

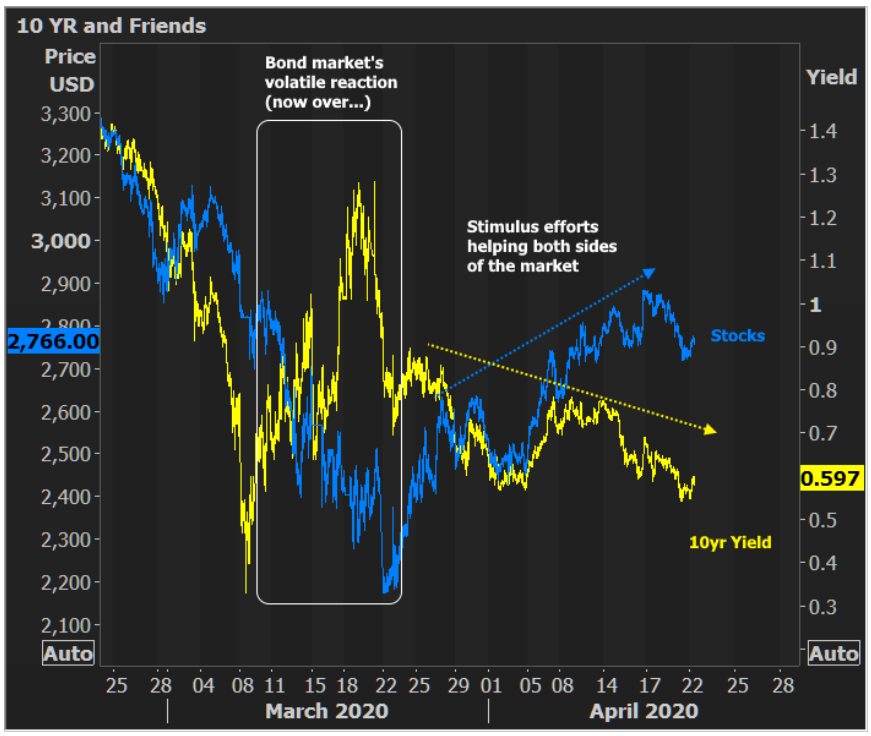
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The Day Ahead: The Boring Business of Trading an Inevitable Future

While there may be a good amount of drama and suspense when it comes to watching coronavirus take its toll on the economy, there's no mystery. This **isn't** like past recessions where a realization gradually sets in. We may not know exactly how big the hit will be, but we know it's inevitable, big, and immediate.

All of the above is fertile soil for the recent behavior in bonds. March volatility can be forgiven as a byproduct of **extremely poor** liquidity, big issuance concerns (high supply = lower prices/higher yields), and a brief learning curve for the Fed with respect to how aggressively it needed to buy bonds. This can be seen in the highlighted section of the following chart. Bond volatilty was accompanied by capitulation in stocks. Both have calmed down and made gains as the fiscal and monetary stimulus efforts provided reassurance.



MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

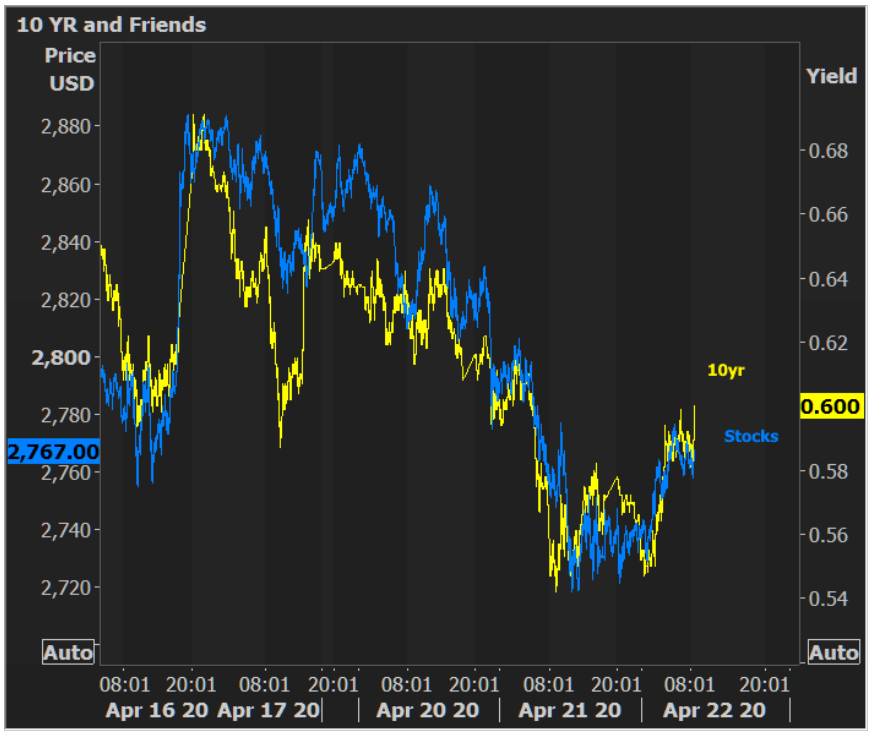
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It's one thing to look at the past few months and make a conclusion with the benefit of hindsight. It's quite another to think about what's going on presently, where bonds should be going, and what they should pay attention to. After all, 10yr yields are as sure as they ever get that they'll need to be somewhere well under 1% at some point in the coming months, just before the economic data confirms a shift. They've arrived at that part very early, and given that size and certainty of the recession, **why wouldn't they?** But what to do in the meantime?

That's a great question and so far, the answer has been to trade a relatively narrow range and take short term cues from equities. Said cues aren't immediately apparent in longer term charts, but the risk-on vs risk-off trade is **easily seen** over shorter time frames.

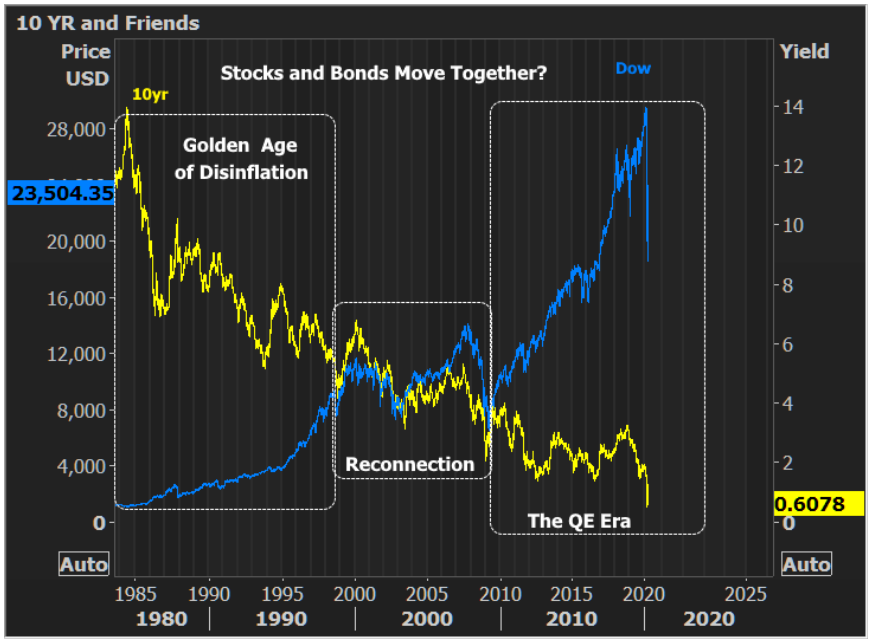


Tracking correlation between two completely different asset classes will always be an imperfect science. The level of connection in the past week is quite strong, but the previous chart offers **plenty of evidence** about other possibilities. It also suggests that correlation is harder to find over longer time frames. Indeed, that's the whole point of this chart from last week:

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You will also get a good amount of **misinformation** and misdirection when it comes to correlated markets, depending on the financial news you happen to follow. Even the best media outlets adhere to the same equation: [simplicity of market] x [volatility] = [news coverage]. In other words, the more mainstream any given market sector is, the more news coverage there will be as volatility increases in that market. Either side of that equation can do the heavy lifting. Stocks are about as mainstream as it gets, which is why media outlets don't need to see much volatility to talk about them all day. Credit derivatives are not very mainstream, but they got a lot of air time when they were outed as a key player in the financial crisis.

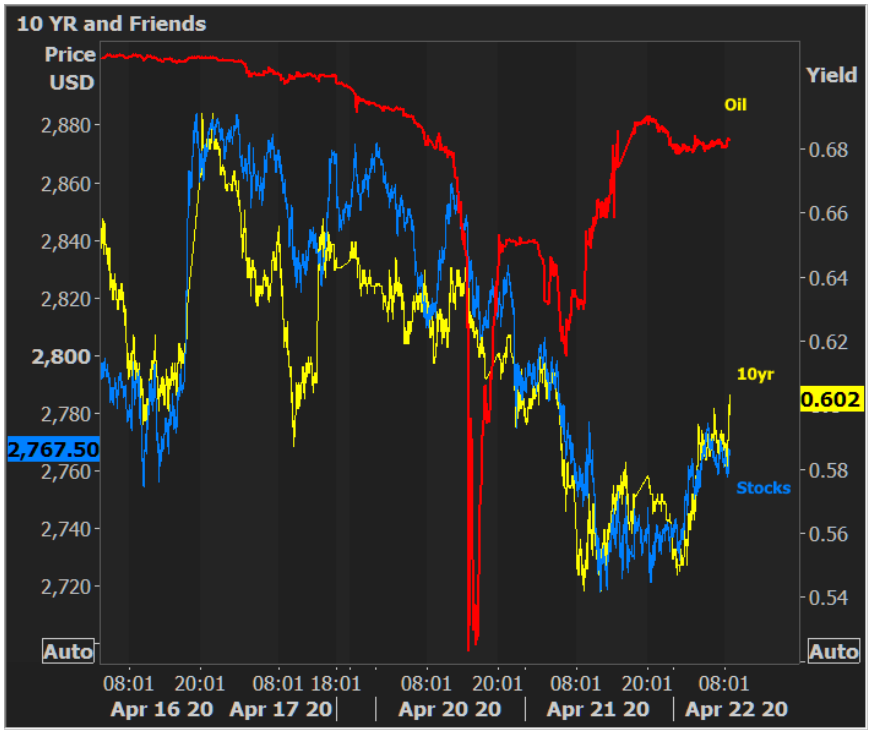
Then there's oil. It's the "stock market" of commodities. It's also in the throes of **unprecedented volatility**. But is it driving the market? I could make a case for or against that (mostly against). Instead, I'll just add it to the first two charts and let you draw your own conclusions.



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At the very best, if oil deserves credit, it's only as another symptom of the same disease. Naturally, a slowing economy burns less fuel. A booming economy burns more. The same sort of broad generalization underlies the classic understanding of the risk-on/off trade (i.e. strong economy = stocks and bond yields go higher, weak economy = both go lower). We already know **there's more to it** than that for stocks and bonds. Oil is no exception. For now, it's just an extremely interesting sideshow. Don't be fooled.

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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.

Rich E. Blanchard



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