The Day Ahead: Sideways Range Taking Shape

As rates moved up from the lows seen at the end of May, we viewed it as the confirmation of the broader sideways momentum that we hoped would replace the pervasive upward momentum that had been in place for most of 2022. As rates moved down from the long-term highs that followed the CPI scare and Fed adjustment, we knew we'd be looking to flesh out the boundaries of that range. We're already seeing the first candidate based on selling pressure from Friday and now this morning.

That selling began after yields failed to break below 3%. This gives us our first potential floor to watch, albeit at a higher version of the range compared to the version we might have seen without the CPI surprise. These two versions are marked by the red and teal lines in the following chart. The key question for the week ahead is whether the upper teal line offers much support. If it does, it would tacitly suggest that the heavy selling from 2 weeks ago was a bit overdone. More importantly, it would be an even stronger confirmation that those levels marked the highest rates of the year (to whatever extent such things can be "confirmed").

One final thought on "confirmation..." Such conclusions are only as good as the economic data that supports them. We've already seen the chaos that can ensue when inflation surprises to the upside in the current environment. So "confirmation" of a sideways range relies on the assumption that the biggest and most surprising inflation spikes are behind us.

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