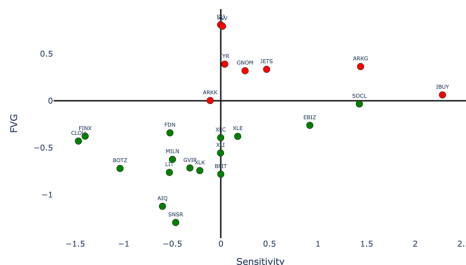




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## Are we asking the wrong question?

- The inversion of the 2s10s US yield curve after Friday's Payrolls report has already generated a huge weight of commentary. Here we focus not on the yield curve itself, but its implications. In this instance looking at US equity sectors plus some thematic ETF plays.
- Only sectors / ETFs in regime (confidence > 65%) are shown. Models to the right of the zero vertical bound want a steeper yield curve; those to the left are comfortable with curve flattening.
- The four most reliant on a steep yield curve (therefore most vulnerable to curve inversion) are all speculative technology names. Online Retail [IBUY](#), ARG Genomic Revolution [ARKG](#), e-commerce [EBIZ](#) & Social Media [SOCL](#). ARKG also has the misfortune to post a slightly rich valuation versus macro fair value.



- There is often a blanket assumption that technology wants lower long rates. While it is true lower discount rates help companies whose profits are typically further in the future, the current pattern appears to stress the growth part of the equation. A recession hurts profitability, & those with profits furthest away most of all.
- It is also noticeable how all the traditional GICS Level 1 sectors in regime hover around the zero bound. Most had a positive relationship to the curve but sensitivity has slipped. This is true for both cyclicals (Energy, XLE) & defensives (Health Care, XLV). Is there a broader regime shift under way?
- Possibly but it must be emphasised the chart above screens solely for sensitivity to the yield curve &, **despite all the hype, it is not the dominant macro driver currently**. All the speculative tech names want low risk aversion, tight credit, global growth & a weak Dollar more than they care about curve shape. XLE & XLV's drivers differ but the yield curve doesn't feature in the top 10 of either.

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