

MARKET SUMMARY

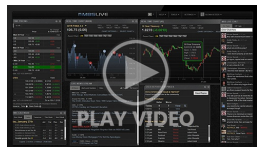
Complete Recap of Today's Market Activity

Ratio of Weakness to Confirmed Explanations is Off The Charts

Market Summary: Tuesday, October 22, 2024 - 12:24AM

Every year there are a few days where bonds move as if obviously inspired in spite of a distinct absence of obvious inspiration. Monday was one of those days. Sure, there are a few "best guesses" making the rounds, but all of them are fairly easy to debate and none of them are worth the 11.5bp jump to the highest 10yr yields in almost 3 months. News articles pointing out "the economy" or "the deficit" are grasping at straws. These things are valid, but they wouldn't adequately account for today's sell-off. Sometimes the explanations for these episodes become clearer in hindsight. Other times, the mystery endures. Either way, volatility remains a big risk through mid-November.

Latest Video Analysis



Ratio of Weakness to Explanations is Off The Charts



Paul Gowen

Broker/Owner, Willamette Falls Financial

www.willamettefallsfinancial.com

P: (503) 922-1499

M: (503) 381-0736

4800 Meadows Rd
Lake Oswego OR 97035
272830



UMBS 5.0	97.77	-0.04	10YR	4.210%	+0.008%	10/22/2024 5:00PM EST
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Bonds Have a (Bad) Case of The Mondays

First off, there's no great explanation for the extent to which bonds are losing ground this morning. These days happen occasionally. Sometimes an elusive market mover becomes clearer later in the day. Other times, we're forced to rely on our best guesses.

With that in mind, here's a quick catalog of usual suspects at times like this.

1. **Mondays, , etc.** Mondays can be tough in the bond market as lighter greases the skids for higher volatility. This is a non-issue when there aren't any threatening market movers in play. Let's say makes a move 2-3x bigger than normal. That doesn't matter if the underlying move is quite small in the first place. But once we get to a "medium sized" move, will make it look big. There's no question that exacerbates moves like today's, but that still doesn't explain the underlying move.



2. **Election-related trading.** Traders are definitely responding to election odds in general with the Trump trade associated with higher Treasury yields. We're not so sure that's a driver today because stocks tanked even as bond yields continued higher, but if you believe stocks are less connected to election outcomes, then it could definitely be in play.

3. **Options expiration.** Bond options expire over the course of several days in the final third of the month. Today is expiration day for 10yr Treasury options and this can create extra volatility at times.

4. **October/Tax Deadlines.** Correlation is not causality, but we have seen other examples of enigmatic volatility around tax filing deadlines and/or in the middle of October.

Either way, European markets definitely set the tone in the overnight session.

In the bigger picture, today's weakness fully erases the gains seen since the July jobs report (released in early August).

-  **ALERT:** Snowball Selling; Reprice Risk Increasing
-  **ALERT:** MBS at new lows

Today's Mortgage Rates

30YR Fixed	6.85%	+0.03%	15YR Fixed	6.28%	+0.09%	10/22/2024
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Rates Jump Quickly to Highest Levels Since July

By the smallest of margins, are back up to levels last seen in July. That means we've gone from being fairly close to 6% in mid-September to being nearly as close to 7% today when it comes to top tier 30yr fixed scenarios for the average lender.

Today's jump was particularly quick and frustratingly lacking in satisfying explanations. It's not the explanations make bad news any more palatable, but it's always more frustrating to be confronted with unpleasantness that seems to be happening for no good reason.

There are several theories, but nothing as obvious or demonstrable as a surprise result in a key piece of economic data. These include things like shifting election odds coupled with assumptions about policy impacts, arcane calendar issues surrounding the options market, and one of several research notes regarding U.S. deficits that have been making the rounds.

It's unlikely that any of these factors could exclusively drive the pace of weakness seen in rates today. There are limited examples of several such factors teaming up to cause days like today, but just as often, something else comes to light in the following days that helps flesh out the explanation.

Explanations aside, it was one of the bigger jumps seen in the past few months, and by far and away the biggest jump seen on a day without a big economic report or other scheduled event.

Economic Calendar

Last Week | This Week | Next Week

Time	Event	Actual	Forecast	Prior
Tuesday, Oct 22				
10:00AM	Fed Harker Speech ☆			
11:30AM	42-Day Bill Auction (%)	4.650%		4.720%
4:30PM	Oct/18 API weekly crude stocks (ml)	1.643M	0.7M	-1.58M
Wednesday, Oct 23				
7:00AM	Oct/18 MBA Refi Index	672.6		734.6
7:00AM	Oct/18 MBA Purchase Index	131.3		138.4
9:00AM	Fed Bowman Speech ☆			
10:00AM	Sep Exist. home sales % chg (%) ☆	-1%		-2.5%
10:00AM	Sep Existing home sales (ml) ☆	3.84M	3.9M	3.86M
10:30AM	Oct/18 Crude Oil Inventory (ml)	5.474M	0.7M	-2.192M
11:30AM	17-Week Bill Auction (%)	4.445%		4.430%
12:00PM	Fed Barkin Speech ☆			
1:00PM	20-Yr Bond Auction (bl) ★	13		
2:00PM	Fed Beige Book			

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Time to Start Thinking About Incredibly High Volatility Potential

This newsletter series spent 3 straight weeks trying to remind readers that mortgage rates could go higher after the Fed rate cut, and then several more weeks warning about the high stakes jobs report. We had no way of knowing how the future would play out then, and that continues to be the case, but it's time to get the next big warning on the table. The past 5 months have seen...

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