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The Day Ahead: Points and Counterpoints as Stakes Rise

Bond markets have been slightly weaker over the past few days, but overall, still arguably trading sideways inside a narrow range. Looked at in the most neutral light, these episodes of 'sideways trading inside narrow ranges' can imply markets are **anxiously** awaiting the next big piece of information or the firm formation of the next trend. But it could also be argued positively or negatively depending on your perspective.

Let's get the negative perspective out of the way. The bond-bears' stance isn't complicated, but it's **fairly scary**. In short, some of the more mainstream technical analysis suggests positive momentum in bond markets fizzled out 2 weeks ago and has now confirmed that it's moving in the other direction.

In other words, the green candlestick in the following chart would be viewed as a mere **consolidation/correction** of the brisk selling momentum coming off the 1.53% 10yr yields from Feb 11th. For bond bulls, the green day would be a cruel head fake.



The positive perspective relies more on a visceral read of the bigger picture. It also relies on oil and stocks. While it's true that bond market have, by no means, been perfectly correlated with oil and stocks, it's **unlikely** that bonds would defy a big picture bounce in those risk markets. With that in mind, those risk markets are indeed making menacing gestures. Both stocks and bonds are clearly trending higher from the lows earlier in the month.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.08	-0.36
10 YR Treasury	5.0608	+0.0748
30 YR Treasury	5.3949	+0.0392

Pricing as of: 11/12 10:40AM EST



Average Mortgage Rates

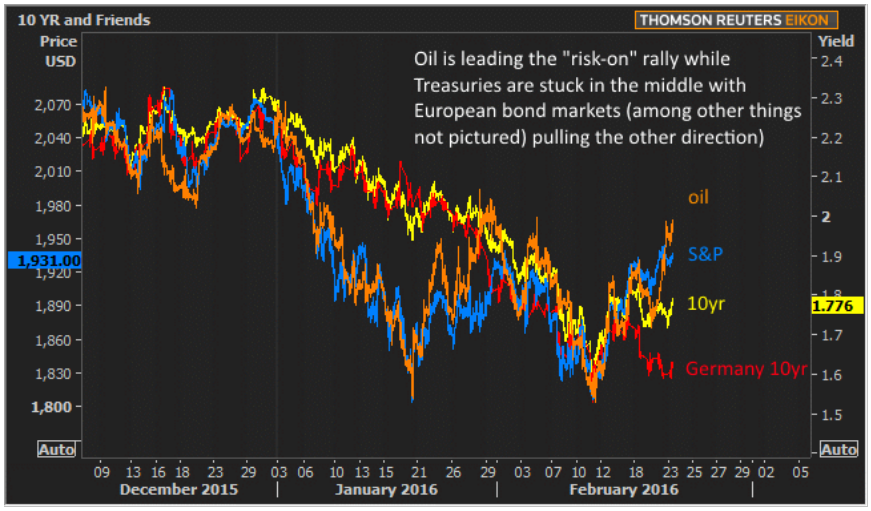
	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

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The bond bulls are holding out hope that the bounce in risk markets (oil, stocks, and whatever else people buy when they think things are going to get "better") is simply "short-covering." That refers to traders closing out bets they've made against oil and stocks. Looked at from more of a **Main Street perspective**, if your friend called you and said "you have to re-allocate your 401k out of stocks NOW!" sometime in January, that same friend might be saying "OK, you saved yourself a ton of pain avoiding the worst of the losses. Now we need to get back in, just in case this bounce is real."

Stocks and oil will need to make **much bigger gains** if they're to overcome the negative momentum that's been growing for more than a year now. Be aware that even if stocks enter into that cyclical 1-2 years of weakness we've discussed,they could still move back toward their December levels before embarking on a bigger move lower. By that same technical logic, 10yr yields could easily find themselves above 2% in the next few weeks, even if they ultimately go back to all time lows.

I would personally continue to treat **1.84% as a line in the sand**. If yields break above 1.84 by more than a little bit and for more than a day, I'd be operating under the assumption that we're heading for a bigger correction. Between now and then, it makes sense to guard against that possibility as opposed to trusting that we'll simply bounce on the ceiling again.

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