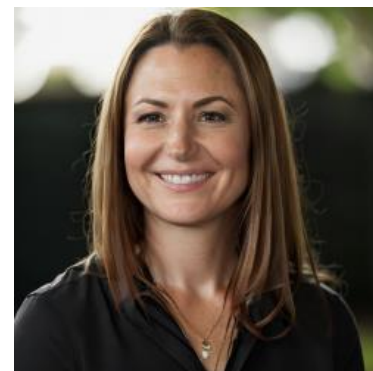


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The Day Ahead: Weaker Start. Bonds Not Recovering With Oil So Far

The overnight and early domestic trading hours have brought a mix of familiar and unfamiliar patterns. Up until roughly 8:30am, we saw a very familiar correlation between oil prices and bond yields. Both spiked at 6am following reports that 2 Iranian missiles hit a U.S. warship. Those reports were subsequently denied and oil prices made a full recovery. The unfamiliar pattern involves bonds breaking ranks with oil to move noticeably higher at 9:20am. There are no obvious explanations in the news or on the data calendar. That basically leaves conjecture. Given the timing, one possibility is that traders wanted to free up cash to "play" in equities markets during peak earnings season. This could also be driven by structural shifts in response to budget concerns. Either way, yields are very close to last Wednesday's highs (the highest since March 27th).



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