

Timely Insights from JAG's Research Team

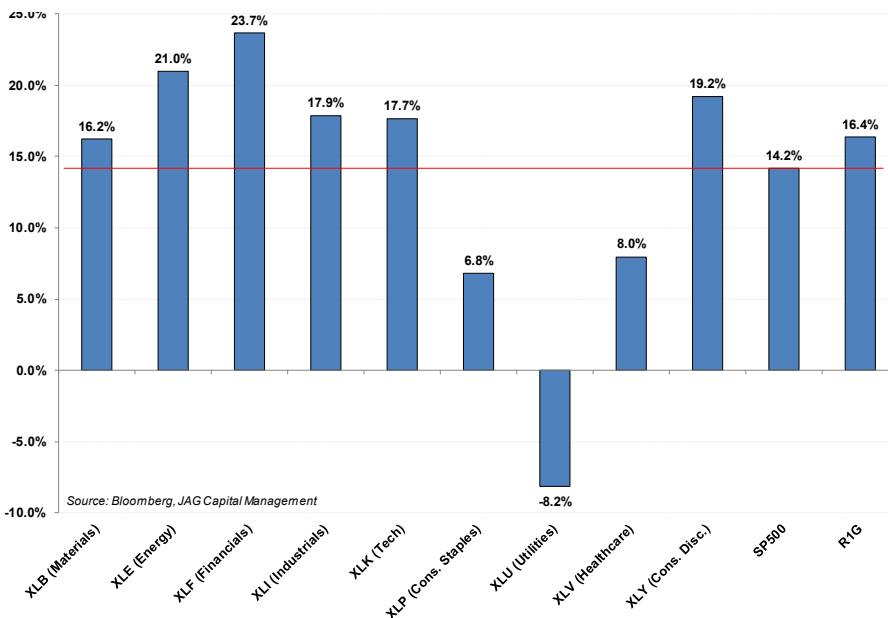
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10 Year Treasury Constant Maturity Yield, Weekly Average of Daily Yield



Interest rates are ticking up in response to a variety of factors, including strong global economic growth and gradually tightening monetary policy by the Fed. Here we plot the trend channel of 10-year Treasury yields all the way back to 1988. As you can see, yields are approaching the top of the long-term trend channel. A move above 2.72% would represent a breach of the upward trend line. We expect to see Treasury yields break above this trendline within the next few months. If and when this happens, we would expect to see more foreboding headlines about a near “bear market in bonds.” Time will tell, but we note that 10-year Treasury yields are up over 120bps since July 2016. Despite this fact, fixed income and equity markets continue to function quite well. All else being equal, we think this move toward more “normal” interest rates will be a good thing for long-term investors and markets.

Sector SPDR Performance Between 9/8/2017 - 1/19/2018



The Fed announced the end of Quantitative Easing on 9/20/17, but financial markets beat them to the punch by a couple of weeks. On Friday 9/8/17, the 10-year Treasury yield closed at 2.06% - only to leap to 2.13% on Monday 9/11/17. In hindsight, this inflection point for yields kicked off a march higher that continues to this day. Surprising many, stocks have ramped higher along with bond yields over the same period. This is a break with tradition, as historically stocks have tended to respond poorly to rising interest rates. But this tidy rule of thumb has been broken since the Great Recession. Over the past 9 years, stocks have performed quite well during periods of rising interest rates. In the post-Crisis era, equity markets view higher rates as bullish signposts of deflation and improving global growth.

Disclosures

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