

# TLT: The Bond Rally Has More Room To Run

Jan. 15, 2024 9:27 PM ET | iShares 20+ Year Treasury Bond ETF (TLT) | SPY | 25 Comments | 19 Likes



**Wright's Research**

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## About this article

Ticker <b>TLT</b>	Analyst rating BUY	Price at publication <b>\$95.62</b>	Last price <b>\$93.78</b>	Change since publication <b>-1.92%</b>	S&P 500 change since publication <b>2.49%</b>
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## Summary

Long-dated bonds rebounded impressively after a 50% decline in two years while still offering an attractive investment opportunity.

A notable billionaire bond investor is also bullish on TLT, expressing optimism about long bonds amid the possibility of a shift from a 40-year bull market to a bear market.

We believe TLT is well positioned for gains in the short to medium term given the potential challenges associated with increased interest expenditures and a presumed recession.

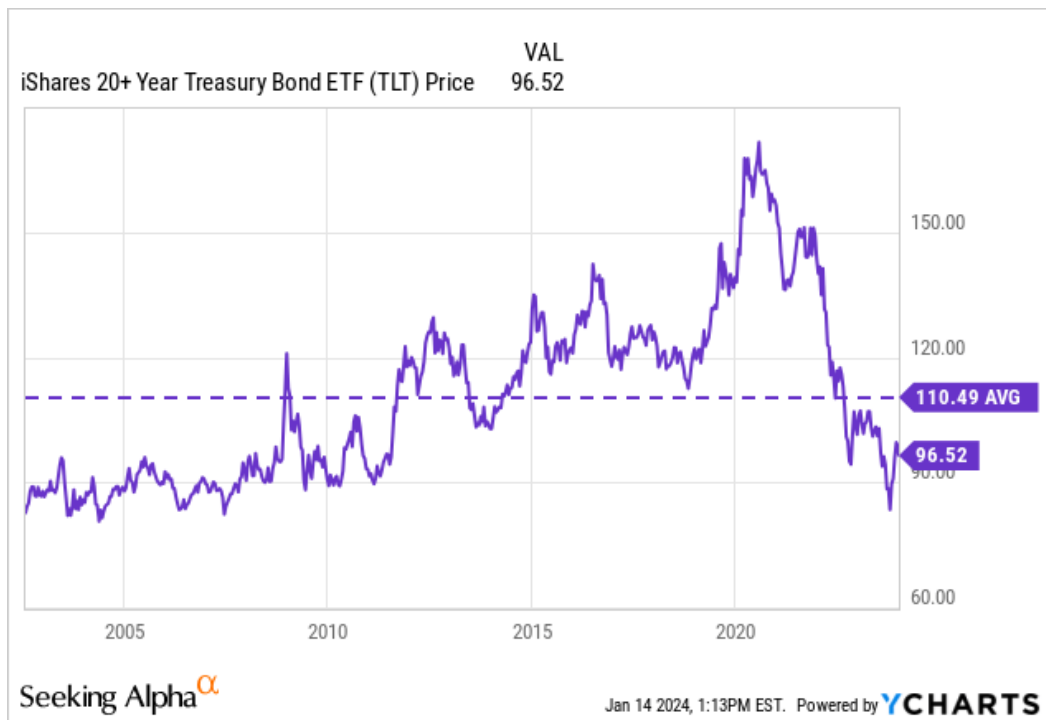


richcano

## Investment Thesis

The [iShares 20+ Year Treasury Bond ETF \(NASDAQ:TLT\)](#) has had a tumultuous few years, plunging 50% in less than two years from \$160 to \$80 before rebounding to \$96.52. And while the recent rally has already given investors some decent gains, we believe there is still plenty of upside, particularly relative to the S&P 500 ([SPY](#)), which is closing in on all-time highs.

We also believe that although bonds have moved from a secular bull market to a secular bear market, there may soon be room for a final rally. This article discusses the drivers of a recession that we believe will drive this final rally in long-term bonds, which is bullish for TLT in the short to medium term.



Data by YCharts

## The 40-Year Paradigm Shift

Let's start with the fact that in the credit-driven economy in which we find ourselves today, everything revolves around debt and at what interest rate that debt is currently floating. And [over the past 40 years](#), many important investment decisions have been made based on the 40-year bull market in Treasury bonds that began in the 1980s.

Since the 1980s, interest rates have fallen across the board, steadily and perfectly within the confines of a trading channel if we look at 10- and 30-year rates, for example. During this period, most market participants enjoyed financing at lower rates, from households with mortgages to corporations for their business loans and the U.S. government with the national debt. It is plausible that this mechanism pushed asset prices, including equities, higher and drove investors out on the risk curve in search of higher yields. Since last year, however, this near-perfect bull market seems to have come to an end, as interest rates have soared and broken out of the trend channel.

So now that this 40-year bond bull market has broken out of its trend channel, the question investors may need to ask is whether interest rates will go up rather than down in the next secular cycle. People often expect interest rates to fall and stay low during a recession, as has been the case for the past 25 years. But as Mark Twain's famous quote goes:

“It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so. “ – Mark Twain



TradingView, Wright's Research

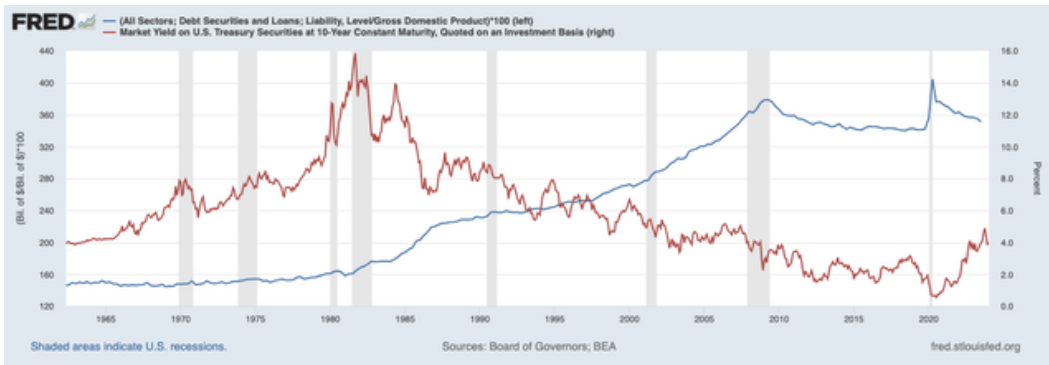
While many asset investors have expected interest rates to be lower in the long run, as they have been for decades, this mechanism that has lifted asset prices may be coming to an end as funding costs appear to be heading north. Therefore, the above chart of the 40-year bull market trend, which we believe is coming to an end, may be the most important chart of the year.

Ultimately, interest rates dictate the time value of money or discount rates. And because the U.S. Treasury market is the **largest financial market** in the world when it comes to bonds, it dictates everything from mortgage rates in the housing market to corporate spending, government spending, and the financing of personal spending. Like billionaire bond investor Jeffrey Gundlach would say:

When you've been around for 40 years you think you've learned stuff, right? You think that you understand relationships. You can tap into your experience and how things interrelate and act. But what if your experience is all informed by a secular Trend that isn't in place anymore? (-[Jeffrey Gundlach](#))

One thing to consider when looking at long-term interest rates is the amount of debt that is currently in the system. From a U.S. government debt perspective, the debt-to-GDP ratio is at an all-time high of about 120%, which is the highest it has been since 1946, right after World War II. And if we were to take into account other sources of debt, such as household and corporate debt, we would get to 350% of GDP.

So if we take into account the amount of debt in the system, both public and private debt, we really have a Volcker-like spike this time around. As you can see in the chart below, the 10-year rate also fell as the total debt to GDP ratio rose from 150% to 350%.



**Federal Reserve (FRED)**

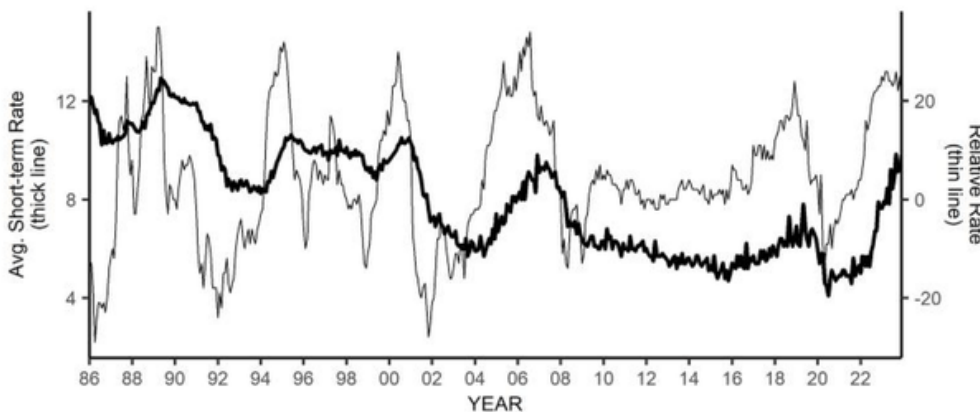
Real returns, or inflation-adjusted returns, have also fallen over the past 25 years, which we also think is reasonable given the rise to 350% debt to GDP. Only in recent months have [real yields](#) on the 10-year treasury closed above 2% for the first time since 2008, which we would consider extremely regressive.

An economy with very high debt and at the same time high real rates of return should mean that the amount of wealth transferred from borrowers to lenders is immense and, in our view, puts enormous pressure on the economy. This may not be a problem for large companies like those that make up the "Magnificent 7" because they have large cash reserves on their balance sheets to weather bad economic times.

But smaller companies that employ a large portion of the workforce are certainly starting to feel it. Some notorious companies that have already gone bankrupt in this high interest rate regime include WeWork ([OTC:WEWKQ](#)), Bed Bath & Beyond ([OTCPK:BBBYQ](#)), Rite Aid ([OTC:RADCQ](#)), and numerous SPACs. According to [the NFIB](#), the average short-term interest rate for small businesses is about 9.8%, while on a relative scale, interest rates are at the most restrictive level they have been in decades.

**INTEREST RATES**

Relative Rates and Actual Rates Last Three Months  
January 1986 to December 2023



**National Federation of Independent Business (NFIB)**

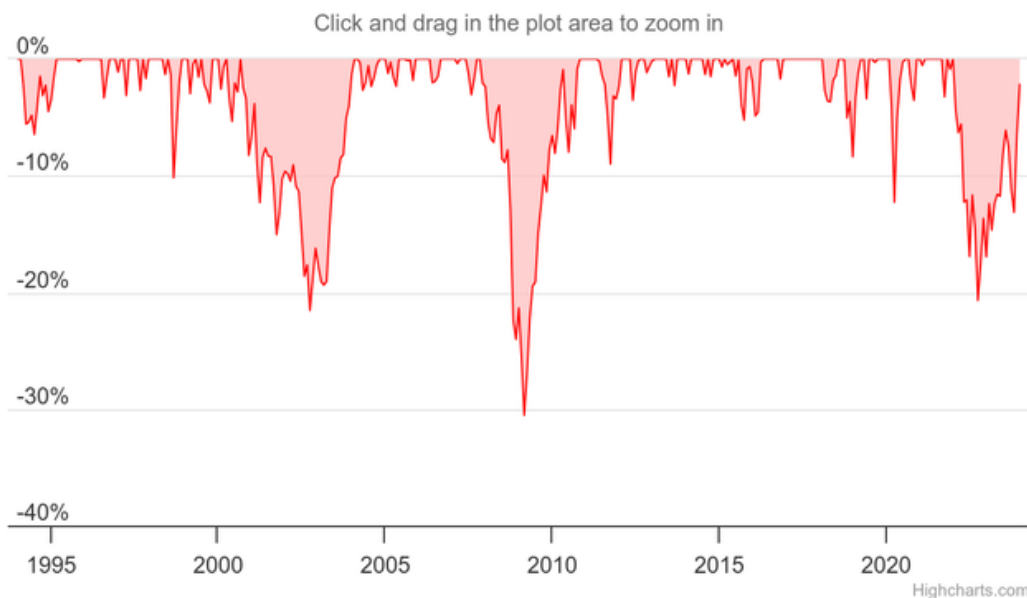
In July 2021, the [yield on 30-year TIPS](#), or Treasury Inflation Protected Securities, hit a low of -1.67%. This is while investors can currently lock in a 30-year inflation-protected yield of nearly 2%, the highest yield in roughly two decades. Like the current yield on 30-year Treasuries, we believe TIPS is currently a bargain in a period of uncertainty about future growth and inflation.



Federal Reserve (FRED)

From our perspective, we would like to believe that we could be in a secular bear market for Treasuries with rising rates. But even if that were the case, we think the current rise in long-term rates is far too steep. For context, the 50% drop in the bond market through last year was [the worst in history](#) or the worst year [since 1871](#).

These are the same levels of extreme declines seen in stocks during a severe recession, even though bonds are supposed to provide protection in a traditional [60/40 portfolio](#). This type of portfolio, and especially a leveraged version of the portfolio, performed extremely poorly in 2022 and 2023, suffering losses similar to 2008 and 2000, largely due to losses in long-term bonds.



60/40 Bond Portfolio Drawdown (Highcharts)

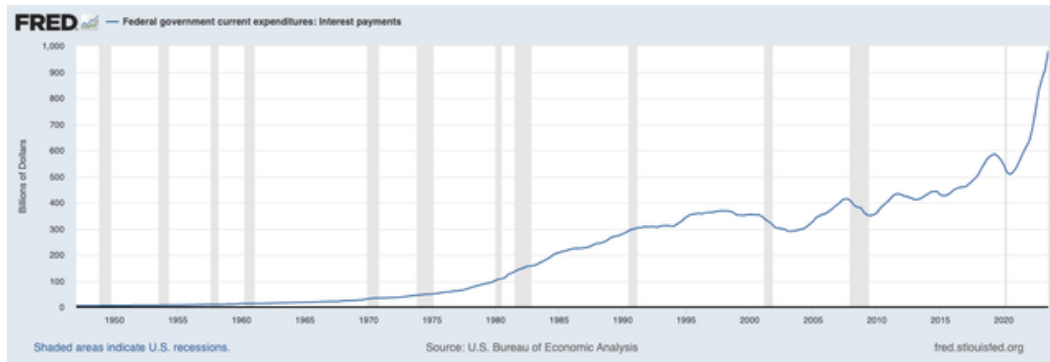
The notion of higher bond yields without a meaningful reduction in the level of debt in the economy is again problematic on a number of levels, particularly on the fiscal front. After all, the last time government debt was this high relative to GDP, starting after World War II and ending with Volcker in the early 1980s, the United States reduced its debt burden from 120% of GDP to just 30% at its low point in the 1970s.

They did this initially by keeping interest rates [low after World War II](#), even though there was [rampant double-digit inflation](#) for several years. In the decades that followed, the U.S. also showed fiscal restraint with budget surpluses or only very small deficits. This is very different from today, where we see high interest rates, and high debt, and are running budget deficits similar to the ones we saw during the 2008 financial crisis.

## Higher For Longer?

Which brings us to the point that the mantra of "higher for longer" presents some serious [underlying problems](#). First, [interest expense](#) on the federal government's \$32.3T worth of debt is currently \$981.31BN, or just over 3%. Second, the average maturity of this debt is about 72 months or 6 years. Adding the debt on the [Fed's balance sheet](#), it is more like 53 months.

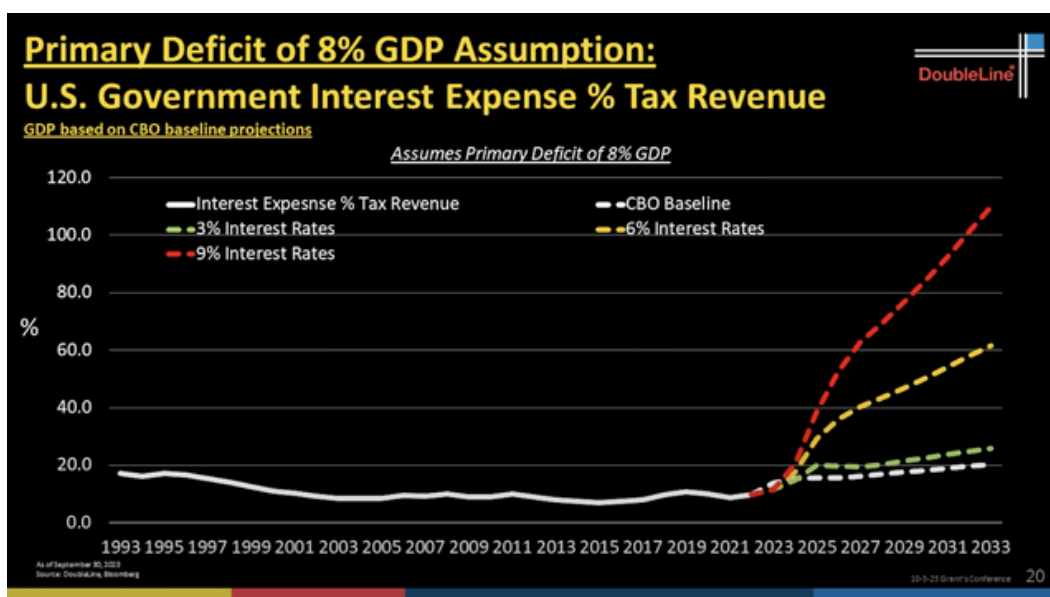
So in the next 36 months, about half of that \$32.3T will [have to be refinanced](#) at higher interest rates, and since some of that debt was financed at extremely low interest rates in 2021, [interest payments](#) should continue to rise significantly. If interest rates really stay "higher" for longer, say at 5%, the US would pay nearly \$1.62 billion in interest charges on that debt, on top of the current, already immense \$981.31 billion in interest charges.



Federal Reserve (FRED)

Billionaire bond investor Jeffrey Gundlach recently did the math and took the Congressional Budget Office (CBO) estimates, which include an assumption of a 4% deficit, and looked at what interest costs look like at a 6% interest rate. According to these estimates, in 10 years, more than 40% of tax revenues could go to interest costs alone. And since mandatory spending makes up 60-70% of the budget, this would mean that there would be virtually no budget left for discretionary spending like defense.

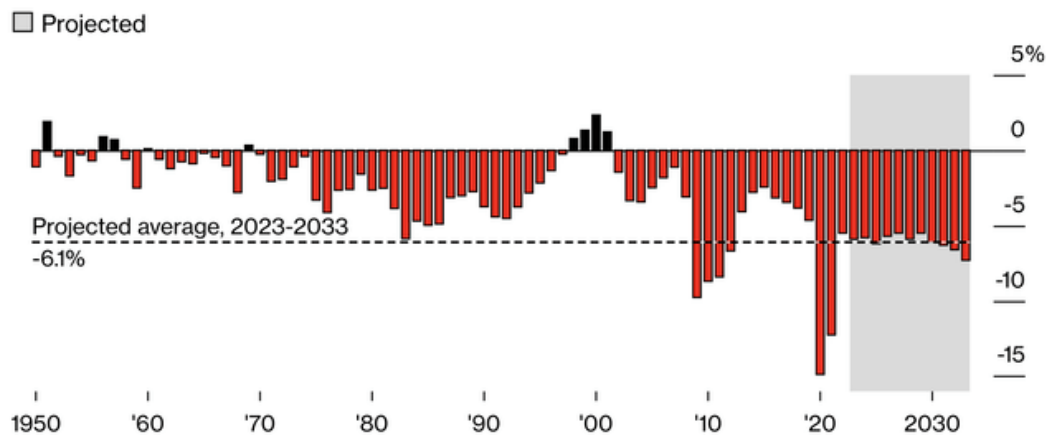
Since we also think a recession is likely, we would not be surprised if the deficit [is actually larger](#) and closer to 8%, at which point with an interest rate of 6%, about 60% of tax revenue would go to interest expenses, which would be a huge problem. After all, the [deficit as a share of GDP](#) was already 6.3% in 2023, when the US was not even in a recession.



Even the CBO itself acknowledges this fiscal doom loop and predicts that deficits are unlikely to decline over the next decade. When interest rates were near 0%, this fiscal spending was possible because interest costs did not yet seem to be a problem. It does appear that the market has recently slowed fiscal spending with a return of [bond vigilantes](#) after the inflationary surge in 2022.

Our biggest concern would be that during the next recession, the fiscal impulse would be so great that the resulting inflationary impulse would actually confirm the thesis that long-term bond yields are moving higher. And longer higher would mean that we would have a huge interest rate problem, as outlined earlier.

## US Budget Balance as Share of GDP



Sources: Congressional Budget Office, Office of Management and Budget

Bloomberg

## One Last Rally

Therefore, before bonds enter a bear market from their 40-year secular bull market, our view is that there will be a final rally in the next recession. [Many indicators](#) that we see popping up still point toward a recession, probably within the next few quarters.

One of them, for example, is the yield curve, which is turning away after being inverted for a long time, which previously always pointed to a recession. The [2-year 10-year spread](#) has shrunk from -1.06% in June 2023 to -0.21% already. We only expect the Federal Reserve to be reactive rather than proactive if a recession is imminent, and to cut interest rates sharply if unemployment rises for reasons previously mentioned and while interest rate delays work through the system. [On Friday](#), the 2-year 30-year treasury spread even un-inverted, which we believe is another signal that a recession is forthcoming in the coming quarters.



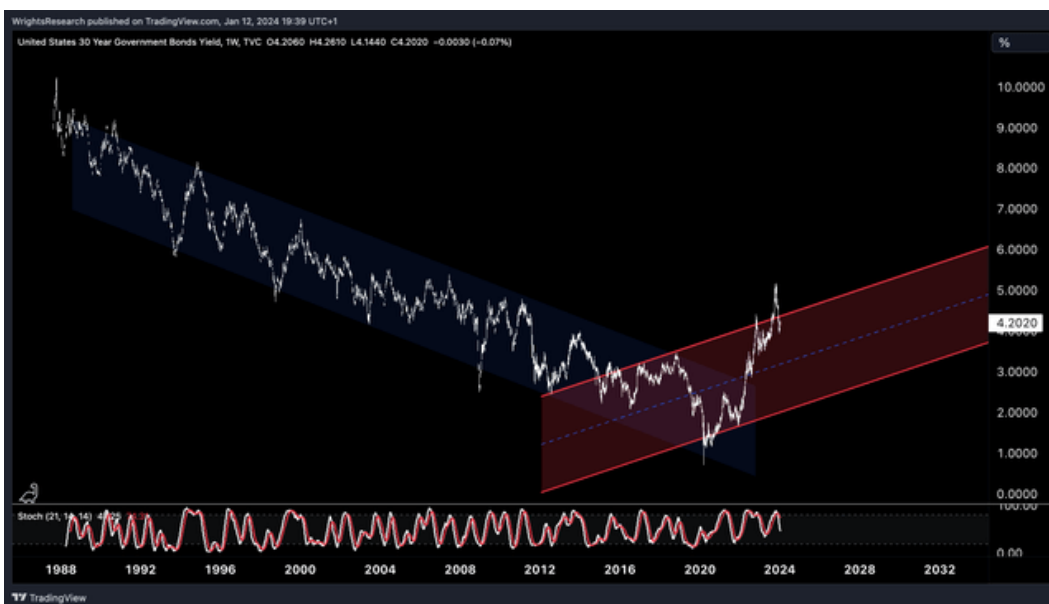
Federal Reserve (FRED)

Consumption has held up so far, although consumer confidence is still low, and both the [personal savings rate](#) and total personal savings are also at very low levels, lower than the 2010-2020 baseline. Consumer [revolving credit](#), such as credit cards, is at a record high and has actually risen above the previous trend line, despite all the fiscal stimulus in 2020 and 2021 and even while interest rates have risen to record levels. Hence, we are not so sure that consumer spending is on a healthy path because we think consumers have not yet run out of spending power due to being credit-driven and spending at the expense of personal savings.



Federal Reserve (FRED)

Taking the above data into account, we think the long bond has the chance for a final rally, with TLT returning to at least \$120 in the short to medium term. This would put the average yield to maturity on TLT around 3%. This is also consistent with a technical perspective, where we think the 30-year bond is still oversold. At a 3% yield on the 30-year bond, we would be back in the middle of the trading range and out of the oversold territory the bond is currently in. We think this is just the beginning of a pullback after the huge rise from 1.7% in January 2022 to 5.16% within 24 months. A rise from \$96.52 to \$120 still represents an upside of 24.33% from current prices.



TradingView, Wright's Research

## The Bottom Line

While bonds in the big picture may be going "higher for longer" as bond vigilantes look to control fiscal spending, we currently think a recession and lower interest rates are still the base case scenario for 2024. The sell-off in the long-bond, which has given investors a 50% loss from peak to trough over the past 2 years, is still [demonstrably overextended](#) and should continue to rally, in our view.

With a 40% drop from all-time highs, we would much rather buy long-bonds than the S&P 500, which we believe is currently seriously overvalued in the wake of a recession with a [Shiller P/E ratio](#) of 32.21 and a [normal P/E ratio](#) of 25.97 for the 12 months ahead. In our opinion, any pullback from here should be seen as an opportunity to increase exposure to long bonds.

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This article was written by



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## Comments (25)

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Investing Group | Comments (11.79K) | + Follow

1. Don't risk a poor outcome by trying to forecast interest rates. The portfolio with the least amount of uncertainty is a portfolio with a duration that matches your UNIQUE investment horizon.

Two investors who own the exact same fund can have entirely different experiences. It is entirely dependent on whether he/she has aligned their duration with their investment horizon.

2. Start with an estimate of your investment horizon in mind, and then pick funds / ETFs with a overall (blended) duration that aligns.

-If your fund's duration is longer than your investment horizon, you are exposed to interest rate risk.

-If your fund's duration is shorter than your investment horizon, you are exposed to re-investment risk.

-When the fund's duration is very close to your investment horizon, it is "immunized" from interest rate changes.

3. Most investors can reduce portfolio clutter by using an intermediate duration bond fund along side a long-duration bond fund.

Example: Consider pairing TLT with IEF.

Durations

TLT : 16.9 yrs

IEF: 7.4 yrs

Rule-of thumb formula:

The percentage (%) to allocate to the longer duration fund is:

$(H-S) / (L-S)$ .

Key:

H = Investment horizon\*

L = Duration of the longest term fund

S = Duration of the shortest term fund

4. The investor will still need to make an active choice about selling down assets and/or re-investing payments to cover the liabilities and to maintain the duration match.

In practice, that means withdrawing what you need and then re-balancing to make sure the duration of the portfolio continues to match the duration of your remaining liabilities.

As long as you do this, the portfolio remains "immunized" against interest rate risk.

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\*A few examples of estimates of various investment horizons are below . Assumptions:

a) Standard retirement at 65 and

b) Possible life expectancy to age 90 (see calculator at link)

[www.blueprintincome.com/...](http://www.blueprintincome.com/...)

40 years old:  $(90-65) / 2 + (65-40) = 37.5$  yrs

50 years old:  $(90-65) / 2 + (65-50) = 27.5$  yrs

60 years old:  $(90-65) / 2 + (65-60) = 17.5$  yrs

65 years old:  $(90-65) / 2 = 12.5$  yrs

70 years old :  $(90-70) / 2 = 10$  yrs

75 years old :  $(90-75) / 2 = 7.5$  yrs (*edited*)

[↩ Reply](#)

[Like \(8\)](#)

B

**billwilliams836**

16 Jan. 2024, 8:52 AM

[Investing Group](#) [Comments \(909\)](#) | [+ Follow](#)

[@Lake OZ boater](#) I keep it strategically simple with a mix: SCHO, TLT, AGG. Slowly reallocating to extend duration tactically.

[↩ Reply](#)

[👍 Like \(1\)](#)



**Lake OZ boater**

16 Jan. 2024, 9:07 AM

[Investing Group](#) [Comments \(11.79K\)](#) | [+ Follow](#)

[@billwilliams836](#)

The only reason to own bonds with a duration shorter than one's investment time horizon is because you want to make a speculative bet on the future changes in bond prices.

Market timing with bonds is more difficult than with stocks. The total return of a bond (or bond fund) over the length of its starting duration is fairly predictable.

Future changes in 'real' (after inflation) yields are not. Real bond yields show little evidence of mean reversion.

No one knows if 'real' yields will eventually go up or, if they do, when and by how much. And in the absence of that knowledge, it's impossible to hedge in short-term bonds, esp. when most investor's have a LONG-TERM term investment horizon.

In the 2001 paper "Risk Aversion and Allocation to Long Term Bonds" ([link](#)), Watcher mathematically proves each investor with time ("T") should prefer an investment with duration ("D"), a strategy known as duration-targeting (aka "immunization").

Key passage:

"Simply put, high risk aversion leads investors to choose a consumption policy that is certain. A long-term bond is the asset that replicates the payoff of this certain consumption policy. This paper offers a formal proof of this intuition...While the proof requires that markets be complete, it does not require specific assumptions on the behavior...of the investment opportunity set, nor on the form of the investor's utility function."

[papers.ssrn.com/...](#) *(edited)*

[↩ Reply](#)

[👍 Like \(4\)](#)



## Great Swami

15 Jan. 2024, 11:29 PM

Premium Investing Group Comments (1.94K) | + Follow

This is the way I'm positioned and feel pretty comfortable of short term success (12-24 months). Longer term I have no idea. There are two powerful forces pushing and pulling long term rates in opposite directions. The sheer level of debt m, the large maturities that need to be rolled, and the new debt that needs to be issued, all would seem to be a huge force to push rates higher. On the other hand the growing weight of all debt; Federal, State, Local, corporate, and consumer, seems to me could smother the economy and higher rates would make it doubly so. Then I look at Japan. They have been running debt/ GDP ratios much higher than ours and rates are still low there in spite of it. Add in the reserve currency status of the \$ and the world wide calamity that would ensue with high US rates, seem just as powerful a force in the opposite direction. If I was forced to choose, I think sideways with a bias to the downside will prevail. The world cannot support higher for longer. The entire world wide economy would seize up.

[↩ Reply](#) [👍 Like \(3\)](#)



## bale002

16 Jan. 2024, 4:48 AM

Investing Group Comments (1.49K) | + Follow

I could see TLT rallying above 100 at some point this year on data, market and policy-expectations volatility, but I am not so convinced of an obvious recession, in the sense of a large spike in unemployment, that would trigger a 100-200 bps cut in policy rates in 2024.

Beyond that I have no idea, but my gut-feeling consensus is sticky and volatile for longer. Meaning something like inflation bouncing around in a 2.5%-4% range, policy rates in a 3.5%-6% range, and manufacturing returning to US soil in dribs and drabs here and there depending on sector while at the same time diversifying away from China in dribs and drabs here and there towards other Asian countries and maybe some Mexico and other Latin America, accompanied by a gradual downshift in the USD's role as global reserve currency.

In other words, a continuation of current trends.

Barring, of course, any major shocks like a major fiasco in one of the umpteenth for-profit military ventures abroad, some destructive domestic politico-military conflict, natural disaster, or public health disaster natural or not, or something else.

Any shock that suddenly jolts the economy on US soil away from debt-based and a return own-hands production-based would be painful, but a god-send nonetheless. Better if planned and gradual.

Don't hold your breath.

Good Luck!

[↩ Reply](#) [👍 Like \(3\)](#)

T

T-800

16 Jan. 2024, 12:32 PM

Premium Comments (2) | + Follow

Logical analysis. Every member of congress should be required to read this, or in some cases have it read to them.

[Reply](#) [Like \(5\)](#)



**Gustave Eiffel**

16 Jan. 2024, 6:00 PM

Premium Comments (242) | + Follow

Thanks for your contribution. The notion of immediate interest rate reductions is, dare I say, wishful thinking. The current economic climate, defined by robust employment figures and very sticky inflation, makes such a scenario highly improbable. Whilst achieving a 2% inflation target would be undoubtedly a positive development, it doesn't automatically translate to the Fed easing its grip on monetary policy. The era of easy money has drawn to a close, and we must adjust our expectations accordingly. Expecting a quick return to lower rates is akin to seeking solace in a fantasy world; the reality demands a more sober outlook and an acknowledgment that adapting to a tighter economic environment and higher interest rates is the new challenge we face.

[Reply](#) [Like \(5\)](#)



**Code Talker Market Analysis**

16 Jan. 2024, 6:12 PM

Comments (8.22K) | + Follow

There are two ways \$TLT increases in price/decreases in yield.

- 1) Fed cuts.
- 2) Market sees recession and flight to safety to bonds.

I see 2 then 1 in short order.

1 is constrained as they need to look responsible to inflation, so they're [the Fed is] probably trying to make a case for cuts out of what comes before Jan FOMC.

The forward looking indicators are looking sloppy [Chicago PMI, Empire index], and so everyone knows what is coming next-- the bond market will figure it out next [SPY is figure it out now] and then the Fed will make a move.

My take. *(edited)*

[Reply](#) [Like \(4\)](#)



## Lake OZ boater

16 Jan. 2024, 6:26 PM

Investing Group | Comments (11.79K) | + Follow

[@Code Talker Market Analysis](#) "There are two ways \$TLT increases in price/decreases in yield. 1) Fed cuts. 2) Market sees recession and flight to safety to bonds."

Perhaps an oversight or embedded in #2? i.e. What about inflation?

Bonds have a standard, known as the Fisher equation.

Consistent with well-established and thoroughly vetted theory, the economic value of long-term Treasury bonds is determined by the relationship between the nominal yield and inflationary expectations, or the real (after inflation) yield.

Short-term moves in the bond market are based on investor psychology and trading programs. But over the long-term, bonds, especially long-term treasuries, respond to the fundamentals.

Fortunately for most of us, we have very long investment horizons, and should stay the course with our L-T treasuries.

[Reply](#) [Like \(3\)](#)



## Code Talker Market Analysis

16 Jan. 2024, 7:50 PM

Comments (8.22K) | + Follow

[@Lake OZ boater](#)

Thanks for the comments.

Inflation, I thought, made t bonds grow less in price more in yield due to the Fed fighting inflation with hikes.

I'm currently using t bonds as a hedge against an impending recession and/or Fed cutting when/as inflation fight is over.

Please tell me the very long investment horizon thesis? I've always associated bonds like the ones I'm holding as a hedge to be helpful in a non-hedging way to people holding a lot more funds than I do personally.

[Reply](#) [Like \(1\)](#)



@Code Talker Market Analysis " Please tell me the very long investment horizon thesis?"

I don't know if I'd call it a thesis. Duration-matching is a decades old practice used by the financial planning industry. Here's an executive summary...

1. You have an investing horizon, that is unique to you. It is basically the 'duration' of your spending needs. You can think of it also as the mid-point of your future spending. A few examples...

Assumptions:

- a) Standard retirement at 65 and
- b) Possible life expectancy to age 90 (see calculator at link)

[www.blueprintincome.com/...](http://www.blueprintincome.com/...)

40 years old:  $(90-65) / 2 + (65-40) = 37.5$  yrs

50 years old:  $(90-65) / 2 + (65-50) = 27.5$  yrs

60 years old:  $(90-65) / 2 + (65-60) = 17.5$  yrs

65 years old:  $(90-65) / 2 = 12.5$  yrs

70 years old :  $(90-70) / 2 = 10$  yrs

75 years old :  $(90-75) / 2 = 7.5$  yrs

You get the idea.

2. You face two (2) risks as a treasury bond investor, i.e.

- 1) Interest rate risk: Everyone knows about this one.
- 2) Re-investment risk: Rarely does anyone mention this one.

Once your investing dollars leave your MMF and buy into bond funds, those dollars become subject to those two above mentioned risks.

Solution: The bond portfolio with the least amount of uncertainty is a portfolio with a duration that matches the investment horizon

3. Based on your estimated investment horizon, does your current bond allocation generally have a duration that matches your investing horizon?

The only reason to own bonds with a duration shorter than your investment time horizon is because you are making a speculative bet on the future changes in bond prices. It's really nothing more than market timing.

Not only can't the typical small investor do this well consistently, but timing schemes come with higher risk. The investor is exposing their future consumption to more re-investment risk and inflation risk with a duration mismatch.

4. Support from the finance literature for holding L-T treasuries:

In the paper "Risk Aversion and Allocation to Long Term Bonds", Professor Wachter suggests that for each investor with time ("T") it is logical that they should prefer an investment with duration ("D"), a strategy known as duration targeting. From the article:

"Simply put, high risk aversion leads investors to choose a consumption policy that is certain. A long-term bond is the asset that replicates the payoff of this certain consumption policy. This paper offers a formal proof of this

is the asset that replicates the payoff of the certain consumption policy. This paper offers a formal proof of this intuition...While the proof requires that markets be complete, it does not require specific assumptions on the behavior of the investment opportunity set, nor on the form of the investor's utility function."

[papers.ssrn.com/...](https://papers.ssrn.com/...)

For a deeper dive, also see: "Understanding Fixed-Income Risk and Return"

[www.cfainstitute.org/...](https://www.cfainstitute.org/...)

5. A fixed-income investor can use bond funds and ETFs with confidence. Provided they will be periodically re-balancing which keeps their investment horizon aligned with the duration. By doing that, he/she can achieve the same outcome as a bond ladder.

Most investors can get by with two (2) bond funds, or one bond fund and a MMF. For consideration, here's a simple formula that can help an investor with the percentage (%) to allocate the long-duration fund:

$$= (H-S) / (L-S).$$

Key:

H = Investment horizon\*

L = Duration of the longest term fund

S = Duration of the shortest term fund

Hope this lends some additional perspective. *(edited)*

[↩ Reply](#)

[Like \(2\)](#)



**Code Talker Market Analysis**

16 Jan. 2024, 10:21 PM

Comments (8.22K) | [+ Follow](#)

[@Lake OZ boater](#) Thanks for the help! Very clear and instructive.

[↩ Reply](#)

[Like \(1\)](#)



**MWinMD**

16 Jan. 2024, 6:19 PM

Investing Group | Comments (9.04K) | [+ Follow](#)

Whew! That was a marathon of analysis. Thanks for the piece, although it seems like a bit of market-timing to say that secularly we're heading into a bond bear market but first there's 20% of upside to harvest.

[↩ Reply](#)

[Like \(2\)](#)



**Josh Klein**

16 Jan. 2024, 10:29 PM

Analyst Investing Group Comments (1K) | + Follow

I really don't see how bonds rally at all. Inflation is uber sticky and everyone knows it. I don't see why anyone would want to buy a 20 year bond at 3% when your real yield would likely be -3%. Inflation takes years to run its course. I am short TLT and think we see a 5% rate sometime this year (if not higher).

The fed can control short term rates, but if they cut this year, they'll be cutting into low unemployment, a hot resi real estate market and just in time for short duration bonds to refi. Inflation will surely ramp up again.

My position is long commodities, long bitcoin, short TLT. I think that will work nicely this year.

[↩ Reply](#) [👍 Like \(5\)](#)



**Lake OZ boater**

16 Jan. 2024, 10:56 PM

Investing Group Comments (11.79K) | + Follow

[@Josh Klein](#) "I don't see why anyone would want to buy a 20 year bond at 3% when your real yield would likely be -3%."

The 'real' yield of L-T treasuries is too volatile to measure in present time. It might be useful to test your conventional wisdom and see if it is supported by the research.

See: [How Well Do U.S. Treasury Yields Forecast Inflation? An Update Through December 29, 2023](#)

Key excerpt: "We showed in a recent post on Seeking Alpha that, on average, investors have almost always done better by buying long term bonds than by rolling over short term Treasury bills. That means that market participants have generally (but not always) been accurate in forecasting future inflation and adding a risk premium to that forecast."

[seekingalpha.com/...](#)

Before you write-off the findings, consider the source...

" Dr. Donald R. van Deventer has been in the risk management business since completing his Ph.D. in Business Economics at Harvard University in 1977. He founded the Kamakura Corporation in 1990 after 13 years with two of the 10 largest banks in the US and a stint as investment banker in Tokyo. He joined SAS Institute Inc. as co-head, of the Center for Applied Quantitative Finance in 2022 when SAS acquired Kamakura Corporation. At the time Kamakura was acquired by SAS, Kamakura's institutional clients had total assets or assets under management of 48 trillion dollars."

Do you have comparable credentials and real world experience? Now you have better information to determine your odds for success given your personal forecast for negative real yields.

Good luck with your plan. *(edited)*

[↩ Reply](#) [👍 Like \(6\)](#)



## Kent Thune

17 Jan. 2024, 11:29 AM

Analyst Investing Group Comments (1.01K) | + Follow

[@Josh Klein](#) I don't know of any traders buying TLT for the yield. I bought ZROZ (more rate-sensitive than TLT) last year and did quite well. I'll continue holding long bond ETFs in 2024 as a recession hedge. Not that you asked my opinion, I think your short position in TLT could do well in the short term, but I wouldn't keep that bet more than a few months. If you look at "canary in the coalmine" signs, such as office occupancy rates at all-time lows and credit card debt at all-time highs, you won't get an inflationary environment out of that.

Also, the largest contributor to CPI, shelter costs, are highly expected to decline in the months ahead. According to SA's Damir Tokic, "BLS data showed that the new tenant rent index is back to the 2-3% annual rate, and this is the leading indicator of future shelter inflation... Thus, we can expect that shelter inflation will fall over the next six months, and keep the disinflationary process intact."

Investors are wise to look at what's coming, not what the Fed looks at, which is backward data.

I see a dip in TLT as a buying opportunity (or at least a holding one).

One final point: Today's data is for December. Economic reports don't factor in consumer psychology. I believe December (holiday spending) is the end of the post-Covid buying spree. January and February are likely to look much different.

We'll see what happens in about two or three months.

[↩ Reply](#) [👍 Like \(7\)](#)



## Code Talker Market Analysis

17 Jan. 2024, 8:11 PM

Comments (8.22K) | + Follow

[@Kent Thune](#) Yes, my thesis agrees with yours.

[↩ Reply](#) [👍 Like \(1\)](#)



## Josh Klein

17 Jan. 2024, 8:21 PM

Analyst Investing Group Comments (1K) | + Follow

[@Code Talker Market Analysis](#) [@Kent Thune](#) [@Lake OZ boater](#) I appreciate all the responses. that is what makes a market. I'm feel good about my short TLT (and long some longer dates OTM puts). As the reverse repo market gets drained I see yields spiking and QE kicking back into overdrive. My prediction is we see a 5% yield on either the 10 or the 20 year. I could be way off here. I'm only a macro-visitor. I much prefer to invest in individual names. Only a small position for me right now.

[↩ Reply](#) [👍 Like \(1\)](#)



## Code Talker Market Analysis

17 Jan. 2024, 10:42 PM

Comments (8.22K) | + Follow

[@Josh Klein](#) I wish both sides could make money on the trade here. In the right timeframe maybe we both will.

[Reply](#) [Like](#)

S

### strendic

26 Jan. 2024, 4:33 PM

Investing Group Comments (1.25K) | + Follow

[@Josh Klein](#) I share your prediction of 5% for 10 or 20 year bonds that could very well play out. An additional driving factor is the national debt. The congress continues to drag its feet on coming up with the solution. We are already seeing sovereign investors (i.e. Japan) losing interest in the US Treasuries. Institutional investors will likely expect higher rates for accepting higher risk. I keep watching T auction results. For example a 20-year bond auctioned on Oct 31 fetched 4.375%. And the one with issue date Jan 31, 2024 fetched 4.750%

[Reply](#) [Like](#)



### Josh Klein

Today, 8:51 AM

Analyst Investing Group Comments (1K) | + Follow

[@strendic](#) The 5 year auction the other day was abysmal as well. TLT continues to decline and I don't really see why it should stop anytime soon. I did however close my short TLT position and long put position. I kind of regret it though lol

[Reply](#) [Like](#)



### alphaseek2018

17 Jan. 2024, 5:40 PM

Premium Comments (3.22K) | + Follow

Bianco is calling for a high of 5.5% on the 10 Year.

[Reply](#) [Like \(3\)](#)

L

### language police

18 Jan. 2024, 1:22 PM

Investing Group Comments (4K) | + Follow

Supply/demand trumps going forward. Bonds will be 200 b.p. above funds by year end.

[Reply](#) [Like](#)

R

**RyanTheLion87**

23 Jan. 2024, 12:54 PM

Premium Comments (76) | + Follow

[@language police](#) Really because it never has in the past

[↩ Reply](#) [👍 Like](#)

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D

**du4sloop**

20 Jan. 2024, 12:31 PM

Investing Group Comments (2.77K) | + Follow

I'm totally in agreement with the authors analysis and my investments reflect it.

TLT is invested for the potential capital gain TLTW for the distributions. They are a substantial holding in a diverse portfolio.

[↩ Reply](#) [👍 Like](#)

Disagree with this article? [Submit your own](#). To report a factual error in this article, [click here](#). Your feedback matters to us!