

It Was the Payroll Report All Along

Rethinking the 10-Year Anchor: Why r^* is a rumor, the market trades a calendar, and how allocators should position for the post-shutdown regime.



The Old Rule

Long rates move with slow fundamentals (demographics, productivity, r^*).

Fundamentals move like **continents**.



The Reality

The long end isn't pinned by r^* ; it's pinned by what the market agrees to watch. For four years, that was **Payroll Fridays**

capturing **58%** of the **400bp** rise on just **9%** of days

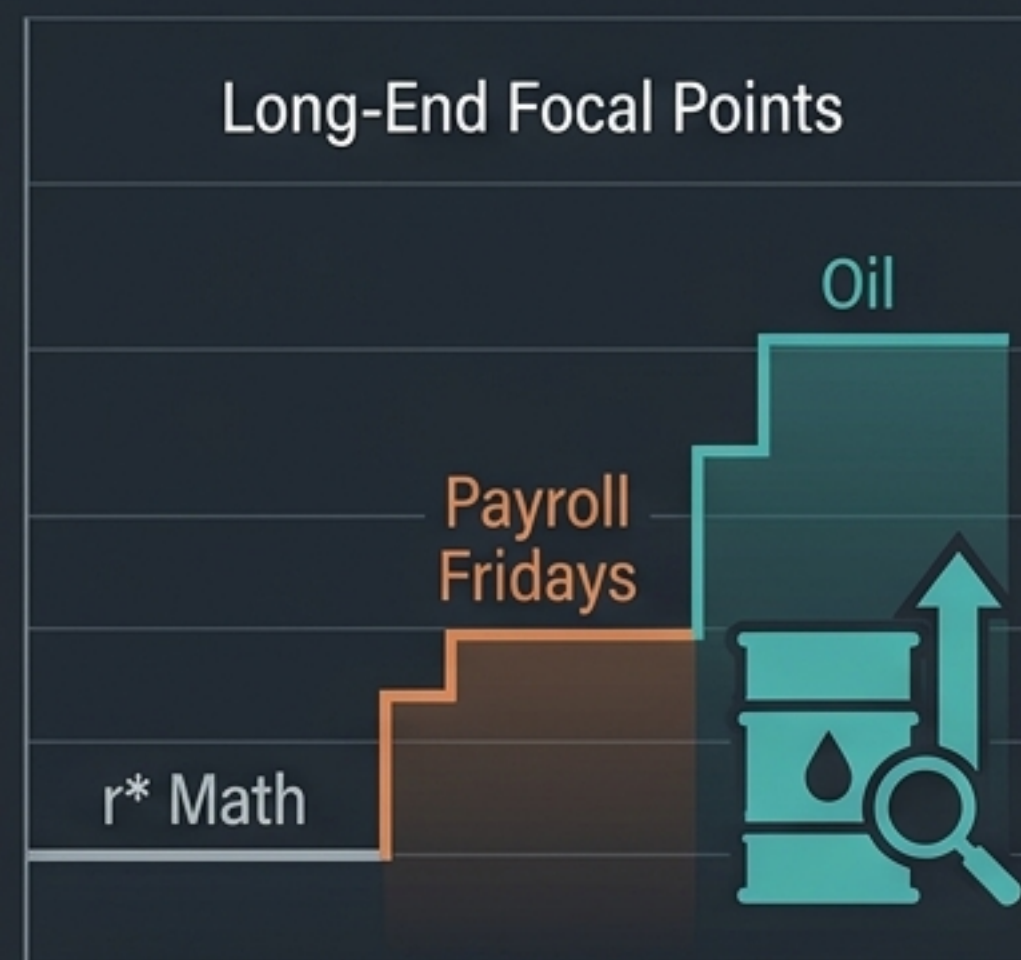


Last 4 Years

The Trade

- Don't fade the long end on r^* math.
- Keep the long-end vol book (event-window vol is cheap).
- Watch the new focal point: **Oil**.

Long-End Focal Points



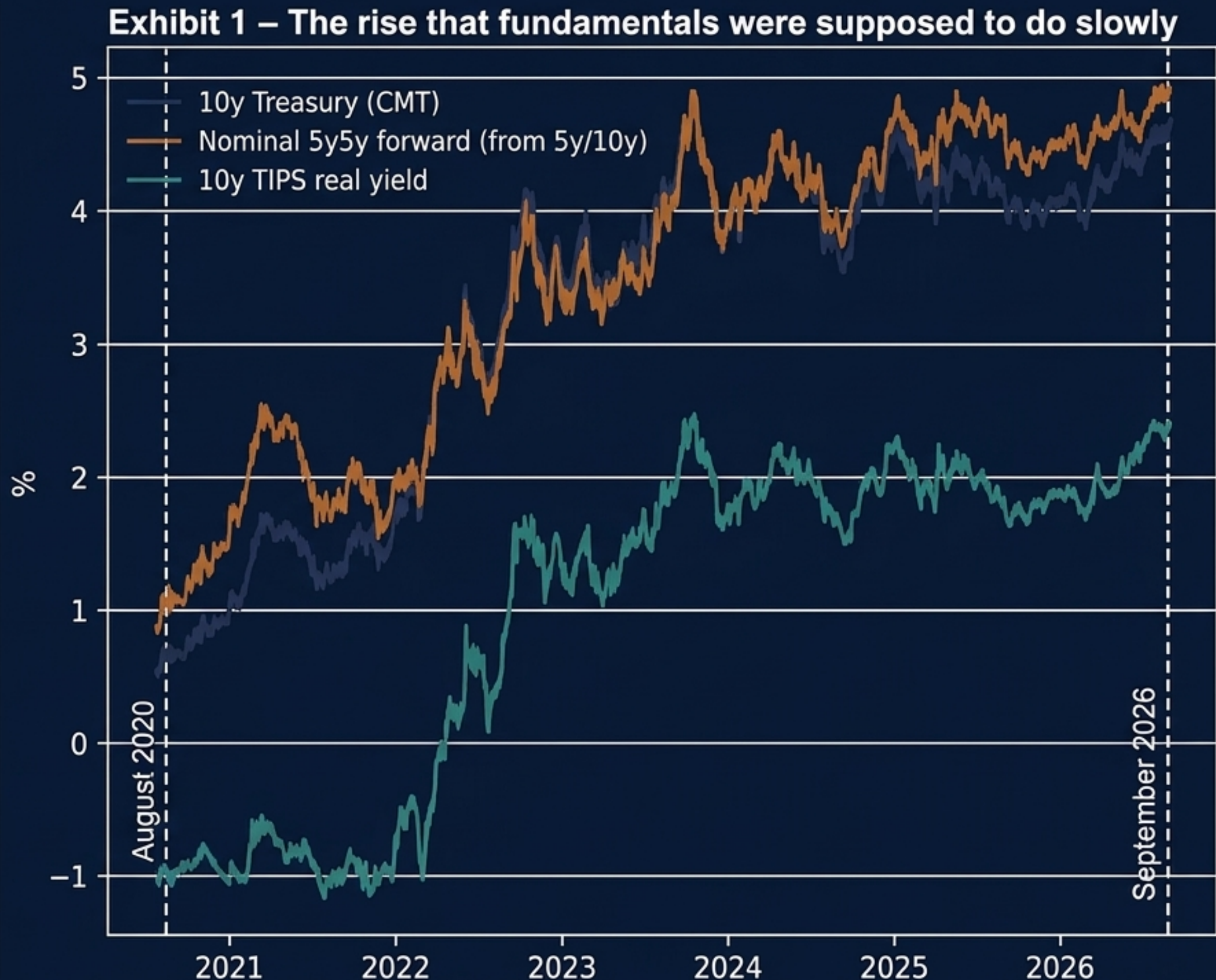
Long-End Focal Points

Fundamentals Move Like Continents. The 10-Year Moved Like a Meme Stock.

Start (Aug 2020): ~0.55%

End (Sep 2026): 4.96%

To explain this with standard economics, the deep forces of humanity (global savings, productivity) would have had to shift at unprecedented speed.

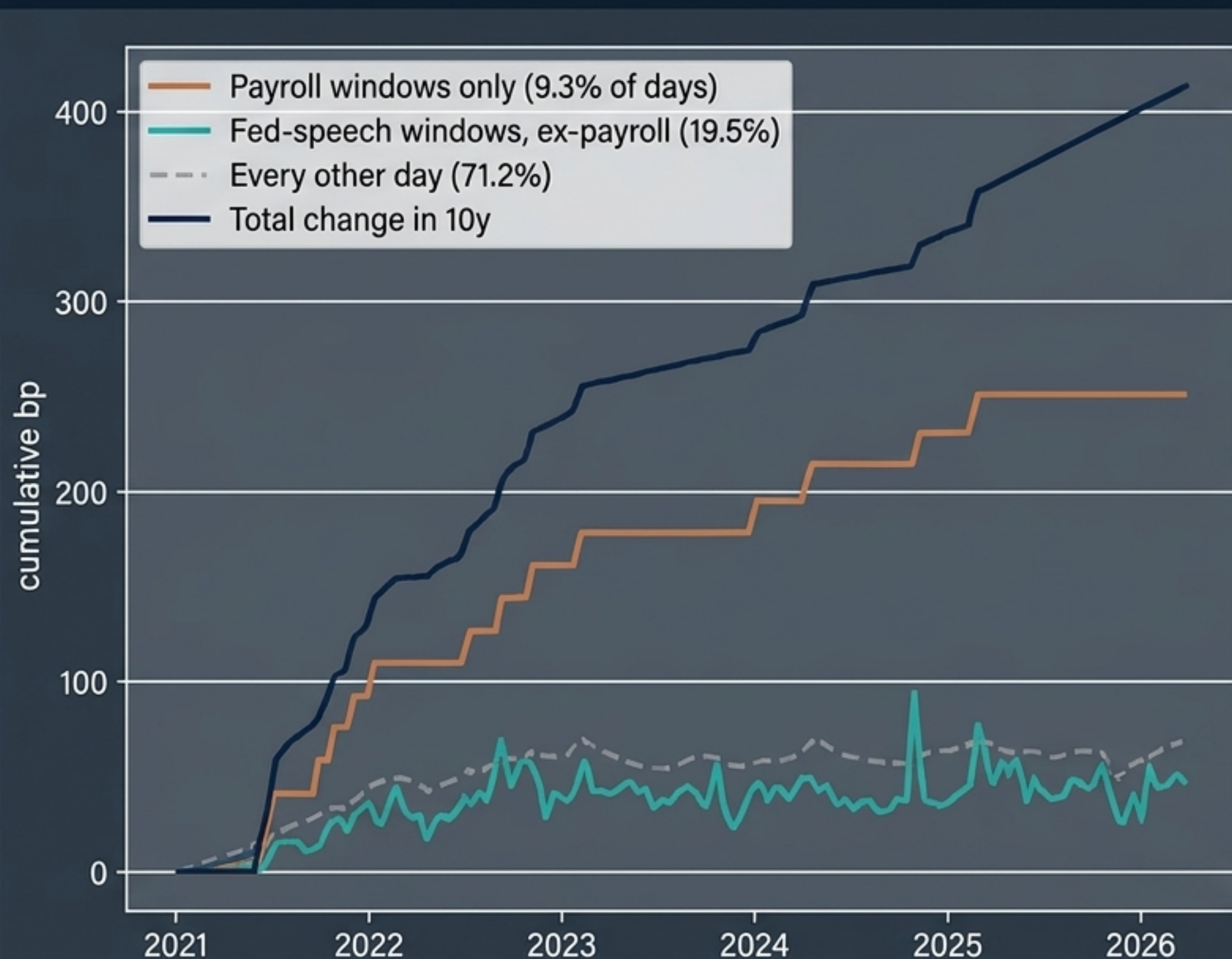


Elimination Matrix

Suspect Driver	Expected Impact	Actual Share of Post-2020 Rise	Verdict
Fiscal Deficit News	High rate pressure	< 20%	Cleared ✖
AI Breakthroughs	CapEx boom	Negative Share (Lowered cost of capital!)	Cleared ✖
FOMC Meeting Days	Policy tightening	Zero post-Covid rise	Cleared ✖
The Calendar (Payrolls)	Routine data	?	The Suspect ✔

Christensen and Rudebusch's fiscal/AI drivers, and Hillenbrand's FOMC drivers, fail to explain the post-Covid reality.

Nine Percent of the Days, Well Over Half the Rise



Payroll Windows:

9.3% of days → 58% of the rise.
(99.9th percentile null draw).

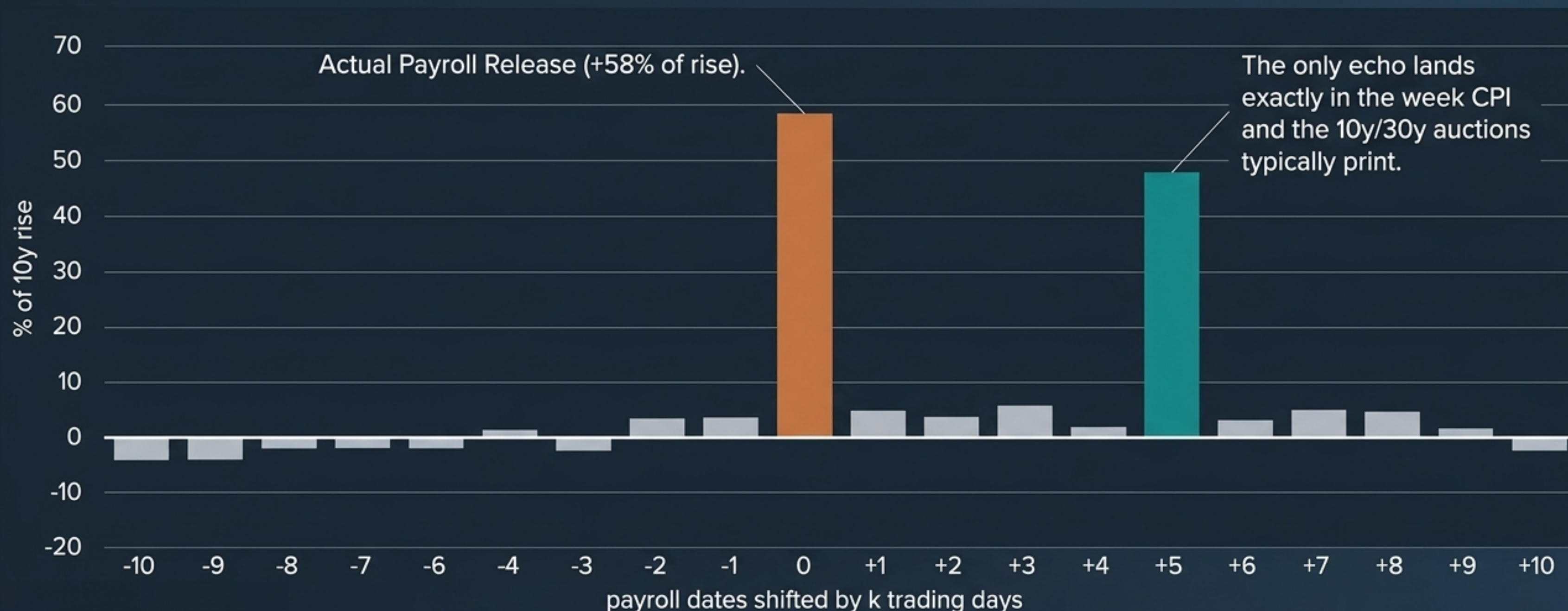
Average Daily Move:

+1.7bp (Payroll Windows) vs.
+0.1bp (All Other Days).

The Speech Noise:

Uncurated Fed speeches covered
21% of days but captured only 16%
of the rise (39th percentile—less
than a coin flip).

Shift the Calendar and the Macro Effect Fades



Insight: The market isn't reacting to a slow macro evolution; it is reacting strictly to the lead instrument in a band of scheduled data releases.

Same Anchor, Different Seabed



The Textbook (Deep Well).

Kicks decay. Long rates drift back to r^* whatever the news.

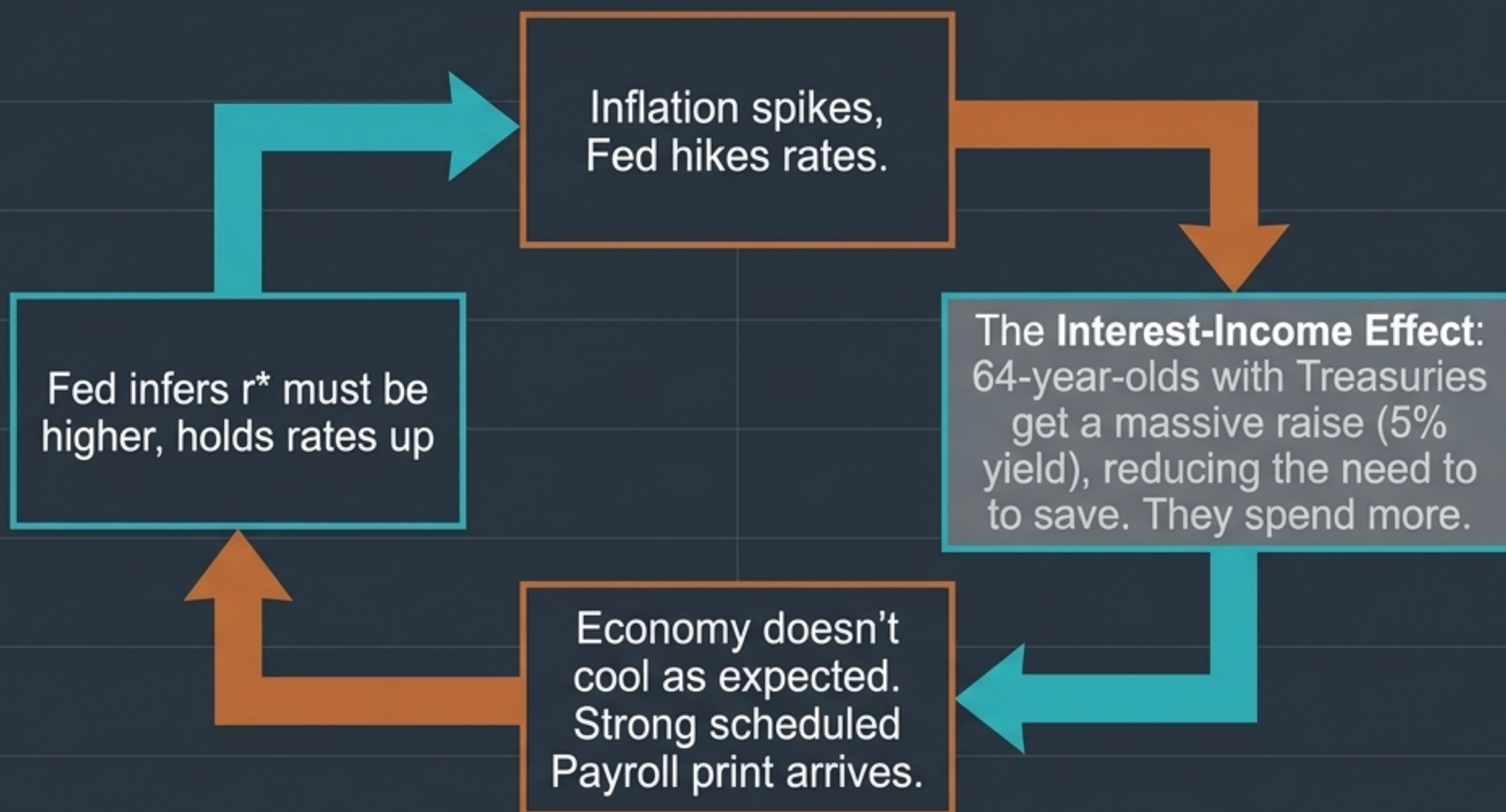


The Reality (Flat-Bottomed Well)

Kicks accumulate. The level is wherever the last Friday left it.

Takeaway: Long rates are “quasi-indeterminate.” The argument that “fair value is 4%” has no restoring force until a focal point delivers the news.

The Thermometer is Heating the Room



Insight: Higher rates are paying the very savers who keep the economy strong enough to justify higher rates.

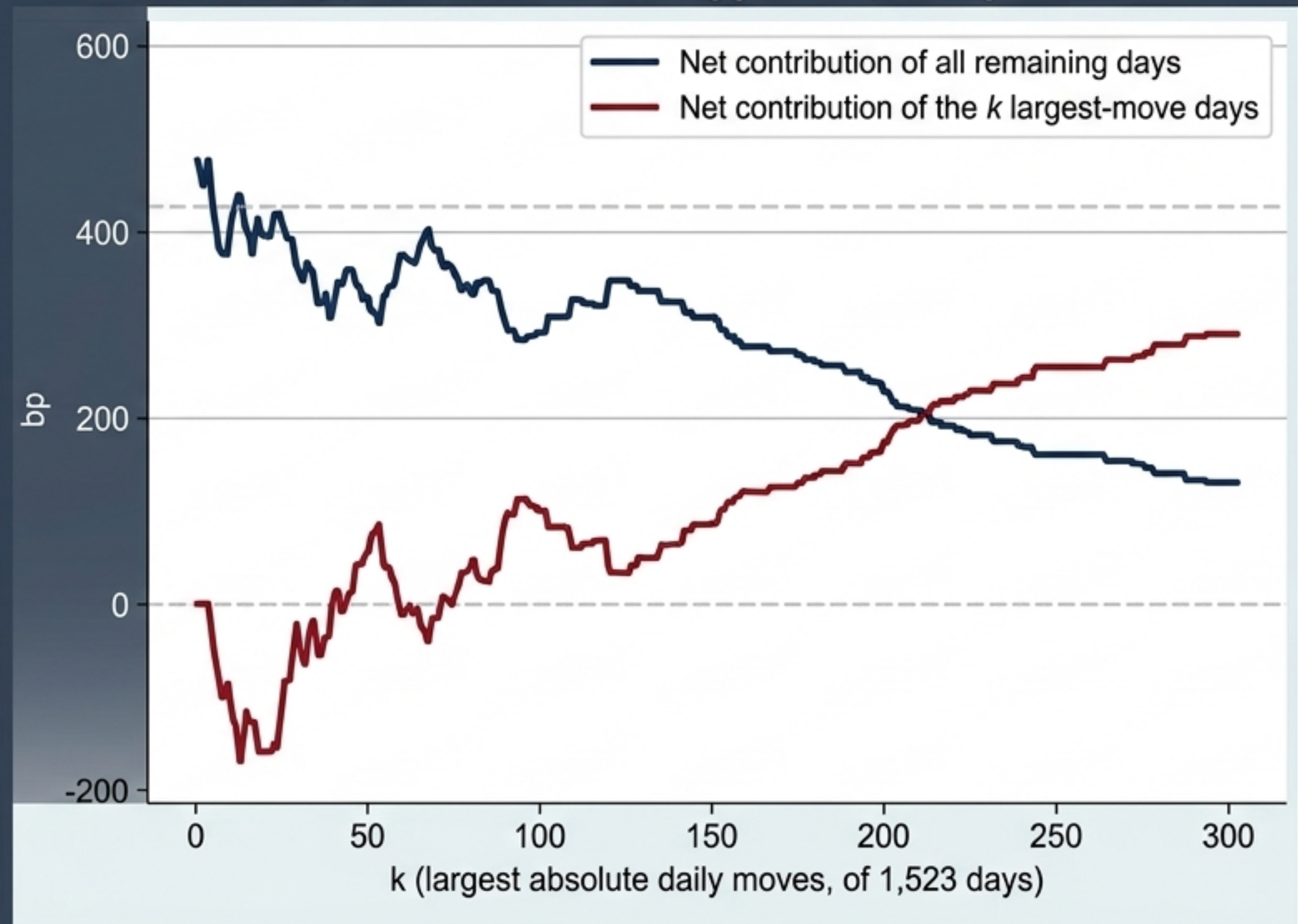
A Drip, Not a Shock: The Biggest Days Fought the Rise

The 25 largest daily moves in the sample net to -153bp.

The biggest days were flight-to-quality rallies (SVB, growth scares) that actively fought the trend.

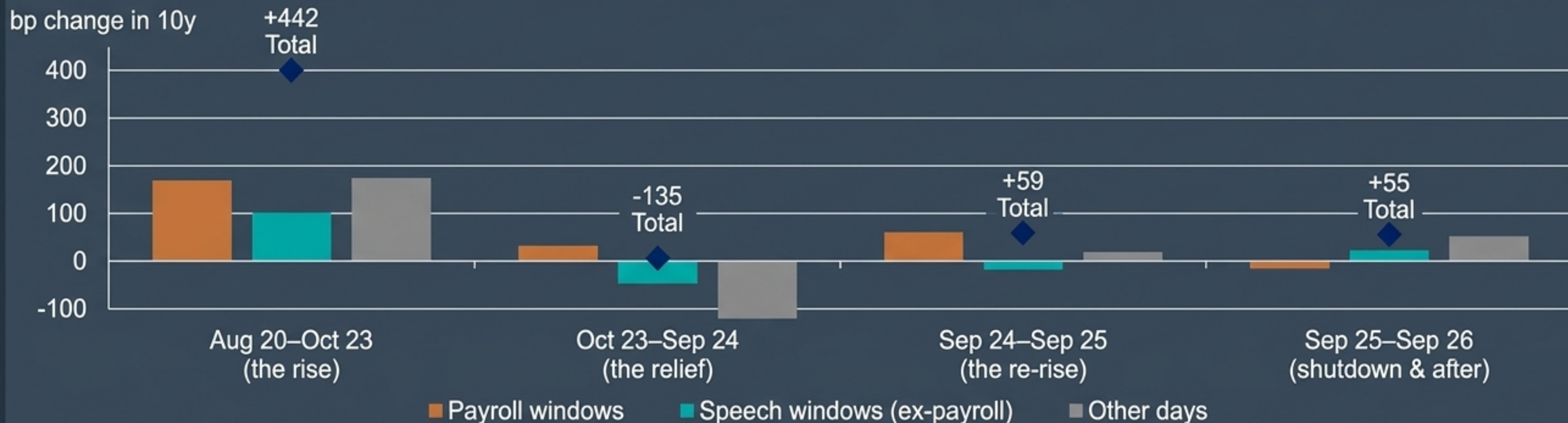
Takeaway: The 400bp trend was not built on tectonic macro shocks. It was built from persistent, medium-sized nudges on scheduled days.

Exhibit 6 — A drip, not a shock: the biggest days fought the rise



The Ratchet Held Until the Data Stopped

Exhibit 5 — The payroll ratchet held for four years, then let go



Period 1 (Rise 20-23):
Payrolls added +168bp.

Period 2 (Relief 23-24):
10y fell 135bp, but payroll
days still added 31bp
(pushing against the tide).

Period 3 (Re-rise 24-25):
Payrolls add +58bp.

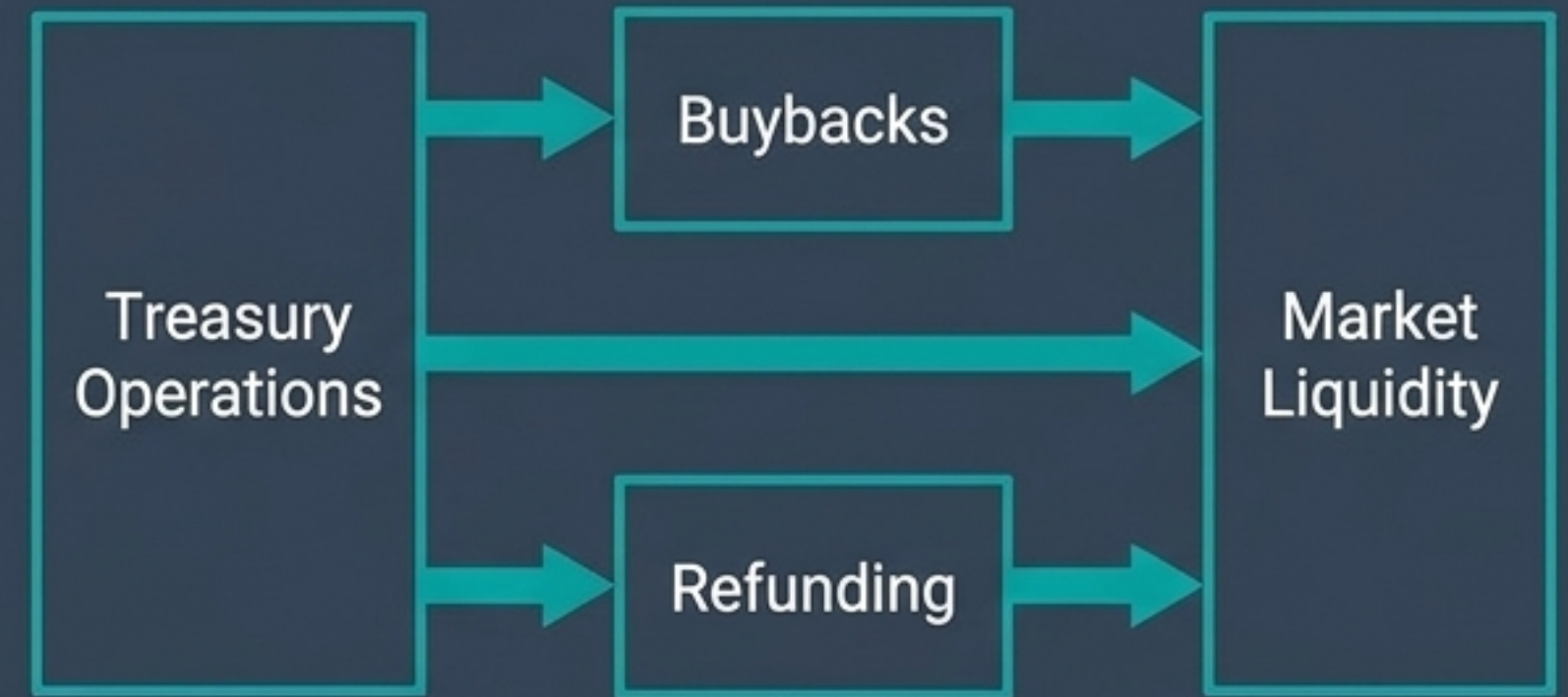
Period 4 (The Break: Sep 25-26): 10y rose 55bp, but payrolls contributed -13bp.

Why? The 2025 government shutdown cancelled the October report and delayed Sept/Nov. The market lost its drummer.

The Anchor is Whatever the Room Agrees to Watch



The New Drummer: The 126-day oil-10y correlation sits at +0.55 (99.5th percentile since 1986). (Tag: **OIL10-01**)



The Vacuum Filler: Treasury buyback and refunding operations have stepped into the focal-point vacuum.

Insight: Conventions migrate. The mandate is to track the migration of the focal point, not the migration of r^* .

Portfolio Implications for the Post-Shutdown Regime

Insight

Portfolio Action

AQI Tag

“Fundamentals say 4%”
has no restoring force.

Don't fade the long end on r^*
math. Stay neutral at the 10y.

(DUR-01)

Payroll-day vol is only
~20% higher but delivers
15x the drift.

Event-window rates vol is
cheap. Keep the long-end
event vol book.

(FD-02)

Interest-income effect
acts as a stabilizer.

Equities can stay at highs
while yields stay at highs
(unless equity wealth falls).

(SPX-02)

Focal Point Migration Monitors

The Metronome Returns

IF: 12m **Payroll-window** share rises **>40%**.
THEN: Re-weight event vol toward **NFP**.

The Chairman Anchors

IF: **Warsh speech** windows capture **>25%** of 10y change.
THEN: The **speech focal point** is back.

The Drummer Fades

IF: 126d oil-10y correlation drops $< +0.30$.
THEN: OIL10 hedges can be cut.

Another Blackout

IF: Federal data goes dark again.
THEN: Raise long-end vol, lean on oil channel.

Treat the Long End as a Coordination Market



Takeaway: The anchor is not a fundamental number; it is a convention. Your mandate is to trade the focal points and their migration.

Next Test: The September payroll report, due Friday, October 2. If the 10y moves on it, the metronome is back. If it shrugs, the drummer is still oil.