

MBS & TREASURY MARKETS

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MBS Recap: Bonds Weren't Prepared For Fed's Inflation Fears

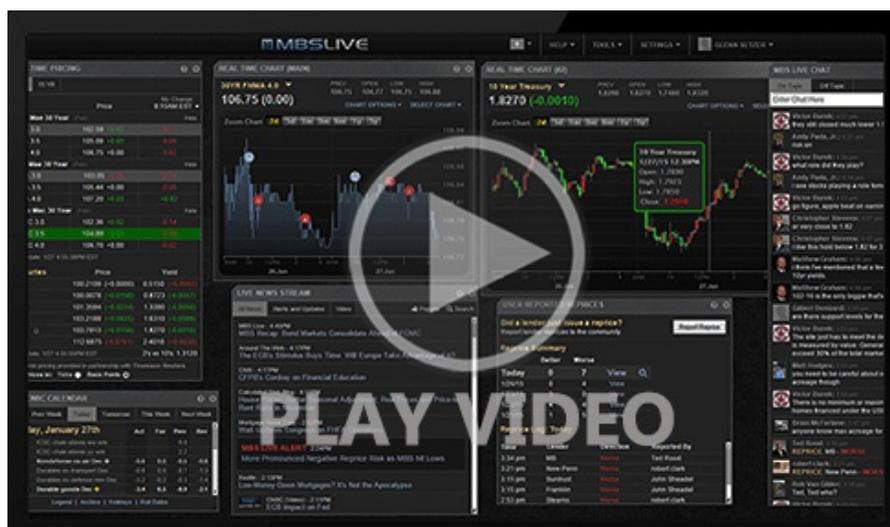


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Bonds Weren't Prepared For Fed's Inflation Fears

MBS Recap | Matthew Graham | 5:03 PM

If anything, you'd think the market would have been pricing in a hawkish Fed day, given the run up in energy prices. But Powell threw reporters a curve ball during the press conference and instead placed the focus on other categories of inflation that were under the microscope before the energy price spike (like core goods and non-housing services), saying there'd been less progress than hoped. The takeaway was that rate cuts are on hold for the foreseeable future. The market agrees, as it is now pricing the next rate cut at more than a year in the future. Bonds were already losing ground on oil price spikes (and PPI to a lesser extent). The net effect took yields back near recent highs and hit MBS for almost half a point.



MBS Morning

9:14 AM Overnight Gains Erased by PPI/Oil. Fed on Deck

Commentary

2:00 PM Here's What Changed in The New Fed Announcement

Update

2:05 PM Minimal Reaction to Fed Announcement and Dots So Far

Alert

2:42 PM Weakest levels as Powell answers inflation questions

Alert

2:56 PM Negative Reprice Risk Increasing

Econ Data / Events

- ○ Core PPI m/m (Feb)
 - 0.5% vs 0.3% f'cast, 0.8% prev
- Core PPI y/y (Feb)
 - 3.9% vs 3.7% f'cast, 3.6% prev
- PPI m/m (Feb)
 - 0.7% vs 0.3% f'cast, 0.5% prev
- PPI y/y (Feb)
 - 3.4% vs 2.9% f'cast, 2.9% prev

Market Movement Recap

- 08:32 AM Slightly weaker after PPI data. MBS unchanged after being up a few ticks and 10yr up .8bps at 4.207
- 09:16 AM additional weakness with oil prices spiking. 10yr up 2.8bps at 4.227 and MBS down more than an eighth of a point
- 02:12 PM modestly stronger after Fed announcement. MBS still down 3 ticks (.09) and 10yr up 1.5bps at 4.214
- 02:57 PM MBS down 1 tick (.01) to 4.207 and 10yr up 1.5bps at 4.227

Lock / Float Considerations

- updated 3/18/26 after Fed day.

Fed reaction added more volatility than expected to an already volatile environment. Risks remain elevated mainly due to geopolitical uncertainty and the energy price rout. All of March has been generally a one-way trade for bonds with a few corrective moments. We'd continue to wait for the dust to definitively settle before feeling like taking any major risks with locking/floating.

Technical/Trends in 10yr (why 10yr)

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

- o 4.48
- o 4.40
- o 4.34
- o 4.28
- o 4.19
- o 4.12
- o 4.05

- Floor/Resistance

- o 3.89
- o 3.97

MBS & Treasury Markets



MBS

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

US Treasuries

10 YR	4.269%	+0.070%
2 YR	3.776%	+0.102%
30 YR	4.884%	+0.042%
5 YR	3.878%	+0.083%

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