

Rising bond yields: What's the big deal for stocks?

DIGITAL ENGAGEMENT TEAM

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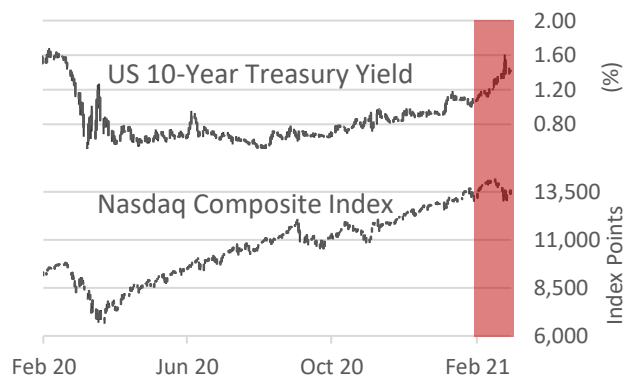
*The summary and impact
of a major news event*

What you need to know

Why is the market talking about rising yields?

- Since the start of Feb 2021, the US 10-Year Treasury yield, a widely watched benchmark for the financial markets, has spiked sharply above 1.3% for the first time since Feb 2020.
- The sharp rally has spooked the stock market, especially traders of interest-rate sensitive tech stocks, sparking worries over a repeat of the "taper tantrum" in 2013, when a sudden spike in Treasury yields triggered market panic and fears of a sell-off in the bond and equity markets.

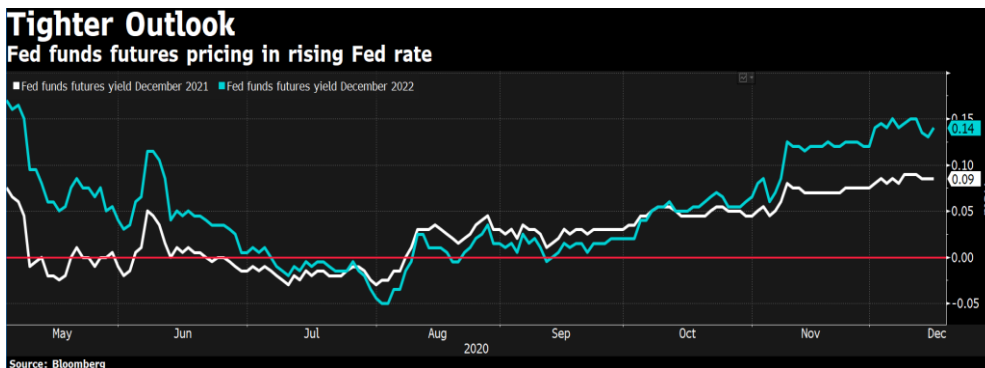
The US 10-Year Treasury yield spiked, while the Nasdaq Composite Index pulled back in Feb 2021 (highlighted)



Source: Bloomberg, as of 01 March 2021

Why did the Treasury Yields rise? And why does it matter?

- Central banks globally have cut interest rates to historic lows, with unprecedented quantitative easing measures to prop up their economies to deal with the pandemic, resulting in significantly depressed yields.
- Bond yields move inversely to their prices, and traditionally in lockstep with inflation expectations. Recent news on vaccine rollouts, stimulus hopes and pent-up consumer demand have pushed US inflation expectations to soar to their highest in a decade.



- The rally in Treasury yields suggests that the market is starting to anticipate tighter monetary policy to accommodate the potential rise in inflation. As yields affect everything in the financial markets, from margins to interest costs, traders are now scrambling to react to this new information (see next page).

5 REASONS WHY TREASURY YIELDS ARE IMPORTANT TO THE STOCK MARKET

Since the start of February 2021, commodities prices have been rising together with yields and inflation expectations.



This will naturally raise the cost of goods and services, thereby affecting the profit margins of businesses.

Loan rates are often pegged to treasury yields.



Firms with loans on their books may therefore face higher debt servicing costs, which could prove to be a drag on their financial performance.

Rising Treasury yields provide competition for equities as they may potentially make bonds seem like more attractive alternatives.



This may entice some investors to rotate out of equities and into fixed income instruments.

Rising yields may help to improve the profit margins from loans and interest-bearing products sold by financials-related companies.



This may have an impact on the financial performance of said companies, attracting investors to the financials sectors.

Rising yields may signify improving economy outlook.

Central banks and the Federal Reserve may then look to withdraw or reduce monetary support for their respective economies.



A Peek into the Financials Sector

Financials are one of the sectors most sensitive to changes in bond yields, as it directly impacts profitability. A study by Bloomberg finds that Financials have benefited as the 10-Year Treasury Yields have shot higher in the past month. Since Jan. 27, 10-Year Yields have jumped 49 bps and large-cap financials have followed suit, gaining 11.8% and outperforming the S&P 500 by 985 bps.



United States

Name	Market Cap (in USD)	Last Price	Analysts Fair Valuation (12 Month Target)	Upside/Downside from Analysts Consensus	Dividend Indicated Yield
Berkshire Hathaway – CL B (BRK/B US)	586.89 Billion	249.21	257.67	3.39%	N/A
JPMorgan Chase & Co (JPM US)	459.25 Billion	150.5	149.07	-0.95%	2.39%
Bank of America (BAC US)	308.98 Billion	35.79	36.02	0.64%	2.01%



China/Hong Kong

Name	Market Cap (in USD)	Last Price	Analysts Fair Valuation (12 Month Target)	Upside/Downside from Analysts Consensus	Dividend Indicated Yield
ICBC – H (1398 HK)	277.80 Billion	5.04	6.31	25.10%	5.72%
Ping An Insurance – H (2318 HK)	233.34 Billion	95.7	113.42	18.51%	2.71%
CCB – H (939 HK)	201.84 Billion	6.14	7.94	29.35%	5.72%



Singapore

Name	Market Cap (in USD)	Last Price	Analysts Fair Valuation (12 Month Target)	Upside/Downside from Analysts Consensus	Dividend Indicated Yield
DBS Group Holdings Ltd (DBS SP)	52.30 Billion	27.1	28.93	6.77%	3.21%
Oversea-Chinese Banking Corp (OCBC SP)	37.61 Billion	11.09	12.29	10.84%	2.87%
United Overseas Bank Ltd (UOB SP)	31.81 Billion	25.16	27.22	8.20%	3.10%

Data extracted from Bloomberg. Stocks highlighted are the largest market cap stocks in the sector for their respective markets.

Statistics for Market Cap, Last Price, Analysts Fair Valuation, Upside/Downside from Analysts Consensus, Dividend Indicated Yields are as of 1st March 2021 closing. 3 of 5

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