HB Wealth

Market Sense – Bonds See Risk from Elevated Oil as Stocks Look Elsewhere

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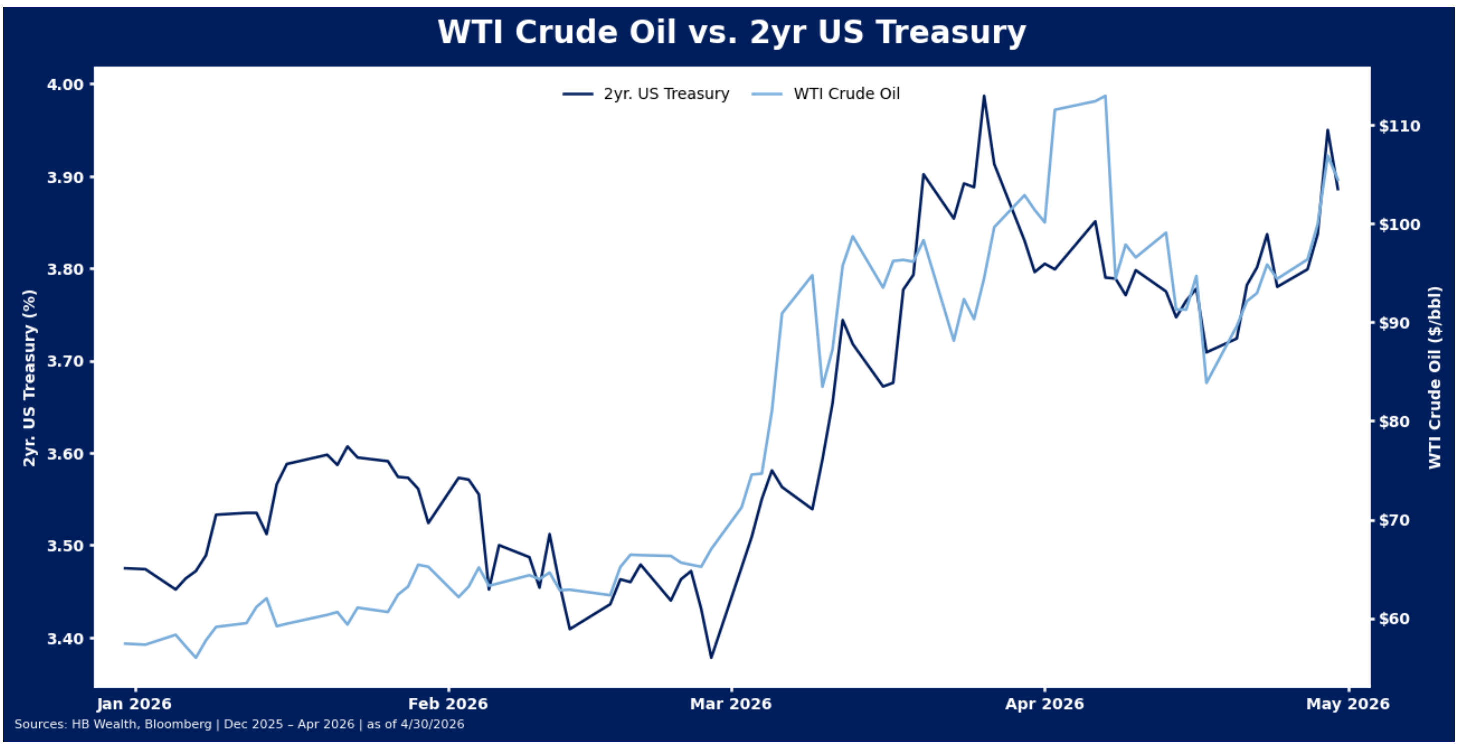
A notable divergence emerged between equities and bonds in April, with 2-year Treasury yields tracking oil prices closely, and equities largely shrugging off the risks that have emerged with ongoing turmoil in the Middle East. The 2-year Treasury yield is back to 3.89%, its highest level since late March, moving almost 1-to-1 with oil prices, which have likewise pushed back above $100 per barrel (WTI).

While bonds appear to remain concerned about the fundamental impacts of the war – with higher yields likely reflecting rising inflation anxieties -- equities have shrugged off those risks. Equity market valuations, represented by the S&P 500, have clawed back near 21X forward earnings from their low just under 19X a month ago. A 3.9% yield on 2-year Treasuries equates to a 19.2x P/E for the S&P 500 in our fair value model, all else held equal.



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Important Disclosures