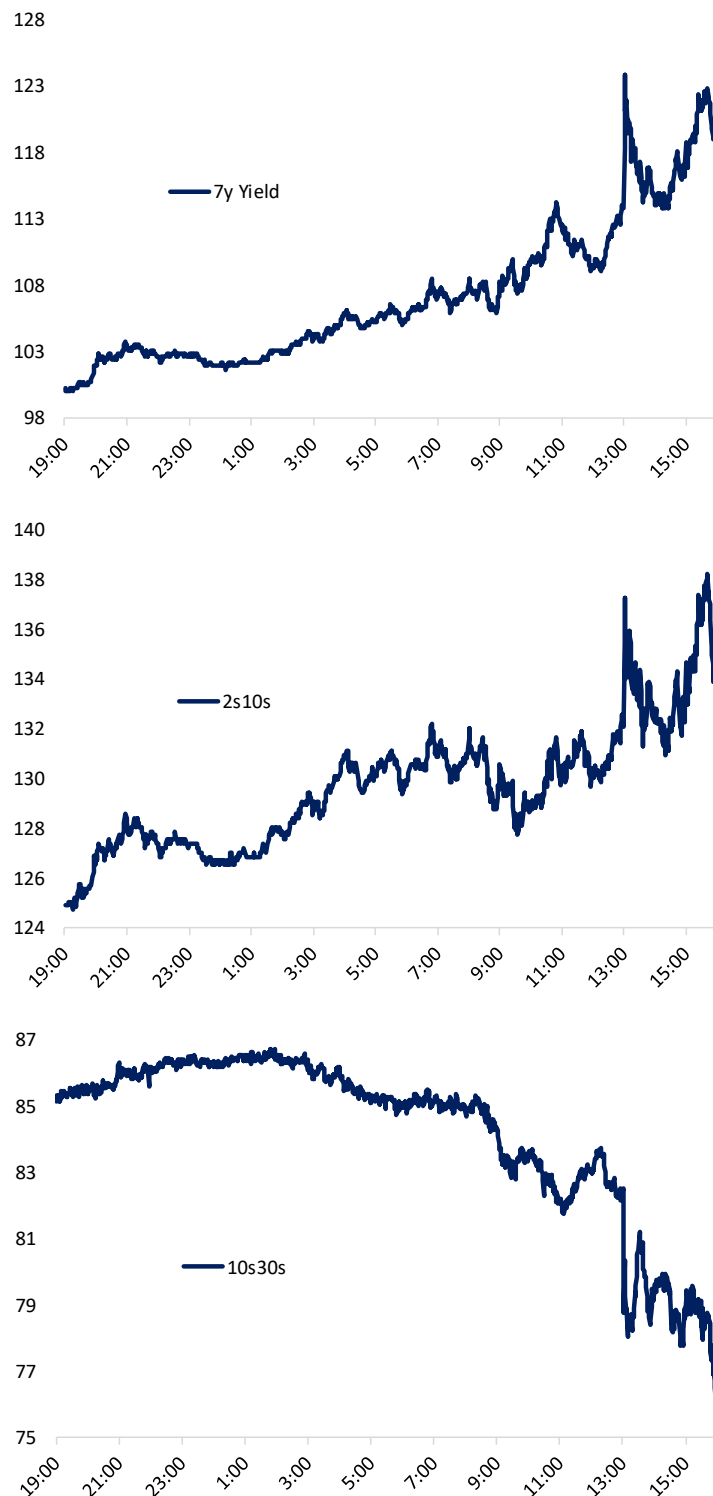




Terror In Treasuries: Rates Markets Have Gone Too Far

Wild Day In Rates Markets: Intraday Yield Changes (bps)



- Today was *all* about rates as the US Treasury market endured a historic selloff.

- With rates surging, equities fell (S&P 500 down 2%, NASDAQ 100 – 3.5%, Russell 2000 –3.3%) on widening credit spreads (CDX HY +22 bps) and the second-largest VIX increase of the past 8 months (+7.6 points to 28.9).

- Commodities were broadly lower while the US dollar rose a modest 11 bps.

- Normally this kind of selloff has a key catalyst, but there was none today.

- Every Fed speaker (George, Bostic, Bullard, Williams) gave some variation of the standard theme: the FOMC will be patient, look through transitory inflation this year, and is focused on maximum employment.

- In the afternoon, there was a remarkably terrible 7 year note auction that proved the cap on the days' worst levels for bond prices, but that only came after the 7 year yield was 15 bps higher on the day.

- We want to note that the selling was tightly concentrated in the belly of the yield curve; 2s and 30s saw yields rise roughly 5 bps on the day, versus 20 bps for 5s and 14 bps for 10s, leaving the 10s30s curve which is the best proxy for long-term inflation risk premiums to plunge, mirroring declines in inflation breakevens as well.

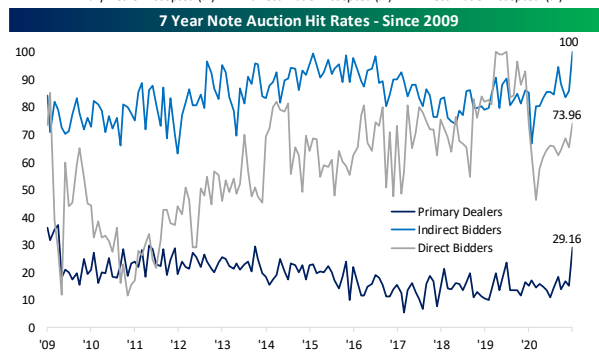
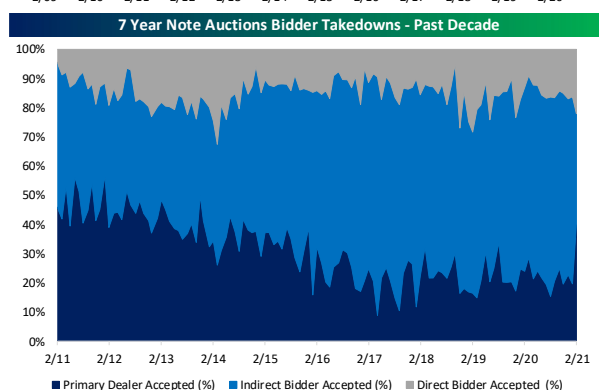
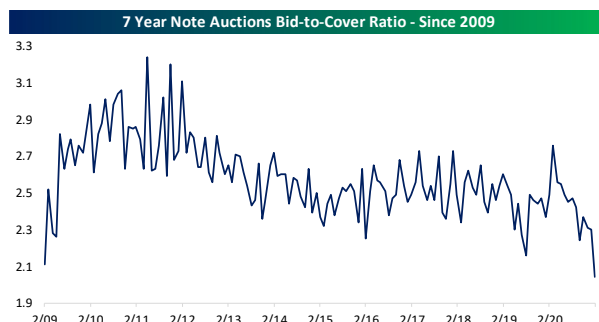
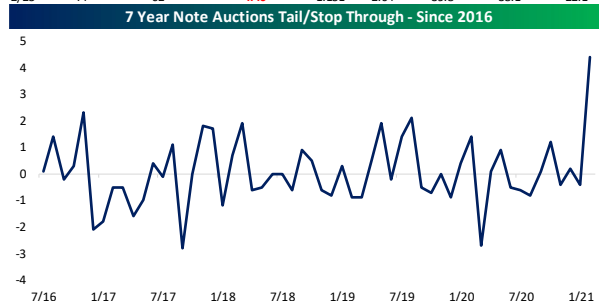


- Today's 7-year note auction was one of the worst Treasury auctions in memory and was exactly the sort of behavioral extreme we look for to note an extended level in any asset class.
- The \$62 billion of notes tailed the when issued yield by a record 4.4 bps.
- Even looking at the histories of auctions and reopenings of other coupons (excluding TIPS), the only other instance we have on record of a tail as large was the 30-year auction in November 2011 which tailed by an identical 4.4 bps.
- Not only was the tail massive, but the bid to cover ratio plummeted.
- The ratio came in at a record low of 2.04, surpassing the previous record low of 2.11 in February 2009. Again, comparing that to other maturities, it is uncommon, though not totally without precedence, to see such a low bid to cover ratio.
- The internals were not any better. Primary dealers got the most since 2014 while indirects only received 38.1% of the auction; down an astounding 26 percentage points from last month. That is the biggest drop between two consecutive auctions on record, and that indirect takedown is the weakest since November 2013.
- Additionally, the hit rate (the ratio of accepted to tendered bids) for indirects was 100% for the first time on record. While this was the first time that rate reached 100%, there have been a few close calls in the past like March 2015 when the rate was 99.2%
- Once again comparing to other maturities, the most recent instances of an auction having a 100% hit rate for indirect bidders was the 2 year auction in July 2016, December 2013 for 5 year notes, March 2007 for 10 year notes, and February 2008 for 30 year bonds.

This Week's Auctions: Past Ten Reopenings/Auctions Average								
Date	Maturity*	Offering Amount (\$ bn)	Tail (+) / Stop Through (-) (bps)	Win Rate (%)	B.C. Ratio	Bidder Takedowns (%)		
2/25	7Y	62	-0.02	50.0	2.42	Primary	Indirect	Direct
						20.88	63.83	15.29

This Week's Auctions: 10 Year Average for February								
Date	Maturity*	Offering Amount (\$ bn)	Tail (+) / Stop Through (-) (bps)	Win Rate (%)	B.C. Ratio	Bidder Takedowns (%)		
2/25	7Y	62	0.17	50.0	2.60	Primary	Indirect	Direct
						32.41	51.60	15.98

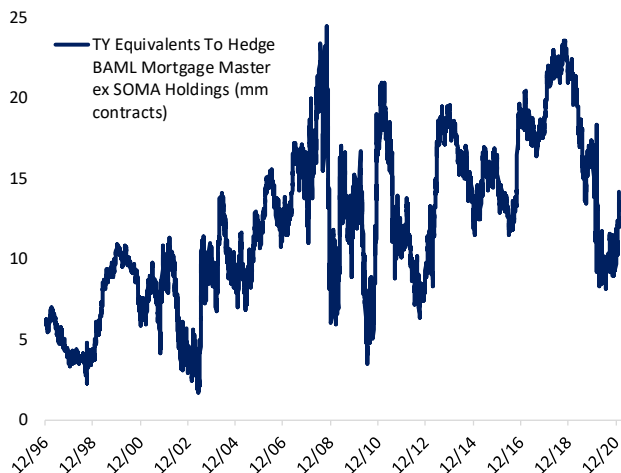
Today's Auction Results								
Date	Maturity*	Offering Amount (\$ bn)	Tail (+) / Stop Through (-) (bps)	High Yield	B.C. Ratio	Bidder Takedowns (%)		
2/25	7Y	62	4.40	1.151	2.04	Primary	Indirect	Direct
						39.8	38.1	22.1



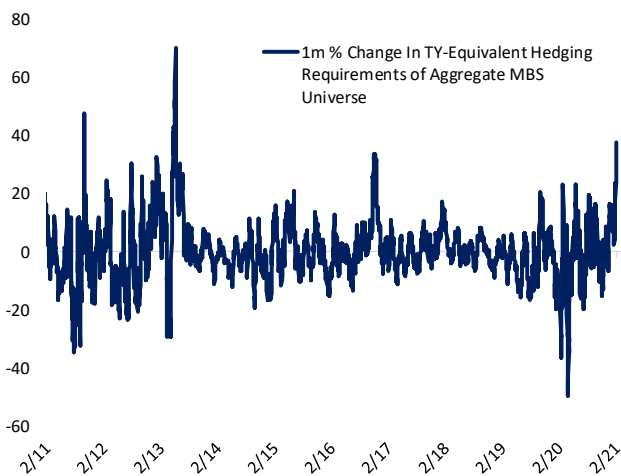


- One widely-blamed culprit for yield rises was mortgage hedging, which we most recently discussed on February 16th in *The Closer* ([link](#)).

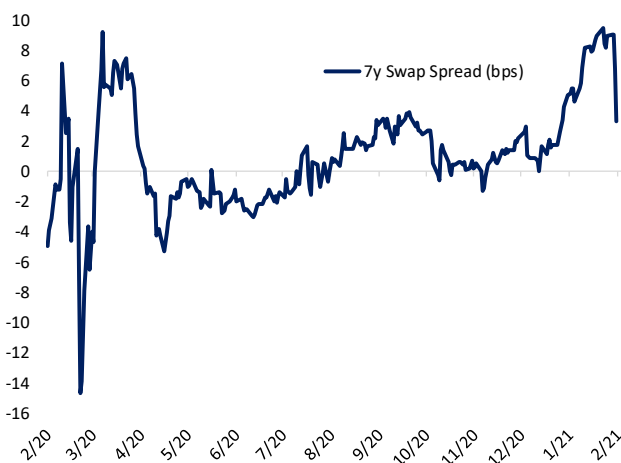
Mortgage Hedging Requirements Are Rising Rapidly



Biggest Hedging Need Increase Since Taper Tantrum



Unusual Twist For Convexity Selling: Falling Swap Spreads



- To update that analysis, at left we show our estimate for the aggregate duration hedging requirement of the mortgage-backed securities universe.

- Not all of these bonds are hedged, because buyers like the Fed, banks, and foreign official accounts (mostly reserve managers) don't necessarily need to do so, but the aggregate hedging requirement can still be a good proxy for the flow of duration buying/selling that investors who *do* hedge must conduct.

- As shown, the requirement has risen by 25% over the past month, the fastest increase since the Taper Tantrum.

- While we show these flows as ten year futures contract equivalents, most mortgage hedging takes place in the “belly” of the curve, the 5-10 year sector.

- That was obviously the nexus of today's selloff, lending a further clue as to the driver.

- One counter-point is swap spreads, which have fallen in recent sessions; typically, mortgage hedgers rely on swaps to efficiently reduce duration exposure.

- If mortgage hedgers are busily paying swaps to hedge, why are their spread to UST falling instead of rising as would be expected of an environment with price-insensitive payers?

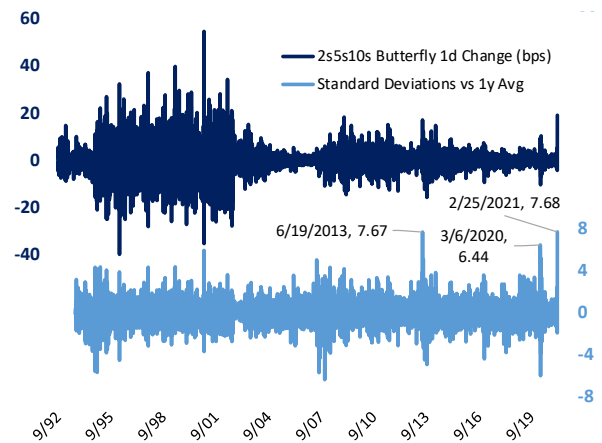
- One potential explanation is the musings at the Fed about how to treat dealers' liquidity requirements with respect to Treasuries.

- Recent headlines have suggested that the Fed may soon end exemptions for large firms.

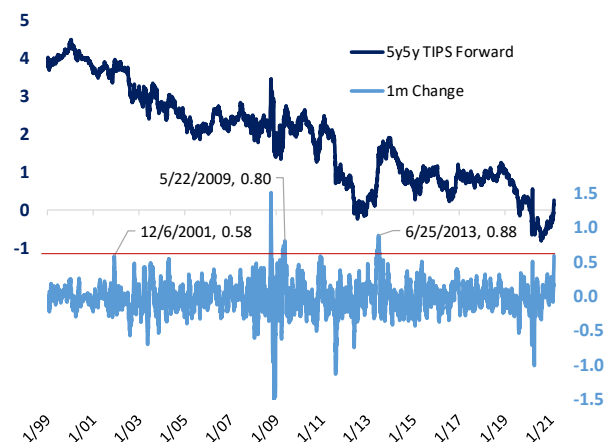


- Another reason to be somewhat skeptical of the absolutely brutal price action being entirely driven by mortgage hedgers is to review the relative performance of the belly of the curve.
- The 2s5s10s butterfly (which measures the yield on 5s versus those on 2s and 10s) had a 7.7 standard deviation move today.
- While mortgage hedging *could* have been a factor, it's also very likely in our view that a large position or large positions were stopped out.
- Mortgage hedgers wouldn't have been so exclusively focused on 5s with other similar maturities available.
- We also note that real yields are absolutely *flying*.
- As mentioned earlier, 10s30s flatter and breakevens lower means this move today was *not* an inflation scare; quite the opposite.
- As shown at right, the 5 year forward 5 year TIPS yield has shocked higher with special violence over the past month, and today's raucous selling was possibly a blow-off top for that trend of higher real yields in out years.
- We also note that Eurodollar futures have gone from pricing 1 hike over the 2021-2023 periods to almost 4 hikes in recent weeks.
- In other words, this selloff is not about inflation risk premiums rising to account for incrementally dovish Fed pricing, but real yields soaring to account for the market thinking the Fed will get *more* hawkish down the road.
- To summarize, there are a number of behavioral factors (terrible auction, historic dislocations) that suggest this selloff has reached an extreme level, and we stand by our analysis yesterday from our *Fixed Income Weekly* ([link](#)) that bonds are attractive at these levels.

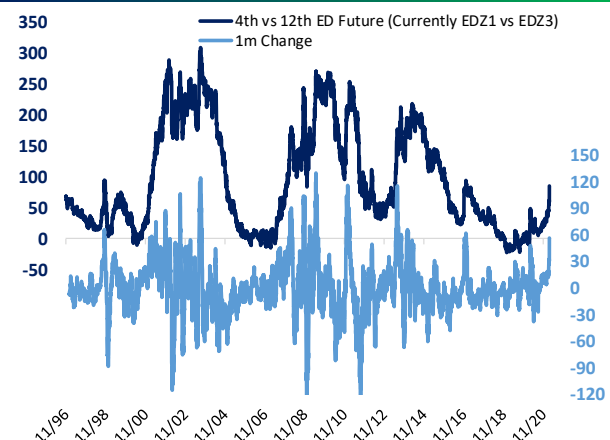
The Belly Of The Curve Was Absolutely Rocked Today



Forward Real Yields Are Skyrocketing (%)

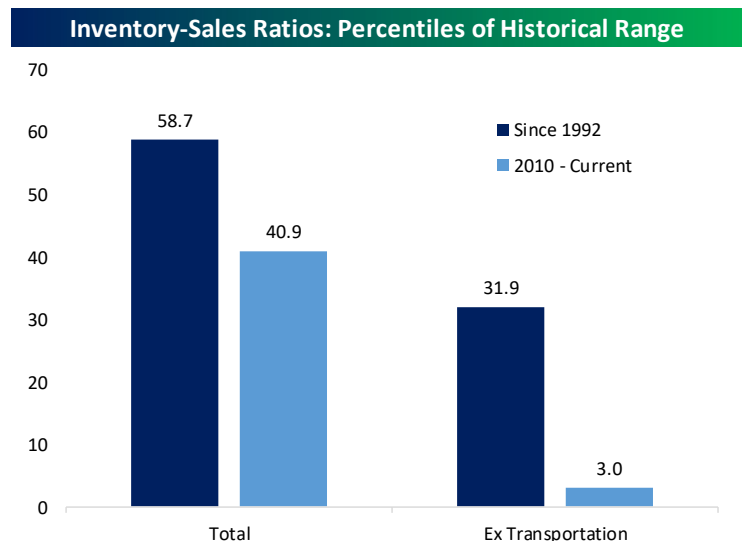
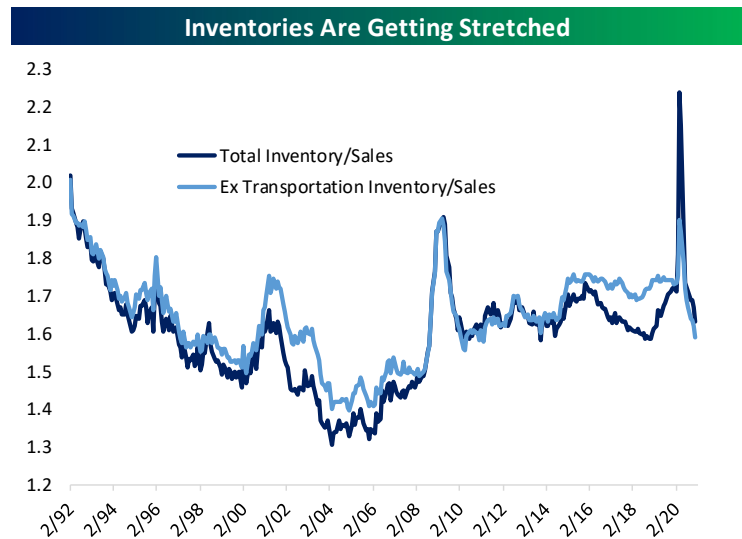
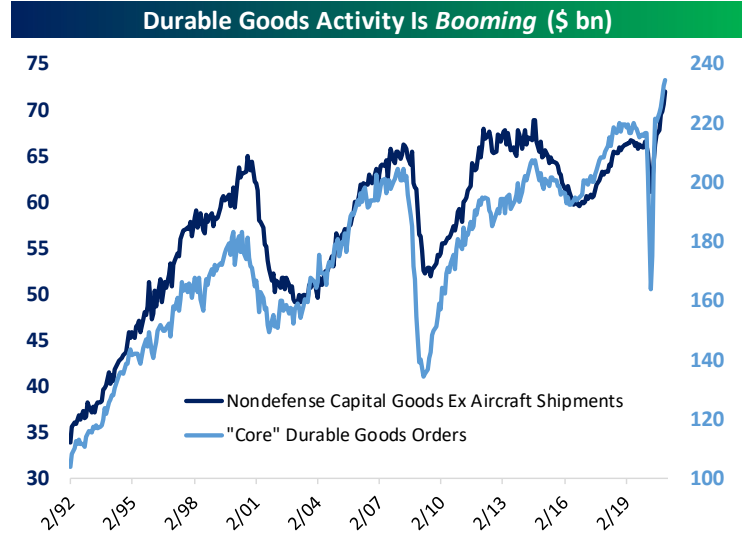


Expectations For Forward Hikes Are Rising...But Aren't Extreme





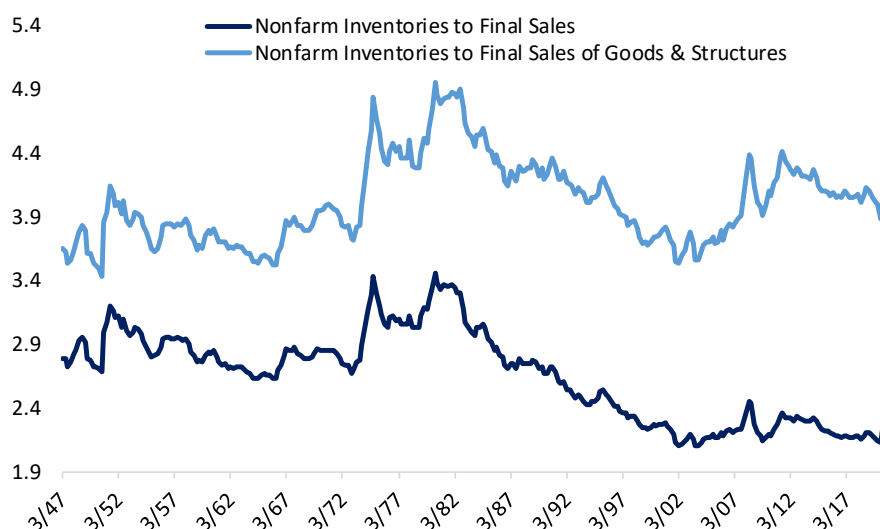
- While economic data today did not create the brutal selloff in rates, we can say with great confidence that it didn't hurt the case of rampaging Treasury bears.
- January durable goods orders positively blew the doors off, with total orders up 3.4% versus 1.1% estimated and nondefense capital goods shipments excluding aircraft (a proxy for capex) surging 2.1% versus 0.6% estimated.
- In the first chart at right, we show that measure as well as our "core" durable goods orders series which strips out the most volatile categories of orders and represents roughly 90% of total orders.
- As shown, these series continue to go practically vertical even though they're already easily at record highs.
- The more interesting story is in inventories, which are collapsing relative to the massive advance in sales booked over the last several months.
- As shown in the last chart at right, the current inventory/sales ratio for ex-transportation durable goods is in the bottom 3% of readings since 2010 and cratering.
- Longer-term, ratios are more restrained, but we think it's safe to say that management teams are running very tight supply chains relative to recent history and strong demand will force those inventories higher in coming months, fueling further demand short term.



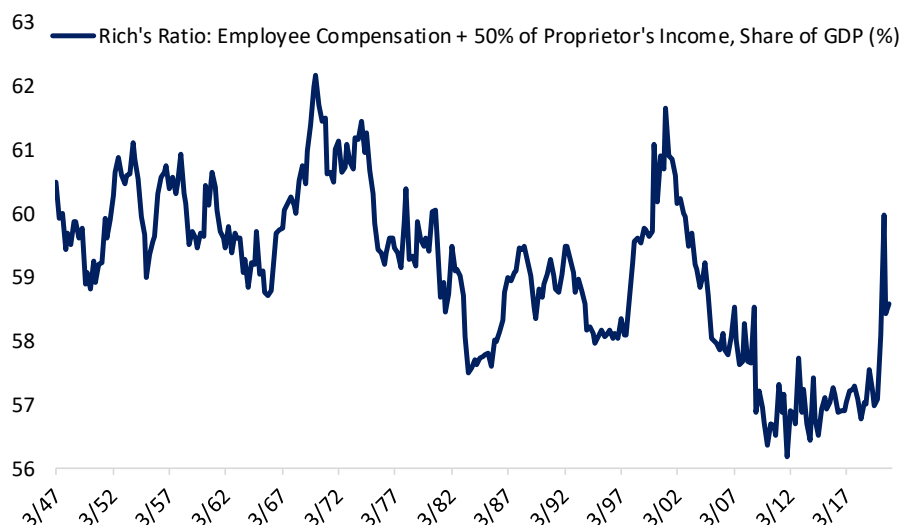


- Sticking with inventories, today's GDP numbers showed a similar story to the manufacturing numbers: total economy inventories are relatively low versus recent history.
- As shown below, while broad measures of inventory levels are not at absolute extremes, they are low and are likely to rise given unfurling demand in a post-COVID economy.
- Another note from Q4 GDP revisions: "Rich's Ratio" (named for FOMC Vice Chair Clarida during his time at PIMCO) remained very strong in Q4 as labor bargaining power appears to be much stronger post-COVID than pre-COVID...despite the economic devastation of the virus.
- The Fed is desperate for this ratio to keep climbing as part of its mission to maximize employment, and as shown in the chart, it can run for a *long* time before getting close to historically elevated levels even versus its current recent gains.

Total Economy Inventories Are Also Pressured



Labor Share of Income Has Risen Post-COVID And Remains Elevated





Equities got slammed today as the S&P 500 dropped around 2.5% while the Nasdaq and Russell 2000 fell by greater than 3.5%. Breadth was very weak with less than 50 S&P 500 stocks closing higher. Given this, every sector was lower with only Utilities and Health Care managing declines less than 1%. Bond yields were higher with the 10 year yield reaching a high of 1.614%.

Japan will have a busy night of data including CPI, industrial production, and housing starts. In Europe there will be a few GDP releases. Economic scorecard [link](#).

Don't forget to keep an eye on what the FOMC is saying with our *Fedspeak Monitor* ([link](#)) and stay up-to-date with central bank meeting dates with our *Global Central Bank Monitor* ([link](#)). These are regularly updated along with our economic scorecard to keep you on top of major developments.

Bespoke Major Asset Class Dashboard

	Asset	Level	Change	5d Chg	3m Chart		Asset	Level	Change	5d Chg	3m Chart
			(bps)						(bps)		
Equity Futs	S&P 500	3830.50	-234.5	-205.2		Commodity	Gold	1770.40	-153.0	-23.7	
	Russell	2199.90	-372.9	-91.4			Silver	27.47	-165.8	125.3	
	VIX Fut	27.80	1700.6	754.4			WTI	63.33	17.4	506.0	
	TSX	1081.30	-137.7	-29.5			Copper	420.45	-231.2	745.0	
Trsy Yields	2 Year	17.40	5.1	6.9		Int'l Equity	Nikkei	30168.27	167.4	-224.3	
	5 Year	81.81	21.8	26.5			CSI 300	5469.56	58.8	-518.0	
	10 Year	152.68	15.1	23.1			ASX 200	6834.03	82.9	-75.3	
	30 Year	229.18	5.9	21.0			STOXX 600	411.73	-35.8	-23.5	
Curves/BE	2s10s	134.69	9.8	16.0		FX	BBG USD	1127.97	64.5	11.4	
	5s30s	147.04	-16.1	-5.5			EURUSD	1.2175	7.4	68.6	
	5 Yr BE	235.92	-3.9	3.9			USDJPY	106.26	36.8	53.9	
	10 Yr BE	213.32	-3.2	-4.1			EM FX	57.11	-161.1	-138.7	
Eurodollars	Mar '21	99.82	-1.7	-0.03		Credit	CDX IG	56.23	8.7	5.2	
	Jun '21	99.84	-1.0	-0.02			iTraxx IG	50.41	3.7	2.3	
	Sep '21	99.82	-1.0	-0.02			CDX HY	311.49	7.1	18.9	
	Dec '21	99.78	-0.5	-0.02			iTraxx HY	261.85	4.0	12.7	



Closing Charts & Tweets

Popular Tweets From @bespokeinvest on Twitter

"TLT down 12.5% YTD." — 1:05

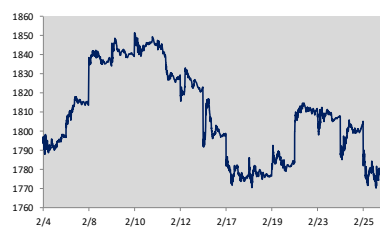
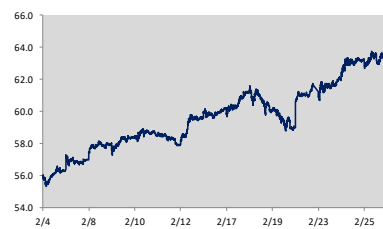
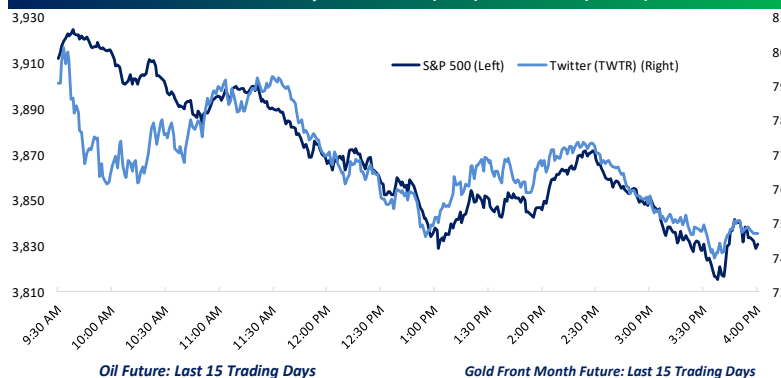
"GBTC is actually now priced at a slight discount to bitcoin." — 12:45

"Interesting snapshot of the 30 Dow members. Significant divergence so far in 2021. The two big retailers \$WMT \$HD are at extreme oversold levels. Apple \$AAPL is oversold. Look at where the strength is - Energy, Financials, Industrials. Intel \$INTC is quietly up 27% YTD." — 8:50

S&P 1500 Biggest Movers

Price (%)		Volume vs Historical Avg (%)	
Most Up	Most Down	Most Up	Most Down
GME 18.56	HCC -22.55	APEI 951.66	DD -76.03
CCRN 12.52	USPH -17.86	USPH 789.47	CKH -76.02
FTI 11.99	ACA -15.86	LMNX 738.76	PBH -73.12
LMNX 9.78	TREE -15.45	IIPR 618.22	IFF -72.92
RES 8.31	HSC -15.33	PZZA 490.91	WRDL -70.62
UIHC 7.85	CNXN -15.03	GPPE 458.28	ATGE -70.14
PDCE 6.64	REZI -14.77	DPZ 417.94	BBBY -69.24
CXW 6.47	CLF -14.73	TPRE 393.19	NATI -66.99
GEO 6.15	NTAP -14.48	BBY 347.61	HNI -66.91
FCN 6.03	IIPR -14.32	VRSK 324.27	EHTH -65.38
OII 5.96	GCI -14.08	ACA 323.80	IAA -64.62
DFIN 5.46	KRA -14.03	HCC 312.62	CBB -63.84
ANIK 5.41	HZO -13.74	PRAH 310.97	CATM -61.11
PETS 4.56	ICHR -12.57	NPK 304.24	FOSL -61.09
PWR 4.29	ANSS -12.17	PNTG 304.15	PBI -60.47

The Tale of The Tape: S&P 500 (Left) vs Twitter (TWTR)



Key ETFs (1 Day % Change)

Ticker	Name	Change	Last 6 Mos
SPY	S&P 500	-2.41	
IJH	S&P 400	-3.04	
IJR	S&P 600	-3.09	
DIA	Dow 30	-1.74	
QQQ	Nasdaq	-3.49	
IWB	Russell 1000	-2.47	
IWM	Russell 2000	-3.70	
XLF	Financials	-1.82	
XLB	Materials	-2.31	
XLE	Energy	-1.93	
XLI	Industrials	-1.84	
XLV	Cons. Cyclical	-3.72	
XLP	Cons. Staples	-1.09	
XLV	Health Care	-1.00	
XLRE	Real Estate	-1.63	
XLC	Telecom	-2.18	
XLK	Technology	-3.50	
XLU	Utilities	-0.90	
GDX	Gold Miners	-4.07	
XME	Metals & Mining	-5.91	
XRT	Retail	-3.07	
XHB	Homebuilders	-4.04	
IYR	US Real Estate	-1.68	
KRE	Regional Banks	-2.95	
IWD	Russell 1000 Value	-1.94	
IWF	Russell 1000 Growth	-3.08	
AGG	Total Bond Mkt	-0.92	
TLT	20+ Yr Treasuries	-1.63	
MUB	Muni. Bonds	-0.43	
LQD	Invest. Gr. Bonds	-1.58	
JNK	High Yield Bonds	-0.86	
BKLN	Senior Loan	-0.31	
GLD	Gold	-1.88	
SLV	Silver	-2.08	
USO	Oil	-0.09	
UNG	Natural Gas	-1.62	
VT	Total World	-2.28	
CWI	World Ex-US	-1.56	
VEA	Developed Mkts	-1.70	
EEM	Emerging Mkts	-2.28	
VGK	Eurozone	-1.67	
DXJ	Japan JPY Hd'd	-1.12	
EWZ	Brazil	-4.92	
FXI	China	-1.52	
EWT	Taiwan	-1.67	
EWI	Hong Kong	-1.25	
EWJ	Mexico	-4.31	



Bespoke Market Timing Model: 2/25/21



Bearish			Neutral		Bullish		
Sentiment	Indicator	Current Level		Average S&P 500 Performance (%)			
		Direction	vs Historical	One Week	Two Weeks	One Month	
CBOE Call Volume	1.1	↓	0.8	-0.21	-0.15	0.25	
NYSE Up vs Total Volume (%)	56.0	↓	0.8	0.23	0.39	0.65	
Nasdaq Up vs Total Volume (%)	59.2	↓	1.2	0.47	0.78	1.40	
Index vs Equity PC Ratio	2.4	↓	3.8	0.77	1.30	2.18	
VIX 50-Day ROC (%)	28.3	↑	0.5	0.32	0.33	0.34	
VIX 10-Day ROC (%)	33.6	↑	1.5	0.53	0.78	1.15	
Investors Intelligence Bullish (%)	56.3	↓	0.9	0.17	0.27	0.41	
Investors Intelligence Bearish (%)	18.5	↓	-0.8	0.12	0.08	0.55	
Inv Intell. Bull Bear Spread	37.8	↓	0.9	0.26	0.31	0.56	
AAll Bullish (%)	45.9	↓	0.8	0.27	0.47	0.59	
AAll Bearish (%)	23.8	↑	-1.0	0.12	0.28	0.31	
AAll Bull Bear Spread	22.1	↑	1.0	0.09	0.21	0.46	
Overall Sentiment		↑	0.9	0.24	0.32	0.55	
Technical							
S&P 500 10-Day Avg. Spread (%)	-1.9	↓	-1.1	0.68	0.79	1.08	
S&P 500 50-Day Avg. Spread (%)	0.6	↓	0.0	0.30	0.42	0.51	
S&P 500 200-Day Avg. Spread (%)	11.2	↓	1.1	0.12	0.74	0.68	
S&P 500 Monthly ROC (%)	-0.5	↓	-0.2	0.09	0.20	0.55	
S&P 500 Weekly ROC (%)	-2.2	↓	-0.9	0.30	0.47	0.49	
S&P 500 Quarterly ROC 1 (%)	5.3	↓	0.4	0.22	0.35	0.65	
Group 10-Day A/D Line	-6.0	↓	-0.4	0.07	0.26	0.44	
Group 50-Day A/D Line	82.0	↑	0.2	0.26	0.49	1.05	
S&P 500 10-Day A/D Line	-58.0	↓	-0.3	0.22	0.27	0.35	
S&P 500 50-Day A/D Line	1349.0	↑	0.4	0.17	0.31	0.79	
NYSE TRIN Index	0.9	↓	-1.3	0.10	0.22	0.08	
Overall Technical		↓	-0.1	0.22	0.35	0.55	
Fundamental/Monetary							
Corporate Spreads (10-Day ROC)	-2.0	↑	-0.1	0.19	0.26	0.81	
Corporate Spreads (50-Day ROC)	-15.0	↓	-0.3	0.22	0.37	0.70	
High Yield Spreads (10-Day ROC)	-9.0	↑	-0.1	0.20	0.21	0.53	
High Yield Spreads (50-Day ROC)	-66.0	↔	-0.4	0.18	0.35	0.58	
S&P 500 P/S Ratio	2.9	↓	3.1	0.84	0.84	1.60	
S&P 500 P/E Ratio	31.5	↓	4.1	0.18	0.11	0.30	
S&P 500 P/B Ratio	4.2	↓	2.9	0.09	1.06	3.12	
Yield Curve (50-Day ROC)	65.2	↑	1.6	0.39	0.63	1.19	
Yield Curve (10-Day ROC)	35.5	↑	1.8	-0.02	-0.01	0.00	
Overall Fundamental		↑	1.4	0.19	0.35	0.70	
Bottom Line		↓	0.6	0.21	0.34	0.57	
Average S&P 500 Performance (All Days)				0.16	0.31	0.62	

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Bespoke Market Timing Model - Explained

Sentiment	Indicator	Current Level		Average S&P 500 Performance (%)		
		Direction	vs Historical	One Week	Two Weeks	One Month
CBOE Call Volume	1.7	↑	0.6	0.13	-0.22	-0.44
Overall Sentiment		↑	0.3	0.14	0.16	0.28
Bottom Line		↑	0.3	0.12	0.21	0.27
Average S&P 500 Performance (All Days)				0.12	0.24	0.50

The **Bespoke Market Timing Model** is a compilation of some widely (and not so widely) followed market indicators. While most investors have one or two indicators they rely on, we all recognize that no indicator by itself is correct all of the time. With this in mind, we set out to create a series of indicators from multiple disciplines in order to see what the 'crowd' of indicators are telling us. Just as no individual is bigger than the market, we contend that no single indicator is more accurate at forecasting the market than the sum of them all. What follows below is an explanation of the various fields in our report.

Indicator: Current level of the given indicator. In this example, CBOE call volume is 1.7 times CBOE put volume.

Direction: Change in the indicator (positive or negative) over the last week. In this example, calls relative to puts have increased during the last week.

vs Historical: This field measures the distance in standard deviations that the indicator is currently at versus its average over the last five years. In the above example, the volume of calls relative to puts is 0.6 standard deviations above its historical average.

Average S&P 500 Performance: This field displays the average performance of the S&P 500 following previously occasions when the indicator was at similar levels to the present. Values highlighted in green indicate the two indicators for that group which are predicting the biggest gains, while indicators highlighted in red highlight the indicators which are signaling the most negative returns going forward.

Overall Scores: Averages all the indicators for a given category. In the example above, overall sentiment is 0.3 standard deviations from its long-term average. At similar levels in the past, the S&P 500 has gone up an average of 0.14% over the next week, 0.16% over the next two weeks, and 0.28% over the next month.

Bottom Line: This line shows the average of all the indicators in the study. In the example above, the aggregate level of all the indicators is currently 0.3 standard deviations above the historical average, and based on prior experiences, the S&P 500 has gone up an average of 0.12% in the next week, 0.21% in the next two weeks, and 0.27% in the next month. Values highlighted in red indicate returns that underperform the S&P 500 over the entire period covered (regardless of the indicator level), while green highlights indicate that they outperformed the overall average S&P 500 performance.

Average S&P 500 Performance (All Days): This line measures the average historical performance of the S&P 500 over all periods for one week, two week, and one month time frames. These levels are then compared to the average level the indicators are predicting in the next two weeks, and 0.27% in the next month. Values highlighted in red indicate returns that underperform the S&P 500 over the entire period covered (regardless of the indicator level), while green highlights indicate that they outperformed the overall average S&P 500 performance.