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The Day Ahead: The Market Knows More Than Any One Person, And Knows it Sooner

Many people have "expert sources" they rely on for insight to potential market movers. I understand this quite well. On the **one hand**, I used to believe that such experts knew more than my 13yr old about what might happen next in the market. On the **other hand**, I often fend off questions from my MBS Live family members that seem to suggest that I am an expert source on rates. If we're talking about what IS happening and what HAS happened in rates, sure. But if we're talking about the FUTURE, there are no gurus.

Current market movement is providing a **profound reminder** about just how true this "no gurus" thesis is. I recently updated one of our knowledge base entries with the following snippet warning on the dangers of thinking you know anything that other people don't already know based on technical analysis, but the principal holds true for all forms of market insight:

> IF YOU CAN SEE IT, OTHER PEOPLE CAN TOO. IF YOU COULD IMAGINE PROFITING FROM WHAT YOU CAN SEE, OTHER PEOPLE ARE ALREADY TRYING.
>
> In the modern economic era, there are no gurus. There is no inside line on impending market movement (not a legal one anyway). There are very few genuine opportunities to get an upper hand over scores of investors that are already trying to get the upper hand on one another. The riskiest bet of all is to conclude something will happen in the future based on a widely available and widely understood technical signal.

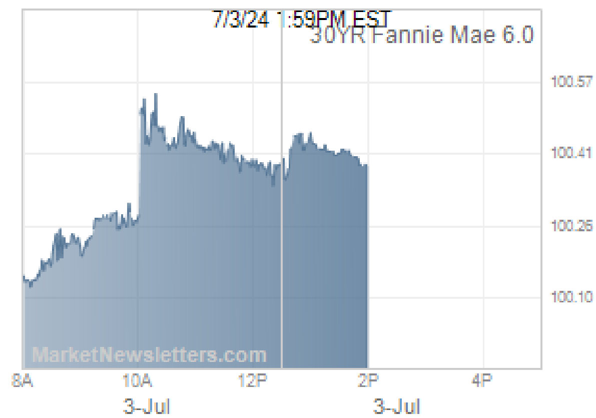
When mixed with overconfidence and luck, a reasonably insightful conclusion does a great job as masquerading as clairvoyance. Trust that guru again and risk getting burned. **Heaven forbid** a guru has 2 great back-to-back calls, because then your chances of getting burned rise exponentially. Please remember this if you occasionally read what I write and are tempted to conclude that I'm trying to tell you that a specific thing is more likely to happen in the future with respect to trading levels.

Are there conceptual **exceptions?** Sure. For instance, if we're talking about the recent trends in servicing valuation--especially with respect to FHA/VA loan pricing, it would have made good sense for MBS Live members to heed my warnings about the word on the street being that more and more lenders would be raising their min FICOs and progressively weakening pricing on those loans. But that's very different than predicting where the MARKET will go.

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
Mortgage News Daily			
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
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: 7/3

There are occasionally some exceptions with market levels, but they require a heavy caveat. For example, I felt **very** confident that MBS prices would be coming down from the 105+ level in UMBS 2.5 coupons on Monday morning. I went on to say that the Fed would/should be targeting a price range of 103-104 and that we should settle out in that range soon. That is indeed what's happening now, but it's very much worth noting that I said **nothing** about the probability that prices would surge up to 105 so quickly last week. In other words, it's a lot easier to make a good call once the market has already surprised you in a big way in an extreme direction.

What's the point of all this? More than anything, I'm surprised this morning by how surprised many experts seem to be about the jobless claims numbers (over 6m today).

Reuters puts out a great piece following certain economic reports called INSTANT VIEWS. It catalogs reactions of various economists/strategists to the data and provides insight as to how the analytical community views the data. Granted, there are only a handful of opinions on today's Jobless Claims numbers, but most of them speak to the sense of being **taken by surprise**. On a tangential note, they speak to a disconnect between commentary and trading momentum. In other words, by the time we hear the average published "expert analysis" in the news, the actual market has already done a lot to trade it.

In the case of these jobless claims numbers, I think the disconnect is truly **staggering**. Specifically, we have experts expressing their surprise TODAY on April 2nd whereas the stock market began to TRADE REAL DOLLARS in a major way to bet on these numbers as early as late February. What do we think the massive drop in March was about? Record setting declines in stocks = markets pricing in record setting damage to the economy and labor markets. In the case of coronavirus, I'd argue that the labor market is the most visible source of damage since everyone knows someone (or MANY someones) who isn't currently working as a result.

Bottom line, there are 2 points here. **First**: "experts" may be out of touch with reality. You've been warned. **Second**: experts often have useful insights about econ data and financial markets, but be very careful when trying to line up those ideas with actual market movement. 9 times out of 10, markets collectively knew this before the expert provided the opinion and have already moved accordingly. In a unique case like COVID-19, that's especially true as the mass joblessness was ridiculously evident well before any data could record it. I think a lot of us just didn't want to believe or simply weren't prepared to accept the scale of the issue because it is so far outside the realm of what we've come to accept as the traditional range of possibilities.

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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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