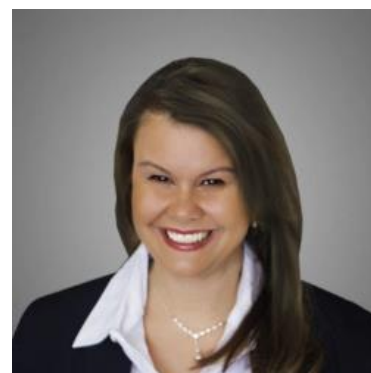


MBS Recap: Why Would Rates Care About a One-Party Sweep?



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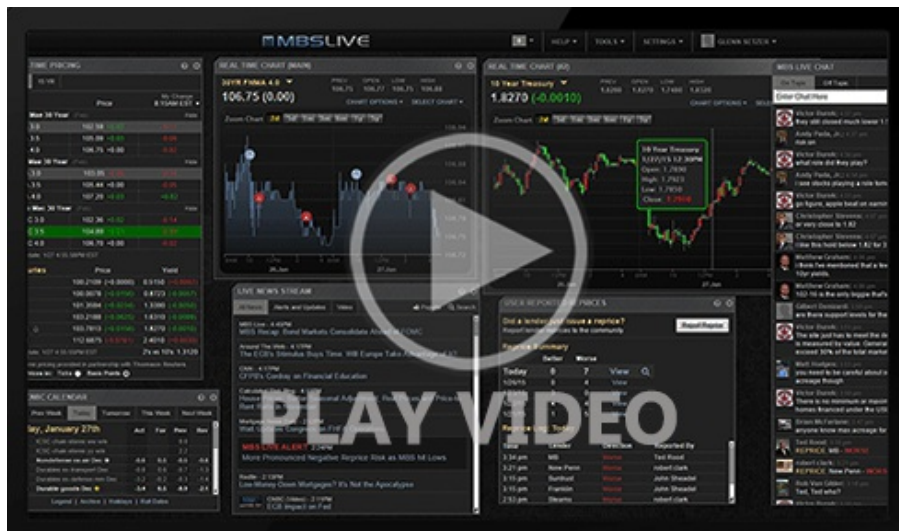
Why Would Rates Care About a One-Party Sweep?

MBS Recap | Matthew Graham | 4:21 PM

Our morning commentary resulted in widespread questions regarding the "red sweep" being associated with higher rates. Half of those were born of genuine curiosity. Half were incredulous. As ever, our goal is to convey what's moving markets and why, and it would be nearly impossible for anyone to be less interested in bringing politics into that endeavor, but alas, sometimes it's a thing. Today's recap video has a thorough analysis of the topic and should help clear up any questions created by the AM commentary.

For those who don't have the time or inclination, here's the gist: it's not about a red or blue sweep. It's just about a sweep. A political party with full control of the government faces fewer hurdles in creating situations resulting in lower net revenue and higher Treasury issuance. Note: lower net revenue can be driven by too much spending (typically associated with a blue sweep) or insufficient revenue due to something like lower taxes (obviously already associated with a red sweep). On that note, the 2017-2018 example (which involved a sharp sell off after the election and additional weakness upon passage of the tax bill) is fresh on investors' minds. Indeed, one need only consider that example to understand rate pressures associated with a sweep. A lot of the bond weakness seen in recent days is the market telling you it would not be as surprised as it was in 2016.

Despite these generalities, the realities of running the government can't be easily reduced to such tidy points. That hasn't stopped the market from trying. Bottom line: when the market is doing "something" that affects rates, our job is to convey that to you without opinion. We have a strong track record of being as objective as our intelligence allows and always staying out of political opinion. If you were offended by the phrase "red sweep is the biggest fear for rates," don't shoot the messenger. That's been the trade, and we cannot wait until it's not anymore.



Watch the Video

Alert

9:59 AM Early Weakness

MBS Morning

10:13 AM Important Reminder About How Bad Things Could Get

Alert

1:56 PM Heads Up: Losing Ground Again After Decent Recovery

Econ Data / Events

- ○ MBA Refi App Index
 - 672.6 vs 734.6 prev
- Existing Home Sales
 - 3.84m vs 3.90m f'cast, 3.88m prev

Market Movement Recap

08:50 AM Moderately weaker overnight. 10yr up 3.3bps at 4.243 and MBS down an eighth.

12:18 PM Additional losses into 10am and bouncing back a bit now. MBS down an eighth and 10yr up 1.6bps at 4.226

01:56 PM Back near weakest levels with MBS down nearly a quarter point and 10yr up 4bps at 4.25

Lock / Float Considerations

- While the bigger picture rate outlook remains data dependent (i.e. a super strong jobs report = higher rates and vice versa), consider the likelihood of significant election related volatility until further notice.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.35
 - o 4.30
- Floor/Resistance
 - o 3.87
 - o 4.00
 - o 4.12
 - o 4.20

MBS & Treasury Markets



MBS

30YR UMBS 5.5
30YR UMBS 6.0
30YR GNMA 5.5
15YR UMBS-15 5.0

US Treasuries

10 YR	4.240%	+0.030%
2 YR	4.082%	+0.048%
30 YR	4.514%	+0.014%
5 YR	4.053%	+0.042%

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