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MBS Recap: Trouble in Paradise or Overreaction to Fed-Speak?

Way back in 2014, Yellen gave her inaugural semi-annual congressional testimony on March 19th. When asked what the Fed meant by "considerable time" when referring to how long it would be before they hiked rates, Yellen did something fairly **un-Bernanke-like** and actually threw out a number. She was pretty timid about it, but it was out there, nonetheless (it was '6 months,' by the way). Bonds sold-off sharply after that comment.

Today it was **Powell's turn** for an inaugural congressional dog and pony show--which consists mostly of political grandstanding with members of congress invoking all things holy in order to compel the Fed Chair to promise to change things that have nothing to do with the Fed. There's really very little of substance exchanged when it comes to monetary policy discourse, but there is some...

Powell was remarkably composed, logical, and Yellen-like. He really didn't throw any major curve balls. And he did a great job of defusing the holy hand grenades lobbed at him rather incessantly. But much like Yellen with her overly candid remark about the pace of rate hikes--Powell was **similarly candid** in saying that his assessment of the economy had strengthened since December.

Granted, this **might not seem like much**, but to many market participants, it hints at a modestly higher risk of 4 Fed rate hikes this year instead of 3 (the prevailing view). This was an easy-to-spot defining moment of the day for bond markets and even for stocks to a lesser extent. Both sides of the market tend to pout when a Fed Chair suggests any negative changes to the status of the proverbial punch bowl.

Within 15 minutes of the remark, a fairly flat bond market had given up more than 6bps in terms of 10yr yields (2.925%) and half a point in MBS. Was this a bit of an overreaction? Sure, but that's what markets do when feeling out a new Fed chief. More than half of the losses remained intact by the close, thus casting doubt on the fledgling consolidation that had been taking shape over the past 3 business days.

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MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.48	-0.17
MBS GNMA 5.5	99.95	-0.15
10 YR Treasury	4.2008	+0.0128
30 YR Treasury	4.3436	-0.0054

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