Harry’s Take

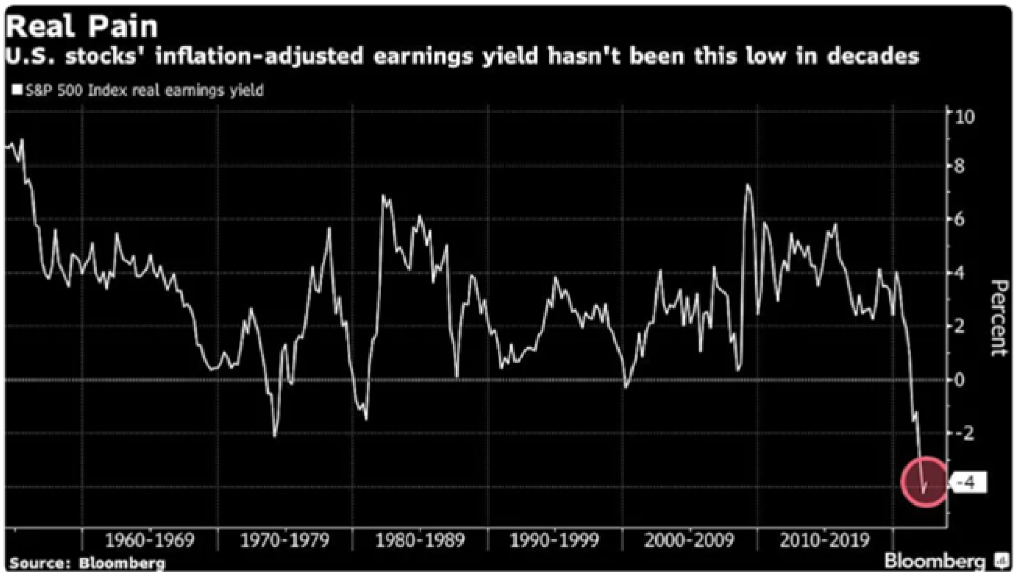
May 3, 2022

Ten-Year T-Bonds Banging Against 3% Yield: Hold on for Now, Continue to Sell or Short Stocks in Third Wave Down

First, here’s an update on T-bonds: I gave a buy signal on April 19 for TLT, ZROZ, and 30-year Treasury bonds when we hit the 40-year down trend line in yield peaks around 2.81%. Traders are trying to scare out investors by trying to test and break through the 3.0% level, and bonds have traded between 2.72% and 3.01% in the last two weeks. This looks like a classic throw-over rally to fake out investors. I say hold on here if you bought, or add more. If yields go much higher, then it may be appropriate to sell and wait for a better time, as lower yields are coming with a recession that already looks like it is in motion. That’s why I don’t think T-bonds will break to new 3%+ levels ahead.

I gave my first all-out sell signal for stocks in my Harry’s Subscriber Update on December 8 when the Nasdaq was just starting to roll over aggressively, and then gave another signal more broadly in my Harry’s Take on January 4 when the S&P 500 peaked. Stocks did not correct that typical 28%–50% first crash to confirm a final top. But the weakness again after a first wave of 23% down on the Nasdaq and 13% down on the S&P 500 and then a two-wave bounce suggests that we are entering a third wave down into May, which will greatly increase the odds of a major top if it continues. Then markets could fall to more like 40%+ down (in a fifth wave to follow) by mid-July or so. It just may take 6 months+ instead of 2–4 months this time for that sharp first crash that ends a major bubble.

Stock Earnings Yield at -4%, Worse Than in ‘73-‘74, ‘80-‘82 and ‘00-‘02 Crashes



Source: https://www.yahoo.com/now/bulls-much-explaining-morgan-stanley-152314126.html

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This chart shows that stock earnings yields, −4% at this stage, are weaker than at the last major crashes and recessions in 1973–1974, at −2%, and 1980–1982, at −1.5%. Those were the worst parts of the long recession from late 1968 into early 1983. The 2000–2001 crash was just to −0.2%. This now should be the finale in a long crash that should have occurred from late 2007 into early to mid-2023 but has been minimized and put off by endless and escalating stimulus by the central banks since early 2009 and now massive fiscal stimulus added since COVID, which has created a sudden surge in inflation that is forcing the Fed to tighten, as they should have long ago.

Hold onto those T-bonds (TLT and ZROZ) here or add to them. This is the last sell (or short) signal for stocks through inverse funds (SH and PSQ, and triple-short versions SPXU and SQQQ for the brave).

Harry

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