LEVERAGED FINANCE
MARKET PERSPECTIVE LETTER

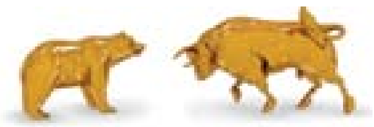
SHENKMAN

# The Yield Paradox

*Volume 36, Issue 8 | August 5, 2021*

By: Mark R. Shenkman, Founder & President

*The resiliency of the markets was fully evident in July. Financial markets continued to generate strong performance despite the rapid spread of the Delta variant, lower-than-expected second quarter GDP growth, festering inflationary forces, and China's regulatory clampdown. The great debate over transitory or persistent inflation continues to dominate investor concerns. However, the most intriguing development has been the yield paradox. In July, the yield on the 10-year U.S. Treasury fell from 1.47% to 1.22%. Even though the $22.8 trillion U.S. economy has surpassed pre-pandemic levels, inflationary pressures are building, and asset valuations are steadily rising, interest rates have been precipitously declining. The "X-Factor" remains the Federal Reserve's timing on tapering. If the economic recovery loses momentum due to the lingering effects of COVID, the Fed is likely to postpone major policy shifts into 2022. Investors seem to believe inflation will not be a long-term threat to the economy. Nevertheless, the divergence between the optimism in the equity markets and the pessimism signaled by the Treasury market should create increased uncertainty and volatility for the balance of the year.*



Please Contact InvestorRelations@ShenkmanCapital.com for the full letter.