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The Day Ahead: Revisiting 2016's Dominant Trends

With the most recent spike in rates, 10yr yields have **returned to 2016's dominant trend-lines** for an interesting bounce (or "stall," depending on how things shake out). The trend-lines in question are the "higher lows" and "lower highs" that formed the consolidation pattern in the first half of the year (aka "triangle" or "pennant" if you like), and can be seen in the following chart. The chart also shows how yields just bounced (or stalled) right at the intersection of those trends.

This is an interesting bounce because the popular moving averages and other forms of technical analysis **don't line up nearly as well** as this simple, "eyeballed" trend-line. In other words, there's no math behind this. Just a straightedge and a pencil to connect the previous highs and lows from earlier in the year.

As the hypothetical dotted lines suggest, there are three potential paths. Bonds could get back in the groove of the victorious trend (green dotted line). They could switch sides and join the defeated trend (red dotted line), or they could split the difference (yep, white dotted line).

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

Pricing as of: 5/17 5:59PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/17

There's nothing about recent trading that predicts the future when it comes to these trends. Rather, rates' behavior around these lines will increasingly do that for us. If a **strong show of support** emerges under the rally trend-line (green dotted line scenario), that's obviously a feather in the cap of the longer-term bond market rally. It would also fly in the face of the the recently rampant doomsday prophecies among bond gurus and money managers (or simply confirm they were jaw-boning the airwaves, trying to get people interested in selling bonds so they could buy more).

If bonds break **above** the **selling trend-line** and then proceed to have trouble getting back below (red dotted line scenario), it would indeed speak to a shift away from the "global race to zero" narrative. Doubts about that race were central to the recent sell-off, both because of Draghi's demeanor at the ECB press conference and the Bank of Japan expressing doubt over monetary policy efficacy. In addition, there's speculation that both central banks could run out of assets to buy under current program guidelines.

A world in which central banks aren't giving financial markets billions in new money every day is a world where **asset prices fall across the board**. For instance, stocks have been shaken up even more than bonds over the past 5 days:

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