



Rates on the move

- US interest rates are on the move once again. Nominal 10y yields have hit a new 2021 high while 10y real rates have risen 10bp this week alone.
- The critical question for equity investors remains whether rising yields are a benefit as they reflect a bullish growth backdrop. Or, by tightening financial conditions, represent a headwind to future performance. **Qi empirically demonstrates the sensitivity of different US equity sectors to US real rates.**



- Each dot represents a US sector ETF relative to the broader market (SPY). The majority are hugging the vertical zero bound – they are neutral on real rates currently.
- **The biggest beneficiaries from rising real rates are Financials & Energy.** That is unsurprising in itself but in sharp contrast to other cyclical plays like **Industrials** where **sensitivity is less, & valuation is already rich to model.**
- Moreover, adding in a valuation overlay both broad Financials ([XLF / SPY](#)) & Banks ([KBE / SPY](#)) are modestly cheap to macro fair value. Less sensitive but, at -0.6σ (-7.2%), Retail ([XRT vs. SPY](#)) seems to offer the best expression from a pure valuation perspective.

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