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The Day Ahead: Quick Recap of How/Why Rates Have Rallied So Apparently Quickly

Good times are rolling in the bond market, even if they're rolling much more for Treasuries as opposed to MBS. Nonetheless, MBS will continue to benefit as long as Treasuries are rallying, and the latter is beginning the day at new multi-month lows.

Seeing 10yr yields under 2.9% may **feel** sudden, but it's actually quite **logical**. We know rates had been moving higher in general due to 3 main problems: increased Treasury issuance, increased growth/inflation risk, and a Federal Reserve that had no qualms about continuing to remove accommodation. We know that rates had been trading in this 2.8-3.0% range all summer. Then in September and October, they were pushed higher by surprisingly strong economic data (some of which, like average hourly earnings, pointed toward inflation) and even tougher talk from the Fed.

It's hard to say how high rates may have gone without intervention from a stock market sell-off. The fact that 10yr yields were willing to push back up to 3.25% even after the first barrage of stock selling says a lot about entrenched bond market bearishness. **Things changed in November** though. Some of the econ data began to soften. Democratic control of the House decreased risks of an acceleration in Treasury issuance. Ultimately, the Fed began to sing a very different tune by the end of the month.

Is all of the above not worth at least a return to the range that existed before Sep/Oct? Hindsight is 20/20 there, but keep in mind that we began to talk about "the conversation being opened" (about a **bigger picture shift**) right after that 2nd bounce at 3.25%. The fact is that bonds were actively searching for a long-term ceiling and it would have required consistently stronger growth/inflation data or an incrementally more hawkish Fed, or a GOP sweep of the House and Senate to push that search into even higher rate territory.

All that having been said, it's **still a bit too soon** to declare that the ceiling has been found (back up at 3.25% in Oct/Nov), but definitely not too soon to say it will take a serious turn of events to convince bonds to move back up and push that ceiling even higher. That's only a comment on the long-term ceiling, mind you. It remains a risk/possibility that bonds could still move back up. After all, they're only just now getting to that long-term trend line that we've charted a few times (seen below in yellow).

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

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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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Tomorrow's NFP may be the flashpoint that informs a **break or bounce** at that line. If yields move lower, the next key test would be at 2.82%, which had come into play multiple times as the summertime floor. From a short-term strategy standpoint, we're still floating with caution until we see short-term momentum clearly spike back up from overbought levels (the lower blue line in the chart where the "warnings" have emerged).

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