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The Day Ahead: Trend Remains Unfriendly, But MBS Outperform

Last week provided some hope for bond markets due to a relatively strong move off the recent highs. 10yr yields recovered from the previous week's 1.80% closing level to 1.73% a week later. Granted, that's not a huge move, nor is it a great outright level relative to the past 4 months, but it was a **step in the right direction**.

Unfortunately, such steps are often seen during longer-term uptrends. We would have liked to have seen a solid break below the **1.73% pivot point** (a "pivot" because it recently acted as a firm "ceiling" and is now building a strong resume as "floor").

Even then, breaking below 1.73% would **only be the first step** in defeating the broader trend. Yields are also trading above the 25, 50, 100, and 200 day moving averages. Though these are no magic lines in the sand, they do serve as general barometers for the current state of momentum. When yields break through all of them in a few months, it's added confirmation of the trend's unfriendliness.

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	4.2808	-0.0010
30 YR Treasury	4.4721	-0.0136

Pricing as of: 7/7 7:37PM EST

Average Mortgage Rates

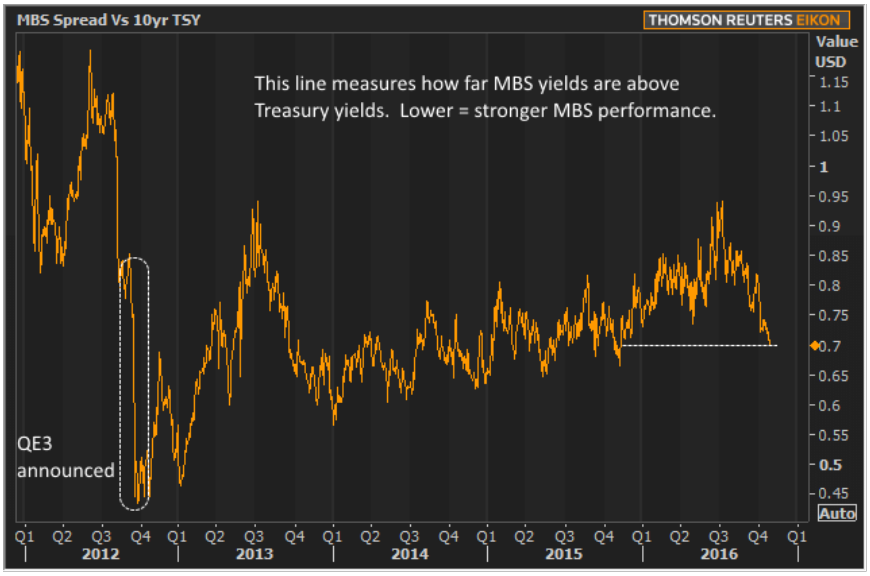
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%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

For all of these reasons, a **defensive strategy** continues to be the safest bet. If you're feeling especially risk-tolerant, you can look for float opportunities that might arise when yields bounce lower inside the broader trend (like they did at the end of September). Up until this week, it looked like bond markets were staging for a similar in-range correction, but the past few days have placed those plans on hold.

If we can't hold below recent highs of 1.80 (or 1.814 in terms of intraday highs), hopes and plans for 'in-range corrections" may have to be **scrapped altogether**, as such a move would mark an acceleration of the existing trend toward higher rates.

As is usually the case during bouts of strong selling momentum, one saving grace is the relative outperformance of MBS vs Treasuries. MBS are no doubt weaker, but have been **losing much less ground** than Treasuries on a relative basis. MBS spreads to 10yr yields are the narrowest they've been all year.



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