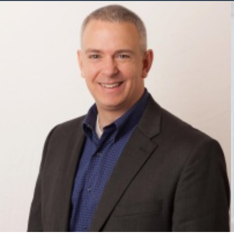

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The Day Ahead: Bond Bears Refusing To Hibernate; How Bad Could It Get?

Given recent temperature trends, we're well within our right to expect actual bears to be in hibernation. How about bond market bears? They've eaten their fill so far this winter--enough that we might expect them to go quietly into the night simply due to oversold technicals. Surely, a visit to the pre-covid all-time lows in 10yr yields would be enough to satisfy bearish appetites, right? Or perhaps that's entirely too obvious and the market will continue to punish traders who try to catch the falling knife (of bond prices) too soon. With apologies for mixing metaphors, today's early price action suggests the knife is still in the air and that the bears are refusing to hibernate just yet.

When will this change or what will it take for things to change?

Rates have been consolidating in a narrower range over the past 3 days after taking the lion's share of the damage on Monday. Such consolidations can be the market's way of pausing before more selling, or they can serve to highlight **seller exhaustion** (i.e. perhaps the bears really are getting sleepy). We really don't know which version we'll get until we get it.

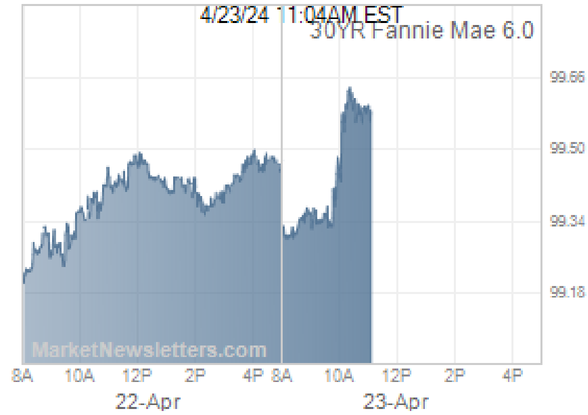
The possibility of even more bond selling may seem **surprisingly** downbeat considering how quickly rates have risen already (and the uncertain economic fundamentals surrounding the post-covid economy), but that's exactly why it's a possibility. Markets love to **punish** lopsided positions. And if too many traders are betting on a bounce in rates, short sellers can force a pain trade by triggering buyers' stop loss levels (or "stops" for short).

We can assume there's a **big** contingent of "stops" in the 1.33-1.34 area (i.e. right around the highs of the past few days). Please check your assumptions about how big is "too big" when it comes to a bond market sell-off and understand this warning. There is indeed a scenario where rates could blast another 5-15bps higher in the next few days. That's not necessarily the higher probability outcome, but it's an outcome that should be considered when advising clients and/or making lock/float decisions.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.61	+0.14
MBS GNMA 6.0	100.36	+0.06
10 YR Treasury	4.5850	-0.0245
30 YR Treasury	4.7029	-0.0129

Pricing as of: 4/23 11:04AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.43%	-0.01	0.00
15 Yr. Fixed	6.85%	0.00	0.00
30 Yr. FHA	6.91%	-0.01	0.00
30 Yr. Jumbo	7.62%	0.00	0.00
5/1 ARM	7.40%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	7.10%	-0.34	0.00
15 Yr. Fixed	6.39%	-0.37	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.13%	+0.12	0.00
15 Yr. Fixed	6.64%	+0.18	0.64
30 Yr. FHA	6.90%	+0.10	0.99
30 Yr. Jumbo	7.40%	+0.27	0.46
5/1 ARM	6.52%	+0.11	0.60

Rates as of: 4/22

If it makes it **easier to explain**, consider the historical context for this type of correction from the only relevant precedent at the start of the financial crisis. Yields plummeted for 2 years (at a very similar pace to 2019/2020) and then underwent a technical correction to the long-term lows. In the midst of that free-fall, there was "a hitch" that saw yields move sideways in a narrower range for months, much like August 2019 through February 2020. The point is made clear by the chart, but the takeaway is this: 2009's precedent (you know... that year where we were pushing back against what we thought was a once-in-a-lifetime shock to society and financial markets) says bond yields might not face significant resistance until they get to their "hitch" zone. In the current case, that zone begins around 1.45 and tops out near 1.95.

Again, to be very clear, this isn't meant to scare you or to predict that rates are going another half point higher next week. After all, the 'hitch' in 2009 set high yields that haven't been revisited. The point is to consider the more bearish possibilities along with the bullish bounce potential--to be realistic about the risks. They don't go away just because we don't want to believe in them.

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