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MBS Recap: Bloodshed For Bonds as Fed Dots Paint Grim Picture

It's either the best thing or the worst thing in the world, depending on what kind of originator you are. On **one hand**, the outlook for the economy could be strong enough to drive the growth and inflation needed to support a more urgent rate hike schedule at the Fed. That would be good--especially if you don't originate for a living.

On the **other hand**, regardless of the long term health of the economy, a more urgent rate hike outlook for the future adds up to bonds getting killed in the present. That's what today was all about.

You might hear someone say rates rose today because the Fed hiked. **Laugh** at that person. Markets were well aware the Fed would hike. And they were fully prepared to move either direction afterward.

Markets had **no idea** how all of the recent data and politics would affect the Fed's thoughts on the path of rates going forward. If the Fed held steady on their so-called "dots" (the graph that presents their projected levels for the Fed Funds Rate in the coming years), today could have been green for bonds.

The **Fed did not hold steady on the dots!**

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

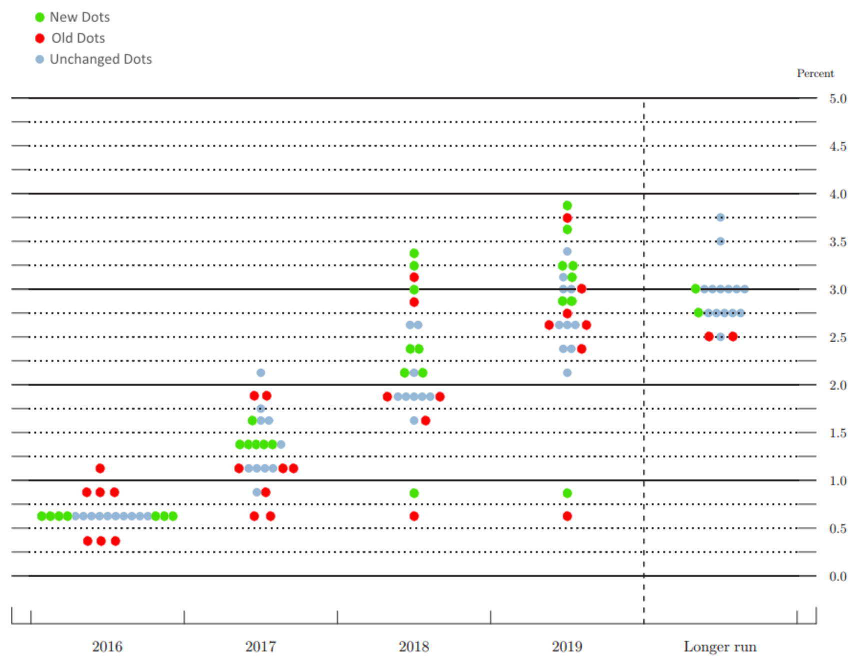
Pricing as of: 7/5 5:59PM EST

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

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The very first newswire that hit Thomson Reuters' feed at 2pm was the **most important:**

RTRS - MEDIAN VIEW OF APPROPRIATE FEDERAL FUNDS RATE AT END-2017 1.375 PCT (PREV 1.125 PCT); END-2018 2.125 (PREV 1.875 PCT): END-2019 2.875 (PREV 2.625 PCT) LONGER-RUN 3.000 PCT (PREV 2.900 PCT) - FED PROJECTIONS.

In other words, not only did the Fed announce the hike they were expected to announce, but they also (effectively) announced **another hike** that bumps the near-term outlook another quarter point higher. Markets walked in the door expecting one quarter point hike, but this was more like a half point hike.

Bottom line, the Fed saw what it needed to see in order to execute their 2nd rate hike, AND they further announced an accelerated hike outlook, all on a day where rates were near 2-year highs. There was a time in the not-too-distant past where we couldn't imagine the Fed showing such a willingness to upset bond markets. The message is that times are changing.

All of the above was **pushed along** by the realities of the season. Traders are people too, and people are increasingly turning their attention to the holidays. This was the last major reason to keep full focus on markets in 2016 for many market participants. That "tuning out" can take many forms, but they all add up to distortions in trading momentum relative to market activity at any other time of year. Today those distortions worked against bonds, adding slightly to the negative momentum that was already justified.

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