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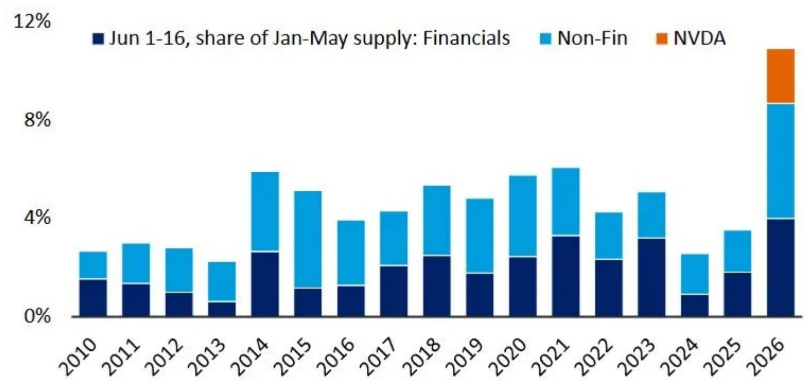
The Day Ahead: Re-Coupling and Range Consolidation

Yesterday's most interesting development was the visible decoupling of bond yields with oil prices. To a lesser extent, one could also lament that mid-morning stock selling failed to benefit bonds, but that's far from a regular correlation these days. In fact, the stock/bond correlation is often reversed when the market is adjusting Fed rate expectations. Today's trading session has seen some re-coupling with yields/oil/stocks all falling together. Some of the bond-specific weakness could have been driven by the official launch of SpaceX's big corporate bond, and there's been a heavy slate of corporate issuance in June so far in general.

Exhibit 1: A big jump in supply so far in June

In 2026, the June 1st through 16th supply was 11% of the total over the prior five months, which is three standard deviations higher than the 4.6% average since 2010.



Source: BofA Global Research

We can also expect random tradeflows in multiple market sectors simply due to it being late June and money managers being required to buy/sell in order to rebalance portfolios to account for recent market movement. Despite all of the above, bonds are trading in a boring consolidation pattern with this morning's little rally adhering to a descending ceiling.