

Bond Yields Spike as Questionable Summit Outcome Increases Uncertainty

Bond yields moved sharply higher today across the curve while stocks retreated from yesterday's record highs. There's no single explanation for the selloff. Justified uncertainty is pushing investors to the sidelines. Reasons for the nervousness today include:

The highly-anticipated summit between President Trump and Chinese President Xi Jinping ended without significant progress on Iran, tariffs or AI. Instead, much of the focus surrounded the threat of a potential takeover of Taiwan by China. The tension increased after Xi began the meeting by framing the Taiwan question as "the most important issue in China-U.S. relations" while warning that the two economic giants will have "clashes and even conflicts" if the U.S. were to intervene. Trump did not immediately respond.

Later, in a Fox News interview, Trump was surprisingly noncommittal on the question of a long-delayed \$14 billion U.S. arms package for Taiwan, saying - "I may do it, or I may not do it." The notion that the U.S. would allow China to simply claim Taiwan is nearly as unsettling as the notion of direct military conflict with China. President Xi punctuated this thought by expressing his desire to avoid a "Thucydides trap," a military concept describing the increased tendency for war when a rising power challenges an established ruler.

Brent crude oil futures climbed above \$109 following conflicting signals from President Trump on the Strait of Hormuz. In the same Fox News interview, Trump said the U.S. didn't need the waterway open, while later declaring he and President Xi had agreed the strait should be opened.

Japan, heavily dependent on oil imports and facing an alarming drop in supply, saw its 30-year bond yield rise above 4.0% for the first time ever. Rapidly rising, energy-driven inflationary pressure is expected to force the Bank of Japan to hike rates next month. The prospect of a prolonged conflict in the Gulf suggests extreme financial challenges to a nation already saddled with the highest debt-to-GDP ratio in the developed world.

On the domestic front, too-hot April CPI and PPI readings have pushed inflation expectations higher. In response, Treasury Secretary Scott Bessent told CNBC this morning that he expects "substantial disinflation" in the coming months, suggesting the surge in oil prices will prove to be a temporary supply shock. *The financial markets are not embracing this narrative.*

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New Fed Chair Kevin Warsh assumed his duties today. Warsh was handpicked by Trump, who had repeatedly demanded former Chair Jay Powell slash interest rates. Although Warsh told members of the Senate Banking Committee last month that the president had never asked him to commit to any particular interest rate decision and would never have agreed if he had, it's tough to believe the topic wasn't discussed. Warsh's honeymoon period promises to be short-lived as whatever decisions the FOMC makes this year will be heavily scrutinized.

This "everything, everywhere, all at once" scenario, with no obvious near-term solution, has prompted a wave of selling with few buyers to stem the outflow. The 10-year Treasury yield climbed above 4.58% this morning, approaching its highest level in almost a year, while the 30-year yield rose to 5.12%, nearing a 19-year high.

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Market Indications as of 12:40 P.M. Central Time

DOW	Down -424 to 49,640 (HIGH: 50,188)
NASDAQ	Down -211 to 26,520 (HIGH: 26,635)
S&P 500	Down -54 to 7,447 (HIGH: 7,501)
1-Yr T-bill	current yield 3.81%; opening yield 3.79%
2-Yr T-note	current yield 4.08%; opening yield 4.02%
3-Yr T-note	current yield 4.14%; opening yield 4.06%
5-Yr T-note	current yield 4.25%; opening yield 4.16%
10-Yr T-note	current yield 4.59%; opening yield 4.49%
30-Yr T-bond	current yield 5.12%; opening yield 5.04%

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