Capital Markets Strategy
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Chart of the Day

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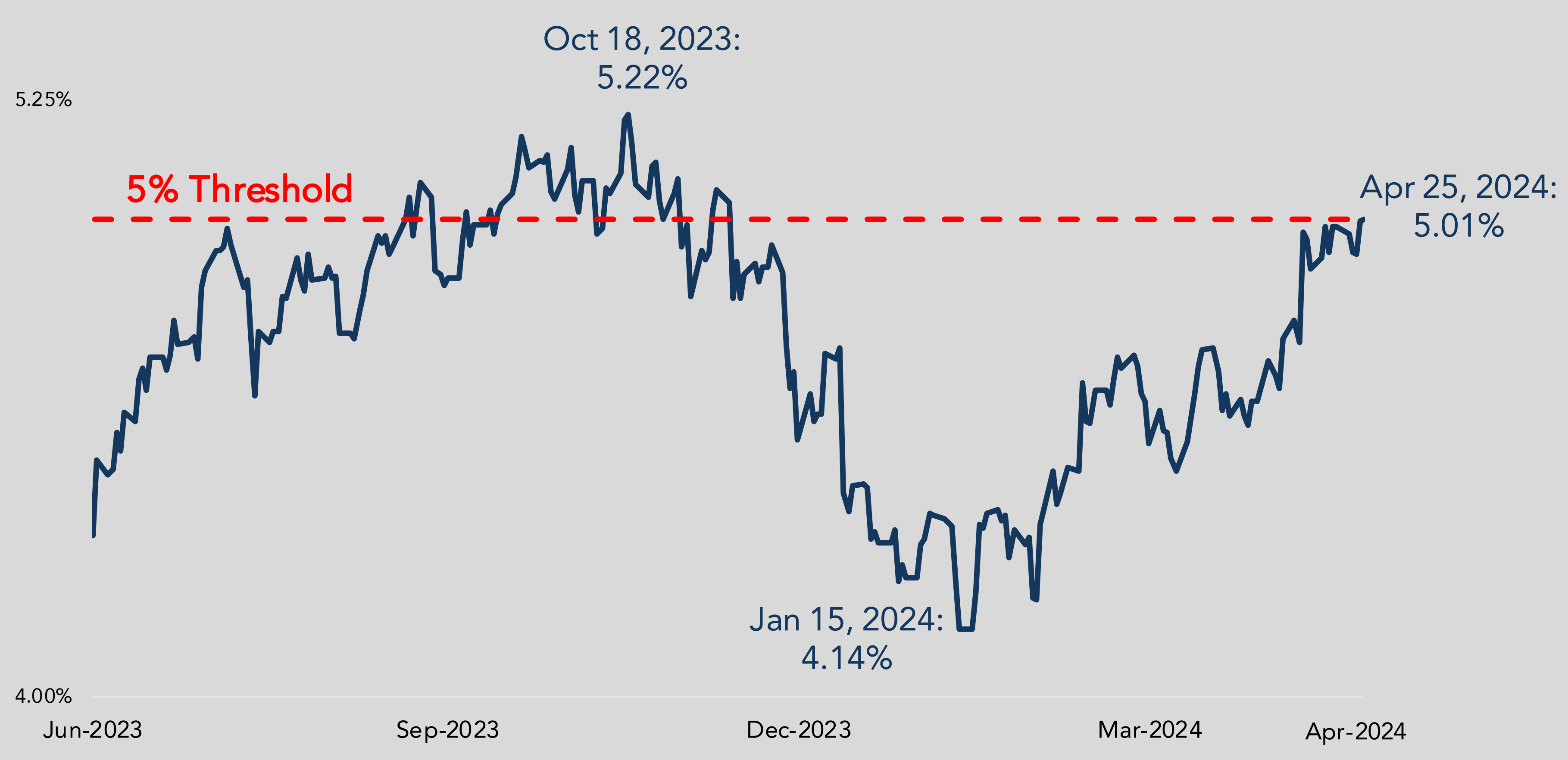
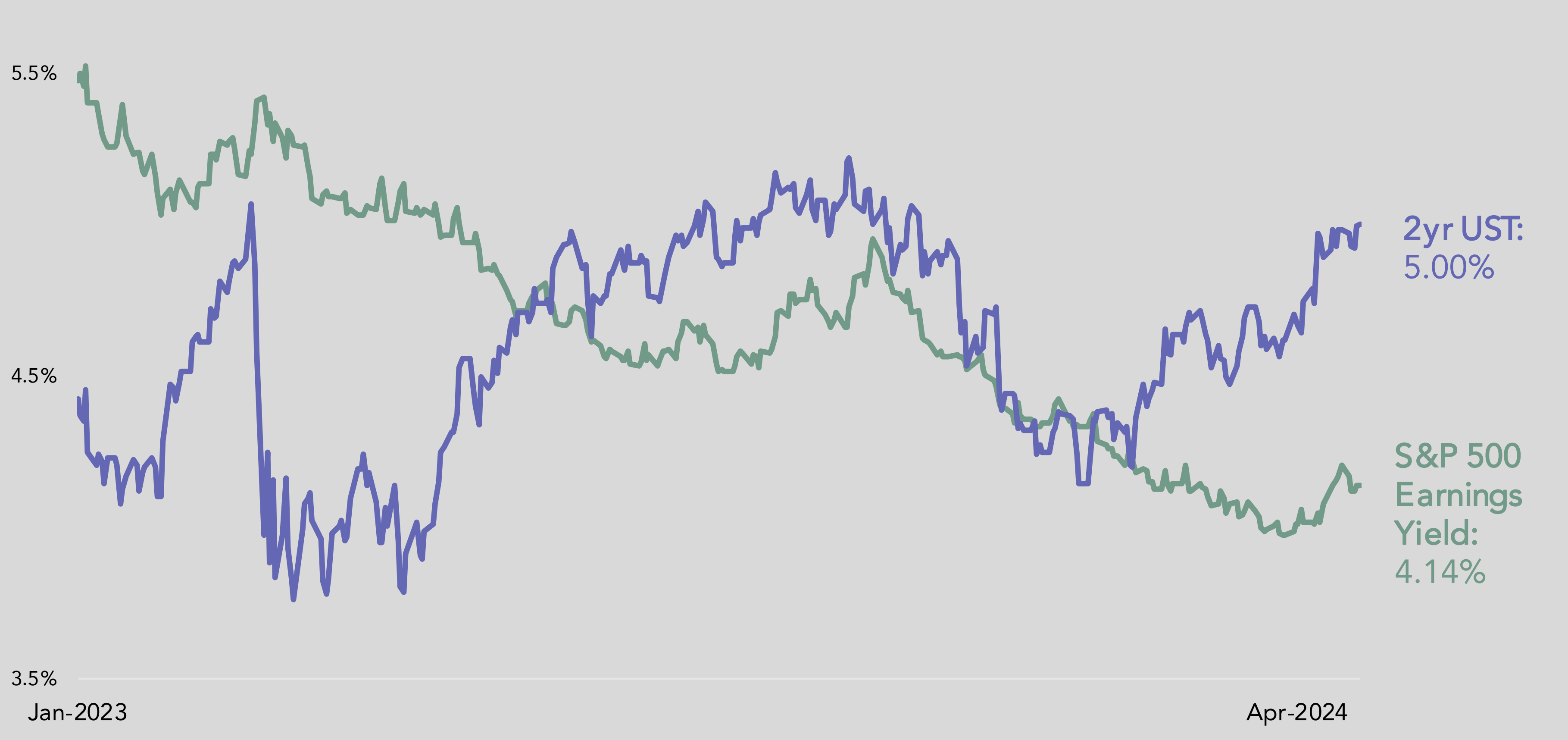
2 Yr UST yields jumped back above 5% yesterday (April 25th) for the first time in six months. Rising term premiums, strong US economic data and delayed market expectations on Fed rates cuts (pushed back to December) have pushed yields markedly higher over the last few months. Risk assets, in turn, have come under increased pressure (i.e., equities, HY, EMFX).

2 year UST



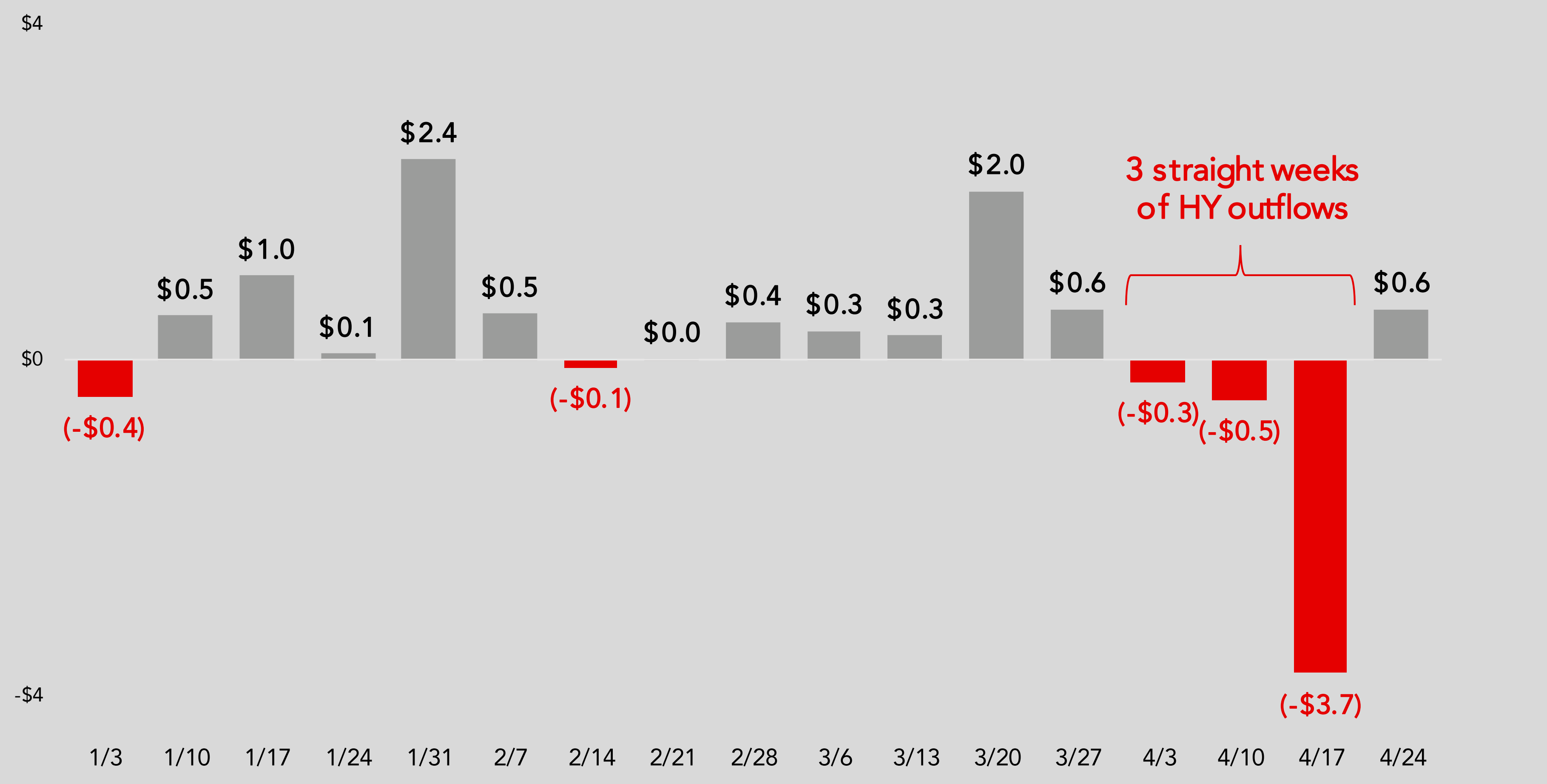
Elevated UST yields pose valuation challenges for numerous asset classes globally. At current levels, UST yields offer investors an attractive risk-free rate at higher yields. As the differential between UST and S&P 500 earnings yields widen, stocks become more vulnerable to market corrections. The S&P 500 declined 4% from its record high on March 28 through yesterday, April 25.

2 year UST vs. S&P 500 earnings yield



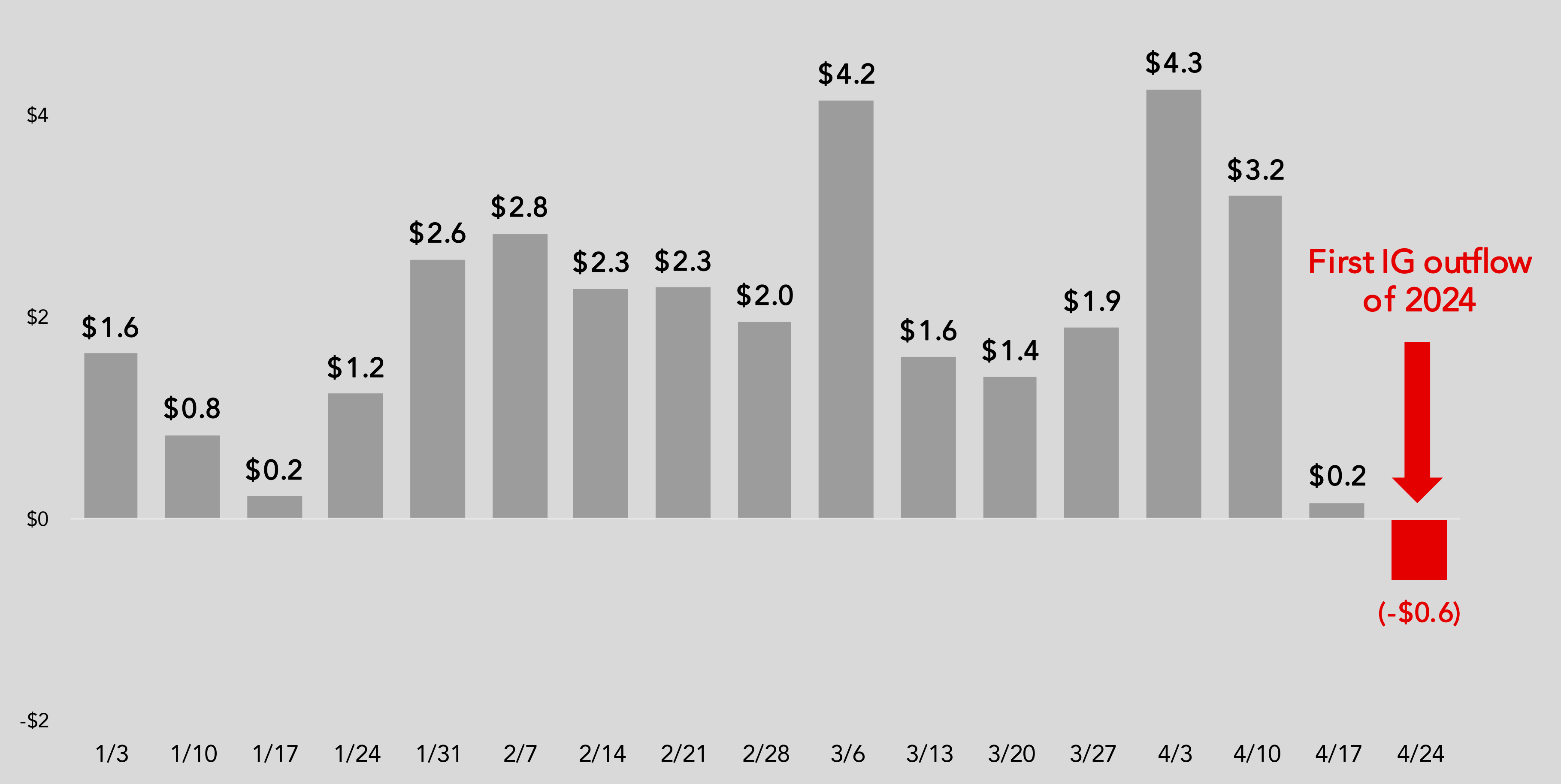
USD HY fund outflows began to accelerate in April as the market repriced the timing and pace of 2024 Fed rate cuts.

US weekly high yield fund flows, USD bn



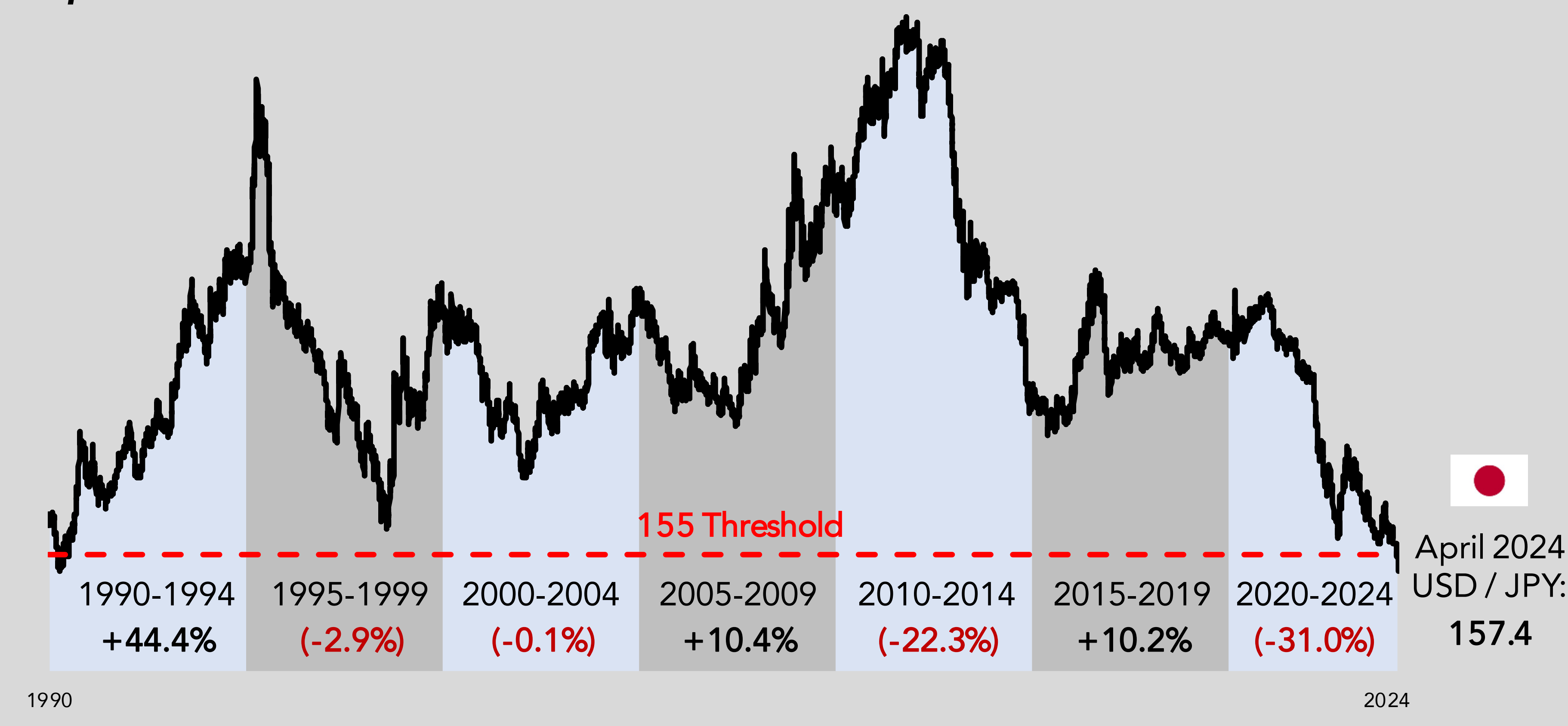
USD IG funds posted their first bond outflows of the year this week (-$607mm) with both inflation concerns and UST yields rising. Against this backdrop, investors become more concerned about credit and duration risk.

US weekly investment grade fund flows, USD bn



The US dollar remains firm as rate differentials to US Treasuries are rising. USD-Yen traded through 157 on April 26, its weakest level in 34 years (1990), and is fast approaching intervention thresholds. At its April 26 meeting, the BOJ left rates unchanged (despite market pricing in low probability of a hike), lowered its 2024 GDP forecast and left its inflation forecast for the year ahead unchanged. In a trilateral statement last week, the US, Japan and South Korea jointly stated that they would closely monitor FX markets as well and any rapid depreciation in Yen and Won.

JPY performance vs. USD



Source: (1-5) Bloomberg. Data as of April 26, 2024. Currency graph is JPY vs. USD. IFR. Data as of April 25, 2024.

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"Macro stability isn't everything, but without it, you have nothing."