Tripwire: Rising Yields | CIO Insights

Treasury yields breaking out above the critical 4.2%threshold is a potential tripwire for both the economy and markets, in the process taking the edge off monetary easing efforts. The technical setup suggests a potential run toward an initial 4.35% level. The implications of such a move are far-reaching - rising yields risk tightening financial conditions by driving up mortgage rates, corporate funding costs and pressuring growth stock valuations, even as they offer a potential tailwind for bank profit margins afforded by yield curve steepening.

- **Why Are Yields Rising** – While it's difficult to ascribe causality with certainty, "trust issues", especially with the US outlining colonial ambitions appear to be the most immediate catalyst for the breakout. **However,** we should note that yields have been firming up for the last three months, despite monetary easing efforts, and reflective of an economy that appears to be on a sounder footing.

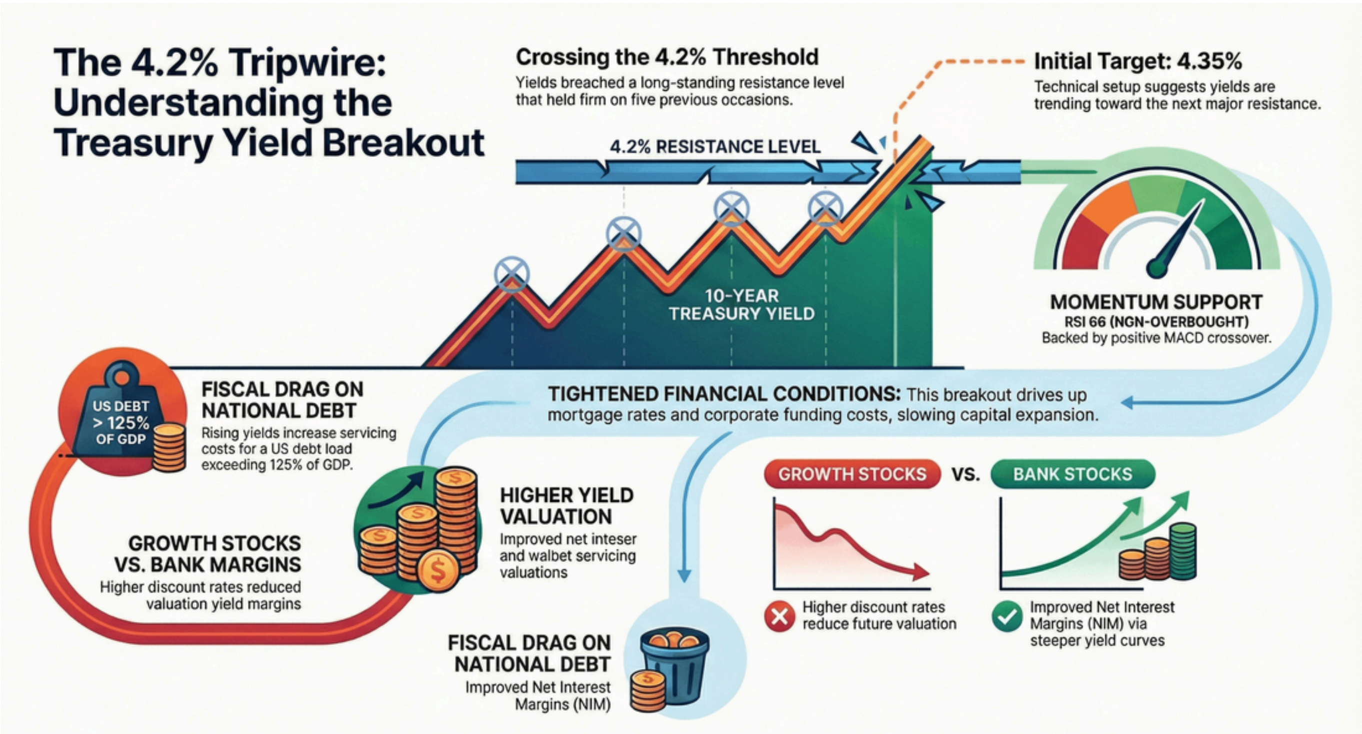
- **4.2% Critical Threshold** – Over the last two years, the 4.2% area has been a robust support initially and resistance level more recently for treasury yields. Since the rally off Oct'25 lows (3.94-3.95%), yields have resisted breaking out above 4.17 - 4.20% resistance at least on 5 occasions, until the breakout now.

- **The Technical Picture –** Breakout above the Jul-Nov'25 descending trendline along with momentum support (RSI 66, not yet overbought) and backed by MACD positive cross-over, all support the upward thrust in yields. 4.35% area is next key resistance should the breakout sustain.

- **Implications for the Economy** – With a substantial debt load, c125% of GDP and a debt-service burden exceeding 3% of GDP, higher treasury yields are a drag on an already precarious fiscal positioning. **While the government can rely on shorter dated issuance, even 2-year yields have an upward bias.** Higher yields also push borrowing costs for business borrowers and mortgage costs for consumers, impacting both capex and consumption, amplifying the growth drag.

- **Implications for Growth Stocks** – Growth sectors and stocks tend to more sensitive to interest rates, not just from a valuation perspective, but also suffer more in a "risk-off" environment.

- **Implications for Banks** – The tailwind from revival in deal activity, helping investment banking revenues and upcoming easing on capital regulations, combined with higher NIMs (net interest margins) as the yield curve steepens (40bp widening in 10yr-3mth spreads over last three months) make a positive case for bank earnings and stocks.

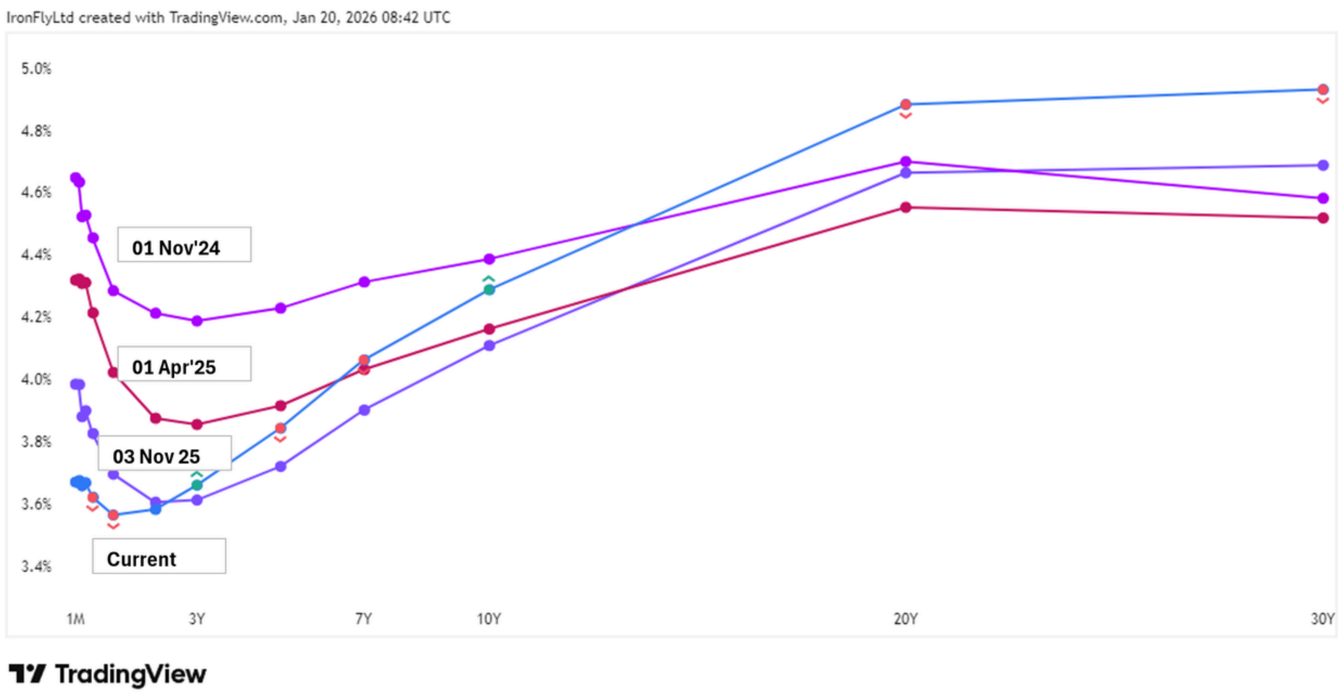


source: Trading View

Treasury Yields – Breaking Out Above Critical 4.2%threshold

source: Trading View

Steepening Yield Curve



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