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A Message from Rich E. Blanchard:

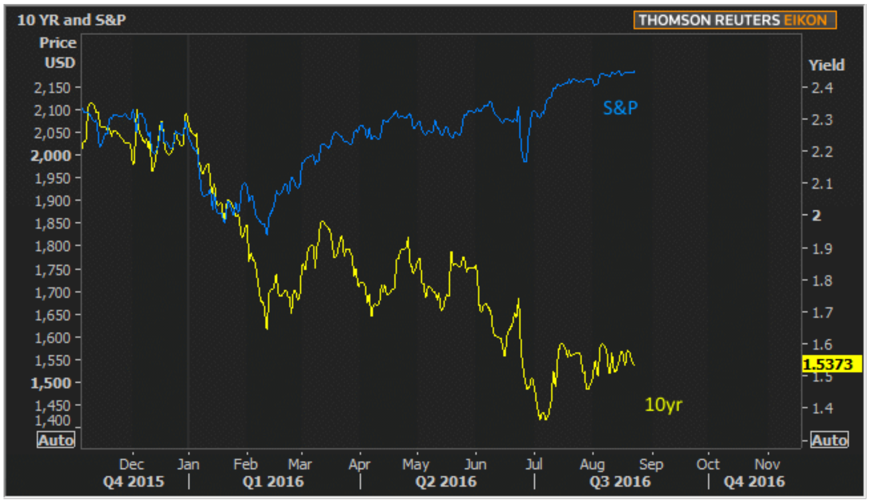
"Home on the range ACT 3"

The Day Ahead: Bonds May Not Even Want to be Inspired Just Yet

To say that bonds have been range-bound recently would be an understatement. I'm running out of ways to say it, and perhaps you're running out of the desire to read the same news on a different day. So let's **change things up** just a bit and bring stocks back into the mix.

First off, stocks have really gone out the window in terms of explaining bond market movement as the year has progressed. This is in **stark contrast** to the beginning of the year when we couldn't stop talking about the major stock sell-off (and major correlation with falling oil prices and bond yields)--especially during January.

Let's take a look at how 2016's stock/bond relationship has played out in the context of that late-2015/early-2016 relationship. The following chart is scaled based on the highs and lows in stocks and bonds from December 2015 through mid-January 2016, when they displayed their strongest correlation.

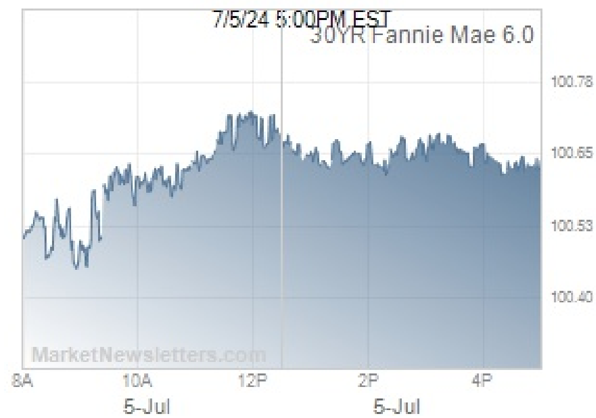


As you can see, from the point of divergence, **neither** has gotten any weaker. In fact, both are in significantly stronger territory since the beginning of February, although bonds have picked up more ground.

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	4.2925	+0.0107
30 YR Treasury	4.4886	+0.0029

Pricing as of: 7/7 11:49PM 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

This same sort of **disconnect** occurs over shorter time scales too. Here's how things look following the late June Brexit headlines:

If you want a **reason** for both stocks and bonds to be in stronger territory than before Brexit, it's as simple as "Global Central Bank Crisis Response." It's not necessarily that Brexit condemns the EU to crisis, but all things being equal, it implied that much more accommodation from various central banks. And we've seen time and again that both sides of the market like cheaper money.

Brexit is **particularly fascinating** to me because I feel like it served as a flashpoint for markets--one from which we've now stepped back to consider the next move. Stocks' initial inclination was to sell-off, but after calming down, they're in stronger territory and figuring out what to do next. Bonds' initial inclination was to hit all-time low yields, but after calming down, they're in weaker territory (relative to the post-Brexit lows) and figuring out what to do next.

As for the next flashpoint, we'll know it after we see it. There was a time when we would have held out more hope that it could come from Yellen's Jackson Hole speech this Friday, but the more I think about it, the more I wonder what she can say that she hasn't **already said** (i.e. "data dependent" and "could be time to hike soon, but don't want to hike too soon").

Data today is limited to **New Home Sales**, which typically doesn't cause major market movement unless it's very far from forecasts.

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