
## Treasury Yield and Growth Stocks

By www.ProfitableInvestingTips.com

Last week we wrote about investments for the post-Covid economic recovery. In the same vein, we have been thinking about how interest rates are going up and investors are becoming wary of growth stocks. Treasury yield and growth stocks bear watching. Low interest rates have driven money into the stock market. Low interest rates have kept a lot of “zombie companies” afloat. And, many investors have simply followed the leader by investing in FAANG stocks like Apple as its shares go up faster than its earnings.

### How Far Will Interest Rates Rise?

*Kiplinger* writes about 1.5% Treasury rates going to 2% by the end of the year. Along the way this will be accompanied by mortgage rates and long term loans for purchases like automobiles going up as well. They predict that mortgage rates will go from 3% to 3.5% by the end of the year. What will drive rates higher will be a recovering economy and the first Biden stimulus/rescue package followed by legislation to repair American infrastructure and create American jobs. The first legislation looks fairly certain but the follow-up which will come in at near to $3 Trillion will be more of a struggle. The Fed is unlikely to increase the short term funds rate unless or until inflation goes well above 2% which could take a couple of years.

### What Part of the Market Will Correct First?

To successfully predict this part we need to look at how the stock market rallied while the US economy experienced the worse fall in GDP since the Great Depression. Cyclical or value stocks suffered with the economy while investors were willing to throw fistfuls of money at tech growth stocks. The rationale for FAANG stocks going steadily up over the last decade has always been attributed to their impressive earnings. But, as the market soared back a year ago, stock prices outpaced earnings as noted with Apple whose stock price doubled from before the pandemic until the end of January of 2021. During the same time its earnings went up by about 25%. We note that Apple has fallen by about $20 share since its most recent peak.

The global and US economy are coming back and will continue to do so over the next months. The first part of this will be easy as people get back to work and back to spending due to the pandemic subsiding. Then, the continued growth of the economy in the USA at least will probably depend on projects like infrastructure rebuilding and enhancements. Many companies will benefit, including the tech giants. But, as investors will have more options and many in the tech sector are over priced, we expect to see the slow down and correct.

### Economic Recovery versus an Inflationary Economy

If you are wondering if inflation is going to raise its head as the economy improves, you may be surprised to hear that it already has. Although commodities collapsed at the beginning of the pandemic and its associated recession, copper, silver, wheat, soybeans, iron ore, beef, and poultry are now all hitting all-time highs. As these prices trickle down to the consumer level, prices will go up as will pressure for higher wages. This will especially be the case in the USA if a further stimulus bill tied to infrastructure and American jobs is passed. There has been a lot of money thrown at the economy but actions by the Fed such as quantitative easing do not go directly to people. But, stimulus checks do as will money spent on infrastructure projects. When all of this accumulates, inflation will finally go up badly enough that the Fed will need to step in and raise rates which will be the final blow of overpriced tech and growth stocks. They will not collapse but they will probably experience meaningful corrections.

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