MBS Recap: Full Recovery!

Brian Neuwirth
President, Mortgage Pro Home Loans
www.mortgageprohl.com
P: (719) 492-4146
1052 Mill Creek Rd
Bradenton FL 34212
NMLS # 1119474

Full Recovery!

MBS Recap Matthew Graham | 4:56 PM

The patient looked critical this morning with 10yr yields pushing up to new long-term highs just over 5.36%, but by the early afternoon, there was a full recovery. In fact, most of the recovery arrived after 9:30am ET (and before 11am ET). Any time 9:30am kicks off a big move, we think about things like ETF tradeflows and other money shuffling in the retail investor space. Oil prices also moved lower at that time, but not enough to justify the swings seen in the bond market. The afternoon's 10yr Treasury auction was well-received (as they often are when yields tag long-term highs). The follow-through helped complete the round trip, ultimately leaving yields about 1bp lower by 3pm ET and MBS a few bps higher.

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MBS Morning

10:07 AM No Surprise: It Was a Trap

Update

1:20 PM Back Into Positive Territory After 10yr Auction

4:01 PM

Market Movement Recap

10:28 AM Sharply weaker overnight, but recovering a bit now. MBS down about a quarter point and 10yr up 3.6bps at 5.32

01:03 PM Additional recovery after strong 10yr auction. 10yr now up less than 1bp on the day at 5.289 and MBS down only 2 ticks (.06).

Lock / Float Considerations

- 10/6/26 - As refreshing as today's mid-day recovery may be, and as much as one might be tempted to conclude it was driven by a supportive ceiling in yields, we can't ignore that yields hit another new, long-term high before the recovery kicked in. Bottom line: it doesn't do much--if anything--to argue against the prevailing trend toward higher rates. Bottom line: while we can't know if more buyers will show up tomorrow, at the very lest, we know the mid-day rally was not sufficient evidence of a bullish reversal.

- 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)

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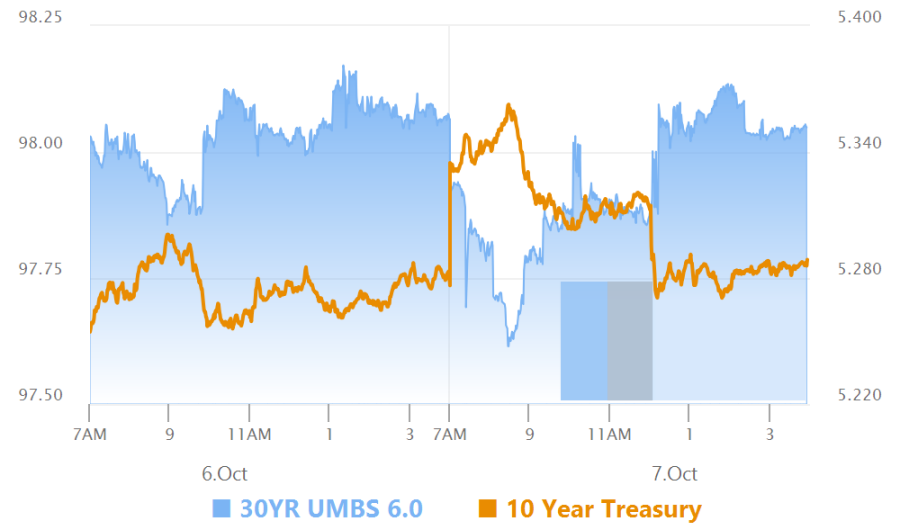
- Ceiling/Support (can be used as "lock triggers")
  - 5.41
  - 5.34

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

MBS & Treasury Markets



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

US Treasuries		
10 YR	5.288%	+0.003%
2 YR	4.769%	-0.028%
30 YR	5.674%	+0.016%
5 YR	5.028%	-0.006%

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