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Macro Alert
Don't Look Now, But Bond Seasonality Is Turning Bullish

From the Office of the
Global Chief Investment Officer,
Scott Minerd

By the Macroeconomic and
Investment Research Group

Brian Smedley
Senior Managing Director and
Head of Macroeconomic
and Investment Research

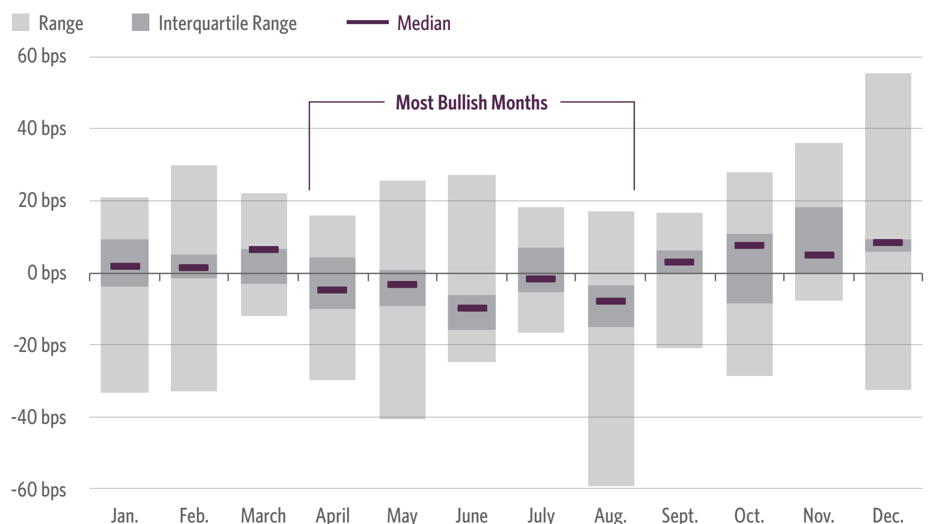
Matt Bush, CFA, CBE
Director and Senior Economist,
Macroeconomic and
Investment Research

Jeff Traister
Managing Director and Strategist,
Macroeconomic and
Investment Research

The seasonal pattern of stock market returns has made "Sell in May" a common refrain, but we find that seasonal patterns also exist in the bond market. The summer months, which tend to see weaker-than-average stock returns, also tend to deliver stronger-than-average returns for bonds.

The chart below shows the monthly change in 10-year Treasury yields relative to the trend of each year. After all, a 10 basis point monthly decline in yields wouldn't tell you much about seasonality in a year that saw yields decline 120 basis points. Focusing on data during the 2010-2019 expansion (to avoid recession distortions), we find that 10-year yields tended to rise during the September-March period and fall during the April-August period, relative to the trend of each year.

Most Bullish Seasonal Period For Treasurys Runs From April Through August
Monthly basis point change in 10-year yields relative to full-year trend, 2010-2019



Source: Guggenheim Investments, Haver Analytics. Data as of 3.23.2021. Note: Monthly average constant maturity 10-year Treasury yield. Interquartile range is shown here as middle four observations out of ten.

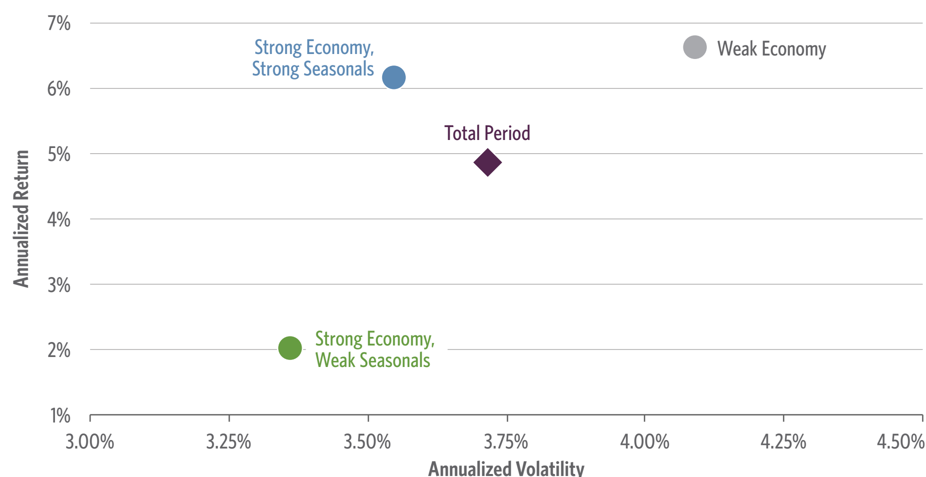
The cumulative median yield change during the bullish months was -30 basis points, versus +30 basis points in the bearish months. We also see a bullish skew in the distribution, with the largest monthly yield decline during the bullish months reaching -59 basis points, compared to +27 basis points for the largest increase.

This seasonal pattern also shows up in the performance of the Bloomberg Barclays US Aggregate (Agg), the most widely used benchmark for the broad U.S. bond market. The scatter plot below shows annualized total returns and volatility for the Agg since 2000, broken into different economic regimes and seasonal patterns. Unsurprisingly, Agg returns have been the highest in weak economic regimes. In strong economic regimes, which is where we find ourselves now, the strong seasonal period for bonds (April-August) delivered significantly higher total returns than the weak seasonal periods.

The combination of attractive valuations, oversold technical conditions, and the start of a strong seasonal period for bonds means now is an opportune time to be long duration.

Bond Index Returns Across Economic Regimes and Seasonal Periods

January 2000 - March 2021



Source: Guggenheim Investments, Haver Analytics, Bloomberg. Data as of 3.22.2021. Note: Total returns for the Bloomberg Barclays U.S. Aggregate Bond Index. Economic regimes identified ex ante by proprietary Guggenheim model. Strong bond seasonals are April-August. Weak seasonals are September-March.

IMPORTANT NOTICES AND DISCLOSURES

One basis point is equal to 0.01 percent.

Investing involves risk, including the possible loss of principal. Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility.

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