Quant insight

MacroVantage

1. **Software vs. Semis: Has the Rotation Gone Too Far?**

   Software's 70% outperformance versus semis has outrun macro fundamentals. Qi's valuation signal is approaching historical extremes, with an 81% hit rate favouring mean reversion.

2. **Brazil: Political Risk, Historic Opportunity**

   Politics dominates, but EWZ now trades 2σ cheap to improving macro fundamentals. Historically rare entry levels for brave investors willing to look through the political noise.

3. **EURJPY: When Higher Yields Become a Warning**

   EURJPY's sensitivity to rate differentials has turned its most negative since the 2011 Euro sovereign crisis. In a fiscal dominance regime, higher yields signal risk rather than reward.

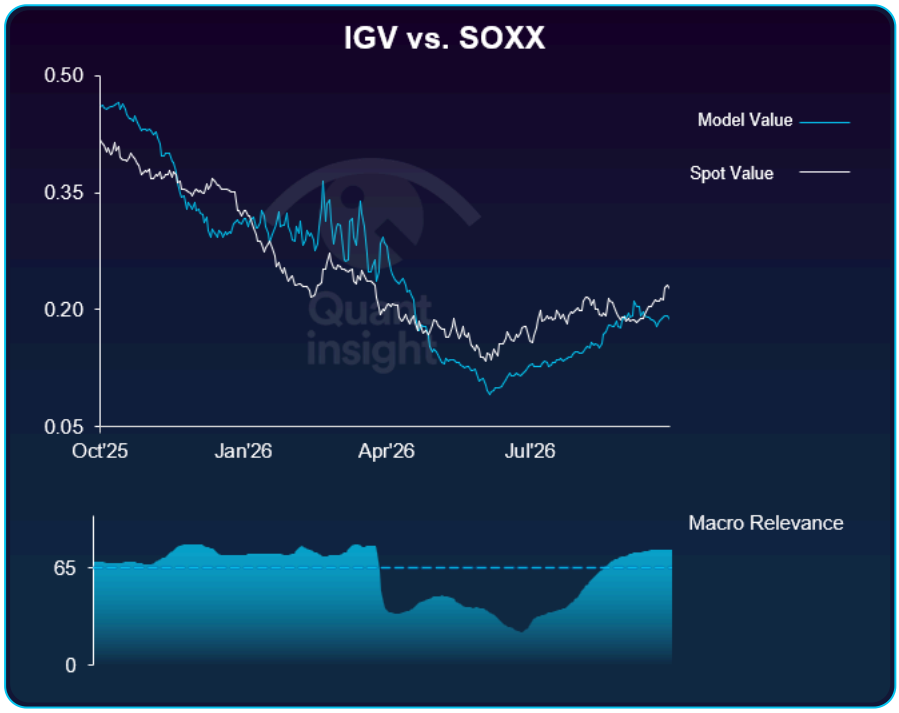
28th October 2026

MacroVantage

1. Software vs. Semis: Has the Rotation Gone Too Far?

SOXX has been at the epicentre of the momentum unwind since the summer. Within Technology, the rotation has been particularly pronounced, with software (IGV) outperforming semiconductors (SOXX) by ~70% from the June lows.

But **is the scale of software's outperformance justified by macro fundamentals?** Qi's model suggests increasingly not.



The IGV/SOXX pair is well explained by macro, with 78% explanatory power. Higher interest-rate volatility has been a key driver of software's relative outperformance, consistent with the rising cost of capital weighing more heavily on the capital-intensive semiconductor and AI infrastructure trade.

However, **macro momentum has stalled**, while software's relative performance has continued to extend.

The valuation signal is now flashing amber. IGV/SOXX trades ~1.1σ (+17.7%) above Qi model fair value, approaching two-year extremes. Since 2009, the gap has only reached these levels 16 times when macro explanatory power exceeded 65%, with an 81.2% historical hit rate for the associated signal.

The post-SaaSpocalypse rebound may have run too far.

2. Brazil: Political Risk, Historic Opportunity

Lula's surprise election win produced a historical sell-off. The Bovespa fell nearly 17%, its biggest one-day fall on record. The iShares ETF EWZ fell almost 20%, its second worse day since it launched in 2000.

Such a big move speaks to the sense the market was positioned the wrong way & that, in turn, suggests not everyone will have got out in time. Add in the damage done on the charts & there are good reasons to be cautious.

Qi would observe the following:

- Model confidence fell below our 65% threshold after the first round of the election & today sits at 51%. Politics has clearly assumed greater importance than macro.
- **Macro conditions have improved of late**. Qi model value is up 9.2% in October thanks mainly to credit spreads where the relationship is positive, i.e. wider credit spreads are consistent with higher EWZ suggesting **Brazil benefits from asset allocation flows** when DM credit is stressed.
- The Fair Value Gap is now 2σ (13.6%) which is historically extreme.

For any long-term believers in Brazil's story &/or thinking Bolsonaro's Liberal control of the Senate could negate market fears around Lula's fiscal stance, Qi suggests these are extremely rare entry levels for the bulls.

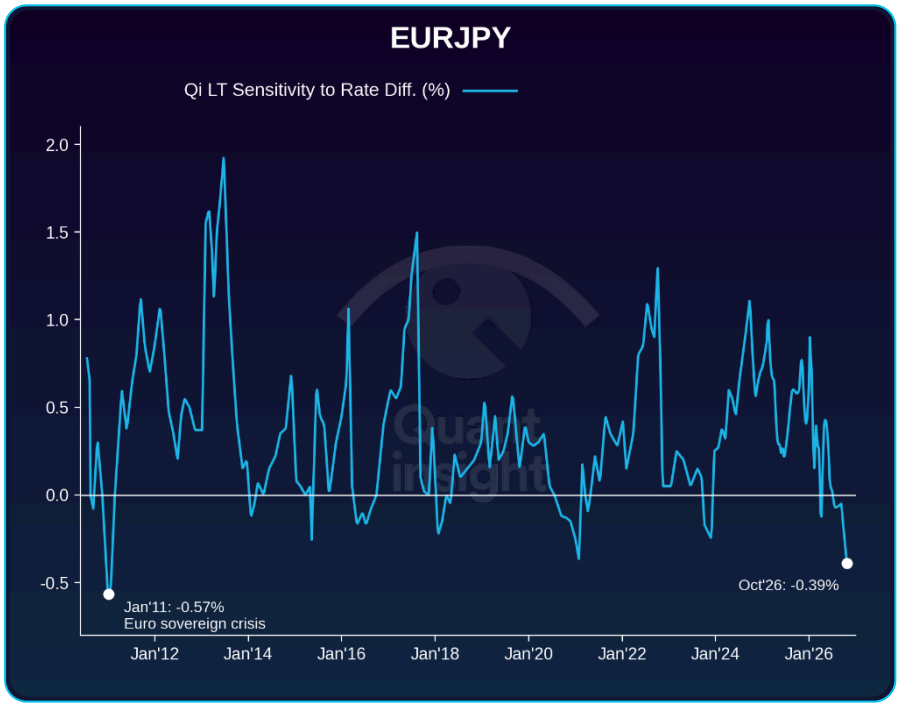
3. EURJPY: When Higher Yields Become a Warning

The bear case for the Euro is well known but, on Qi, every single G10 EUR cross screens as cheap already. One of the most interesting is EURJPY.

At 64%, model confidence is on the cusp of crossing back into a macro regime for the first time in 7 months. **Macro is reasserting itself over geopolitics & intervention fears.**

Macro momentum has been trending lower for months but is showing tentative signs of trying to bottom.

Meanwhile spot has sold off further & faster. Our FVG is now 1.4σ (2.3%).



But the most striking feature is sensitivity to interest rate differentials. For 16 years, a wider EUR-JPY rate gap has meant a stronger EURJPY. Today the sensitivity is -0.4%, the most negative since early 2011, at the height of the Euro sovereign crisis.

When yields rise on fiscal risk, not respective monetary policy, the extra yield is a warning, not a reward.

EURJPY is 1.4σ cheap, but cheap isn't the trigger. In a fiscal dominance regime, the gap closes when Europe looks less fiscally reckless than Japan. OAT-Bund spreads are ~15bp off the wides. If bond market stress can abate further, then EURJPY upside looks an efficient trade expression.

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