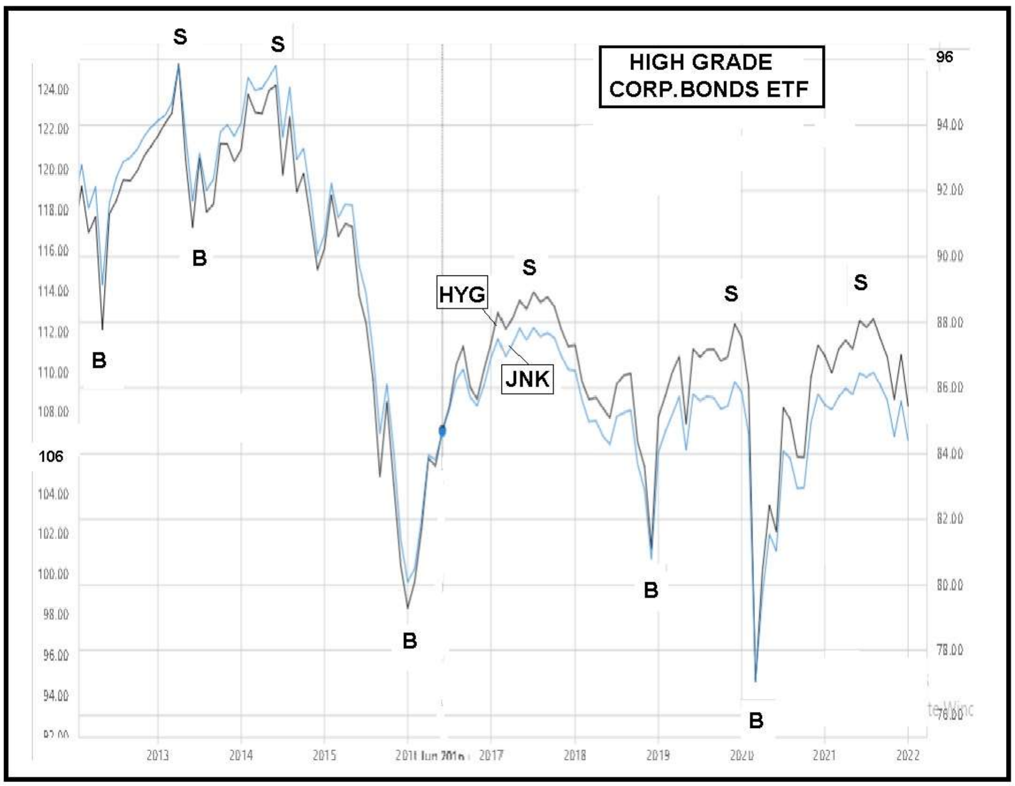
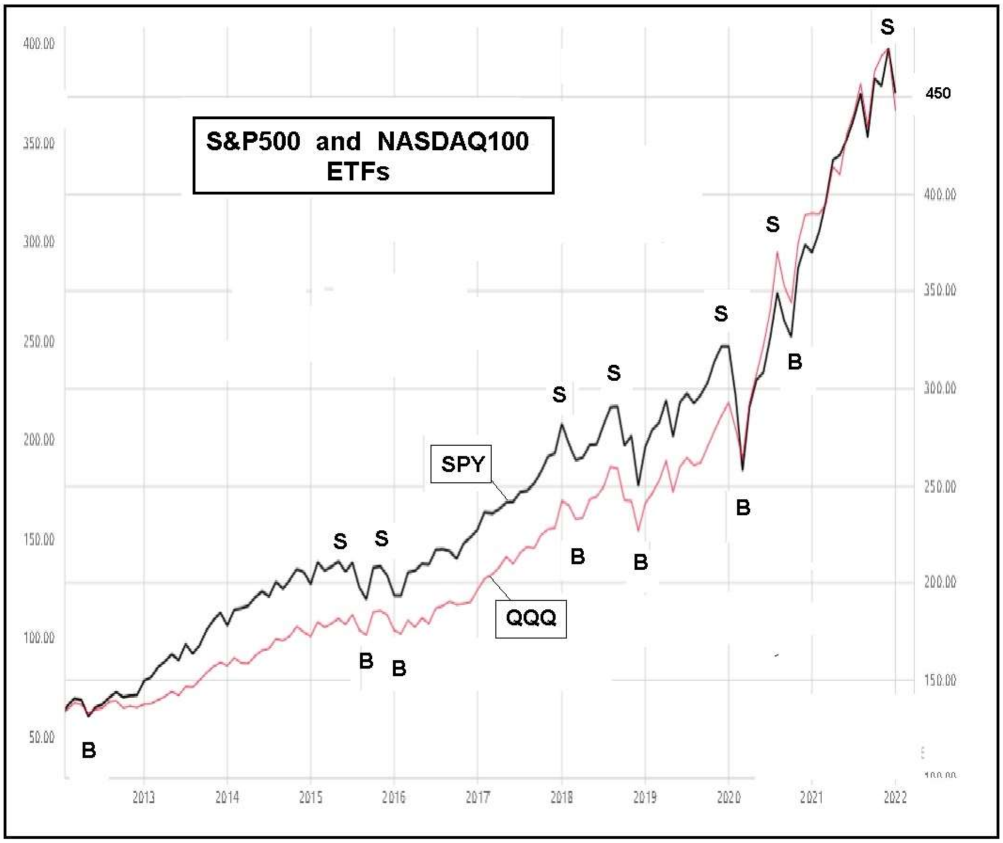
WHY DO PRICES OF BONDS AND STOCKS MOVE OPPOSITE TO THEIR CHANGE IN YIELDS AND DIVIDENDS?

It is well understood by investors that rising interest rates tend to lower bond and stock prices and that the the reverse will be true when interest rates are falling. The cause for this behavior stems from the fact that that prices must follow interest and dividend rates which stay competitive. Thus, if the Federal Reserve pushes interest toward zero, as it has done in the last few years , stock prices have risen as have bond prices. If as expected rate hikes follow in the next few years, then both stocks and bonds are expected to drop in value. This observation is beautifully confirmed by the following ten year graphs of the two largest corporate bond ETFs, HYG and JNK-



The indicated S and B channel suggest when one should be long or short these bonds. At the moment one has a predicted downturn (Price<latest S) starting in the summer of 2021.The last buy point (Price>B) for bonds was April of 2000.

We next look at the very active ETF stock combinations SPY and QQQ and their SBS channel-



One sees a once the excellent correlation of bond and stock prices with a slight lead by the bond price movement. At the moment we are seing a downtrend in the price of both bonds and stocks. This means one should either be short or be in cash. The next buying opportunity will not occur again until a new buy signal (B) is given. I don't know when this will be other that the rise in stock prices is not expected until the present rampant inflation is under control. This may not occur for several years and at stock prices some 30% below the present.

U.H.Kurzweg
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Gainesville, Florida