

The Multiple Nobody Owns

Why macro reaches a bottom-up portfolio through the multiple — and what SPY's 2022 tells us about it



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Ask a fundamental analyst how they arrived at a target price and you get a detailed answer about the earnings. The revenue build, the margin path, the competitive position, the channel checks. Weeks of work, and often very good work.

Then ask how they arrived at the multiple.

That answer is usually a sentence. It re-rates to 18x. It trades back to its five-year average. Peers are at 22x and this deserves a discount.

The number doing half the work in the valuation gets a fraction of the research. That asymmetry is the gap — and it matters, because the multiple is where macro enters a bottom-up portfolio.

1. What a multiple actually is

A DCF is a long spreadsheet: every year of future cash, each discounted because money later is worth less than money now.

A multiple is the same judgement compressed into a single number. When you pay 20x earnings you have not skipped the spreadsheet. You have collapsed it. Nothing is discarded except the year-by-year detail.

Which means that single number can only be doing two jobs.

How much bigger does the earnings stream get? That is growth — and growth is the economy. Real activity, inflation, commodities, currencies.

What do I knock off for waiting and for risk? That is the discount rate — and that is markets. Real yields, credit conditions, volatility.

Neither is a fact about the company. Both are conditions in the world, repriced every day whether the company does anything or not.

The company sets the earnings. The world sets what those earnings are worth.



2. Most of the value sits in the part nobody researches

Every DCF has two halves: the years you model one by one, and a single lump standing in for everything after that. The lump is the terminal value, and it is built from two inputs only — a growth rate and a discount rate. No channel checks survive into it.

The lump is also the bigger half. Take a company generating 100 today, growing 3%, discounted at 8% over a ten-year forecast: the decade of modelled years is worth 778, and everything after year ten is worth 1,282. The detailed work accounts for 38% of the value. Two macro variables account for 62%. Shorten the forecast horizon and that share rises; run it across any sensible pair of growth and discount rates and it never falls below about half.

Then there is duration. A promise of cash next year barely notices a change in the discount rate. A promise of cash in thirty years notices enormously. A high multiple is a long-duration position, whether or not the PM thinks of it that way.

So the theory says the multiple is largely a macro object, and that the discount rate has more leverage over it than anything else. The question is whether the data agrees.

3. The evidence: the SPY ETF over 2022

2022 is the cleanest test available, because it separates the two drivers by itself. Index earnings did not collapse that year — they were broadly flat. Prices fell anyway. Whatever repriced, it was not the numerator.

Run Qi's factor attribution over the S&P 500 for the calendar year and group each factor by the DCF term it feeds:

By DCF term	Return points	Share of return
Discount rate — the denominator	-17.6	96%
Growth — the numerator	-1.7	9%
FX	-1.2	7%
Stock-specific	+2.1	-12%
SPY total return	-18.4	100%

Three things in that table are worth more than the headline.



The denominator did essentially all of it. Corporate credit alone accounts for –12.8 points. Add real rates and risk aversion and three risk-premium variables explain –17.4 of the –18.4. Growth factors, all of them together, contributed –1.7. The ratio of denominator to numerator is better than ten to one.

Stock selection was not the problem. It was working. The idiosyncratic component contributed plus 2.1 points. Read that against the –18.4 headline: a manager who picked stocks well in 2022 still lost eighteen percent, and every point of the loss arrived through the price of waiting. The skill was real. It showed up in the residual, where nobody was looking.

These are return points, not a variance share. The usual objection to any “macro explains X%” claim is that risk decompositions flatter volatile factors — risk aversion tops a variance table almost by construction, because it is the fastest-moving input. That objection does not apply here. These are realized returns over a calendar year, linked so that the contributions reconcile with the compound return. The denominator’s dominance is a statement about P&L.

4. “But my multiple reflects the quality of the business”

It does. That is not a competing explanation.

Consistency of earnings is a low risk premium. Immediacy of cash is short duration. Both are discount-rate statements expressed in fundamental language.

The reconciliation is level versus change. Why does one company trade at 30x and another at 9x? Mostly franchise quality, predictability, capital intensity — the things a good analyst spends a career on. But why did that same company go from 30x to 20x in six months? Not because its earnings became less consistent over six months. Business models do not change quarterly, and multiples can move 30% in a year.

Earnings quality sets the level of the multiple. Macro sets the change in it.

And the value of quality is itself repriced. When the discount rate is near zero, waiting is cheap and a distant promise is nearly as good as cash today. When rates rise, immediacy commands a premium it did not command before. The attribute is constant. Its price is not.



5. The earnings profile is the wiring

None of this displaces the company. It puts the company in the right place.

What a company contributes is the shape of its earnings — how far out the cash sits, how reliable it is, how cyclical the demand behind it. That shape decides which macro variables it is sensitive to, and how hard. A long-dated compounder lives or dies on the discount rate. A near-dated cyclical lives or dies on growth. The same 50bp move in real yields costs them very different amounts.

The earnings profile is the wiring. Macro is the current running through it. The multiple is what comes out the other end.

6. What follows

Not a macro view. This is not an argument for forecasting GDP, and not an argument for turning stock pickers into macro investors.

It is an argument for measurement. The multiple is already in the process. Macro is already in the multiple. The only real question is whether that exposure is measured or inherited.

Three questions worth being able to answer:

1. When has macro mattered to this fund, and does it matter now?
2. Which factors are the headwinds and tailwinds?
3. Which positions are carrying those exposures?

The answer to the first is allowed to be not much, not now, and often is. Across the last seven years macro's share of S&P 500 risk has ranged from 38% to 90%. In late 2020 it sat at the bottom of that range and stock selection genuinely was the dominant driver. A framework that reported "macro matters" in every regime would be asserting rather than measuring.

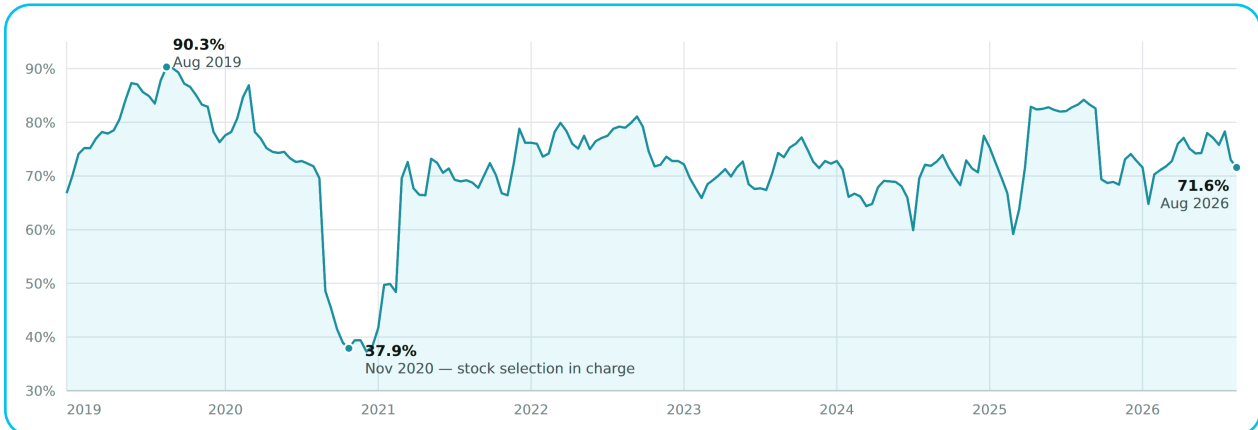


Figure 1. Macro share of S&P 500 risk, 2019–2026. Qi US Macro model; 14-day sampling of 1,994 daily observations.

But when a drawdown does arrive, the market repricing your thesis and the market repricing the discount rate demand opposite responses — and without decomposition they are indistinguishable.

That is the real cost of leaving the multiple unowned. Not that macro hurts performance; sometimes it helps. It is that whatever macro does gets attributed to stock selection, in both directions. Good macro luck reads as skill. Bad macro luck reads as a broken thesis. In 2022 it read as a broken thesis for a great many managers whose stock picking was, on the numbers, adding value the whole way down.

Attribution: Quant Insight MFERM, QI_US_MACRO_MT_1 (pure macro US model). Multi-period Carino-linked factor attribution, 31 December 2021 to 30 December 2022, 100% SPY book rebalanced monthly; linked contributions reconcile to the compound return. Macro share of risk figures from the same model, 2019–2026. The assignment of each Qi factor to a DCF term is our interpretation, not a model output. Analytics only — not investment advice.



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