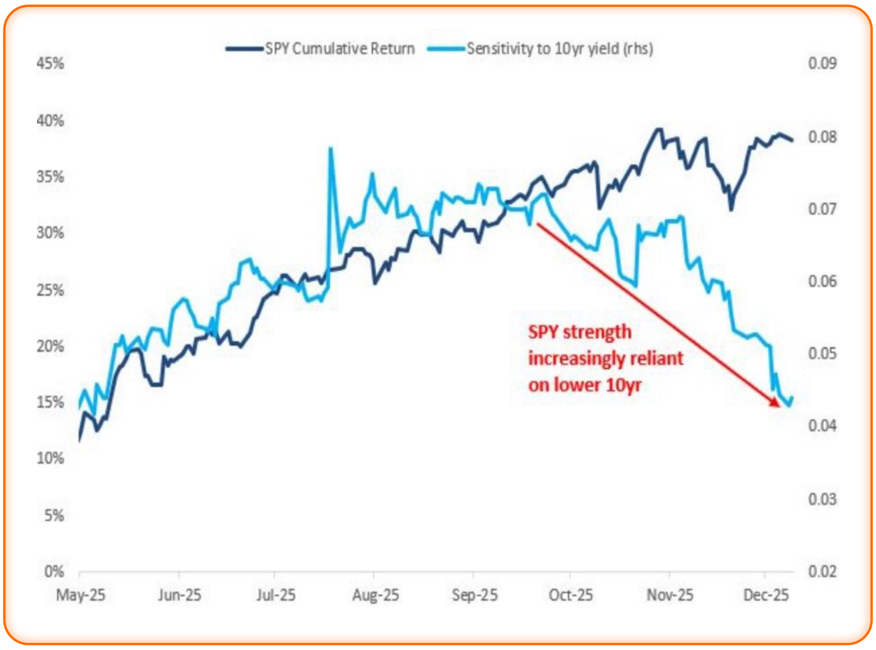

Top: SPY Cumulative Return vs 10Y Yield Sensitivity (RHS) — diverging since October.
Bottom: SPY vs US 10Y Yield — inverse correlation strong.

Macro fundamentals shifting from supportive tailwinds to a hard cap on further valuation growth.

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2. The Stakes Have Been Raised

December 2025

MFERM Capability: Return Attribution + Regime Analysis — divergent macro vs idiosyncratic returns

Key Insight: Q4 equity returns diverged from their softer macro-attributable returns. Entering 2026 with complacent positioning, alpha matters more than beta.

- **Growth vs inflation remains the centre of macro gravity.** Equity strength has tracked rising sensitivity to GDP Nowcasts vs inflation expectations — a market pricing a perpetual soft landing: growth strong enough for profits, inflation cool enough for the Fed.

- **Q4 returns diverged from macro.** Total returns pushed higher while macro-attributable returns softened. Idiosyncratic drivers — whether animal spirits or bullish YE outlooks — propelled Q4.

- **Entering 2026:** Citi US Economic Surprise Index below zero, CDX HY not at tights, yet equity and rate vol at the lows. Sell-side consensus calling for ~10% upside (they forecast the same for 2007 & 2008).

- **Implication:** In contrast to 2025, alpha capture and leakage prevention will matter significantly more than simply owning beta.

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Top: S&P 500 vs Sensitivity to GDP Nowcast vs Inflation Expectations — a rising growth/inflation trade-off.
Bottom: S&P 500 Total Return vs Macro Return from Apr-25 low

The stakes are raised: alpha capture and leakage prevention will matter more than simply owning beta in 2026.

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3. Macro Complacency Indicator

January 2026

MFERM Capability: Macro Risk Indicator — model risk forecast deviation from trend as a fear/complacency gauge

Key Insight: Qi's implied risk forecast for the S&P 500 entered 2026 firmly in complacency territory. After +88% over 3 years, this is not the time for max offense.

- **S&P 500 3-year total return ~+88%.** Outside of Covid, only surpassed during the tech bubble. VIX at 1-year lows, BofA FMS cash at record lows, Year 2 of a presidential term well-known to be the toughest.
- **Qi risk indicator in complacency zone.** Model forecast deviation from 50-day MA at the low end of its historical range. Every Wall Street analyst predicting a stock rally — sell-side targets are reactive (3-month lag to price), not predictive.
- **Historical pattern:** extreme macro complacency → vulnerability. Extreme macro fear → market support. The chart below labels every major fear/complacency extreme since 2017.
- **If you can't predict, you must prepare.** Know where you are in the cycle, what's priced, and take action when risks become asymmetric.

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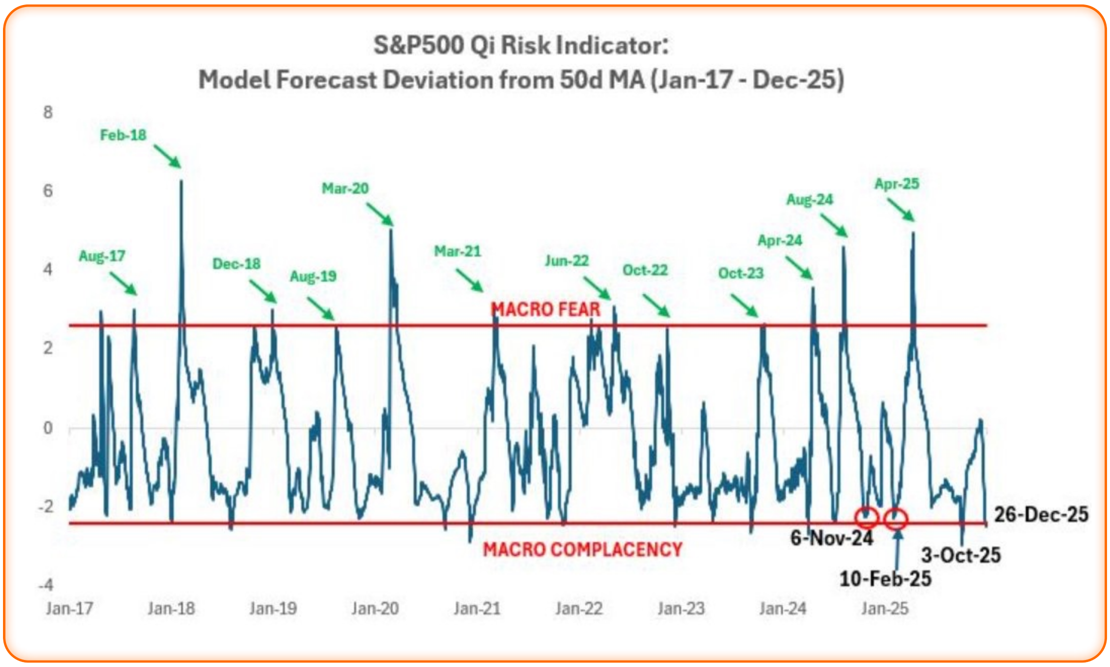

S&P 500 Qi Risk Indicator: Model Forecast Deviation from 50d MA (Jan-17 – Dec-25). Fear/complacency extremes labelled.

If you can't predict, you must prepare. Know where you are in the cycle, what's priced, and act when risks become asymmetric.

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4. The Macro Bet Behind Value

January 2026

MFERM Capability: Regime Analysis — identifying which factor exposures are currently "top of mind"

Key Insight: Value vs Growth is not just a style call — MFERM reveals it's a concentrated macro bet on reflation: steeper curve, stronger metals, weaker dollar, tighter credit.

- **Value outperformed Growth in every major market outside the US in 2025.** Since November, it has done so in the US too. If you believe RoW will outperform the US, you are paid to take a Value tilt.
- **MFERM reveals what Value outperformance currently requires:** steeper 5s30s curve + stronger metals + higher terminal rate (reflation), weaker dollar (easier global FCIs), weaker oil (lower input costs), tighter credit spreads (balance-sheet sensitivity).
- **The 5s30s curve is the lead indicator.** The close relationship between Value vs Growth and curve steepening since November is striking — see the right-hand chart. Value is a very clear macro bet here.

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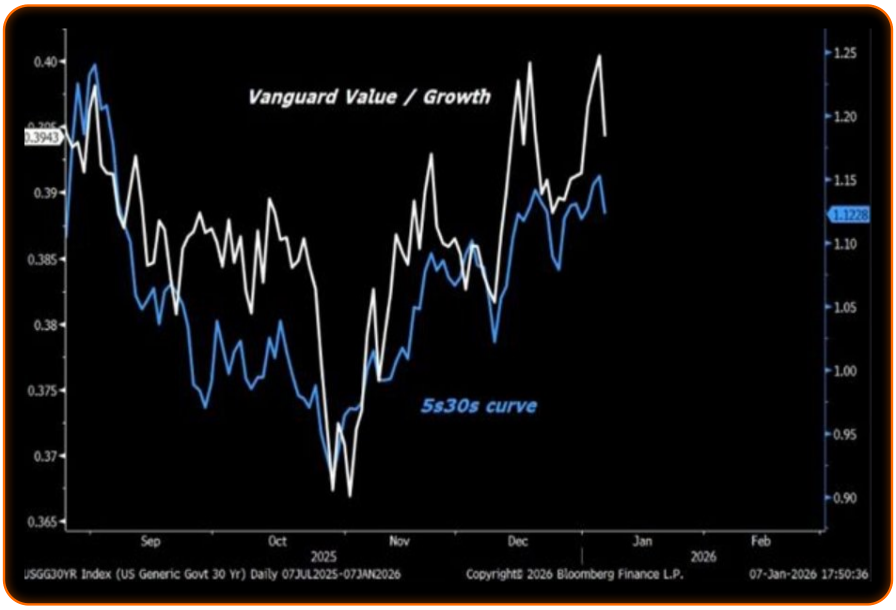

Top: MSCI World ex-US/US vs Vanguard Value/Growth.
Bottom: Value/Growth vs 5s30s curve since Aug-25

Value is a very clear macro bet here. If the reflation ingredients fade, the style rotation reverses.

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5. EEM vs SPY: The Coiled Spring

January 2026

MFERM Capability: Relative Factor Exposures Over Time — historical sensitivity context for a pair trade

Key Insight: EEM vs SPY sensitivity to USD and the 5s30s curve is at 9-year highs - the trade is coiled.

- **USD sensitivity at a 9-year high.** The relative benefit from a weaker Dollar is at its most extreme since 2017. Positioning is so heavily skewed toward US assets that any Dollar weakness could trigger a violent rotation.
- **Curve sensitivity at a 9-year high.** A flattening curve — driven by the end of the hiking cycle and anchored long-term inflation — signals compression in the US growth premium. When US exceptionalism fades, capital hunts for yield in EM.
- **High sensitivity is a double-edged sword.** Because beta is at record highs, any USD smirk or failure to contain a spike in long-end yields would hit EEM significantly harder than the broader US market.
- **In Munger's words:** you might not be able to time macro, but the sensitivity tells you how big the move will be when it happens.

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Top: EEM/SPY -ve Sensitivity to USD TWI — at 9-year highs.
Bottom: EEM/SPY -ve Sensitivity to 5s30s Curve — at 9-year highs.

You might not be able to time macro, but the sensitivity tells you how big the move will be when it happens.

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6. The Short Squeeze — An Amber Sign

January 2026

MFERM Capability: Return Attribution + Macro Share of Risk — applied to a long/short proxy for crowding factor

Key Insight: Macro factors account for 58% of VIP's underperformance. MSR of Short Basket in complacency territory.

- **Post the dovish Fed pivot: GS Most Shorted +22.2%, GS VIP +10.5%.** Lower quality, most short names rode tighter credit (+7.2%), falling equity vol (+3.0%), and falling rate vol (+3.0%).
- **58% of VIP's relative underperformance explained by macro.** The speculative fervour relies on benign macro conditions — and HY credit spreads have just hit new cycle lows.
- **MSR for the Most Shorted basket at just 22%** — low end of its historical range, signalling macro complacency in the speculative end of the market. Steep MSR declines tend to mean-revert.
- **An amber sign:** perhaps time to revisit defensible earnings as we work through earnings season.

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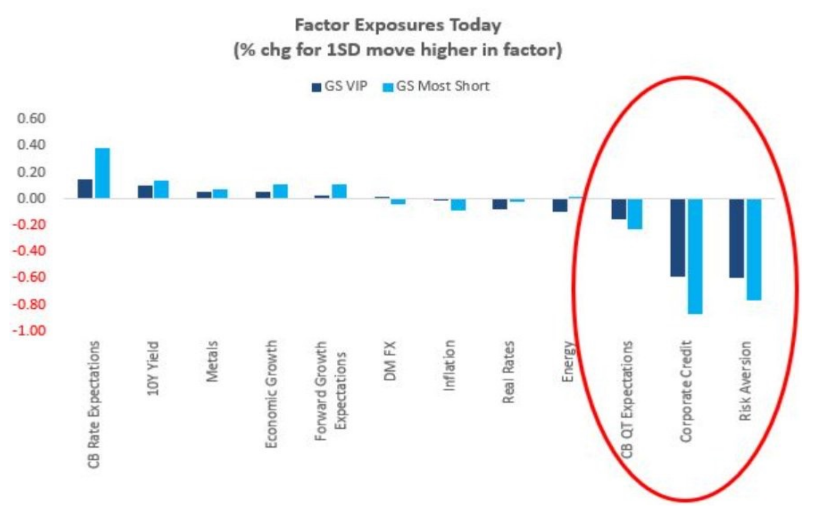
Return Atttribution (20-Nov to 15-Jan)			
Factor	GS VIP	GS Most Short	VIP / Most Short
Forward Growth Expectations	0.0%	0.0%	0.0%
DM FX	-0.1%	-0.1%	0.0%
Energy	-0.1%	0.0%	-0.1%
Metals	0.4%	0.5%	-0.1%
Economic Growth	0.2%	0.3%	-0.1%
10Y Yield	0.6%	0.9%	-0.2%
Inflation	0.0%	0.3%	-0.3%
Real Rates	-0.2%	0.2%	-0.4%
Risk Aversion	2.4%	3.0%	-0.6%
CB QT Expectations	2.2%	3.0%	-0.7%
CB Rate Expectations	0.8%	1.8%	-1.0%
Corporate Credit	4.2%	7.2%	-2.7%
Factor Return	**10.5%**	**17.0%**	**-5.5%**
Idio Return	**-0.1%**	**5.2%**	**-5.0%**
Total Return	**10.5%**	**22.2%**	**-9.6%**



Top: Return Attribution (20-Nov to 15-Jan) — VIP, Most Short, and the relative spread. Bottom: Factor Exposures Today — credit, QT, and risk aversion dominate the short basket.

The speculative fervour relies on benign macro conditions. When those conditions turn, the unwind will be swift.

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7. US Small Caps: Sharpe at Multi-Year Highs

January 2026

MFERM Capability: MSR + Return Attribution — comparing risk-adjusted returns with the macro share of risk

Key Insight: There is a close, inverse relationship between Sharpe & MSR. MSR at range lows is warning over-confidence

- **MSR hit multi-year highs in Apr'25, then fell to range lows by Jan'26.** Dissipating macro fear translated directly into a tailwind for risk-adjusted returns — see the tight relationship in the left chart.
- **Since the Fed's Nov'25 pivot, 62% of IWM's returns are macro-attributed:** tighter HY credit spreads (+4.4%), falling equity and rate vol (+4.6%).
- **Goldilocks regime top of mind:** higher economic growth + lower inflation expectations + lower 10Y yields. But YTD, IWM has risen alongside higher yields and higher inflation — inconsistent with the Goldilocks narrative.
- **MSR at range lows = clear macro skies.** Historically, that is precisely when to pay more attention. Macro risk tends to reassert from complacency.

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IWM Return Attribution (20-Nov-25 to 23-Jan-26)	
Corporate Credit	4.42%
CB QT Expectations	2.80%
Risk Aversion	1.80%
CB Rate Expectations	0.70%
Metals	0.18%
10Y Yield	0.10%
Economic Growth	0.03%
Inflation	0.01%
Forward Growth Expectations	-0.02%
DM FX	-0.03%
Real Rates	-0.18%
Energy	-0.25%
Macro Factors	**9.85%**
Idio Factors	**6.09%**
Total	**15.94%**

Top: IWM 6m Rolling Sharpe vs MSR (inverted RHS) — tight co-movement.
Bottom: IWM Return Attribution (20-Nov to 23-Jan) — credit and vol dominate.

MSR at range lows = clear macro skies. Historically, that is precisely when to pay more attention.

MFERM in Action

8. Momentum at a Crossroads

February 2026

MFERM Capability: Return Attribution + Regime Cycling — identifying macro vs idio phases for a style factor

Key Insight: MFERM reveals a clear 4-phase macro/idio cycle for Momentum since 2020. The current idio phase is exhausting and needs a macro hand-off to sustain.

- **Phase 1 (2020–mid-2022): Macro.** Driven by liquidity and the inflation scare.
- **Phase 2 (mid-2022–mid-2024): Idio.** The ChatGPT/NVIDIA era and soft landing hopes.
- **Phase 3 (mid-2024–Sep-2025): Macro.** Geopolitics and "Policy over Profits."
- **Phase 4 (Sep-2025–present): Idio.** A rush back to winners that is now potentially hitting a "show me the money" reality check.
- **MSR at its lowest level since 2020.** Historically, when MSR hits these lows and then spikes (Feb-21, Mar-25), Momentum needs to be extra vigilant. Watch GDP Nowcast and 5s30s curve for the macro hand-off signal.

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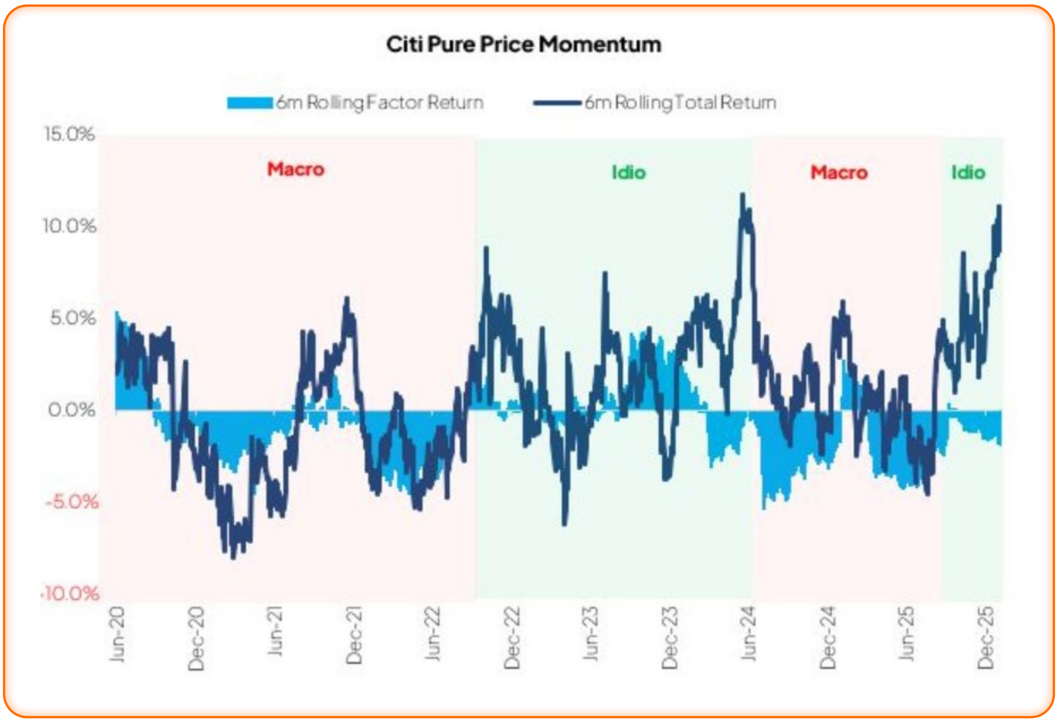

Citi Pure Price Momentum: 6m Rolling Factor Return (light blue) vs Total Return (dark blue). Four macro/idio phases shaded. Current idio phase showing exhaustion.

If Momentum's idio tailwinds are exhausting, it needs a hand-off to macro. Watch GDP Nowcast and the 5s30s curve.

MFERM in Action

9. Hiding in Consumer Staples? Be Careful

February 2026

MFERM Capability: Cross-Sector Return Attribution comparison

Key Insight: XLP one of the best sector performers recently - yet it has the smallest macro tailwind of any major sector. Virtually all gains are idiosyncratic. Hiding there ≠ defensive macro positioning.

- **In a pro-cyclical world, Staples shouldn't be near the top.** Yet XLP is the 3rd best-performing major sector over the last 3 months. The story isn't macro — it's positioning.

- **MFERM shows a sharp divergence in idiosyncratic returns between Staples and Tech** — consistent with a major de-grossing from the market's top sector into one of the most unloved sectors of 2025.

- **Staples have yield appeal and dividend yield has been a top fundamental factor YTD.** But that also makes this a short-duration trade. Qi's model shows Staples are among the most sensitive sectors to moves higher at the long end.

- **Key insight:** Staples have seen the smallest macro tailwind of any major sector. While the dollar has weakened (+ve), that support was offset by higher 10Y yields and higher WTI. This isn't a clean fundamental rotation.

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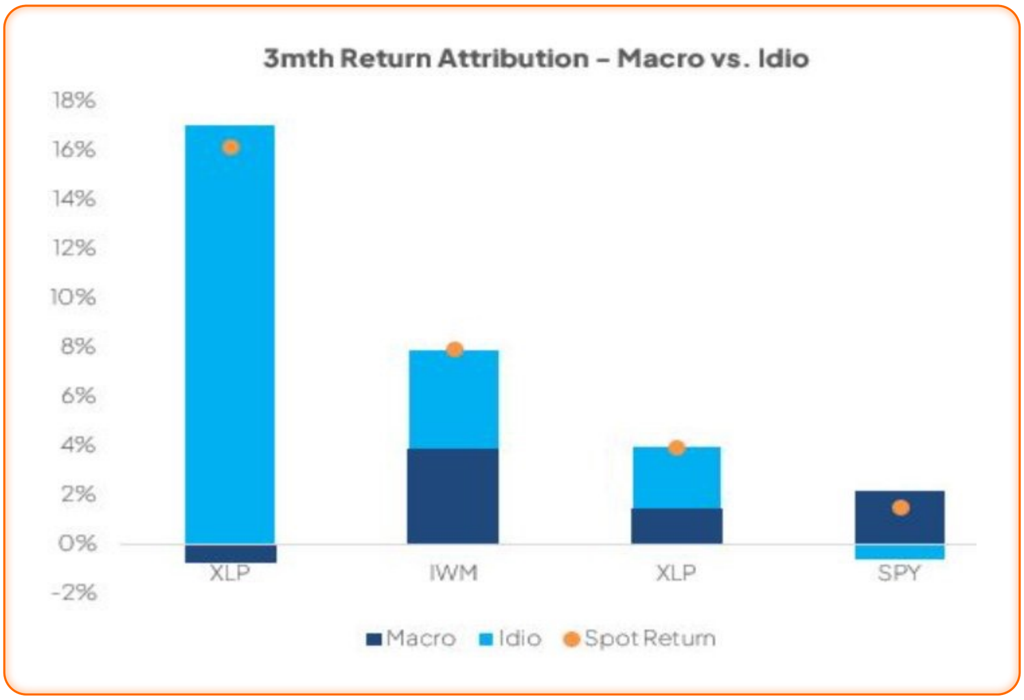

3-Month Return Attribution — Macro (dark) vs Idio (light): XLP is almost entirely idio. Compare to IWM and SPY where macro explains a meaningful share.

If you're hiding in Staples, be careful — this isn't a clean fundamental macro rotation. It's positioning.

MFERM in Action

10. Crowding: The Kitchen vs The Menu

February 2026

MFERM Capability: Regime Analysis — distinguishing exposures (the kitchen) from what's actually driving price (the menu)

Key Insight: GS VIP vs Most Short is a "Quality Goldilocks" trade, requiring a steeper 5s30s curve + lower inflation expectations.

- **VIP vs Most Short = a crowding barometer.** 50 most popular HF longs vs 50 highest short interest. The pair has seen sharp macro-driven swings in recent months.
- **–15% (late Nov – late Jan):** lower quality benefited from FCI easing, tighter credit spreads, lower vol, and a weaker Dollar.
- **+11% (late Jan – date):** sharp Quality rally as those factors reversed — US HY spreads widened ~20bps from their tights.
- **Current regime top of mind:** steeper 5s30s curve + lower inflation expectations. This is where the highest correlation between macro exposure shifts and price action sits. VIP outperformance = a bet on disinflationary expansion.

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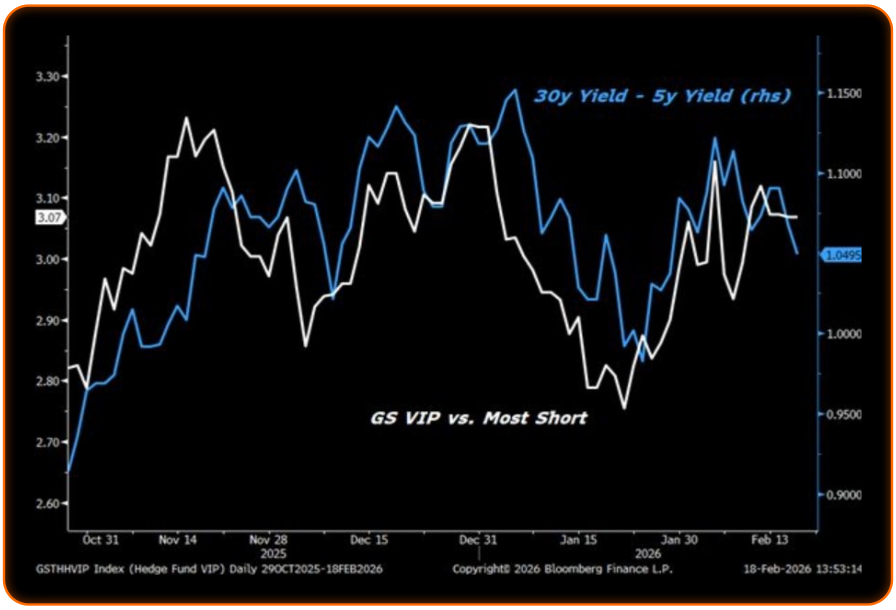

Top: GS VIP vs Most Short vs 30Y–5Y Curve — steepening drives quality.
Bottom: VIP vs Most Short vs US 5Y Inflation Expectations (inv)

Watch these two factors — 5s30s curve and inflation expectations — for a real-time gauge on crowding sentiment.

MFERM in Action

11. The Great Rotation — Time to Be Macro Mindful

February 2026

MFERM Capability: Return Attribution + Exposure Dynamics — diagnosing the macro/idio split in real time

Key Insight: EW S&P 500's macro fuel is stalling. The February rally is a positioning rotation, not a macro-supported broadening. Tactically vulnerable if macro tailwinds do not resume.

- **EW S&P 500 +5% YTD vs cap-weighted S&P 500 in the red.** 63% of constituents in the green. Looks like the soft landing is broadening out — but under the hood, the picture is shifting.
- **From Apr'25 lows through Jan'26, macro accounted for roughly two-thirds of EW returns.** The index moved in lockstep with macro drivers. The current regime benefits from a steeper 5s30s curve and falling 10Y real yields — easing financial conditions and confidence in medium term economic growth
- **February divergence:** Total return at new highs but macro return turned lower. Headwinds include rising rate volatility, widening US HY credit spreads, and falling terminal rate expectations — all acting as a net macro drag.
- **The February strength = defensive idio rotation** as investors trim over-concentrated tech positions. Not macro support. The sharp idio rotation leaves EW S&P 500 tactically vulnerable if the macro fuel doesn't resume.

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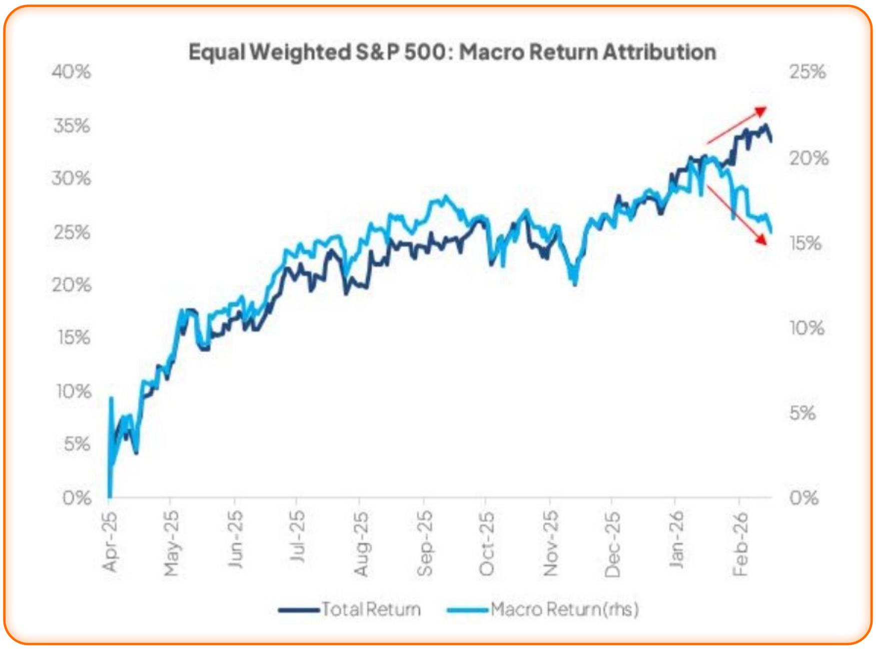

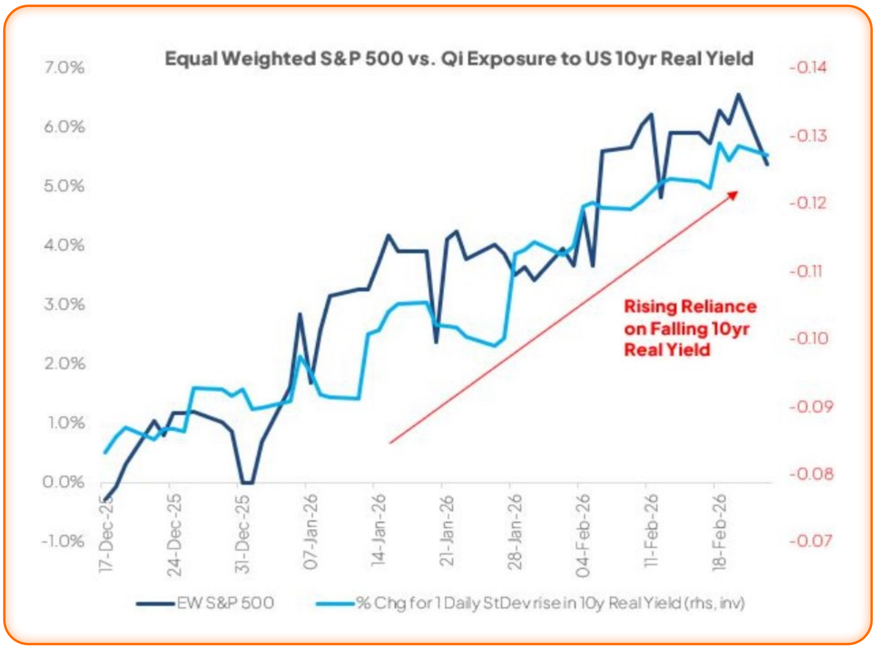

Top: EW S&P 500 Total Return vs Macro Return from Apr-25 low — the gap is the problem.
Bottom: EW S&P vs Qi Real Yield Exposure (inv) — rising reliance on falling real yields.

The sharp idio rotation leaves EW S&P 500 tactically vulnerable if the macro fuel doesn't resume.

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