

Eric Hickman discusses the recent signal to buy 30-year bonds.

A technical indicator with a reliable history is signaling that 30-year Treasury yields will soon decline. A relative strength index (RSI) can be measured for any price series and represents how much and frequency gains are occurring versus losses. The index is used as a contrary or turning-point indicator. After periods of strong, persistent selling, buying is expected and vice versa. It isn't a complicated calculation. The RSI takes the average price change of days with gains compared to the average price change of days with losses over the last x days. This is converted into an oscillator that can take any position between 0 and 100. When prices (or yields) are rising fast and persistently, the oscillator will approach 100; when selling occurs with lower prices, it will approach 0. The oscillator spends most of its time in the middle, say between 30 and 70. Extreme readings (close to 0 or 100) happen rarely. We can study these extremes historically to see how useful the index is at identifying major turning points in markets.

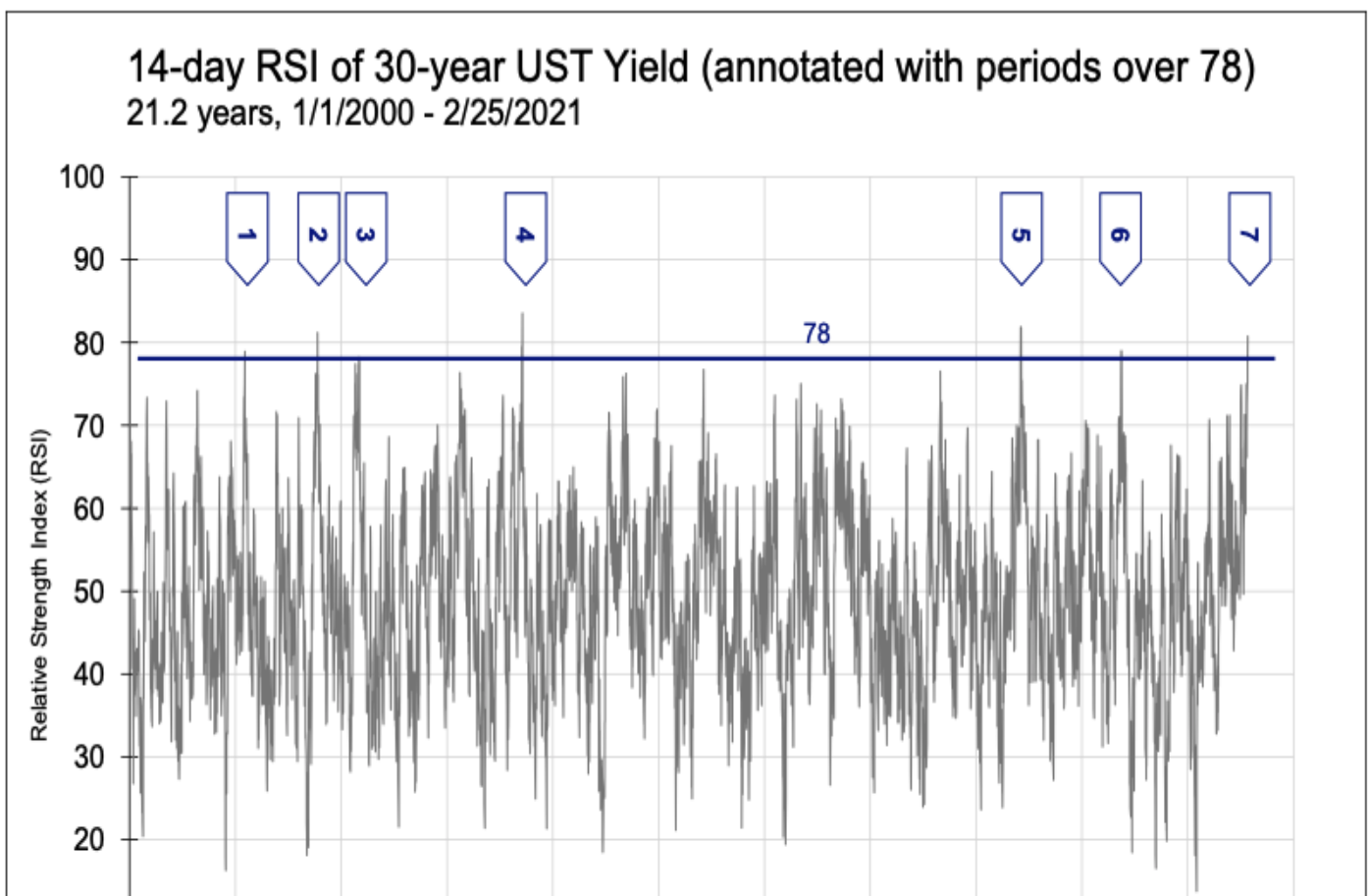
Real Investment Report

Market updates, sector analysis, 401k plan manager & more.

[Subscribe today](#)

The RSI On The 30-year U.S. Treasury Yield

For this analysis, I looked at the RSI on 30-year U.S. Treasury yields measured with a 14-day average (the x in the description above). This is the longest and most conservative daily average generally used. I looked at historical times where the RSI equaled or was greater than it was at the close of Wednesday, 2/24/2021, at 78. A reading of 78 (or more) is rare, happening in just seven periods going back to 2000, about once every three years. You can see them in the chart below. Focus on the high extremes that rise to or above the blue threshold line of 78.



We can translate these points to the 30-year U.S. Treasury yield. Look where the blue vertical lines (*RSI over 78*) intersect the gray line (30-year UST yields). The blue arrows show that yields fell (*prices rose*) after these buy signals, suggesting a buy signal now.

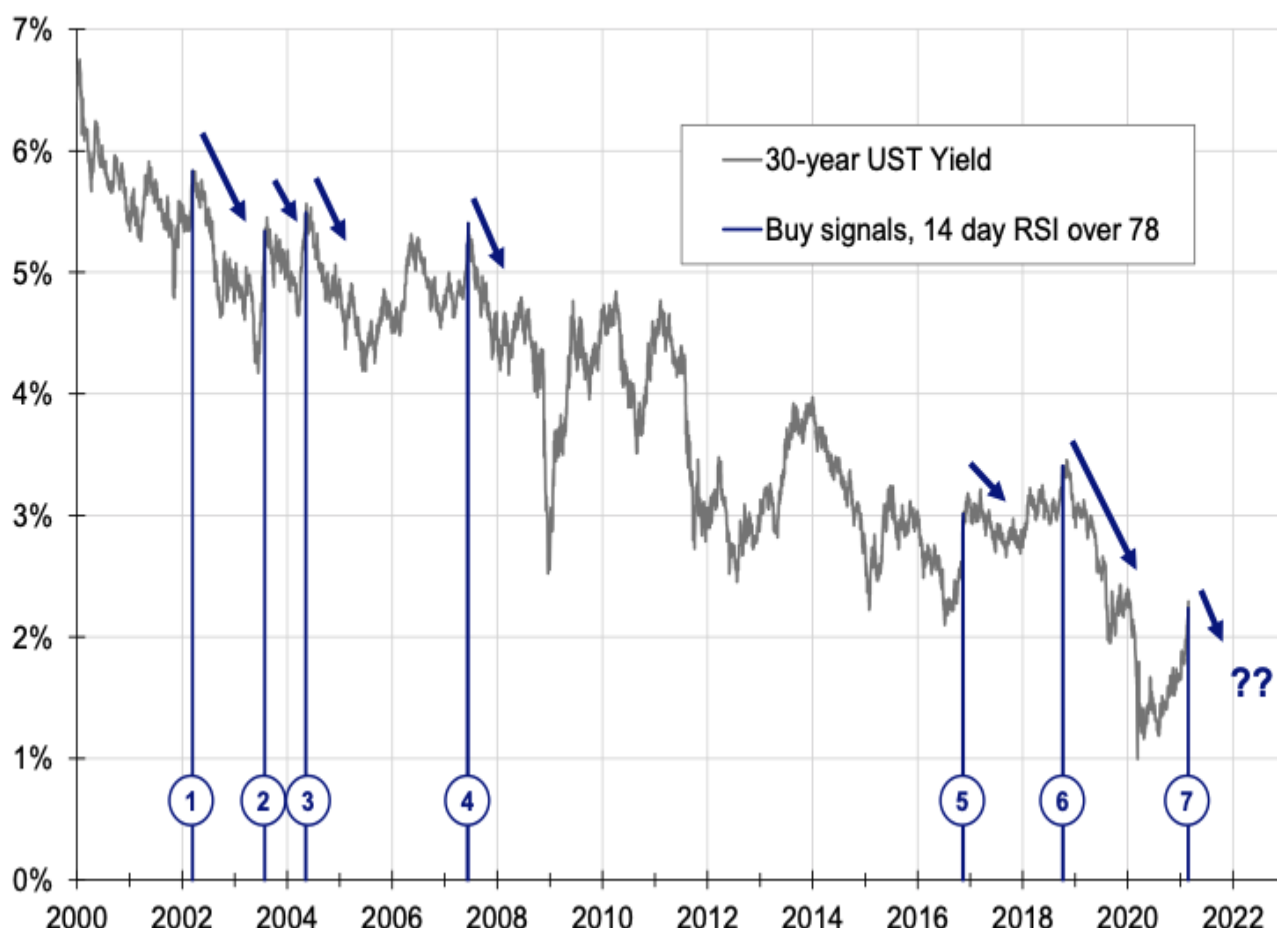


**REAL
INVESTMENT
ADVICE**

Have more than \$500k invested?
Get a better strategy than
“buy and hold”

**MEET WITH AN
RIA TEAM
MEMBER TODAY**

30-year UST Yield (with 14 day RSI over 78, buy signals) 21.2 years, 1/1/2000 - 2/25/2021



Prepared by Kessler Investment Advisors, Inc. | Data Source: Bloomberg and Kessler | 02/25/2021

But those signals didn't happen at the yield peaks; they occurred before. The question is how far before and how much more did yields rise after the signal? In other words, assuming this signal triggered on Wednesday, 2/24/2021, how long will it be until yields peak, and how much could yields rise in the meantime?

RIA Pro

Analysis, research,
portfolio models & more.

**30 DAY FREE
TRIAL OFFER**

[> Try it now](#)

A Good Signal To Buy 30-Year Bonds.

The table below summarizes the answers to those questions. The signal triggered between 0 and 35 days before and between 0 and 33 basis points (0.33%) below the peak in yields. This averages 14 days before and 12 basis points below the peak, which suggests a yield peak on 03/10/2021 at

2.36%. This is much too specific a prediction for markets, but it gives an idea of where we might be in this 30-year yield backup. It looks to be about over.

The Gap Between 30-year Yield RSI over 78 and Yield Peak

| Period | First time RSI over 78 | | Yield Peak | | Difference | |
|----------------------------------|------------------------|---------------|------------|---------------|------------|--------------|
| | Date | 30-year Yield | Date | 30-year Yield | Days | Basis Points |
| | | | | | | |
| 1 | 3/14/2002 | 5.83% | 3/14/2002 | 5.83% | 0 | 0 |
| 2 | 7/29/2003 | 5.34% | 8/13/2003 | 5.45% | 15 | 11 |
| 3 | 5/10/2004 | 5.49% | 5/13/2004 | 5.56% | 3 | 7 |
| 4 | 6/7/2007 | 5.23% | 6/12/2007 | 5.40% | 5 | 17 |
| 5 | 11/9/2016 | 2.85% | 12/14/2016 | 3.18% | 35 | 33 |
| 6 | 10/5/2018 | 3.41% | 11/2/2018 | 3.46% | 28 | 5 |
| Average | | | | | 14 | 12 |
| SIMPLE FORECAST (using averages) | | | | | | |
| 7 | 2/24/2021 | 2.23% | 3/10/2021 | 2.36% | | |

Prepared by Kessler Investment Advisors, Inc. | Data Source: Kessler | 02/25/2021

The yield movements down from the peaks predicted by the RSI have been significant; they led to significant gains in long-term U.S. Treasury bonds.

After the peak how much has the 30-year yield fallen?

| Period | Yield Peak | | Nearby Yield Low | | Difference | |
|---------|------------|---------------|------------------|---------------|------------|--------------|
| | Date | 30-year Yield | Date | 30-year Yield | Months | Basis Points |
| | | | | | | |
| 1 | 3/14/2002 | 5.83% | 6/13/2003 | 4.17% | 15 | -166 |
| 2 | 8/13/2003 | 5.45% | 3/16/2004 | 4.64% | 7 | -81 |
| 3 | 5/13/2004 | 5.56% | 6/27/2005 | 4.19% | 13 | -137 |
| 4 | 6/12/2007 | 5.40% | 12/18/2008 | 2.52% | 18 | -288 |
| 5 | 12/14/2016 | 3.18% | 9/7/2017 | 2.66% | 9 | -52 |
| 6 | 11/2/2018 | 3.46% | 3/9/2020 | 1.00% | 16 | -246 |
| Average | | | | | 13 | -162 |

Prepared by Kessler Investment Advisors, Inc. | Data Source: Kessler | 02/25/2021

One should never rely on technical indicators alone. But this analysis, combined with an overly rosy expectation of [COVID-19 disappearing](#) and the economics beyond that, suggests an opportunity in U.S. Treasury bonds



Real Investment Show
with Lance Roberts

Monday to Friday,
from 6 to 7am. [Get it now](#)

Eric Hickman is president of [Kessler Investment Advisors, Inc.](#), an advisory firm located in Denver,

Colorado, specializing in U.S. Treasury bonds.