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US Treasury 10-Year Yield: Could a Rebound Become a New Uptrend?

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At the end of April, as the US 10-year yield was 4.61%, we displayed a bearish divergence on the weekly momentum (see first red arrow on the STO oscillator), which suggested that *"US 10-year yield is likely to stall below the strong resistance area 4.80-5.20% and lead to a slow decline until the fall"* (see second & third red arrows). The decline to 3.68% in September stopped almost perfectly near the time frame suggested by the bearish divergence in April. Also, the second yield decline in September matched the previous decline from the top 4.99% to the low 3.78% in 2023. For wave analysts, this decline from 4.99% to 3.68% is made of three large waves and is viewed as a correction of the main rise in five waves from the all-time low in April 2020 at 0.39% to 4.99% in the fall of 2023. Therefore, after mid-September, as the US 10-year yield started to rebound above the psychological level of 4% along with rising momentum (a crossing-up MACD and rising STO), it is legitimate for these market analysts to envision that this recent strong rebound could be the beginning of a new uptrend in the same direction and amplitude as the rise from 0.39% to 4.99%.

In the enlargement of the chart below, the US 10-year yield has recently risen back above the flat 40-week moving average (4.18%) and close above the lower Ichimoku Cloud (4.14%), but it remains within the one-year-wide Bull Flag, whose upper boundary is near 4.35%. Failure to break above 4.35% and an overbought STO may lead to a pause of 4.35-4.00%, preceding a new major up-leg above 4.35% toward 5%, and higher, much later toward 6.10-8.40%.

However, such a scenario does not seem to square with the narrative that a return to a disinverted yield curve, as displayed on the Upper Panel with a spread of the 10-year minus the 2-year back above zero, has historically announced a coming economic slowdown (fear of recession) as during such a period yields are declining. Considering the long-term cycle of interest rates, from their peak in the early 1980s to their low in 2020, there is a risk, in our opinion, that the rise in the yields from their low in 2020 to a first peak in 2023 was only the first wave of a major three- or five-wave sequence!

Chart: *US 10-year yield*
The US 10-year yield in weekly candlesticks with a 20-week moving average surrounded by 2 narrowing Bollinger Bands (3.57 & 4.45%). The Ichimoku Cloud whose upper band should offer resistance near 4.35%, while the again-rising 40-week MA has recently broken at 4.18%.

Upper panel: *The spread of the US 10-year minus the 2-year (***black solid line***), rebounding above zero, as the yield curve is disinverting and the US$ Index rebounding in October (***brown dotted line***).*

Lower panel: *Both momentum indicators—the Slow Stochastic rising into the overbought area, and the crossing-up MACD—suggest the launch of a potential new uptrend.*

Source of data: *Stockcharts.com*
Analysis by BEST