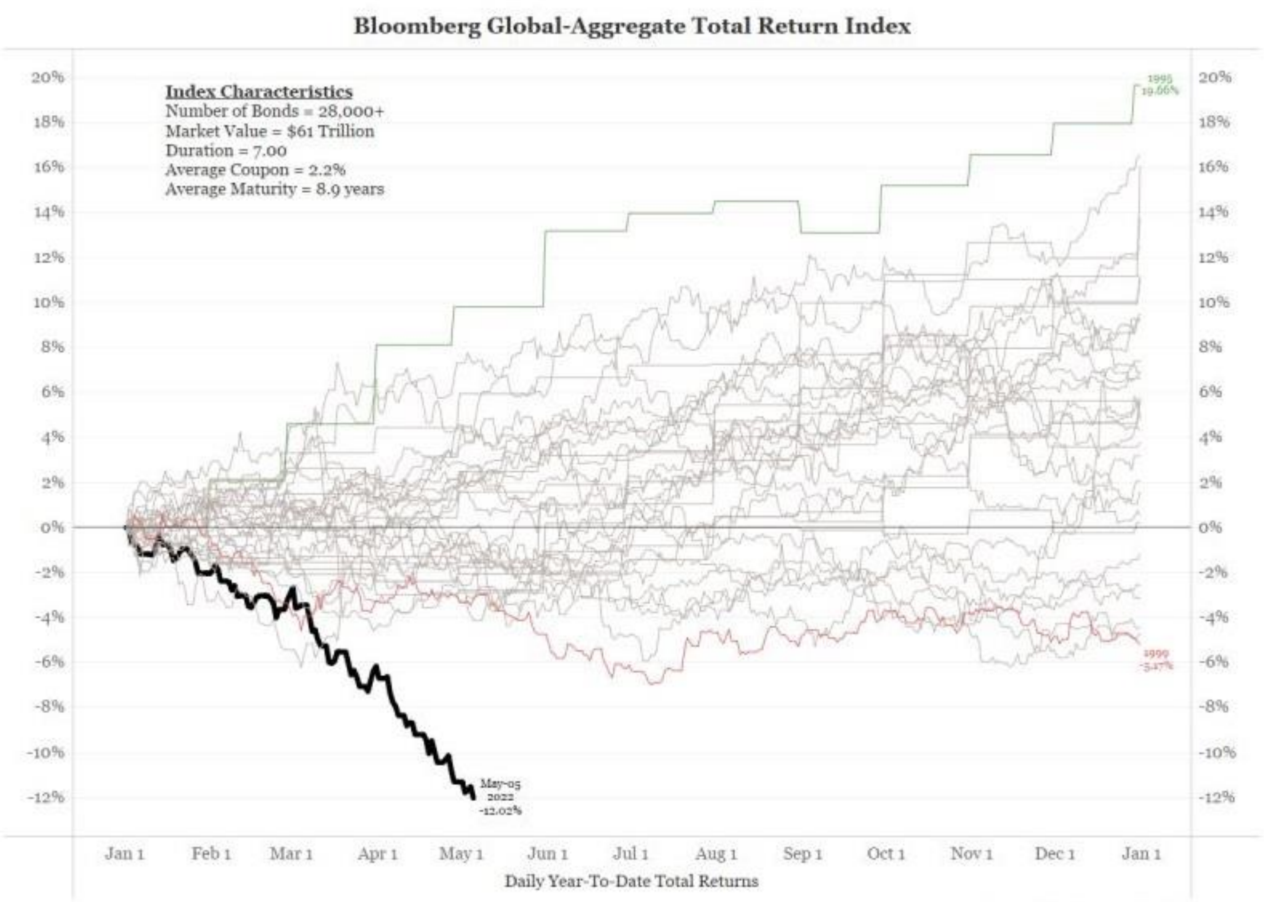
Have forced liquidations started?



Stocks and bonds collapsing together are scarily reminiscent of the 2008 and 2020 forced liquidations. For example, there have been two days in the past 25 years when S&P 500 futures were down 3% and 10-year Treasury futures down in one day:

October 9, 2008

March 18, 2020

This is what happened on Thursday, May 5. Unfortunately, the negative developments continued to unfold on Fri, May 6, when all major asset classes were down:

The benchmark 10-year Treasury note yield rose 6 basis points to 3.1240%. It hit 3.146% at one point, its highest level since 2018.

All major equity indexes were down with S&P 500 by 0.57% and MSCI World Index by 0.31%.

Even cryptocurrencies continued their negative trend, with Bitcoin down 1.46%

My technical indicators are pointing that someone or something is blowing up, and the forced liquidations have started, especially in US Treasuries.

If you are a Central Bank, which has a substantial part of its reserves in government bonds, for how long would you own the asset where:

1. The multiyear bear market started, with the key benchmark 10 Y Treasury Note down 10.3% in 1Q 2022.
2. It is dominated in currency (USD), where 50% of this currency was printed in the last two years, and the country has the 2nd highest inflation numbers in G-7 after Germany?
3. The government debt limit has been raised on an annual basis in the last few years – every problem in the economy has been solved by printing money.
4. After the US Government led the confiscation of Russian Central Bank assets, many countries saw this as a warning and started to seek alternatives. On April 22, China, one of the largest holders of US Treasuries, met local and international banks to discuss protecting assets from US sanctions. In addition, certain countries will rethink the role of US dollars as the reserve currency, which will put additional pressure on US Treasuries.

Smart investors have been raising cash since the beginning of the year to buy when markets bottom, but it will not happen soon.

The chart above (source: Bianco Research LLC) shows the Bloomberg Global Aggregate Index, a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from developed and emerging market issuers. The index is down 12% in 2022, and its trajectory points to the worst year in its history.