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Market Facts

Steeper Yield Curve's Industry Group Effect On U.S. Equities

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The U.S. Treasury yield curve as measured by the [forward rate ratio](#) between two and ten years has been steepening since the Federal Reserve began lowering interest rates in August 2007.

If one goal of this looser credit policy has been to improve the business of carry-dependent financial sectors such as banks and thrifts & mortgages, it has failed so far. However, the partial contribution of a steeper yield curve on U.S. equities is positive.

A total of 14 groups (left-hand cells) accounting for 13.54% of the S&P 500's market capitalization have a combined negative relative performance beta to the FRR_{2,10} of -6.16%. A total of 17 groups (right-hand cells) accounting for 20.64% of the S&P 500's market capitalization have a combined positive relative performance beta of 8.20%.

The net is a relative performance beta of 2.04%. Each 1 percent increase in the FRR_{2,10} (1.52 basis points at

current yields) will have a positive .0204% partial contribution to the S&P 500.

Just as we saw [recently](#) in the case of two-year note yields' industry group effect, there are some counterintuitive observations. Investment banks, consumer financials, homebuilders and construction materials all have negative relative performance betas. This is readily attributable to their collective downturns being a proximate cause for the Federal Reserve's rate-cutting campaign.

The list of groups with positive relative performance betas includes a large number of consumer-related groups, including brewers, soft drink makers and restaurants. If a steeper yield curve is economically stimulative, it will be so via consumer spending, not via positive carry in the financial sector.

Yield Curve Beta-Weighted Impact On S&P 500

	SPX Weight	FRR Beta	Weighted Beta		SPX Weight	FRR Beta	Weighted Beta
Investment Banking & Brokerage	2.07%	0.560	-1.16%	Pharmaceuticals	6.28%	0.404	2.54%
Systems Software	2.97%	0.359	-1.07%	Soft Drinks	1.97%	0.483	0.95%
Semiconductors	2.06%	0.515	-1.06%	Oil & Gas Exploration	1.51%	0.530	0.80%
Multiline Insurers	1.68%	0.489	-0.82%	Household Products	2.30%	0.297	0.68%
Communications Equipment	2.54%	0.310	-0.79%	Healthcare Equipment	1.84%	0.335	0.62%
Consumer Finance	0.82%	0.489	-0.40%	Hypercenters & Superstores	1.23%	0.436	0.54%
Fertilizers & Agricultural Chemicals	0.51%	0.563	-0.29%	Tobacco	1.46%	0.350	0.51%
Computer Storage & Peripherals	0.44%	0.474	-0.21%	Drug Retailers	0.78%	0.478	0.37%
Homebuilding	0.14%	0.899	-0.12%	Packaged Foods	1.23%	0.236	0.29%
IT Consulting & Services	0.08%	1.118	-0.09%	Gold	0.20%	1.410	0.28%
Employment Services	0.07%	1.155	-0.08%	Restaurants	0.84%	0.287	0.24%
Construction Materials	0.07%	0.470	-0.03%	Insurance Brokers	0.23%	0.479	0.11%
Diversified Commercial Services	0.08%	0.350	-0.03%	Brewers	0.34%	0.277	0.09%
Healthcare Facilities	0.02%	0.655	-0.01%	Footwear	0.20%	0.377	0.07%
				Casinos & Gaming	0.11%	0.604	0.07%
				Office Services & Supplies	0.11%	0.270	0.03%
				Home Furnishings	0.03%	0.456	0.01%
Subtotal:	13.54%		-6.16%	Subtotal:	20.64%		8.20%
				Total:	34.17%		2.04%

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