Capital Markets Strategy
Essential inCights for the C-Suite

Chart of the Day

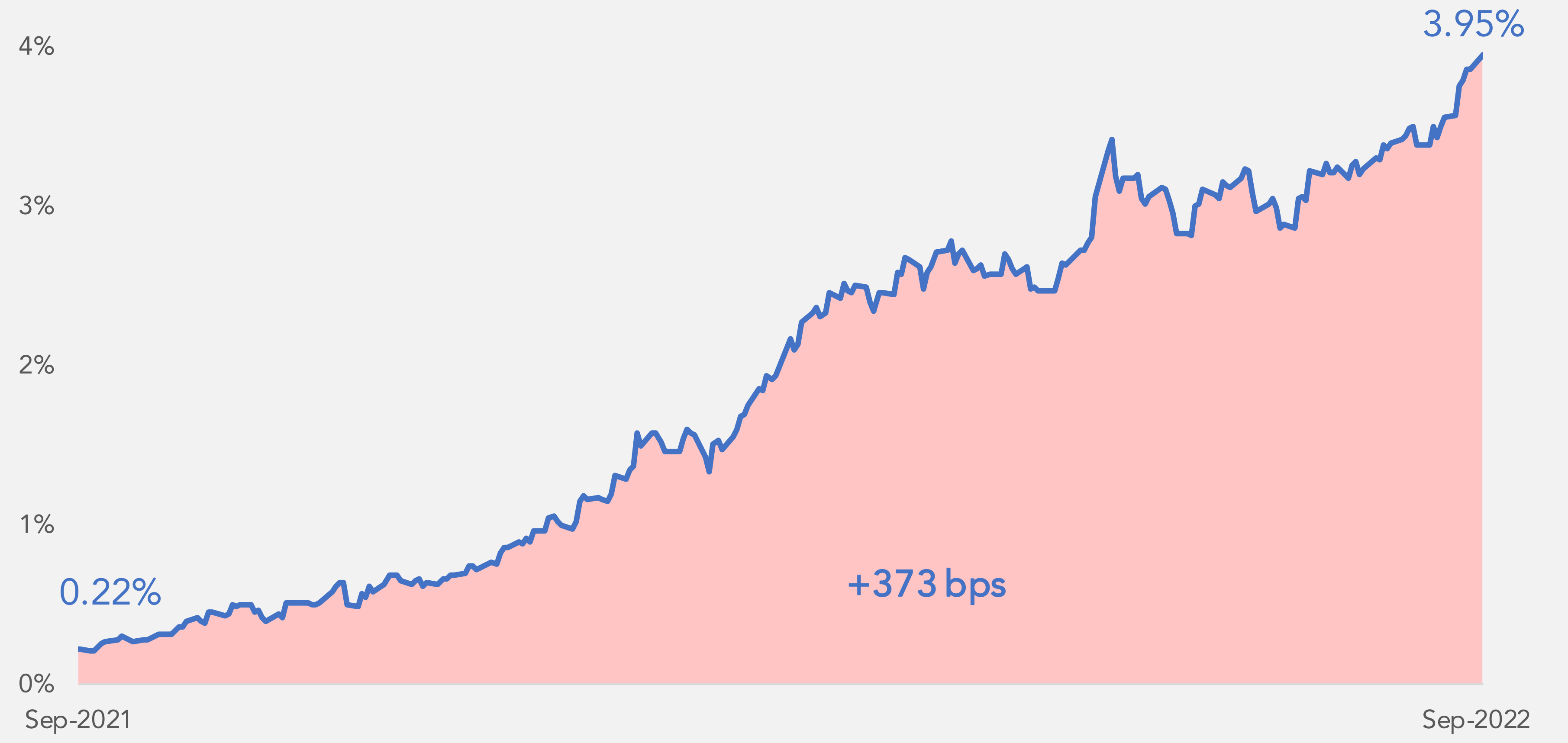
In global markets, the "rate of change" often matters as much as "valuation levels." This is especially true for the US dollar and government bond yields in a dollar-based global financial system that is rapidly tightening.

Notably, the 2 year UST yield has increased from 22 bps one year ago to nearly 4% today. As rates rise and the dollar strengthens, equity valuations are adversely impacted by both downward earnings pressure and P/E multiple contraction. In addition, and as noted in today's WSJ, less than 16% of S&P 500 stocks today have dividend yields above the 2 year UST yield, and less than 20% are above the 10 year UST yield.

As the more policy-sensitive front end has risen rapidly, the yield curve has also repriced to levels of inversion not seen in years. Historically, US yield curve inversion has been a very reliable indicator of US recession risk (with 6-12 months lead time, on average, depending on the part of the curve).

2 year UST yields have surged nearly four percentage points over the last year

2 year UST

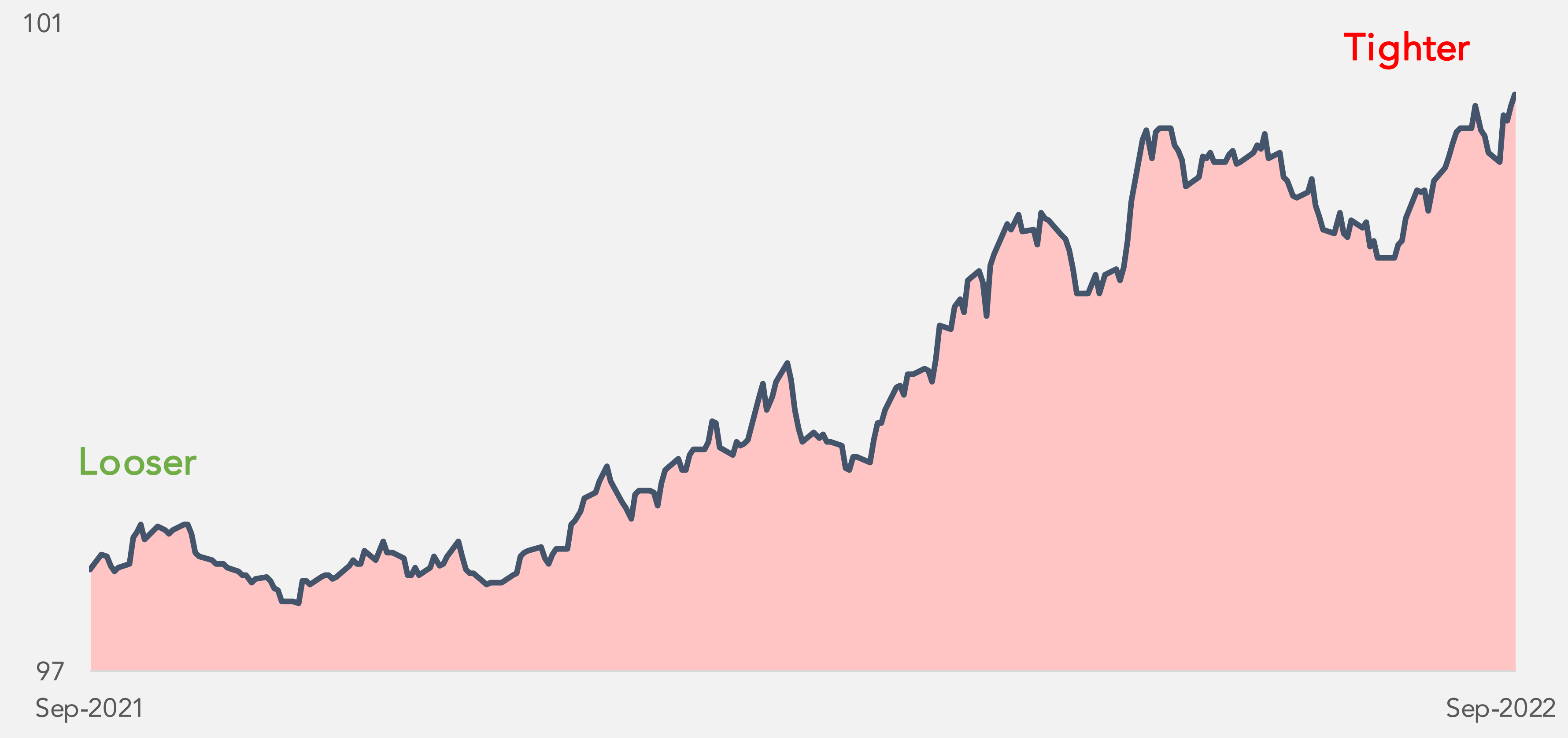


The yield curve has repriced to levels of inversion not seen in years

2s10s yield curve

The extraordinary "rate of change" in the US dollar and government bond yields have tightened liquidity in global markets

US financial conditions index



Source: (1-3) Bloomberg. Data as of September 19, 2022. Financial conditions index is GS.

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