MBS Recap: What's Up With Today's Big Rally? (Spoiler Alert: Quarter-End Rebalancing)

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What's Up With Today's Big Rally? (Spoiler Alert: Quarter-End Rebalancing)

MBS Recap Matthew Graham | 3:50 PM

Stocks went on a tear in Q2 with the S&P up 20% as recently at June 16th. AI-adjacent stocks were up over 50%. Bonds lost ground over the same time. That means the 60/40 stock/bond portfolio targets were thrown way out of whack, at times approaching a 70/30 balance. Gigantic money managers (insurance/pension funds and foreign investment funds) take the last few weeks of a quarter to get that balance back to 60/40. This is accomplished via selling stocks, buying bonds, or both. In today's case it was both, but primarily the "buying bonds" part. If the math is so cut and dried, why can't the market accurately price it in ahead of time (after all, it was being talked about)? Ultimately, rebalancing flows are only a small fraction of trading volume. For instance, the stock selling in early June was viewed as early rebalancing tradeflows. This stuff doesn't adhere to a set schedule, so it's only truly obvious in hindsight. Unfortunately, it doesn't speak to a material shift in bond buying demand going forward--just an accounting adjustment in response to the past.

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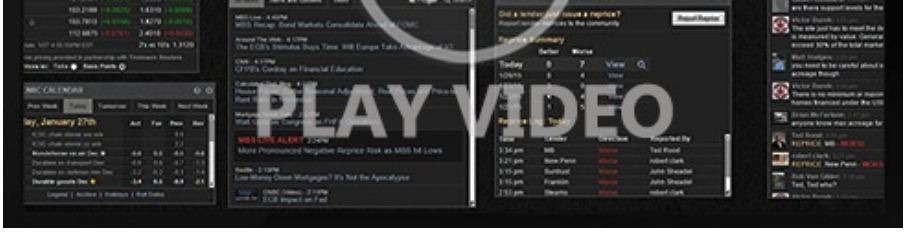

Watch the Video

MBS Morning

9:34 AM Quick Rally Toward Key Resistance Just Before The Open

3:01 PM

Econ Data / Events

- New Home Sales (May)
  - 0.58M vs 0.64M f'cast, 0.622M prev

Market Movement Recap

09:20 AM MBS up nearly 3/8ths and 10yr down 6.6bps at 4.432

11:33 AM MBS up nearly half a point and 10yr down 9.1bps at 4.407

02:43 PM MBS up half a point and 10yr down almost 10bps at 4.401

Lock / Float Considerations

- 6/24/26 -Obvious a huge rally day for bonds, but unfortunately not for any reasons that mean much going forward (i.e. rebalancing between stocks/bonds in response to a volatile quarter). If there is/was any reason for a more risk-tolerant lock/float stance, it would simply be that lender pricing hasn't quite caught up to the bond rally, so there's a small cushion against a potential bounce back tomorrow. If there's another reason, it would be the bullish break below 4.42% in 10yr yields, but strictly speaking, we like to see a 2nd day below a key technical level before counting it as broken.

Technicals/Trends in 10yr (why 10yr)

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- Ceiling/Support (can be used as "lock triggers")
  - 4.80
  - 4.72
  - 4.66
  - 4.59
  - 4.51

- Floor/Resistance
  - 4.19
  - 4.28
  - 4.34
  - 4.43

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	4.404%	-0.094%
2 YR	4.144%	-0.055%
30 YR	4.856%	-0.091%
5 YR	4.182%	-0.088%

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