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The Day Ahead: Looking at The Rally With Science vs Psychology

"Science" may not be exactly the right term, but let's look at the recent bond market gains under an objective microscope. In so doing, we will see there is more room for optimism than the psychological approach might suggest. But first, what exactly do I mean by the "psychological approach?"

Simply put, we have a tendency to view bond rallies (or sell-offs) as being somehow more limited if they are pushing into levels not seen in a long time. In the current case, rates have fallen quite a bit and are at the lowest levels in a long time. From a psychological standpoint, this makes us think additional gains are somehow limited.

If we instead view the rally through a few mathematical lenses, we can see that there could still be plenty of room to run compared to the most recent rally in late 2018. From a strict standpoint of movement over time, late December was much bigger and longer lasting. The momentum technicals also remained in 'overbought' territory (the lower horizontal lines--blue and green--on the bottom section of the chart) for much longer. The white ovals are the exact same size for each technical study. Simply put, if the current rally merely matches the late 2018 rally, it wouldn't end until mid-April.

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

To be clear, I'm not saying that this rally will necessarily last that long--just that it's good to keep an open mind to what the math/science of the movement suggests relative to our psychological gut reactions.

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