Quant insight

MacroSpotlight

Copper & the Yield Curve agree on one thing

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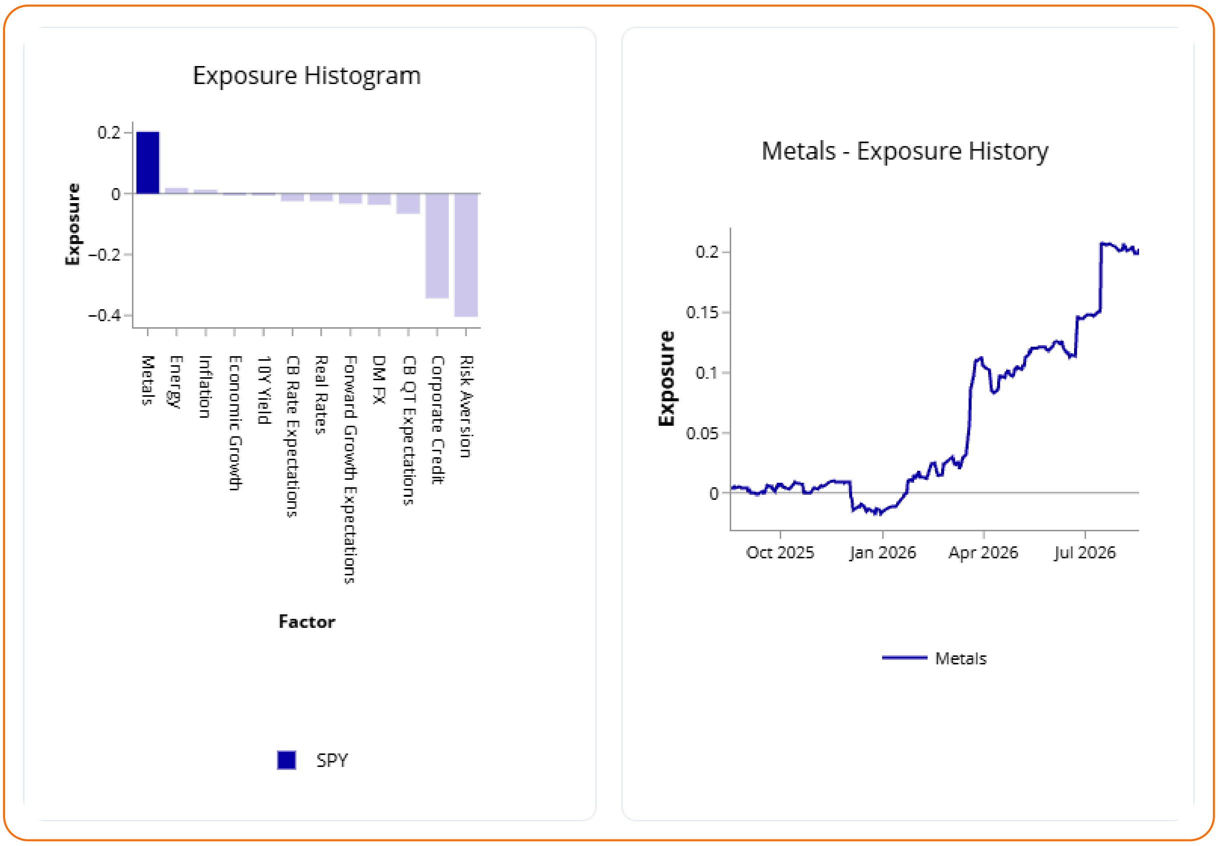
Metals are the biggest positive driver of the S&P 500 right now. Moreover, sensitivity is rising. MFERM's macro factor decomposition reveals that SPY's exposure to metals, specifically copper, has been rising for months.

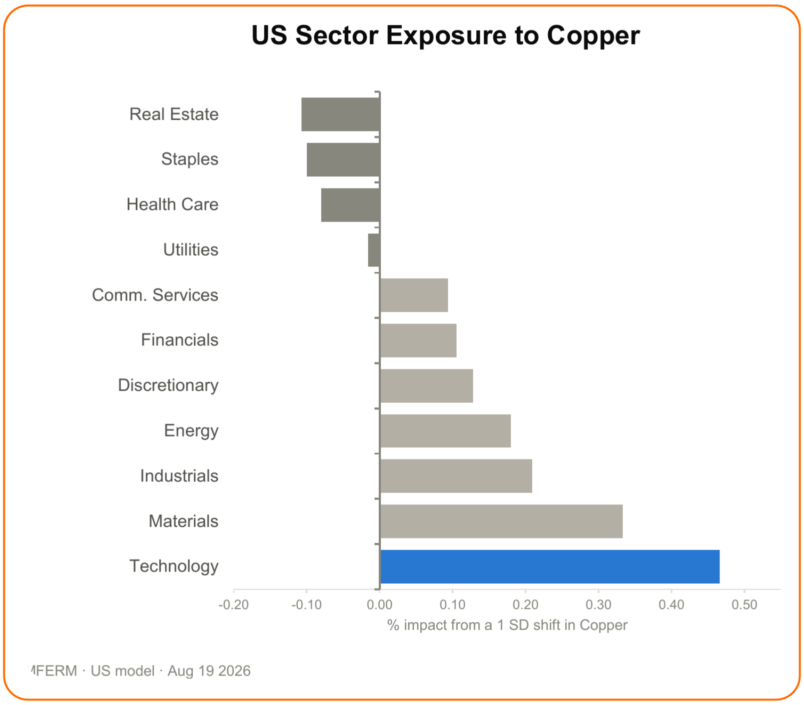


That begs a question. Where's that exposure actually coming from?

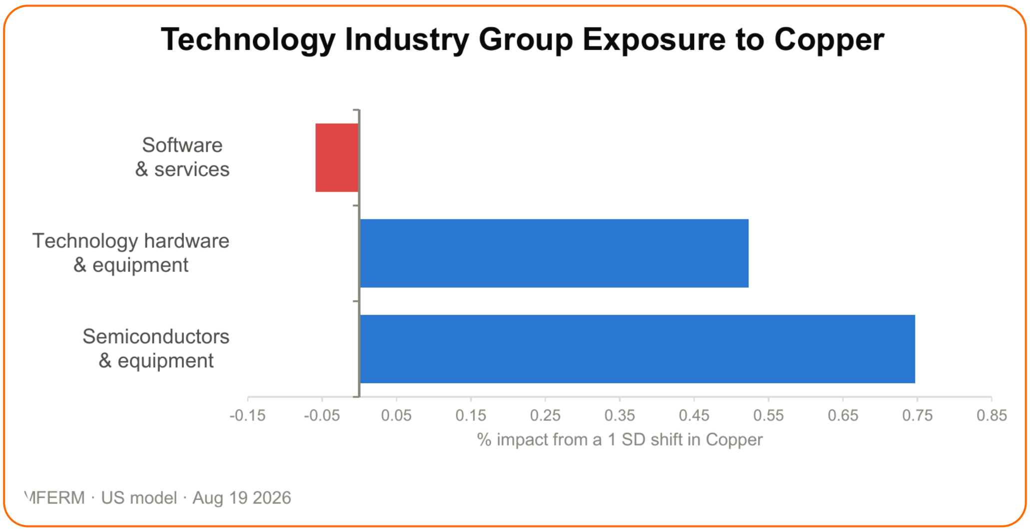
Common wisdom would answer Materials or Industrials. Classic cyclical plays.

But when we break down exposure by sector, a very different answer emerges.

By some distance it's the Technology sector that displays the strongest sensitivity. Not the most immediately intuitive answer but breaking it down again into industry groups helps explain the dynamic.



Semiconductors & equipment carry it. Hardware carries it. Software actively drags the average down, it's diluting the number, not adding to it.



Same "Tech" label. Opposite macro exposures.

Which helps square the circle. Data centre buildouts, power needs, cooling systems, grid infrastructure. All of it copper-intensive, and all of it the same AI capex wave that's driving semis demand.

AI CapEx means Semiconductors & Hardware look like an old-school cyclical play. Hence the idea AI is the new Industrial Revolution.

This ties to recent work by Amit Khanna.

He ran sector & industry sensitivity to the recent bear steepening in the 5s30s US yield curve. And his analysis uncovered the same Technology fault line.

Semis are hit hardest by the back-up in 30y yields. Software is a relative winner. Same broad Tech bucket but opposite sensitivities.

This is where running more than one single-factor lens is critical.

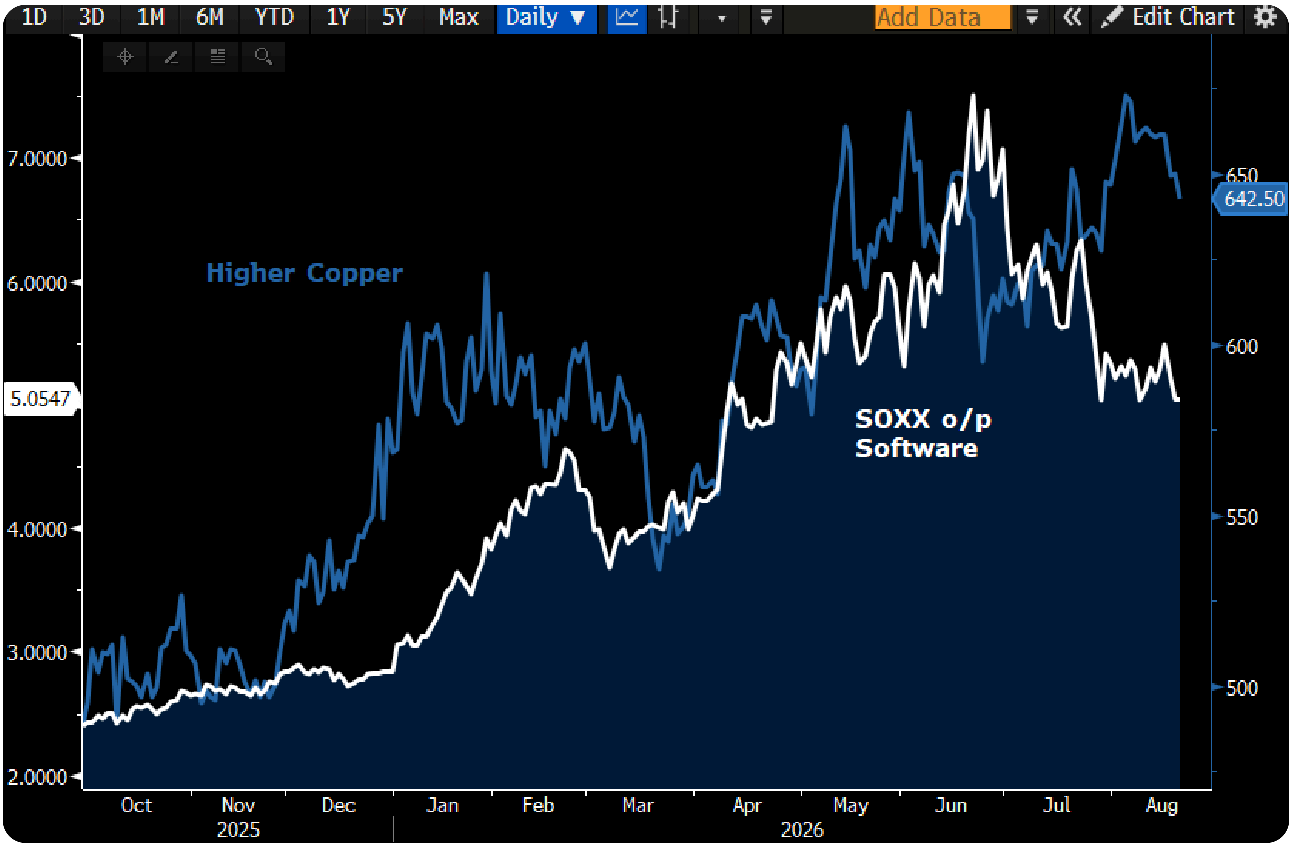
Copper on its own doesn't tell you semis are exposed to the yield curve too. The curve on its own doesn't tell you they're exposed to copper. Only a multivariate approach looking at both does.

The old unipolar world argued Tech was a long duration asset; low rates were key for performance.

That's not wrong, it's just no longer the whole picture.

This is where it stops being coincidence and starts being the point.

Copper and 30-year yields usually move together. So, semis getting hurt by one and helped by the other looks like it shouldn't add up.



Source: Bloomberg (Copper, SOXX/IGV ratio)

It adds up because semis are carrying both exposures at once now, not choosing between them.

Which points to the real risk for semis: higher yields without the copper signal holding up. That flips both exposures against them at once. Software carries neither.

Same sector label. Two different macro books. And Qi's MFERM tells you which one is winning on any given day.

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