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The Day Ahead: To Dove or Not To Dove...

What is the sound that doves make? I know they can cry, according to Prince, but "to cry or not to cry" would have been a weird headline title. I'm pretty sure they "coo" as well. "To coo or not to coo" really wouldn't have worked either. So I'm turning dovishness into a verb. We can just assume it means "to be dovish."

Indeed, that's really what today is all about: how dovishly the Fed **delivers** its message.

Today is **NOT** about whether or not the Fed hikes. I'm not really sure how this notion has gained so much traction given that even the most dovish Fed speakers are still saying that rates are merely "almost back up to neutral" in their most recent speeches. Add to that the fact that the Fed had previously said it may raise rates above neutral for a short time, and the notion of a pause is a non-starter.

The **only two reasons** the Fed could have for abstaining at this meeting are Trump and the stock market. Acting upon either of those inputs would be a grievous mistake. Everyone would know it. The market reaction would be so unpredictable and so potentially huge that no sane policymaker would take part in it. It's not happening. And just because I never like to say never when it comes to what the market might do, I'll just say on the off chance it does happen (and again, I think it's a less than .01% chance), then we're living in crazy town and I'm not to be trusted.

It's not the Fed's job to give a damn about stock market volatility, corporate profits, etc. If the stock market is in freefall but inflation is running over 2%, job creation is strong, unemployment is near all-time lows, wage growth is running over 3% annually, and existing policy rates are historically accommodative, the **magic 8-ball says hike**. It's certainly even farther outside the Fed's purview to give a damn about the President's rate complaints.

No... the Fed's key choice today is all about how it delivers this rate hike. When it comes to the verbiage of the announcement itself and the contents of Powell's press conference, that's where I think we tend to see more placation **of** market volatility. In other words, the Fed won**'t** change course on rate hikes just because stocks are tanking, but it might try to throw markets a bone on the qualitative side of the equation.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85

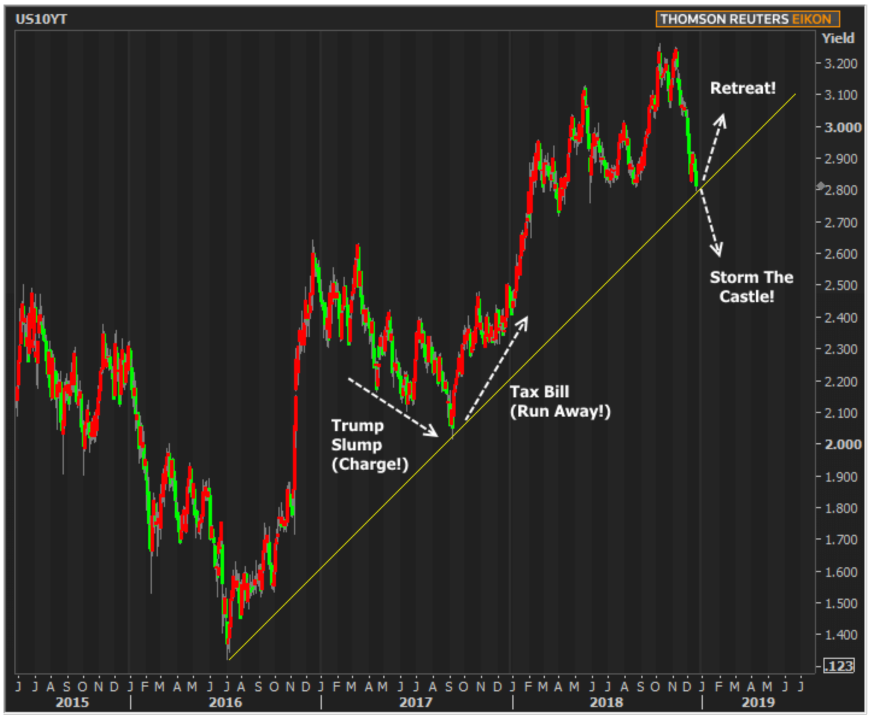
	Rate	Change	Points
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

What might that look like? There are so many options. The Fed could merely change its forward guidance a bit in the announcement to give any sort of indication about rate hikes slowing down, and it would likely be beneficial for both sides of the market. This same indication could easily be gleaned from the dots (the "dot plot" in the Fed's economic projections, which lay out the expected Fed Funds Rate for each Fed member over the next 3 years). Powell could also simply talk about the winding down of the current economic cycle (and the current rate hike cycle) in today's press conference.

The nice thing for bond markets is that no matter what the Fed does, it cannot and will not prevent the rolling-over of this economic cycle. Growth will **eventually** contract and dip into negative territory, even if only briefly. Stocks will lose more ground. Bonds will make more substantial gains for a longer period of time. In fact, everyone knows this will happen. They just don't know if that process began in Q4 2018 or if this is just a head fake before the real thing.

With that in mind, bond markets have **gathered at the gates** of "Real Thing" Land. They're ready to storm the castle or return to the countryside depending on how today's battle goes.



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