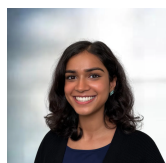


First to Market

September 25, 2026

BOND MARKET AND STOCK MARKET VOLATILITY GAUGES ARE DIVERGING

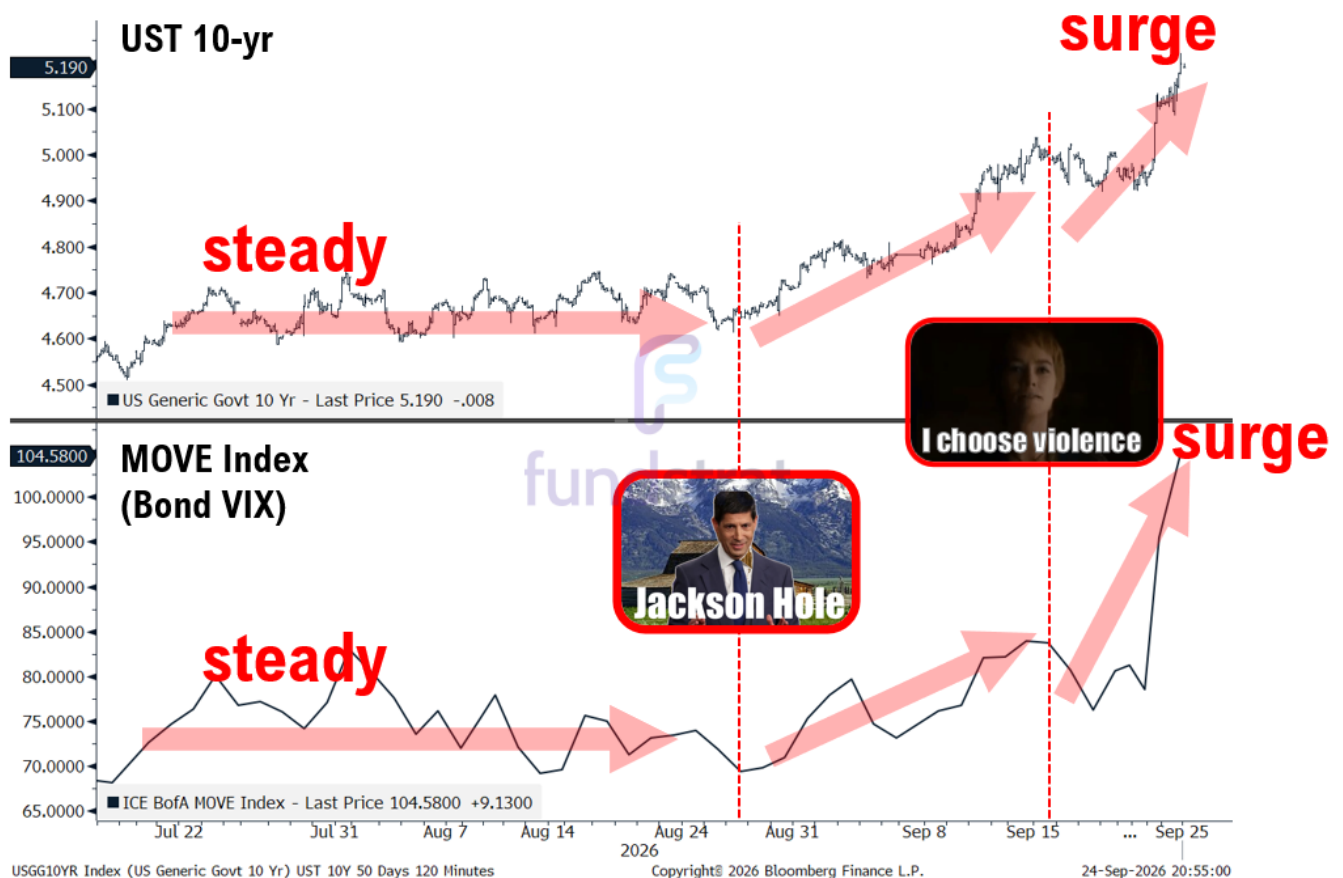


Hardika Singh

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

Chart of the Day

YIELDS: Started surging after Warsh's speech at Jackson Hole



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Good morning!

Something really weird is going on in the markets.

Volatility measures for the bond and stock market have diverged to levels rarely seen before, as highlighted by Fundstrat Head of Research Mark Newton in his *FlashInsights* post yesterday. The ICE BofA MOVE index, which looks at bond-market volatility, rose to 104.58 on Thursday, its highest level since March. But the stock market's volatility gauge, the Cboe Volatility Index, or VIX, has been rather calm, rising to a modest 15.67. The ratio of the two is the widest since December 2024.

As bond investors are considered to be infinitely smarter than stock investors, the worry is that the carnage in bonds could spill over to stocks and other assets soon. Yields influence the price of everything from gold to what values currencies are trading at and also how consumers feel about the economy, so what happens to them is of ultra-importance to market participants.

U.S. Treasuries, which represent the world's most trusted, transparent, and liquid asset, have been hitting new multiyear lows—notching new superlatives almost every day. The 10-year Treasury yield rose to 5.164%, its highest level since July 2007, while the 30-year Treasury yield edged up to 5.460%, its highest level since June 2004. The 5-year Treasury yield also increased to its highest level since July 2007.

But the stock market has been ripping at the same time, challenging conventional finance norms that higher yields add pressure on stocks by reducing the value of future earnings. The Nasdaq composite was flat on Thursday, off 1.1% from its record hit on Tuesday. The S&P 500, too, was unchanged. It's just 1.2% shy of its record from last month.

An increase in yields typically reduces the appeal of investing in the stock market because many would rather earn the higher risk-free rate.

The big reason why the stock market is ignoring the relentless rise in yields this time around is because of the tech sector's strong recovery to start fall. Meta's new AI agent Muse has reignited investors' decades-old love affair with tech and unraveled the diversified rally that we saw this summer. Five of the S&P 500's 11 sectors—including yield-sensitive segments like utilities, real estate, and financials—are down more than 5% in the past month.

But at the same time, it's valid for investors to be worried about the disparity between the bond and stock market. Head of Research Tom Lee said in August that 100 is the level of concern for the MOVE index, which, of course, it has surpassed. But here's the thing: For there to be pain in the stock market, increases in the MOVE typically have to coincide with jumps in the VIX.

And to be sure, I don't believe yields can stay this high for much longer. One catalyst for their down move could come from the release of the personal-consumption

expenditures report coming up on Wednesday.

There were signs within the last core PCE report that suggest higher memory prices are driving at least a fifth of the excess inflation in core PCE when compared to the pre-pandemic average via the “computer software and accessories” category. The Fed has highlighted this as a “measurement error,” and that’s a big part of why the Bureau of Economic Analysis is upgrading the methodology used to calculate this metric.

Those who argue that this is merely manipulating the data set might benefit from knowing that the Fed only came up with the idea of core inflation measures during the oil shock of the 1970s because it wanted to ignore what it couldn’t control, i.e. supply shocks. (I didn’t know this until yesterday until Fundstrat Head of Data Science "Tireless" Ken Xuan shared it with our team.)

As the PCE reverts back to being in the 2% range, the Fed will likely walk back their hawkish views, and investors will remove future hikes from their estimates. That would remove some of the volatility from the bond market and incur further gains in the stock market.

Share your thoughts

Are you worried about what's going on with bonds? [Click here](#) to send us your response.

Here's what a reader commented

Q: Do you think McDonald's will emerge a winner from its new turnaround strategy?

A: With the backdrop of record worldwide government debt, massive money printing likely to continue. With that backdrop price and asset inflation likely to continue. That means consumers likely to remain strained and with MCD growing bottom line just 5-7% shares look expensive. The new products would have to perform way above

expectation so closer to 10% on the bottom line for current share price to make sense.

Catch up with Fundstrat

Our analysis shows that long-term yields and bond volatility only started surging after Fed Chair's speech at Jackson Hole. That was when he surprised markets with a very hawkish message. And since then, yields have surged. This makes me wonder if this argues for the idea of a policy error. Moreover, we may get dovish data next week.

Technical

The US Dollar Index seems to be up against strong resistance, while long yields have become overbought. Overall, the lack of material equity weakness today despite ^TNX finishing at 5.208% seems like a positive heading into the weekend.

Crypto

It was a difficult day for risk assets, but the real stress was in rates. Hawkish commentary from Fed Governor Barr, renewed geopolitical risk around Iran, and reports that the administration was considering a temporary diesel-export ban all pushed inflation/rate concerns back to the forefront. Fed Funds futures now price >3.5 hikes over the next 12 months, well above the path laid out in last week's SEP.

News We're Following

Breaking News

- Oil falls amid optimism over potential diplomatic solution to the Iran conflict CNBC

Markets and economy

- The Robust U.S. Economy Powers Through Rate Hikes and Rising Bond Yields WSJ
- Why investors aren't buying yet another attempt by the Treasury to calm the rattled bond market MW
- History shows financial calamities occur when rates rise rapidly like this: 'Something always breaks' CNBC

Business

- The Rise of the Almost-Premium Credit Card WSJ
- Costco's results beat expectations. Here's why investors are still cautious. MW
- The S&P 500's newest tech stock is now its best performer MW
- Starbucks is closing hundreds of locations CNN

Politics/U.S.

- Five Takeaways From Trump's Washington Summit With Xi WSJ
- A Republican Under Pressure Sticks By Trump: 'I'm Still With That Guy' NYT
- Why a U.S. Diesel Export Ban May Not Lower Prices NYT

Overseas

- Yen Heads for Best Day in Two Weeks After Japanese Jawboning BBG

Of Interest

- Atlanta is getting pandas: China's Xi revives a longtime diplomatic strategy at summit with U.S. CNBC

Overnight

S&P Futures	+24 ▲ point(s) (+0.31% ▲)
overnight range:	-18 ▼ to +26 ▲ point(s)

APAC

Nikkei	+1.30% ▲
Topix	+1.31% ▲
China SHCOMP	-1.22% ▼
Hang Seng	-1.01% ▼

Hang Seng	-0.27% ▼
Korea	+0.90% ▲
Singapore	+0.49% ▲
Australia	-0.43% ▼
India	+0.24% ▲
Taiwan	-0.28% ▼

Europe

Stoxx 50	+0.83% ▲
Stoxx 600	+0.71% ▲
FTSE 100	+0.43% ▲
DAX	+0.79% ▲
CAC 40	+0.27% ▲
Italy	+0.92% ▲
IBEX	+1.09% ▲

FX

Dollar Index (DXY)	-0.19% ▼ to 101.09
EUR/USD	+0.07% ▲ to 1.1388
GBP/USD	+0.14% ▲ to 1.3237
USD/JPY	+0.50% ▲ to 158.07
USD/CNY	-0.03% ▼ to 6.7129
USD/CNH	-0.13% ▼ to 6.7248
USD/CHF	-0.22% ▼ to 0.8296
USD/CAD	-0.06% ▼ to 1.4147
AUD/USD	+0.20% ▲ to 0.7026

UST Term Structure

2Y-3M Spread narrowed	-3.0bps ▼ to 71.1bps
10Y-2Y Spread widened	0.8bps to 27.8bps
30Y-10Y Spread widened	2.0bps to 29.2bps

USD HY OaS

All Sectors	+10.6bps ▲ to 312bps
All Sectors ex-Energy	+8.9bps ▲ 296bps
Cons Disc	+11.9bps ▲ to 521bps
Indu	+8.3bps ▲ to 267bps
Tech	+7.9bps ▲ to 201bps
Comm Srvcs	+8.4bps ▲ to 308bps
Materials	+8.0bps ▲ to 245bps
Energy	+10.7bps ▲ to 260bps
Fin Snr	+8.0bps ▲ to 194bps
Fin Sub	+11.2bps ▲ to 261bps
Cons Staples	+7.9bps ▲ to 416bps
Healthcare	+9.4bps ▲ to 316bps
Utes	+6.6bps ▲ to 216bps *

DATE

TIME DESCRIPTION ESTIMATE LAST

DATE			TIME	DESCRIPTION	ESTIMATE	LAST
9/25	8:30 AM	Aug P Durable Gds Orders			-0.3	1.1
9/25	10:00 AM	Sep F UMich 1yr Inf Exp			4.7	4.6
9/25	10:00 AM	Sep F UMich Sentiment			47.5	47.8
9/29	9:00 AM	Jul S&P Cotality CS 20-City m/m			0.2	0.24
9/29	10:00 AM	Sep Conf Board Sentiment			90	89.4
9/29	10:00 AM	Aug JOLTS			7225	7271
9/30	8:30 AM	Aug PCE m/m			0.4	0.2
9/30	8:30 AM	Aug Core PCE m/m			0.3	0.25
9/30	8:30 AM	Aug PCE y/y			3.7	3.7
9/30	8:30 AM	Aug Core PCE y/y			3.3	3.34415
9/30	8:30 AM	2Q F GDP QoQ			1.5	1.5
10/1	9:45 AM	Sep F S&P Manu PMI			n/a	57

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