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The Week Ahead: A Few Strategies for Thankfulness When Times Are Tough

You've probably met people with the inspiring (or nauseating) ability to maintain a positive (or idealistic) attitude in the face of adversity. Perhaps you ARE one of those people (if so, just kidding about the 'nauseating' thing. We're just jealous). If you're like most people, your flashes of idealistic positivity come and go depending on the variables of the situation.

When it comes to the recent spike in rates, I wouldn't make a case for anyone adopting an unrealistically positive outlook in the short term. Sure, I still believe that we'll see rates back to or below 2016's lows at some point in the future, but that certainly won't happen in the next few months. It could easily take years.

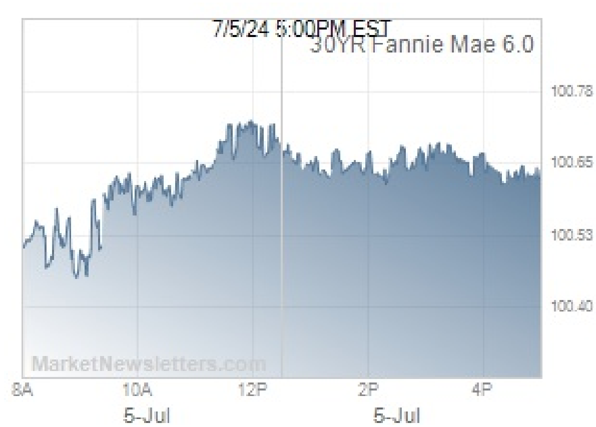
Even if we're not going to be unrealistically positive, we can nonetheless be **thankful that things aren't worse**. The first strategy for thankfulness is to simply consider the pace of MBS weakness vs Treasury weakness. We often discuss the phenomenon of MBS losing ground less quickly during sell-offs and gaining ground less quickly during rallies, all other things being equal (naturally, the MBS-specific QE3 announcement in late 2012 helped MBS outperform during a rally).

The following chart shows how MBS spreads have evolved since then--generally holding inside a trend channel of slow-steady outperformance before breaking breaking higher (wider spread, **weaker** performance) during this summer's rally and ultimately traversing to the low side (tighter spread, **stronger** performance) during the recent sell-off.

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	4.2818	-0.0784
30 YR Treasury	4.4857	-0.0440

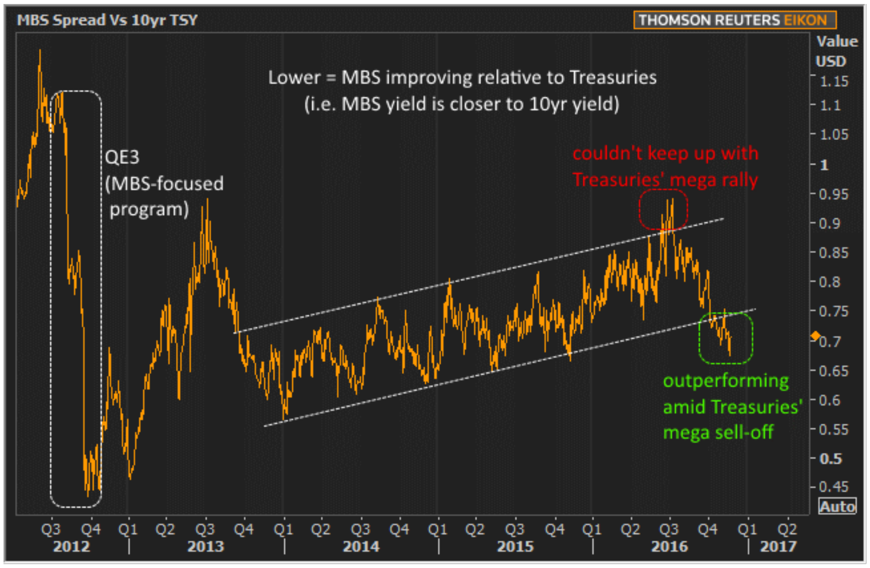
Pricing as of: 7/5 5:59PM EST



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



I realize the "**it could always be worse**" platitude is just that. I'm not much of a fan of it, because the losses in the mortgage market are the losses in the mortgage market, regardless of how much worse it could be. Still, it makes some people feel better and it's an interesting concept to discuss with friends, colleagues, and countrymen at holiday cocktail parties. So... it could be worse.

For something **a bit more substantial,** we can consider the overall trends in rates (as opposed to the trends in rates compared to other rates). As usual, the 10yr yield is the first place to start when looking at trends that speak to MBS/mortgage rates. In this case, the chart highlights the similarities between this year and 2010, the only other truly awful November in recent memory (i.e. more than a 50bp sell-off in 10yr yields). In it, we see that a majority of the selling momentum had come and gone before the Thanksgiving weekend. In both cases, yields began to move back below the upper Bollinger band (upper teal line) in the week before Thanksgiving week. In 2010's case, yields remained below that upper line (a sign that momentum had leveled-off) for the next 2 weeks.

Of course, in 2010, after the few weeks of a "truce," things **got nasty again**, but it may not be a fair comparison considering that 2016's trough to peak move is already nearly as big as 2010's.

In terms of legitimate market movement potential, this week is pretty dead. Normally, it would make sense to point out **Durable Goods on Wednesday** as the week's only major economic report, but given what we've seen in the last 2 weeks, economic data isn't the primary motivation for market movement anyway. That leaves us at the mercy of tradeflows and political headlines.

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