

Hi Everyone,

Topic: Treasury Bond Yields

The action in the bond market is not painting a pretty picture whether we are talking about the stock market or the economy.

The 10-year treasury yield daily chart shows us that we have recently broken out of the comfortable range where it has been around 4%.

With this break down in yields below resistance in the 3.1 – 3.2 percent area, we think that the bond market is giving us a weakening economic story and that does not bode well for the stock market.

We would have preferred that yields would have stayed in this range or ideally that they started to tick higher. This would have forecasted that the economy was improving but the exact opposite is occurring right now. Yields are at the lowest levels since all the way back in April of 2009. (5-year CDs are 1.98% and one-year CDs are at 0.68%).

Many times the Treasury bond market will lead the stock market. Bond yields peaked out in the early part of April, just two weeks before the stock market peaked.

With this breakdown in yields and based on the width of this consolidation, we could go down as far as 2.2% in Treasury yields which, again, is *not* a good sign for the stock market.

The lowering of Treasury yields is not without its own effects. Apart from further impoverishing the nation's savers radically lower long term yields are starting to once more fuel activity in the home mortgage refinancing.

The MBA refinancing index has last week crossed the 4000 level, a level that is typically only reached against the backdrop of a "crisis" severe enough to collapse long term treasury yields.

Thankfully, daily momentum is suggesting that this move in treasuries may be close to ending, which could be a real positive for stocks but as we said, we would certainly like to see the treasury yields get back in this 3.2 to 4 percent range to give us more confidence that the economy *is* getting better and *not* getting worse.

Topic: Mortgage Refinancing

We have commented in previous emails on the sharp reduction of mortgage rates since the start of the second quarter do to this breakdown in Treasury yields causing a surge in re-financing.

This should not be surprising since the effect of a 50 bp drop in a 30 year mortgage is to reduce the annual debt service of the average existing home sold by approximately \$1,000 per year.

But be careful. The average cost of refinancing is around \$1,200 and if you already have a low rate mortgage of 4-5 percent and or you do not have long left to pay on your mortgage it may not be cost effective to refinance.

Valerie Holcomb, Shari Hooper & Brian Harris  
Cascade Financial Group

*This communication, including attachments, is for the exclusive use of addressee and may contain proprietary, confidential and/or privileged information. If you are not the intended recipient, any use, copying, disclosure, dissemination or distribution is strictly prohibited. If you are not the intended recipient, please notify the sender immediately by return e-mail, delete this communication and destroy all copies.*