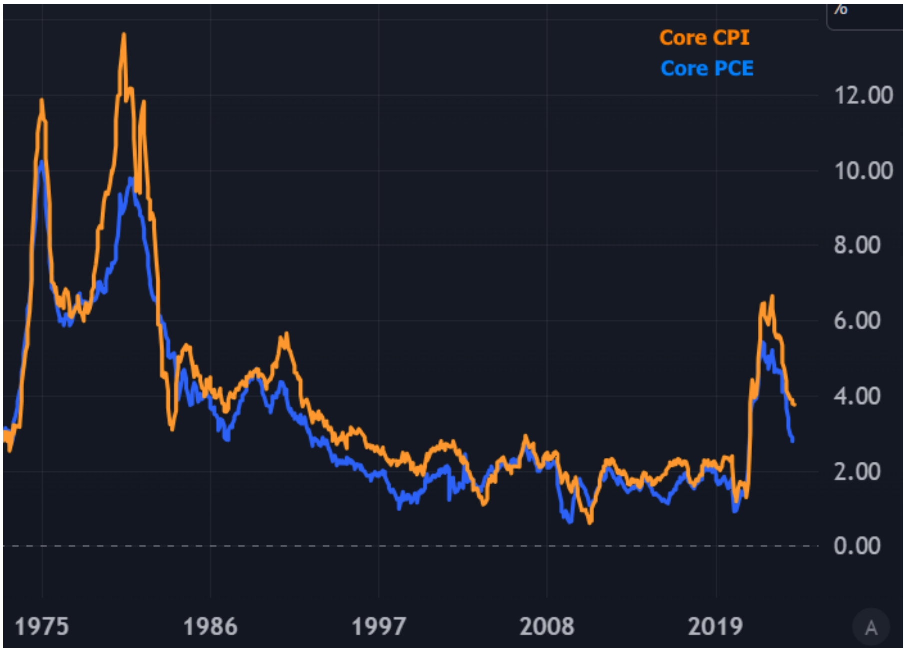
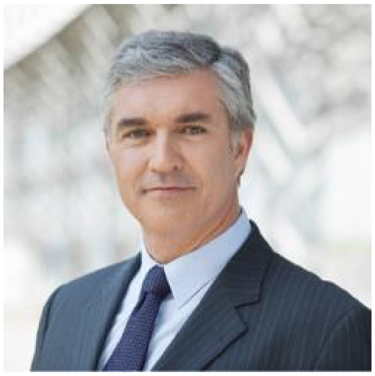
The Day Ahead: Slow Start to What May be a Slow Week

It's no secret that a vast majority of bond market movement these days occurs in response to a small handful of economic reports and the Fed's quarterly updates on the rate hike outlook (via the dot plot). That means we see several weeks each month without any big ticket market movers. This week arguably qualifies. But how could that be, considering Friday's PCE price index is the same one the Fed refers to as its preferred gauge of the 2% inflation target? PCE just hasn't caused big reactions for a few reasons (similarity to CPI and predictability due to other data that comes out earlier).



Assuming the track record of nonreactions continues, the typical pattern of volatility remains intact as the following week brings big ticket data and a Fed announcement (no updated dot plot, and no rate cut, but there could be some change to policy that we'll discuss next week).

On the topic of volatility, bonds are off to a slow start this week, with no major escalation in the Middle East over the weekend. Some analysts attribute the modest bump in stock prices and bond yields to that absence of flight-to-safety trading.



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