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Weekend Alpha

Bond-Yield Chaos Drives Down Stocks

Thomas Lee, CFA [AC]
HEAD OF RESEARCH

- The AI bottleneck story is stalling as data center opposition is now resonating with voters. This probably explains why crypto, particularly Ethereum, has been notably outperforming, gaining 46% since June 30th. Ethereum is a low energy network. But the bigger story is that crypto adoption is growing as Wall Street tokenizes and Agentic AI is another downstream story.
- We continue to expect the S&P 500 to push higher into month end and we see S&P 500 reaching 7,900-8,000. But, we also recognize we are in the ‘dog days of August’ so we should expect outsized move in stocks given fewer investors at their desks and thus, lower volumes.
- Equities continue to get buffeted by higher oil (on Thursday at $89 with US launching an economic war with Iran) and yields pushing higher (despite Treasury buying long-end of bonds). Higher rates on the long-end are not a welcome development.
- But are yields at a level that signal a larger problem? The best answer may be to look at the BofA MOVE Index. This is a measure of bond market volatility. At the moment, this is at 73. Historically, 100 or higher is considered a “crisis” and we have seen this level exceeded multiple times in the past 6 years: COVID-era, 2022-2023 inflation surge, 2024 Presidential elections, early 2025 Tariff wars, Feb to April 2026 Iran wars.

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Mark L. Newton, CMT [AC]

HEAD OF TECHNICAL STRATEGY

- Thursday’s decline brought $SPX down to near two prior swing highs from June–July, which likely represent attractive Fibonacci support into end of week. Similar levels for $QQQ lie near 701.
- Treasury cycles show a bottoming in prices by October at the latest, so it’s thought that Treasury duration swapping might prove effective in causing a possible peak in rates vs. ongoing run-up.
- Crude has run into its first real area of trading resistance at the downtrend from the April peaks, and a brief pullback from here is likely to be the source of positivity that lifts equities over the next week, ahead of a final push up toward 100 over the next four to six weeks.
- Breadth hasn’t faced much deterioration lately and sentiment remains muted to support buying dips on this lackluster summer pullback.

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Sean Farrell AC

HEAD OF DIGITAL ASSET STRATEGY

- Crypto continued to rally Thursday despite a more challenging backdrop across traditional markets. Equities traded lower and yields retraced much of Wednesday’s decline, while crypto broadly continued to push higher.
- Treasury Secretary Bessent’s comments today reinforced the main takeaway from yesterday. As discussed, the mechanical impact of increasing long-end buybacks from roughly $2B to $4B per operation is relatively marginal. What mattered more was the SIGNAL that Treasury is willing to respond to pressure in the long end.
- Bessent effectively doubled down on that message today, noting that buybacks could ultimately exceed $4B and, when asked what else Treasury could do to bring yields lower, emphasized that the government has a “big toolkit.”
- The administration is increasingly signaling that it believes long-term yields are inconsistent with underlying fundamentals and that it has tools available if the selloff continues. This is increasingly consistent with the YCC-lite / financial repression framework discussed yesterday.

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L. Thomas Block

WASHINGTON POLICY STRATEGIST

- Primary season is mostly over, and the slate for November’s midterm elections has largely been decided.
- Democrats believe they have a decent chance of flipping the House, with the current Republican majority far slimmer than the 30 seats viewed as competitive.
- Republicans have intensified focus on the contested Michigan Senate seat, with an increasingly optimistic view of their chances in that race.

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BOND-YIELD CHAOS DRIVES DOWN STOCKS

Hardika Singh

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

Key Takeaways

- The S&P 500 edged down 1.4% to 7,674.37 points this week, while the Nasdaq Composite tumbled 2.1% to 26,180.45. Bitcoin was at USD 77,018.60 on Friday afternoon, up about 20% from Monday levels.
- Fundstrat Head of Research Tom Lee said that he's not really concerned about the choppy move in yields this week because of what the $MOVE index is showing.
- Head of Technical Strategy Mark Newton said that the velocity of the move in yields is what made investors anxious this week.

"Words are a pretext. It is the inner bond that draws one person to another, not words." — Rumi

Choppy moves in global government bond yields dragged down stocks from records this week.

The S&P 500 slipped 1.4% to 7,674.37 points, posting its worst week since July 17. The losses were broad-based this week with eight out of the 11 sectors in the red. Tech stocks, in particular, were crushed, with the S&P 500's information technology sector down 3.2%, while the Nasdaq composite declined 2.1%. Growthier companies like tech, for example, are expected to make their earnings in the future, which makes their stocks vulnerable to moves in yields.

Even though stocks were already down to start the week, the losses accelerated after the 30-year Treasury yield hit its highest level in almost two decades. A similar story played out in Japan, Germany, the U.K., and France, where longer-dated bonds surged. The moves likely reverberated more deeply because it's the “dog days of the summer,” making the markets more volatile due to less liquidity, according to Fundstrat Head of Research Tom Lee.

Then on Wednesday, the Treasury announced it would increase the size of its buyback operation for Treasury securities maturing in 10 to 20 years and 20 to 30 years, going from $2 billion to “at least” $4 billion. Though the strategy is pretty typical for the Treasury, its timing coinciding with the surge in yields sparked concerns among investors about the Federal Reserve’s independence because Chair Kevin Warsh wants to let the market participants independently set the yield without being influenced by the Fed. Lee called it a “variation of operation twist.”

While Treasury Secretary Scott Bessent’s strategy worked on the day of the announcement, the decline in yields faded by Thursday, even though that’s when Bessent announced the buybacks could be higher than the $4 billion.

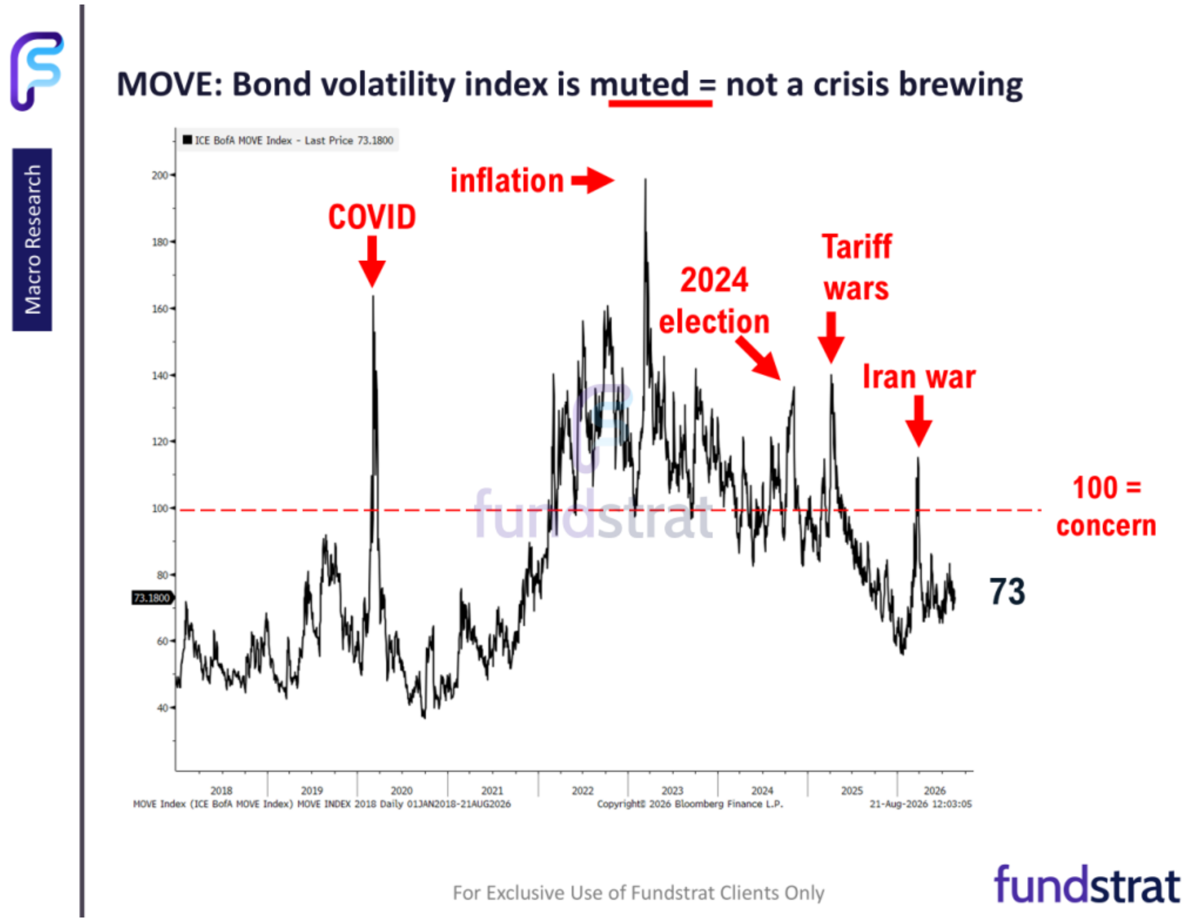
Lee says there’s at least three reasons for yields to be surging: (1) investors remain worried about the growing global deficit, which hit $40 trillion this week in the U.S. (2) oil disruption from Iran (3) hyperscaler capex keeps increasing.

A bigger problem is that there’s no easy way to fix even one of those three problems. Head of Data Science Ken Xuan said during the weekly huddle, “I think we’re probably gonna stay in this kind of high long-term yield environment for a bit.”

Lee isn't too concerned about it. He recommended those who are worried about a "crisis brewing" to look at Bank of America's bond volatility index $MOVE. Currently, it's slightly above 70. It was above 100 during Covid-19, inflation, 2024 election, tariff wars, and Iran war.

"So I think the move in interest rates is interesting because it's not pointing toward a crisis, but a natural rise in yields," he said. "I don't view this as a concern for stocks just yet until the $MOVE index starts to move up."

Our Chart of the Week has more details:



Head of Technical Strategy Mark Newton said that to him, it's not the level of the yields, but the velocity of the move that had investors fretting.

"Bessent initially ran on the platform of 333 — 3 million barrels of oil a day, 3% average real GDP growth, and 3% of GDP budget deficit — and each one of those has not yet come to fruition," he said. "Now the back's up against the wall, and honestly, debt has become a hot issue for the world."

Both Newton and Lee advise investors to buy the dip right now, even if it's going to be a choppy year.

Lee, specifically, said stocks still remain in an uptrend, and he expects the S&P 500 to hit new highs, trading between 7,900-8,000 by the end of this month, even if he projects that there will be a bear market later this fall.

"Even if we think there is a speed bump later this year, we have not advised anyone to be selling because we just don't know what level this correction could come from," he said during the Macro Update & Top Ideas webinar. "If the S&P 500 goes to 8,200 between now and mid-September, then a 10% drawdown from 8,200 is different than a 10% drawdown from 7,700."

He added that, "I would not be trading as if the market's going to be declining. But I just want to continue to advise you that there are things that could cause the market to weaken."

Crypto, energy, gold, and tech are still among his top picks for the year.

Newton has a slightly different take on how far stocks could fall later this year. He expects there to be a maximum of 5-7% decline between September and October or the midterms, partially because there's been a big correction in tech already.

"I think it's going to be milder," he said. "I'm actually more bullish than Tom between now and probably the midterms."

He likes gold currently.

"We basically now have a Treasury put at the 4.75% level on the 10-year, 5.30% on the 30-year. They're going to start to aggressively buy in the long-end. That's going to serve to cause real yields to pull back, which actually will be good for the metals."

Like Tom, he likes tech, as well, but that’s over a two-year horizon.

“I'm just not sure that between now and the election, tech is the No. 1 sector to own. I feel like energy, materials, financials, healthcare make sense,” he said.

Elsewhere

America’s largest retailer, Walmart, posted its weakest sales growth in six years as squeezed consumers pulled back, partly due to soaring fuel costs. A broader drop in retail activity has dragged down performance across the market, forcing rivals to cut their full-year outlooks. In response, Walmart has already begun using $2.9 billion in government tariff refunds to actively cut prices across items to ease pressure on household budgets.

Meta faces an existential threat to its core business model. During Tuesday's opening statements California’s deputy attorney general, Megan O’Neill, said that the business model is to “hook the users, hold them for as long as they can, harvest their data, and then hide the truth from the public.” Meta has been facing a massive multi-state lawsuit targeting the design of Instagram and Facebook, which puts hundreds of billions in revenue at risk. If the court rules against the social media titan, Meta and potentially even other social-media platforms could be forced to dismantle their central engagement mechanics, radically reshaping how modern digital platforms function.

Amazon is taking its airborne fleet mainstream, announcing an expansion of its Prime Air drone service to reach nearly 500 U.S. cities and towns by the end of 2026. The ultra-fast delivery network promises to drop packages weighing up to five pounds—from electronics to household essentials—onto customer doorsteps in as little as 30 minutes. By expanding into major hubs like Atlanta, Chicago, and Cleveland, the tech giant is ramping up a battle against competitors like Walmart in a high-stakes test of automated logistics.

Moderna’s stock skyrocketed following landmark late-stage trial results for its experimental cancer vaccine. Developed alongside Merck, the mRNA-based therapy successfully lowered cancer recurrence and mortality risks in advanced melanoma patients when paired with standard immunotherapy. The breakthrough marks a major proof-of-concept for personalized mRNA treatments beyond infectious diseases, positioning the drugmaker to expand clinical testing into lung, bladder, and kidney cancers.

Donald Trump is pushing to revive diplomatic ties with Kim Jong Un, announcing plans to hold an in-person summit with the North Korean leader later this year despite ongoing tension over Pyongyang's growing nuclear arsenal. In an effort to coax Pyongyang back to the negotiating table, the administration unilaterally ordered a reduction in joint US-South Korean military exercises—a concession that alarmed regional allies and prompted North Korea to respond by test-firing a barrage of short-range ballistic missiles into eastern waters.

And finally: Prince Harry and Meghan Markle are moving back to the U.K. after their Hollywood media empire stalled. Facing lukewarm public interest and dropped funding from partners like Netflix, the Sussexes are enrolling their children in British schools as part of a strategic brand pivot—though royal watchers note the couple will not be resuming official duties.

Important Events

S&P Cotality CS 20-City MoM SA Est.: 0.10% Prev.: 0.15%	Tue, Aug 25 9:00 AM ET
New Home Sales Est.: 620k Prev.: 628k	Tue, Aug 25 10:00 AM ET
Conf. Board Consumer Confidence Est.: 90.2 Prev.: 90.8	Tue, Aug 25 10:00 AM ET
PCE Price Index MoM Est.: 0.1% Prev.: -0.1%	Wed, Aug 26 8:30 AM ET
GDP Annualized QoQ Est.: 1.5% Prev.: 1.5%	Wed, Aug 26 8:30 AM ET

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