Paradoxical Rally in Bonds Thanks to Higher Fed Hike Odds

Market Summary: Friday, September 11, 2026 - 3:27PM

We've been saying for a while that the longer end of the bond market really wants to see the Fed get serious about fighting inflation. This is why yields spiked on July 29th when the Fed held rates steady and Warsh said he'd let the bond market do the heavy lifting. Now today, we have back-to-back inflation reports that resulted in Fed Funds Futures pricing in a 90% chance of a hike at next week's meeting. Fed Funds Futures are the only thing that's unequivocally selling off this morning. 2yr Treasuries (heavily impacted by Fed expectations) are mixed, but the longer end of the curve is now rallying thanks to the expectation of the rate hike and the hope that it pushes back against inflation.

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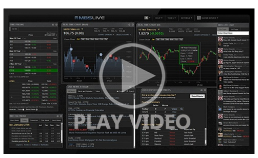

Ugly Snowball Selling

MBS & Treasury Markets

UMBS 5.5	97.53	+0.08	10YR	4.945%	-0.020%	9/11/2026 1:24PM EST

Negative Reprices Becoming More Likely

If you haven't seen a negative reprice yet, odds are increasing. MBS just hit unchanged levels and are down more than 3/8ths from the highs and at least a quarter point from most lenders' rate sheet print times. 10yr yields are still down half a bp at 4.96 but that's up from lows of 4.904.

Selling has been slow and steady with little by way of new inspiration.

ALERT: Down Over an Eighth From Rate Sheet Print Times

MBS MORNING: Paradoxical Rally in Bonds Thanks to Higher Fed Hike Odds

30YR Fixed	7.12%	+0.05%	15YR Fixed	6.65%	+0.03%	9/11/2026

Mortgage Rates Held Fairly Steady Until Late in The Day

Looked at in a vacuum, and up until the last few hours of the day, Friday was no better or worse than the average day over the past several months. Compared to yesterday morning's levels, the average lender was 0.01% higher--a small enough move to be effectively considered "unchanged." This expanded to 0.05% in the last few hours as multiple lenders increased rates.

In terms of big-picture benchmarks, the increase officially brings rates to their highest levels since early 2025. To be clear, we were just barely lower than May 2025 levels yesterday. Now we're in line February 2025 levels.

The intraday market movement was interesting. The bond market (which underlies mortgage rate movement) actually improved this morning even though Fed rate hike expectations increased following a slightly hotter inflation reading in this morning's economic data.

This is an uncommon pattern. There are two ways to look at it. First, longer-term rates may have been encouraged by the uptick in Fed rate hike expectations because that provided reassurance that Fed was more likely to take steps to combat higher inflation. In other words, some of the upward pressure in longer-term rates is thought to have been driven by fear of Fed inaction.

If this morning's inflation data was hot enough to increase the odds of action, but not so hot as to cause a material change in the inflation outlook, it's the perfectly warm bowl of porridge. In OTHER other words, yes! There's a scenario where longer-term rates (things like mortgages and 5-10yr Treasury yields) actually WANT the shortest-term rates (like the Fed Funds Rate) to move higher.

The other way to look at it involves traders' underlying positions. This is more esoteric, so we won't fully dissect it here. The gist is that traders could either be buying bonds to open new "long" positions betting on rates falling or to close previous "short" positions (bets on rates rising). The latter is known as short-covering and it's a less sustainable source of downward pressure on rates.

Why would that matter today? Because as the day progressed, we saw bond yields gradually return to the morning highs, basically erasing the paradoxically strong reaction to this morning's inflation data.

At the very least, we can say that today's high stakes inflation data didn't end up doing too much incremental harm to the rate outlook. Next week's Fed announcement (and the associated market reaction) will tell us a lot more about the road ahead for rates.

Economic Calendar

Last Week | This Week | Next Week

Time	Event	Actual	Forecast	Prior
Friday, Sep 11				
12:00AM	Roll Date - UMBS 30YR			
8:30AM	Aug y/y Headline CPI (%) ☆	3.4%	3.4%	3.4%
8:30AM	Aug m/m CORE CPI (%) ★★	0.3%	0.2%	0.2%
8:30AM	Aug m/m Headline CPI (%) ★	0.4%	0.4%	0.1%
8:30AM	Aug y/y CORE CPI (%) ★★	2.4%	2.4%	2.5%
10:00AM	Sep Consumer Sentiment (ip) ☆	47.8	51	51.7
10:00AM	Sep Sentiment: 1y Inflation (%) ☆	4.6%		4%
10:00AM	Sep Sentiment: 5y Inflation (%) ☆	3.4%		3.3%
10:00AM	Sep U Mich conditions ☆	50.9	51.3	51.9
12:00PM	WASDE Report (%)			
2:00PM	Aug Federal budget (bl)	$-167B	$-404B	$-432B
Monday, Sep 14				