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The Day Ahead: A Few Ways to Guard Against a Reversal

It's no secret that bonds have rallied impressively in March. The bigger and faster a rally is, the more we may worry about the risk of a bounce. To be sure, bounces will happen. They can be healthy byproducts of a big move or they can be an **alarming warning sign** for more potential weakness.

Certainly, we can look at any given bounce in **conjunction** with its underlying motivations in trying to determine what sort of movement we should worry about. For instance, if rates are surging higher after a much stronger jobs report next Friday, that's the kind of "underlying motivation" that matters.

But what if such motivations are in short supply and we're **still** observing movement? In those cases, **technical** analysis is useful--simple stuff like pivot points and trend channels as seen in the chart below. With 10yr yields starting the day well under 2.40%, that would be our first meaningful ceiling. It also happens to coincide with the top of this week's rally trend channel.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM 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

Simply put, a break above 2.40% would raise the level of concern about a broader bounce. In order to confirm such a bounce, we'd need to see 2.43 and especially 2.47%. Remember, the big-picture floor for 2019 had been 2.55%. When we moved below that, it was in grand fashion. Such breakouts often see yields return to the scene to validate their decision. **Simply put**, there is a scenario where bonds continue lower in yield in 2019, but only after moving back up toward 2.55% temporarily (there's also a scenario where yields break back above 2.55%, but we'll talk about that if it starts to look like more of a possibility).

	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

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