BCA Market Perspective ©
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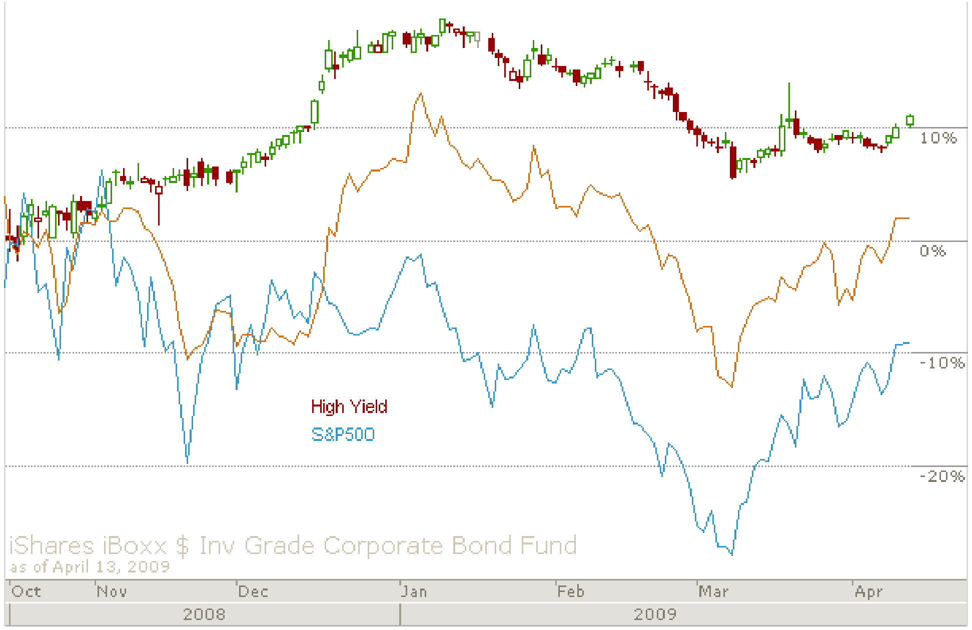
Are Bonds Pointing to a Stock Market Recovery?

Investment grade and high yield bonds rallied during the November-January period, several months in advance of the March 9 stock market bottom. BCA believes this signaled that investors were willing to assume more risk by trading away from low yielding U.S. Government securities. This bond market sector rotation towards risk eventually spread to stocks, based upon the rally since March 9.



Investment grade bonds reduce risk and perform the best during periods of market duress and widening yield spreads, an indicator of investor fear. The next phase of the cycle begins with improving investor confidence and may be a good time to consider moving back into stocks. If this stock market bottom holds, investment grade and high yield bonds may have pointed to the beginning of the stock market recovery.