First to Market September 14, 2026

WHO'S AFRAID OF THE 5% WOLF?

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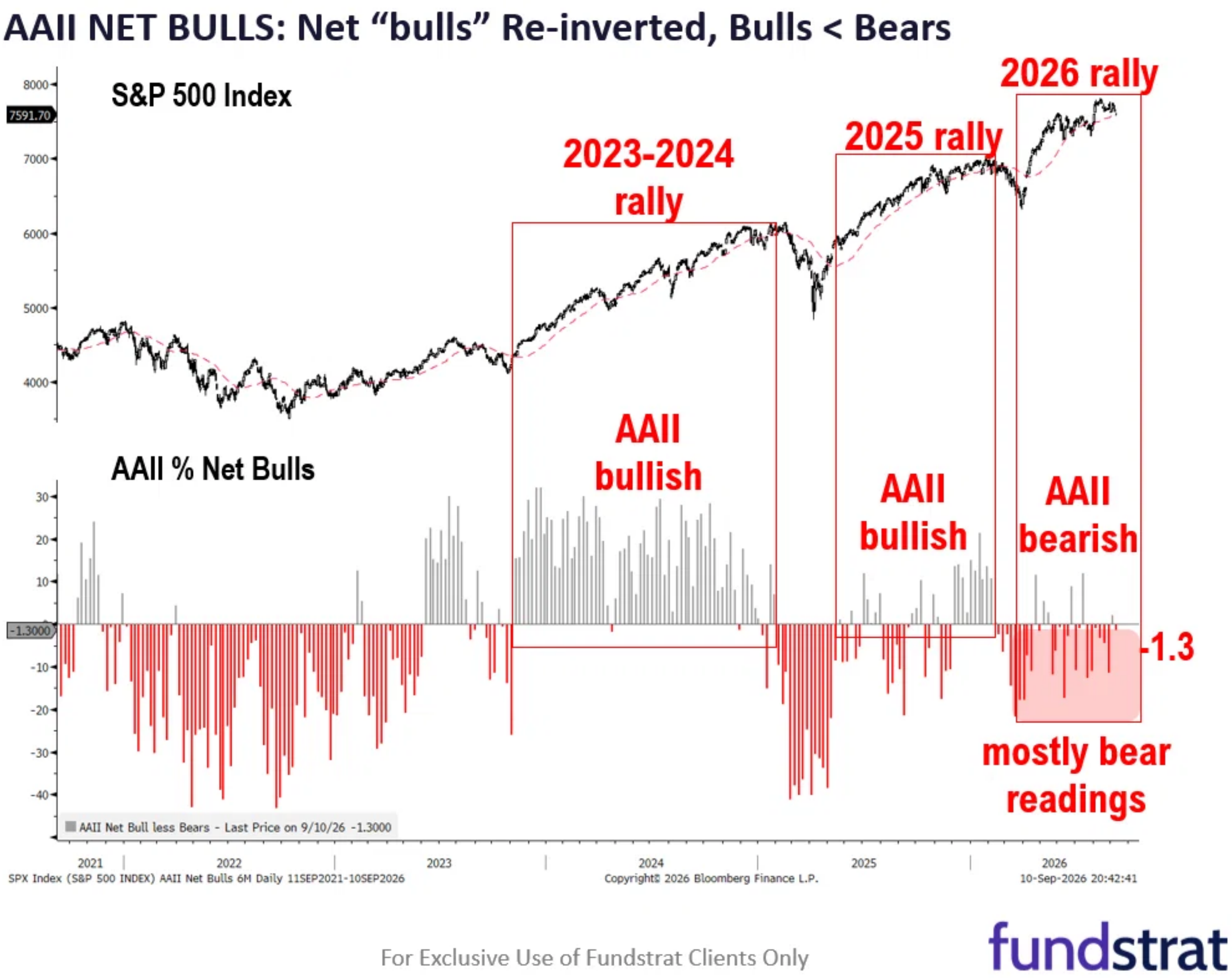
Chart of the Day



Good morning!

It's no secret that President Trump and Treasury Secretary Scott Bessent want yields to go down. Nor is it a secret that at least in the immediate-term, yields remain elevated after last week's expanded long-term Treasury buyback. This has many investors skittish.

After all, the negative correlation between yields and stocks is basically Investing 101. Yet is there really cause for alarm?

Human nature tends to favor nice, clean, round numbers. That's why the instructions for your favorite over-the-counter pain relief tell you to take two pills every six hours even though the optimal timing might well be something like five hours and 56 minutes or six hours and 12 minutes. The drugmaker knows almost nobody's going to bother remembering such a precise timetable anyway.

It's also why so many central banks around the world set a target inflation rate of 2%, even though an optimal inflation rate might actually be 2.1%, for example.

That's an important fact about human psychology to note as the 10-year yield flirts with the 5% level. While higher yields are something stock investors should watch, a look back shows that breaching the 5% mark (from either direction) has often not been accompanied by any starkly opposite move in the S&P 500.

On October 23, 2023, the 10-year briefly breached the 5% level, peaking at 5.02%. The S&P 500 largely took it in stride, and one month later, it was 8% higher. In fact, Oct. 27, 2023 marked the beginning of a strong stock rally that would last 14 months.

In spring 2006, the 10-year yield consistently floated above that 5% level. Equity investors did see a hiccup in the S&P 500, stocks rose for much of 2006 and beyond.

Looking further back, it's worth remembering that from March 1999 to March 2001, the 10-year yield routinely lived in that space above the 5% mark. In fact, for about six months in 2000, it was routinely above the 6% mark. Yet from March 1999 to September 2000, the S&P 500 showed health and resilience.

That's not to say stocks always rally when the 10-year yield rises above 5%. On June 12, 2007, it hit 5.26%. Though the S&P 500 did in fact go on to set some all-time highs over the next few months, most of us remember the Global Financial Crisis that soon followed. Yet tellingly, that crash was actually preceded by a decline in the 10-year yield, not a surge.

None of this is to suggest that the inverse correlation between the 10-year yield and the S&P 500 doesn't exist, or that a stock investor should ignore rising yields. However, in and of itself, no single metric can predict what the stock market will do with absolute certainty, so in our view, that 5% figure is nothing to fear – not on its own, anyway. In the meantime, earnings estimates for the upcoming quarterly earnings season continue to get revised up, a bullish sign that corporations remain on strong footing. Earnings are the true driver of returns, not yields, though they can certainly help.

Share your thoughts

Are you worried about the 10-year breaching the 5% mark? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Which do you think will give out first – refinery infrastructure, or demand for gasoline?

A: I think that no one has mentioned that refineries will need to shut down for the switchover to winter fuel production. This always causes a temporary shortage. Something to think about.

Catch up with Fundstrat

Markets were cautious heading into August CPI. And in our view, this is a setup for a "face ripper" rally to come sometime this month.

Technical

We saw a pretty nice bounce in the equity market on Friday, which was very encouraging in a lot of respects. I can't say with a lot of certainty that the lows are completely in as of now, but I think we're very, very close.

Crypto

In the short-term, I remain biased long, while acknowledging that the swing factors in yields and crude could induce some downside volatility should they not resolve in a constructive direction soon.

News We're Following

Breaking News

- Gulf states call off meeting with Iran, Houthis launch new attack on Saudi REU

Markets and economy

- Global shares mostly decline and AI stocks plunge after calls to slow AI industry AP
- Trump caves to tougher ethics crackdown as his crypto fortune faces scrutiny IND
- Oil jumps as shutdown of Saudi pipeline brings fresh supply risk BBG
- OpenAI boss Sam Altman spells out how and why the AI industry wants to slow down: 'We could lose control' CNBC

Business

- Kimberly-Clark readies asset sales in bid for EU nod for Kenvue deal, sources say REU
- US AI boom needs $110 billion of new power plants, Moody's says BBG

- Novo ditches Nordisk from name as drugmaker attempts revival FT

Politics/U.S.

- Trump's mail-in voting restrictions blocked by a second judge REU
- Pennsylvania Woman Dies of Measles Complications WSJ

Overseas

- 'Senseless attack': Ex UK PM Johnson narrowly missed by Russian attack on Ukraine-Poland railway JP
- China’s spy agency warns of AI risk to national security FT
- Turkey detains dozens after sweeping raids targeting LGBTQ+ groups CNN
- Swedish election on a knife-edge FT

Of Interest

- France lifts alcohol content limit on champagne after record heatwaves BBC

Overnight

S&P Futures	-64 ▼ point(s) (-0.83% ▼)
overnight range:	-66 ▼ to -26 ▼ point(s)

APAC

Nikkei	-0.81% ▼
Topix	+0.74% ▲
China SHCOMP	-0.07% ▼
Hang Seng	+0.45% ▲
Korea	-3.26% ▼
Singapore	+0.39% ▲
Australia	+0.10% ▲
India	-0.34% ▼
Taiwan	-0.70% ▼

Europe

Stoxx	50 -1.09% ▼
Stoxx	600 -0.32% ▼
FTSE	100 +0.55% ▲
DAX	-0.66% ▼
CAC	40 -0.78% ▼
Italy	-1.25% ▼
IBEX	-0.91% ▼
Canada	+0.54% ▲
Mexico	-0.28% ▼
Brazil	-0.56% ▼

FX

Dollar Index (DXY)	+0.42% ▲ to 99.539
EUR/USD	-0.50% ▼ to 1.1541
GBP/USD	-0.29% ▼ to 1.3485
USD/JPY	-0.60% ▼ to 154.53
USD/CNY	-0.02% ▼ to 6.7085
USD/CNH	-0.03% ▼ to 6.7098
USD/CHF	-0.09% ▼ to 0.8172
USD/CAD	-0.17% ▼ to 1.3895
AUD/USD	-0.60% ▼ to 0.7126

UST Term Structure

2Y-3M Spread narrowed	-0.8bps ▼ to 60.2bps
10Y-2Y Spread narrowed	-1.5bps ▼ to 32.4bps

10Y-2Y Spread narrowed	-1.5bps ▼ to 32.4bps
30Y-10Y Spread narrowed	-0.4bps ▼ to 37.7bps

USD HY OaS

All Sectors	-1.9bps ▼ to 302bps
All Sectors ex-Energy	-2.8bps ▼ 284bps
Cons Disc	-5.1bps ▼ to 483bps
Indu	-1.5bps ▼ to 233bps
Tech	-1.6bps ▼ to 185bps
Comm Srvcs	-2.2bps ▼ to 285bps
Materials	-2.8bps ▼ to 246bps
Energy	-3.2bps ▼ to 250bps
Fin Snr	-3.2bps ▼ to 183bps
Fin Sub	-2.9bps ▼ to 263bps
Cons Staples	-6.5bps ▼ to 434bps
Healthcare	-2.9bps ▼ to 302bps
Utes	-0.2bps ▼ to 208bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
9/16	8:30 AM	Aug Import Price m/m	0.5	-0.4
9/16	10:00 AM	Sep Homebuilder Sentiment	34	35
9/16	2:00 PM	Sep 16 FOMC Decision	3.75	3.75
9/16	4:00 PM	Jul Net TIC Flows	n/a	133.452

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