The Raging bull rally in 2017 in U.S. Market which continued in January 2018, has been halted in recent months. One of the reasons for initial correction in February was Rising U.S. Bond Yields. Thereafter, Rising Bond Yields took a little breather. Now again Bond yields have started rising which could prove to be dampener for U.S Equity Market going forward.

In Our Blog, Are we on the Verge of Significant Market Correction, there was mention about impact of Fed Interest rate hike as probable trigger for significant market correction and in the other blog Oops! its LTCG Tax on Equities it was mentioned that higher US Bond yields as a trigger for "Sell" decision.

Let's look at few of the reasons behind rapid increase in bond yields in US Market in recent period

The U.S. Federal Reserve has Called off its Quantitative Easing Program i.e. It has stopped buying U.S. Government Treasuries, Bonds and Mortgage backed securities from Market. The Current Balance Sheet size of Federal Reserve stands approx. $4.5 trillion. It will focus on reducing its balance sheet size by allowing Securities to mature over a period.
The Current U.S. National debt is approx.$21 trillion and Debt to GDP ratio is approx.105%
U.S. President, Donald Trump's Tax Plan has reduced corporate tax rates from 35% to 21% from 2018. Again Standard Deduction has been doubled and individual tax rates are lowered to some extent
The Tax Plan is likely to reduce tax revenue by $3.7 trillion over 2018-27 decade.
Trump's budget has embarked upon significant fiscal spending which includes focus on infrastructure and military
The resultant total deficit including tax cuts is likely to significantly increase by $7.2 trillion over next decade Thus National debt is likely to increase from Current $21 trillion to more than $28 trillion by the end of 2018-2027 decade.
The Proposed Fiscal spending plan would drive the growth in the economy but it would also increase the inflation.
Further to implement Fiscal spending plan, the Government will have to issue Treasuries/Bonds in the market.
The significant supply of securities along with increase in inflation would put pressure on Bond Market and would lead to increase in bond yields
Federal Reserve has indicated minimum 3 interest rate hikes in 2018 of which they have taken 1 interest rate hike of 25 basis points in March 2018. Hence minimum 2 more interest

rate hikes possible in 2018
Over last decade, U.S Economy is accustomed to lower interest rate regime. Sudden increase in interest rates and Bond yields is likely to have adverse impact on U.S. Economy.
Any Adverse impact in world's largest Economy is likely to have Contagion effect across the world And in that case Modinomics won't be spared either.

Technical Analysis:

U.S 10 Year Bond Yield:

U.S. 10 Year Bond yield has significantly moved up from 2.00-2.10 in September 2017 to Current 3.02 The Weekly Chart indicates near term resistance in the zone of 3.10-3.20. From thereon it is likely correct a bit towards 2.90-3.00 before continuing up move towards 3.70-3.80

Weekly Chart: U.S. 10 Year Bond Yield dated 25th April 2018

U.S. 30 Year Bond Yield:

Again U.S. 30 Year Bond yield has significantly moved up from 2.60-2.70 in September 2017 to Current 3.20. It is on the verge of breaking above zone of 3.10-3.20. Once the aforesaid zone is taken out then next resistance zone would be 3.60-3.70

Weekly Chart: U.S. 30 Year Bond Yield dated 25th April 2018

S&P 500:

If U.S. Bond Yields keep rising and U.S. Stock Market keep reacting to it then we may see S&P 500 moving down 2,400-2,450 levels in near term

Weekly Chart: S&P 500 dated 25th April 2018

NIFTY 50:

On Weekly Chart basis, NIFTY commenced its decline from 11,171 on 29th Jan 2018. It declined to 9,958 and bounced back from there to reach 10,638 and closed today at 10,584.70. From here on Index is likely to move towards 10,300 -10,400 and then continue its recent up move towards 10,900- 11,000. Broadly its likely to move side-ways in the range of 10,300- 11,000

Weekly Chart- NIFTY dated 25th April 2018

Happy Investing!

You may also like:

Oops!!! It's LTCG Tax on Equities

Are We on the Verge of Significant Market Correction?