TS Model Portfolios

Timely Analysis for the Informed Investor

January 2023

Transition phase

Overview: Major changes coming

The major asset groups (bonds, equities, commodities, currencies), are now making a major change that has not occurred in, some cases, decades.

The US 10-year T-bond yield (A benchmark for global bond yields), has just broken out of a 42-year decline (**Chart 1**). This action suggests that the long-term trend for yields should be higher. It also means that bond prices have reached a peak. They are now expected to be in long-term decline. This means that the multi-decade period low-interest rates are over.

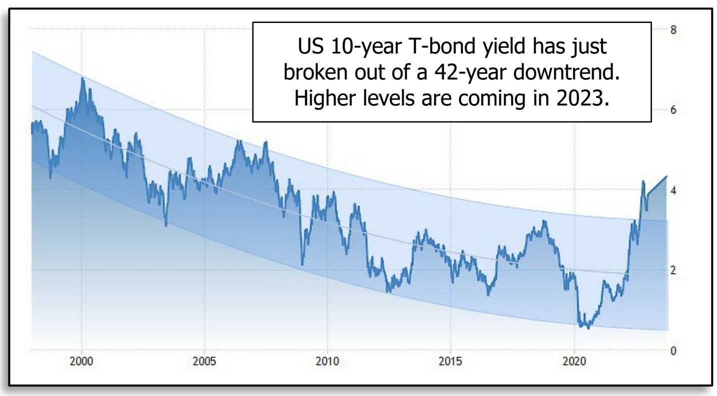

Chart 1

The next important change has been with commodities (CRB) versus stocks (Dow). This change in relative performance between these two assets is a normal

Chart 2

development (**Chart 2**). This repeating action occurs about every 18 years and has been continuing for over 135 years (**Chart 3**).

From 2002 to 2011, commodities (CRB) had equal or greater relative performance than the Dow. The importance of this major shift is that commodities are an inflationary asset and the Dow is a deflationary asset. Bull markets develop during deflationary periods.

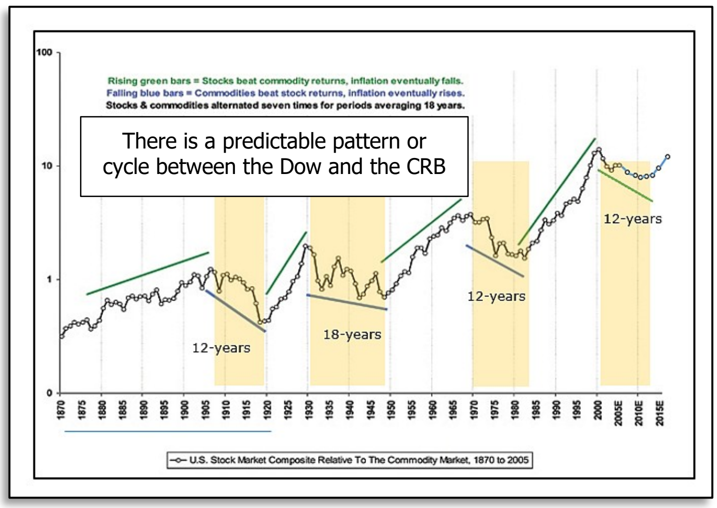

Chart 3

The fourth asset group that is playing an important role in commodities and equities is the US dollar (DXY). A rising dollar is normally negative for most commodities and a declining $USD is positive for natural resources. The dollar's movement is generally governed by the Fed's interest rate policy. A rapid advance is driven by the Fed's increasing interest rate policy. This action occurs at the end of a market cycle (i.e. 2000-2003, 2021-present). It is designed to 'cool' an overheated economy or ease inflationary pressures (**Chart 4 on page 2**). A decreasing currency is usually due to the Fed's lowering the interest rate. This event follows a major stock market decline and a sharp drop in economic growth (i.e. 1981, 1990, 2001, 2008, 2020).

All four asset classes (bonds, equities, commodities, currencies) work together and are part of a predictable pattern.