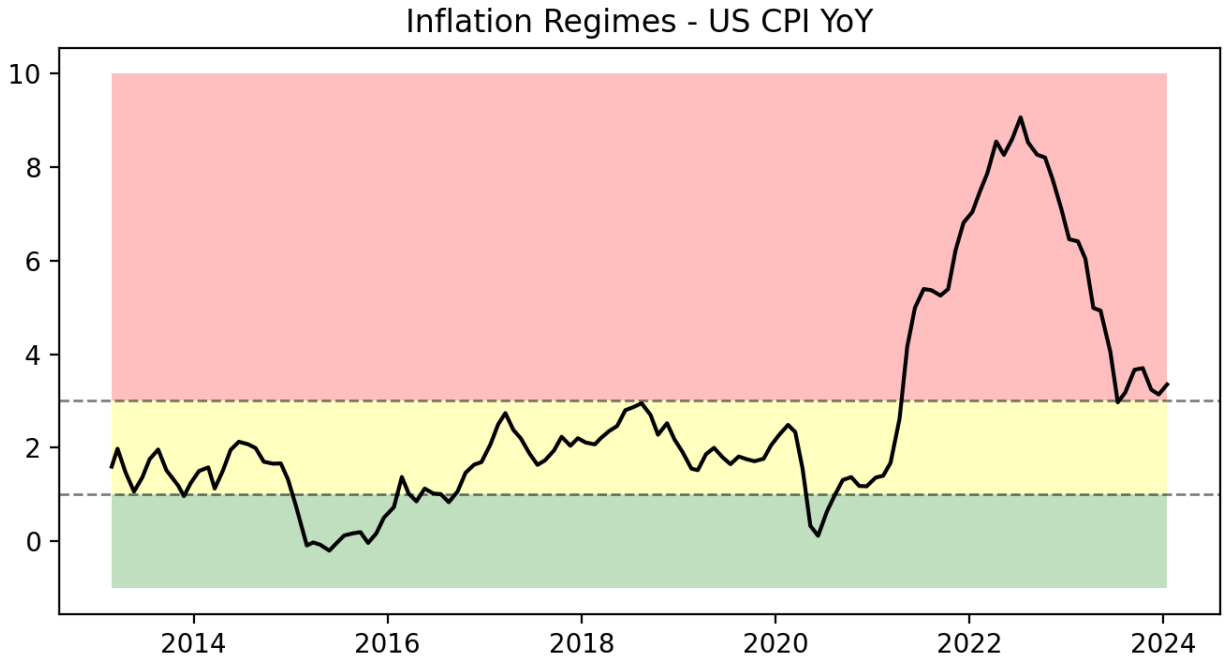
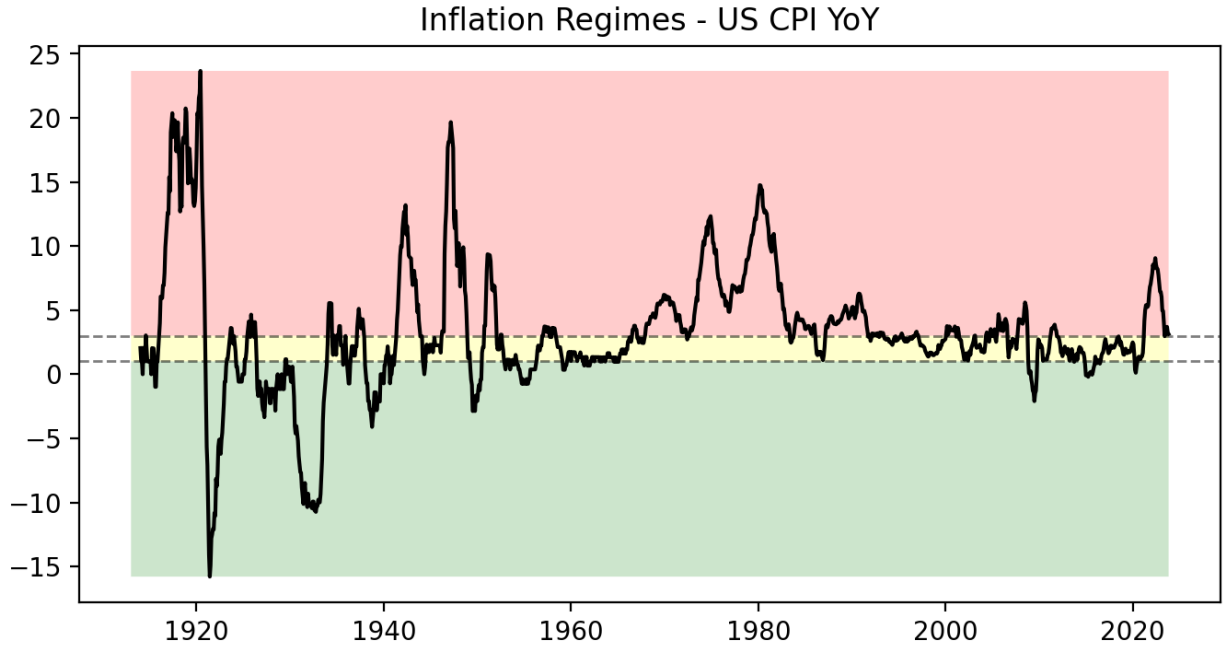


Red: High inflation
Yellow: Moderate inflation
Green: Low inflation

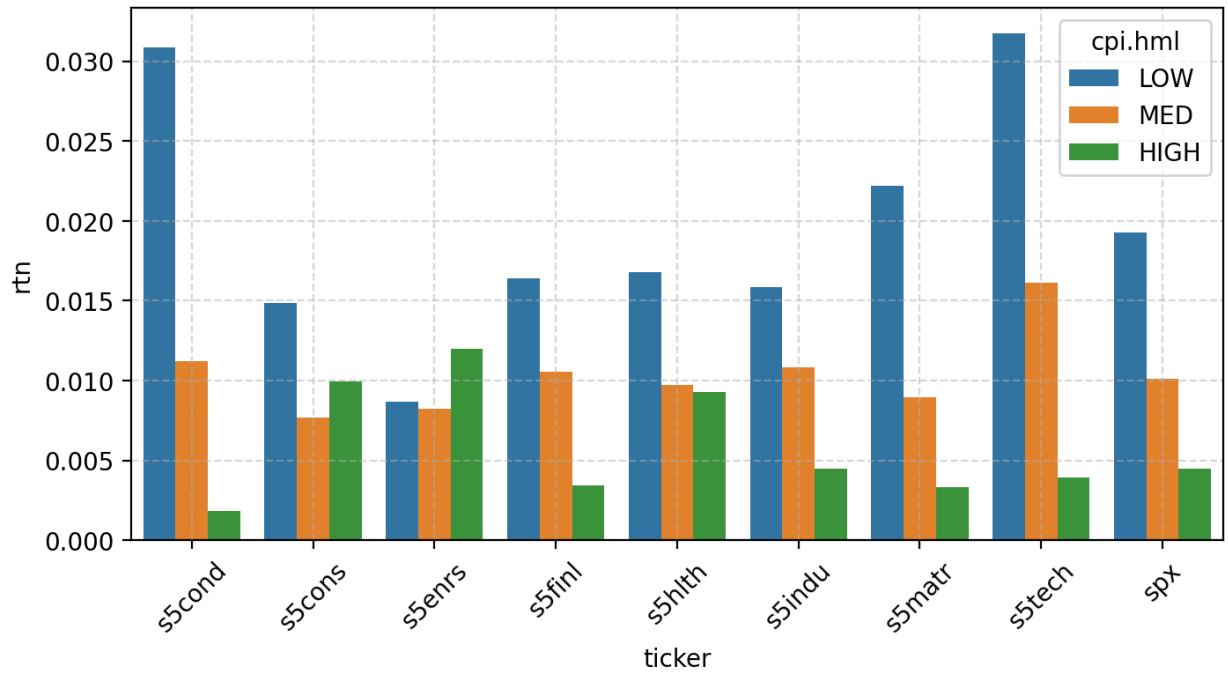


Inflation plot using FRED data

CPI	IVV	IYW	SOXX	IGV	IGM	IYH	IYF	IYJ	IYG	IYK	IYC
LOW	1.91%	3.15%	3.53%	3.17%	3.64%	2.40%	1.66%	1.88%	1.87%	2.37%	2.51%
MED	0.91%	1.03%	1.51%	1.16%	1.25%	1.24%	0.90%	1.10%	1.27%	1.26%	1.01%
HIGH	-0.08%	0.21%	-0.13%	0.03%	0.12%	0.49%	-0.61%	-0.33%	-0.49%	0.41%	-0.44%

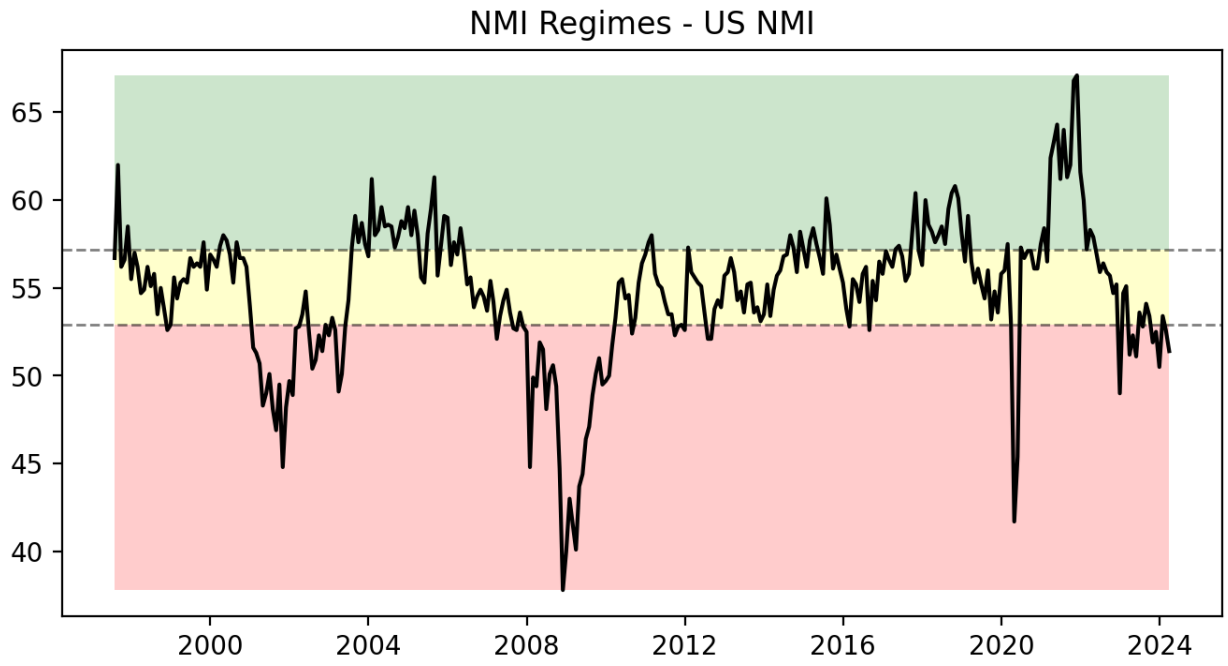
Monthly Returns by CPI regime

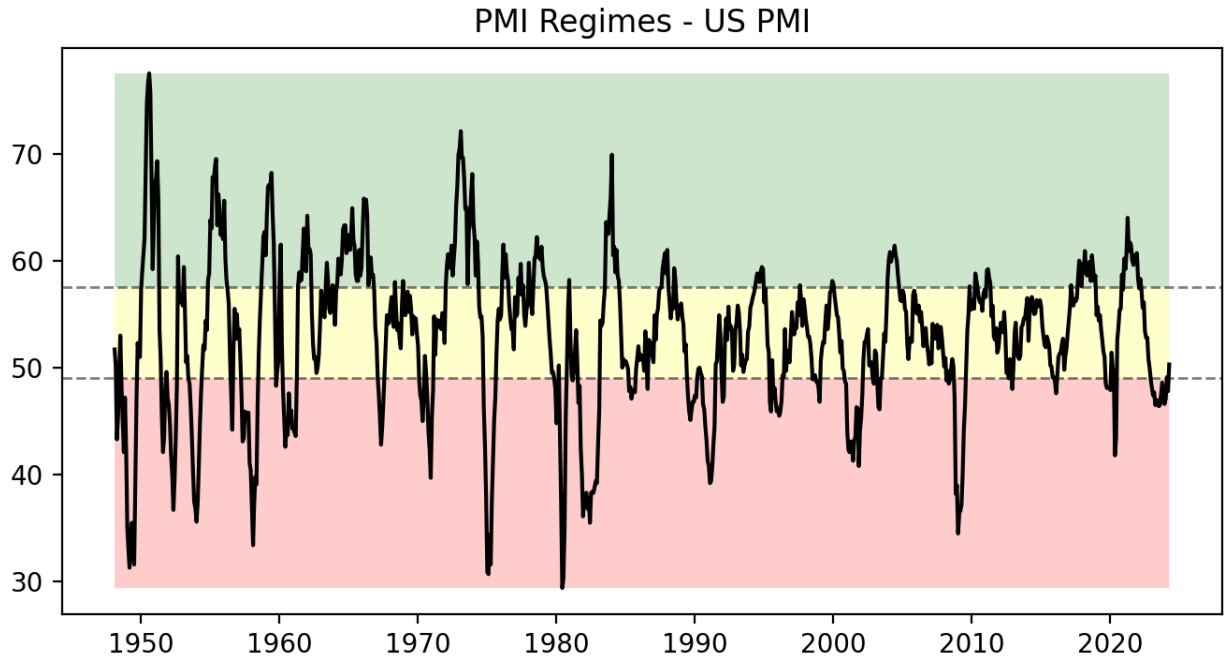
IVV: SP500 broad market
IYW: Technology
SOXX: Semiconductors
IGV: Expanded Tech-Software ETF
IHI: Medical Devices
IGM: Expanded Tech Sector
IYH: US Health Care
XT: Exponential Technologies (wtf is this)
IYF: Financials
IYJ: Industrials
IYG: Financial Services
IYK: Consumer Staples
IYC: Consumer Discretionary

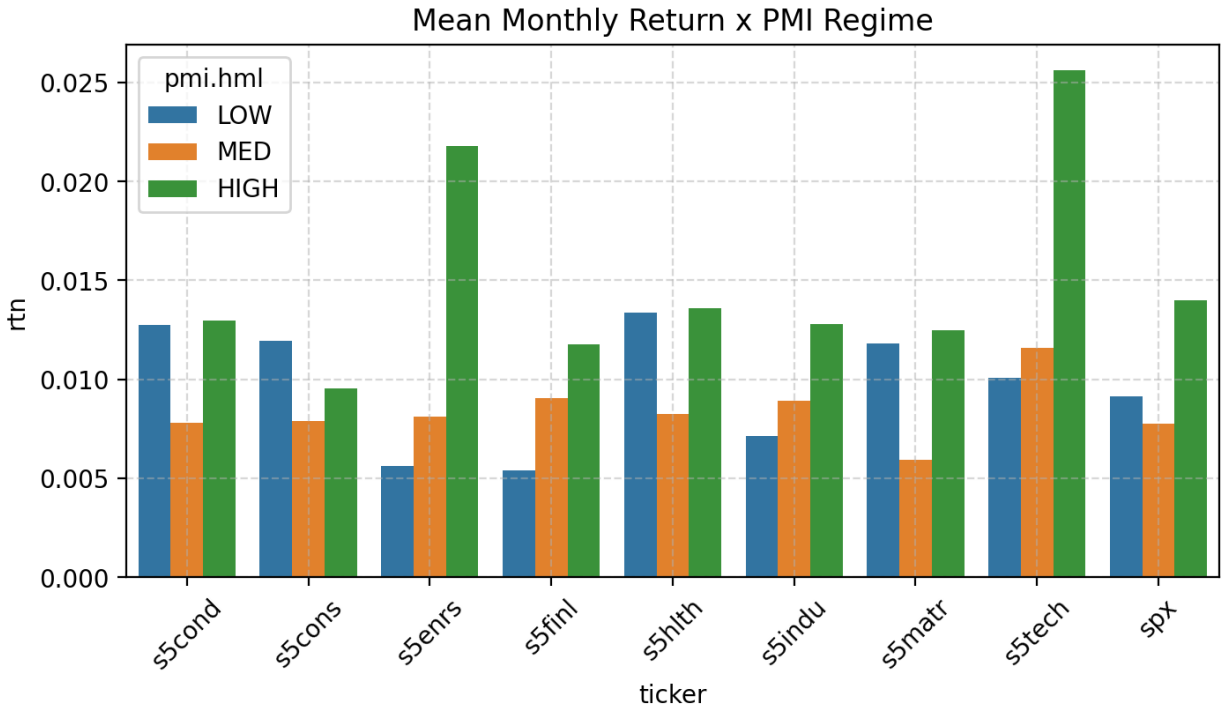


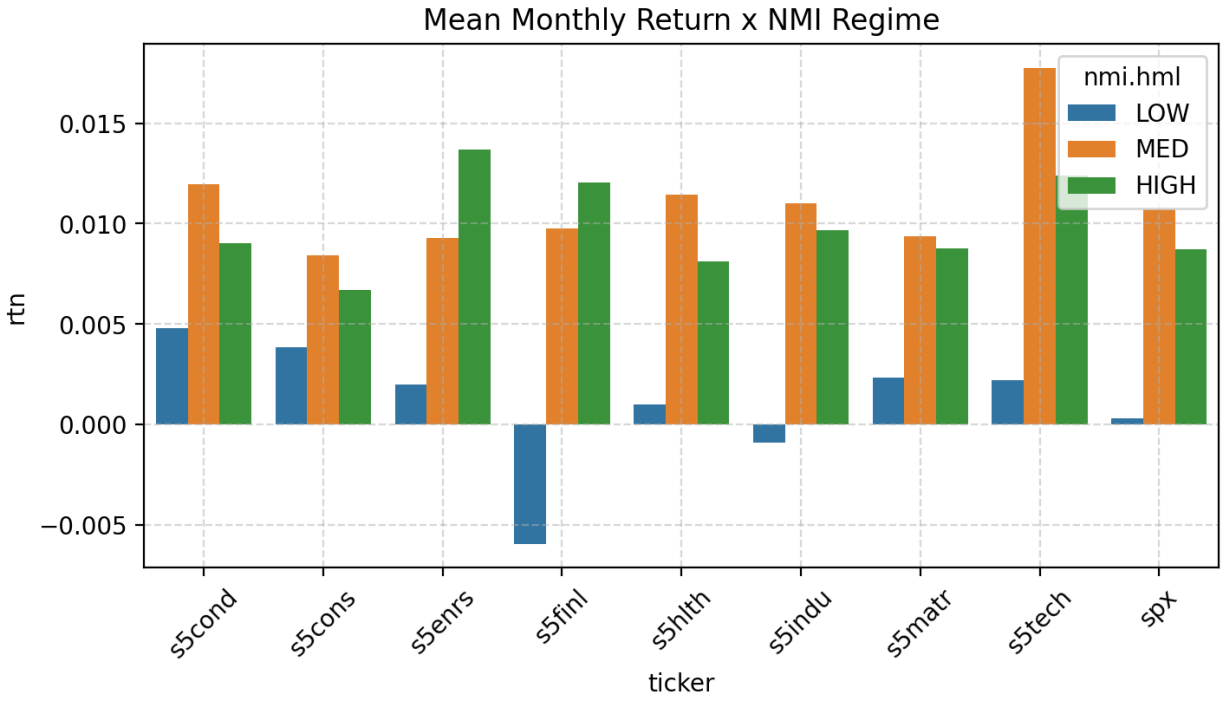
Barplot showing mean monthly return by sector in different CPI regimes, from 1989 — 2024

NMI / PMI Regimes were determined using arbitrary quantiles of 25% and 75%

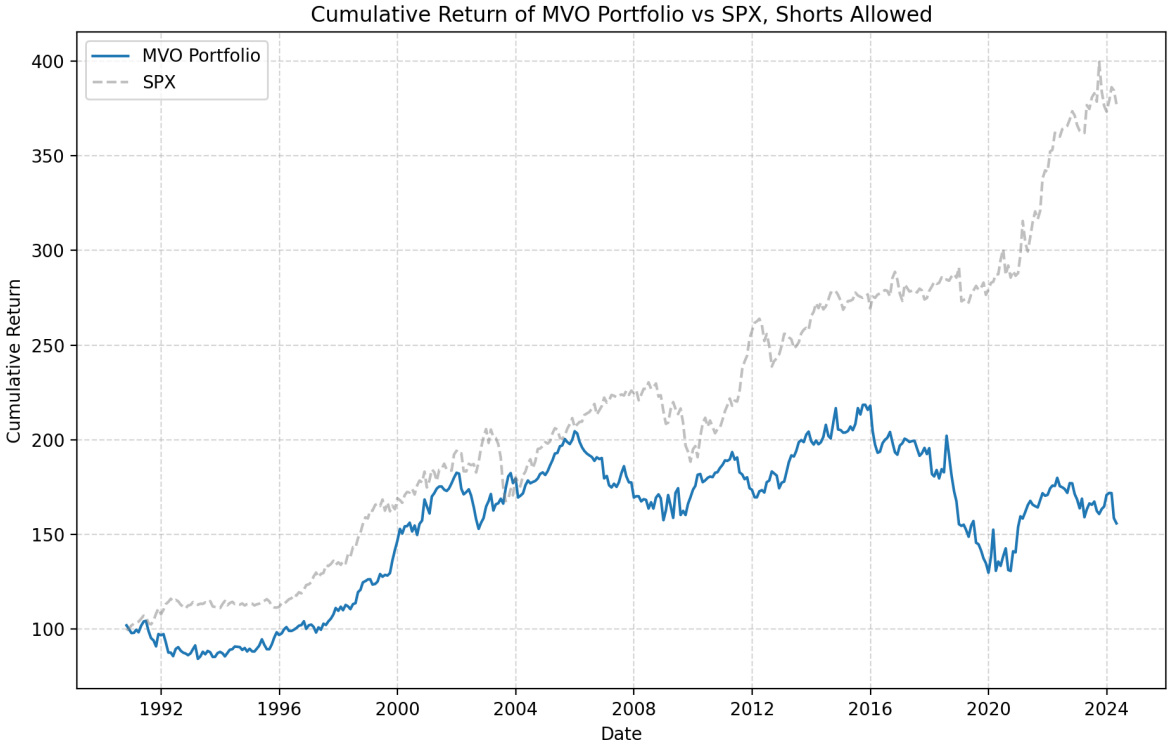


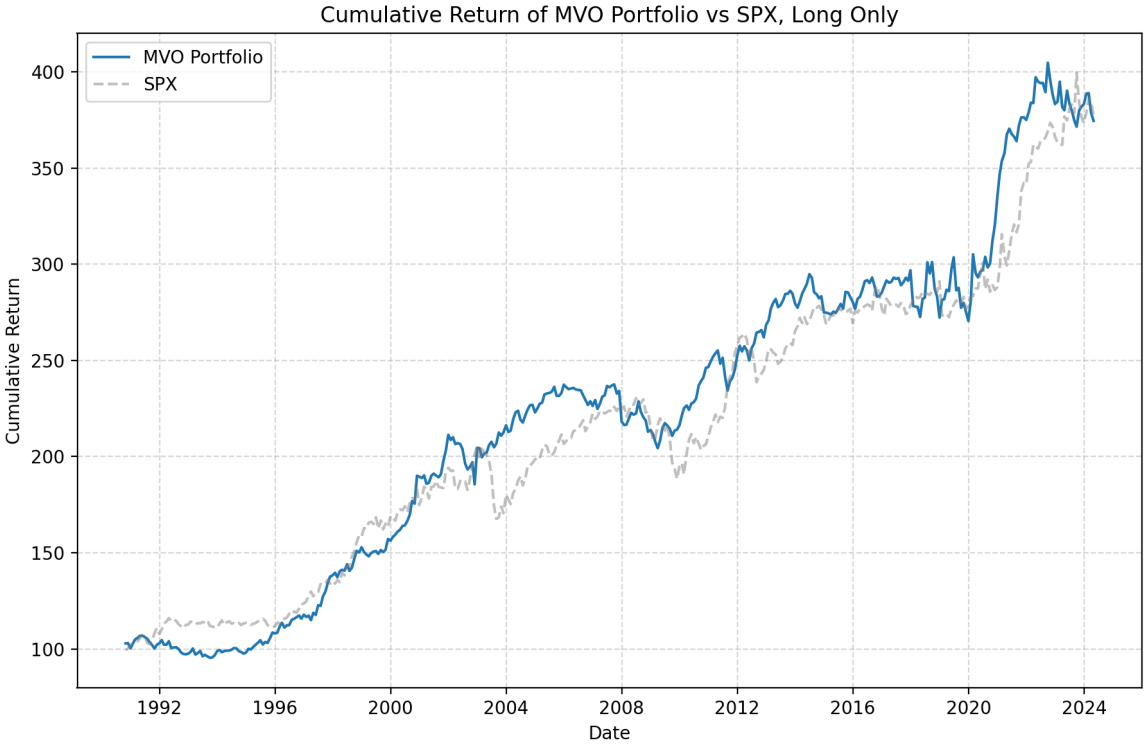


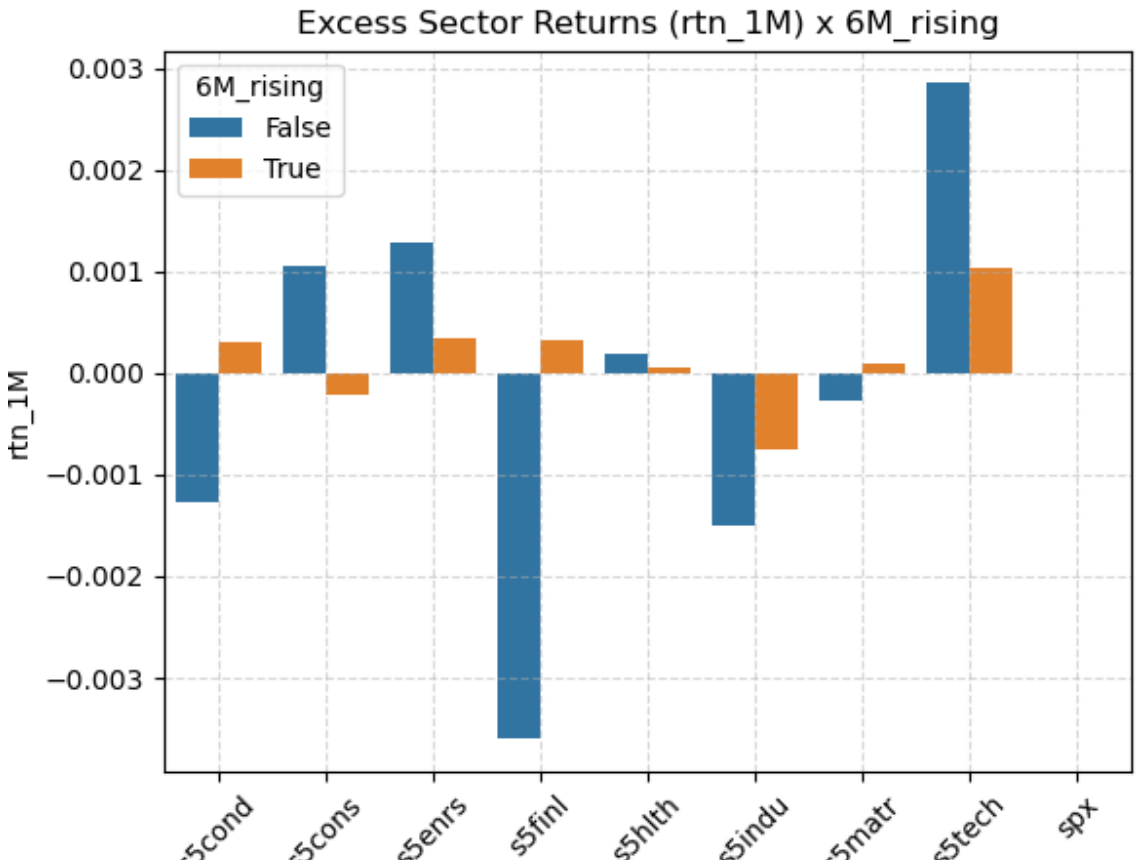

Mean Monthly Return x PMI Regime
pmi.hml
LOW
MED
HIGH
rtn
0.025
0.020
0.015
0.010
0.005
0.000
s5cond
s5cons
s5enrs
s5finl
s5hlth
s5indu
s5matr
s5tech
spx
ticker

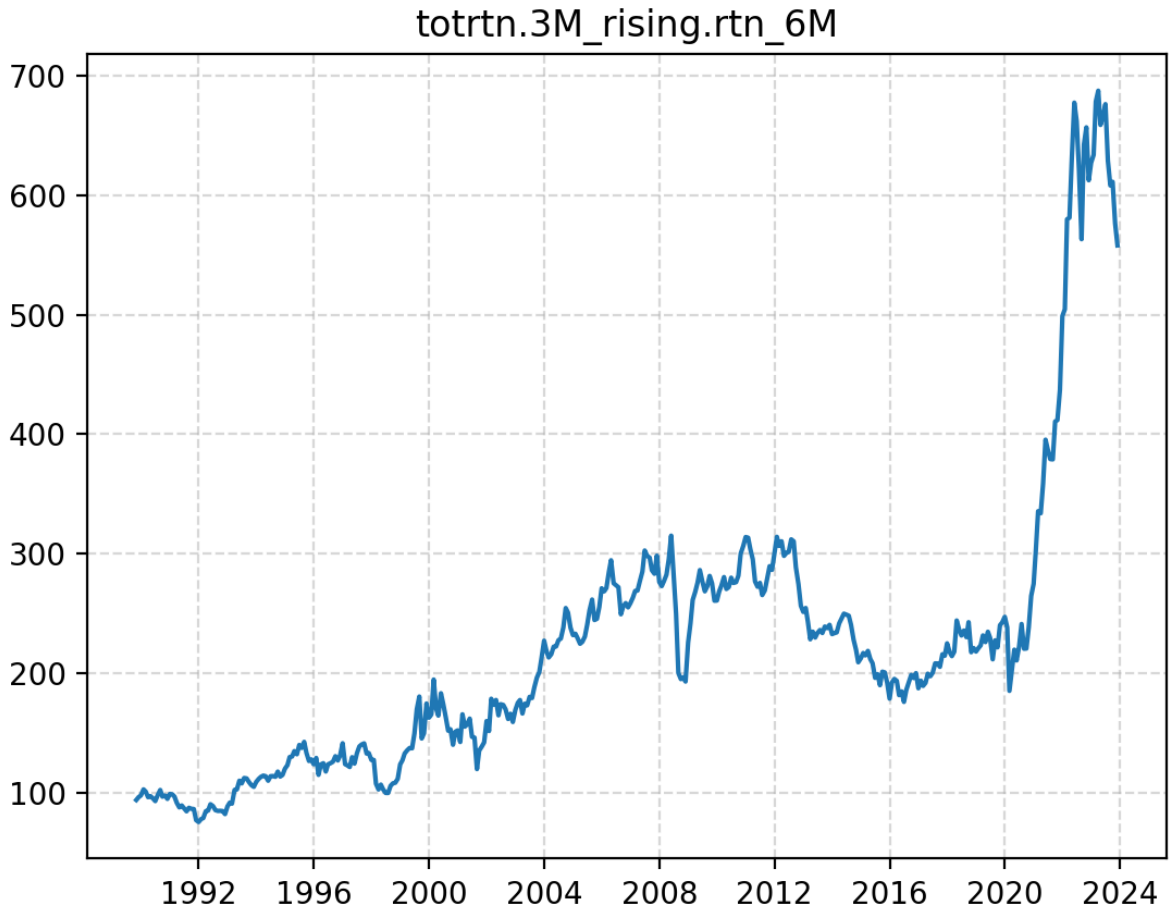

Mean Monthly Return x NMI Regime
nmi.hml
LOW
MED
HIGH
rtn
0.015
0.010
0.005
0.000
−0.005
s5cond
s5cons
s5enrs
s5finl
s5hlth
s5indu
s5matr
s5tech
spx
ticker

Strategy Total Returns
Using all factors: cpi.hml, pmi.hml, nmi.hml, 3m_rising, 6m_rising, 9m_rising, 12m_rising






Excess Sector Returns (rtn_1M) x 6M_rising
6M_rising
False
True
rtn_1M
0.003
0.002
0.001
0.000
−0.001
−0.002
−0.003
s5finl
s5hlth
spx

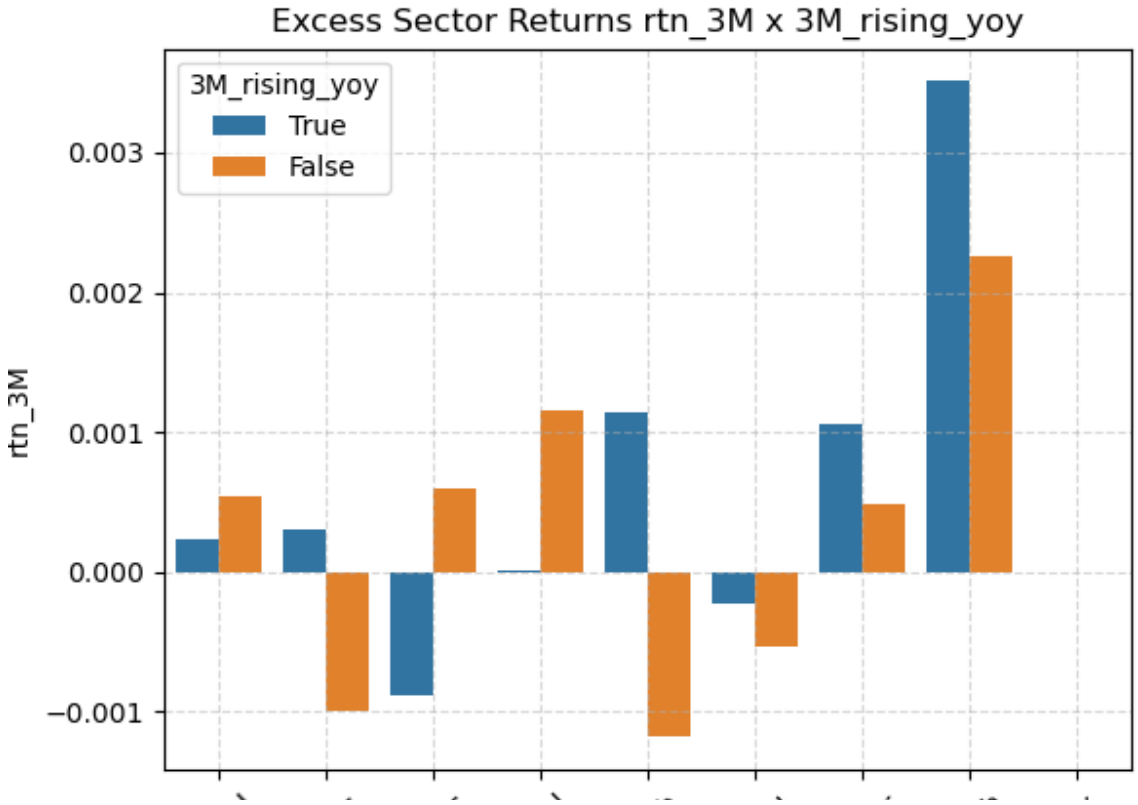

totrtn.3M_rising.rtn_6M
700
600
500
400
300
200
100
1992
1996
2000
2004
2008
2012
2016
2020
2024

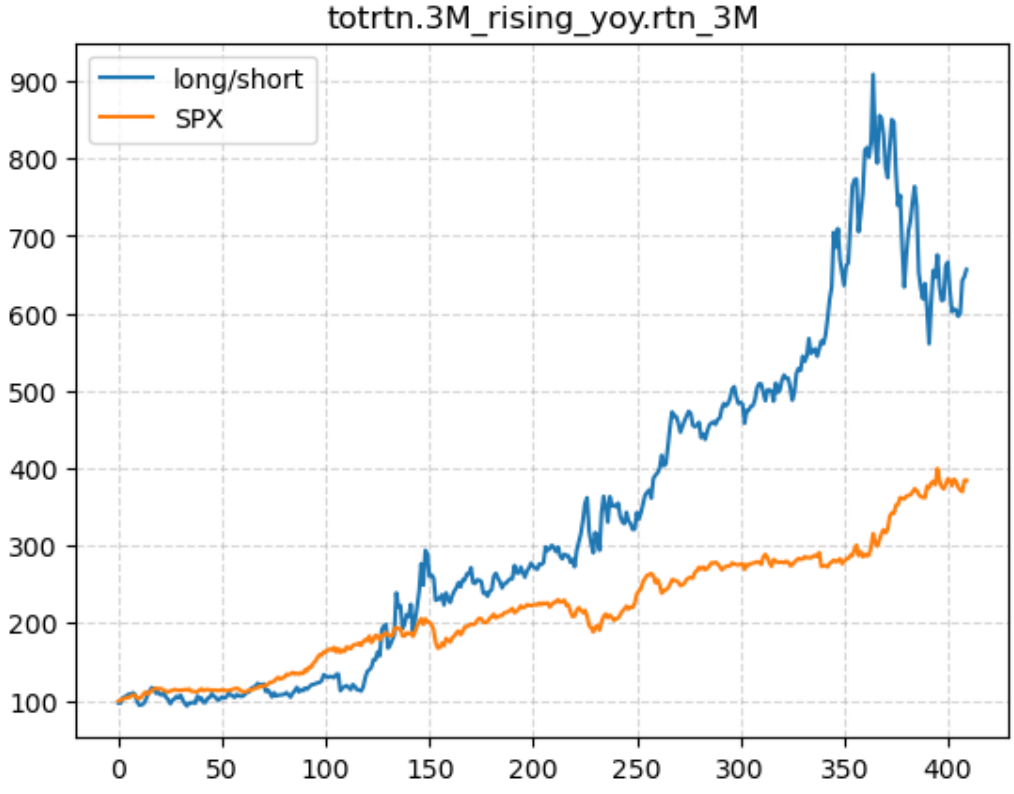
Strategy Returns when using simple trading rule on CPI Rising / Falling
The issue with this approach is that inflation has largely been rising throughout this entire sample period, leaving Technology as a frequent pick throughout history. This is pronounced during the 2020 spike which you can see in the plot above.

Alternative approach will be to try combinations of CPI HML x NMI HML x PMI HML

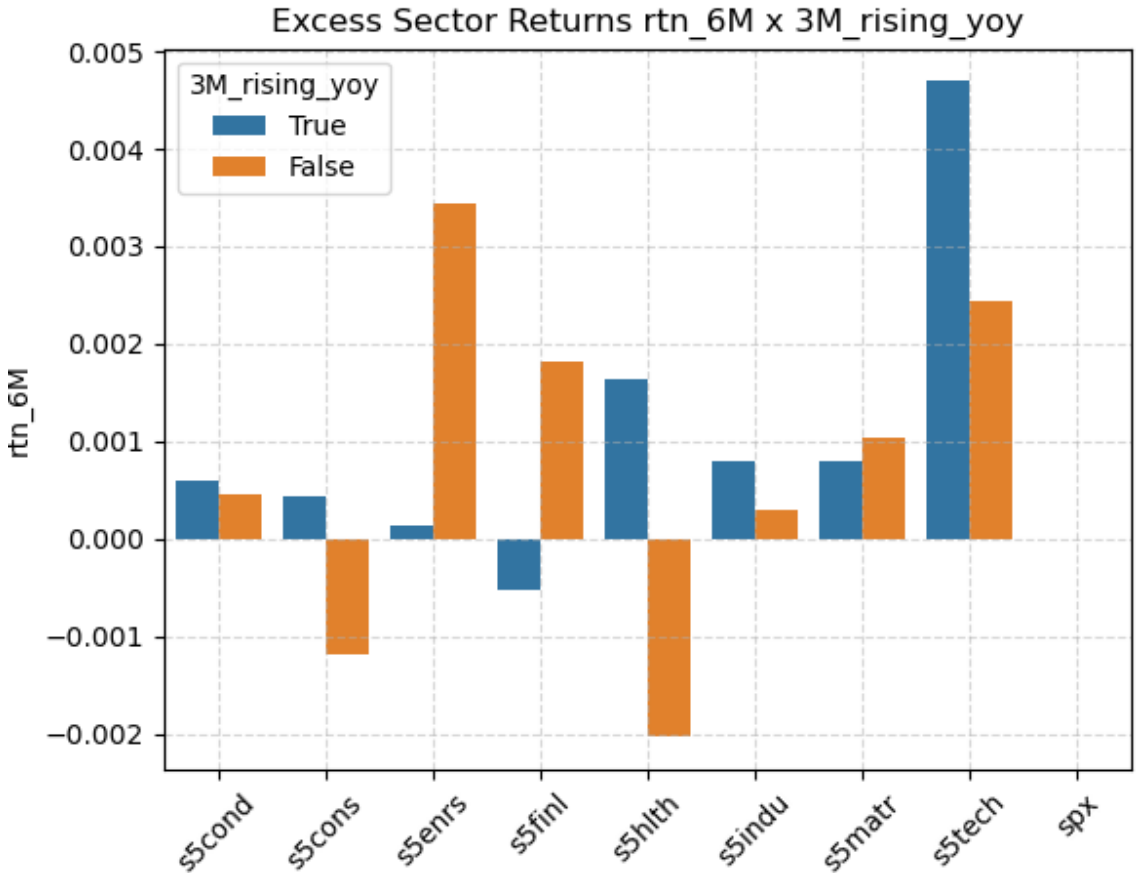
Alternative approach to simple trading rules:
Use relative CPI YoY changes along 3M/6M/9M time horizons and similar fwd return periods to identify longs/shorts

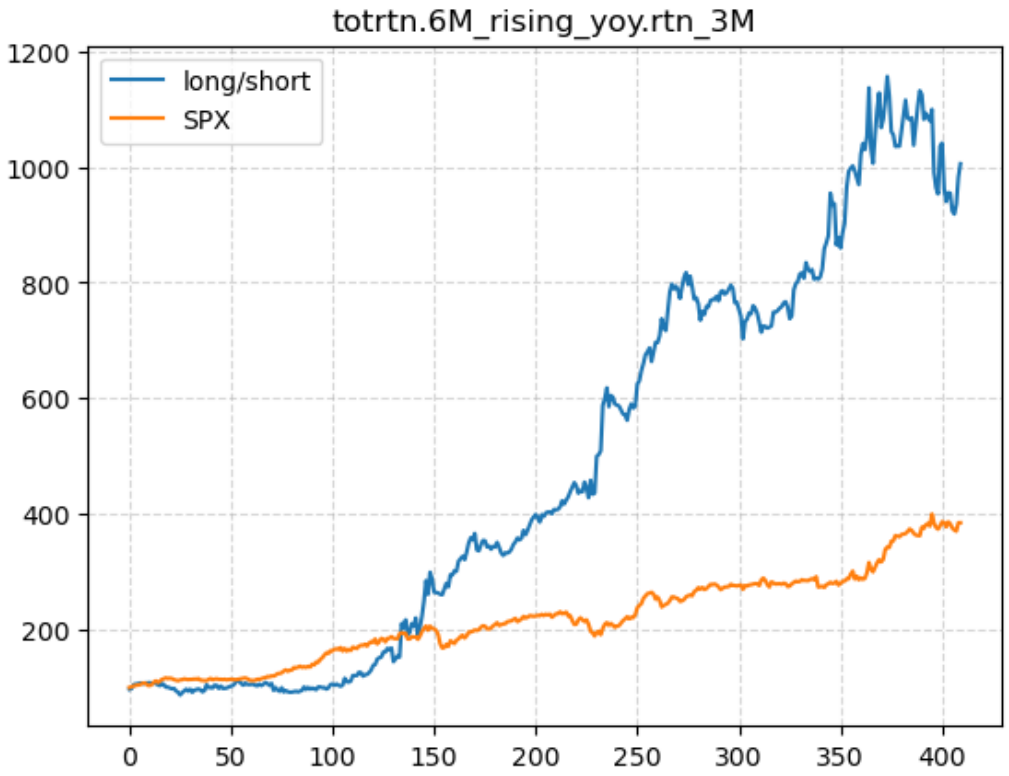
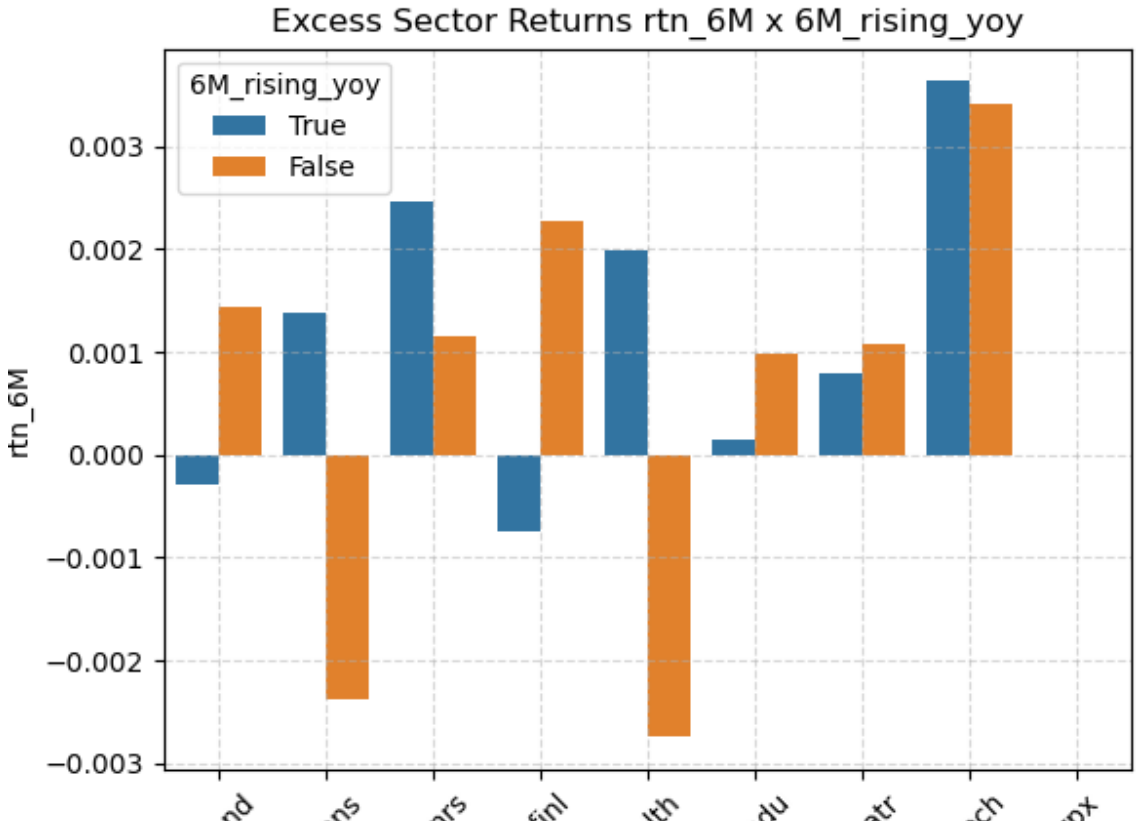
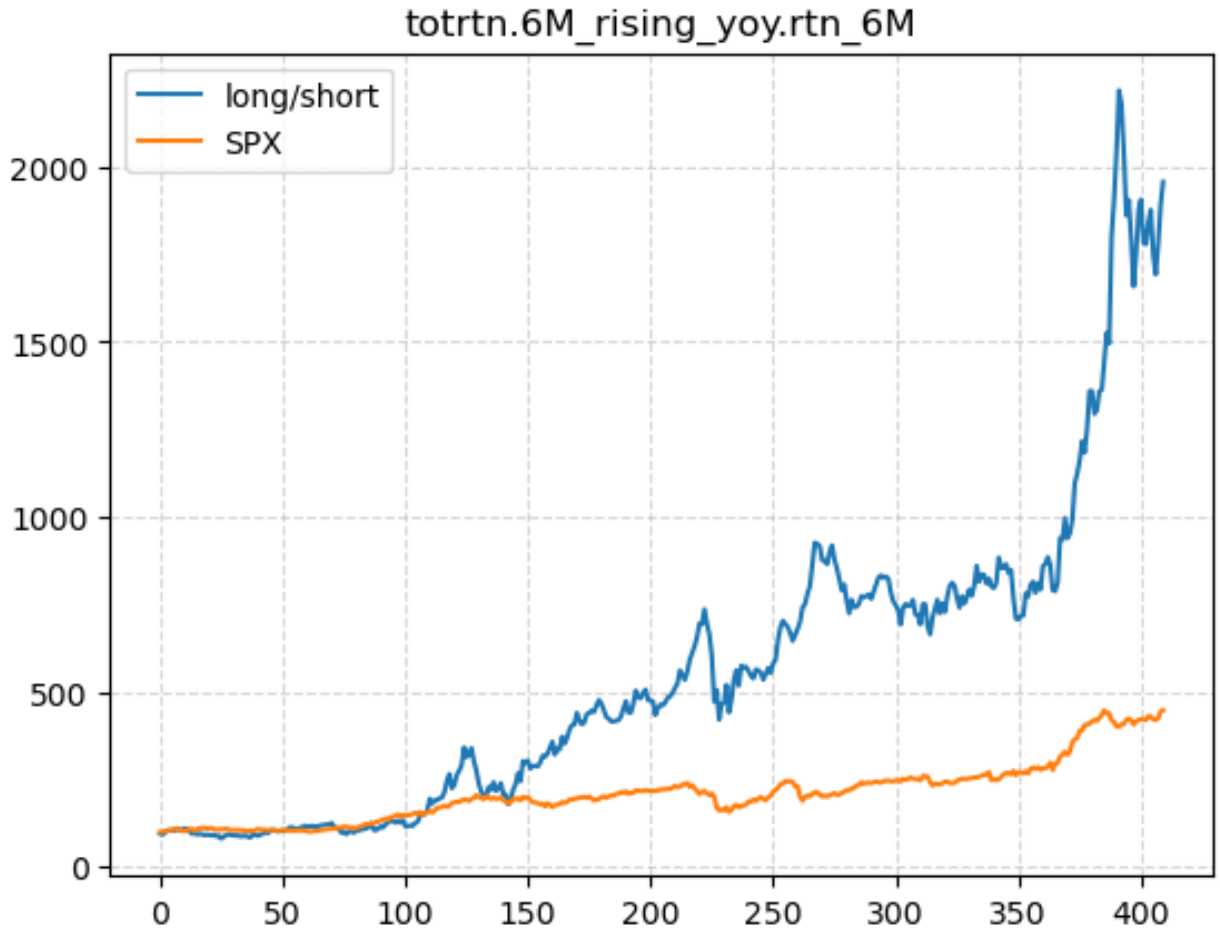
Strategy v3 - 3M Returns ~ 3M Rising YoY CPI
Excess Return plot indicates following rule:
Inflation Rising: Long tech, Long Healthcare / Short Energy, Short Industrials
Inflation Falling: Long tech, Long Financials / Short Healthcare, Short Con Staples





Strategy v4 - 3M Returns ~ 6M Rising YoY CPI





Strategy v5 - 6M Returns ~ 6M Rising YoY CPI