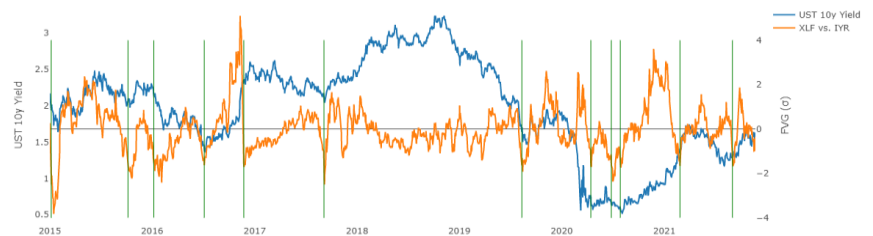




24.11.2021

Equities lead bonds?

- US Financials hit one sigma cheap versus US Real Estate last week. That's one of the biggest Fair Value Gaps of the last 12months.
- Previous [analysis](#) has discussed how the relative value between Financials & Real Estate can be used a way to capture the equity market's view on interest rates - REITs tend to outperform (underperform) banks when bond yields are falling (rising).



- The FVG on [XLF vs. IYR](#) has already corrected. From -1 sigma cheap on Friday to zero now. The move in bond yields post Powell's renomination as Fed Chairman has seen Financials outperform.
- Similarly, the -1σ FVG early in Sep occurred a few weeks before a 25bp back-up in 10y US Treasury yields. This begs the question **can the Financials / Real Estate ratio offer any signal for US yields?**
- On the chart above the green vertical lines show every time the XLF / IYR ratio has hit 1.5 sigma cheap on Qi. That's happened 12 times since 2015. On four occasions 10y US yields fell over the next few weeks; but eight times yields rose &, on average, that move was worth 7bp over the subsequent 4weeks .
- A long way from being conclusive, but an example of how to use Qi data in your workflow. **Markets often work with leads & lags; different asset classes discount macro shifts at different speeds.** The Qi framework helps highlight how dislocations in one corner of the market can help signal opportunities elsewhere.

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