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The Beatings Will Continue Until Morale Improves

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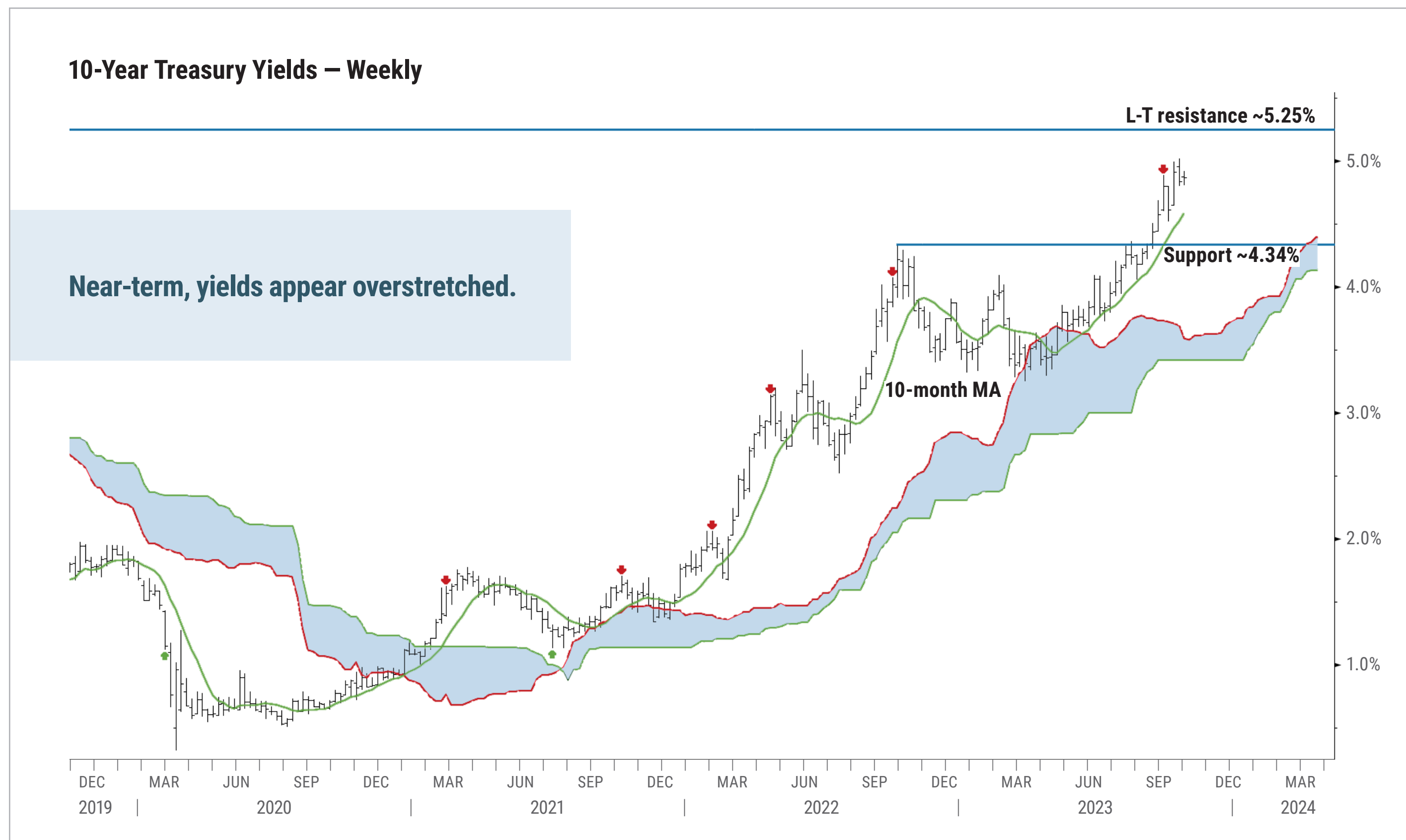
The above quote of unknown origin lends a lot of similarity to the beating risk assets have taken at the hands of the surge in long term yields. The surge could be attributed to confusing "higher for longer" Fed talk related to inflation, fear of increased issuance, or a reflection of stronger than expected GDP growth. The villain is most likely a combination of all the above. Major equity and bond averages continued to pull back during September under the weight of the steep move higher in the benchmark 10-year Treasury. For the month of October, the S&P 500 Index dropped -2.10%, while the Bloomberg US Aggregate Bond Index fell -1.58%.

Until markets get relief on the yield benchmark it will be difficult for risk assets to move sustainably higher. Right now, this is by far the macro input with the greatest market impact. On the equity side, the current 10-year yield just below 5% creates a lot of competition for stocks. One could argue that one of the best "stock" selections right now would be long duration Treasury ETFs priced at 2006 support levels. There are 2 ½% real yields and a ton of potential price upside in those securities. The post Global Financial Crisis era of TINA (there is no alternative) for equities is dead, RIP.

Our viewpoint is that while yields have clearly reversed their long-term secular downtrend and are now in a sustained uptrend, they are also well ahead of themselves in the shorter term. Keep in mind the short term in this context could be months or even years.

Source: Fairlead Strategies



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