Market Extra

Stock-market bulls defiant as bond market surrenders to Fed. Here's what to watch.

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The U.S. bond market blinked.

It took a while, but Federal Reserve Chair Jerome Powell has prevailed in a contest that for a while saw traders refuse to price in a higher and longer-lasting rise in interest rates in 2023. The capitulation has also lifted the U.S. dollar and in turn put a lid on commodity prices.

But it hasn't rattled a stock market that's enjoyed a strong bounce to start the year. Investors wonder whether that can last.

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Fed fund futures are now pricing in a better-than-50% probability "for a June rate hike, meaning the terminal rate would be 5.375%. There was virtually 0% chance of a June rate hike three weeks ago," noted Tom Essaye, founder of Sevens Report Research, in a Thursday note ahead of economic data and Mester's remarks. Expectations for rate cuts by year-end have largely evaporated.

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Treasurys have sold off, sending yields jumping, particularly at the short end as investors price out expectations for near-term cuts. The yield on 6-month Trasury bills **TMUBMUSD06M, 5.026%** this week moved above 5% for the first time since 2007, while the 2-year Treasury yield **TMUBMUSD02Y, 4.629%** is trading at its highest since November and the 10-year Treasury yield **TMUBMUSD10Y, 3.821%** rose to a new-year high.