

Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Who's Lying?

Coronavirus has made for some of the biggest market movement and volatility in the history of financial markets. It's also resulted in a wide range of predictions about the future of the economy. There's good reason for this, to be sure. If there was ever an event that forced us to consider extreme market movement, the largest, most immediate, most coordinated global economic shock certainly fits the bill. It's the kind of thing that's **so large and compelling** that no one would question the initial move in stocks and bonds.

In other words, with the biggest jump in unemployment ever seen, and with pretty much every other developed economy in the same position, it was only fair that stocks and bond yields would have to decline precipitously. But how do we accurately measure the overall impact of coronavirus in stock/bond terms? We've **never had to price-in anything quite like this**. We've never had this much of a stimulus response attempting to offset a shock. We've never been going into a recession with so much hope/expectation for a strong and speedy recovery on the other side.

As of right now, there are two main schools of thought: those who see a certain amount of present day economic damage becoming embedded/self-sustaining, and those who think everything can largely return to normal after a vaccine or equivalent level of coronavirus control. The bond market seems to be **arguing one side** and stocks, the other, depending on when you look. At many times, they're as well connected as most people thing they should be. But then we see divergences like this one and begin to wonder: who's telling the truth here?

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

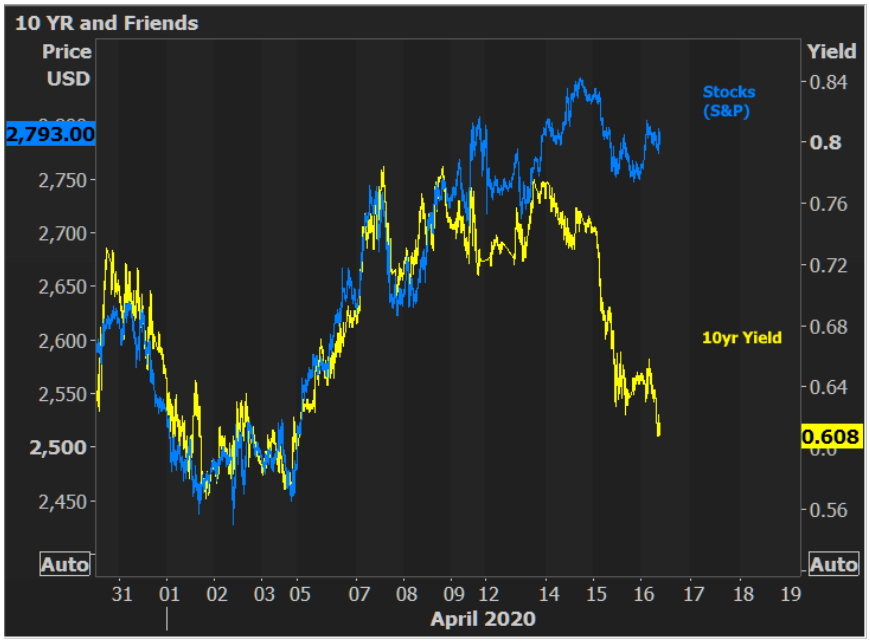
	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

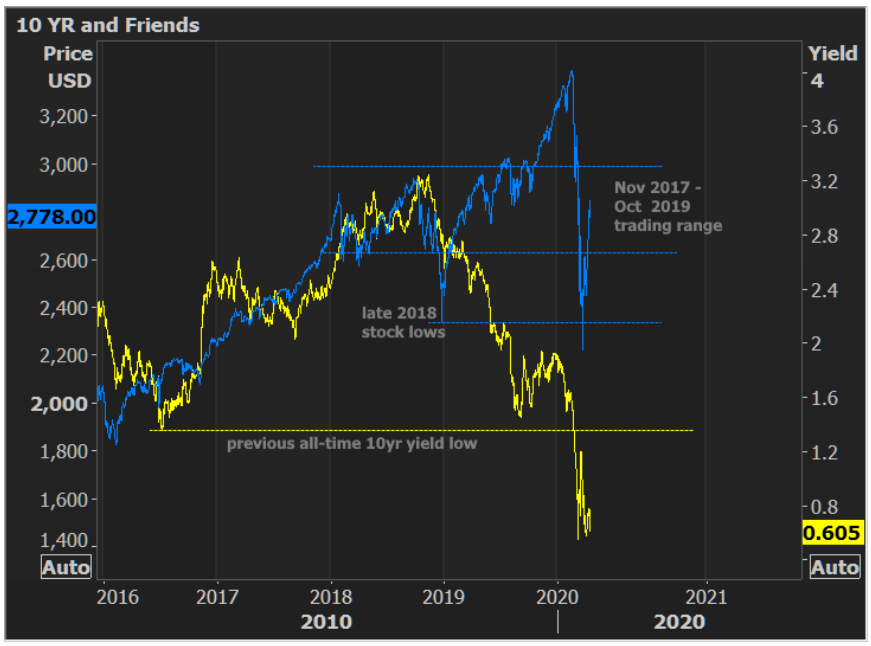
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With over 10 million continued jobless claims and 10yr yields settling into a new range well below their previous all-time lows, **are we really to believe** that stocks only needed to bounce just slightly below their late 2018 lows and that they should now be trading right in the middle of their range for most of the past 2 years?

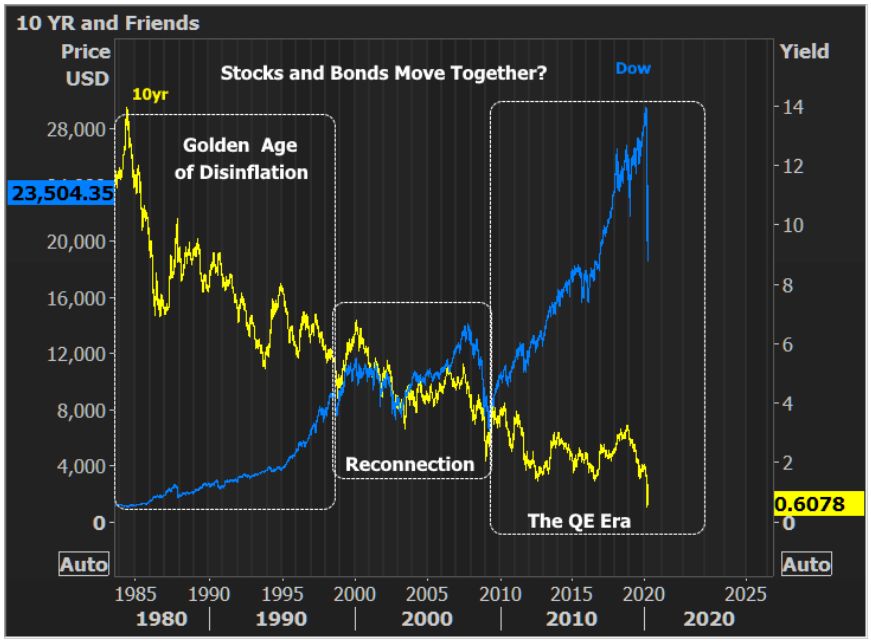


It sounds **preposterous** when we say it like that, and when we look at the chart above. But the chart below tells a different story.

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Bottom line: stocks have proven more than capable of defying all calls for correction in the QE era. They've also proven more than capable of ignoring suggestions from the bond market. If we were only dealing with organic capitalism, free from fiscal and monetary efforts to prevent pain, that pain would be **much easier to forecast** and predict. Ultimately, the best shot at "the right answer" is likely that neither stocks nor bonds are lying. One or the other will need to make an adjustment that accounts for an increasingly clear picture of how coronavirus fits in our lives going forward.

Stocks are betting on it being an afterthought sooner than later. Either that or they're just riding a temporary wave of corrective momentum with the smartest folks in the room standing ready for an even bigger sell-off to come. Bonds are pricing in that embedded economic weakness mentioned above and bathing in the excess demand from Fed bond buying. Because of QE, both of these narratives can exist for now, but one will eventually become more true than the other. Unfortunately for those who'd like to see one conclusive reaction, it should already be clear that we'll instead see multiple false starts, ebbs, and flows--**lots of little lies** that ultimately add up to truth.

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Rich E. Blanchard



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