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## The Day Ahead: Yellen Speaks Again, But Bonds Left Their Heart in Europe

Stocks and bond yields ignited a **fiery romance** in 2016, not letting each other out of sight for almost the entire month of January. That is to say, not only were stocks and bond yields moving in the same direction at the same time, but they were also matching each others' intensity almost perfectly.

The month-end trading environment as well as the surprise rate cut from the Bank of Japan led to a bit of disconnection between stocks and bond yields. After all, easy central bank policies benefit **both sides of the market** (which would cause stocks to rise as rates fell). Indeed, stocks managed to at least hold their ground into the start of February even though bond yields continued to fall.

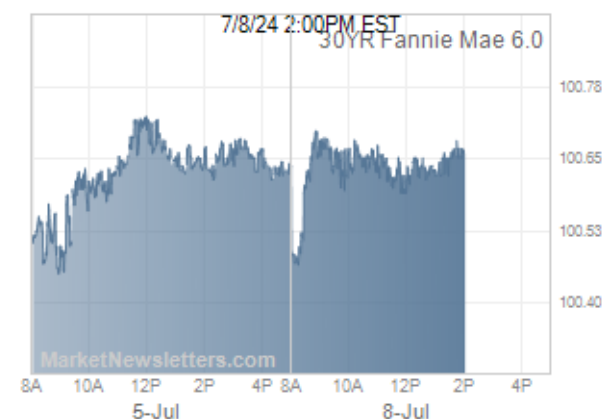
Then at the beginning of this week, we saw a new player enter the love quadrangle. Whereas oil prices and central bank policies had combined with general fear to drive stocks and bonds, the interloper was the rapid deterioration in the European banking sector. Seemingly **out of left field**, news made the rounds about a potential future Deutsche Bank default. If you read nothing else in the previous three paragraphs, read this: the DAX (Germany's blue chip index) fell more than 10% in the past two weeks while the S&P lost less than 3%.

Bond markets were forced to choose. Who could provide the most drama and the greatest justification for flights to safety (read: buying bonds in lieu of riskier assets)? The choice was clear and **this chart makes it clearer**. Bonds have been far more in tune than most folks realize with the European situation over these past 2 weeks. Look at how 10yr yields jump quickly out of bed with the S&P and into bed with the DAX into the end of January.

## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.67	+0.06
MBS GNMA 6.0	100.73	-0.01
10 YR Treasury	4.2700	-0.0118
30 YR Treasury	4.4618	-0.0239

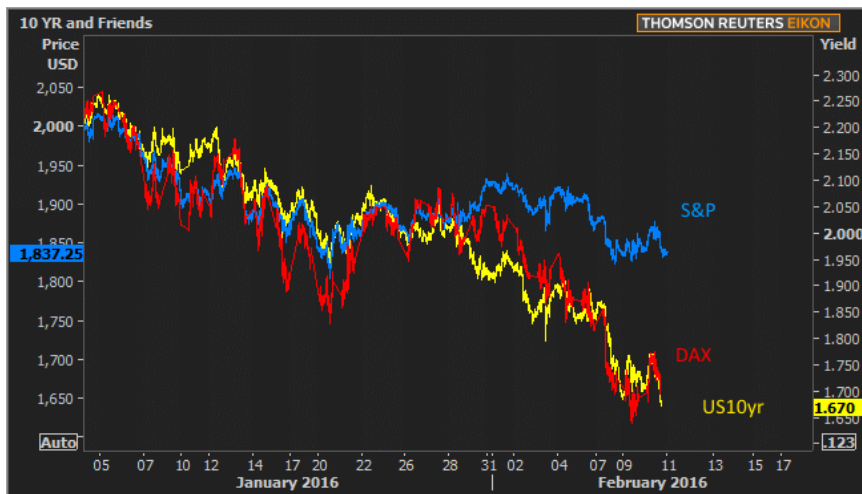
Pricing as of: 7/8 2:00PM EST



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.01%	-0.02	0.00
15 Yr. Fixed	6.41%	-0.03	0.00
30 Yr. FHA	6.48%	-0.02	0.00
30 Yr. Jumbo	7.22%	-0.02	0.00
5/1 ARM	7.03%	-0.02	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
<b>Mortgage Bankers Assoc.</b>			
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: 7/8



Yes, there are a few other market moving considerations at the moment, but not only is this one of the biggest, it just proved to be much more interesting than Yellen yesterday. While it is true that the Senate Banking Committee tends to **play more nicely with Yellen** than the FSOC, it's also true that they probably can't think of anything super important to ask her that wasn't already covered. Rather than waiting on Yellen's every word, we need to stay on guard for a corrective bounce in Europe.

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With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

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