

Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Here's How We Know Markets Are Anxious About Fed

- Just looking at 10yr or MBS doesn't paint too much of a picture
- But when we compare longer-term with shorter-term debt, things become clear
- Bond markets have increasingly grown 'spooked' over the past few days
- Today's Minutes should speak to how warranted the anxiety is

Today, the Fed will release the Minutes from its most recent meeting (at the end of April--the one that helped bonds rally for the past three weeks). That meeting/announcement was broadly beneficial for bond markets and it's important to understand why.

There are **two overarching considerations** for bond markets when it comes to the Fed's rate hike path. The first is the simple likelihood of a hike at an upcoming meeting. The second is the overall stance--more of a general sense of the Fed's rate hike outlook. In short, we're talking about "will they hike in June" vs "will they generally be more prone to hiking than the market thinks?"

Bond markets are pretty savvy, and they had to keep up a certain level of defense until they could rule out a clear signal about an impending rate hike in the April Announcement. Last October's Fed meeting is still fresh in our minds as a time where such a signal was given. Given that the October "gut-check" Announcement was widely successful in prepping markets for the reality of a December rate hike, the Fed had a free pass to do the same thing in April. When they did **NOT**, markets responded with a quick correction in bond yields.

At the time, both 10 and 2 year yields fell in tandem because the Fed also spoke to **the second consideration** (the "overall stance"). In this regard, the Fed was seen as **softening** its view on the economy, even though it was less concerned about immediate global financial volatility. The bigger picture gloominess helped 10yr yields keep pace with the 2yr yields (which, themselves, were falling more because of the immediate rate hike implications). A litmus test for all of the above is the fact that stocks didn't get an ongoing boost from the Fed's dovishness (because the dovishness is due to a gloomier view of the economy).

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

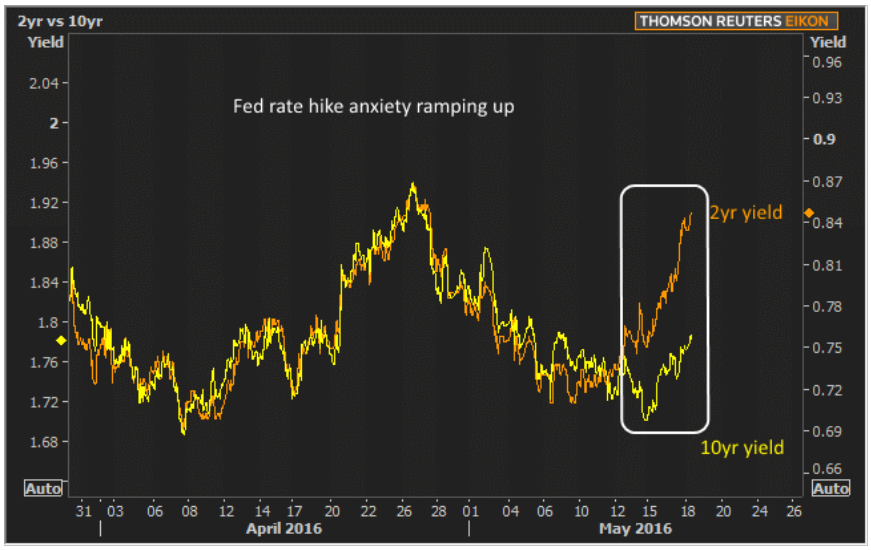
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Finally, we come to the past few days, which has seen a **quick spike in anxiety** over a surprise June rate hike. How do we know? Simply put, in the following chart, assume 2yr yields are mostly reflecting Fed rate hike prospects and that 10yr yields are mostly reflecting the general Fed rate hike path in the longer run.



Bottom line: recent weakness is all about today's FOMC Minutes. Several anecdotes have combined to fan these flames and now markets are on high alert for the Minutes painting a picture of a Fed that's much more ready to hike in June than we assumed based on the April Announcement. **We'll find out at 2pm!** Either way, any weakness in longer-term Treasuries today would 'confirm' the recent negative shift in momentum, and suggest a continued move toward the other side of the triangular range in the following chart:



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