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The Day Ahead: How Long Can Bonds' Back-To-School Rally Continue?

Bonds have been **on a tear recently**, easily breaking to the lowest yields of the year this week after some exploratory attempts last week. Geopolitical risk surrounding North Korea has been the centerpiece of the market's move away from risk, or so they say. But it's not quite that simple.

Sure, North Korean headlines have definitely served as buying opportunities for bonds, but if this were a true "risk-off" move, we'd expect to see **more participation from equities** markets. Instead, stocks only briefly moved lower with bonds before grinding back up toward all-time highs. Meanwhile, the bond rally has been a consistent 2-month affair.



This divergence suggests **bonds have their own reasons** to rally that transcend the mere "risk-on" vs "risk-off" themes associated with major geopolitical drama. Fortunately, these haven't been too terribly mysterious. They've also done a good job of confirming their importance along the way.

For instance, yesterday's European Central Bank announcement and press conference reminded us that the world's big central banks are going to have a **tough time** quickly removing accommodation (i.e. raising rates and decreasing asset purchases). A day earlier, we saw political headlines in the US take bonds in an unfriendly direction--confirmation that the debt ceiling drama and general political gridlock was/is helping rates.

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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Harder to quantify and observe is the undercurrent of "trading positions." This simply refers to the spread of various bets being made by traders. As yields fell toward 2017 lows, bets increased that rates would bounce. If the balance of bets gets lopsided, we're slightly more likely to see quick, snowball moves in the opposite direction. Those moves often follow the opening bell for the CME or NYSE (8:20am or 9:30am respectively). We have solid examples of both on Tuesday and Thursday respectively.

The question now becomes whether or not the imbalance of bets has been washed out. In other words, have the folks who were betting on rates moving higher "learned their lesson?" That question can only be answered **gradually** by trading levels. 2.06% remains the closest pivot point in 10yr yields, but 2.12% is the **more important** one.

Moving well over 2.12% (and staying there in the following trading session) would go a long way toward confirming the end of the back-to-school bond rally. Until we see that, gains are only limited by the willingness of traders to keep betting against bonds. The more of a "sure thing" a move toward higher rates becomes, the more they'll likely continue to fall. But once traders accept and believe that rates can continue lower, that's when they'll bounce.



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