Harry's Take

April 19, 2022

Pay attention: This is likely one of Harry's most important updates of the year.

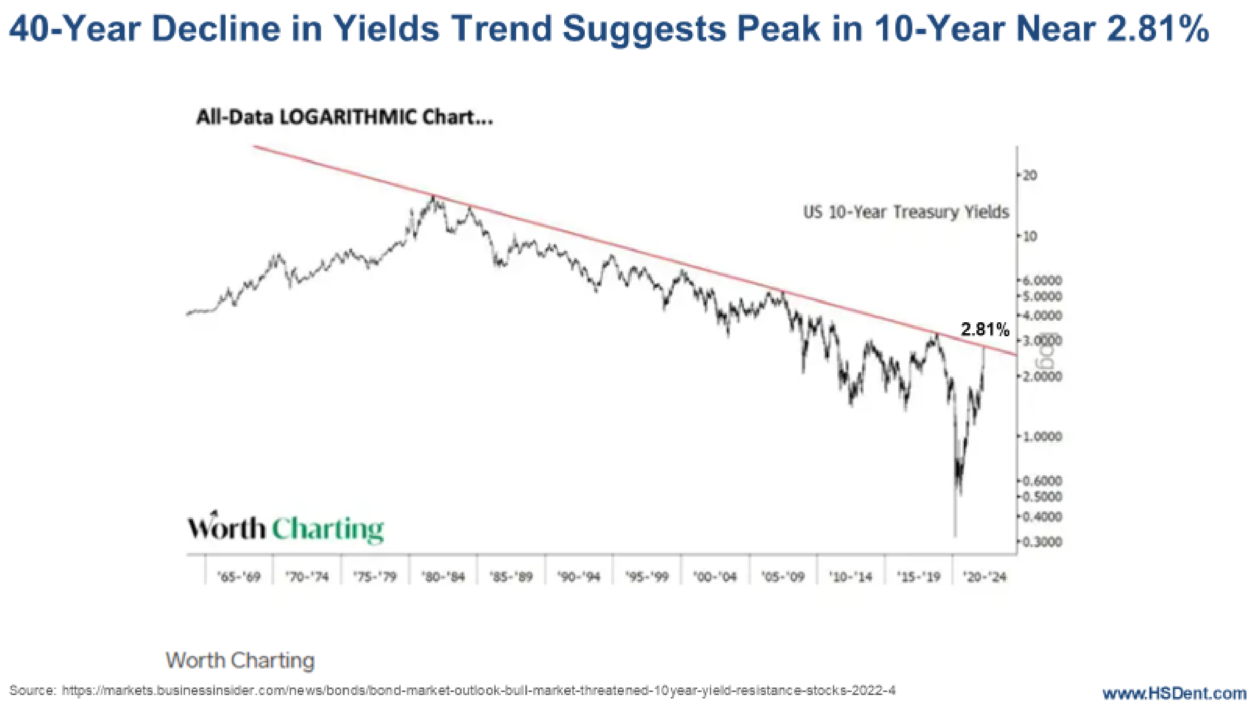
Ten-Year T-Bond Yields at Critical Level: Falling Rates, Recession Likely Just Ahead

My biggest debate with other forecasters like Peter Schiff who also see a big bubble burst and crash ahead, is that I think that the safest long-term Treasury bonds are the best safe haven, not gold. If the U.S. and other major central banks can print money to keep the economy going, they can sure print some more to pay their bonds off if the economy goes bad, as their credit quality will be more important than ever when they are funding the biggest deficits yet. And you have to look no further back than the 2008 crash to see that T-bonds fared the best into the worst of the crash. Gold did well only in the early stages but then also crashed, into late 2008.

Does the U.S. have debt problems? Of course, more than at any other time in history. But Japan and Europe have worse problems. They printed more money compared with GDP than the U.S. to deal with the demographic slide and financial crisis in the developed world since 2008. Hence, as in 2008, the U.S. is the best safe-haven large country—and our safest and longest-term Treasuries are, hence, the best.

I gave an update to subscribers on April 11 on why it was time to buy these safe-haven T-bonds, saying that 30-years were the best and I liked ETFs like TLT (20-year average) and ZROZ (25-year average and zero coupon) for more leverage. And on April 18, I put out another update to tell subscribers to hang in there, even though TLT broke a little below my buy target of 122.5. Why? Treasury bonds are at another very important inflection point.

Here is the most important chart among many I examined.



A very powerful long-term trend has been happening since inflation and yields peaked in 1980–1981. The last time yields hit this trend line was in 2007, just before the 2008 recession and crash. The most recent was in early 2020, just before the COVID crisis and temporary recession. Both were excellent times to load up on these bonds.

Yields got as high as 2.92% this morning, but we are still very near the 2.81% mark on this powerful trend line and ripe for a major reversal back down in rates, which would tend to be bearish for the economy.

There are two scenarios at this critical tipping point in the long-term T-bond rates shown in the chart above.

1. If yields keep breaking up above 3.0%, violating this powerful trend line, then they could spike temporarily and hit stocks even harder, as sharply rising risk-free rates always break stock rallies like this. In that

case, this unique T-bond buying opportunity could be pushed out just ahead, and at more advantageous rates. This scenario would be the easiest to play: short stocks, long T-bonds just ahead a bit.

2. In the still more likely scenario, T-bond rates would reverse back down sharply soon and not convincingly break this critical falling trend line. That would suggest the markets are seeing a weaker economy ahead and stocks would continue to fall for that reason rather than from rising T-bond rates, and T-bonds would rally hard.

For the nimble, this still looks like the optimum time to buy 30-year Treasury bonds direct, ZROZ or TLT, in that order of preference. I favor ZROZ over TLT due to the longer duration, although TLT is more liquid and a bit easier to buy and sell. Subscribers can expect a warning soon if I think this opportune buy signal is failing and a better one is just ahead.

If you buy now, you will have to be willing to reverse, get back out again, and short T-bonds at a higher rate level. If you wait, things could move fast and rates fall quickly—and you will miss a lot of this unique opportunity. The in-between move would be to make half of your bet on T-bonds now and half after the trend gets clearer.

Harry

Got a question or comment? You can contact us at info@hsdent.com.