Bond Market Rout Resumes as Latest Peace Proposal Fails

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Last Friday's encouraging bond market rally proved short-lived as hope for a compromise ending hostilities between the U.S. and Iran has faded once again, sending Treasury yields sharply higher. President Trump rejected Iran's latest proposal to reopen the Strait of Hormuz on Saturday. The following day, Mike Waltz, the US Ambassador to the United Nations, told CNN that the president didn't believe Iran was negotiating in good faith. The U.S. proposal was to release frozen funds and provide sanctions relief in return for *concrete progress* on a nuclear deal.

Demands by Iran included a halt to all acts of U.S. aggression, an end to the U.S. naval blockade and the recent "economic warfare" campaign, as well as financial compensation for war damages. Although the administration's primary concern over nuclear enrichment was not directly addressed by Iran, it remains the major hurdle. U.S. intelligence as well as statements by the International Atomic Energy Agency (IAEA) have indicated no evidence that Iran is building a nuclear weapon or operating a structured weapons program, so *it seemingly shouldn't be an issue for Iran to agree to continue not doing what it's already not doing.*

According to *The Wall Street Journal*, President Trump has told aides that renewed U.S. bombings after the midterm elections are likely. At the same time, the Journal quoted a U.S. official saying negotiations would continue this week through mediators. The extreme lack of clarity isn't conducive to properly functioning markets.

Oil prices have been extremely volatile today, but by early afternoon were mostly flat. The bond sell-off has been steady, affecting the entire curve, with the long bond reaching its highest yield in 22 years. Although rising energy prices are a driving influence on the bond market, current yields will always reflect a balance between supply and demand. At the moment, the supply of government and corporate bonds is overwhelming, while demand is tentative.

Market Indications as of 3.05 P.M. Central Time

DOW	Down -347 to 51,482(HIGH: 54,349)
NASDAQ	Down -248 to 26,820 (HIGH: 27,244)
S&P 500	Down -62 to 7,682 (HIGH: 7,799)
1-Yr T-bill	current yield 4.53%; opening yield 4.45%
2-Yr T-note	current yield 4.93%; opening yield 4.89%
3-Yr T-note	current yield 5.01%; opening yield 4.97%
5-Yr T-note	current yield 5.07%; opening yield 5.02%
10-Yr T-note	current yield 5.23%; opening yield 5.19%
30-Yr T-bond	current yield 5.55%; opening yield 5.51%