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The Day Ahead: How Long Can Bonds' Back-To-School Rally Continue?

Bonds have been **on a tear recently**, easily breaking to the lowest yields of the year this week after some exploratory attempts last week. Geopolitical risk surrounding North Korea has been the centerpiece of the market's move away from risk, or so they say. But it's not quite that simple.

Sure, North Korean headlines have definitely served as buying opportunities for bonds, but if this were a true "**risk-off**" move, we'd expect to see **more participation from equities** markets. Instead, stocks only briefly moved lower with bonds before grinding back up toward all-time highs. Meanwhile, the bond rally has been a consistent 2-month affair.



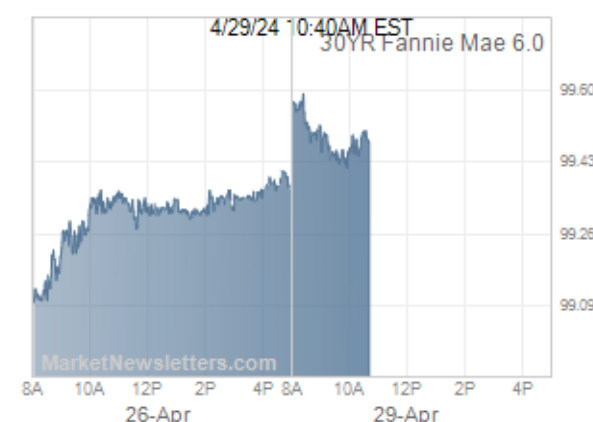
This divergence suggests **bonds have their own reasons** to rally that transcend the mere "risk-on" vs "risk-off" themes associated with major geopolitical drama. Fortunately, these haven't been too terribly mysterious. They've also done a good job of confirming their importance along the way.

For instance, yesterday's European Central Bank announcement and press conference reminded us that the world's big central banks are going to have a **tough time** quickly removing accommodation (i.e. raising rates and decreasing asset purchases). A day earlier, we saw political headlines in the US take bonds in an unfriendly direction--confirmation that the debt ceiling drama and general political gridlock was/is helping rates.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.48	+0.11
MBS GNMA 6.0	100.50	+0.15
10 YR Treasury	4.6270	-0.0375
30 YR Treasury	4.7456	-0.0283

Pricing as of: 4/29 10:40AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			

30 Yr. Fixed	7.45%	-0.07	0.00
15 Yr. Fixed	6.86%	-0.05	0.00
30 Yr. FHA	6.95%	-0.05	0.00
30 Yr. Jumbo	7.64%	-0.04	0.00
5/1 ARM	7.50%	-0.05	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: 4/26

Moving well over 2.12% (and staying there in the following trading session) would go a long way toward confirming the end of the back-to-school bond rally. Until we see that, gains are only limited by the willingness of traders to keep betting against bonds. The more of a "sure thing" a move toward higher rates becomes, the more they'll likely continue to fall. But once traders accept and believe that rates can continue lower, that's when they'll bounce.

