The Day Ahead: Much Stronger Start as Peace Deal Expectations Improve

On Sunday evening, the NYT ran a story that the U.S. and Iran had agreed in principle to end the war and reopen the Strait of Hormuz. The key distinction versus previous rumors/reports is that the issue of nuclear material is being left as "TBD." Subsequent headlines mentioned several military strikes, but the market didn't react (it's been fairly common to see those sorts of "yeah but" headlines immediately following potential breakthroughs toward peace). Market reaction is the best judge of headline credibility and the reaction is clear. Oil dropped about $5/bbl and 10yr yields are staring out 7bps lower at 4.489--the lowest levels since May 14th. MBS are up more than 3/8ths of a point in early trading.

In the broader context, this recovery gets us back to the upper boundary of the range that had been intact before last week.

Andrew Andreasen
Broker, AndrewLoans
https://www.andrewloans.com
M: (760) 559-2423
7949 3rd Ave
Hesperia CA 92345
NMLS 237132

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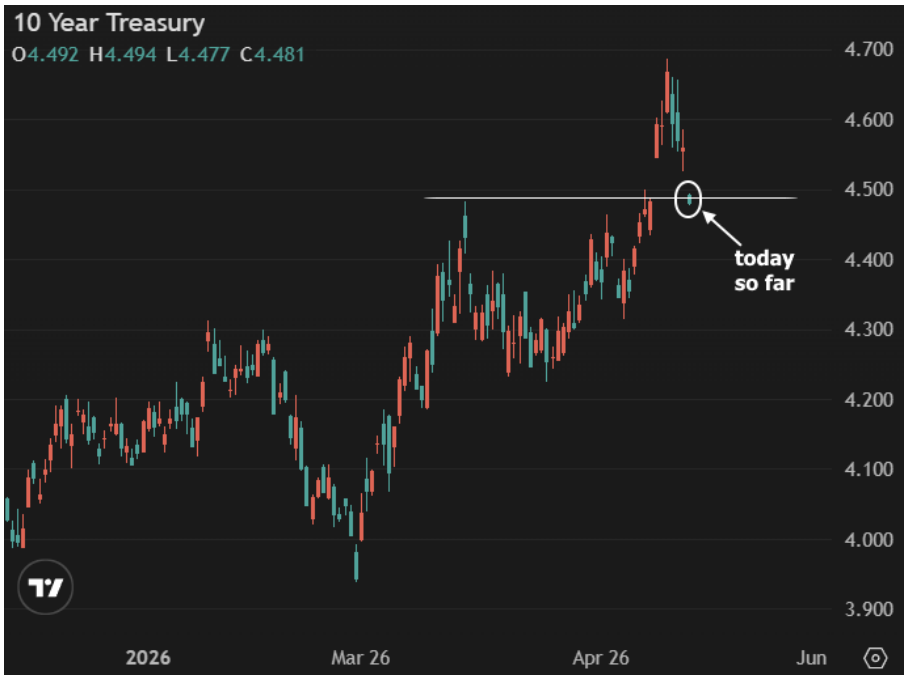

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