MAJOR TREND INDEX

quant assessment of stock market health

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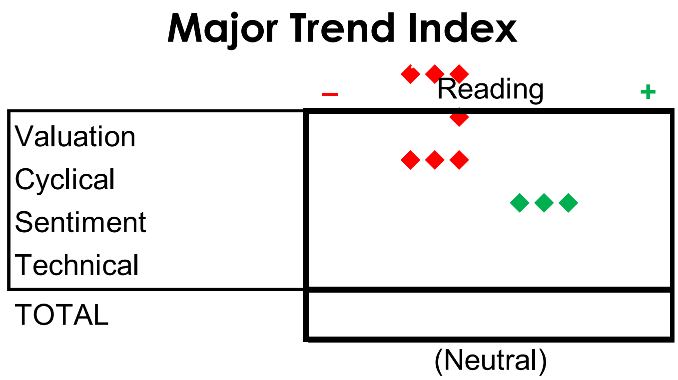

The Long End Speaks Up

Higher Treasury yields dominated last week's news flow, with the 30-year touching a two-decade high and the 10-year posting its highest close since January 2025. Even as the Treasury announced that outstanding U.S. debt had reached an attention-grabbing $40 trillion, fixed income investors moved to price in the negative impacts of the federal government's fiscal deficit and instead the resulting heavy issuance of Treasuries, elevated oil prices from Trump's "economic war" on Iran, and the surge in corporate borrowing to fund AI expenditures. The rise in long bond yields was not limited to the U.S.; long-term yields also rose in several other G7 economies.

This move looks to be a repricing of the term premium and fiscal credibility, rather than an explicit concern over higher inflation or future Fed policy. Alternative assets that offer a play on reduced confidence in fiscal policy, such as gold and Bitcoin, had an excellent week. Corporate earnings remain stellar, and economic indicators point to a solid third quarter, meaning equities are facing a tug-of-war between strong fundamentals and higher discount rates heading into the fall.

The MTI maintained its "neutral" reading this week, but rising yields could affect underlying scores in a couple of the model's sub-categories. Higher rates will weigh on our yield-adjusted valuation metrics, which compare the relative attractiveness of stocks and bonds. In the Cyclical category, higher long rates could impact the yield-curve indicators; however, the increase has not yet been large enough to register in these series. We would note that the best action in the cyclical context was in real assets like gold and TIPS; real yields fell while breakeven rates went up—a great combination for TIPS, an asset class we view quite favorably.

Sentiment remains overly bullish, as last week's decline in equity markets only served to end a three-week winning streak. There has still not been enough extended pain to change investors' risk perception, as they continue to favor equities. The Technical category also experienced little change, with last week's selloff not enough to trigger a downgrade—although a few trend charts are starting to weaken as the bull market has flattened over the last three months. This loss of upward momentum is consistent with the MTI's neutral stance in recent weeks, and has us maintaining a net equity weight of around 55%-56% in the Leuthold Core and Global tactical portfolios.