MBS Recap: Ultimately Flat After Options-Driven Volatility

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Ultimately Flat After Options-Driven Volatility

MBS Recap Matthew Graham | 4:50 PM

Treasuries continued in the same sideways holding pattern seen over the past 4 trading sessions. This generally mirrors a holding pattern in certain tech companies' credit risk metrics. In short, bonds currently have nothing better to do than wait and see if tech is experiencing some kind of true inflection point or just a false alarm. Today was set to be especially boring as a result, but there was some afternoon volatility surrounding the options expiration cut-off (which affected both Treasuries and stocks). Even then, the net effect of that volatility was less than 1.5bps of weakness in 10yr yields (5.124 after the dust settled versus 5.112 before the spike).

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MBS Morning	
10:21 AM	Waiting For Whatever's Next
Alert	
11:03 AM	MBS Down More Than an Eighth From Highs
Alert	
2:57 PM	Additional Negative Reprice Risk
4:36 PM	

Lock / Float Considerations

- 10/21/26 - We continue to assess the possibility that bond yields found support at decades-long highs seen in early October. Tech jitters are now keeping yields in a new, lower range. Without that motivation, we could easily be back at long-term highs. bottom line, If there's a noticeable bounce in sentiment surrounding Coreweave etc., rates risk bouncing higher as well. If tech concerns increase, rates could easily re-test lows. Econ data is on the back burner until early November.

- 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%

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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	5.118%	+0.007%
2 YR	4.806%	+0.027%
30 YR	5.410%	-0.014%
5 YR	4.951%	+0.022%

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