MBS & TREASURY MARKETS
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The Day Ahead: Volatile Gains as Markets Digest Elections and Data

There are several moving parts to today's trading levels, but the TL;DR is that bonds are holding modest gains so far despite some 2-way volatility. The overnight session started out with the strongest gains of the day, clearly coinciding with a stock market swoon. Stock prices and bond yields bounced higher when the senate majority was called around 11:30pm ET. Bonds quickly unwound most of the overnight gains before stabilizing sideways at slightly stronger levels. Stocks have been rising ever since. In other words, there was no magical relief in the bond market about political gridlock or the defusing of the risk of $5k payouts (who knows if that would have happened, but if it did, it would have implied more Treasury borrowing). Stocks saw additional gains at the open. This put some pressure on bonds. Then at 10am, the ISM data led to another small bout of selling as the comments reflect forward-looking inflation concerns.

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WHAT RESPONDENTS ARE SAYING

- "Fuel and freight markets continue to exert pressure on distribution cost planning. The continued war in Ukraine and drought in the Midwest along with fuel and fertilizer costs are driving up the cost of wheat (30 percent year-over-year)." [Accommodation & Food Services]
- "Overall demand is sluggish." [Agriculture, Forestry, Fishing & Hunting]
- "Activity remains steady, with a strong backlog of institutional and commercial projects. Material availability has generally improved, though some mechanical and electrical equipment still requires early procurement. Labor shortages and wage pressure continue to impact the market, while higher financing costs are causing owners to closely evaluate project budgets and schedules. Overall outlook remains cautiously positive." [Construction]
- "Purchasing operations continue to be impacted by elevated costs for goods and services, particularly in construction, facilities maintenance, technology and contracted services. Ongoing uncertainty surrounding tariffs, labor availability and broader economic conditions continues to influence supplier pricing and procurement planning. While overall supply chain conditions have stabilized compared to previous years, suppliers remain cautious with pricing commitments, and cost pressures continue to affect budgets." [Educational Services]
- "Our company's AI utilization is increasing, but we have guardrails in place to cap token utilization and evaluate TCO. The price of diesel has impacted our commercial trucking business, and Hurricane Isaias temporarily caused a moratorium on binding certain policies in parts of Alabama, Mississippi and Florida." [Finance & Insurance]
- "Fuel prices are impacting many of our consumables and delivered goods. This has reduced margins, as we have not passed the expense to our customers because we believe it will be a short-term condition." [Information]
- "While business activity remains strong, the impacts of tariffs, increased fuel prices, and longer lead times are becoming more challenging." [Management of Companies & Support Services]
- "Tariffs are causing havoc with international merchandise sourcing." [Retail Trade]
- "Generation demand is strong. Supplies for services, equipment and materials are constrained. Nuclear uprates (or power level increases) and next-generation plants have strong tailwinds but regulatory headwinds." [Utilities]
- "Tariff policy remains the main driver of landed cost: Section 301 duties in force since late July replaced the expired flat tariff, raising duties on Southeast Asian canned and dry goods. Ocean freight from Asia remains elevated and volatile, and U.S. East Coast port congestion is expected in November. El Niño is constraining fish supply, and we have suspended one source. Some Asian suppliers have delayed shipments by weeks or months and are raising prices on beverage items and reducing prices on others. Inventory is high in aggregate but unevenly distributed, so service gaps persist on selected items." [Wholesale Trade]

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