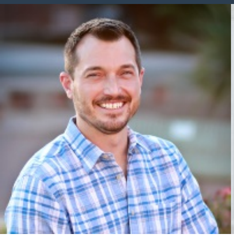


The Arizona Loan Baron
Timothy Baron, VP � Senior Loan Officer � Loan Baron, V.I.P. Mortgage, Inc.
Timothy Baron NMLS #184671 V.I.P. Mortgage, Inc. does
6390 E Tanque Verde Rd. Suite #200 Tucson, AZ 85715

Office: 520-275-5956
Mobile: 520-275-5956
timothybaron@vipmtginc.com
View My Website

The Day Ahead: Comparing Post-Election Weakness to Taper Tantrum

"Taper tantrum" refers to the market's reaction to the revelation that the Fed would begin reducing the pace of its asset purchases in mid-2013. For most of us, that's as bad as it gets for bond markets. Even for those who lived through the brutal weeks in April 1987, the worst 3 days of the taper tantrum represented a **more abrupt change** in yields in terms of the percentage of gains erased compared to the worst 3 days in 1987.

It's scary to consider, then, that the past 3 days (Wed, Thu, and today) have actually seen a **bigger** intraday yield spike than the **worst 3 days** of the taper tantrum! Caveats abound, however. The following chart breaks them down.

First off, the "worse than taper tantrum" designation for the past 3 days relies on the use of **"intraday"** weakness, simply because we don't have a closing value for today yet. If we were to close at levels in place this morning, the 2013 taper-tantrum would keep its title as the king of weakness.

Then there's the matter of the surrounding trading. In the run-up to the taper tantrum, there was significantly stronger momentum initially compared to unevent, slightly weaker momentum in 2016 (red dotted-line boxes). Moreover, the 2nd phase of the respective moves saw a **massive shift** toward weaker momentum during the taper tantrum WELL before the 3 days in question. By comparison, the 2016 momentum shift is much less consistent.

MBS & Treasury Market Data

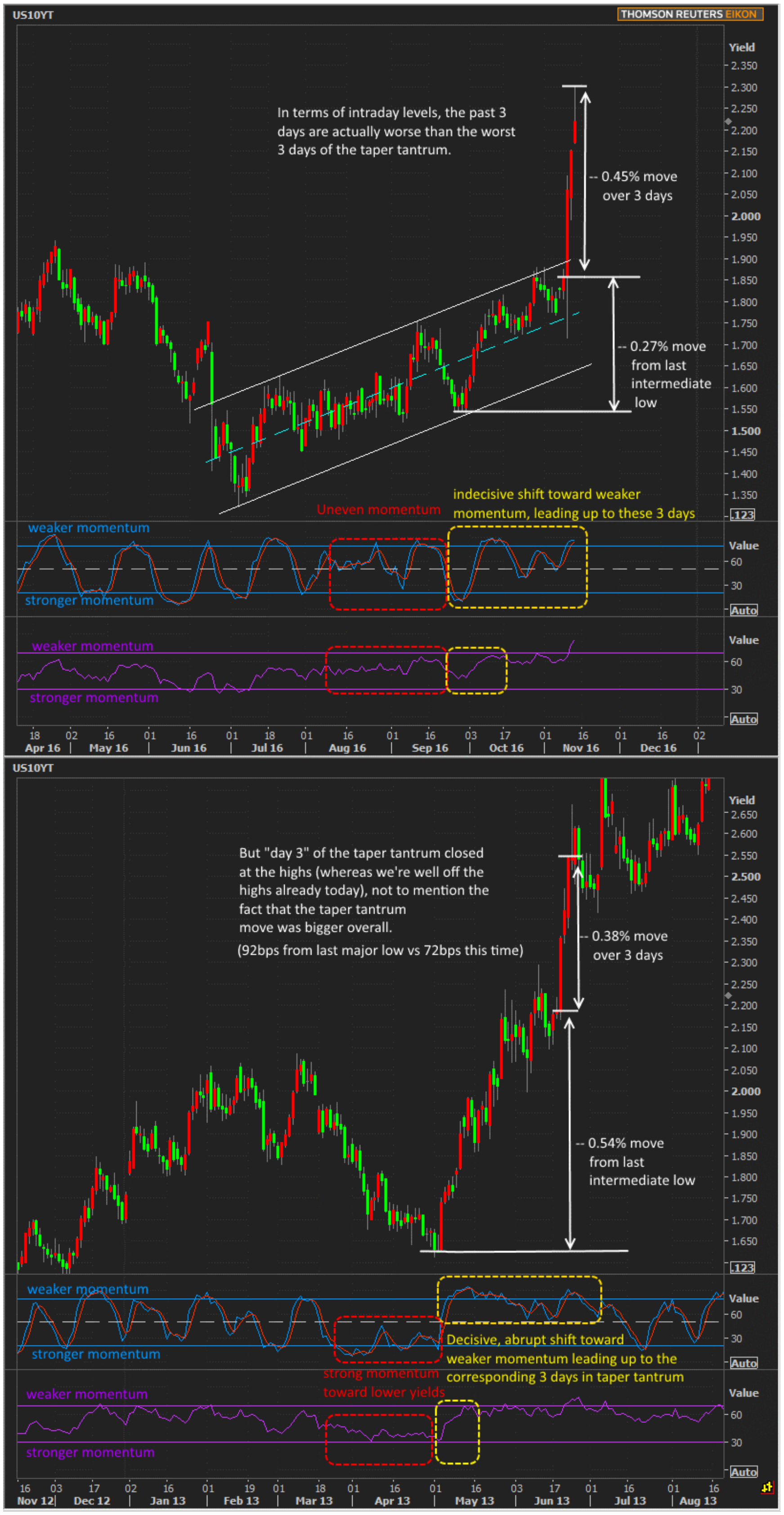
	Price / Yield	Change
MBS UMBS 6.0	100.09	+0.31
MBS GNMA 6.0	101.03	+0.29
10 YR Treasury	4.5138	-0.0657
30 YR Treasury	4.6711	-0.0579

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


US10YT
THOMSON REUTERS EIKON
In terms of intraday levels, the past 3 days are actually worse than the worst 3 days of the taper tantrum.
-- 0.45% move over 3 days
-- 0.27% move from last intermediate low
Uneven momentum
indecisive shift toward weaker momentum, leading up to these 3 days
weaker momentum
stronger momentum
weaker momentum
stronger momentum
US10YT
But "day 3" of the taper tantrum closed at the highs (whereas we're well off the highs already today), not to mention the fact that the taper tantrum move was bigger overall.
(92bps from last major low vs 72bps this time)
-- 0.38% move over 3 days
-- 0.54% move from last intermediate low
weaker momentum
stronger momentum
Decisive, abrupt shift toward weaker momentum leading up to the corresponding 3 days in taper tantrum
strong momentum toward lower yields
weaker momentum
stronger momentum

Simply put, 2013 was the **ultimate sucker punch**. Markets were set up with a false sense of positivity by the end of April 2013, and everything was abruptly ripped away, seemingly without warning. In stark contrast, the past 3 days of weakness lie at the tail end of more than 4 months of solid uptrend in rates. Indeed, "defense against the uptrend" was already the most appropriate strategic stance from a market-watching standpoint.

Bottom line, the past 3 days have technically covered more ground from trough to peak than the worst 3 days of the taper tantrum, but the taper tantrum remains a **far more insidious** move overall. Only time will tell if the subsequent weeks will make this a closer comparison. 10yr yields would have to hit 2.5%, or thereabouts, before any legitimate case could be made that 2016 is in the same league.

All that having been said, the current move has **nonetheless been awful**. The fact that we can even begin to compare it to the taper tantrum puts it in a league of extraordinary sell-offs that have rarely been seen in modern bond market history. It's worth noting, however, that most of those extraordinary sell-offs were precipitated by the recent juxtaposition of long-term or all-time low yields.

Subscribe to my newsletter online at: http://mortgagenewsletter.net/timothybaron

The Arizona Loan Baron

The Arizona Loan Baron is at your service!

I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me the opportunity to be your mortgage lending partner.

The Arizona Loan Baron