Harry's Take

May 10, 2022

Was That 10-Year T-Bond Yield Spike It? Stocks Are Still Heading Down

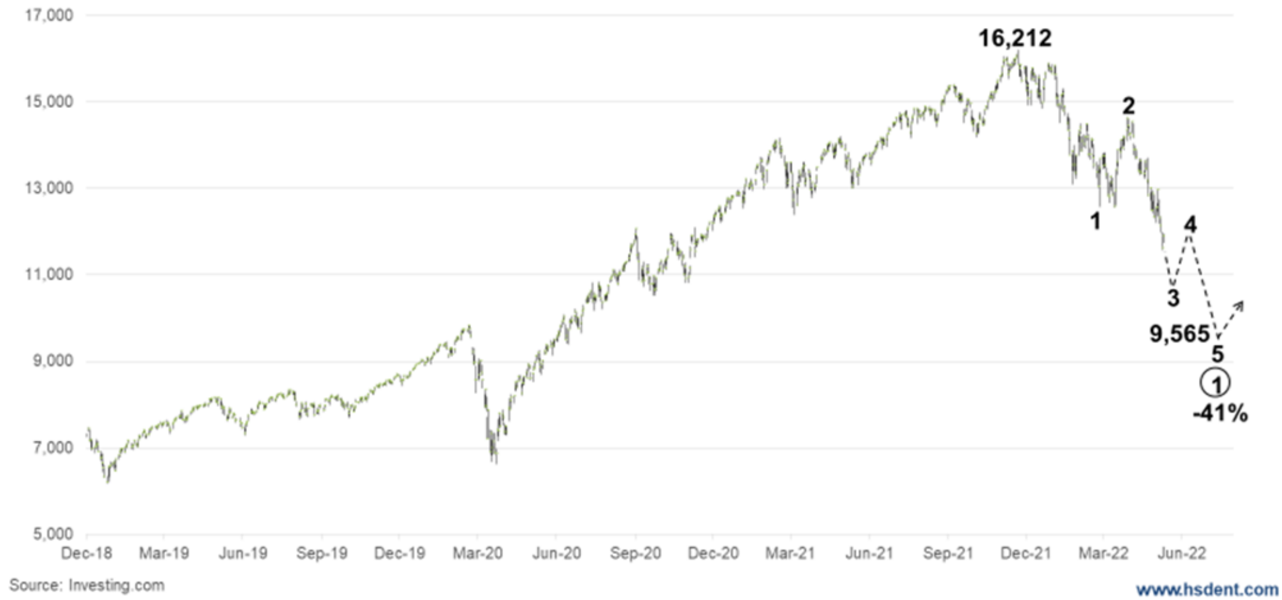
I have been expecting the 10-year and 30-year Treasury bonds and ETFs like TLT and ZROZ to respond to the tightening process, which clearly is intended to slow the economy and inflation. Hence, my recommendation has been to buy TLT or ZROZ and see those bond rates fall. Instead, they spiked over 3.0%, to 3.10%. But rates came down today to just below 3% again, and I am hoping that spike was it. It's just a matter of whether the bonds will be affected more by the rising inflation or the slowing from the tightening.

If the economy is about to slow and move into a recession, then bond yields on the risk-free Treasuries will come down to near zero and these bonds will appreciate by as much as 50% to 60%. And bonds are a lot less volatile than shorting stocks to play the downturn.

I have been expecting stocks to continue to go down and Treasury bonds to move up in value. The stocks are doing their part, especially with the crash yesterday. Now, we hope the T-bonds will follow and go up, with yields falling. I have been advising investors to hold TLT and T-bonds through this spike. I'll keep you updated on that.

The chart shows a likely present scenario for the more-volatile major stock index, the Nasdaq… This is just a reasonable projection based on what I know about first crashes. This is not carved in stone.

Nasdaq Likely in 5-Wave-Down First Crash: 40%+ Down by Mid-July



I think it's likely that stocks are in the third wave down of the first crash or larger first wave. It is likely to go a bit lower, bounce in a brief fourth wave, and progress to a fifth wave down. I am merely assuming here that the Nasdaq will go down by the average for bubble first crashes, or 41%, which would take the Nasdaq to around 9,565. Such a move would validate a long-term market top in November 22 for the Nasdaq and January 4 for the S&P 500. If the Nasdaq breaks back above the first-wave low near 12,600, then this scenario would be invalidated and it would still be possible for the S&P 500 to make a slight new high.

If the market continues to trend down, it will be bearish. If it bounces strongly here, especially back to above 12,600, it could be bullish again… This is a critical juncture. If the market had crashed 30% plus in a few months, a final top would have been clearer. I still think stocks have topped here, but it will take more on the downside to confirm. I'll keep you updated.

Harry

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