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# The Day Ahead: Assessing Bigger Picture, Shorter-Term Risks For Now

Until the onset of brinksmanship with North Korea and the appearance of big, back-to-back Hurricanes, financial markets were more focused on long-term **policy-related** risk. In terms of **monetary** policy, traders are keen to feel out the particulars of the European Central Bank's strategy when it comes to dialing back its asset purchases--something they'll ostensibly be discussing tomorrow for the first time. Meanwhile, Fed speakers have grown increasingly dovish, prompting traders to wonder if there will even be a rate hike in December.

In terms of **fiscal** policy, market participants have had to account for the possibility that some form of tax reform is accomplished. Stocks really like that, even if all they have is the "possibility." We could pretend like these disparate motivations are responsible for the breakdown in correlation between stocks and bonds (and no one could really disprove that), but if we zoom out, it's easy to see that 2017 isn't the only evidence for stocks rising while bond yields fall. It's a general trend throughout the recovery.


As always, stock/bond correlations are best observed over the shortest of terms. It's there we see the effects of Hurricane Irma and the most recent flare-up in North Korean tensions. But we also see a general divergence at the end of August.

## MBS & Treasury Market Data

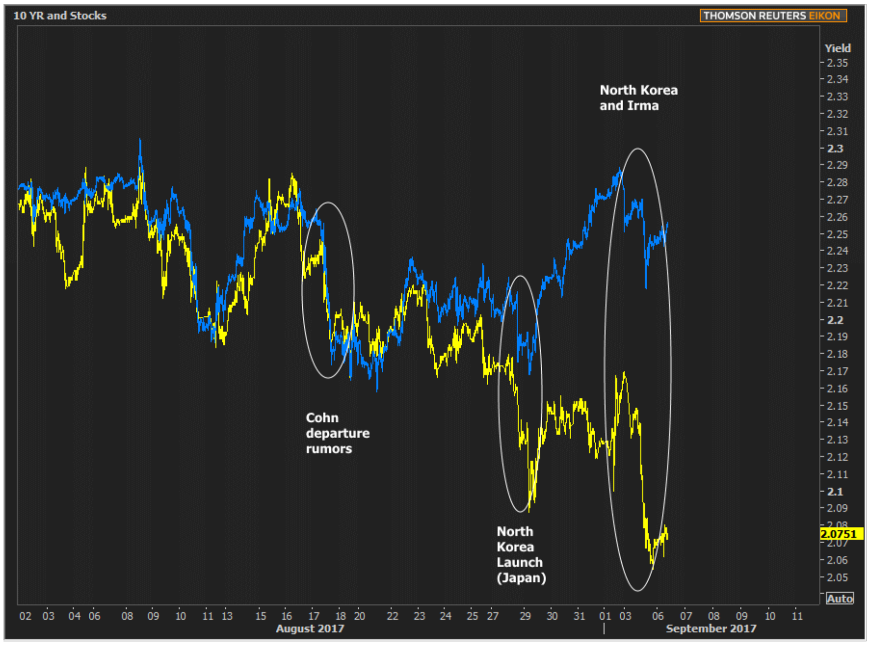
| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 100.61 | +0.22 |
| MBS GNMA 6.0 | 100.74 | +0.21 |
| 10 YR Treasury | 4.2818 | -0.0784 |
| 30 YR Treasury | 4.4857 | -0.0440 |

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




There are too many ways to account for the divergence. It could be driven by month-end trading, tax reform hopes, central bank policy expectations, the expectation for corporate stock buy-backs fueled by low-rate corporate bond issuance in September, or even expectations that congress will be better able to work together in light of back-to-back natural disasters.

The **important part is twofold**. On one hand, it's "nice" to see bonds are willing to rally of their own volition. On the other, these pockets of correlation (when things like Cohn's potential departure, Korean nuclear threats, and Hurricanes present big, short-term risks seen in the white ovals in the chart) are responsible for the biggest short-term movements. Short-term motivation creates an inherent risk for a push back in the other direction when the risks are resolved or even temporarily forgotten.

In **assessing the seriousness** of any push back, we can always use the technical levels that have presented themselves both recently and in the past. At this point, the most serious selling pressure would see a break above 2.12 or "the gap" centered on 2.16. For now, the Korean flare-up and Hurricane Irma reinforce those ceilings unless the European Central Bank has an unexpectedly hawkish surprise in store tomorrow morning.


As for today, there's a lot of watching and waiting to be done. The only relevant data is out at 10am in the form of ISM Non-Manufacturing and that's not likely to be a watershed moment for bonds in the current environment.

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