

Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Markets Need Something to do For a Week

The past three days have been interesting for financial markets--Friday and Monday particularly. Friday saw the biggest break outside the established range in bond markets, as well as the biggest sell-off in stocks since Brexit. Yesterday's Brainard speech was **heralded as doomsday** for bonds, but turned out to be salubrious instead (don't google it, it means "promoting health," I think). Bonds staged a small recovery and stocks bounced back even more.

BUT, neither bounced back enough to reenter the previous range. This is **"interesting"** because it doesn't really seem like anyone is asking why both stocks and bonds are suddenly well outside the recent ranges--and staying there--despite the innocuous Brainard speech.

I think I know why, and if you've read anything I've written over the past few days, I hope you know why as well. There are only so many market developments that could cause widespread selling in both stocks and bond simultaneously. In fact, there is really only one that stands out: the good old **"QE on/off" trade!**

The QE on/off trade was a prevalent topic in 2013 during the taper tantrum . On some occasions, it was as if there was a permanent addendum to every trade in stocks and bonds that forced traders to sell/buy one every time they sold/bought the other. This behavior was typified by charts where bond yields moved lower as stock prices moved higher and vice versa (example from June 2013). Incidentally, here's what the past few days have looked like:

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

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True, some traders who were **too quick** to jump on the Brainard bandwagon could have contributed to this, but cause and effect aren't always quite so tidy when it comes to market movement. It's more plausible that was motivated by an ongoing reaction to Thursday's ECB announcement. If the ECB looks like it's beginning to consider a world without large scale asset purchases, then stocks and bonds both have some serious selling to do. Of course, the ECB didn't come right out and say that, otherwise the selling would have been much worse.

Still, it was enough to break ranges, and we haven't rushed back into said ranges. So the question is **"what now?"**

While the Fed isn't in the same position as the ECB when it comes to jolting markets due to large scale asset purchases, the expected path of the Fed Funds Rate is **still a big enough deal** to send shockwaves through stocks and bonds. Almost no one thinks the Fed will hike next week, but almost everyone thinks we'll learn something that leads to an adjustment in rate hike expectations. As such, THAT'S the next big market mover, most likely.

But it's a week away! So **what do we do in the meantime?** Today's challenge looks like it will be corporate bond issuance, with several big deals already announced and more likely on the way. Truth be told, big corporate issuance was expected this week, and if we consider that in conjunction with the front-loaded Treasury Auction schedule (Treasury crammed Tue/Wed/Thu auctions into Mon/Tue in order to get caught up after taking 2 weeks off), it helps rationalize part of Friday's extra weak performance.

On a final note, today is a **new coupon day for Fannie and Freddie 30yr fixed MBS**. September coupons are 'settled,' and October coupons are now the "front month." This, of course, makes it look like prices fell abruptly overnight, but they did not. The trailing month coupon always trades at a discount to the "front month," so the once-a-month changing of the guard makes it seem like prices have dropped whereas we've merely shifted our perspective to the next widget on the assembly line.

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