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A Message from Ted Rood:

"More great info (as always) from Matthew Graham here!"

The Day Ahead: Fed Day, Bounce Day?

I'm going to talk about the potential for a friendly bounce in bonds today. I want to be clear right up front that I'm presenting this as one of two possibilities, and without any comment on which possibility is more likely. It's just that we've sort of beating the "rates are going higher" thing to death--at least for the time being. The possibility, threat, or perhaps even likelihood that rates can, will, or should go higher **isn't going anywhere**. It's something that should be part of your survival strategy for however many more months it continues to be the case (yes, I think we can count it's remaining lifespan in months, not years).

Our most recent trend toward higher rates has **coincided with a bounce in stocks**. Going back a few weeks before that, our most recent rally was also driven by stocks. That's not to say that bonds will always follow stocks, just that they have in October and early Nov. The only exception was the 2 trading days following the NFP report, which hurt **both** stocks and bonds.

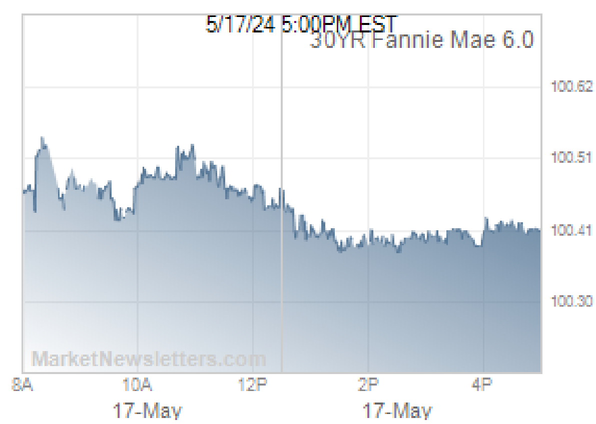
It continues to be the case that a bigger stock-driven rally in bonds would require much bigger stock losses than we saw in October. At this point in the economic cycle, such a stock sell-off would be fairly brief, most likely, but not impossible. The **other option** is that stocks could begin consolidating in a relatively sideways trend ahead of their next big move. When they did this in 2015, they didn't break their previous highs again for more than a year. That ended up being a great 12 months for bonds.

For now though, the earliest indication--the one that would keep hope alive for a stall in stocks, would be a ceiling bounce around current levels. That would coincide with a **ceiling bounce** in rates.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

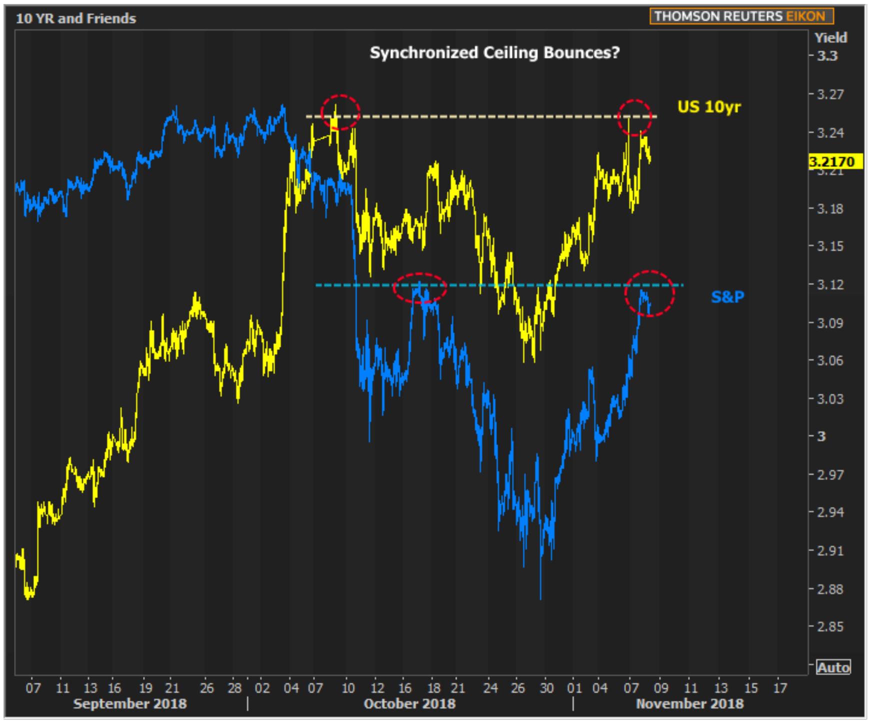
Pricing as of: 5/17 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/17



Even if stocks break the ceiling in the chart, there would be another potential ceiling at September's highs. But due to bonds' underperformance, that would be more likely to coincide with an **upwardly sloped ceiling** line for bonds. In other words, we'd be looking at something closer to 3.30-3.35% if stocks manage to recover that much (assuming, of course, that bonds continue to take cues from stocks).

As for the shortest-term considerations, today brings the **Fed Announcement**. We've talked about this quite a lot over the past few days and I don't have anything more to add. For those that need a recap, here are some bullets:

- The Fed will not hike today
- There is no press conference and no forecast release (I call these "off-the-run" meetings)
- The Fed says every meeting is a "live meeting" where they could make changes, but they've consistently shied away from doing so at these off-the-run meetings.
- The last off-the run meeting didn't see any interesting changes to the statement's verbiage
- There's a greater possibility of changed verbiage this time, but it remains to be seen whether that would elicit a market reaction

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I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood