MacroSpotlight

Stop hunting for the magic number in bond yields

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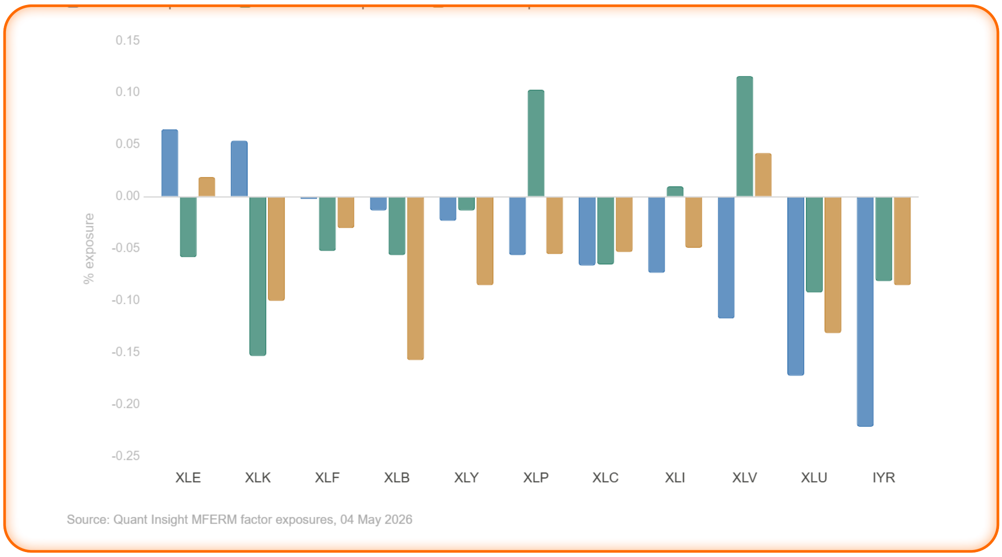
That's not how bond market risk transmits to equities.

Equity managers need to know how shifts in the bond market impact their risk profile. But searching for a magic number in 10y yields is misguided.

The transmission mechanism is more nuanced. It operates via three distinct channels: yield levels, curve shape and rate volatility.

Qi measures the orthogonal exposure of each equity sector to all three.



What stands out?

- **XLE & XLK**: the only sectors comfortable with rising yields and bear flattening. XLK has the AI tailwind but XLE looks a safer home if rate vol picks up
- **XLU & IYR:** textbook bond proxy / rate sensitive play. Okay with a flatter yield curve but only when it's the bullish kind with lower long yields and lower rate vol
- **XLB:** tolerant of rising yields, but the most exposed sector if rate vol spikes
- **XLP:** triple headwind - dislikes rising yields, needs curve steepening and lower rate vol.
- **XLV:** nuanced. Yield-sensitive but rate vol provides a partial buffer. More idiosyncratic, less macro-driven

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