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The Week Ahead: Rates vs MBS vs Treasuries vs Stocks vs Oil

This week is relatively limited in terms of economic data. We will get our first look at big home sales reports for March (both "New" and "Existing"), but those numbers are largely driven by activity that took place **before** much of the nation was on lockdown. Friday's Durable Goods report would typically be the biggest ticket--and it could certainly have an impact--but Thursday's Jobless Claims data will continue to be the most timely economic indicator for now.

Bonds are starting out the week locked in the range that's been **intact for several weeks** with a floor of .57% and a ceiling of .78%. The past 3 days haven't seen 10yr yields use much of that range and they've generally favored the lower boundary.

This morning's strength is being chalked up (by some, anyway) to a massive drop in oil prices. As is often the case when looking at correlation across different asset classes, it's not quite that simple. In the bigger picture, it **makes good sense** to see correlation between oil and bond yields. Both are key players in any conversation about inflation (i.e. oil prices are a key inflation input, and inflation is a key bond yield input). In other words, the thought (of oil prices informing bond yields) is worth considering. That said, correlation is pretty easy to find when the economy is clearly trending and when various indicators tend to move with economic growth/contraction.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM EST

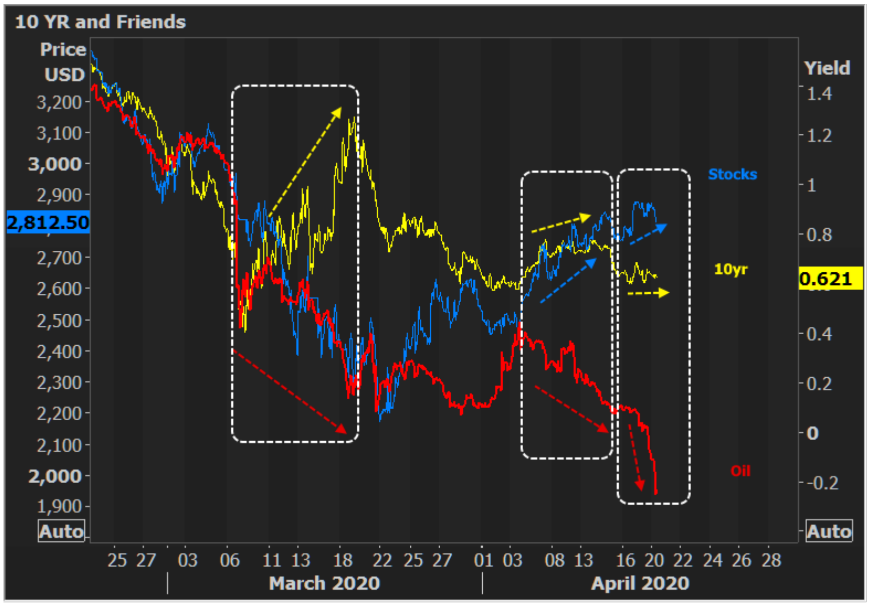
Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	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: 7/3

Both oil and bonds fall into that camp (as do stocks).

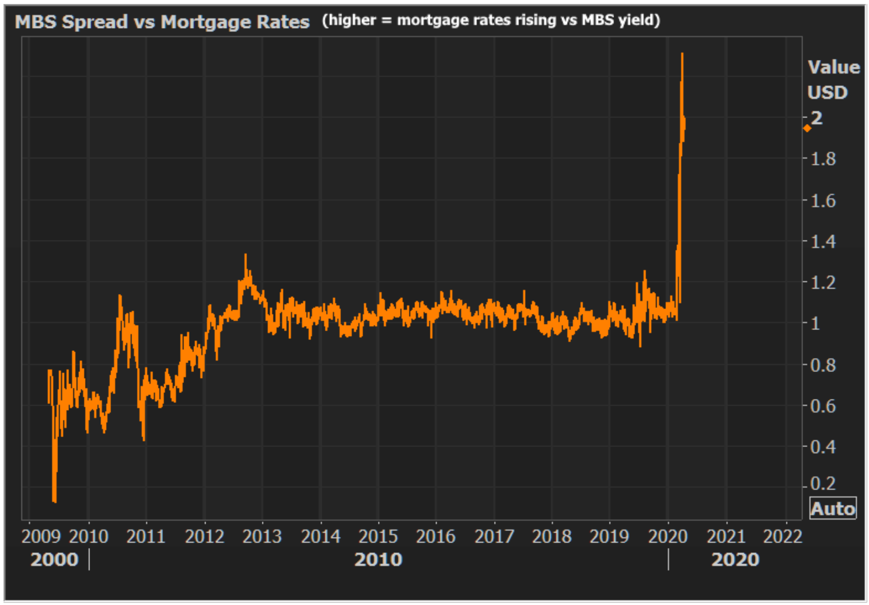
While pockets of correlation are easy to find, it's just as easy to make the opposite case depending on the time frame. Below, I've highlighted 3 recent examples of oil and bond yields moving in opposite directions. On 2 of those occasions, stocks were also moving away from oil prices. **Bottom line** here: if we want to credit oil prices for stock/bond movement, we need to be sure the narrative isn't made completely different by zooming out to a moderately bigger picture.



Switching gears to more mortgage-specific concerns, we'll **continue to wait** for clarity on servicer liquidity measures, FHFA guideline changes to accommodate the new reality, and overall forbearance uptake. Without these things in place, rates will remain elevated compared to their typical benchmarks. So what are those benchmarks?

At pretty much any point in the past, we could simply look at MBS vs Treasuries for an indication of mortgage rate health. **Reason being:** the spread between MBS and mortgage rates was so stable that there was little point to drilling down to the additional layer of detail. If that were still the case, the nice drop in the blue line below (MBS yield vs Treasury yield) would indicate that the mortgage market is healed.

But the chart above only accounts for the **security price** of a mortgage, **not** the servicing valuation. The latter is where we've taken the biggest hit recently. Securities prices ceased to be as much of a concern as soon as the Fed got involved. Looking at mortgage rates vs MBS, the issue becomes clear. Notice just how stable the relationship had been between 2013 and 2019 (that's why we didn't need to look any further than MBS when thinking about mortgage performance).



Even if we look at rates vs Treasuries, the same problem jumps off the chart. Something is **very wrong**. It won't be fixed quickly, and the recovery won't be linear.

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