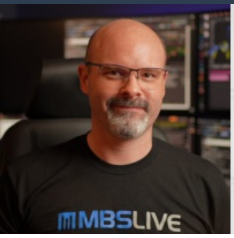


Matt Graham
CEO and Founder, MBS Live
- Portland, OR 97229

Office: 888.684.6397
Mobile: 888.684.5565
mgraham@mbslive.net
View My Website

A Message from Matt Graham:

"Pretty brutal day for bonds."

MBS Recap: Worst Day For Bonds in Nearly 2 Years

In terms of outright movement toward higher rates, you'd have to go back to the days following the election in November 2016 to find anything **worse** than today. It was like a handful of other snowball selling sprees seen over the years in that it seemed unnecessarily relentless while it was in process, but will end up making sense in the bigger picture.

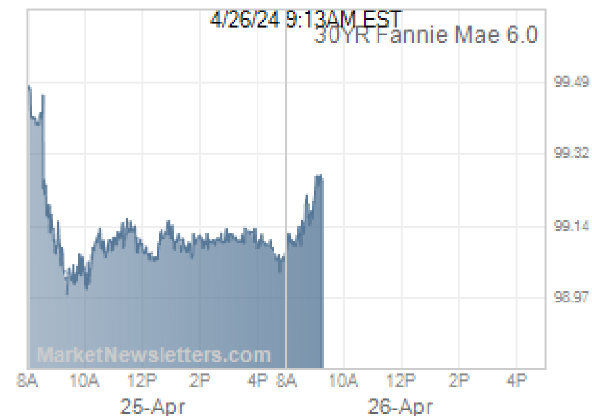
Whether or not it will make sense to you depends a lot on how closely you've been following along (either with the realities facing rates over the past few years or simply with this commentary). It would seem quite complicated if you're not already **drinking my kool-aid**, so I'll attempt to share an abbreviated recipe below. Incidentally, I say "my kool aid," but in reality, I think there's only one kool-aid when it comes to the forces driving higher rates over the past few years, and it's the only thing available to drink at the moment.

- Traders guessed (correctly) that the Trump administration would like to spend more money relative to incoming revenue. That would involve Treasury borrowing and Treasury borrowing creates higher rates due to supply and demand in the bond market.
- Meanwhile, the Fed was already in the process of raising its policy rate and reducing its balance sheet reinvestments. That means the Fed was/is becoming a smaller and smaller buyer of bonds and the same time the government was/is becoming a bigger and bigger seller. Not good for rates!
- All of the above was/is occuring against the backdrop of economic and geopolitical uncertainty. Would Trump's cavalier approach to trade result in a global trade war that ultimately hurts growth? Would the tax bill stimulation be too much of a good thing for the upper crust of society, making a contraction all but a certainty when the sugar high wears off? Would US policies have such damaging effects on the rest of the world that the US economy loses the tailwind normally provided by a healthy emerging market and stable economies among trading partners? Would the Russia investigation ultimately pose some threat to Trump's tenure?

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.25	+0.19
MBS GNMA 6.0	100.18	+0.10
10 YR Treasury	4.6676	-0.0363
30 YR Treasury	4.7839	-0.0300

Pricing as of: 4/26 9:13AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.52%	+0.13	0.00
15 Yr. Fixed	6.91%	+0.08	0.00
30 Yr. FHA	7.00%	+0.13	0.00
30 Yr. Jumbo	7.68%	+0.10	0.00
5/1 ARM	7.55%	+0.15	0.00
Freddie Mac			
30 Yr. Fixed	7.17%	-0.27	0.00
15 Yr. Fixed	6.44%	-0.32	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 4/25

There were more uncertainties to add to that list, but this is more than enough to make the point. The point is that there have been **big, obvious headwinds** in place for rates for quite some time. Those headwinds made a clear case for something like the 10yr yield to move well over 3%, as I discussed in this old commentary post. But fortunately, those headwinds were offset by the uncertainties--many of which are laid out in the 3rd bullet point above.

From there, it has merely been a chess match between investors betting on the uncertainties versus those who increasingly accept certain realities. This brings us to the 'bottomest' of bottom lines. Days like today and weeks like the first week of September really drive home the reality of exceptionally strong economic data and upside risks to the inflation outlook. **For crying out loud** we had the chair of the Federal Reserve today say that this growth cycle could theoretically continue "effectively indefinitely." That's sheer madness, and entirely emblematic of a level of economic optimism that we haven't seen in this country since the housing boom. Simply put, we had reasons for rates to move higher, headwinds that kept that move in check, and now days like today that go a long way toward calming those headwinds. When those days happen with rates breaking above a technical ceiling, it only adds to the upward momentum that we were already likely to see after this morning's data.

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