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A Message from Ted Rood:

"Great info here from Matthew Graham on the relationship between stocks and bonds."

The Day Ahead: We're Back to Watching Stocks in 2019 (For Now)

The massive stock selling in Q3 2018 was clearly a big deal for bonds. As soon as the first wave of selling hit in stocks, bonds engaged what we refer to as "the stock lever"--shorthand for the quintessential (and often mistaken) belief that stock prices and bond yields move up and down together. The stock lever is **bogus** if you think of it as a hard and fast rule (many people do, and they're wrong).

But the stock lever is **very real** if you can appreciate that its relevance comes and goes depending on other factors. In other words, sometimes the stock lever is engaged. Other times, it's not worth mentioning.

The QE era largely made the stock lever **obsolete** because stocks and bonds were able to make gains to their best levels ever--more or less simultaneously. Hey, that's what happens when global central banks are simultaneously pumping hundreds of billions of dollars a month into the system!

As QE has leveled-off and even begins to unwind, and as market anxiety reaches extreme levels with respect to calling the next recession, the stock lever has experienced a **renaissance**. This became most apparent starting in October, but even then, the correlation varied at times, based on a few key events.

The **first key event** was the late November Powell speech where he said the Fed was getting close to neutral. Bonds liked that and so did stocks--at least for a few days. In any event, it made for the first divergence in months. (in the following charts, keep in mind that the y-axes are scaled differently on each chart, so as to highlight the directional correlation, and to capture the entirety of the market movement for the given timeframe. Let me know if this doesn't make sense and I'll show how it works in the next MBS Live Huddle video).

MBS & Treasury Market Data

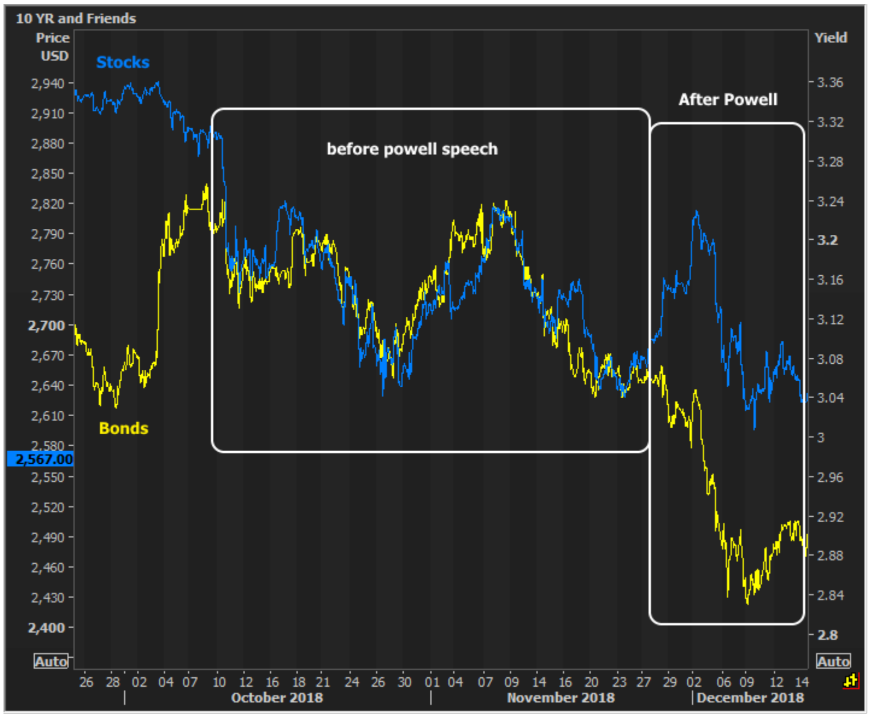
	Price / Yield	Change
MBS UMBS 6.0	99.78	+0.32
MBS GNMA 6.0	100.74	+0.26
10 YR Treasury	4.5795	-0.0550
30 YR Treasury	4.7290	-0.0224

Pricing as of: 5/2 5:04PM EST

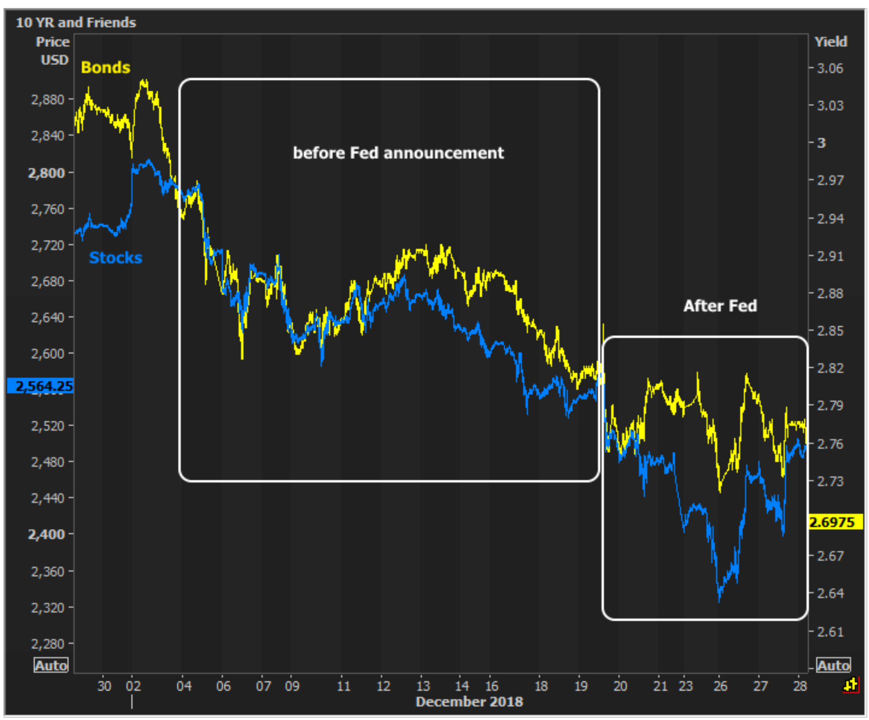
Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.37%	-0.04	0.00
15 Yr. Fixed	6.82%	-0.02	0.00
30 Yr. FHA	6.82%	-0.06	0.00
30 Yr. Jumbo	7.55%	-0.05	0.00
5/1 ARM	7.42%	-0.08	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	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

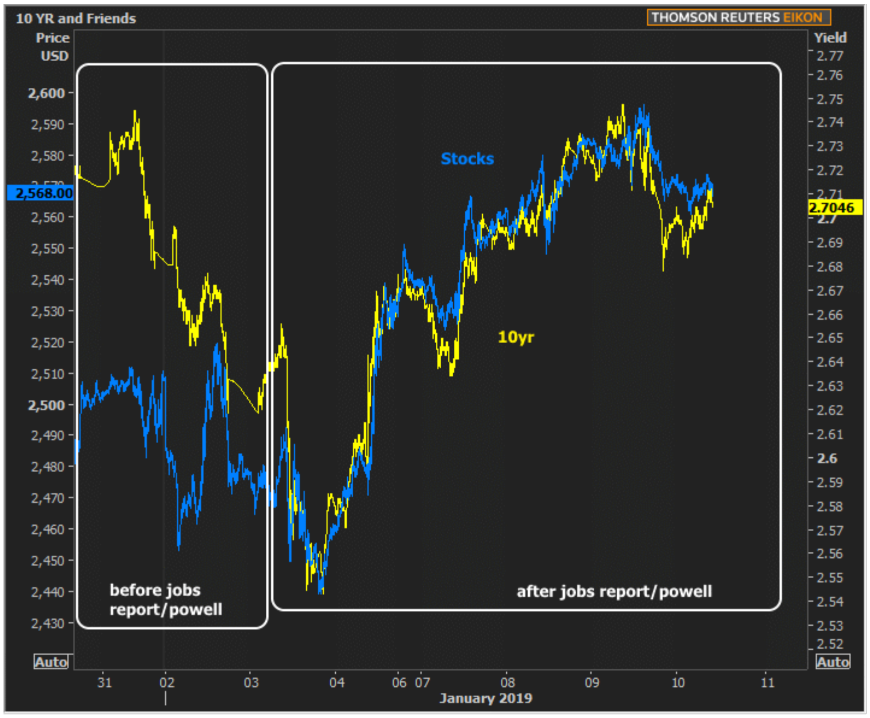
Rates as of: 5/2



Stocks quickly came to their depressing senses and resumed their downtrade. During this time, they **reconnected** with bonds, and arguably motivated additional bond gains ahead of the December Fed Announcement. The Announcement was taken to be a bit less friendly than expected, thus stock losses through the rest of that week. In general though, it was a non-event for bonds (sideways through December) and a disappointment for stocks (lower through December).



The **next flashpoint** was the early January jobs report combined with Powell's soothing speech on the same day. This pushed bond yields and stocks noticeably higher. Ever since then, the stock lever has been firmly reconnected.



Long story short, if stocks can't find the motivation to break back above 2600 in the S&P, bonds won't be feeling much pressure to break back above their important 2.82% pivot in 10yr yields. There's no major economic data on tap today to inform that. Tomorrow's CPI report has a chance to speak to bonds, but not as much to stocks. The biggest consideration for stocks may be the **small but quick reaction** that would come to any compromise announcement on the shutdown. In that case, we'd expect a quick burst of stock buying and bond market losses. It would be important and telling to see how far that move goes before running into resistance. If stocks remained locked under the post-December-Fed-Announcement range, bonds likely would as well.

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Responsive service, experienced expertise

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.

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