

Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
richblanchard@richhomeloans.com
View My Website

The Day Ahead: Resilience in Bonds Speaking to Supportive Bigger Picture

Despite an improvement in COVID numbers, relative optimism in stocks, an ongoing glut of corporate bond issuance, and freshly reinforced realizations about the size of new Treasury issuance in Q2, the bond market has managed to more or less **shrug off all of the challenging anecdotes** to trade 1-2bps better at the start of the day.

This is fairly telling with respect to underlying psychology. Bonds could **easily have justified** more weakness by this morning, and that weakness would neither have been a surprise, nor would it have even been much of a cause for concern in light of the historically low yield levels. Yet here we are holding ground just under 10yr yields of 0.70% when traders could easily have gotten away with 0.80+ without ruffling too many feathers.

Again, this is very telling! While I **can't** say it accurately predicts a future where rates are this low or lower for many many months, I can say traders aren't currently seeing any reason for yields over 1% for months. Sure, the additional weakness from the recent negative factors is detectable in the charts, but just barely.



And that's just the Treasury market. MBS are less affected by a few of the Treasury-specific concerns and have thus been doing and even better job holding inside their recent range.

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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The net effect is MBS spreads vs 10yr yields that remain in **great shape** after shaking off mid-March despondency (i.e. the big spikes in the blue line = MBS were underperforming Treasuries). Anything under 100bps in the following chart is pretty damn good. We're at 80.



But as you're well aware, rates aren't as low as they would normally be based on MBS prices. Thank the forbearance drama and the uncertainty surrounding servicing cash flows (and all the other unique post-closing considerations brought on by coronavirus/forbearance). This chart measures that. We normally see 30yr rates in a range between 90-110bps versus MBS yields. Mid-2019 was actually already an anomaly with a quick move over 120bps. So it was **completely insane** when we crested 200bps. The healing process has only just begun.

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Today's econ data will be taken in stride. Markets don't have any other choice. That leaves the question: what do we trade if not a massive glut of "supply concern" and econ data? The answer increasingly appears to be "nothing much until some more time passes and until we get some more clarity on how the economy restarts. One sobering consideration (and a potential source of resilience for bonds) is that US coronavirus case counts are **still rising** if New York is factored out. Once that changes, we can look for a more serious response in the bond market.

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