AAII Survey: Most Retail Investors Indifferent to Rising Bond Yields

Recently, a lot of attention was paid to the fact that the 10-Year Treasury yield hit 3% for the first time since early 2014. At the shorter end of the maturity range, though, rates have been increasing even faster. The has caused market watchers to fret over the so-called “yield spread.” The spread between the 2-year and 10-year Treasury yields has narrowed to its lowest level since late 2007, just before the 2008 stock market crash. The tightening of the yield spread is what is called a flattening of the yield curve, where there is little difference between short-term and long-term rates for bonds of the same credit quality. A flat yield curve is a prelude to an inverted yield curve which, historically, has boded ill for the U.S. economy and the stock market.

This type of yield curve is often seen during transitions between normal and inverted curves. The yield curve becomes inverted when short-term yields rise above longer-term yields—the yield spread turns negative. The spread between the 2-year and 10-year Treasury yields recently fell below 50 basis points, worrying some investors that it will soon be negative. According to analysis from Schaeffer’s Investment Research, the last two major market tops occurred when the spread was below zero.

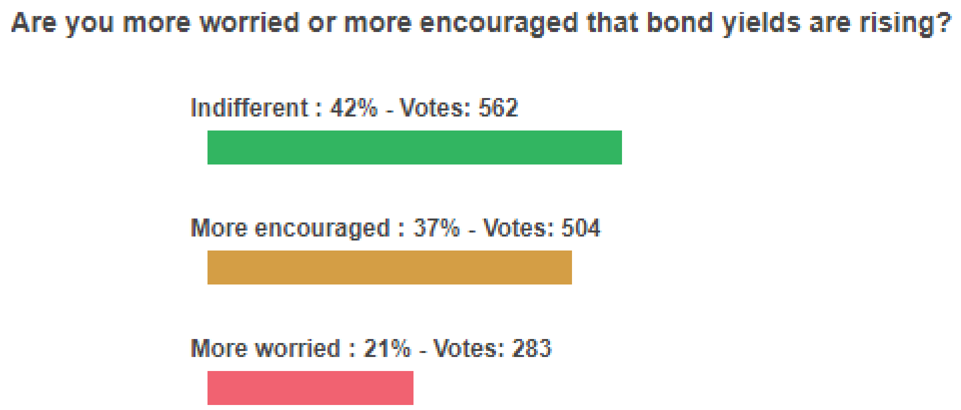
AAII Weekly Survey Question

Many of our readers have bemoaned the ultra-low interest rates that have marked the last decade. It has robbed retirees and more risk-averse investors a source of safe and reliable investment income. So, we would expect, they would be pleased with rising rates.

To see if this assumption is correct, last week’s survey question asked:

> **Are you more worried or more encouraged that bond yields are rising?**

Here are the results:



In all, 1,349 readers participated.

We were surprised to see that the biggest block of respondents, 42%, are indifferent to rising bond yields. Another 37% are encouraged by the rising yields and the remaining 21% are worried by rising bond yields.

Weekly Special Question

To get a better idea of why our readers answered the way they did to last week's survey question, we followed up with this special question:

> Why do you view rising bond yields in either a positive or negative light?

In all, we received 239 responses.

Among these responses, the "positives" outnumbered the "negatives" exactly two to one.

For those readers who are encouraged by rising bond yields, the answers generally fell into a few silos:

- Rising bond yields are an indication of an improving economy
- Rising bond yields are an indication of "rate normalization" by the Federal Reserve
- Rising bond yields provide higher income, greater supplemental income
- Rising bond yields give the Federal Reserve more flexibility, room to maneuver

Among the responses from readers who are worried about rising bond yields, many of the responses fell into these groups:

- Rising bond yields hurt bond prices
- Rising bond yields increase the cost of borrowing and servicing debt
- Rising bond yields are an indication of rising inflation

Roughly 16% of the answers we received to the special question cited indifference to rising bond yields.

Here is a sampling of the responses readers offered regarding whether they view rising bond yields in either a positive or negative light:

- "I need higher yields."
- "I view rising bond yields in today's situation as positive since it means that, finally, the Fed is starting to get it right."
- "Negative because with the rise in yields, the value is going down."
- "Positive: Implies an improving economy is anticipated."
- "The cost of living price rises and many lower-income people out of the housing market and slows the appreciation of stocks for investors."
- "(1) Our economy is getting stronger, (2) the rates have been too artificially low, for too long."
- "Concerned about the increase and increased debt service costs on leveraged companies that will have insufficient income to cover the increased cost."
- "Rising rates gives the feds more flexibility in the next downturn."
- "I believe rising bond yields, especially Treasuries, will increase the national debt, put the stock market into a decline and stress the economy."

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at www.aaii.com/memberquestion.