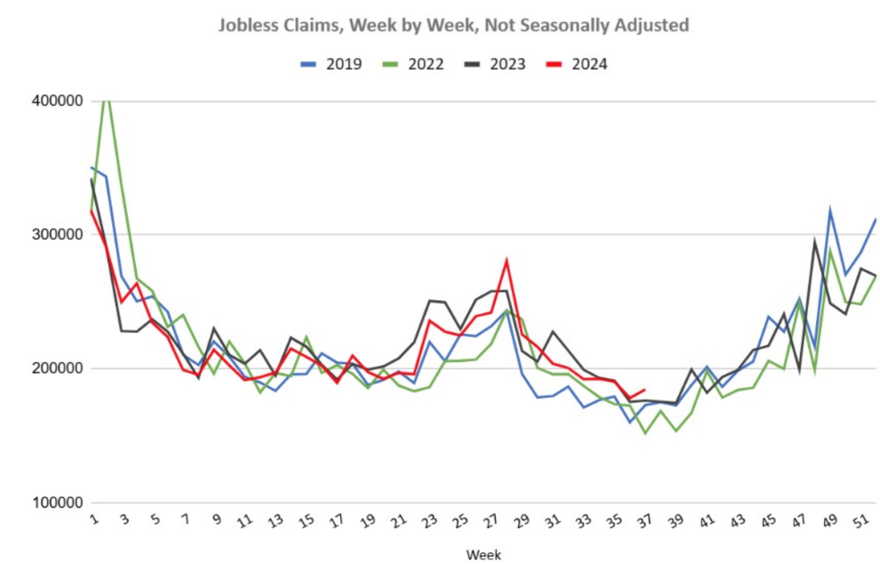
The Day Ahead: Mixed Reaction to Econ Data; Surprisingly Calm Post-Fed Day

The post-Fed overnight session was surprisingly calm. In fact, relative to the magnitude of yesterday's events and information, this is surely one of the quietest global market reactions on record. Perhaps this is a testament to the Fed's hyper-transparency or perhaps the needle was perfectly threaded. Either way, we're moving on to data-watching today and in that regard, Jobless Claims and Philly Fed put upward pressure on rates initially. But a closer look at Jobless Claims shows it is only better than expected due to imperfect seasonal adjustments. A look at the non-adjusted data shows another potential breakout from the trends of the past few years.



With that, MBS made it back to unchanged levels even as 10yr yields remain 3bps higher. A good amount of that outperformance has to do with yield curve trading and MBS's inherently shorter duration vs 10yr Treasuries. MBS are more akin to 5yr Treasuries at the moment, and some would even sprinkle in some 2-3yr Treasuries to the duration equation. Looked at another way, in terms of day over day price change, MBS are doing exactly what 3yr Treasuries are doing. 5yr Treasuries are nearly unchanged. In that light, MBS are only outperforming a tiny bit, but either way, we'll take it.

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