Quant insight

MacroSpotlight

Dollar up, stocks down. It's not that simple.

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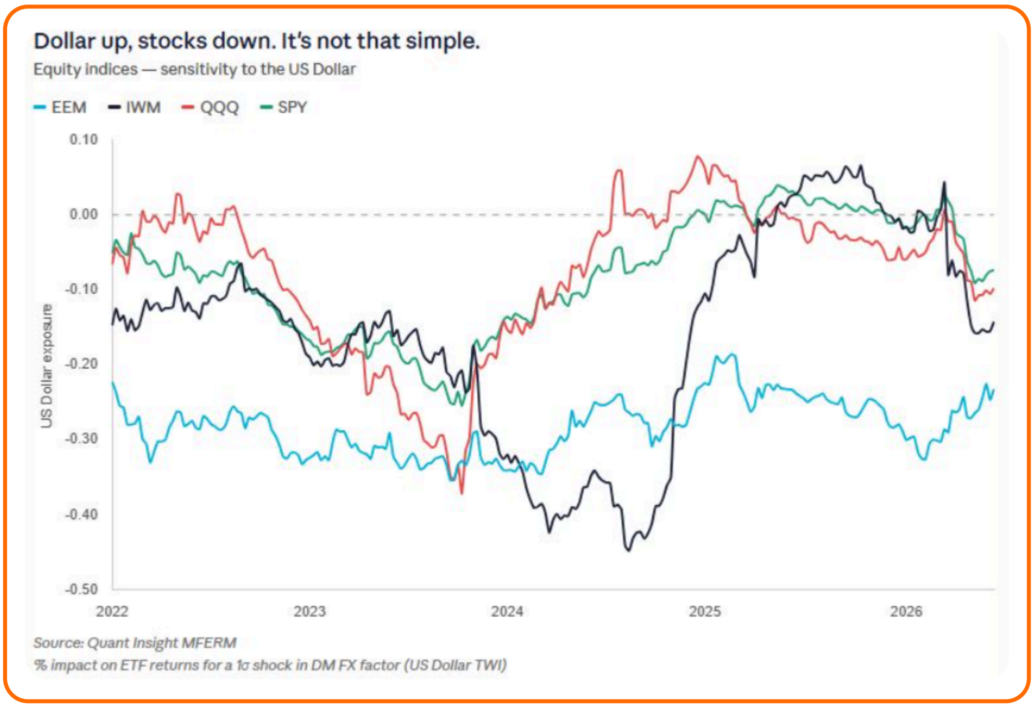
DXY is hitting one-year highs.

The consensus response is predictable: US Dollar up, financial conditions tighten, stocks fall.

But macro sensitivity isn't fixed. It drifts.

There are extended periods when US equity indices carry near-zero exposure to the US Dollar. When that's the case, FX markets are noise equities can safely ignore.



Unsurprisingly, EM equities are consistently the most sensitive to US Dollar moves. But right now that sensitivity is at the low end of its range. TSMC, Samsung and SK Hynix's idiosyncratic AI story is presumably doing some of the work there, de-sensitizing broad EEM from the factor.

For large chunks of 2024, US equities and the US Dollar rallied together. Qi's Macro Factor Equity Risk Model (MFERM) showed SPY, IWM and QQQ all sat close to zero DM FX exposure.

Dollar moves simply didn't transmit into stocks.

Right now exposure is negative across the board. A strong US Dollar is a headwind. But the exposure is small and potentially drifting back toward zero.

That matters.

If mainstream commentary is screaming "beware the US Dollar" while Quant Insight shows sensitivity fading, the consensus is fighting the wrong battle.

The question isn't whether the US Dollar is strong. It's whether your portfolio is exposed to it.

That's what MFERM tells you.

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