The Day Ahead: Important Reminder About How Bad Things Could Get

For those of you who already feel like you fully understand the message in Tuesday's recap, the next few days and weeks might get a little repetitive, but the gravity of the message bears repeating. There are two distinct categories of motivation for bonds right now: the election and the economic data. By extension, the data also has a bearing on the Fed in case you were wondering why the Fed isn't on that list.

The election is only likely to put more upward pressure on rates between now and election day. Then, depending on the winner and the Senate elections (red sweep is the biggest fear for rates), there would be a big pop higher or lower.

Meanwhile, econ data is as important as ever, with traders fearing that next week's jobs report could frame the summertime labor market slowdown as a big head fake. If that happens, and if the "red sweep" becomes a reality, a 10yr yield at 5% would not be a surprise. After all, yields were able to hit 5.0% without having to worry about election outcomes, and they were able to hit 4.75% earlier this year simply because we weren't getting enough reassurance about the rate narrative in the econ data. Last thing to consider is that the 10yr could hit 4.50% next week WITHOUT breaking out of the broader downtrend. In other words, there would be no great reason for bond bulls to push back against sellers up to those levels.

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