Macro Roundup Artcile

Headline: Shake it Off

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Author(s)	Joseph Wang
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Tweet: .@FedGuy12 notes the tech bubble played out with 10-year Treasury yields at 6.5%, and argues that higher rates won't necessarily cause a selloff in US equity markets, given strong nominal growth and chronic fiscal deficits.

Summary: The relationship between interest rates and equity prices varies across time and across countries. While a 5% 10-year Treasury yield appears high after a decade of zero interest rates, even higher interest rates have in the past coincided with strong bull markets. The epic surge in the Nasdaq during the late 1990s happened with a 6.5% 10-year, and the roaring 1920s happened when margin interest rates were double digits. Higher interest rates were a hindrance, but investors expected future gains to be even higher. This speculative mindset can be seen today in the surge in the price of various crypto assets, which have no obvious utility. Also note that commentators in the early 20th century actually perceived rising interest rates to be bullish rather than bearish. Rising rates implied a strong demand for money, and thus economic growth. Related: The Expensive Stock Market and End of an Era: The Coming Long-Run Slowdown in Corporate Profit Growth and Stock Returns and The Curious Incident of the Elevated Profit Margins

Primary Topic: Business Cycle

Topics: Business Cycle, Database, Financial Markets, GDP, Op-Ed/Blog Post

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