The Day Ahead: Bonds Still Capable of Selling

The past two days saw a unique confluence of factors that led to a precipitous, unexpected, and fairly large rally in the bond market. The easiest scapegoat is the general notion of fear surrounding AI/tech share prices and debt contagion. One simple effect was investors reallocating out of stocks and into bonds. Another effect could be investors shifting out of AI corporate debt into safer havens. Either way, it doesn't feel like a coincidence that tech stocks slid roughly 5% over the exact same time frame as the 10yr rallied from 5.34 to 5.07. If we use the QQQ ETF as a loose benchmark for tech, today isn't great, but it's better than yesterday's lows. The flood of short-covering and value buying in bonds has run its course and there would need to be fresh motivations for additional gains--either from a renewed tech rout or troublingly weak economic data. None of today's reports are remotely important enough for that, so unless tech tanks hard, we wouldn't expect the rally to extend. Modest weakness in the AM is entirely forgivable and perhaps even reassuring. In other words, we could have imagined a sharper pull-back on a morning like this. If bonds end up rallying more than is justified by other inputs, it would be a positive indication for bigger-picture trend shift potential.

Denny Andrews
Branch Manager, C2 Financial Corporation
www.streamlinerealestatefinancing.com
P: (425) 753-2602
M: (425) 202-5121
denny@dennyandrews.com
460 172nd Place NE
Bellevue WA 98008
897584

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