

Macro Roundup Article

Headline: [The Outlook for the 60/40 Portfolio](#)

Article Link: <https://apolloacademy.com/the-outlook-for-the-60-40-portfolio/>

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Tweet: Torsten Sløk notes that a 60/40 portfolio has lost 5% over the past two months, and argues that “with an outlook of high rates and slowing earnings, the outlook for the 60/40 portfolio remains negative.” @apolloglobal

Summary: If the [rising term premium] is not driven by changing Fed expectations, what are then the reasons why long rates are moving higher? There are several potential explanations: 1) First, with declining repo it could be an unwind of the basis trade that is pushing long rates higher, somewhat similar to what happened in March 2020. This has been getting a lot of attention, and maybe conditions for getting repo are tightening. 2) Another potential explanation is the slowing growth in China, which means that China is recycling fewer dollars into Treasuries because of declining Chinese exports. 3) Rates may also be moving higher because of the Fed still doing QT. Remember, the entire goal with QT is to put upward pressure on government bond yields. 4) The US budget deficit remains big at 6% of GDP, which requires more Treasury issuance today and in the future, and investors may be reacting to that. 5) The US sovereign downgrade has likely had a negative impact. 6) Japan exiting YCC has put upward pressure on JGB yields, which, despite high hedging costs, makes US yields less attractive. 7) There is a large stock of T-bills outstanding, and the Treasury intends over the next six months to increase auction sizes across the Treasury curve.

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