Rising Bond Yields And Stock Performance

S&P 500 Index Total Returns vs. Rising Treasury (10-Yr.) Yields

Year	↑ in 10-Yr. T-Note Yield	S&P 500 Total Return
2021	59 bps	28.71%
2018	28 bps	-4.36%
2016	18 bps	11.96%
2015	10 bps	1.38%
2013	127 bps	32.39%
2009	163 bps	26.46%
2006	31 bps	15.79%
2005	17 bps	4.91%
2003	43 bps	28.68%
1999	179 bps	21.04%
1996	85 bps	23.07%
1994	203 bps	1.31%
1990	13 bps	-3.17%
1988	28 bps	16.81%
1987	164 bps	5.23%
1983	133 bps	22.51%
1981	155 bps	-4.91%
1980	210 bps	32.42%
1979	118 bps	18.44%
1978	137 bps	6.56%
1977	97 bps	-7.18%
1975	36 bps	37.20%

Source: Bloomberg. Data covers 1975-2021. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. Today's blog post provides some historical perspective on how the S&P 500 Index has performed in calendar years when the yield on the benchmark 10-year Treasury note (T-note) finished the year higher than where it began.
2. From 1975-2021, there were 22 such years (see table). The S&P 500 Index posted a positive total return in 18 of those 22 years.
3. The yield on the 10-year T-note increased in excess of 100 basis points in 10 of the 22 years, with the most recent being 2013.
4. Monitoring the yield on the 10-year T-note is commonplace for equity investors, in our opinion. The higher the yield trends the more competitive Treasuries, and other investment-grade bonds, become as an alternative investment opportunity to equities.
5. Standard & Poor's showed that, from 1953 through March 2012, U.S. stocks posted their best returns when the yield on the 10-year T-note rose to around 4.0%, according to Businessweek. Stock prices usually retrenched when the yield topped 6.0%. Its yield stood at 1.99% on 2/14/22.
6. With respect to rising short-term interest rates, U.S. equities have tended to perform well during periods when the Federal Reserve has tightened monetary policy, according to Bloomberg. The need to raise interest rates indicates a growing economy as well as corporate profit growth. Keith Lerner, co-chief investment officer at Truist Advisory Services, Inc., notes that the S&P 500 Index has risen at an average annualized rate of 9.0% during the 12 Fed rate hike cycles since the 1950s and generated positive returns in 11 of those instances.