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The Day Ahead: Let's Get The Narrative Straight (Again)

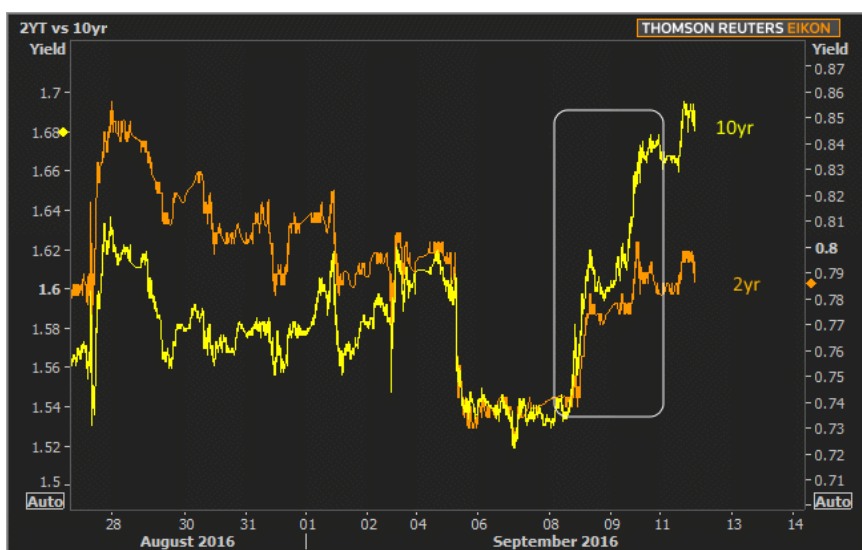
Last week ended with heavy selling in both stocks and bonds. It was exceptionally bad for stocks (a fact that should have been a clue to all the reporters and analysts who **got it WAY wrong** on Friday. If you didn't see Friday's recap, it's worth a read ([here it is](#)). I sort of "went off" on market movement misdirection seen in headlines and even in some higher level analytical circles.

Things are no better this morning, with "Fed rate hike fears" **mistakenly receiving credit** for a sharp change in bond market trading levels.

Fortunately, anyone who takes but a fleeting moment to consider the following chart will see the light. It does so simply by showing the relative performances in 2 and 10yr yields over the past 2 weeks.

No sane person can disagree that 2 is a smaller number than 10, and no one with a shred of bond/rate market understanding can disagree that 2yr Treasuries are more directly affected by Fed rate hike expectations than 10yr Treasuries. **This will always be the case** because the shorter the term of the debt, the more closely-related it will be with the shortest term debt: overnight rates and the Fed Funds Rate.

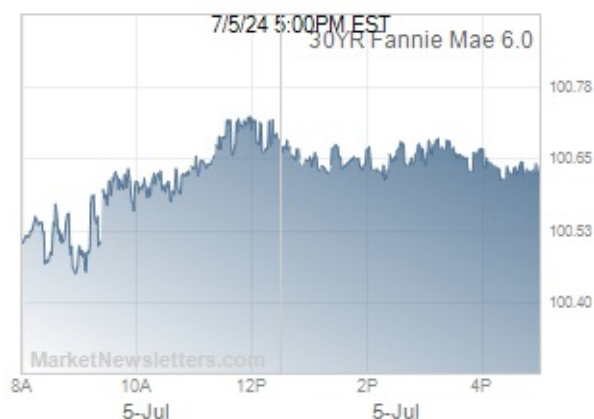
So if the hype held water, this chart should show 2yr yields getting rocked compared to 10yr yields. But alas...



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.61	+0.22
MBS GNMA 6.0	100.74	+0.21
10 YR Treasury	4.3081	+0.0263
30 YR Treasury	4.5022	+0.0165

Pricing as of: 7/8 7:53AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-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: 7/5

The highlighted portion begins with the post-ECB trading on Thursday, and ends with Friday's continuation of the same theme. **Simply put**, markets are weighing the size and staying power of central bank asset purchases. It's these asset buying programs that do most affect longer term yields and stocks.

All this having been said, there was enough **misinformation** spread last week that investors are **still on edge** about today's speech from the Fed's Lael Brainard. The theory is that since Brainard has been in favor of more accommodative policy, and because her speech was scheduled "at the last minute" on Thursday night, that she must be getting "sent out by the secret Fed hive mind that doesn't exist to act as a canary in the coal mine for an impending rate hike. You'll have to wait until 1:15pm to find out.

Other Fed speakers are already hitting the wires, and I'd have to say that if the Fed had some sort of mastermind agenda to convince markets of something ahead of next week's Announcement, they're doing a really **crappy job**. **Please** don't fall into the trap of reading much into little, except inasmuch to account for the fact that markets do it quite frequently.

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