MBS & TREASURY MARKETS
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MBS Recap: Exciting Times, But Don't Get Too Excited

Dave Glotfelty
Chief Lending Officer,
Timberline Lending
timberlinelendingco.com
M: (303) 669-2102
dave@timberlinelendingco.com
6455 S Yosemite St. #740
Greenwood Village CO 80111
NMLS: 857935
Company NMLS: 2528109

TIMBERLINE LENDING

Exciting Times, But Don't Get Too Excited

MBS Recap Matthew Graham | 4:06 PM

There's no question that the past 5 days have been the best 5 days that we've seen in a long time in terms of direction movement in rates. They're made all the more miraculous because the past 2 days included much higher inflation readings. In a vacuum, inflation data was bad for rates. But the opposing forces are/were stronger in this case. There are two to consider: AI/tech correction and bond seller exhaustion. We've said for a while that yields would eventually be high enough to prompt some value buying and that 5.34-5.35% may be 2026's version of 2023's 5.00%. As luck would have it, that factor coincided with a rapid increase in the tech sector, primarily driven by Coreweave, but with the word "contagion" also being thrown around. Here's why you should temper excitement: to whatever extent "contagion" doesn't materialize, bonds will lose a good amount of the support they've recently enjoyed. What we've seen so far could be considered "act 1" of a very enjoyable show, but it could also be a short story that ends here. The only surefire justification for a bigger rally is a sustained economic slowdown, preferable coinciding with the war ending and oil falling.

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MBS Morning

9:42 AM What's Up With The Huge Paradoxical Rally?!

Alert

11:29 AM Still Much Stronger, But Down Over a Quarter Point From Highs

Econ Data / Events

- Core PPI m/m (Sep)
  - 0.7% vs 0.3% f'cast, 0.2% prev
- Core PPI y/y (Sep)
  - 5.0% vs 4.4% f'cast, 4.6% prev
- PPI m/m (Sep)
  - 1.3% vs 0.5% f'cast, 0.4% prev
- PPI y/y (Sep)
  - 6.3% vs 5.3% f'cast, 5.4% prev
- Retail Sales (Sep)
  - 0.8% vs 0.3% f'cast, 1.2% prev
- Retail Sales Control Group MoM (Sep)
  - 0.1% vs 0.3% f'cast, 1.4% prev

Lock / Float Considerations

- 10/15/26 - The rally over the past 5 days is phase one of a broader correction that may or may not be underway. Its continuation seems to depend on the extent to which AI credit/earnings concerns continue to grow. As of today, the tech correction is no bigger than it was back in June. It's too soon to assume this is the big shift, but at the very least, the buying demand in the long end of the yield curve

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means that there's more room for interpretation in near-term lock/float strategy.

- 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)

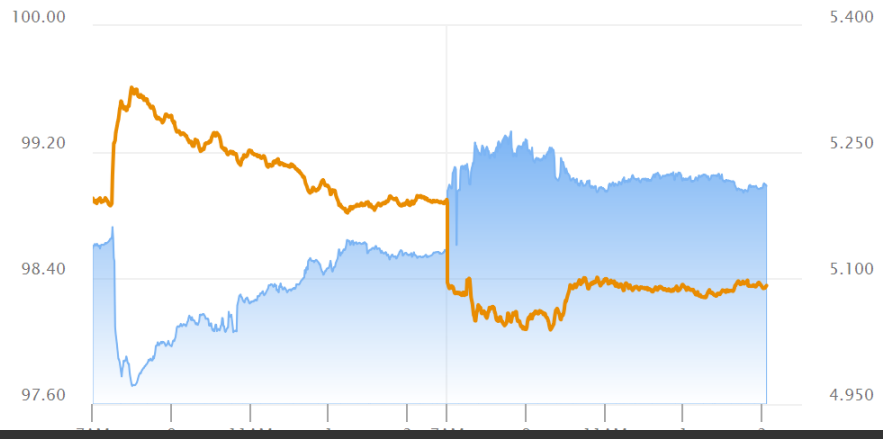
- Things that would help rates fall the most:
  - recession or significant economic slowdown
  - AI/tech credit/earnings bubble concerns playing out in markets
  - war ends and oil prices fall
  - inflation sustainably returns to 2%

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
  - 5.27

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	5.091%	-0.090%
2 YR	4.756%	-0.043%
30 YR	5.430%	-0.093%
5 YR	4.904%	-0.077%

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