

THE FEDERAL SAVINGS BANK

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The Day Ahead: As Treasuries Consolidate, MBS Have Been Outperforming

One of the best side effects of the recent consolidation has been the outperformance of MBS vs Treasuries. We often talk about the fact that MBS like **stability** and **predictability**. Conversely, they tend to underperform when the broader bond market is making a big move into levels that haven't been seen in a while.

That last bit is an important point of distinction. I'm **NOT** saying MBS don't like big moves--just the big moves away from the prevailing trading range. The following chart shows all of this in action. The candlesticks are 10yr Treasuries and the blue line is the spread between Treasury yields and MBS yields (higher = weaker MBS). Notice that MBS were at their weakest versus Treasuries in mid-2016, and again in Nov 2018. These happened to be the two most recent **extremes** in 10yr yields (all time lows and 7-yr highs).



As Treasuries have backed away from those 7-year highs, MBS performance has recovered. This is a **very good sign** in a world where the Fed is no longer reinvesting anything into the MBS market. It means we've finally reached a point where there's enough demand for mortgage debt that the Fed doesn't have to continually serve as the biggest buyer.

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	4.6259	-0.0386
30 YR Treasury	4.7383	-0.0356

Pricing as of: 4/29 7:12AM 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

Why did that take so long? Simply because the Fed was still reinvesting MBS proceeds back into new MBS purchases until October 2018. Many in the secondary market were watching spreads to see if they would eclipse 2016's highs. The nice "double top" is what's reassuring.

The immediately tangible implication for the industry is that rates are more than an eighth of a point lower compared to Treasuries. While there's no compelling reason to **expect** spreads to thunder back down to late 2017 levels, the **reinforcement** of the ceiling is most important. The more regularity lenders see in MBS valuations, the better equipped they are to pass along the gains on rate sheets.

As for today's specific events, the only bigger-ticket event will be the 10yr Treasury auction at 1pm. This will be the lowest yielding auction in a year and thus **another good test** of bond trader sentiment with respect to the current range.

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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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