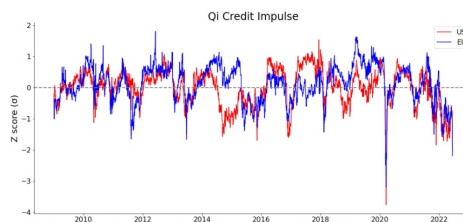


21.06.2022

How to survive higher real rates

- Central Banks have been explicit – they mean to tighten financial conditions in order to get inflation down.
- Qi's Credit Impulse chart aggregates together all the macro factors that capture financial conditions – credit spreads, the level of real yields, slope of the yield curve, currency strength, money market liquidity etc.
- The widespread perception would be that the Fed is the most hawkish, & the ECB only just starting to catch-up. Actually, relative to trend, European financial conditions have tightened to multi-year extremes.



- How is an equity manager supposed to keep track of these shifts? Users can manipulate macro factor z-scores like this using the API.
- How can an equity manager know which of their holdings are most sensitive to tighter FCIs? Via the [Optimise Trade Selection](#) function. Let's look at EU sectors' sensitivity to real yields as an example.
- [European Technology](#) is the most reliant on low real yields currently. It has also lagged the recent sell-off & sits close to model fair value.
- [EU Retail](#) is also noticeable – highly sensitive to real yields & 0.5 standard deviations or 9.9% rich to macro fair value. For equity managers whose main risk scenario is still higher real yields, Qi's *Optimise Trade Selection* function reveals the two sectors most vulnerable with the best entry levels.

Model Name	Asset Class	Confidence (%)	Valuation Gap α	EUR 10Y Real Rate
EU Chemicals	Equity	79%	-1.57	-0.26
EU Construction	Equity	79%	-1.14	-0.55
EU Media	Equity	81%	-1.44	-0.58
EU Financial Services	Equity	87%	-0.52	-0.79
EU Industrials	Equity	86%	-0.23	-0.86
EU Retail	Equity	84%	0.57	-1.10
EU Real Estate	Equity	88%	-0.46	-1.27
EU Technology	Equity	89%	0.14	-1.64

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