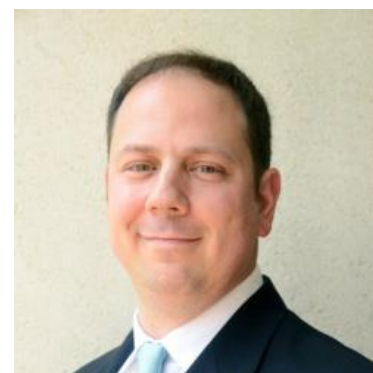


MBS & TREASURY MARKETS

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The Day Ahead: Biggest Oil Spike Yet Leaves No Doubts

Since the outbreak of the military operation in Iran, there have been varying levels of spillover from rising oil prices to the bond market. There have been notable pockets of time where the correlation broke down, but when viewed in less granular detail, oil prices and bond yields have moved higher together over the past week. Now this morning, there's a new mega-surge in oil (presumably due to Iran's leadership announcement and its implications for more military escalation) and the correlation is undeniable when viewed over a short time period. Today's first chart shows there's no question of that short-term correlation.



Michael Levine

Senior Loan Officer,
CrossCountry Mortgage

M: 914-391-1183

2900 Westchester Ave.
Purchase NY 10577-____
307827

The second chart shows that the correlation is definitely not proportional (the scaling is set to the same proportions used last week in order to illustrate the size of the jump in oil).

