The Treasury Driven "Everything" Rally Will Continue

The October rally in stocks got off to a choppy start. The S&P 500 was sitting at 3,586 at the end of September when we published Darkest Before the Dawn. The market gyrated for a couple of weeks before closing at 3,583 on the 14th when we published The Wall of Worry Knows No Bounds. While by no stretch of the imagination has it been a one-way street from there, it has been a pretty good run. **However, it was the performance on Friday that really encouraged me that the Treasury market can be supportive (rather than just a risk)**.

Why So Bullish on Rates?

There are several reasons, the simplest being the **Fed Blackout period**. That is important for several reasons:

- Fed members (such as Daly), in the moments before the blackout period started, seemed to shift gears in terms of what the Fed would do after November.
- The alleged Fed mouthpiece (Nick at the WSJ) posted a note that also seemed to support that view.
- So, the last few things that came out before the quiet period passed as dovish (at least by recent standards).
- Finally, we are not subject to hearing (multiple times) about how weak data isn't changing their trajectory after any weak data hits (and weak data is hitting).

The Fed messaging and blackout period helps, but this isn't sufficient. Fortunately, if you are bullish rates here, there are other influences that will help support rates:

- Lots of signs that **inflation is abating** (tomorrow's Inflation Dumpster Dive T-Report).
- **Earnings calls** seem to reflect caution, which can be self-fulfilling.
- **FX and geopolitics.** It is clear that at least Japan and the UK have been reaching out directly (and through back channels) for support. It seems impossible that the ECB hasn't been doing the same. So, there is pressure on the Treasury and the Fed to throttle back on the dollar's strength. Since we need cooperation on Russia and China, there could be some flexibility.
- **China is un-investible.** I expect U.S. investors to pull back from China, with U.S. asset prices likely to benefit.
- **Post-election policy shifts.** There are two shifts that are plausible regardless of who wins the November midterms:
    - **Peace in Ukraine?** Virtually no effort has been made to figure out an exit ramp for Putin even as his nuclear threats escalate, and Russia conducts increasingly devastating attacks on Ukrainian infrastructure. Maybe after the elections the messaging will suddenly shift from ensuring a Ukrainian "win" to some sort of "global" win.
    - **Inflation fighting at all costs?** Given signs that the economy is slowing, will politicians stick to the "inflation is the devil" policy stance? Would that allow the Fed to wait and see? **It isn't a pivot when their work is almost done.**

Why Equities?

A favorable rate backdrop will help equities and as we make it through the earnings seasons, we can start talking about new or re-invigorated share buybacks, the Santa rally/whatever else helps spur stocks along, and where positioning remains too bearish.

Ultimately, something will derail this, but I don't see that as this week's or next week's business.

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