The Day Ahead: GDP Reaction a Prime Example of Holiday Distortion

We've spent the past several days reiterating and lamenting the onset of the holiday trading doldrums--a time of year that sees vastly lower volumes/liquidity/participation, and thus runs the risk of volatility that's more random and larger than it otherwise would be. Now this morning, GDP came in much higher than expected and bonds are selling off somewhat sharply. Rather than fly in the face of the holiday trading environment realities, this is actually a prime example. The best evidence for this is the discrepancy between the size of the movement in bonds and the associated volume. Simply put, the movement in bonds is much larger than the reactions to NFP (jobs report) or CPI, but the volume isn't even close to half the size.

It is natural to be skeptical of our dismissive tone this morning. After all, GDP sounds like a big, important report, and a sharp sell-off seems logical given the 4.3% vs 3.3% result. But the underlying details suggest it was simply "fairly strong" as opposed to a true barn burner (thinking of things like "real final sales to domestic purchasers" at 2.9%, and the 4 quarter avg GDP moving up only modestly in the mid-2% range, and a negative reading in cyclical GDP components).

Bottom line: if these numbers were coming out during a more actively traded time of year, they may not be having as much of an impact. But as it stands during the holiday doldrums, 10yr yields are pushing the ceiling of the 4 month range and MBS are down almost a quarter point.

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10 Year Treasury
4.500
4.400
4.300
4.200
4.100
4.000
3.900
Jul 25
Sep 25
Sep 25
Nov 25
2026