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MBS Recap: How'd We Get Here and Where Are We Going?

Pre-announced bond buying programs are really quite something. They have all ended up being **well-telegraphed** enough to allow investors to do their own bond buying well before the program starts, driving rates lower preemptively. This was the case throughout 2014 and even more so at the beginning of 2015 (when it became abundantly clear that Europe was set for QE.

Once Europe finally started buying bonds, there was **no more front-running** left to be done, and rates paradoxically moved swiftly higher.

To **paraphrase** all that: The European Central Bank (ECB) said it was going to buy bonds. Other investors bought bonds based on that expectation, pushing European rates to all-time lows in the process (which helped US interest rates get back near all-time lows). Once the ECB began buying, rates finally began heading higher, and that was the story of the first half of 2015.

The **second half of the year** was largely about the **Fed's rate hike**. Plummeting oil prices and worries about a long-term top in stock prices served as a backdrop. This helped rates move lower from July through October, but then the Fed got crystal clear on its intention to hike rates in December. As I've incessantly mentioned, the Fed Funds rate is not directly connected to mortgage rates, but they will move in the same direction in the long term.

Now the **question becomes how much tightening** (i.e. Fed rate hikes) can the economy sustain before showing signs of weakness. The time between now and then will be a test of endurance for MBS and bond markets. To whatever extent it looks like the economy can handle higher Fed rates, other rates will likely follow, albeit at a gentler pace. That doesn't mean we can't win the game in 2016--simply that we're starting out on defense.

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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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