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The Week Ahead: The Trend is Our Friend (Until It's Not)

On Good Friday (when markets were closed), both **Retail Sales** and the **Consumer Price Index** came out weaker than expected. Of particular interest is the fact that Core year-over-year CPI fell back to +2.0% vs a previous reading of +2.2% and a median forecast of +2.3%. This isn't the way inflation is supposed to be going in 2017--at least not if we're to believe the narrative of higher growth/inflation that dominated the late 2016 bond market sell-off (aka "rate spike").

Of course, both sides of the political aisle would agree it's still **far too soon** to be jumping to any conclusions about the efficacy of the new administration's policies. But the persistent unwillingness of core inflation to rise/stay above the magic line at 2% begs the question: is it really the right time for the Fed to be aggressively unwinding accommodative policy?

The answer is that it's only the right time if the Fed's motivation is to be ready for the next time they need to **INCREASE** accommodation. They've said as much on several occasions, so we don't need to totally freak out about the incongruence of monetary policy and inflation metrics.

Of most interest at the moment is the state of the broader trend in bond markets. As of late last week, the sideways trend of 2017 (post-election, really) was finally broken. This week begins with that breakout intact and with rates holding inside a new, shorter-term trend pointing toward lower rates. There's no way to know how far this particular trend will take us--only that it's our friend for now. We can watch for yields to break back above the upper trend channel line in the following chart (upper teal line), and for several other warning signs as noted in the chart captions.

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	4.2818	-0.0784
30 YR Treasury	4.4857	-0.0440

Pricing as of: 7/5 5:59PM 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 week doesn't bring any impressive glut of economic data, but that's likely neither here nor there as far as markets are concerned. At the moment, geopolitical risks and fiscal policy drama seem to be **front and center**. That's the baseline market mover until/unless we see markets take an interest in economic data again (something they'd surely do if the data begins to even faintly suggest the economic expansion is getting close to peaking).

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