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The Day Ahead: Identifying Normal Pull-Back vs an Actual Reversal

- Bond rallies don't last forever
- 2 ways for rates to move higher: temporary, nominal corrections, and full-scale reversals
- Here's one easy way to tell which is which

At the moment, bond markets have weakened slightly overnight, causing some question to pop into our minds about whether or not this rally has run its course. Depending on how closely our faces are pressed up against a chart of rates, we run the **constant risk** of overthinking and overdramatizing the normal, gentle pull-backs.

Over the years, I can't even count the days where I thought the **sky was falling** for a few minutes, hours, or even days, only to see rate fall even lower shortly thereafter. The only way to make peace with this internal debate is to remove the emotion and focus on some objective framework.

One of the **simplest** and best components of such a framework is the simple "pivot point" (or "inflection point," if you're trying to impress people). In truth, both terms are a bit ambiguous, but the underlying concept is not less important, so what exactly does it mean?

Think of pivot points simply as "trading levels that have shown their importance by acting as a floor or ceiling during times of increased market activity." A pivot point becomes more important based on the **following conditions** (yes, these are pretty logical):

- More important if more market activity that surrounds a particular floor or ceiling (i.e. busy trading day, high volume, big moves in other markets)
- More important if it's hit during a big bounce (i.e. bonds rally immensely heading into a floor and then bounce just as hard)
- More important the longer the time frame since the last time that level was hit (i.e. if a pivot is a multi-year low/high)

Let's take 1.53% in 10yr yields as an example. Back in February, it was the **lowest 10yr yield seen in nearly 3 years**. So we know it meets the "longer time since the last time that level was hit" goal. February 11th was also a day with significant market activity (high volume, big moves in stocks/oil), so we know it meets the market activity goal. Finally, 1.53 quite clearly occurred as a "big

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

Pricing as of: 11/10 5:59PM 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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bounce" considering yields fell and rose more than 30bps in a single day.
(And because I know several of you are waiting for it, yes... 1.53 also bested my giant and my Spaniard).



The point is that this level was already important for the above reasons, but then it acted as a floor yet again on June 16th. This only reaffirmed its importance. After it was broken on Brexit day, yields initially rose to "test" it as a ceiling yesterday. Now that we have that nice "ceiling" bounce on what had been a very important "floor," we have **perhaps one of the most obvious cases** of a "pivot point" in recent memory. You could ask 100 market technicians and 99 of them would point to 1.53 on the above chart as the most important support (aka "ceiling") level for yields.

Bottom line, until and unless we're breaking above 1.53, any weakness experienced in the 1.4's can't be too terribly concerning.

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