Canadians: Why You Shouldn't Fear Rising Bond Yields

Description

Beginner investors who've chased growth stocks up to peak levels are likely feeling an immense amount of pain right now. The whole surging bond yield ordeal may be confusing to market newcomers, many of whom dove into the market waters for the first time in late 2020. As bond yields continue to swell, stock prices will remain under pressure.

In many ways, the situation mirrors that of the 2015-16 market sell-off. Back then, investors were worried over the spike in bond yields in early 2016 and Brexit, among many other concerns.

In the heat of the early 2016 bond yield spike, things were scary, just as they are right now. But the stock market ended the year higher, breaking out in summer and rewarding contrarian investors who bought on the dips, despite numerous concerns on the minds of the folks on Bay and Wall Street.

Stock market correction: NASDAQ 100 plunges 10%

Both the **S&P 500** and **NASDAQ 100** indices got slapped with a double correction, with high-growth tech stocks leading the downward charge on both occasions, plunging around 10-15% on two separate occasions. It was a brutal time to be a new investor, especially given the first recovery ended up being a fake-out.

This time around, the NASDAQ 100 already in a correction, while the S&P 500 has only fallen 4%.

Undoubtedly, the excess froth on high-tech growth stocks and bubbly plays like **Tesla** have caused amplified damage to the growth-heavy index. While I still see many bubbles floating around the sector that have yet to burst, I don't think investors who've put in the due diligence should worry so much about losing their shirts as they did during the 2000 dot-com bust.

How much longer will rising bond yields weigh on the stock market?

There's no telling how much higher bond yields can fly or whether a bursting of market bubbles within the tech sector will drag the entire market lower. Regardless, investors shouldn't attempt to overreact by dumping growth or rotating aggressively into value names. The best thing an investor can do is stay the course and have a game plan if things get worse.

Can bond yields continue their ascent to or potentially above the 2% mark? It's possible. Will stocks get clobbered in such a scenario? Most likely. Will the U.S. Federal Reserve try again to soothe rattled bond and stock investors? Nobody knows.

I don't think anybody knows how the Fed plans to respond to the drastic uptick in bond yields. Fed chair Jerome Powell is in a tough spot right now, and there don't appear to be any easy solutions.

Forget rising bond yields: Focus on reopening plays

At current levels, there are plenty of bargains that may also be great places to hide from excess volatility. Rather than focusing on rising bond yields and this painful correction, I'd urge investors to focus on the economic reopening up ahead. The vaccine rollout is underway and in Canada, and we've heard an optimistic PM Justin Trudeau remark on numerous occasions that the vaccine timeline may be ahead of schedule.

If that's the case, you should treat the bond-yield-induced sell-off as a chance to snag reopening plays at a nice discount.

Shares of my favourite reopening play, **Restaurant Brands International**, have been treading water over the past year. Once COVID-19 is conquered and dining rooms reopen, the stock could be ready for blast-off, potentially back to the $100 mark.

For now, however, I suspect bond yield woes will cause investors to ignore the reopening trade and ditch anything growth-related. That's an opportunity for contrarians to put some excess cash to work.

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