

MBS & TREASURY MARKETS

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The Day Ahead: Reversal Reversing?

One side effect of following the market very closely during times of heightened volatility is that the short term developments on any given day run a high risk of contradicting the developments of the previous day. This is one reason that we have a longer term baseline, both for the trend in rates and for the targets required to consider a change in that trend. But headlines would get boring if every one was "_____ today, but general trend continues." So instead we have headlines like "reversal reversing?" In today's case, this refers to solid gains that have already almost completely erased yesterday's "reversal" toward higher rates.

The key consideration, yet again, is a sharper sell-off in stocks. Oil is involved as well.



As always, remember that the correlation between stocks and bonds is not perfect, nor is a stock sell-off always going to be a reliable predictor of bond movement. That said, chances are greater when stock selling is bigger (the big exception is stock sell-offs that coincide with Fed policy tightening, which tends to hurt both stocks and bonds). Zooming out a bit on the chart helps us put the stock losses in better context.



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While the gains are always nice, and while we can technically say that yesterday's reversal is reversing, it's not doing anything to change the bigger picture trend.

