U.S. Bond Yields Soar: Here's Where I'd Invest as Growth Stocks Sour

Description

The stock market dipped again on Wednesday following renewed jitters over climbing U.S. bond yields. The 10-year U.S. Treasury now finds itself flirting with the 1.5% mark, and with the growthiest tech stocks leading the downward charge again, many folks in the mainstream financial media have been ringing the alarm bell over a rotation out of growth back into the value and cyclicals.

There's no question that a stock market was long overdue for a correction. A sustained growth-to-value rotation was also a long time coming.

Soaring U.S. bond yields weigh on the stock market: How should you react?

Some talking heads on TV think the 10-year bond can make a run to or potentially above the 2% mark — a scenario that could send the growth-heavy NASDAQ index into deep bear market territory. I wouldn't attempt to predict what the bond market's next move will be. There are far too many variables at this juncture, especially with the insidious coronavirus (and variants of concern) that's still out there.

I would take shallow near-term projections of such pundits with a very fine grain of salt and a double dose of skepticism. My best advice for rattled investors would be to stay the course with stocks that you deem as still trading at a discount to their intrinsic value.

If rising bond yields weigh further on such stocks, I'd get ready to buy more on the way down.

Are we in a stock market crash or correction?

First off, I don't think the stock market will crash as it did in 2020. I think we're in a very healthy correction that'll cut the froth right off the top of the tech sector. So, put the panic button away and don't let the chatter of a potential 10-year bond at 2% frighten you.

Fortis is one of many discounted "value" stocks that I've been pounding the table on of late. It's a neglected value name that could benefit from a “return to value.” The low-beta utility stock took a 5% hit to the chin over the last month, and it’s been under pressure alongside almost everything else. Still, I view FTS stock as a top candidate to correct upwards over the coming weeks and months, as bond investors contemplate parking their cash in bond proxies over bonds.

There are few places to hide from inflation these days, after all. As such, I’d argue that lowly correlated bond proxies are among the best places to be these days.

I’ve been warning beginner investors over the last few months to be careful when chasing the hottest momentum stocks of last year, as the next sustained rotation was likely to be vicious and unforgiving to new investors who’ve grown accustomed to chasing, with zero consideration for the valuation process.

“Although momentum chasing and neglecting value have been a formula for success in 2020, investors should take a step back and remember that it always pays dividends over the long-term to consider the price you’ll pay for a given asset.” I said back in January. “Sure, some [hot growth stocks] may justify valuations at the higher end of the spectrum, but with so many unloved value stocks that are still trading in the depths, I’d argue that there’s a strong case for the return of value investing in 2021.”

Looking back, it turns out my warnings were spot on.

How long will growth stocks stay in the backseat?

That ultimately depends on how much higher bond yields will fly. The U.S. Federal Reserve is going in a tough spot, and I personally have no idea what their next course of action will be.

In any case, investors should continue to stay the course and continue to put in ample due diligence before scooping up any stock. Many beginner investors and momentum chasers who’ve neglected the valuation process have been punished, and I think it’s time to answer the wake-up call. High growth or not, *never* neglect the valuation process.

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