14 November 2025

# Convexity, Liquidity and Duration

## The Markets Followed the Math

- **Small yield shifts struck high-duration equities, and markets reacted precisely as convexity math implied.**
- **Soft labour data, renewed liquidity, and elevated duration turned basis points into percentage points.**
- **This week reaffirmed that rates still drive market direction, and equities merely priced the shift**

**Prometheus Capital researchers note that the October ADP report triggered a two-stage repricing in U.S. rates that turned dovish once markets analyzed the data.** ADP reported a **42,000** gain in private payrolls, approximately **10,000** above expectations, pushing yields higher as investors viewed it as evidence of labor market resilience. TLT fell **1.1 percent**, consistent with a **7-8 bps** upward shift in long-end yields given its approximate duration of roughly 18.

However, the sectoral breakdown quickly reversed this initial reaction. Professional and business services fell by **15,000**, information by **17,000** jobs, while manufacturing employment was flat. More than 70 percent of total job creation occurred in noncyclical sectors such as healthcare, education, trade and transportation. The Challenger report recorded **153,074** announced layoffs in October—a **183%** MoM increase and the highest October layoff figure in over two decades. Markets priced in higher odds of a 25-bbp December cut, raising probability from 62% to 68%. The 10-year Treasury yield declined from 4.17 percent to 4.11 percent, a **6-bps** reduction that unwound the prior day's move. This convexity-driven round-trip shows that investors are reacting more to labor composition than headline job growth.

**Shutdown Resolution, Treasury Liquidity and the Term Structure**

The end of the 43-day United States government shutdown introduced a mechanical easing force via liquidity dynamics associated with the Treasury General Account. As federal payments, wages and procurement reimbursements resume, the TGA is expected to be drawn down by **$150-200 billion dollars**. According to the balance sheet identity of the Federal Reserve, the change in aggregate reserves is equal to the negative of the change in the TGA. With reserve balances near **2.1 trillion dollars**, this drawdown implies an increase in reserves of approximately **7-10%**. Historically, every $100 bn increase in reserves has exerted roughly 3-5 bps of downward pressure on short-term yields. This liquidity injection reinforces a dovish term structure and supports easier policy into year-end.

**Equity Market Sell Off, Rate Sensitivity and Equity Duration**

The week's U.S. equity sell-off reflected rate sensitivity and the high effective duration of growth-oriented sectors. The S&P 500 declined approximately **1.3 percent** week over week, and the Nasdaq 100 declined approximately **2.1 percent** week over week. These declines are broadly consistent with the observed rise in yields earlier in the week. The correlation between equity returns and 10-year Treasury returns remains strongly negative at approximately **−0.60**. Effective duration estimates for mega-cap tech firms, based on dividend discount and cash flow models, range from 11-14 years. Estimated sector betas relative to the 10-year yield are approximately **1.35** for technology and **1.55** for real estate. A **10-bps** increase in the 10-year yield therefore implies a **1.3 to 1.5 percent** decline in these sectors, assuming no change in expected earnings. Early in the week, the 10-year yield rose about **9 bps** from intraday lows, consistent with the observed **1-2%** declines in rate sensitive sectors.

Flow data confirm this view. United States Treasury ETFs received approximately **1.7 billion euros** of inflows, consistent with duration seeking or hedging behaviour, while minimum volatility equity strategies saw outflows of approximately **766 million euros**. These reallocations increased equity market sensitivity to interest rate changes and amplified the sell-off. Overall, this week's equity weakness stemmed from higher discount rates, not weaker earnings expectations.

**Table 1. Job Cut Announcement Report**

Services

| | | |
|---|---|---|
| Trade, transportation, and utilities | ↑ | 47,000 |
| Information | ↓ | 17,000 |
| Financial activities | ↑ | 11,000 |
| Professional and business services | ↓ | 15,000 |
| Education and health services | ↑ | 26,000 |
| Leisure and hospitality | ↓ | 6,000 |
| Other services | ↓ | 13,000 |

*Source: Challenger, Gray & Christmas, INC.*

**Table 1. Job Cut Announcement Report**

TOP FIVE INDUSTRIES

Year To Date

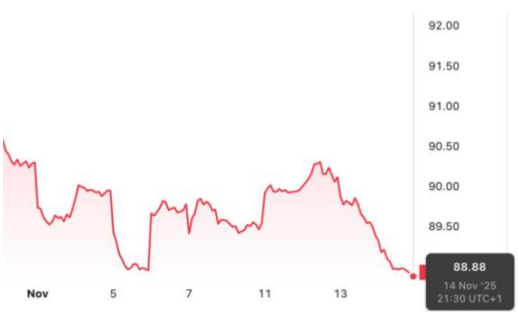
| | 2025 | 2024 |
|---|---|---|
| Government | 307,638 | 37,746 |
| Technology | 141,159 | 120,470 |
| Warehousing | 90,418 | 18,904 |
| Retail | 88,664 | 36,136 |
| Services | 63,580 | 39,296 |

MONTH BY MONTH TOTALS

| | 2025 | 2024 |
|---|---|---|
| January | 49,795 | 82,307 |
| February | 172,017 | 84,638 |
| March | 275,240 | 90,309 |
| April | 105,441 | 64,789 |
| May | 93,816 | 63,816 |
| June | 47,999 | 48,786 |
| July | 62,075 | 25,885 |
| August | 85,979 | 75,891 |
| September | 54,064 | 72,821 |
| October | 153,074 | 55,597 |
| November | | 57,727 |
| December | | 38,792 |
| TOTAL | 1,099,500 | 761,358 |

*Source: Challenger, Gray & Christmas, INC.*

**Chart 1. iShares 20+ Year T-Bond ETF**




*Source: TradingView*

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