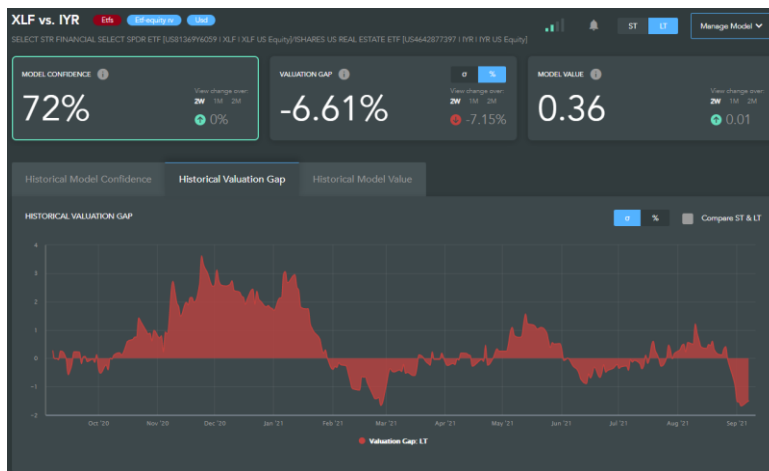




The equity view on interest rates XLF vs. IYR

- Qi's model of the relative value between US Financials (XLF) & US Real Estate (IYR) **is now posting a substantial Fair Value Gap. At -1.5 sigma (-6.6%), the FVG is close to one year lows.**
- The relative performance of financials versus real estate is often seen as a way for equity investors to trade US interest rates. REITs tend to outperform banks when interest rates are falling. The standard narrative is that when rates are low the former offer a yield play while the latter find Net Interest Margins are squeezed.



- XLF vs. IYR Model confidence is high (72%) & stable, suggesting a robust macro regime. And that **regime endorses the perception of the RV pair acting as a play on rates**. Higher real rates, a steeper yield curve, higher crude oil / rising inflation expectations plus general 'risk on' (tight credit, low stress) dominate.
- On this picture, **the equity market is currently pricing in a low interest rate environment**. Other equity barometers for interest rates such as [Value vs Growth](#) are at fair model value. XLF vs. IYR looks a more efficient expression for any equity investor looking for a back-up in bond yields.
- Back-testing a buy-the-dip strategy using a -1.5 sigma FVG entry level since 2009 reveals a **66.7% hit rate & +1.1% average return**.

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