

UP AND DOWN WALL STREET

Risk Roars Back

By *Randall W. Forsyth* • February 3, 2018

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Of course, proving history rhymes more than it repeats, Friday's 666-point Dow downdraft amounted to a 2.5% drop, as opposed to the record 22% collapse on Black Monday. More importantly, relative valuations were vastly different. Stocks then traded at over 20 times earnings, compared with about 18 times 2018 estimates on the Standard & Poor's 500. But long-term bond yields then were higher by an order of magnitude. The 30-year Treasury bond climbed back over 10% that October, which provided formidable competition to relatively pricey stocks.

Last week, rising interest rates also provided the proximate cause for stocks' tumble. But instead of 10%, the Treasury long bond yield ticked above 3%, while the benchmark 10-year note yield moved up to 2.85%, a four-year high. That the stock market could be tripped up by what historically are extremely modest bond yields shows how dependent equities have been on exceptionally low interest rates.