CETERA® INVESTMENT MANAGEMENT

COMMENTARY

02/23/2021

Technology Selloff Continues as Investors Fret Rising Yields

- Technology stocks have started to give up gains over the past week.
- Investors are increasingly concerned about the impact of rising bond yields on their portfolios.
- The Fed's commitment to low yields may provide a backstop to the selloff.

Technology stocks have exhibited weakness as the technology-heavy NASDAQ Composite is down nearly 4% over the past week and opened lower this morning. There are many causes to the sell off, but the primary driver is concern around rising bond yields.

Bond yields fell to record lows after the pandemic started and this was a key driver in propping up technology stocks, which also benefited from stay-at-home measures that pushed consumers to online streaming, shopping, and an overall need to upgrade their technology footprint. Generally, technology stocks are impacted by bond yields because they tend to have higher stock price valuations that are calculated based on projected future earnings. Higher yields create higher discount rates for valuing those future earnings streams and thus the stocks become less valuable. Technology stock valuations have been lofty in this low yield environment, hitting levels not seen since the dotcom bubble.

The recent jump in yields may continue as Washington rolls out further stimulus relief and the national debt rises, requiring bond investors to be compensated for the additional risks and demand higher yields. The wild card has always been the Federal Reserve (Fed), which is very content on keeping interest rates and bond yields low. Federal Reserve Chairman Jerome Powell is doing everything in his power to assure investors that the Fed is committed to keeping interest rates low. Even if inflation starts to rise, we feel the Fed will be willing to accept a modest level without needing to combat it by raising interest rates. However, the Fed has less control over longer-term bond yields which have been rising and tend to influence borrowing costs such as mortgage rates. The good news is that if these longer-term yields rise too much, the Fed could enter the market and begin buying longer maturity bonds to lower the yields again. This process is known as quantitative easing.

While rising bond yields is the major factor driving technology stocks lower, there are other factors. As mentioned earlier, technology stocks have done very well during the pandemic and some investors may simply be taking profits and selling their shares. There is also an ongoing rotation as investors are reallocating to stocks that are expected to do well in the next phase of the recovery. In our 2021 outlook, we talked about a broadening recovery in the second half of the year. As local economies fully open, different sectors other than technology and large growth companies will start to benefit and we have begun to see this already.

While this rotation occurs, and the economies start to fully open we expect more volatility in markets. Stock market valuations are perhaps priced to perfection and there will inevitably be setbacks. We may see a stock market correction at some point this year, but we don't expect a big correction like last spring. Though challenges remain, the recovery is expected to broaden as vaccinations bring the virus under control and more stimulus is introduced. Learn more about the post-vaccine economic recovery here.

We maintain diversification is the key in this market. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

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Glossary
The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.