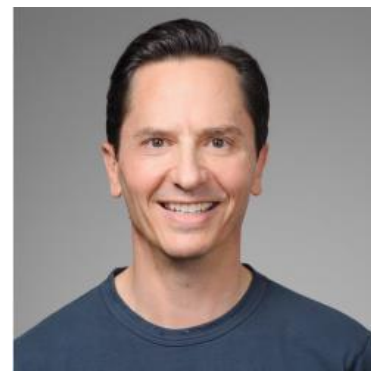


MBS & TREASURY MARKETS

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MBS Recap: Solid Response to Data and Dovishness



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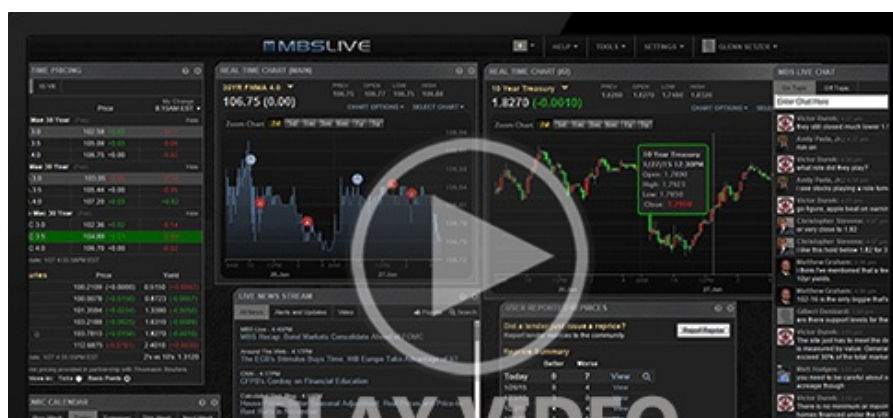
San Francisco CA



Solid Response to Data and Dovishness

MBS Recap | Matthew Graham | 3:33 PM

The morning commentary focused more on the relatively **dovish** tone struck by Powell in today's congressional testimony. To be clear, we wouldn't say it was **dovish** in an outright sense, but when compared to last week's press conference, it left more hope for fans of low rates. A separate development at the same time which deserves more attention is today's labor differential in the Consumer Confidence Index. It suggests the worst labor market conditions since the economy exited covid lockdowns in 2020. Considering the Fed keeps saying a strong labor market is the key reason they can wait to cut rates, that's timely data, and it will surely have traders on the edge of their seats for incoming employment-related releases. Bonds rallied early and held gains steadily into the close--nothing extreme, but another incremental victory.





11:19 AM Rally Continues as Powell Shows a Path to Rate Cuts

3:02 PM

- ○ Case Shiller Home Prices y/y
 - 3.4 vs 4.0 f'cast, 4.1 prev
- FHFA Home Prices y/y
 - 3.0 vs 3.9 prev

10:45 AM Sideways to slightly weaker overnight, but gaining some ground during Powell testimony. MBS up 5 ticks (.16) and 10yr down 3.7bps at 4.308

02:12 PM Holding post-Powell gains in a relatively narrow range. MBS up 9 ticks (.28) and 10yr down 5.3bps at 4.292

We expected the market to be increasingly receptive to any shift in tone from Powell in this week's testimonies and Tuesday didn't disappoint. Powell was arguably only slightly more **dovish**, but bonds were happy to trade accordingly. Wednesday's testimony is less consequential unless he reiterates near-term rate cut possibilities in a more forceful way. Apart from that yields are pushing a breakout of the bottom of their trading range which is typically a cue for the risk averse crowd to do what they do best. Risk tolerant types just have that much more room overhead to set stop-loss lock triggers. Just be sure you're moving those triggers down as the market rallies (i.e. a classic "trailing stop").

Technicals/Trends in 10yr (why 10yr)

- **Ceiling/Support** (can be used as "lock triggers")
 - o 4.64
 - o 4.48
- **Floor/Resistance**
 - o 3.99
 - o 4.05
 - o 4.12
 - o 4.19
 - o 4.34
 - o 4.40

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	4.289%	-0.057%
2 YR	3.810%	-0.051%
30 YR	4.830%	-0.047%
5 YR	3.852%	-0.060%

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