



# The StockCharts.com Market Message

Featuring our commentators, John Murphy and Arthur Hill

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## TECH-DOMINATED NASDAQ LEADS MARKET HIGHER -- THE NASDAQ AND S&P 500 ARE CLEARING THEIR NOVEMBER HIGHS -- FALLING BOND YIELDS HAVE HELPED BOOST STOCK AND BOND PRICES -- HIGH YIELD AND INVESTMENT GRADE BONDS ARE OUTPACING TREASURIES -- TIPS REMAIN WEAK WHICH REFLECTS THE ABSENCE OF INFLATION FEARS

By John Murphy

**NASDAQ AND S&P 500 HAVE CLEARED THEIR NOVEMBER HIGH...** Just a week after slipping below their 200-day averages, the **Nasdaq Composite Index** in Chart 1 and the **S&P 500** in Chart 2 appear to be ending the week above their November highs. That's the last overhead chart barrier to overcome below last year's highs. And increases the odds that those highs may be tested again. Chart 3 shows the **Dow Industrials** lagging behind. But that may have a lot to do with this week's heavy selling in **Boeing**. There seems little doubt that the path of least resistance for stock prices is now higher. Technology shares continue to lead the market higher, with a big boost from semiconductors. One of the driving forces behind the stock rally appears to be falling bond yields which are reflective of more dovish global central bankers. That's also boosting bond prices.



(click to view a live version of this chart)

Chart 1



(click to view a live version of this chart)

Chart 2



(click to view a live version of this chart)

Chart 3

**FALLING BOND YIELDS BOOST BOND AND STOCK PRICES ...** Chart 4 shows the **10-Year Treasury Bond Yield** dropping to the lowest level since the start of the year. Falling bond yields are one of the driving forces behind the stock rally. The sharp drop in yields during the fourth quarter resulted from a flight to the safety of Treasury bonds which rose as stock prices sold off sharply. When bond prices rise, bond yields drop. The drop in yields this year is being driven by a more dovish Fed and other central bankers around the world. That has greatly diminished fears that rising interest rates will sidetrack the stock rally that has just passed its tenth anniversary. Most economic expansions are ended by the Fed raising rates to combat inflation. With the Fed now on hold, and inflation under control, global investors are back in a buying mood. Another side effect of falling bond yields is rising bond prices. But all bond prices haven't risen by equal amounts. As usually happens when investors are more optimistic and stock prices are rising, corporate bonds are outpacing Treasuries. And high yield bonds are the strongest bond category.



(click to view a live version of this chart)

Chart 4

**BOND RANKINGS SINCE DECEMBER 24 STOCK BOTTOM ...** Chart 5 compares the performance of four bond categories since the stock market bottom on December 24. As usually happens when stock prices are rising, **high yield bonds** (black line) are in the lead (+7.95%). That's because high yield bonds are highly correlated to the direction of stock prices which are rising. **Investment grade corporate bonds** (blue line) are in second place (+4.5%) and well ahead of Treasuries. Investors in a more optimistic mood favor riskier corporate bonds over the safety of Treasuries when stock prices are rising. The red line shows **Treasuries** lagging well behind the two corporate leaders (+2.1%). Treasuries were the strongest part of the bond universe during the fourth quarter stock selloff because of their safety qualities. Since stocks started rising at the end of December, Treasuries have lagged behind. So have **Treasury Inflation Protected Securities** (green line). And therein may lie another message. TIPS have been the weakest bond category over the past year. That's been largely due to the absence of any serious inflation threat, which has reduced the need to buy TIPS to protect against higher inflation. The fact that TIPS are lagging behind other bond categories may also be giving the Fed more reason to maintain its more dovish position because it implies that inflation expectations remain low.

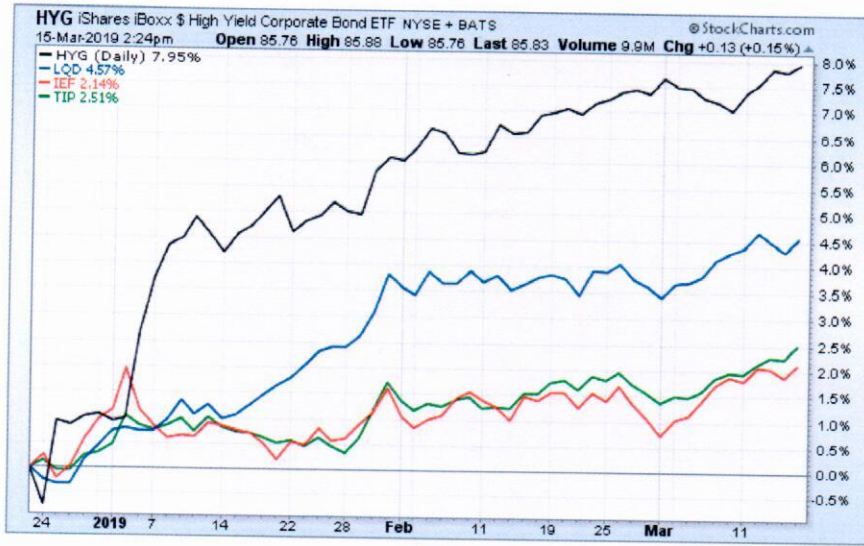


Chart 5

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