

A shaky day for oil prices, bond market

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By Stan Choe
The Associated Press

NEW YORK>> After whipping through a couple of sudden reversals, stocks ended a shaky day of trading on Wall Street Thursday roughly where they began.

The S&P 500 finished nearly flat and edged down by less than 0.1% following several turns between losses and gains. The Dow Jones Industrial Average dropped 161 points, or 0.3%, and the Nasdaq composite added less than 0.1%.

Stocks have slowed their rally since the S&P 500 climbed to the brink of its all-time high earlier this week as pressure from the bond market has cranked higher. No

The yield on the 10-year Treasury jumped to 5.20% from 5.11% late Wednesday and is back to where it was in 2007. High yields slow the overall economy by making it more expensive to borrow money, while also undercutting prices for stocks and other investments. Not

Yields climbed through the morning, which pushed stocks downward, until they took a sudden turn lower in the midday hours.

The 10-year yield dropped from nearly 5.17% to less than 5.13% in about 20 minutes before ultimately turning higher again.

Yields once again were following the track of oil prices, which have been scattershot because of uncertainty about when the war with Iran will allow crude oil to flow freely again from the Middle East.

The price for a barrel of Brent crude in the most actively traded part of the market went from \$102 to roughly \$99 in a matter of minutes midday Thursday. It later rose to settle at \$100.22, up 2.1% from the prior day.

It's not just worries about expensive oil and inflation that have sent Treasury yields higher. The U.S. economy continues to expand, which also supports yields.

On Thursday, a report showed fewer U.S. workers applied for unemployment benefits last week and further strengthened expectations for the economy.

Such numbers could convince the Federal Reserve that the economy can withstand more hikes to short-term interest rates. The Fed raised its main interest rate last week for the first time in three years in hopes of slowing the economy and removing some of the fuel for inflation.

Traders now see better than a coin flip's chance that the Fed could raise rates twice more by the end of the year, according to data from CME Group.

So far, the solid overall economy has helped U.S. companies continue to deliver strong growth in profits.

That in turn has helped their stock prices remain relatively strong despite worries about war, inflation and tariffs.

"The headlines have turned more ominous, but the underlying drivers of growth remain intact," strategists at Barclays wrote in a report. "As long as AI-related investment, U.S. corporate profitability, and consumer spending continue to beat expectations, the economy and markets seem capable of absorbing tighter central banks and higher rates." Note

Stitch Fix became one of the latest U.S. companies late Wednesday to report better quarterly results than analysts expected. But its stock nevertheless tumbled 21.6% after it said "a more challenging consumer environment" could hold back its revenue growth this upcoming fiscal year.

Darden Restaurants, the company behind Olive Garden and LongHorn Steakhouse, fell 3% after reporting a profit for the latest quarter that matched analysts' expectations.

High yields in the bond market hurt prices for all kinds of stocks, and they often hit hardest on those seen as the most expensive.

That puts the target on AI stocks, which soared for years in the frenzy around the technology. Higher yields also make it more expensive for companies to borrow money to build AI data centers, which could slow their construction and restrain demand for AI chips. Nvidia slipped 0.4% and was the heaviest weight on the S&P 500.

On the winning side of Wall Street was Everpure. The data storage and management company's stock jumped 11.2% after it stood by its financial forecasts for this fiscal year and said it expects revenue growth to accelerate in the following one.

Surge in Bond-Market Volatility Signals New Risks

A key measure of bond volatility surged this week to its highest level since the early days of the Iran war. That should be a worrisome sign for a lot of investors.

The ICE BofA U.S. Bond Market Option Volatility Estimate Index, or MOVE index, is designed to track U.S. bond market volatility via prices on a basket of options. It is roughly a counterpart to the VIX index for stocks.

On Wednesday, the MOVE index level surged from 78 to 95, its highest close since the beginning of April. On Thursday, it jumped again to 104, according to Intercontinental Exchange data.

That is still short of where it regularly was from 2022 to 2025. But the jump is still a worry, because up until now the recent march upward in Treasury yields had come against a backdrop of still-subdued volatility. It suggests the market could be moving to a new, less orderly phase of trading.

And even for passive index investors, it could signal another development: Wider spreads.

Spreads refer to the yield gap between Treasuries and other bonds, like corporate or mortgage bonds. This gap has been quite tight for the highest-rated corporate bonds in particular, despite the recent jump in yields.

But higher volatility is a typical driver of wider spreads. So if bond volatility were to persistently rise, investors in corporate bonds or mortgage bonds could see more losses on those bonds than on Treasuries.

Through Wednesday, the spread on ICE BofA's index of top-rated U.S. corporate bonds hadn't seen a big widening jump. But high-grade credit strategists at JPMorgan Chase, in a Thursday morning note, warned that there could be a slowdown of investor money flowing into bond ETFs.

"A further pickup in rate and/or equity volatility would likely dampen these flows as well, leading to broader outflows for the asset class," they wrote.

If losses on corporate bonds were to start to pick up speed, then we could soon be talking of a 2022-style bond market wipeout all over again.

—Telis Demos

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Investors don't appear worried the Fed will lose its grip on inflation.

Economy Defies Higher Yields And Rates

BY MATT GROSSMAN AND SAM GOLDFARB

The U.S. economy keeps powering through inflation, tariffs and higher borrowing costs, defying a run-up in Treasury yields and a Fed rate hike. That has the bond market spooked.

The usual economic brakes aren't slowing growth, hiring or an artificial-intelligence investment boom that looks to be unstoppable. To some, AI's potential returns seem so bright that even steep interest rates won't slow down tech companies' investments.

The growth outlook helps explain the current predicament in the bond market: The yield on the 10-year Treasury note, which plays a critical role in determining rates on mortgages and other types of debt, this week hit highs not seen in nearly 20 years, climbing again Thursday to almost 5.2%.

Bond prices have sagged over concerns about surging energy prices and elevated inflation. Treasuries are facing more competition for investors' cash from an explosion of bonds issued by companies involved in the AI build-out. Strong economic data are also pushing up yields by stirring

speculation that the Fed may have to raise rates even higher than previously expected to cool a potentially overheating economy.

And any Fed struggle to restrain the economy raises the risks of a misstep that does broader damage.

Reinforcing that concern, some economists worry that borrowing costs that continue to climb may do less today to slow the economy than they have in the past, potentially requiring an even bigger Fed response.

The AI boom could provide kindling, as more of the benefits could ripple out to other parts of the economy, said Eric Winograd, an economist at AllianceBernstein.

"Everything that gets put into building a data center has to be built somewhere," Winograd said. "So you get this sort of idea of a filtering through the supply chain, a filtering into other areas of the economy that would broaden the base of expansion."

Late this summer, a steady drip of positive economic news put to rest fears of a slowdown. Hiring picked back up in August, and layoffs have stayed low. Manufacturers reported that business was picking up. Powered by surging AI investment, underlying economic growth turned in a hot second-quarter reading.

On Wednesday, an often overlooked report, S&P's purchasing-managers' index, provided the strongest evidence yet that the economy could be picking up steam, not merely holding firm.

The report was striking across the board: A gauge of manufacturing activity registered its biggest monthly increase since 2022. A reading of service-sector activity jumped to its highest level since 2021. New orders powered growth in both sectors.

It was just one report, but it played a major part in fueling the biggest one-day increase in the 10-year yield since President Trump's "Liberation Day" tariff rollout rattled markets in April 2025.

The S&P "report yesterday was eye-opening for me," said Stephen Douglass, chief economist at St. Louis-based NISA Investment Advisors.

Douglass said he still thinks inflation likely can return to the Fed's 2% target without the need for much higher rates. The impact of tariffs should fade and energy prices should fall as soon as the Iran conflict is resolved, he said.

But now, he acknowledged, there's a growing risk that private-sector demand could be picking up enough to "cause an overheating," resulting in more durable inflation pressure.

Higher interest rates have already been weighing on sensitive sectors of the economy, like housing. Mortgage rates hit 7% for the first time in more than a year on Thursday, following a rise that has smothered home sales. Commercial landlords have been feeling the squeeze as well.

But many consumers' investment accounts have been lifted by soaring stocks indexes, which have been lifted by strong corporate earnings and AI optimism. Some also keep substantial savings in money-market funds, where higher interest rates boost returns, said Ed Yardeni, head of advisory firm Yardeni Research.

"One-third of U.S. households are headed by someone aged 65 or older," Yardeni said. "These people aren't looking for mortgages, they are just enjoying the higher investment returns they've been seeing."

Higher yields don't only reflect expectations of higher growth. The U.S. government debt burden has soared. Yields have also been closely correlated in recent weeks to oil prices, reflecting worries that higher energy costs could feed into broader inflation.

Investors don't appear worried the Fed will lose its grip on inflation. The break-even inflation rate—the bond market's indicator of the inflation that investors expect—remains modest.

Instead, investors are concerned by just how much the Fed may have to raise interest rates to keep inflation in check—a question compounded by their uncertainty about how its new chairman, Kevin Warsh, will lead the institution.

Through much of the summer, many officials at the Fed shared Douglass's optimism that inflation would fall toward the central bank's 2% target on its own.

But in August inflation data, prices were still moving up too fast for comfort for the Fed, which last week raised interest rates. Most officials indicated they expect at least one more rate increase before the end of the year.

As an economy heats up, it takes higher interest rates for a central bank merely to sustain the same level of anti-inflation pressure. In his press conference last week, Warsh said the Fed's rate hike "removed a dose of accommodation," a phrase that to many investors indicated Warsh believes even higher rates could be necessary for the Fed to maintain its grip.

Treasury yields closely follow expectations for how the Fed will set interest rates in the future, so as investors adjust to expectations of higher short-term rates, long-term yields rise as well. Predominant bets in interest-rate futures markets show expectations that the Fed may hike rates a full percentage point by the end of 2027.

If inflation is being fueled by a strong economy and not just an energy supply shock, it could create a big challenge for the Fed, Winograd said. If you're the Fed, "you're really going to have to crush everything that isn't AI, if AI refuses to slow down," he said.

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