MONEY HOUSE

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A Counterpoint For Recent Move Higher in Bond Yields

The yield on the 10-year Treasury note hit its **highest** level in a little over month in Friday trading.

But some strategists say bond yields edging up is **not** an indication that economic growth is picking up substantially.

"The bond market has largely been telling us, 'growth is **mediocre** at best,' and the stock market has been saying, 'buckle up, it's going to be great.' And it's a little bit hard to imagine a scenario in which both those things are true," said Max Wolff, market strategist at 55 Institutional, Thursday on CNBC's "Power Lunch."

As bond yields have fallen this year, equities have continued climbing to new heights; Wolff concluded: "The bond market and the stock market sort of don't seem like they see the same world. And it doesn't necessarily mean which one is **right** and which one is **wrong** — but they can't both be right," and said at this juncture the bond market is likely "telling a **reasonable** story here" though he doesn't see any huge disaster looming on the horizon.

Wolff added that "radical tax reform, rationalization of all kinds of regulatory environment issues ... they might have sounded really good but they are aging relatively poorly as a promise."

The yield on the 10-year Treasury note hovered just above 2.28 percent on Friday, and began the year just above 2.4 percent. The price of the note has risen, as bond yields and prices move inversely.

Bond yields around the world, **particularly in the euro zone**, have risen this week as central banks have appeared increasingly **hawkish** in their rhetoric, pointing to hints of inflation. In early Friday trading the German 10-year bund was set to have its biggest weekly jump since late 2015. French and Italian 10-year bond yields on Friday both touched new multiweek highs.

Bond yields will likely **creep lower** this year, said Sam Rines, senior economist and portfolio strategist at Avalon Advisors. Rines wrote in an email to CNBC that he expects the U.S. 10-year yield to fall to 2.25 percent, assuming tax reform will come next year. Should tax reform yield a "disappointing outcome," he wrote, "I will be ratcheting that forecast lower."

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.82	+0.01
10 YR Treasury	4.9063	-0.0236
30 YR Treasury	5.2730	-0.0352

Pricing as of: 11/2 8:50AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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At the same time, Rines said, it appears two forces are working **opposite** one another when it comes to bond yields — tax reform and weak inflation.

Fed Chair Janet Yellen "has **admitted** that inflation pressures would be tepid, but stated that the forces holding inflation lower were transitory. Tax reform could change this by boosting growth and therefore inflation. With most analysts pushing this to 2018, inflation is not expected to materialize in the near term," he wrote, adding that since inflation is of one of the primary drivers of the longer-term yield, he would hesitate in becoming too bearish.

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