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The Day Ahead: Independence Day Weekend Begins With All-Time Lows

- 10yr yield hit 1.382 overnight
- All-time low was 1.381 in July 2012
- Welcome to the New Normal

We had a great discussion in the live chat on MBS Live yesterday about the origins of the phrase "the new normal." Back in 2009, the "new normal" was, at its core, merely a reference to the **"differentness"** of this recession/recovery cycle. Analysts and investors were grasping at ways to convey that the so-called recovery would be much less fulfilling than recoveries of the past.

Incidentally, two of the tenets of the "new normal" at the time were **"runaway inflation"** and "a **bear market for stocks**." If you're at all familiar with what's happened in stocks and inflation since 2009, you know how those bets panned out.

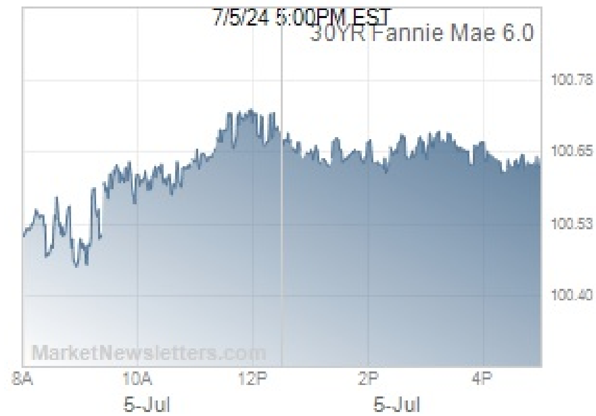
One thing the proponents of the "new normal" nailed was the "differentness" of this economic recovery. It's just plain sucked for a lot of people--especially the 50% (or more?) of society making least money. Even if we were only concerned with how things are going in the US, we're quickly seeing the macroeconomic effects of a disenfranchised bottom 50%. They don't have the historical level of disposable income to drive the price inflation that folks were so scared about in 2009/2010, and some would argue their disenfranchisement is partly to blame for the mysterious drop in productivity that **Yellen cited just 2 weeks ago** when she said "new normal."

And it's Yellen's new normal that everyone should pay attention to. To be fair, it's not hers, per se, but she is the most important person to say it. In fact, **she dropped the mic** right on it with this little ditty: "I think what you see is a downward shift in that assessment [of the neutral Fed Funds Rate] over time, the sense that maybe more of what's causing this neutral rate to be low are factors that are not going to be rapidly disappearing but will be part of the new normal."

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	+0.22
MBS GNMA 6.0	100.74	+0.21
10 YR Treasury	4.2954	+0.0136
30 YR Treasury	4.4890	+0.0033

Pricing as of: 7/8 3:51AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/5

As opposed to an "explanation of something we've already seen," I would instead characterize Yellen's comments as a "revelation that marks the official inception of a brave new world." It's one thing for doomsdayers to predict perpetually lower rates. It's another thing altogether for the Chair of the Federal Reserve to say that 'near-zero' rates are the new normal AND that Fed forecasts will continue moving lower to reflect that fact--all of the above without markets or news media having a volatile reaction. It's the sort of thing that makes me think this particular visit to the high 1.3's in 10yr yields is **more of a starting point** for the next great adventure as opposed to the finishing line of the decades-long bond rally.

Perhaps it's just a bit too soon for that adventure to start, but any time yields are this low--and especially when global bond yields are already well into new all-time lows--it's an **exciting (and scary)** possibility to consider.

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