Mortgage Broker's Best
Financing Your Future!

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The Day Ahead: Is The Party Over Already? (Why Did Yields Spike and Will They Come Back?)

Everyone has a lot to digest right now. The average human on planet earth is no different from the entire financial market in that regard. We're undoubtedly already several weeks into the sharpest and broadest economic contraction any of us have seen in our lifetimes.

Sound hyperbolic? It shouldn't. When else has every major metro area in every major (and minor) economy in the world had a reason to cancel a majority of its public events, close restaurants/bars/casinos/etc, cancel sports or spectating thereof, lay-off droves of employees? When else has all of that happened right at the same time, and been guaranteed to be an issue for at least 3-4 months in the very best case scenario?

For all the people saying the world just needs to "rub some dirt on it and get back out there," please understand that based on more conservative numbers than those that already exist, left unchecked (or even unmet with appropriate response), Coronavirus will be one of the new top killers of humans. Play with the sliders on this page to see how things could play out: https://www.nytimes.com/interactive/2020/03/16/upshot/coronavirus-best-worst-death-toll-scenario.html (and if you're one of those people that has an issue with the NY Times, keep in mind this is just math based on actual facts AND you can adjust the math to choose your own adventure).

All of this to say that we have a very long and very painful road ahead even if things go much better than expected. The bond market is in the same boat. It was very logical for yields to panic-rally down to 0.32% and it's been very logical to see yields bounce for a variety of reasons. Hindsight 20/20? Perhaps, but even as yields bounced at 0.32%, I reiterated that a move up to 1.17 or even 1.32 would keep the bigger-picture narrative intact. That seemed like a world away until last Friday.

What's up with the massive surge in 10yr yields yesterday and overnight? Why did we hit 1.11% yesterday and 1.226% overnight?

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	100.20	+0.45
10 YR Treasury	4.8941	-0.0762
30 YR Treasury	5.2858	-0.0460

Pricing as of: 11/4 12:35PM EST



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In a word, issuance. The 1 trillion dollar stimulus package suggested yesterday is a given (or some iteration anyway). However big it ends up being, it is guaranteed to be big enough to create a ton of new Treasury debt. More Treasury supply = lower prices and higher yields. This represents one major force pushing yields higher. It is well-received and a much needed counterbalance to the equally big and infinitely more obvious force pushing yields lower. In fact, one may well have wondered why in the world Treasury yields had any business being as lofty as 0.8% yesterday when the impending economic reality suggested something much lower.

In other words, bonds can't rally in a straight line to wherever we think they need to be and then stay there without moving. Movement of unprecedented size and scope begets equally unprecedented corrections/consolidations. In the grand scheme of things, this one isn't even that big at scarcely over a 23% retracement of the last major high. In fact, with the following chart in mind I'd revise my 1.32% sentiment to 1.43%. Moving that high would be unsurprising and not a big deal in the bigger picture.

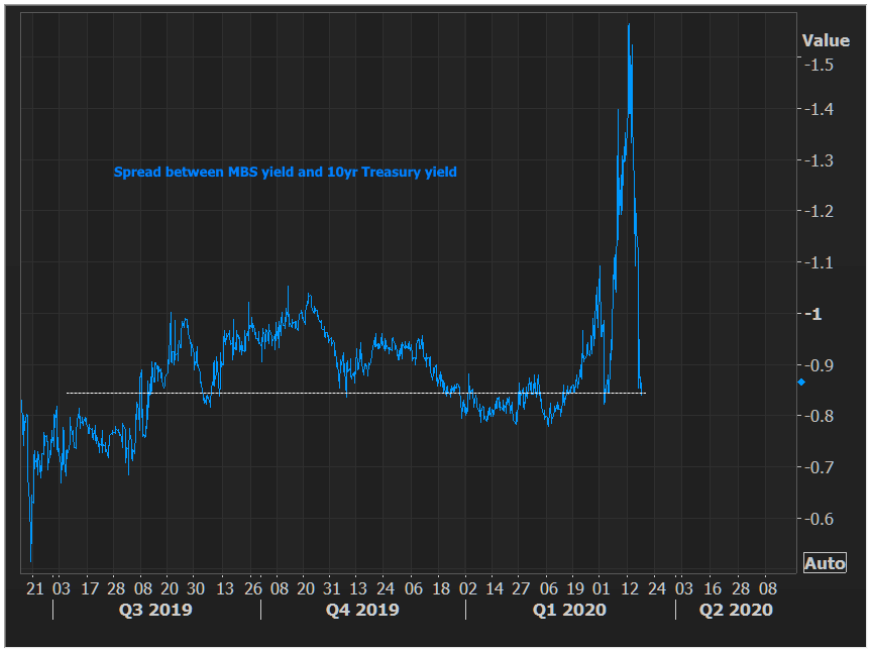


Additionally, we can consider that the MBS market has been able to soak up this Treasury correction every bit as well as I told you it would. I'll admit. Last week's underperformance made me nervous in that regard. I didn't think it derailed my thesis, but I was concerned that it delayed it. Fortunately, the Fed's move to buy MBS again greatly accelerated the return to normalcy--at least as far as MBS are concerned (mortgage rates themselves will have a harder time settling into a happy place).

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Work with a mortgage lending expert to secure the most favorable terms and a stress free financing experience.

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