



# Market Strategy Weekly

April 19, 2024

Tom Tzitzouris breaks down the recent selloff in equities and some of the driving factors behind it—including the move higher in Treasury yields and the pressure that puts on assets. Tom Tzitzouris heads up Fixed Income Research at Strategas.

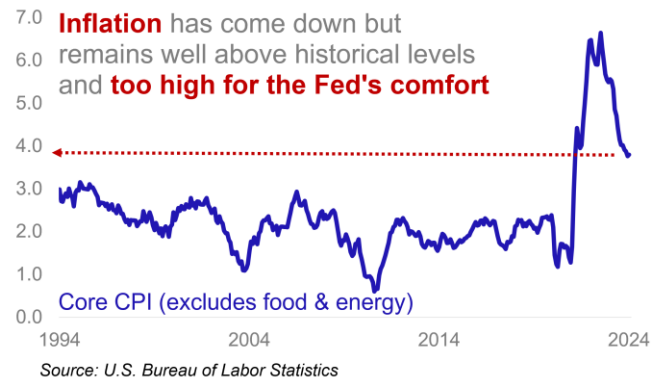
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## HIGHER YIELDS SPUR STOCK MARKET WEAKNESS | TREASURY SUPPLY IN FOCUS

**ROSS MAYFIELD:** What are you seeing in the bond market that gives some insight as to why the stock market is down lately?

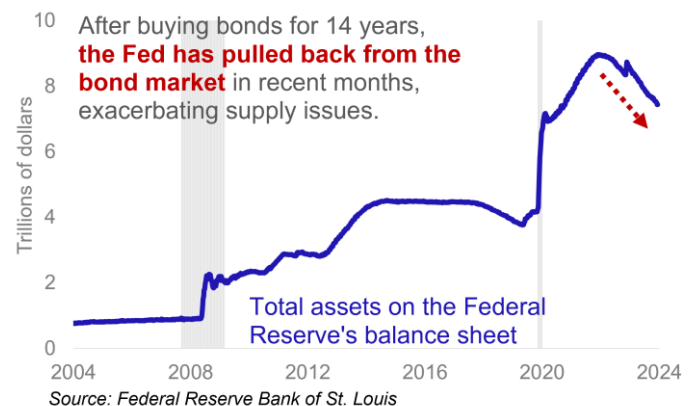
**TOM TZITZOURIS:** We're seeing softness in the equity market for a couple reasons. Number one, inflation has been hotter than market expectations; Core CPI of 3.8% is too high for the Fed to feel comfortable cutting interest rates. So that expectation is now off the table. Number two is that **it's difficult for the market to digest the gargantuan amount of Treasury bonds being issued.** For markets to digest this supply, Treasury yields have to inch higher at auction, which puts downward pressure on all assets, including stocks.



Now, sticky inflation and Treasury supply indigestion have been occurring all year, but what's new is that we've entered a liquidity "air pocket." An air pocket is a situation where liquidity comes out of the banking system, leaving the bond market more exposed to any bad supply data or economic data. A key driver of this is taxes. In late March and early April, everyone pulls money out of their accounts to pay their taxes, drawing liquidity out of the banking system. So, you end up with an air pocket that can push 10-year Treasury yields higher and cause some real pain in the bond market (bond prices fall as yields rise). The good news is that we will enter that seasonal strong patch soon, when the Treasury Department will be flush with cash that can slowly work its way back into the economy. But I have to say, the underlying fundamentals of the market aren't improving—inflation data probably won't get much better through year-end. This is because of the strong labor market and because the Treasury supply issue won't go away any time soon given the budget deficit.

**ROSS MAYFIELD:** Why does Treasury supply require a higher level of attention today than it has in recent history?

**TOM TZITZOURIS:** There's a few reasons for that. When you're the world's reserve currency, your debt load does not matter, but your deficit does. In the last decade, we had large deficits and we had a large debt load, but we had low interest rates and we had a Fed that was buying bonds in droves. **Today, we have large deficits and a large debt load, but we also have higher interest rates and a Federal Reserve that is pulling back from the bond market.** That supply pressure we discussed earlier becomes acutely painful for the bond market when it didn't overly matter in the decade prior. So a lot of measures of Treasury auction success are getting worse, which tells us that the bond market is having a hard time digesting supply, and a bond market that cannot digest Treasury supply leads to a weaker stock market.



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