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# Fixed Income Market Trends & Relevance for Mortgage Rates

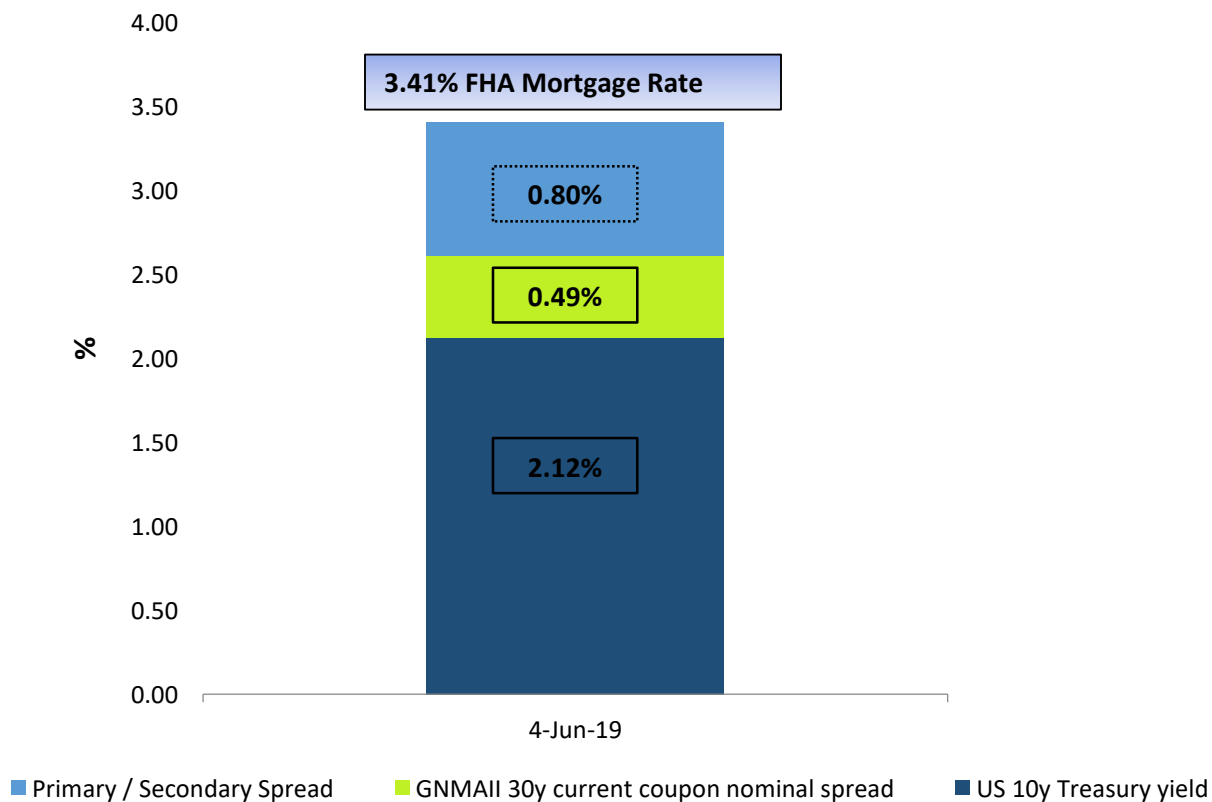
Speaker:

- Jay Ladieu



# GINNIE 2020

# Fixed Income Markets & Mortgages Rates

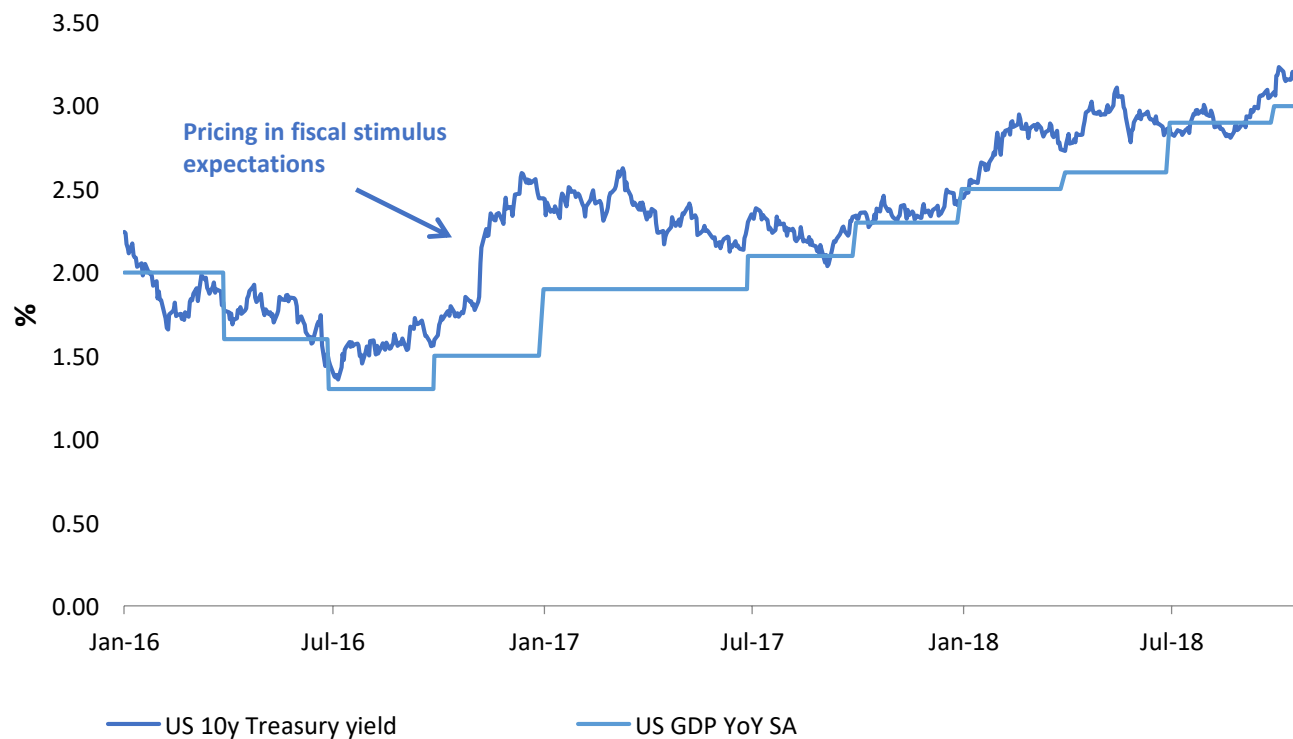


Source: SSGA, J.P. Morgan DataQuery and Bloomberg Finance, L.P., data as of June 4, 2019.

There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

# Treasury Market 2016-2018

## 10y Treasury Yields Moving Higher with Growth



Source: SSGA, Bloomberg Finance, L.P., data as of November 19, 2018.

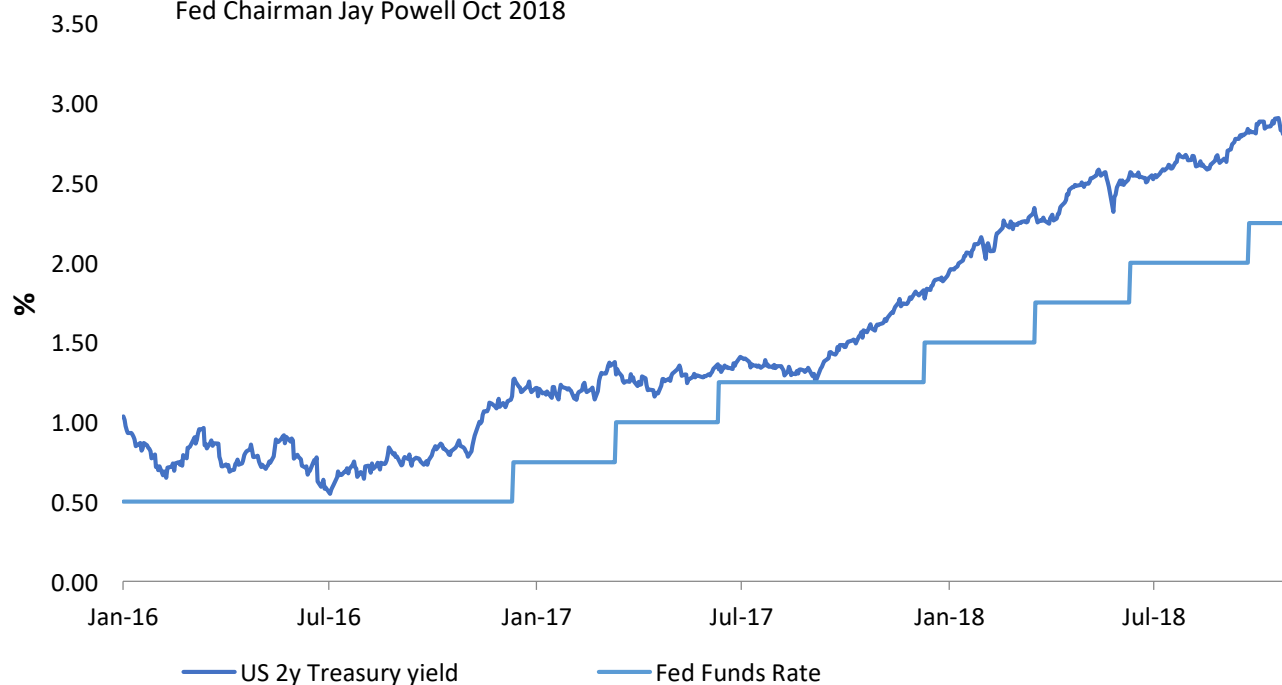
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# Treasury Market 2016-2018

## 2y Treasury Yields Moving Higher with Tighter Monetary Policy

*"A long way from getting rates to neutral...The Fed's ultra-accommodative policy to bring the economy out of the Great Recession is no longer needed"*

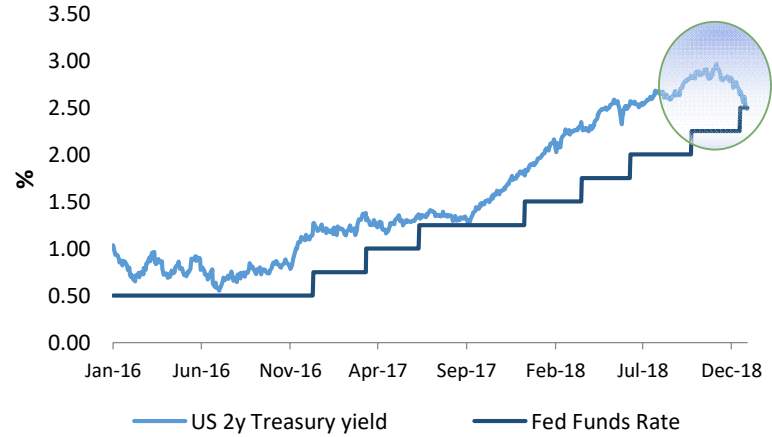
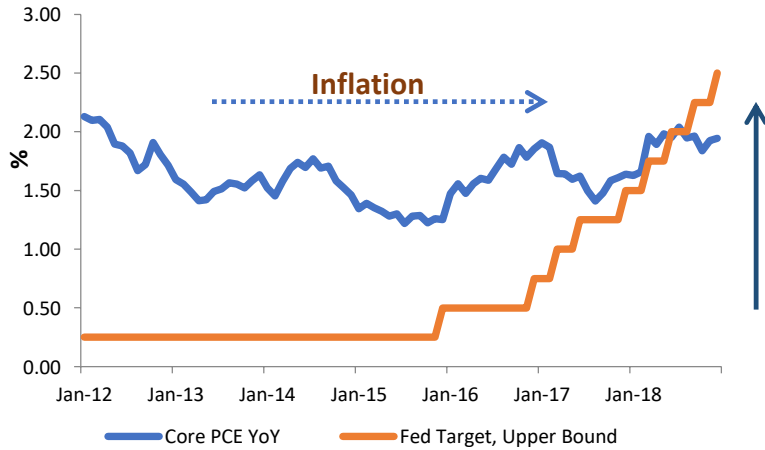
Fed Chairman Jay Powell Oct 2018



Source: SSGA, Bloomberg Finance, L.P., data as of November 19, 2018.

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# Market Questions Fed Policy Mistake?



Source: SSGA, Bloomberg Finance, L.P., data as of December 31, 2018.

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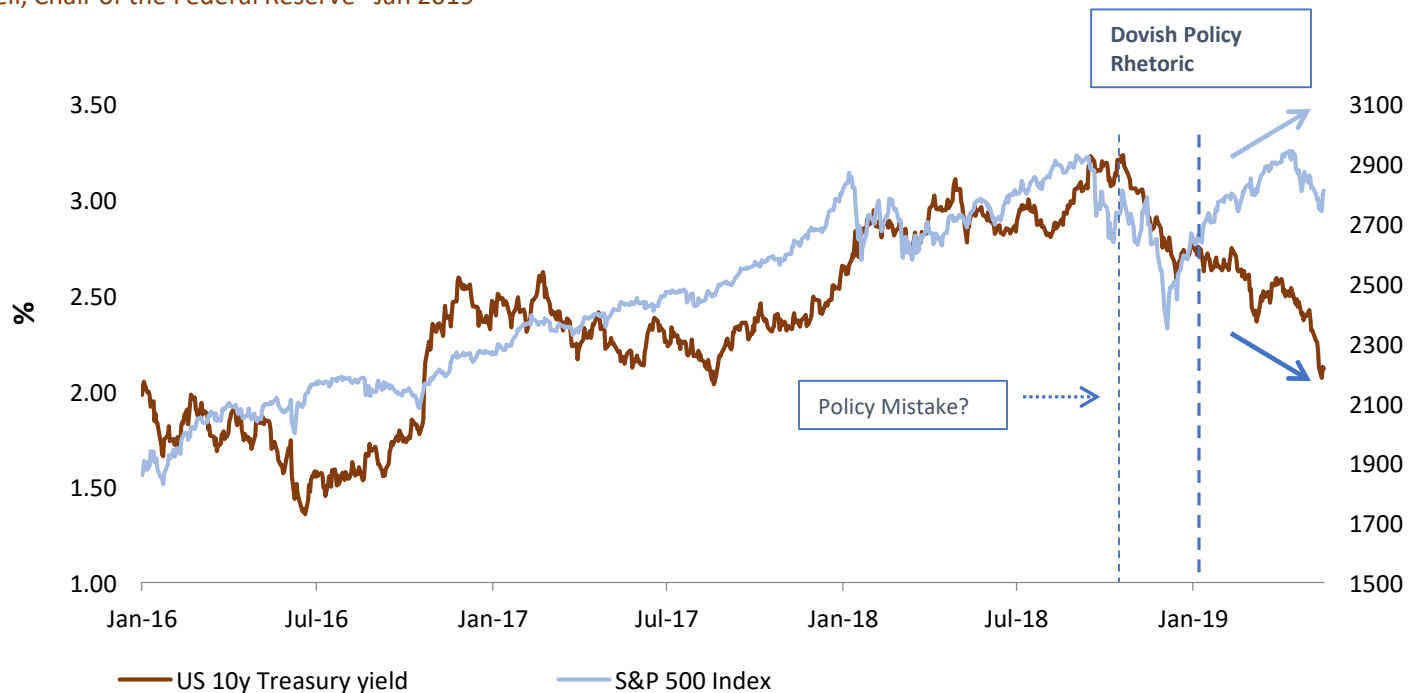
# Fed Pivots Dovish

*"I am concerned we are on the precipice of a policy mistake. We are good where we stand right now..."*

James Bullard, St Louis Fed Res Bank President Jan 2019

*"Especially with inflation low and under control, we have the ability to be patient"*

Jay Powell, Chair of the Federal Reserve Jan 2019



Source: SSGA, Bloomberg Finance, L.P., data as of June 5, 2019.

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# 2019 U.S. Market Outlook

## Economy

Growing at a slower rate

Limited upside to inflation

Fiscal stimulus fading

## Event Risk

Trade Tensions & Tariffs

Brexit

Late cycle credit concerns

## Monetary Policy

Dovish Pivot

Wait and see approach

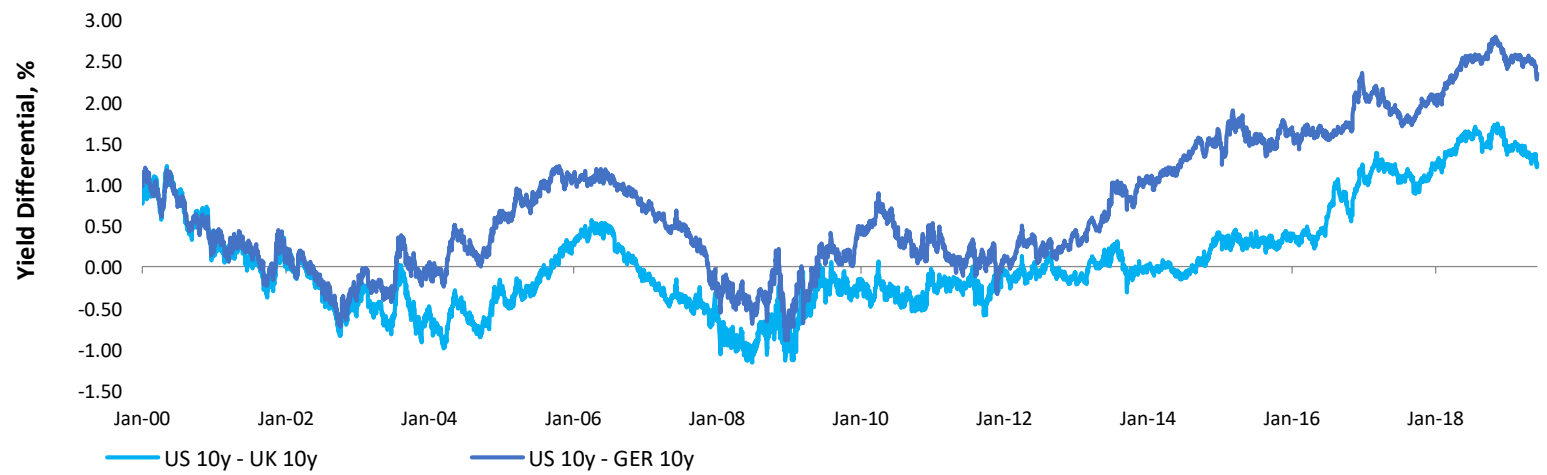
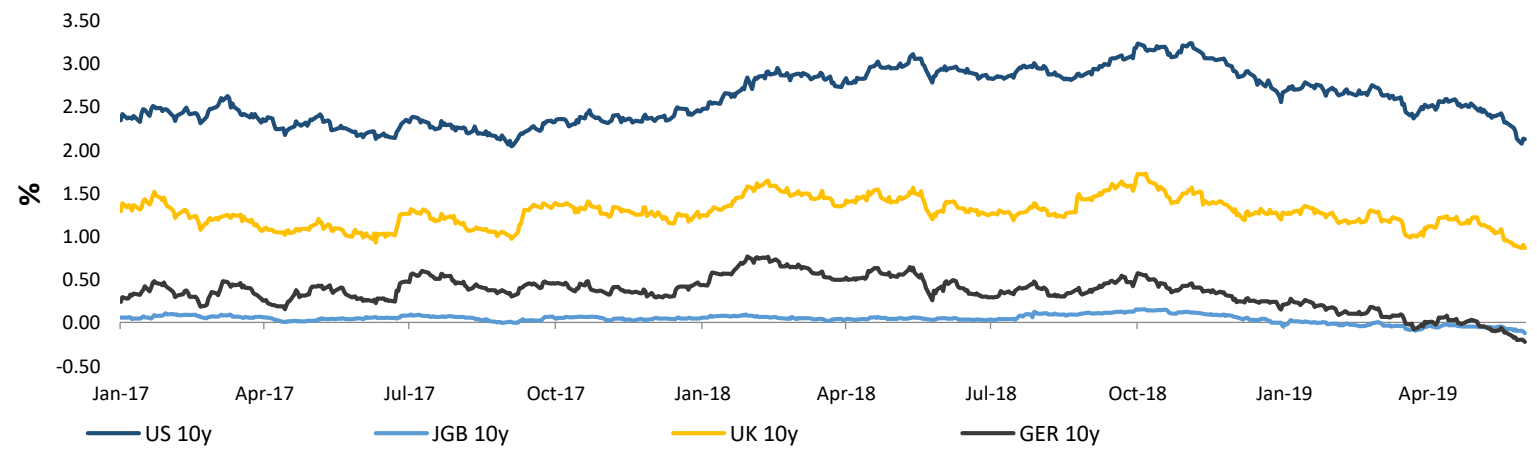
Sustain the expansion

Fundamentals are not indicative of a recession, but does the market agree?

Negative sentiment, does behavioural feedback loop increase downside risk?

Is the neutral rate lower implying current policy is restrictive?

# Global Growth Concerns

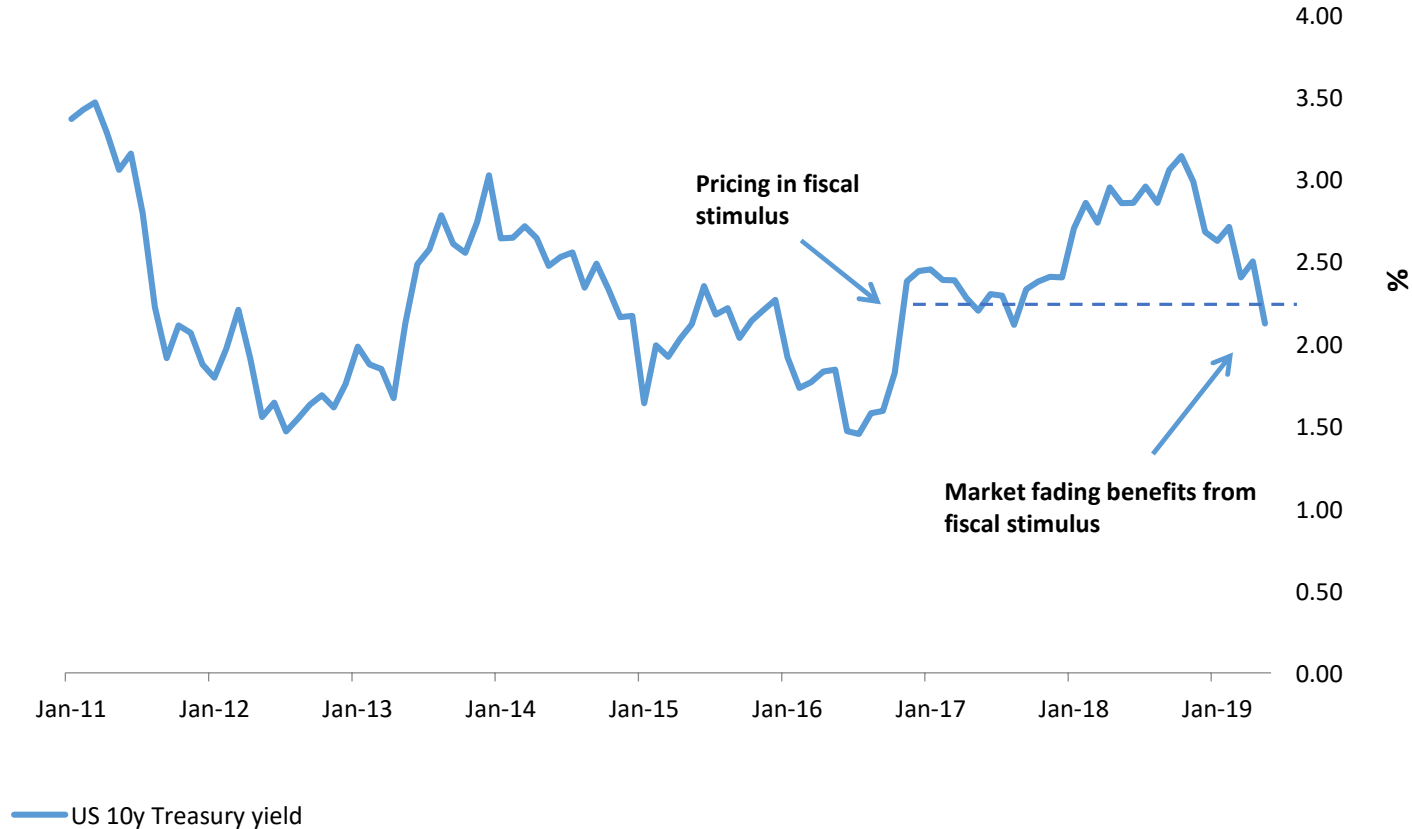


Source: SSGA, Bloomberg Finance, L.P., data as of June 5, 2019.

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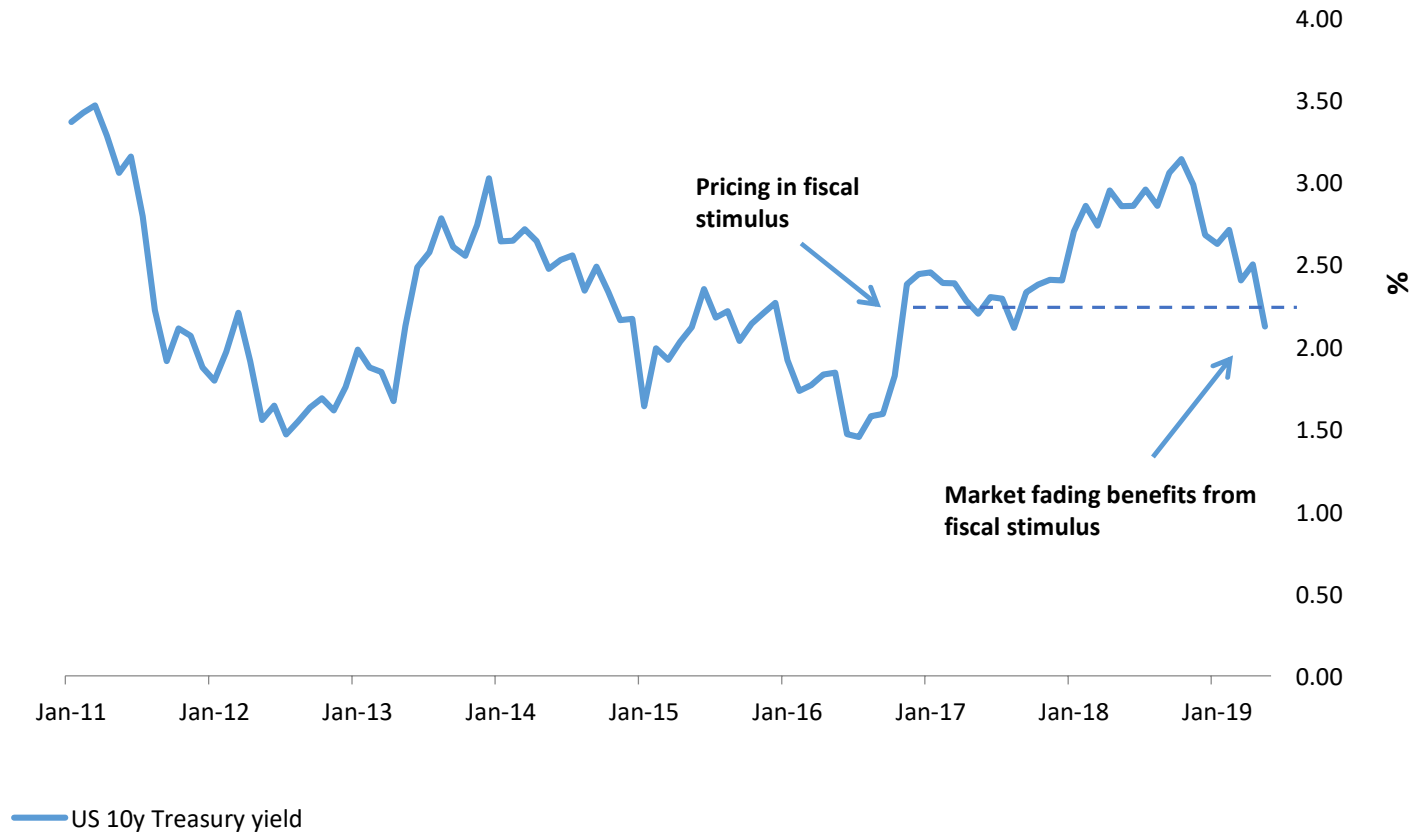
# Fading Fiscal Impulse



Source: SSGA, Bloomberg Finance, L.P., data as of June 5, 2019.

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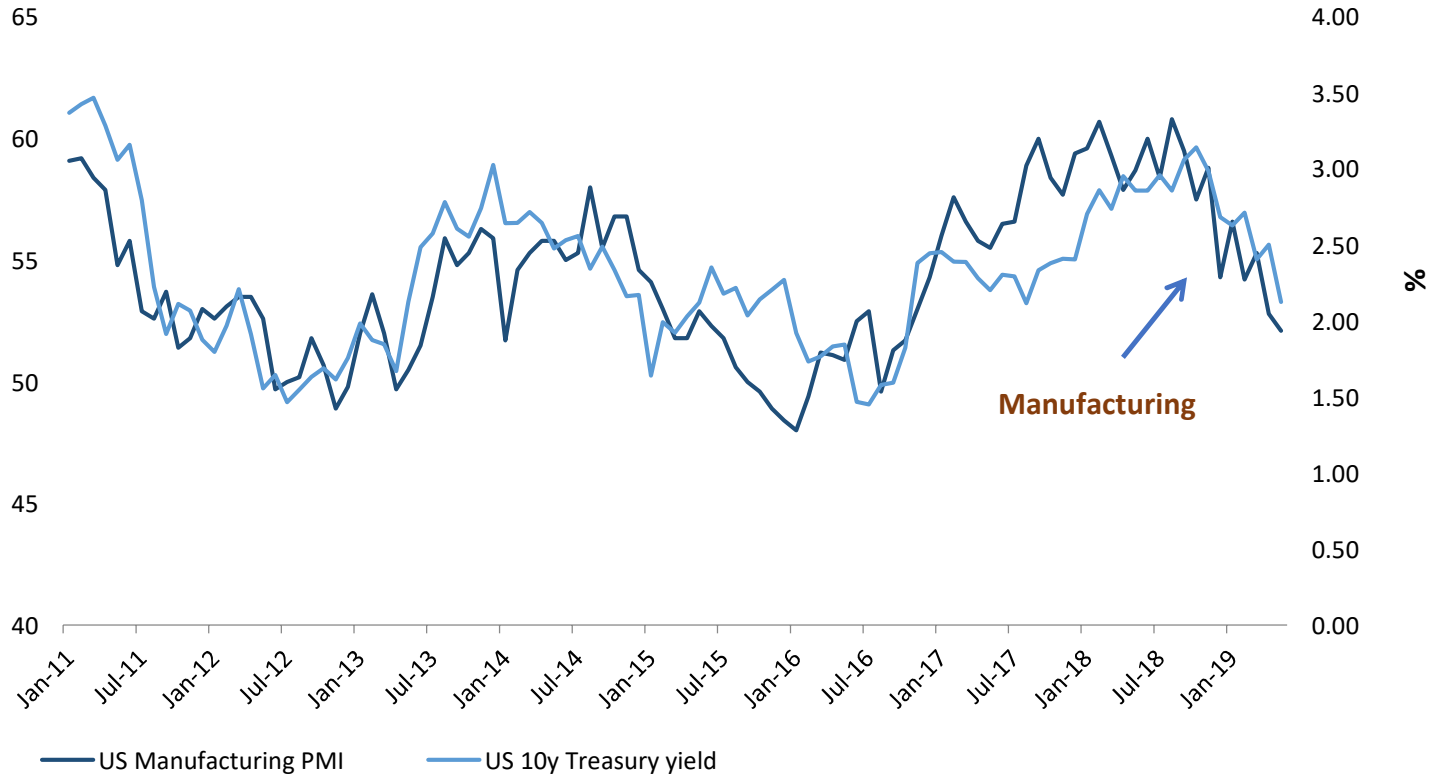
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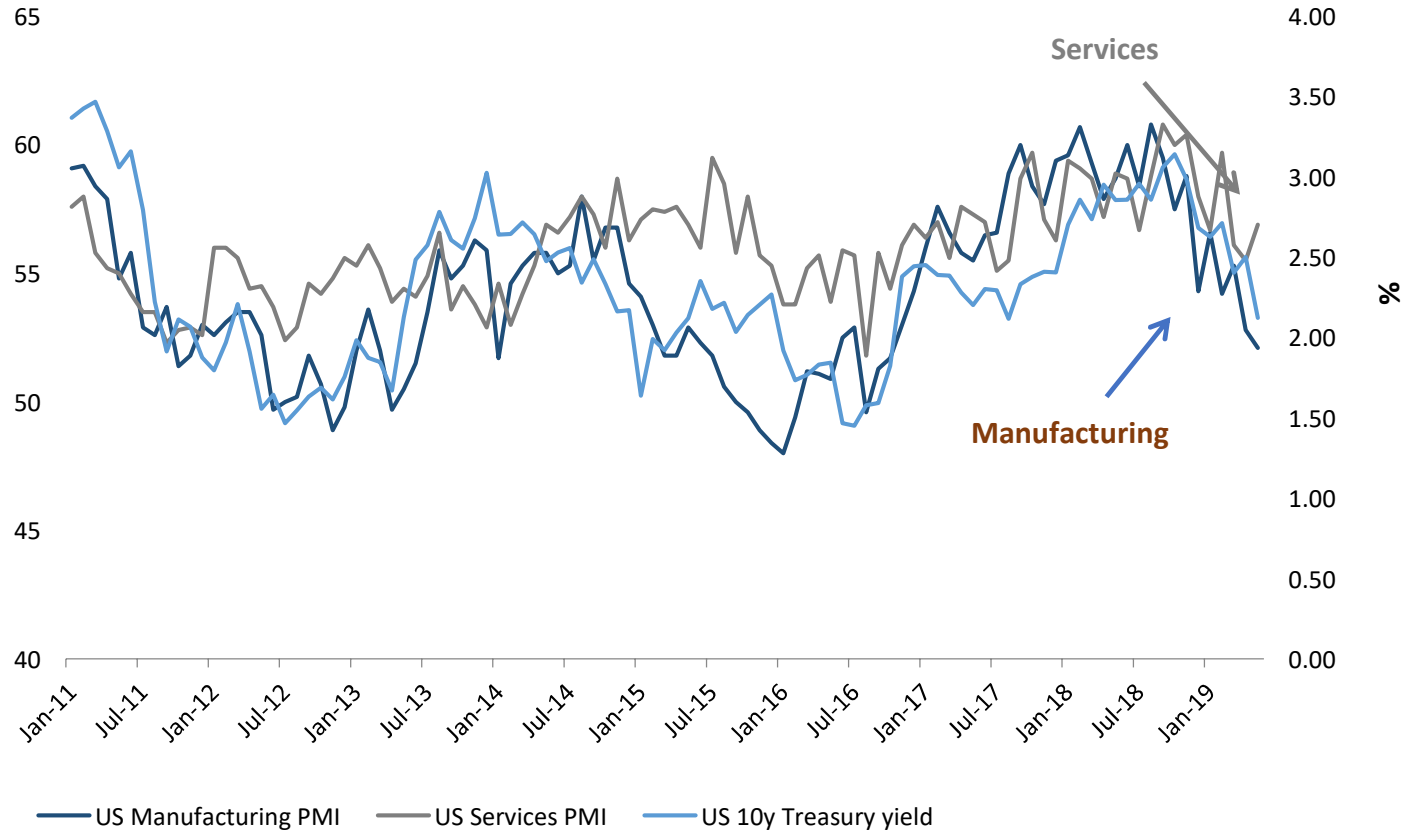
# Lower Yields Justified by Fundamentals?



Source: SSGA, Bloomberg Finance, L.P., data as of June 5, 2019.

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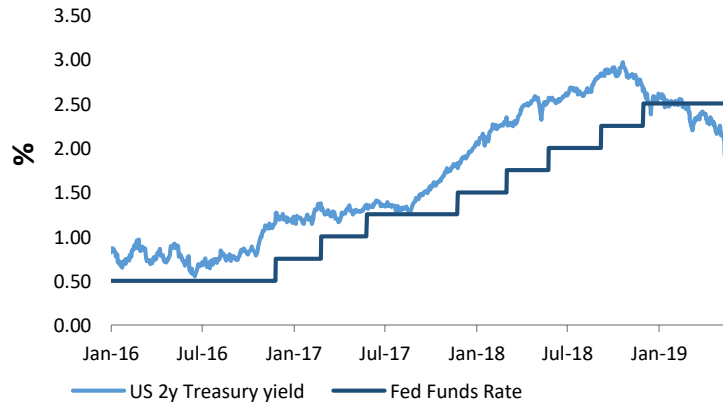


Source: SSGA, Bloomberg Finance, L.P., data as of June 5, 2019.

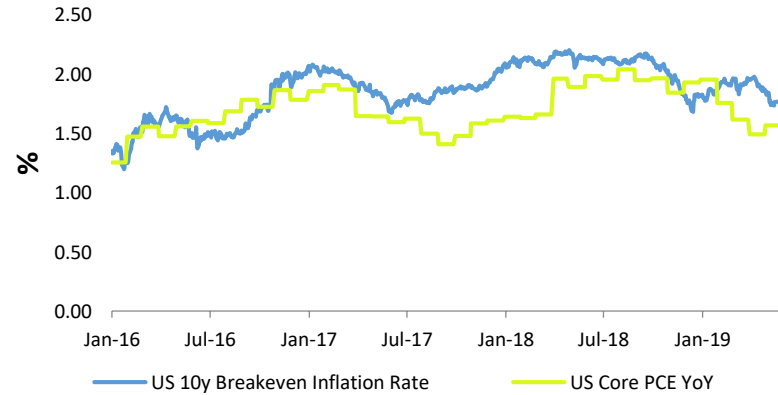
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# Market Uncertainty

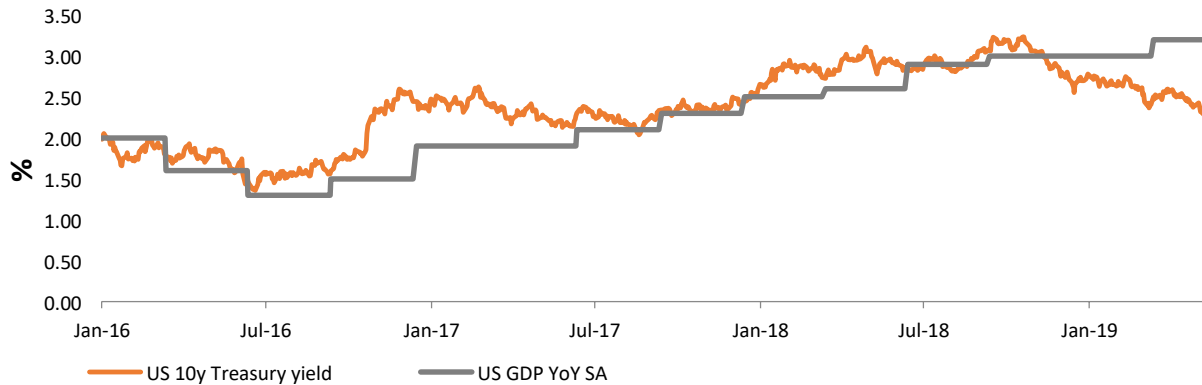
## Market pricing 2-3 rate cuts by 2020



## Inflation & Inflation Expectations Remain Depressed



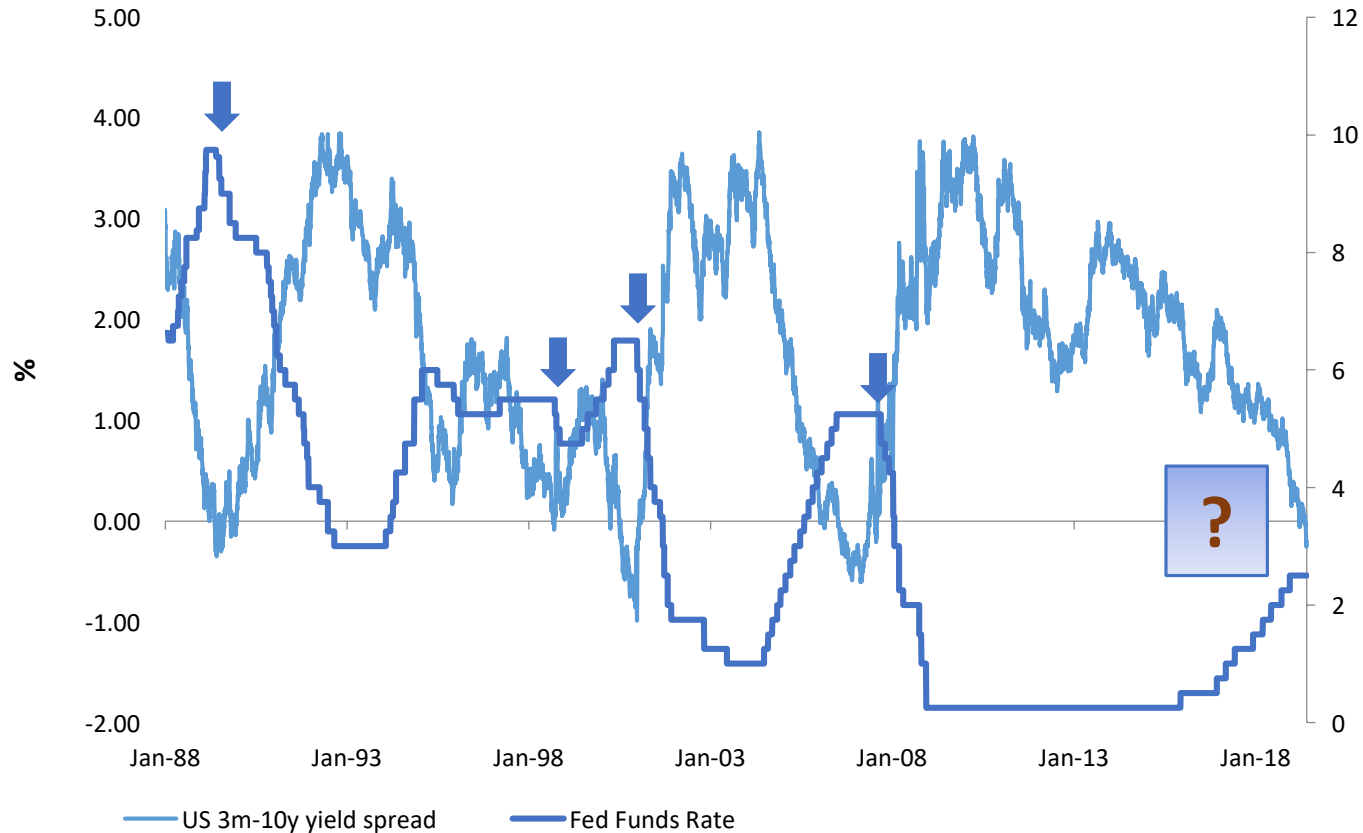
## Growth Concerns



Source: SSGA, Bloomberg Finance, L.P., data as of June 5, 2019.

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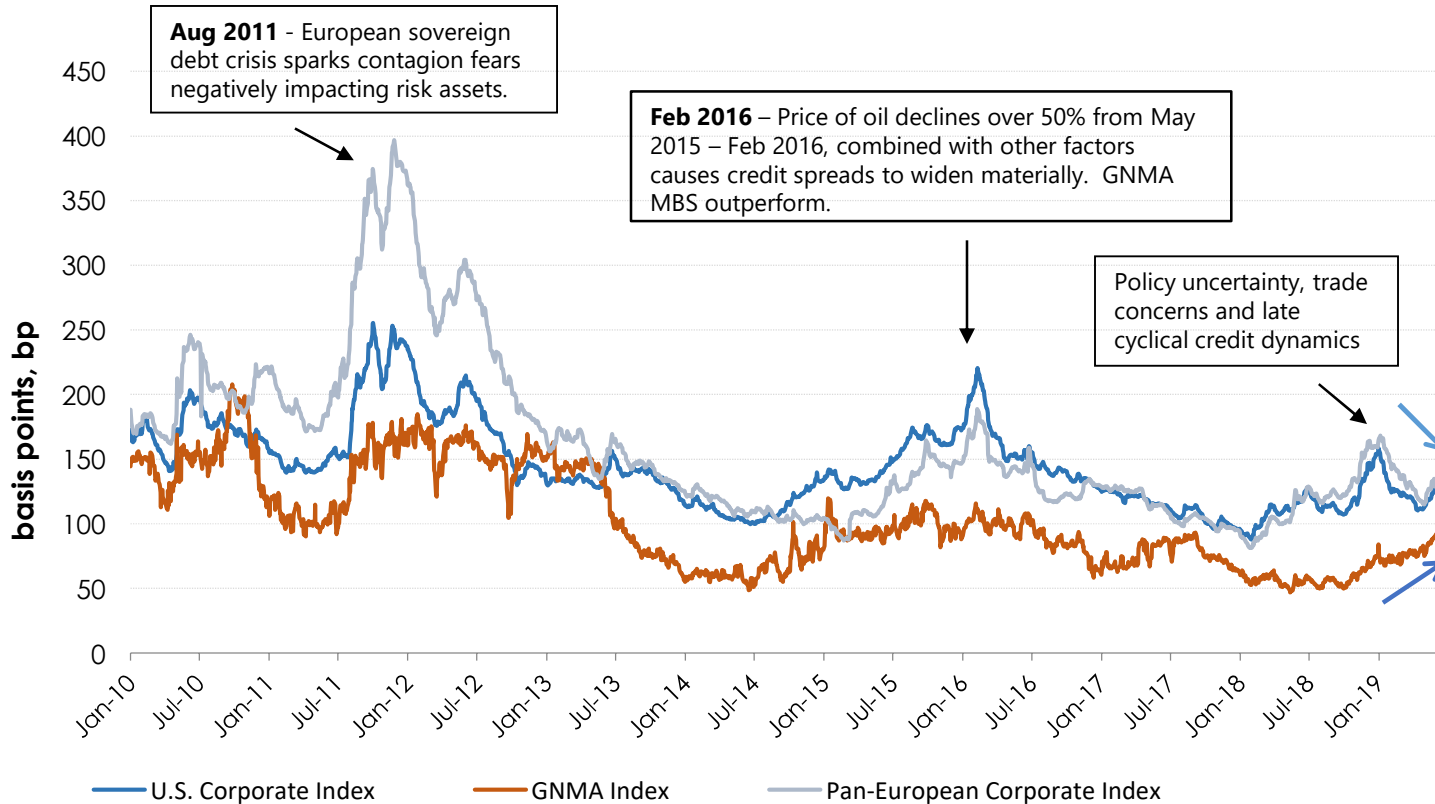
# Recession Indicator and Rate Cuts?



Source: SSGA, Bloomberg Finance, L.P., data as of June 5, 2019.

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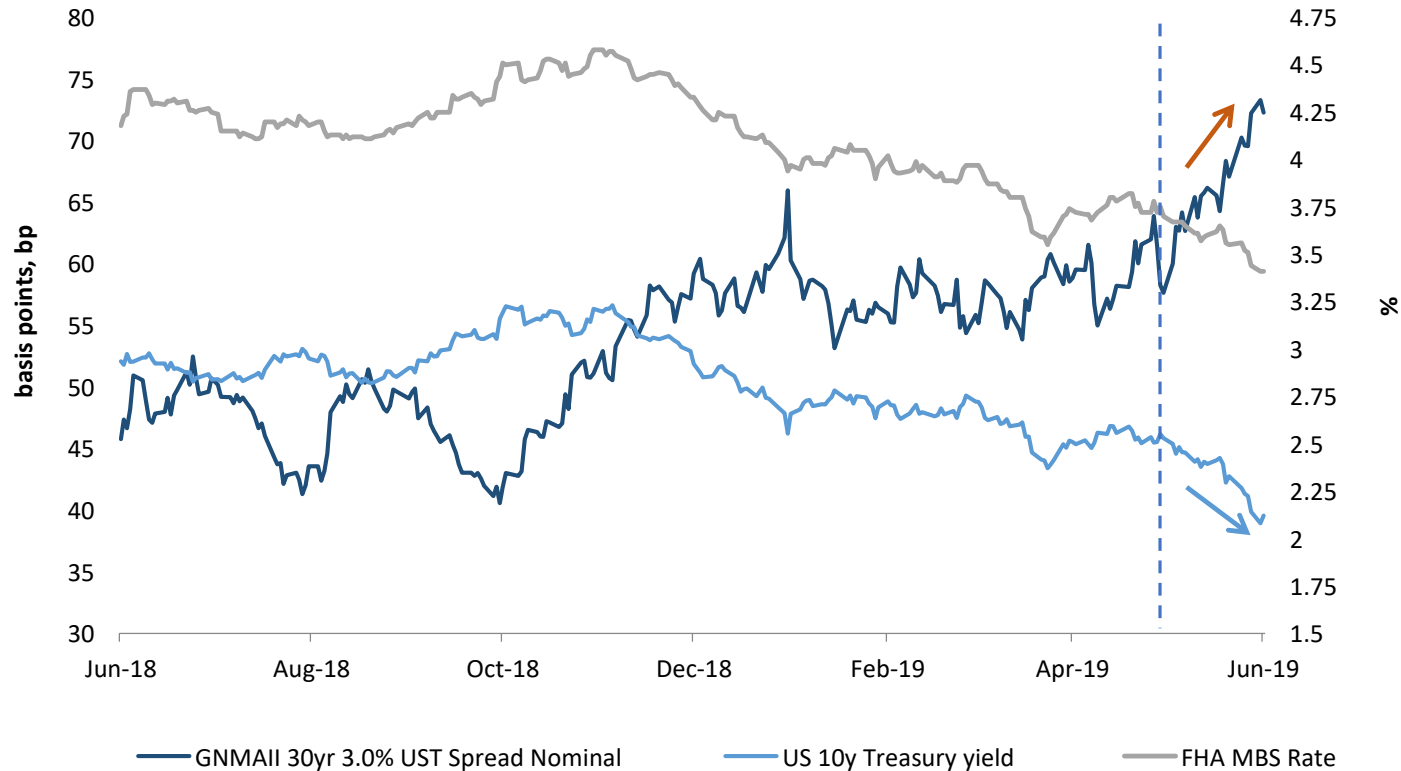
# Uncertainty & Risk Premiums



Source: SSGA, Barclays Live data as of June 3, 2019.

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# FI Market & Primary Mortgage Rates

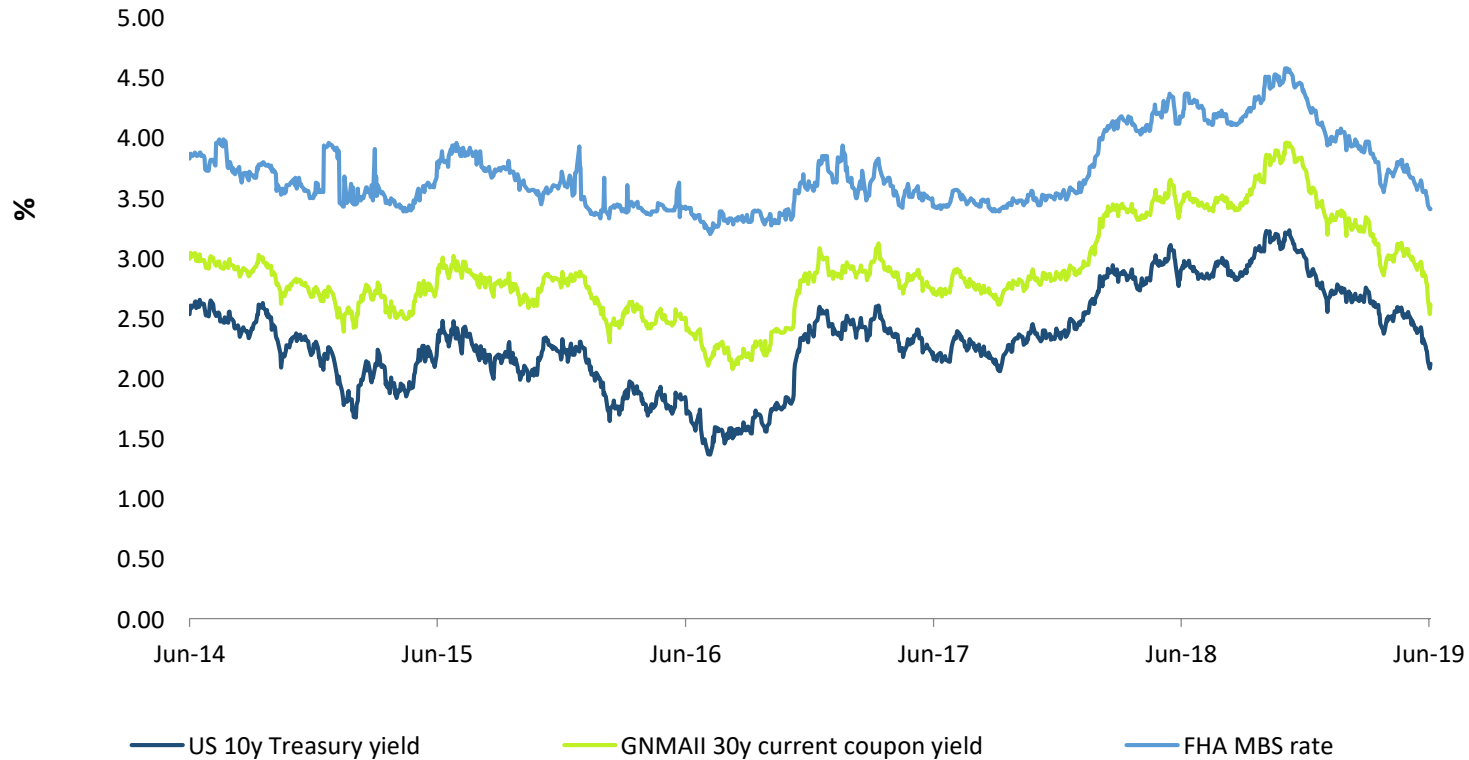


Source: SSGA, J.P. Morgan DataQuery data as of June 4, 2019.

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# FI Market & Primary Mortgage Rates



Source: SSGA, J.P. Morgan DataQuery and Bloomberg Finance, L.P., data as of June 4, 2019.

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# Summary

- Cyclical peak in long term U.S. rates is behind us
- Neutral rates of interest are lower than expected
- Fed may be behind the curve
- Less restrictive monetary policy should offset late cycle deceleration
- If so, rates should remain low and environment supportive of risk assets
- MBS spreads should remain range bound
- BUT...recession risk has increased
- Behavioral feedback loop is powerful

Source: SSGA as of June 6, 2019.

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# Disclosure

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