Quant insight

MacroSpotlight

Rate Vol: Direct Exposure vs Correlated Shock Impact

28th July 2026

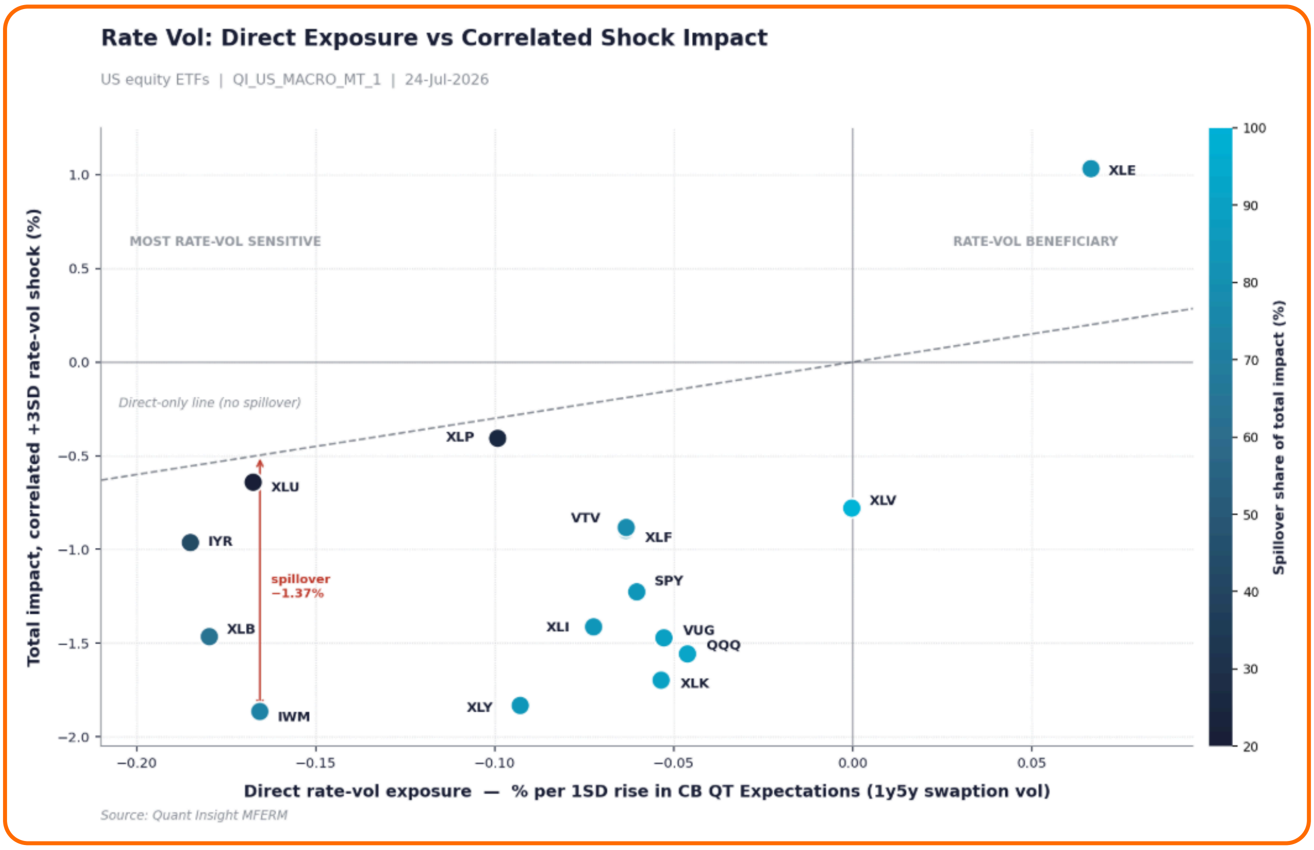
MacroSpotlight

Rate Vol: Direct Exposure vs Correlated Shock Impact

The bond market impulse has turned sharply negative. Real rates at multi-year highs with breakevens grinding lower is tightening financial conditions.

Rate vol concerns are creeping higher. This doesn't just hit duration. It hits beta.

The chart below shows why looking only at direct rate-vol exposure can be misleading.



IWM and XLU have almost identical direct sensitivity to higher rate volatility in Quant Insight's risk model. But under a correlated +3SD shock:

IWM falls 1.86% versus just 0.64% for XLU.

The difference is spillover.

Higher rate vol has recently travelled alongside wider credit spreads and rising risk aversion. The risk-premium complex is the transmission channel for higher equity damage.

Reflecting this:

- IWM, XLY, XLK and QQQ would suffer the largest losses
- Utilities, staples and real estate prove relatively insulated
- XLE is the only beneficiary, helped by the accompanying energy shock

The key point: growth and tech are not necessarily the biggest losers because they are "long duration". Their direct rate-vol exposure is relatively small.

They suffer because rate vol triggers a broader risk-off move.

Rate vol is the trigger. Beta and credit are the transmission mechanism.

That matters for positioning. If the current correlation structure holds, the cleaner expression is through size and defensives, not simply shorting traditional duration proxies.

A rate vol shock scenario favours XLP over IWM far more than it favours shorting IYR against XLK.

Earnings season is peaking this week…macro forces will start to overtake micro.

Disclaimer

This document is being sent only to investment professionals (as that term is defined in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) OrdeRSq005 ("FPO")) or to persons to whom it would otherwise be lawful to distribute it. Accordingly, persons who do not have professional experience in matters relating to investments should not rely on this document. The information contained herein is for general guidance and information only and is subject to amendment or correction.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This document is provided for information purposes only, is intended for your use only, and does not constitute an invitation or offer to subscribe for or purchase any securities, any product or any service and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document does not constitute any recommendation regarding any securities, futures, derivatives or other investment products. The information contained herein is provided for informational and discussion purposes only and is not and may not be relied on in any manner as accounting, legal, tax, investment, regulatory or other advice. Information and opinions presented in this document have been obtained or derived from sources believed to be reliable, but Quant Insight Limited (QI) makes no representation as to their accuracy or completeness or reliability and expressly disclaims any liability, including incidental or consequential damages arising from errors in this publication. No reliance may be placed for any purpose on the information and opinions contained in this document. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this document by any of QI, its employees or affiliates and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions.

Any data provided in this document indicating past performance is not a reliable indicator of future returns/performance. Nothing contained herein shall be relied upon as a promise or representation whether as to past or future performance. This presentation is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person under any circumstances without the express permission of Quant Insight Limited.

+44 2037519400
info@quant-insight.com
www.quant-insight.com

Quant Insight Limited
Dawson House, 5 Jewry Street
London, EC3N 2EX