MARKET SUMMARY
Complete Recap of Today's Market Activity

Bonds Hold On to NFP-Driven Gains Despite Some Push-Back

Market Summary: Sunday, May 5, 2024 - 9:28PM

Whether you view it as a perfectly logical reaction to NFP coming in at 175k vs 243k or a bit too much of a rally relative to the motivation, no one could argue that bond yields were destined to drop after seeing this morning's jobs report. But employment data is only worth so much these days. The main event continues to be inflation and we were reminded of that with the 10am ISM Services data. The ISM headline was actually rate friendly, but the inflation component was the bigger mover, and it was not friendly. Bonds lost almost all of their post-NFP gains in response, but managed to level off in the PM hours. Combined with the 2 previous days of green, the net effect is the best closing levels since April 9th.

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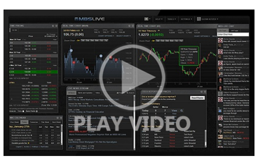


Perfectly Logical Rally in Response to NFP

MBS & Treasury Markets

UMBS 5.5 98.31 +0.02 | 10YR 4.496% -0.018% 5/6/2024 5:00PM EST

Stronger Start For Bonds After Cooler Jobs Report

On most months in modern economic memory, a gain of 175k payrolls would be welcome news for the labor market. Depending on the context, it still is. But in today's case, it's much lower than the market expected and not a high enough number to justify the 4.6+ 10yr yields seen yesterday. Bonds rallied instantly when the news printed, but one rate-friendly jobs report is only a fine tuning adjustment to a rate environment dominated by inflation concerns.

Evidence of inflation concerns was available in real time today following the ISM Services data. The headline was weaker, which would normally be good for bonds. But the price component was quite a bit higher, which was enough for the bond market to react negatively.

Despite the push-back, bonds remain in much stronger territory and have now mad solid gains 3 days in a row. Yields are back in line with the afternoon of the last CPI day on April 10th.

ALERT: Losing Some Ground After ISM Data

UPDATE: Big Rally on Only Modestly Weaker NFP

Today's Mortgage Rates

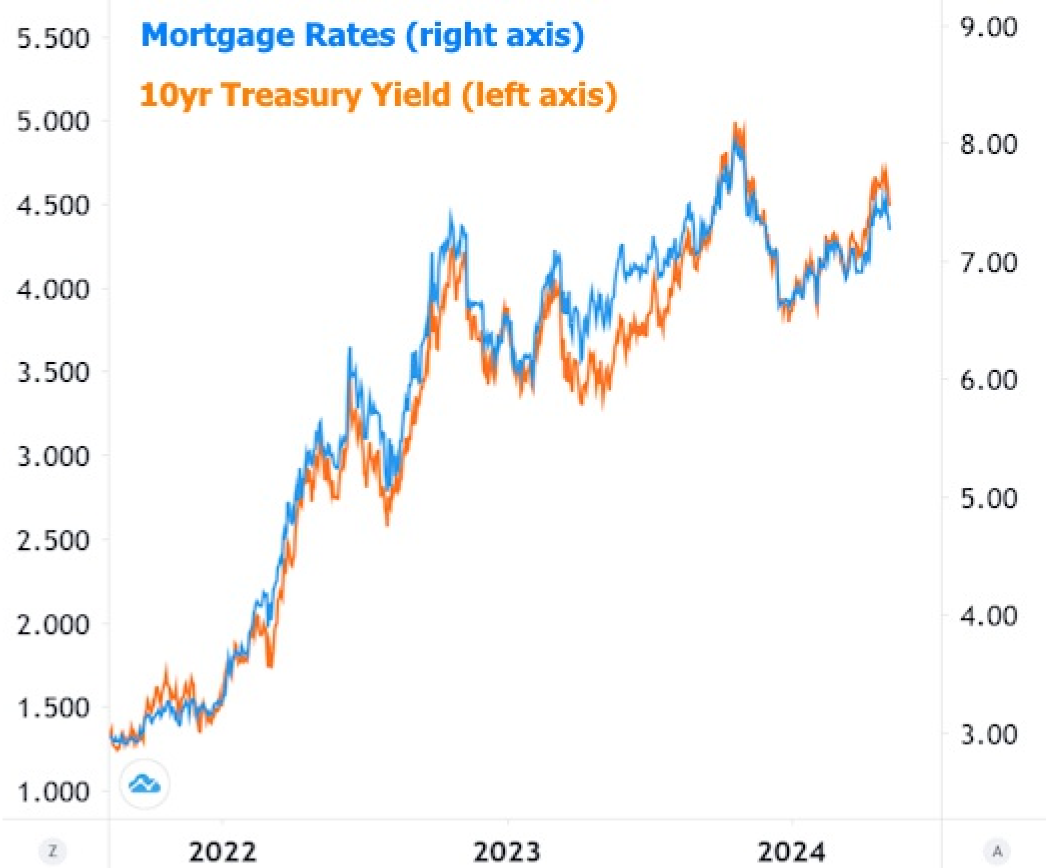
30YR Fixed 7.25% -0.03% | 15YR Fixed 6.68% -0.07% 5/6/2024

Rates End Week at Lowest levels since April 9th

It was an action-packed week for the housing and mortgage market. Wednesday's Fed announcement was the highlight, but we also got several economic reports that caused rate volatility. Thankfully, it was mostly the good kind.

The week got off to a slightly stronger start with Monday's only major rate news being updated borrowing estimates from the Treasury Department. Why would such a thing matter?

Treasuries largely dictate day to day interest rate momentum in the U.S. because they are abundant, simple, and as close to risk-free as it gets. As such, Treasuries are the universal yardstick for all other debt in the U.S., including MBS, the mortgage-backed securities that have the most direct impact on . This is why Treasury yields and mortgage rates correlate so well over time.



Treasuries can take cues from several sources. One of the biggest is the change in the outright level of supply. In other words, how much more debt is the U.S. government issuing in the upcoming quarter? If that number is higher than expected, it puts upward pressure on rates. Monday's news from Treasury was fairly palatable and roughly in line with market expectations, which allowed rates to stay steady.

Things changed on Tuesday when the Employment Cost Index (ECI) data came out. This is one of several reports that the Fed has mentioned as being important to the rate outlook recently. Higher numbers mean higher rates, all other things being equal. This week's installment showed Q1 costs at 1.2, up from 0.9 in Q4 and well above the market consensus of 1.0. Rates hit the highest levels of the week as a result, both in terms of Treasury yields and mortgage rates.

Things changed on Wednesday. The morning economic data did no harm, but didn't necessarily deserve much credit for turning things around. Those honors went to the Fed Announcement in the afternoon--specifically: Fed Chair Powell's press conference.

Markets already knew the Fed wouldn't change rates at this meeting, so the focus was likely to be on Powell anyway. Expectations were more varied as to how he might address the recent inflation data, but we knew he'd have to be less convinced than last time when it comes to 2024 rate cut prospects.

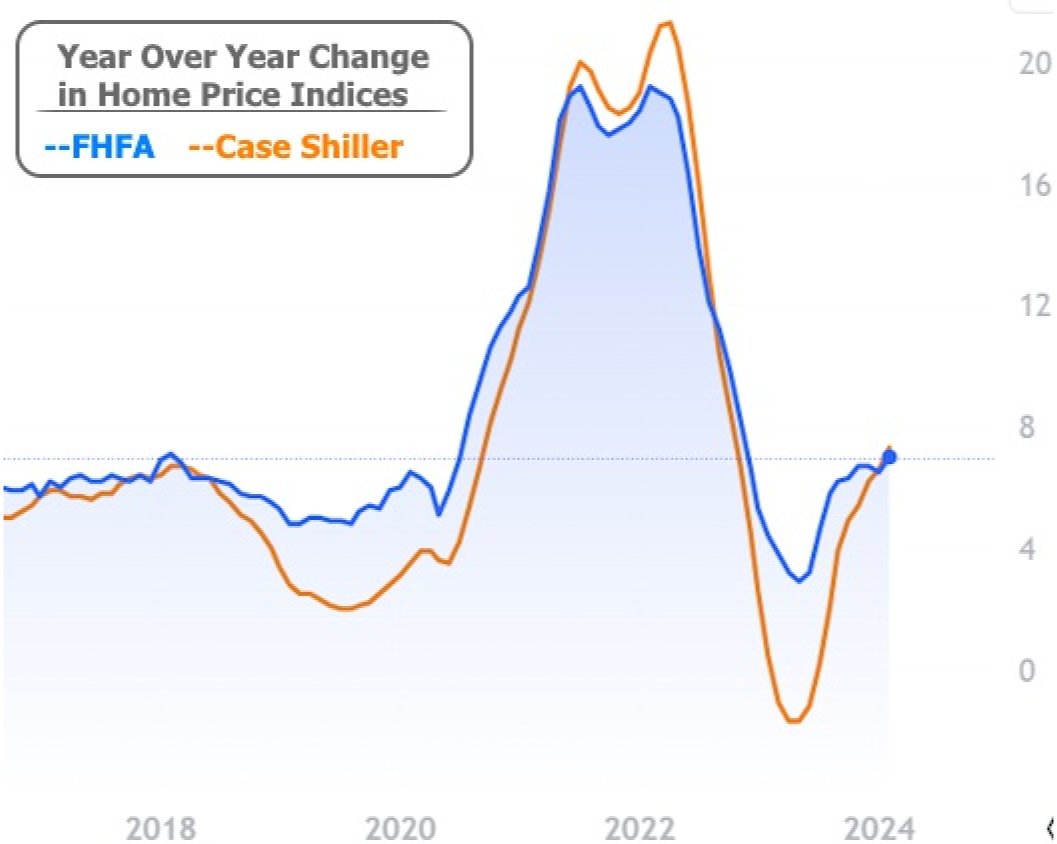
Unsurprisingly, Powell acknowledged that what had looked like one month of noise earlier in the year was now an undeniable and unwelcome shift in progress toward lower inflation. Nonetheless, he expects progress to get back on track in the coming months and for the Fed's next move to be a cut instead of a hike.

Markets also appreciated his clarification on political matters. Many analysts have suggested the Fed won't be able to cut rates until December because it risks looking like a political move if it happens before November's election. But Powell was clear in saying the Fed would take whatever monetary policy action it deemed appropriate whenever the data suggested it. In other words, if inflation were to begin falling in a more meaningful way in the next several months and if the economy began to falter, we would not have to wait several more months for the Fed to deliver some rate relief.

With that, momentum had shifted in favor of lower rates for the week. There was some follow-through on Thursday, but even better gains on Friday after the latest monthly jobs report came out weaker than expected. Job creation fell to its lowest level since October, and that's in line with the lowest since covid lockdowns. It was also well below the forecast consensus (175k versus 243k).

Historically, 175k is a solid number, but everything's relative. Rates typically fall when the job count undershoots the forecast by that much and Friday was no exception. 10yr Treasury yields and mortgage rates ended the week at the lowest levels since April 9th. Traders further lowered their outlook for the end-of-year Fed Funds Rate, once again pricing in at least one full cut this year.

On the housing data front, the week's most notable releases were the two leading national price indices from FHFA and Case Shiller. Both were much higher than forecast for the month of February, showing annual growth of 7.0% and 7.3% respectively.



From here, the calendar is comparatively much more quiet until the biggest economic report of the month on April 15: the Consumer Price Index (CPI). This is the broad inflation index that has been at the scene of many crimes against the world of . Reactions have been big enough that it's not uncommon to see rate momentum fizzle sideways as traders wait for the next inflationary shoe to drop.

Economic Calendar

Last Week | This Week | Next Week

Time	Event	Actual	Forecast	Prior
Friday, May 03				
8:30AM	Apr Average earnings mm (%) ★	0.2%	0.3%	0.3%
8:30AM	Apr Non Farm Payrolls ★★	175K	243K	303K
8:30AM	Apr Participation Rate ☆	62.7%	62.7%	62.7%
8:30AM	Apr Unemployment rate mm (%) ★★	3.9%	3.8%	3.8%
9:45AM	Apr S&P Global Services PMI ★★	51.3	50.9	51.7
9:45AM	Apr S&P Global Composite PMI ☆	51.3	50.9	52.1
10:00AM	Apr ISM Biz Activity ★	50.9		57.4
10:00AM	Apr ISM Services Employment	45.9	49.0	48.5
10:00AM	Apr ISM Services Prices	59.2	55.0	53.4
10:00AM	Apr ISM N-Mfg PMI ★★	49.4	52.0	51.4
11:00AM	Apr Total Vehicle Sales (ml)	15.74M		15.5M
7:45PM	Fed Williams Speech ☆			
7:45PM	Fed Goolsbee Speech ☆			
Monday, May 06				
12:50PM	Fed Barkin Speech ☆			
1:00PM	Fed Williams Speech ☆			
2:00PM	Loan Officer Survey			

Recent Housing News

- ARM Loan Share Rises as Borrowers Seek Affordability
- Home Prices Apparently Don't Care About High Rates
- Mortgage App Volume Declines Across the Board

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Despite Bigger Bumps, Fed Still Sees Path to Lower Rates

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