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The Week Ahead: At Risk of Reentering Old Range, But Not Without a Fight

For bond markets, most of 2017 has been **dominated** by the "post-election range" (or "the 2017 range," if you prefer) consisting of 10yr yields between roughly 2.3 and 2.6%. Fiscal policy roadblocks in late March and geopolitical concerns in April helped yields break below that range.

Yesterday's French election was one of the on-again-off-again geopolitical concerns driving a portion of the rally. **In a nutshell**, there were 2 anti-establishment candidates (with Marine Le Pen being the "scariest" choice for financial markets) and one status-quo politician. The status quo politician was/is good for stocks and bad for bonds. Le Pen was/is good for bonds because she would have created uncertainty about France's future in the EU.

Le Pen **technically** still has a chance because she advanced to a run-off against the status-quo politician Macron. Unfortunately, pollsters say there's **no chance** she can win that run-off (her only chance would have been to win outright or advance to a run-off with the other guy, Melenchon). Long story short, the French election turned out to be an unfriendly indicator for bonds.

Markets were fairly well convinced that Le Pen was a bit too much of a long-shot to win outright. This was part of the reason that bonds were unwilling to move below "the gap" seen in the chart below (if last week's polls showed Le Pen winning decisively, it could have been a different story). Instead, yields **bounced** on the gap (see the "bounce!" caption) and then waited for the election results.

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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As the chart suggests, the election reaction means yields **quickly** find themselves on the edge of the same old post-election range between 2.3-2.6%, but emphasis is indeed on "the edge." This isn't a "confirmed" reentry into that range or a unequivocally negative development, because we'd need to spend more time trading a bit farther above 2.30 for true confirmation, but it certainly introduces that risk.

Bottom line, this week now becomes a **battle** for bond markets to avoid reentry into the range. The evolution of this morning's trading is only part of the story. The ostensibly huge tax reform plan coming later this week could apply additional pressure. Given that Trump already tweeted about the tax plan over the weekend (in addition to Friday's AP coverage), markets are likely already factoring the impact of potential tax reform headlines into this morning's French election reaction. In other words, even some of the traders who ultimately see bonds continuing to rally may view this as an ideal time to take some chips off the table (sell bonds short-term even though they're inclined to buy in the longer-term) until we get through these higher-risk events.

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