

MACRO TIDES



Macro Factors and their impact on Monetary Policy, the Economy, and Financial Markets

Treasury Yields

A longer term chart for the 10-year Treasury yield, 30-year Treasury yield, and the Treasury bond ETF TLT have been provided so you can reference them as you read my analysis of Treasury yields from 2017. The combination of fundamental analysis, technical indicators, investor sentiment, positioning in Treasury futures markets, and contrary opinion have proven helpful in discerning the intermediate trends in Treasury yields.

In March 2017, I recommended buying Treasury bonds when the yield on the 10-year Treasury bond was above 2.60% in anticipation of a decline in the 10-year yield below 2.20%. On June 1, 2017 I published an analysis of the long term trend in Treasury yields since 1946 entitled **“Is a Secular Bear Market in Bonds Possible?”** My conclusion was that the secular bull market in Treasury bonds that began in September 1981 had ended in July 2016. I offered this advice. *“The coming low in the yield could represent a higher low relative to the July 2016 low of 1.32%, and set the stage for the next move up in yields before the end of 2017. This suggests a review of the allocation to bonds and the investment strategy employed in managing bond market risk by investors and financial advisors is appropriate.”* That advice proved prescient as the 10-year Treasury yield bottomed at 2.035% in September 2017.

In August and September 2017, I recommended shorting Treasury bonds through the purchase of an inverse Treasury bond ETF when the 10-year Treasury yield fell below 2.05% and the 30-year Treasury yield dropped below 2.70%. I expected Treasury yields to rise with the 10-year Treasury yield testing and likely exceeding its December 2013 high of 3.03%. I expected the 30-year Treasury yield to rise to 3.17% to 3.20%. These targets were reached in May 2018.

In order to navigate the coming secular bear market in bonds, financial advisors and investors could be helped by adopting a tactical strategy for a portion of their fixed income allocation, rather than the buy and hold approach traditionally used. I think my analysis can help you.

Weekly Technical Review

March 13, 2017

Treasury Yields

In the March 13 WTR, I wrote, *“A 38.2% retracement of the decline from \$143.62 in July 2016 to the low of \$116.80 in December 2016 in the Treasury bond ETF (TLT) would lead to a rally to 126.00 or so, while a*

50% retracement would bring TLT back up to 129.00.” I recommended TLT when it was trading below \$117.50.



Macro Tides

June 1, 2017

Treasury Yields

Is a Secular Bear Market in Bonds Possible?

During the 35 year secular bull market that began in October 1981, there were a number of sharp increases in yields in which bond prices fell. But investors who held on were bailed out by the secular bull market and eventually recovered all the losses and with gains to show for their patience. In a secular bear market, patience is rewarded with more losses, as yields trend higher after any dip. This painful lesson was learned by bond holders during the 35 year secular bear market of 1946-1981. Just as bond investors could not imagine how the yield on the 10-year Treasury bond would decline from 15.68% in 1981 to 1.32% in July 2016, it is just as difficult to anticipate what events and economic conditions could cause yields to rise materially from current levels. The coming government funding crisis in Social Security is likely to play a role. The key point is respecting that secular bear markets occur and investors must be prepared to alter their investment strategy in order to deal with a bear market in bonds. The buy and hold approach which has served investors and financial advisors well since 1981 may be the wrong strategy, if the bond market is on the cusp of the next secular bear market.

Weekly Technical Review

June 26, 2017

Treasury Yields

In the June 26 WTR, I recommended selling at least half of the position. “This morning TLT traded as high as \$128.57 so it is near the 50% retracement level of \$129.00. It is certainly time to sell at least half of the TLT position.” On June 27 TLT opened at \$127.43. On Thursday September 7 TLT traded up to \$129.56.

Weekly Technical Review

August 7, 2017

Treasury Yields

If the 10-year yield drops below 2.20%, it would offer an opportunity to establish a partial short position. If the 30-year yield drops below 2.806%, it would offer an opportunity to establish a partial short position through one of the inverse ETFs.

Weekly Technical Review

August 14, 2017

Treasury Yields

On Friday August 11, the yield on the 10-year Treasury dipped to 2.182% and the 30-year fell to 2.769%. On Friday August 11 the inverse 1 to 1 Treasury bond ETF (TBF) closed at \$22.15.

Weekly Technical Review

September 5, 2017

Treasury Yields

Adding to the partial short position through one of the inverse Treasury bond ETFs is recommended if yields do make lower lows (2.05% - 2.64%).

Weekly Technical Review

September 11, 2017

Treasury Yields

On Thursday September 7 the yield on the 10-year Treasury bond fell to 2.034% and the 30-year Treasury yield dipped to 2.651%. The inverse 1 to 1 Treasury bond ETF (TBF) closed at \$21.62.



Macro Tides

December 6, 2017

Treasury Yields

According to Bloomberg, the probability of the Fed raising the federal funds rate in December with 4 more increases in 2018 is less than 6%. This could be the ideal set up to awaken the bond vigilantes in the U.S. that have been hibernating for years. In this scenario, the yield on the 10-year Treasury bond will pop above the March 2017 high at 2.62% and likely test the high of 3.03% from December 2013. From the bottom in July 2016, the 10-year Treasury yield rose from 1.336% to 2.62% or an increase of 1.28% for wave A. The decline from 2.62% in March 2017 to 2.034% in September 2017 represents wave B. If wave C is equal to wave A and rises 1.28% from the September low of 2.034%, the 10-year Treasury yield could reach 3.30%. This suggests that a test of the December 2013 high is probable. I suspect that yield hungry pension funds and insurance companies would be aggressive buyers as the 10-year yield approaches 3.0%. At a minimum, a tradable rally could commence from near 3% that might be able to bring the 10-year yield down to 2.62% - 2.40%

Weekly Technical Review

December 11, 2017

Treasury Yields

A move up to 3.17% to 3.20% on the 30-year Treasury bond, the highs last December and in March is likely in the first half of 2018.



Weekly Technical Review

January 22, 2018

Treasury Yields

As forecast, the 10-year Treasury yield has broken out above 2.63%. The more important target remains 3.03% which was the high on December 31, 2013.

Weekly Technical Review

February 5, 2018

Treasury Yields

In the wake of the January employment report released on Friday February 2, I sold 40% of my short Treasury bond position in the 1 to 1 ETF TBF at \$23.19, when the RSI on the 10-year Treasury yield was 80 on Friday. When the S&P 500 dropped below the initial low at 2733 on February 5, I sold the remaining 60% of TBF at \$23.18. The position was purchased when TBF was trading at \$21.885.

Weekly Technical Review

February 12, 2018

Treasury Yields

If bond yields climb on the CPI and PPI inflation reports and the Treasury ETF (TLT) falls below \$117.50, a good short-term trade may develop. A close below \$115.25 should be used as a stop. If yields fall and retest their breakout levels, TLT may rally to \$121.00 - \$122.00. (TLT traded below \$117.50 on February 14.)

Macro Tides

March 4, 2018

Treasury Yields

Longer term I still expect the yield on the 10-year Treasury bond to exceed 3.03% before Labor Day. The yield on the 10-year Treasury bottomed in July 2016 at 1.33% rose to 2.63% (+1.30%) in March 2017, before dipping to 2.03% in September. An equal move up of 1.30% targets 3.33%. This suggests that after Treasury yields fall in the short term, a combination of factors – wage growth resuming its uptrend, import inflation rises, business investment improves, and fiscal policy boosts GDP growth – will resurrect inflation pressures and the potential that the Fed may increase the federal funds rate a fourth time in 2018.

Weekly Technical Review

March 12, 2018

Treasury Yields

I recommended the purchase of the Treasury bond ETF TLT at \$117.50. If the 30-year yield does fall below 3.05%, selling a portion of TLT might make it easier to sit through the subsequent decline that could lift the 30-year yield to 3.25% - 3.28% for wave 5.

Weekly Technical Review

March 19, 2018

Treasury Yields

On March 15 the yield dipped to 3.042% and TLT traded as high as \$120.49. TLT was bought when it traded below \$117.50 on February 14.

Weekly Technical Review

May 14, 2018

Treasury Yields

If Treasury yields rise above the April 25 high, the Treasury bond ETF TLT is likely to drop below the low of wave 3 (\$116.51) and complete a 5 wave decline from the price high in September 2017. It took 3 months from the time TLT made its wave 3 low in December 2016 and the wave 5 low in March 2017. An equal amount of time from the wave 3 low on February 21 would target May 14 - May 21 as a guess

of when Treasury yields will exceed their recent high and TLT records a low for wave 5. **Establish a 50% position in TLT if it trades under \$116.51 in the next few weeks.**

Weekly Technical Review

May 21, 2018

Treasury Yields

On May 17, the 30-year Treasury yield rose to 3.247% and TLT dropped to \$116.09 triggering the buy signal. Despite the new price low, TLT's RSI recorded a higher low which is an indication that selling pressure is waning. There is a small chance that yields may have one more push left which would bring TLT below \$116.09. If another new low develops, it would be a good time to add to the TLT position. Based on the price pattern, TLT has the potential to rally to near \$121.00 in the next 1 to 3 months.

Weekly Technical Review

May 29, 2018

Treasury Yields

Based on the price pattern, my expectation was that TLT had the potential to rally to near \$121.00 in the next 1 to 3 months. Today, TLT traded up to \$122.52 just 7 trading days after the buy signal. I recommended buying TLT at \$116.50 in anticipation of a rally to \$121.00. I would recommend selling half of the TLT position tomorrow since it closed at \$122.24 and has more than achieved the price target.

Weekly Technical Review

June 25, 2018

Treasury Yields

I recommended buying TLT at \$116.50 in anticipation of a rally to \$121.00. In the May 29 WTR I wrote, "*I would recommend selling half of the TLT position tomorrow since it closed at \$122.24 (on May 29) and has more than achieved the price target.*" On May 30 TLT opened at \$121.00. Last week I raised the stop for TLT to \$119.50. Sell the remaining half if TLT trades up to \$122.10. (On June 28 TLT traded up to \$122.24.)

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