



# Recent Strength In High Yield Bonds Positive For US Stocks

July 23rd, 2020

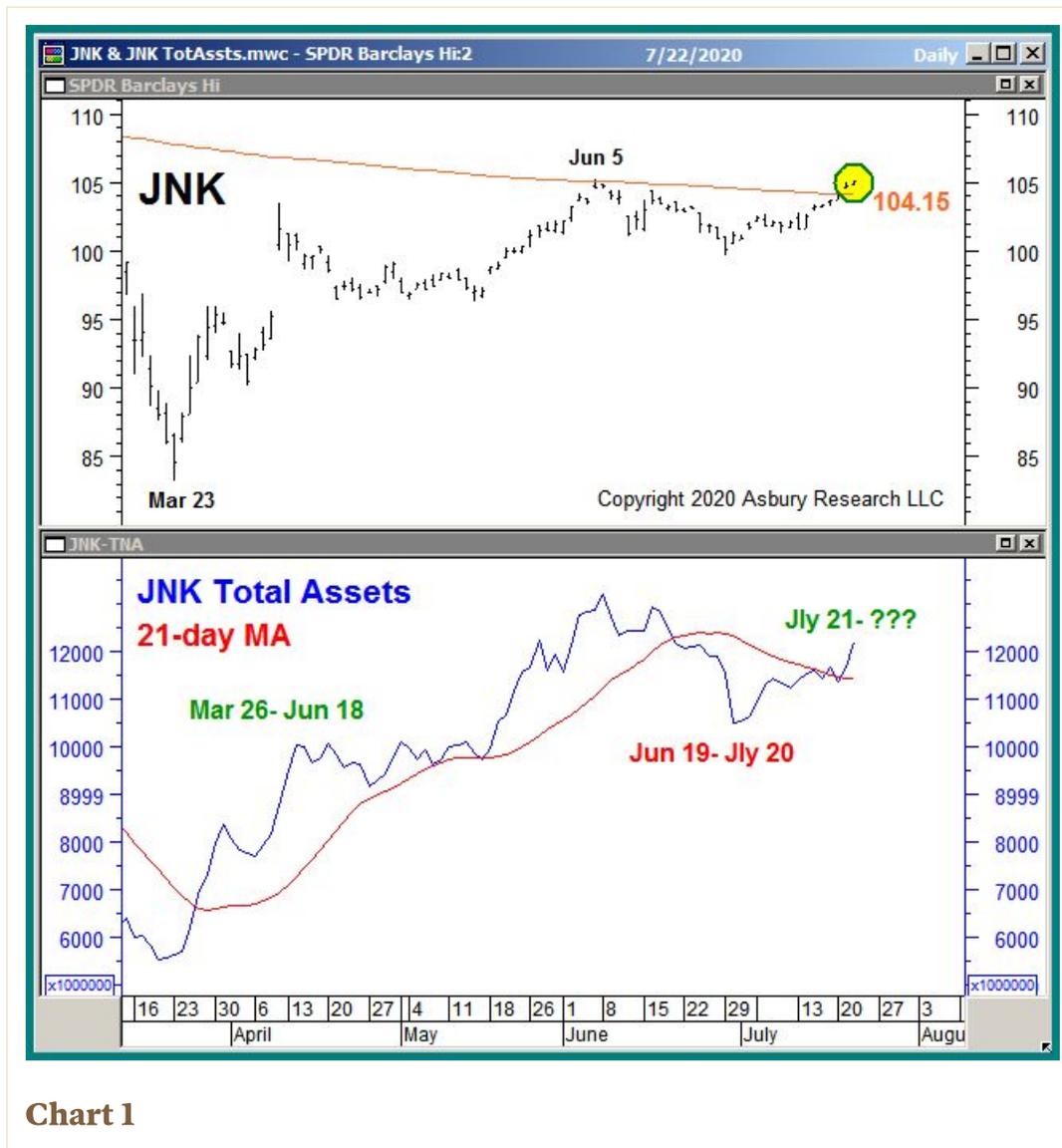
## Conclusion, Investment Implications, Strategy

**This week's strength in high yield corporate bond prices, confirmed by investor asset flows, is indirectly positive for the US stock market — and supports the likelihood that our 3340 near term target in the benchmark S&P 500 (SPX) will be met.**

Since July 6th, we have been [pointing out](#) the divergence between high yield bond prices — specifically the **SPDR Bloomberg Barclays High Yield Bond ETF (JNK)** — and the S&P 500, identifying it as a potential warning signal for the US stock market. **That divergence appears to have resolved itself as of yesterday, in favor of higher US equity prices.**

**Chart 1** below plots the **S&P 500 (SPX)** daily since mid March in the upper panel, with a

corresponding chart of the daily total net assets invested in JNK (blue line) and their 21-day moving average (red line) plotted in the lower panel. Our interest in high yield bond prices is their nearly ← lockstep positive [correlation](#) to one another throughout the past 30 years. Per the correlation, **as goes JNK so is likely to go the US broad market**.



The red highlights show that the total net assets invested in JNK were below their 21-day MA from Jun 19 to Jly 20th, indicating a trend of *monthly contraction* characteristic of near term price declines. Accordingly, JNK was weak during this period, remaining below its 200-day MA (major trend proxy). Per the correlation, we saw this weakness as a potential canary in the coal mine – for upcoming weakness in the S&P 500.

However, the green highlights show that as of Jly 21st these assets have spiked back above their 21-day MA, indicating a new trend of *monthly expansion* – while being corroborated by a rise in JNK above its 200-day MA. As long as JNK can now remain above its 200-day MA, currently at 104.15, it will indicate an emerging major bullish trend change in the ETF – and **this would support more**

## upcoming US broad market strength.

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