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The Day Ahead: Huge Jobs Report Guarantees One of Two Clear Messages For Bonds

It's no secret that the bond market has been on a tear for more than a month. 10yr Treasury yields dropped more than 30 basis points (0.30%) in December alone and quickly added to those gain on the first two trading days of January, dropping another 15bps. All of that strength makes it's own case for a corrective bounce, regardless of economic data. In fact, bonds **haven't been this 'overbought'** for this long since early 2012 although they were close in early 2016.

Either way, we're dealing with the **biggest and most meaningful bond rally** since the rising rate trend began after the mid-2016 Brexit-driven lows. The longer it lasts and the lower yields go, the more and more likely it becomes that we'll experience a correction. In fact, this correction may have already been shaping up before this morning's jobs report, with 10yr yields rising more than 5bps overnight.

Now, the jobs report has gone all-in and forced the bond market to turn its cards face up. Reason being: this is the **strongest jobs report** of the recovery by the time we include important internal components like wage growth and labor force participation. Such a jobs report provides a clear sell signal for bonds. In other words, a mathematical case for a bounce in bonds was already strong. After today's jobs report, it's now painfully obvious.

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

The case for a bounce is so obvious, in fact, that we stand to confirm **one of two very clear underlying messages** from markets. Either:

1. Bond strength is so entrenched that traders will shake this off and keep yields around 2.62% or lower

OR

2. Bonds are just going where they need to go based on economic data, the Fed's interpretation of the data, and safe-haven dollars freed up by stock market selling.

In the first case, bonds wouldn't weaken much more today, and simply holding near 2.62% would be a huge victory. The second case is more grim as it would serve as the cue for a bit of a correction to the recent trends--possibly in both stocks and bonds. Estimating the scope of that correction is **tricky business** and would largely depend on how big a bounce the stock market is able to achieve. There too, we could glean underlying messages from bonds in the event they're able to avoid rising back to the levels suggested by a hypothetical bounce in stocks.

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