Markets Calm after Yesterday's Stumble

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Bond market yields spiked yesterday on the one-two punch of a poorly received 30-year Treasury bond auction and Fed Chairman Jay Powell's hawkish remarks at an IMF panel discussion. The 3- and 10-year note sales went reasonably well earlier in the week, given the increased auction supply. However, the 30-year wasn't nearly as well received as investors demanded a larger premium than anticipated for extending into the longer maturity. This was unexpected.

Yields climbed across the curve on Thursday as market sentiment soured, and continued to rise later that day when Powell said Fed policymakers are not yet confident that interest rates are high enough to bring inflation back to the committee's target. The Chairman emphasized that the inflation fight has "a long way to go." He's said all of this many times before, but didn't make as much of an effort yesterday to balance out his hawkish remarks.

It shouldn't be a surprise that Powell and other Fed officials are jawboning yields higher. Inflation is still elevated and the market enthusiasm before yesterday had driven yields significantly lower, *effectively undermining monetary policy*. Before Thursday's selloff, the long bond yield had shed nearly 50 basis points over just six trading days, falling from a 5.09% close on October 31st to 4.61% on Wednesday. From Powell's perspective, the markets were misreading the Fed's cautious wait-and-see message. Committee members *expect* the economy to weaken, and *expect* inflation to trend lower, but it hasn't happened yet.

This week's focus was on supply and Fed talk, but next week shifts back to data, in particular CPI and retail sales for October. Both of these key releases are expected to be soft. Financial markets are breathing easier this morning. Stocks and bonds are rallying in early trading.

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Market Indications as of 9:43 A.M. Central Time

DOW	Up 29 to 33,921 (HIGH: 36,800)
NASDAQ	Up 56 to 13,577 (HIGH: 16,057)
S&P 500	Up 9 to 4,357 (HIGH: 4,797)
1-Yr T-bill	current yield 5.37%; opening yield 5.33%
2-Yr T-note	current yield 5.02%; opening yield 5.02%
3-Yr T-note	current yield 4.79%; opening yield 4.80%
5-Yr T-note	current yield 4.62%; opening yield 4.65%
10-Yr T-note	current yield 4.60%; opening yield 4.63%
30-Yr T-bond	current yield 4.72%; opening yield 4.76%

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