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The Day Ahead: Bonds Break One Ceiling, But The Next One is More Important

Ever since bottoming out in early 2019, 10yr Treasury yields faced a pretty clear line in the sand from a technical standpoint. 2.82% stuck out like a sore thumb overhead due to multiple instances where it acted as a floor in 2018. It may have seemed too far away to worry about 3 weeks ago, but with 2.75% being broken yesterday/today, 2.82% is next in line.

Would a break above 2.82% be the **end of the world** for bonds? Not necessarily. In fact, in the biggest of pictures, as long as yields don't break above 3.26%, the longer-term outlook could remain positive. It would just be getting off to a rockier start compared to a scenario where yields are instead able to hold fairly steady in the 2.75-2.82 range until finding a reason to rally.

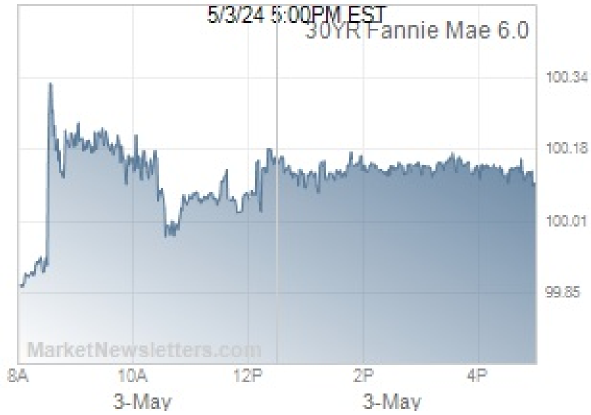
Either way, the longer-term outlook will depend on bonds finding that reason to rally. The list of **potential motivations** is fairly **short**:

1. Massive stock sell-off
2. Recession (with or without massive stock sell-off)
3. Some external eventuality (global economic weakness, for example) that precipitates #1 or #2 above

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.09	+0.31
MBS GNMA 6.0	101.03	+0.29
10 YR Treasury	4.5138	-0.0657
30 YR Treasury	4.6711	-0.0579

Pricing as of: 5/3 5:04PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	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: 5/3

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In the short term, risks look a bit **lopsided** for bonds. Traders assume that a government shutdown resolution will make for a bit of extra weakness. As we saw yesterday, any softening in tariffs or a tough trade stance would also likely hurt bonds and help stocks.

Long-story short, this is the **New Year correction** that it looked like we might not have to worry about back on January 3rd, when the new year was getting off to a great start for bonds. It just got started a few days late and has been muted by shutdown-related uncertainty. Without the shutdown, we'd likely be breaking that 2.82% ceiling today instead of 2.75%.

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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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