Yields Climb on Expectations for Additional Fed Tightening

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The bond market opened with a thud Thursday morning as investors considered Tuesday's hot CPI release, hawkish comments by prominent Fed officials, a social media post by the president suggesting the U.S. doesn't need a deal with Iran and a soft 10-year Treasury auction. In response, yields climbed to their highest levels in more than a month and now indicate likely rate hikes at both the December and January FOMC meetings.

Earlier this week, Fed Governor Christopher Waller said a 50 basis point increase could be considered next month if inflation continues to surprise higher. Waller, speaking at a central bank conference in London, cautioned that "Hiking only 25 basis points would put our credibility at risk, a risk I am not eager to take." That same day, Dallas Fed President Lorie Logan, delivering the keynote address at a Fed energy conference, argued that at least two more hikes were appropriate, asserting that the Fed's current accommodative policy is adding to inflationary pressure. *Both Logan and Waller are voting members.*

Amid hawkish Fed speak and rising prices, the U.S. Treasury auctioned $42 billion in 10-year notes on Tuesday. Investors demanded higher yields to compensate for increased market risk. Another $25 billion of 30-year bonds, offered on Thursday, also experienced tepid demand.

The initial market reaction to the midterm results was an increased likelihood of a near-term resolution to the Iran conflict, and a corresponding decline in oil prices. With the House failing in a vote to impeach Defense Secretary Hegseth Wednesday and President Trump instructing JD Vance to focus on domestic issues rather than peace negotiations yesterday, near-term expectations for lower energy prices have faded.

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Market Indications as of 8:45 A.M. Central Time

DOW	Up 147 to 52,444 (HIGH: 54,349)
NASDAQ	Down -100 to 25,266 (HIGH: 27,600)
S&P 500	Up 22 to 7,615 (HIGH: 7,819)
1-Yr T-bill	current yield 4.62%; opening yield 4.62%
2-Yr T-note	current yield 4.86%; opening yield 4.88%
3-Yr T-note	current yield 4.93%; opening yield 4.94%
5-Yr T-note	current yield 4.98%; opening yield 4.97%
10-Yr T-note	current yield 5.16%; opening yield 5.14%
30-Yr T-bond	current yield 5.49%; opening yield 5.46%

Please see disclosure starting on page 2

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