

The Treasury Driven “Everything” Rally Will Continue

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.**

The Treasury Driven “Everything” Rally Will Continue

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.

The Treasury Driven “Everything” Rally Will Continue

Disclaimer

This document and its contents are confidential to the person(s) to whom it is delivered and should not be copied or distributed, in whole or in part, or its contents disclosed by such person(s) to any other person. Any party receiving and/or reviewing this material, in consideration therefore, agrees not to circumvent the business proposals explicitly or implicitly contained herein in any manner, directly or indirectly. Further, any recipient hereof agrees to maintain all information received in the strictest confidence and shall not disclose to any third parties any information material to the opportunity contained herein and, upon review hereof, agrees that any unauthorized disclosure by any party will result in irreparable damage for which monetary damages would be difficult or impossible to accurately determine. Recipients recognize, and hereby agree, that the proprietary information disclosed herein represents confidential and valuable proprietary information and, therefore, will not, without express prior written consent, disclose such information to any person, company, entity or other third party, unless so doing would contravene governing law or regulations.

This document is an outline of matters for discussion only. This document does not constitute and should not be interpreted as advice, including legal, tax or accounting advice. This presentation includes statements that represent opinions, estimates and forecasts, which may not be realized. We believe the information provided herein is reliable, as of the date hereof, but do not warrant accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Nothing in this document contains a commitment from Academy to underwrite, subscribe or agent any securities or transaction; to invest in any way in any transaction or to advise related thereto or as described herein. Nothing herein imposes any obligation on Academy.

Academy is a member of FINRA, SIPC and MSRB. Academy is a Certified Disabled Veteran Business Enterprise and Minority Business Enterprise and is a Service Disabled Veteran Owned Small Business as per the US SBA. Investment Banking transactions may be executed through affiliates or other broker dealers, either under industry standard agreements or by the registration of certain principals.