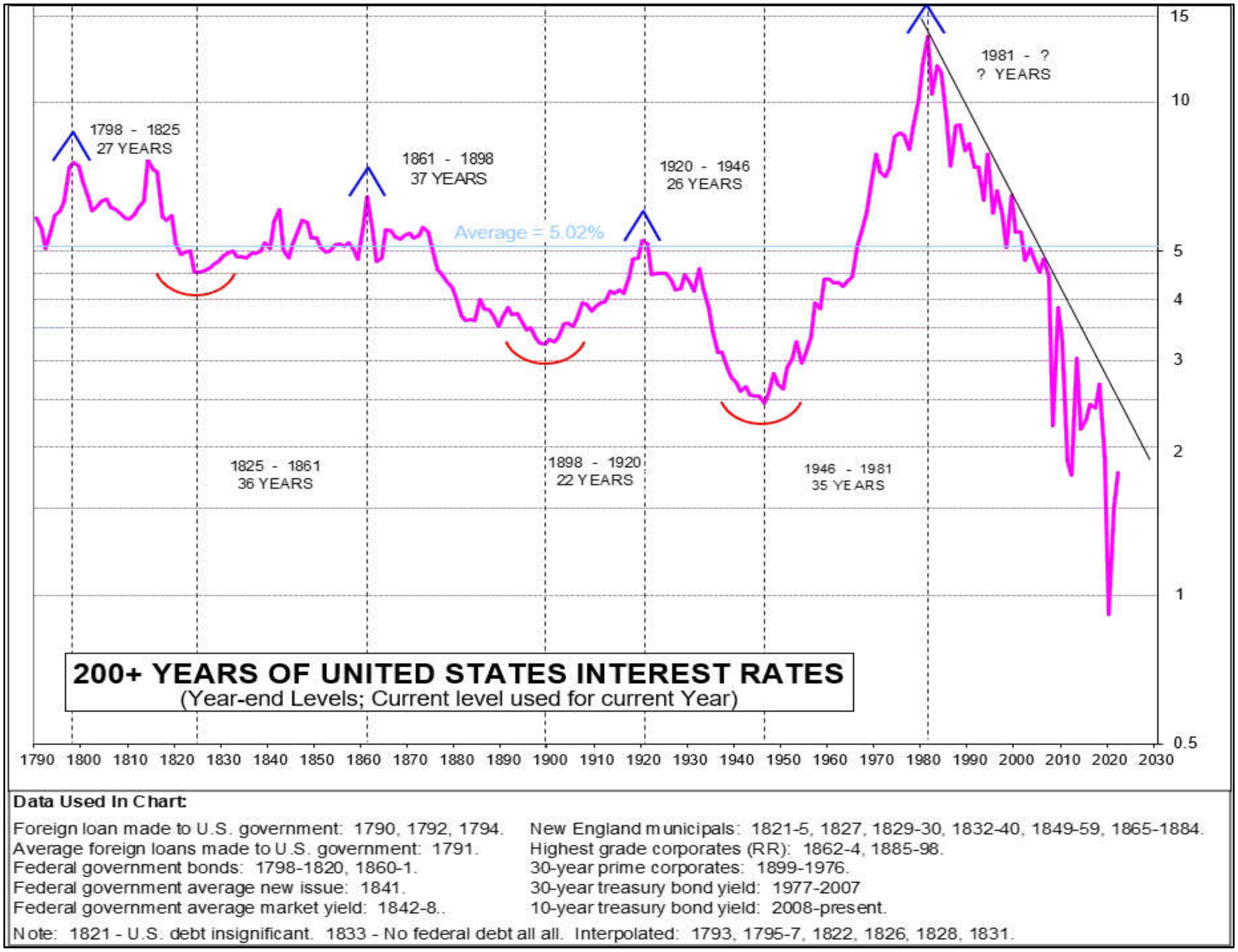
Structural Yield Reversal Finally within Reach? *Louise Yamada*

History: For many years (pre-Covid) we made several observations looking at the long-term history of U.S. Treasury interest rates back to 1800. (**Fig. R-1**).

Fig. R-1 **200+ Years of U.S. Interest Rates (Yearly)**



Source: LY Advisors, JTL Market Technicals

First, that rate cycles had been long, from 22-37 years (nearly one to a career).

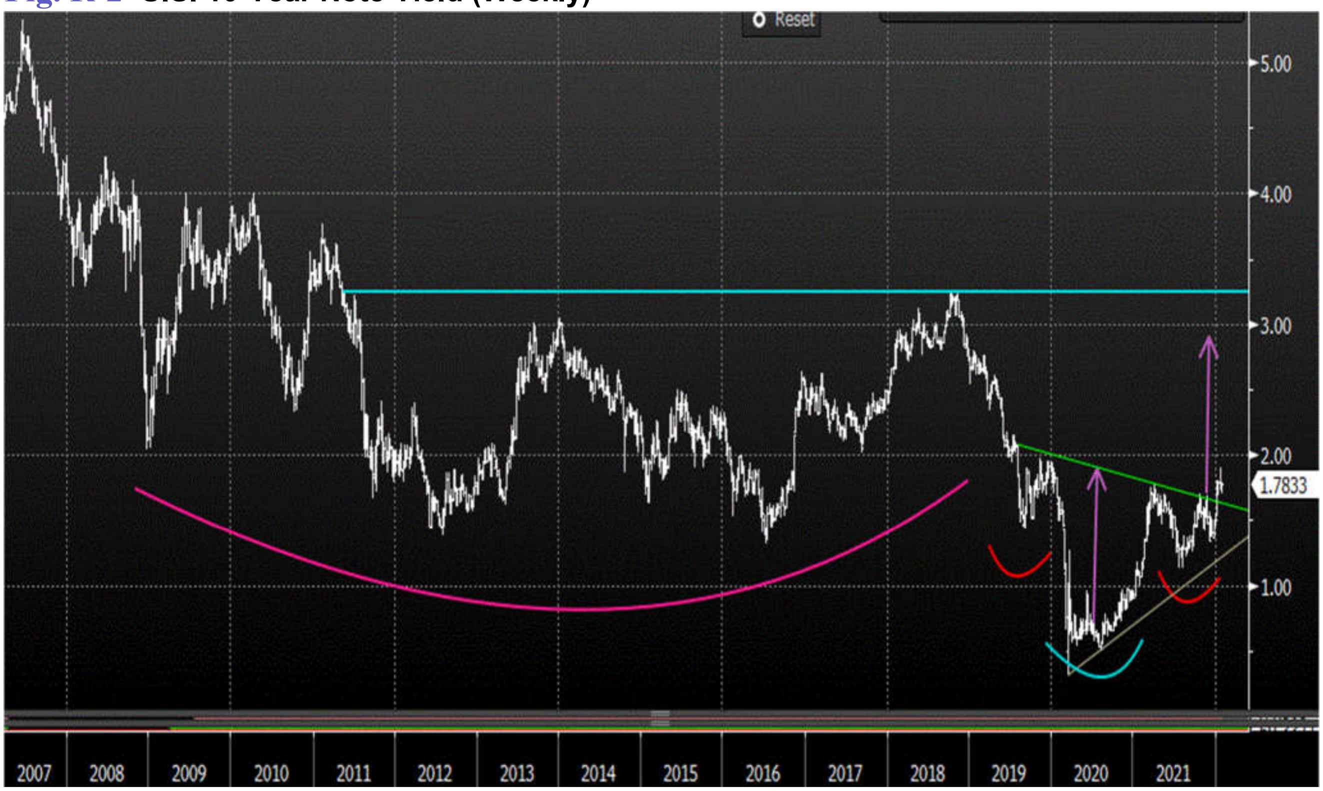
Secondly, that <u>reversals from rising rate to falling rate</u> cycles have historically been sharp, inverted "V" affairs, as in 1981.

Thirdly, the reversals from falling rate cycles to rising rate cycles had been very slow, saucer-like affairs that have taken 2 to 14 years. Notice that rates turned up in 1946, but that represented 14 years after the equity bear market low in 1932.

We believe these reversals have been slow because each falling rate cycle has experienced deflationary pressures, as our cycle has experienced, and that rates cannot rise until those pressures are alleviated, which takes time.

For *our falling interest rate cycle from 1981*, the 10-year U.S, Treasury note (**Fig. R-2**) initiated a large saucer reversal, or basing process, that ran approximately 9 years to 2019, having penetrated the weekly 10-year, 1981 downtrend (not shown in the 10-year chart), and a brief penetration of 3%, suggesting the decline complete.

Fig. R-2 U.S. 10-Year Note Yield (Weekly)



Source: LY Advisors

(However, Covid created emergency circumstances such that the Fed lowered rates drastically to new lows in 2020, obliterating the basing process and extending this 1981 rate decline to 41 years!)

Now, with Fed chatter over the need to reverse the emergency program, *the 10-year note appears to be developing an inverted head-and-shoulders pattern* (**Fig. R-2**, saucers). The yield has lifted through the slanted "neckline" and we can now calculate a measured move defined by the arrow from the low to the neckline, which can then project the same distance from the "neckline" upward for a potential target near 3% (again) over time.

There have been numerous speculations as to how many rate rises lie ahead, and by how much.

There is a corresponding Edson Gould thesis, "Three Steps and Stumble" that suggests the equity market could stumble after 3 rate rises.

We have found a few exceptions to that thesis (*Market Magic*) in that if the equity market is in the throes of a strong bull market, that need not be the case. Currently, however, one could argue that equities have been faltering to the extent they may no longer be considered in a strong bull market.

Nevertheless, we will follow the movement of the yield rises, keeping all these points, patterns and targets in mind over the months ahead.

Written Jan 2022, Louise Yamada

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