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The Day Ahead: Comparing Current Move to Past Instances of "Repricing"

Bond markets have quickly "repriced" their expectations for future inflation and growth based on the potential policy path of the Trump administration. Past examples of similar "reprices" offer a few clues as to how bad things currently are and how they might play out.

In mid-2013, bond markets quickly **"repriced" their expectations** for Fed policy after the Fed made clear gestures toward the eventual tapering of its asset purchases. The last major low for 10yr yields had been roughly 1.35 and the taper-tantrum high was roughly 3.0--a 1.65% move in total. Yields bounced at 3.0% twice and held a narrow range (in the bigger picture) between 2.5-3.0 for more than a year! In other words, yields rose quickly to reflect their new reality and then waited for the next motivation.

Fortunately for mortgage originators, the next motivation was the European QE debate and ultimate victory. That made for a nice recovery throughout 2014 and early 2015. Past examples of similar "repricing" events have similar results. There's **always** some time to be spent in a range near the highs. And then bonds correct back toward lower yields--either due to some event (like EU QE) or simply because the selling-pressure was overdone and the long-term trend has been persistently lower.

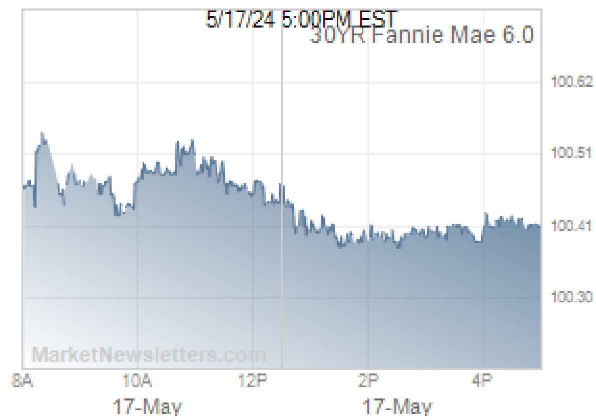
But now that we've seen back-to-back long-term lows at 1.35%, market participants are **wondering if the bottom is finally in** for that long-term rally. Even if that's not the case, it is clear that yields have to start slowing down at some point during the rally. After all, it's not like 10yr yields will blow through 0% and continue a linear path to negative 18%. Perhaps a time will come when 10's flirt with negative territory, or perhaps the bond bears are right and 1.35% is the bottom. Either way, the point is that we have LESS of that implicit rebound effect due to the gravity of the long term trend pulling rates back down after they spike sharply.

All of the above helps frame our approach to the current spike. On the downside, we may not have as nice of a bounce back toward lower rates when it's finally over. But on the upside, these spikes have been getting smaller and smaller over time. As for now, we still haven't lost nearly as much ground as we did in 2013, and it **doesn't make much sense** to consider the death of the long-term trend until that changes.

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

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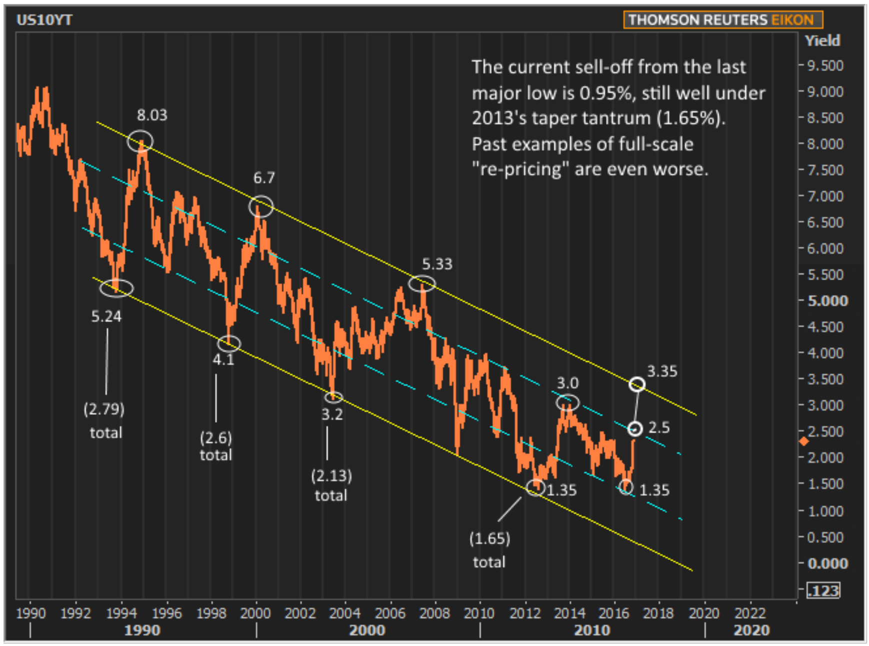

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