The Day Ahead: What's Up With The Huge Paradoxical Rally?!

Core PPI was up 0.7 vs 0.3 forecast this morning. That's something that would normally send yields much higher. But everything is different this morning. Bonds rallied sharply in the overnight session and added a bit more to the gains after the 8:30am data. This is on top of yesterday's stunning comeback after getting rocked by higher CPI. To a small extent, the "control group" Retail Sales number may have helped, but the 8:30am gains have more to do with investors waiting to see PPI and finding it would add less than 0.1% to PCE in 2 weeks. This allows the market to maintain its focus on the biggest motivation of the past 2 days: concerns over an AI debt bubble (and big losses in several AI stocks) leading investors to reallocate bond exposure back into Treasuries and portfolio managers to pare equities holdings in favor of bonds. All of the above conveniently coincided with bond yields hitting decades-long highs last week and still being high enough to look like a good buying opportunity today.

In the days ahead, it will be useful to keep the historical context in mind. We've seen our fair share of 30bp corrections that have given way to additional selling. For now, this is a sneak preview or a trial balloon for a bigger correction that COULD happen, but isn't necessarily guaranteed. It's what the beginning of such a correction would look like, but things could reverse surprisingly quickly if the market finds a reason to calm down on AI fears.

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