The Day Ahead: Two Ways to Look At This Morning's Sell-Off

In the run up to the election, we offered constant reminders that a 10bp move in Treasuries wasn't really a big deal, and that such volatility could be expected well into November. That's the first way to view the overnight weakness. In fact, it's almost perfectly central to the prevailing trend, and the previous 3 trading sessions look like the more volatile reaction.

Consider that there was a good amount of short covering (bond sellers becoming buyers to close their positions and book profits) after the election, and likely a push to get through it by Friday. That would leave today as a "back to business" day.

The other way to view this morning's selling is as an organic response to Trump cabinet appointees and the increased likelihood of GOP control of the House. We maintain that such a thin margin of control is not quite as big of a deal as 10+ seat margin, but it's worth a bit of bond weakness nonetheless.

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There are a few headlines circulating regarding European traders pricing in US inflation expectations and political outcomes. That coincides with the most notable uptick in volume and volatility overnight.

In the bigger picture, yields are right in line with a linear regression (yellow line) going back to October 22nd (the day after the big mystery selling-spree that could only be tied to election speculation). It's also fairly central to the prevailing trend channel since the October jobs report (white lines).


10yr Yield
4.400%
4.200%
4.000%
3.800%
3.600%
Aug
Sep
Oct
Nov