The StockCharts.com Market Message

Featuring our commentators, John Murphy and Arthur Hill

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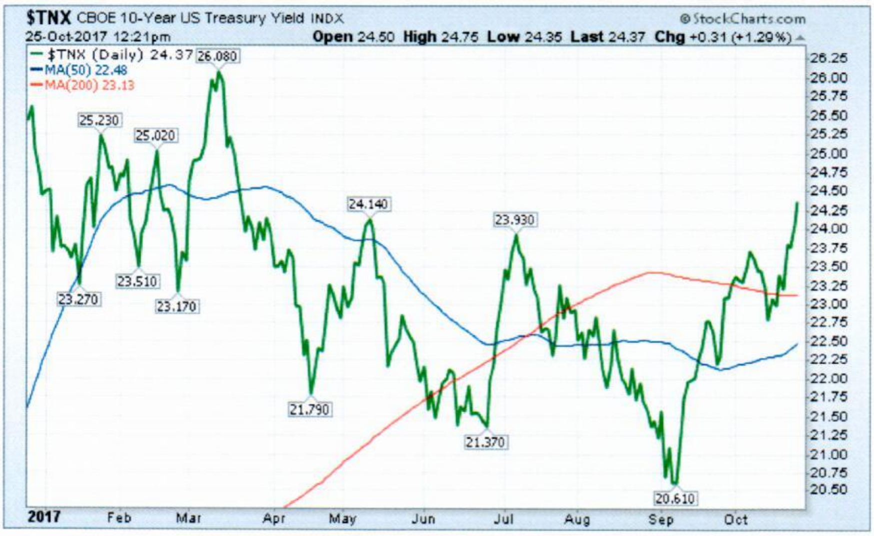
10-YEAR BOND YIELD HITS FIVE-MONTH HIGH -- UK AND GERMAN BOND YIELDS ALSO TURN UP -- 3% UK INFLATION INCREASES ODDS FOR RATE HIKE AND BOOSTS POUND -- ECB IS EXPECTED TO REDUCE BOND PURCHASES -- S&P 500 IS THREATENING ITS 20-DAY MOVING AVERAGE AS STOCKS WEAKEN -- VIX JUMPS TO HIGHEST LEVEL IN TWO MONTHS

By John Murphy

TEN-YEAR TREASURY YIELD REACHES SEVEN-MONTH HIGH ... Treasury bond yields are leading an upturn in global bond yields. Chart 1 shows the **10-Year Treasury Yield ($TNX)** rising to the highest level since March. Part of the reason for the upside breakout in the TNX is that foreign yields are also rising. Relatively low bond yields in foreign developed markets have weighed on Treasury yields, as foreign investors favored higher-yielding bonds in the states. Treasury yields are also rising because the Fed is on track for another rate this year, and is ahead of foreign central bankers in tightening monetary policy. Canada has already raised rates twice this year, but kept things unchanged today. As a result, the **Canadian 10-year yield** is down today (as is the Canadian Dollar). The Brits are next on deck for a possible rate hike. Inflation has reached 3% in the UK and the BOE is sounding more hawkish. The **British 10-Year yield** is jumping 5 basis points today and is also breaking through overhead resistance. That explains why the British Pound is up today against the dollar. German bond yields are also showing signs of turning up.



(click to view a live version of this chart)

Chart 1

BRITISH AND GERMAN BOND YIELDS TURN UP ... Chart 2 shows the **10-Year UK Treasury Yield** climbing 5 basis points today. It's the first time the yield has reached 1.40% since February. With UK inflation at 3%, the UK is expected to be the next to raise rates. That's boosting the British Pound one percent higher today against the dollar. Chart 3 shows the **10-Year German Yield** hitting 1.48% today for the first time in three months. Mario Draghi and the ECB is expected to announce reduction of its QE bond buying program tomorrow (Thursday). Although the ECB is expected to move very slowly, the process of tapering will begin shortly. That leaves little doubt that the tide is turning away from crisis-era quantitative easing to a more normal monetary policy in developed economies. The fact that foreign yields are rising is helping boost yields in the U.S. That's because global bond yields are highly correlated. The one exception to the trend toward higher rates is Japan, which continues to anchor its 10-Year bond yield at zero percent. Judging from today's trading, the upside breakout in global bond yields is causing some profit-taking in stocks.

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Chart 2

(click to view a live version of this chart)

Chart 3

S&P 500 THREATENS 20-DAY AVERAGE... Chart 4 shows the **S&P 500** threatening its 20-day average (green line) which is its first line of defense. Its 14-day RSI line (top of chart) is starting to weaken. So are its daily MACD lines (below chart) which have turned negative for the first time since August. All sectors are in the red today. Weakness in semiconductors is weighing on technology stocks. So is selling in so-called FAANG stocks which usually don't do well in a rising rate climate. Another sign of short-term concern is a 10% bounce in the **CBOE Volatility (VIX) Index**. Chart 5 shows the VIX climbing to the highest level in nearly two months.

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Chart 4

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Chart 5

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