

MBS & TREASURY MARKETS

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MBS Recap: Heavy Losses as Bonds Brace For Tougher Times



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Heavy Losses as Bonds Brace For Tougher Times

MBS Recap Matthew Graham | 5:34 PM

This morning's commentary suggested that "liberation day volatility has come and gone." That's true, but now we've moved on to the volatility associated with actual tariff implementations. While there was some hope and even expectation regarding "deals" being worked out, there's been notable escalation with China over the past 24 hours and it's causing issues for bonds for a variety of reasons (detailed in today's video). Inflation is a concern, but not the biggest. On an esoteric note, foreign Treasury demand correlates with import volume, so if tariffs lead to sharply reduced imports from the likes of China, it has implications for Treasury demand in the future. Compounding the problem is that a system that relies more on tariffs for revenue will then have to issue more Treasuries to address shortfalls. Bottom line: unfriendly double whammy for rates, regardless of inflation.





Watch the Video

MBS Morning

10:47 AM Liberation Day Volatility Has Come and Gone

Alert

2:03 PM MBS Down a Quarter Point From Mid Day Highs

Alert

2:59 PM Additional Negative Reprice Risk

Market Movement Recap

- 09:35 AM Weaker overnight and losing more ground in early trading. MBS down an eighth and 10yr up 6.7bps at 4.24
- 01:54 PM Decent recovery into mid-day, but getting shaky again now. MBS down 2 ticks (.06) and 10yr up 6.3bps at 4.237
- 04:27 PM Weakest levels of the day with MBS down 3/8ths and 10yr up 11.5bps at 4.288

Lock / Float Considerations

- The first 2 days of this week have served as a sobering reminder: rallies that are built on something as capricious as tariff policy are notoriously at risk of major reversals and ongoing volatility. At this point, market sentiment is shifting in a way that makes it hard for bonds to improve much, even if the tariff news improves. Either way, the takeaway is the same: it makes more sense to be defensive until we see how Treasuries are doing after this week's auctions and inflation data.

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
 - o 4.40

