MBS Recap: What Will it Take For Bonds to Recover?

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What Will it Take For Bonds to Recover?

MBS Recap Matthew Graham | 4:41 PM

Another day, another sell-off without any satisfying explanations. To be fair, you could say bonds just traded the curve today with anything 3yrs or shorter rallying at the expense of the longer end of the curve. But for the mortgage market, <3yrs is too short-term to matter. Data and headlines did not line up well at all with the weakness, so take your pick from the general themes we've added to the daily lock/float considerations. At some point, yields will have moved high enough to motivate investors to buy bonds for investment purpose (as opposed to tactical or compulsory trading purposes). Until then, the trend is not your friend.

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MBS Morning

10:46 AM Weaker Start. No New Reasons

Alert

11:11 AM Negative Reprice Risk Increasing

4:33 PM

Econ Data / Events

- ISM Biz Activity (Sep)
  - 56.5 vs -- f'cast, 61.7 prev
- ISM N-Mfg PMI (Sep)
  - 54.9 vs 55 f'cast, 55.4 prev
- ISM Services Employment (Sep)
  - 50.1 vs -- f'cast, 47.8 prev
- ISM Services New Orders (Sep)
  - 59.8 vs -- f'cast, 60.9 prev
- ISM Services Prices (Sep)
  - 74.0 vs -- f'cast, 72.6 prev

Market Movement Recap

10:07 AM Modestly weaker at the open, but holding ground after ISM. 10yr up 1.7bps at 5.296. MBS down 1 tick (.03).

12:51 PM weakest levels. no new reasons. MBS down 10 ticks (.31) and 10yr up 5.5bps at 5.334

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04:01 PM Off the weakest levels, but again, not for any particular reason. MBS down a quarter point and 10yr up 3bps at 5.309

Lock / Float Considerations

- 10/5/26 - Rising rate momentum has been relentless since the end of August. It makes sense to remain defensive until the market proves it can mount a successful correction (roughly, this would look something like rates/yields falling an average of at least 6bps a day for at least 2 days).

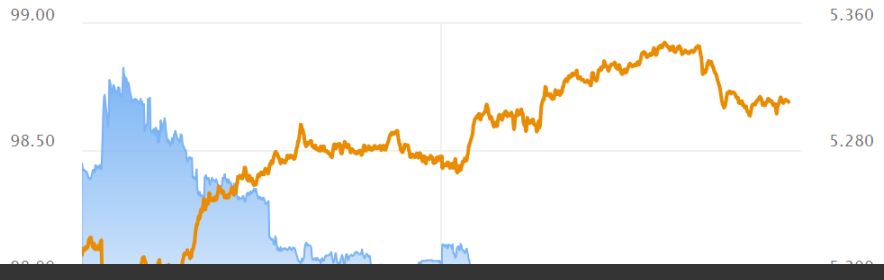
- Ongoing contributions to high/rising rates in no particular order:
  - War's implied impact on inflation and Treasury issuance
  - Elevated Treasury issuance (fiscal imbalances)
  - Elevated corporate bond issuance (competes for investor demand)
  - Resilient stocks (competes for investor demand)
  - Generally/gradually lower foreign demand (partly driven by tariffs and weaker trade relationships)
  - Genuine strength/resilience in economic data
  - A Federal Reserve that is willing to use the Fed Funds Rate to fight inflation (not the perfect tool, but it's the tool they have)

Technicals/Trends in 10yr (why 10yr)

- Ceiling/Support (can be used as "lock triggers")
  - 5.41
  - 5.34

- Floor/Resistance
  - 4.83
  - 4.93
  - 5.00
  - 5.14
  - 5.29

MBS & Treasury Markets



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MBS

30YR UMBS 6.0
30YR UMBS 6.5
30YR GNMA 6.0
15YR UMBS-15 5.0

US Treasuries

10 YR	5.310%	+0.031%
2 YR	4.813%	-0.017%
30 YR	5.665%	+0.053%
5 YR	5.061%	+0.002%

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