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A Message from Ted Rood:

"Great thoughts here by Matthew Graham on why bonds' bull market is over."

The Day Ahead: Where We Were, Where We Are, And Where We Might Be Going

2009-2013 was an **unprecedented** time for the US bond market. It benefited not only from the initial blast of the Great Recession and the sluggish recovery that followed, but also from the ongoing blast of Fed bond buying and ultra-low rate policy

During that time, economic data only ever mattered inasmuch as it affected the Fed's accommodation game plan. Even then, markets were 10 times more willing to trade the changes in the Fed's gameplan than they were the data itself. The 2013 taper tantrum is a great example (the data all but guaranteed a tapering announcement as of May 3rd, but markets didn't even begin to trade that notion until a May 10th Hilsenrath article suggested the Fed was getting ready to taper. And it **wasn't until Bernanke mentioned it** on May 22nd that things really heated up. Finally, the June 19th Fed announcement made all the previous selling look tame by comparison.

Point being, until the taper tantrum, there was basically **no end in sight** for low rates. Strong jobs reports didn't matter. Bond traders were getting while the getting was good. Even after tapering began at the end of 2013, 0% policy rates and European QE kept the low rate era intact.

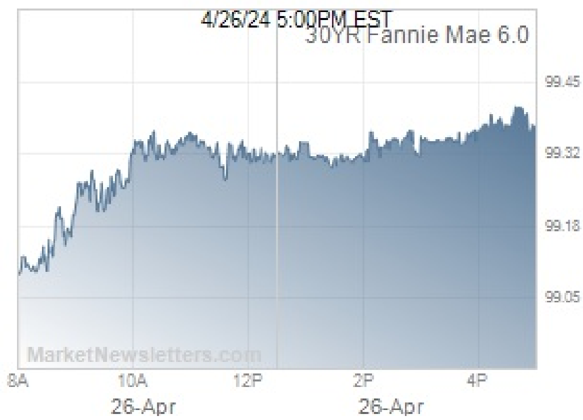
We can all plainly see that big changes were afoot for rates after Trump was elected. The Fed was already **well on its way** to removing accommodation, but Trump's revenue shortfall is creating more Treasury issuance (with more expected), thus adding to the upward pressure on rates. For their part, the Fed saw Trump's policies as **either** creating upside risks for growth/inflation, or for bringing about the next downturn more quickly. Either way, the solution was to redouble efforts to get their policy rate higher (either to counterbalance the growth/inflation impact of new policies or to have a rate that was high enough to cut if the next recession took shape).

With the removal of the word "accommodative" from the Fed policy statement as of 2 weeks ago, we've taken a symbolic step into a new era. We were actually entering that era **well before** last week, but now with a Fed Funds Rate of 3%+ not being hard to imagine in the next 6-9 months, it's a

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.37	+0.30
MBS GNMA 6.0	100.35	+0.27
10 YR Treasury	4.6645	-0.0394
30 YR Treasury	4.7739	-0.0400

Pricing as of: 4/26 5:05PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.45%	-0.07	0.00
15 Yr. Fixed	6.86%	-0.05	0.00
30 Yr. FHA	6.95%	-0.05	0.00
30 Yr. Jumbo	7.64%	-0.04	0.00
5/1 ARM	7.50%	-0.05	0.00
Freddie Mac			
30 Yr. Fixed	7.17%	-0.27	0.00
15 Yr. Fixed	6.44%	-0.32	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 4/26

new ball game. Actually, it's more of an old ball game!

Bottom line: the Fed has hiked enough that monetary policy can begin to be treated as it once was: something that must get more restrictive if inflation/growth accelerate, or get more accommodative if it looks like we're slipping back toward recession.

The implication is that **economic data matters!** Not all of it matters all the time, but when it matters, it's more noticeable and more immediate now. No longer can bond traders rest easy knowing the Fed is still x months away from thinking about tapering bond buying or beginning rate hikes. The removal of accommodation is in full swing, so every little report that speaks to the Fed's policy stance is fair game.

All that to say: reports like those seen at the beginning of September and October are **eye-openers**. Whereas the Fed (and traders, in general) weren't sure if the data would show some ill effects from tariffs, etc., they instead showed the strongest economy in more than a decade in many cases. The jobs report showed the 4th consecutive month of post-crisis record wage growth. It's a wake-up call for traders who, in turn, view the data as a wake-up call for the Fed. The thought is this: if the Fed needs to be worried about anything, it's that they're not removing accommodation quickly enough at this point.

The Fed's **only saving grace** is that, like many, they expect the economic strength we're seeing now is a temporary byproduct of the tax bill and the fact that many companies have pulled production/ordering forward due to tariff-related uncertainty. To whatever extent the next 3 months of econ data prove that economically bearish theory **wrong**, interest rates would be happy to move to 3.5% (10yr) or higher.

The upside to all of this recent rate drama (upside for rates, downside for economy) is that by juicing an already expanding economy, the Trump administration is likely **guaranteeing a bigger rate rally** and sharper, weirder recession than we otherwise would have seen. The hotter the economy runs in the present, the sooner the economic shift will show up. For those in the mortgage industry, again, it's all about endurance (and adaptation with respect to purchase vs refi efforts) between now and then.

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