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## The Day Ahead: Let's Talk About Porridge

I don't know much about porridge. I'm not even sure I've ever eaten it. I do know one thing about it though: the temperature has to be "just right" from what I've heard. Markets--especially bond markets--are very much like Goldilocks when they're responding to a major shock and quickly adjusting to a new reality.

The initial reaction to a shock often sees a quick investigation of the hottest bowl of porridge. That is to say, the world is ending and people can't buy bonds fast enough. Yields fall precipitously, and MBS prices rise as much as they can in the context of their convexity-related limitations. Then a new reality sets in that places a premium on liquidity and cash positions. It's exacerbated by a technical correction leading back from the just-reached extremes. Prices quickly fall and yields quickly rise. Liquidity and prepayment fears **hit mortgage bonds much harder** than Treasuries during this phase.

And in the post Financial Crisis world, here is where the market's story takes some artistic liberty compared to Goldilocks. While our heroine was off investigating the colder porridge on the low-price/high-yield end of the table, the Federal Reserve sneaked into the room and threw the hot bowl of porridge **into the microwave**--and probably for a bit too long. The result is painfully obvious for MBS. Too hot! Too much Fed buying!



## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM EST



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
<b>Mortgage Bankers Assoc.</b>			
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: 7/3

Treasuries are **happier** to be level-headed about their porridge consumption, but are similarly trying to find a temp that's 'just right.'



Sidenote: there are only two bowls of porridge in this story. One is already too cold. The other is too hot and will require time to cool down. Incidentally, the Fed is trying to help the cooling by **chopping the throttle** on its daily bond buying targets (now down to \$30bn/day from \$50bn last week).

Bottom line: the bond market's primary duty right now is to find its range. What's the new normal? If we had to guess right now, the green zones in today's charts are good candidates, but these **will likely shift** as the coronavirus responses (both epidemiological and market-based) play out. The more stably prices/yields can hold in the warm porridge zone, the better able lenders will be to tighten up margins between rate sheet offerings and MBS prices.

On that note, it's **worth repeating** that the MBS prices in effect right this very minute coincided with all-time low rates in 2012, and prices nearly a point lower brought the all-time lows seen in early March. All that to say, don't freak out about a bit of additional weakness in MBS prices from here. We still have plenty of room for stellar pricing all the way down to 2.5 UMBS prices of 103.00. The **more important factors** will be the level of volatility in the bond market and the extremely challenging servicing/valuation issues created by government's bazooka approach to forbearances in the disaster relief bill.

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With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

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