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The Day Ahead: Stocks and Bonds Walking Fine Line Between Support and Resistance

Technical analysis refers to attempts to understand and predict financial market behavior based solely on financial markets themselves. Specifically, a technical analyst relies strictly on the trading levels of various securities, and an arsenal of technical studies applied to those trading levels, as opposed to things like economic data, news headlines, and market research.

While there are some truly arcane and esoteric corners of technical analysis, there are some technical concepts that are simple enough as to be relatively mainstream. Although the terminology may vary, the concept of support and resistance is good example of this.

Simply put, "support" refers to a level (or even a small range of levels) that act as a floor for the price of any given security. This doesn't mean the floor can't be broken--simply that prices have been less likely to break the floor on the occasions when they get close to it.

If the floor is broken, it can become a ceiling, or "resistance." This flip-flopping between support and resistance is common when dealing with important trading levels in any security. Any time you see the term "pivot point" or "inflection point," it is referring to this support/resistance duality.

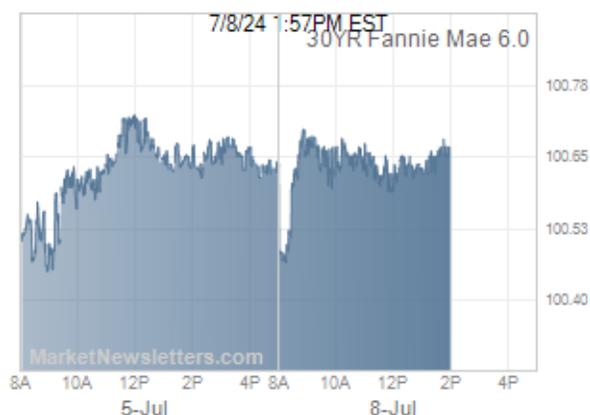
With all that in mind, both stocks and bonds have reached important inflection/pivot points in the 2016 saga (downtrend for stocks and yields). One quick point of order: when we're dealing with yields, support is overhead because yields trade inversely to price. In other words, support and resistance are on opposite sides of the y-axis for yields.

For bonds, this critical inflection point is more of a "zone"--a range of yields from roughly 1.80-1.84. For stocks, I'm watching levels of 1900-1905 in S&P futures (traders deal in futures while the evening news deals in cash). Long story short, both stocks and bonds are back to the brink of these pivots. A significant break above (defined as more than 2 days and more than 2-3bps in 10yr yields) would be very bad news for bond markets.

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	4.2676	-0.0142
30 YR Treasury	4.4590	-0.0267

Pricing as of: 7/8 1:57PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
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
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	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: 7/8



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