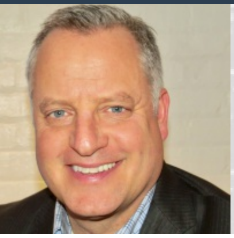

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The Day Ahead: Last Week Increasingly Looks Like an Eye of The Storm For Bonds

Most of April had been bad for bonds. It was like the beginning of yet another storm in a series that had battered the fixed-income coastline since last September (when the tax bill was "leaked"). Just after yields crested 4-year highs exactly 2 weeks ago today, we saw a quick retreat back under 3% and sideways-to-slightly-stronger performance last week.

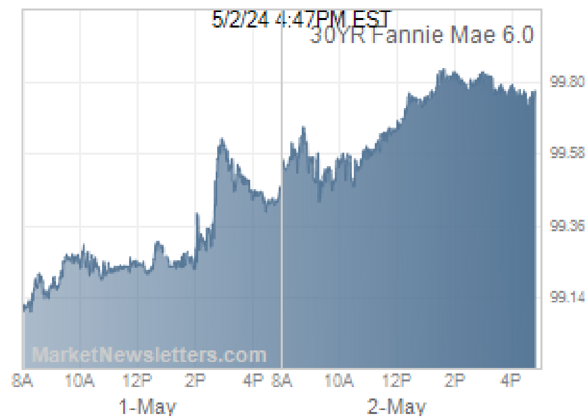
Throughout that week, we hoped to see 2.95% definitively broken as a floor. While that looked increasingly possible as the week progressed, Friday afternoon's weakness called the break into question. Now this week's trading is letting us know that every bit of our **reluctance** to believe in a broader rally was justified. Although Monday was a dud in terms of volume and volatility, yesterday took yields up and over 2.97%. Now, between the overnight and early morning trading sessions, yields are already **up and over 3.0%.**

All of the above makes last week look like an **eye of the storm** for bonds. This particular storm is one of the smaller we've seen since last September. It didn't really begin until mid-April, but it nonetheless finds itself within striking distance of the highest yields in more than 6 years for 10yr Treasuries. And even if that doesn't happen, we have seen a firm rejection of the 2.95% floor.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.79	+0.33
MBS GNMA 6.0	100.75	+0.27
10 YR Treasury	4.5831	-0.0514
30 YR Treasury	4.7305	-0.0209

Pricing as of: 5/2 4:48PM EST



This pattern of momentum looks **eerily similar** to the time frame surrounding the sea-change seen last September. That said, last time we had a clearly-defined, singular market mover taking a toll on bonds. This time around, the motivation isn't nearly as overt, and it's not likely singular.

This week specifically, we can assume there are at least 2 fears in play. The first will get some level of resolution today as bonds digest the 10yr Treasury auction. While there's no guarantee of a big reaction here, any major departure from the recent average performance cam certainly shake things up. The **next big tipping point** arrives tomorrow morning in the form of the Consumer Price Index. While these events aren't on the same level as the tax bill in terms of lasting impacts on bonds, they find themselves in a position to push yields to new 6-year highs, and that would likely create technical momentum of its own. Bottom line: it's a good time to be extra cautious until after tomorrow morning's CPI data.

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