

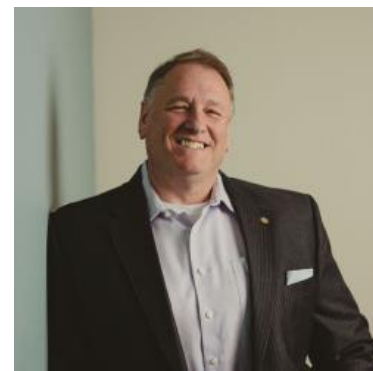
The Day Ahead: Bonds Making a Stronger Case For Buying The News After Selling The Rumor

"Buy the rumor, sell the news" is an age-old aphorism in financial markets for a reason. It accurately speaks to the real and repeatable phenomenon whereby traders trade all the information and indications about a specific event well before the event itself. The most obvious and reliable example is that of Fed rate cuts/hikes which even have their own futures contracts. The most relevant example at the moment is that of the pre-election trade whereby bonds priced-in greater odds of a Trump victory and full republican control of congress. Traders knew rates needed to move higher but the perfect amount of selling was/is a moving target. It continues to be sorted out, but the past 2 days tell us that the market did a very good job of selling almost exactly the correct amount of the rumor. Traders are now buying the proverbial news.

All of the above can be loosely visualized in the following chart, which shows 10yr yields hitting closing levels at or near 4.27 on 6 of the 7 days ending on election day. As expected in our base case, there as an obligatory bout of additional selling after the election and we've since returned almost perfectly to the 4.27 baseline.



This is actually NOT YET a great example of buy the rumor sell the news. 4.27 is a very high yield as recently as the beginning of last week. A true example would involve a return of yields back toward 4%--something that doesn't seem to be in today's most immediate cards. Indeed, the moment 10yr yields hit 4.27 this morning, they bounced higher and are now back over 4.31%.



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