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## MBS Recap: Relative Destruction For Bond Markets

With Thursday marking a slightly less robust day of selling compared to Wednesday, it was **all too tempting** to hope that the bond market was just getting every last little bit of crazy weakness of its system ahead of the 3-day weekend, and that we'd be greeted with a much-needed rally in the coming week.

Yet here we are. No rally. **Not even a glimmer** of respite from last week's nightmare.

Yes, I realize that a 10yr yield of 2.2% and a 30yr fixed mortgage rate at 4.0% is historically low, and that we should all be grateful to operate in the mortgage industry with such rates. But it's not my job to comment on whether rates are historically low based on various paradigms (not most of the time, anyway). Rather, it's my job to comment on the forces moving markets, the scope of any trends that emerge, and the risks ahead.

Pinning down market movement is **tricky business** at the moment. Clearly, the election was a **catalyst** and has proven to be a bigger flash-point for financial markets than most anyone imagined. It's not **necessarily as simple** as "Trump = higher rates" though. We'll be talking more about the bigger-picture narrative tomorrow, but for tonight, the bullet points for the narrative are as follows:

- The GOP sweep of congress had its own implications, and is probably flying further under the radar than it should be.
- Momentum remains a major factor. No one wants to catch this falling knife.
- Probability and risk of a 'worst-case scenario' in December is behind much of the move
- Trump's win paradoxically upped the odds of tightening both from the Fed and the ECB (key ingredients in the worst-case scenario).
- Long-term technicals have been under increasing pressure to blow off some steam--to reset their spot in the super-long-term trend in bond markets--and this has proven to be a good opportunity for that.

We'll talk more about that "resetting" within the context of long-term technicals tomorrow, but for tonight, here's one of the charts that will serve as a foundation for that discussion. It has 2 variations of the long-term trendline governing the "lower highs" seen since the Financial Crisis, as well as a pivot point that has been important throughout the recovery. One of

## MBS & Treasury Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.0   | 99.37         | +0.02   |
| MBS GNMA 5.0   | 99.93         | +0.02   |
| 10 YR Treasury | 3.9068        | +0.0029 |
| 30 YR Treasury | 4.1960        | +0.0028 |

Pricing as of: 9/17:34PM EST



## Average Mortgage Rates

|                                | Rate  | Change | Points |
|--------------------------------|-------|--------|--------|
| <b>Mortgage News Daily</b>     |       |        |        |
| 30 Yr. Fixed                   | 6.43% | +0.02  | 0.00   |
| 15 Yr. Fixed                   | 5.95% | 0.00   | 0.00   |
| 30 Yr. FHA                     | 5.82% | +0.02  | 0.00   |
| 30 Yr. Jumbo                   | 6.62% | 0.00   | 0.00   |
| 5/1 ARM                        | 6.28% | -0.01  | 0.00   |
| <b>Freddie Mac</b>             |       |        |        |
| 30 Yr. Fixed                   | 6.35% | -0.51  | 0.00   |
| 15 Yr. Fixed                   | 5.51% | -0.65  | 0.00   |
| <b>Mortgage Bankers Assoc.</b> |       |        |        |
| 30 Yr. Fixed                   | 6.44% | -0.06  | 0.54   |
| 15 Yr. Fixed                   | 5.88% | -0.16  | 0.68   |
| 30 Yr. FHA                     | 6.36% | -0.06  | 0.85   |
| 30 Yr. Jumbo                   | 6.75% | +0.07  | 0.39   |
| 5/1 ARM                        | 5.98% | -0.27  | 0.65   |

Rates as of: 8/30

those three lines was broken during this selling-spre. Until and unless rates make it back below that trendline, **keep playing defense**. In other words, we could recover quite a bit and still not necessarily be out of the woods.

(note: the lower chart is a zoomed out version of the upper chart. The lines have different angles due to scaling, but they're the exact same lines).



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