MBS Recap: Could Have Been Better. Could Have Been Worse

Roland Wilcox
Owner / Loan Officer,
Sierra Capital Mortgage Co.
P: (626) 449-8545
1055 E. Colorado Blvd.
Pasadena CA 91106
245214

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MBS Recap Matthew Graham | 3:45 PM

If the bond market was a Mario Bro, it found a gold star at some point on Wednesday. As Thursday afternoon, the gold star ran out of juice and we're back to regular old Mario. In other words, astonishing resilience/bullishness has been replaced by a sideways-to-slightly-weaker grind. It could be as simple as the desire among traders to consolidate recent gains without getting too carried away. Ongoing selling in tech stocks ostensibly allowed for another bond rally, so the fact that we lost a bit of ground could end up looking like an important clue about resistance. A mid-day spike in oil prices may have added just a bit of upward pressure in yields, but it's more likely correlation>causation as oil has been higher all week. Losses were minimal as of 3pm, leaving most of the week's rally intact.

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MBS Morning

10:06 AM Bonds Still Capable of Selling

Alert

12:22 PM Down Over an Eighth From Highs

Alert

12:52 PM More Reprice Risk Now

2:46 PM

Econ Data / Events

- import prices
  - 1.1% vs 0.8% f'cast, 0.5% prev

Lock / Float Considerations

- 10/16/26 - Friday may end up looking like a day that offered important clues about the bond rally, or it could just be Friday-related inconsistency (sometimes trading is "weird" on Fridays). The key observation is that the tech selling spree gave bonds cover to improve, but bonds decided NOT to improve. Sure, oil is higher, but it was higher all week and bonds didn't seem to mind. One could perceive this as a clue that the bond market would need substantially more convincing if 10yr yields are to attack the 5.0% floor. In any event, it's a decent argument for shifting back to a defensive stance until further notice.

- 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)

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- 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")
  - 5.34
  - 5.27
  - 5.14

- Floor/Resistance
  - 4.83
  - 4.93
  - 5.00
  - 5.07

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	5.085%	+0.015%

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2 YR	4.717%	-0.030%
30 YR	5.430%	+0.023%
5 YR	4.880%	+0.002%

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