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Bond Yields Are Rising. Why That's a Problem for Stocks.

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Is the stock market about to yield to reality?

That is yield as in the interest return on long-term debt securities. And the reality is that yields are headed higher as a result of real economic growth and inflation that continues to exceed most forecasters' assumptions, which in turn suggests fewer, if any, short-term interest rate cuts by the Federal Reserve this year.

For stocks, higher bond yields imply no increase in price/earnings ratios and possibly some contraction from current levels. And those P/E multiples incorporate optimism about another year of double-digit earnings growth.

Add to those concerns the uncertainty of policies from the new Trump administration's fiscal and trade policies, and you have the formula for sharp selloffs in bonds and stocks.