MBS & TREASURY MARKETS
Daily Coverage. Industry Leading Perspective.

The Day Ahead: Bonds Have a (Bad) Case of The Mondays

First off, there's no great explanation for the extent to which bonds are losing ground this morning. These days happen occasionally. Sometimes an elusive market mover becomes clearer later in the day. Other times, we're forced to rely on our best guesses.

With that in mind, here's a quick catalog of usual suspects at times like this.

1. **Mondays, liquidity, etc.** Mondays can be tough in the bond market as lighter liquidity greases the skids for higher volatility. This is a non-issue when there aren't any threatening market movers in play. Let's say illiquidity makes a move 2-3x bigger than normal. That doesn't matter if the underlying move is quite small in the first place. But once we get to a "medium sized" move, illiquidity will make it look big. There's no question that illiquidity exacerbates moves like today's, but that still doesn't explain the underlying move.

2. **Election-related trading.** Traders are definitely responding to election odds in general with the Trump trade associated with higher Treasury yields. We're not so sure that's a driver today because stocks tanked even as bond yields continued higher, but if you believe stocks are less connected to election outcomes, then it could definitely be in play.

3. **Options expiration.** Bond options expire over the course of several days in the final third of the month. Today is expiration day for 10yr Treasury options and this can create extra volatility at times.

4.**October/Tax Deadlines.** Correlation is not causality, but we have seen other examples of enigmatic volatility around tax filing deadlines and/or in the middle of October.

Either way, European markets definitely set the tone in the overnight session.

In the bigger picture, today's weakness fully erases the gains seen since the July jobs report (released in early August).

Stephen Heston
Broker NMLS #1930964, Aspire Mortgage Solutions LLC NMLS #2481498
www.aspiremortgagesolutions.com
P: (509) 202-4424
102 W Main St. #3
Pullman WA 99163
2481498
1930964


4.600%
4.400%
4.200%
4.000%
3.800%
3.600%
May
Jul
Sep
Nov