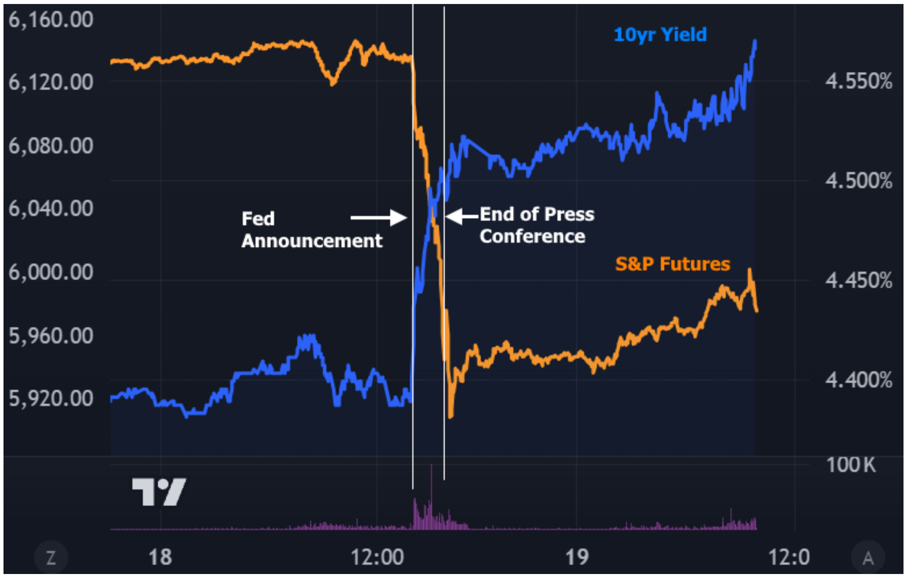
The Day Ahead: Weaker Momentum Continues, Regardless of Data

The takeaway from yesterday's Fed announcement was twofold. First, the Fed is much closer to being done cutting rates than it anticipated in September. This accounts for the sharp sell-off in bonds and stocks. The second takeaway is simply a confirmation of our recent change of heart regarding inflation data. Powell noticeably downplayed the need to obsess over the labor market, thus placing the main focus on inflation yet again. The shift in the Fed's inflation outlook for 2025 confirmed the concern.

In short, the takeaway continues to be that rates can't move meaningfully lower without a meaningful drop in inflation. To sum things up, we have one takeaway pushing yields higher and another that prevents them from moving lower.

Today's chart focuses on yesterday's market movement in light of the ramped-up news coverage of the government funding bill. If you've been wondering if that played a role in yesterday's weakness, consider that the spending bill news broke before the Fed announcement (the first white line in the chart below). There was no detectable surge in volume nor any movement in the bond market. Is it possible that markets were fixated on the Fed and that fiscal considerations added to weakness throughout the day? Technically, but that raises a separate issue: a government shutdown has historically been good for rates.



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