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The bond market shrugged off two inflation shocks. Why stock investors should pay attention.

Story by Robert Ross 2026-10-16

The bond market just shrugged off the kind of news that should have sent yields higher. Investors should take notice, as it could mean the top for yields is in.

For the past few months, the biggest threat hanging over markets has been the relentless rise in long-term Treasury yields. The 10-year yield recently touched 5.36%, its highest level in roughly 24 years, putting pressure on everything from mortgages to small-cap stocks. When yields rise, bond prices fall.

And then, inflation data gave bond bears exactly what they wanted. September's consumer-price index came in hotter than expected as headline inflation reached 3.7%, slightly above Wall Street's expectations. The immediate reaction was predictable: the 10-year Treasury yield jumped back toward 5.33%.

Then the unthinkable happened: Buyers showed up in droves as the 10-year quickly retreated to 5.18% by the end of Wednesday's session.

The following morning gave the bond market an even tougher test. Producer prices surged 1.3% in September, the largest monthly increase in more than four years and roughly twice what economists expected. If inflation was about to unleash another leg higher in Treasury yields, this was the kind of report that should have done it, as investors would price in even more interest-rate hikes from the Federal Reserve.

Instead, the 10-year yield plunged. By the end of the session, it had fallen roughly 10 basis points to 5.09%, its biggest one-day decline in more than a year. (One basis point is the same as 0.01 percentage point.)

That type of price action gets my attention.

When bad news stops hurting

The market does not ring a bell at the bottom. In October 2022, the bottom in stocks came when the S&P 500 rallied after a similarly hot CPI print.

Just like then, the bad news kept coming, but prices stopped falling. In fact, they did the opposite of what conventional wisdom expects. When enough bad news is already baked into an asset's price, investor positioning can become so negative that even another ugly headline struggles to push it lower.

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And I think we may be reaching that point in Treasurys, as after two hot inflation reports arrived within 48 hours, long-term yields headed lower.

There are other explanations for Thursday's rally. The selloff in AI stocks created safe-haven demand for government bonds, and comments from Federal Reserve officials reduced expectations for another immediate rate increase.

But that doesn't invalidate the signal. Treasurys had plenty of reasons to sell off — and yet they didn't. *Note*

Buyers are finally showing up

The inflation reaction is also part of a broader pattern.

A week earlier, the U.S. government auctioned \$39 billion of 10-year Treasurys after yields had surged above 5.36%. *Note*

Demand was excellent. Investors submitted \$2.77 in bids for every \$1 of bonds available, while indirect bidders, a category that includes foreign institutions, absorbed more than 80% of the offering. Primary dealers were left with just 2.5%, their smallest share since the financial crisis.

There is a simple reason this may be happening: High yields eventually become the cure for high yields. *Note*

A 10-year Treasury yielding more than 5% starts looking awfully attractive to retirees, pension funds, insurers, foreign institutions and anyone else searching for dependable income. *Note*

Fund investors are noticing, too. Nearly \$14 billion flowed into U.S. government-bond funds in early October following a record \$59.3 billion during the third quarter. *Note*

Eventually, the yield gets high enough that investors stop asking how much further bond prices can fall and start asking how much they should buy.

We may be finding that level.

Why this matters for stocks

I'm not declaring that 5.36% was the exact top in the 10-year yield.

Bond volatility remains elevated. The MOVE Index — essentially the bond market's version of the Cboe Volatility Index which tracks volatility in the stock market — is still above 100 even after retreating from a recent peak around 114.

But the evidence is building: Strong auctions. Heavy fund inflows. Buyers appearing above 5.3%. And now, two inflation surprises that failed to restart the selloff.

A sustained peak in long-term yields would have consequences far beyond the Treasury market.

Mortgage rates could get some relief. Small companies would face less pressure from financing costs. Growth-stock valuations would get a friendlier discount rate. And investors buying Treasuries today could potentially collect 5%-plus income while also benefiting from capital appreciation if yields fall.

And if long-term yields really are topping, there are several ways investors can potentially profit from the reversal.

The easiest way is to buy long-duration Treasury ETFs like the iShares 20+ Year Treasury Bond ETF or high-yield plays with pipeline master limited partnerships like Enterprise Product Partners

But I prefer vehicles that can move fast if we do get a reversal in rates. And in my next issue of Let's Analyze, I'll break down the leveraged Treasury trade I just added to my own portfolio to capitalize if yields continue falling. [Click here to have the full report sent to your inbox when it goes live.](#)

For now, it's important to pay attention to how bonds react to the news than to the news itself. We all know inflation is too high, the Fed has a difficult job and fiscal deficits aren't disappearing.

The bond market also knows all that. And it increasingly seems like prices may have more than reflected that reality.

Robert Ross is the founder of TikStocks and author of "A Beginner's Guide to High-Risk, High-Reward Investing." A former chief equity analyst at Mauldin Economics, Ross writes the investment newsletter [Let's Analyze](#) on Substack and hosts the weekly "Room to Run" podcast.

