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The Day Ahead: What Is a Safe Haven Asset?

Historically, any time we see the biggest bouts of selling in equities markets, a conversation about **"safe-haven" assets** is usually not far behind. The proverbial "flight to safety" is an integral part of many of the most unexpectedly resilient bond market rallies.

It's really very simple. Here are a **few core concepts:**

- investors like earning a return on investment
- riskier investments yield greater potential returns and greater risk of loss
- if riskier investments are generally trending higher with an acceptable amount of volatility, investors will stay there
- if riskier investments get too volatile or begin losing too much ground, investors will seek shelter in safer-haven investments

As you may have guessed, bond markets are indeed a safer haven investment. Of course bonds have been benefiting from the hefty selling in stocks seen so far in 2016, but simply acting as a foil to stocks **isn't** what earns bonds the 'safe haven' distinction. Their safety has much more to do with their price volatility. In other words, even if bonds start losing ground after you park your money there, they won't have lost nearly as much as stocks.

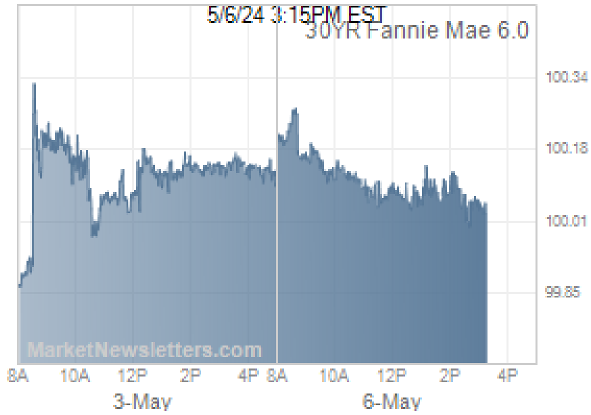
Consider some very simple numbers. Let's say the S&P is at 2000 and the price of the 10yr Note is at 100-00. In order to lose 2%, the S&P would only need to decline 40 points--something that's happened at the drop of several recent hats. In order for Treasuries to gain 2%, they would of course need to rise to a price of 102-00, but that's a **much bigger deal** than it seems. The current crop of 10yr Treasuries would be almost 30bps lower if prices rose by 2%.

Bottom line, even if Treasuries didn't have the appeal of making gains as stocks and other risk assets fell sharply, they **just don't move as much** in the bigger picture. Here is a look at 10yr note PRICES vs stock prices in terms of percent change from the beginning of the year (I inverted the left axis to allow for better comparison--i.e. the lower the blue line is on the chart, the more gains Treasuries are making). Where would you rather park your money?

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.03	-0.06
MBS GNMA 6.0	100.91	-0.11
10 YR Treasury	4.4945	-0.0193
30 YR Treasury	4.6481	-0.0230

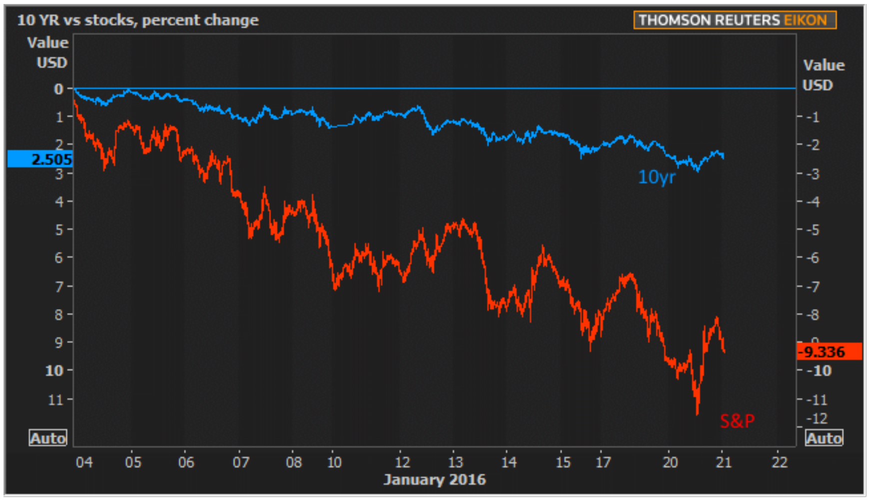
Pricing as of: 5/6 3:15PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.25%	-0.03	0.00
15 Yr. Fixed	6.68%	-0.07	0.00
30 Yr. FHA	6.64%	-0.06	0.00
30 Yr. Jumbo	7.45%	-0.03	0.00
5/1 ARM	7.32%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	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: 5/6



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