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Is This The Last Chance for Low Rates?

Interest rates have enjoyed several months of prosperity without any major bounce back toward higher levels, but that **might be changing as of this week**. Could this be the last time we see rates this low for a while?

The answer depends on the definition of 'a while.' There's **always** some risk that rates will rise for longer than we might like or expect. If we're talking about the length of time that most prospective mortgage borrowers have a loan in process, that risk is a bit bigger than normal at the moment. The saving grace is that rates will almost certainly be lower than they are today at some point in 2019.

But why is there a greater risk of rising rates right now?

This has to do with timing and a few other factors. For roughly 2 straight years, rates did **almost nothing but move higher**. The first half of 2017 was something of an exception as rates managed to recover, somewhat, from the big spike at the end of 2016, but it wasn't much of a consolation in the bigger picture. Besides, it was **right back to higher rates** heading into 2018.

At that time, we began seeing indications of renewed **parallels between stocks and rates**. In fact, the stock surge seemed to lead rates at the beginning of 2018. After a sideways summer, stocks ramped back up and hit long term highs in the Fall. Rates seemed to follow. The correlation became clear when stocks began tanking in October. Rates never went meaningfully higher after that. The following chart lines up several of these milestones.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.43%	+0.02	0.00
15 Yr. Fixed	6.84%	+0.01	0.00
30 Yr. FHA	6.90%	+0.03	0.00
30 Yr. Jumbo	7.62%	+0.02	0.00
5/1 ARM	7.40%	+0.03	0.00
Freddie Mac			
30 Yr. Fixed	7.10%	-0.34	0.00
15 Yr. Fixed	6.39%	-0.37	0.00

Rates as of: 4/18

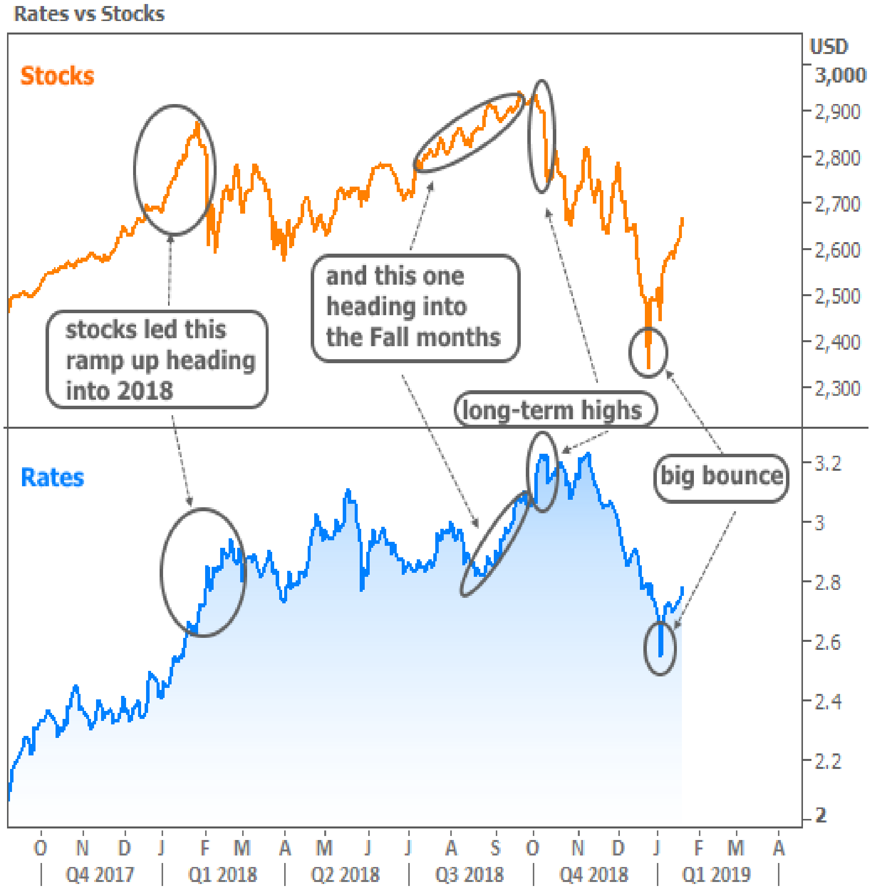
Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.30	-0.29
MBS GNMA 6.0	100.06	-0.09
10 YR Treasury	4.5546	-0.0719
30 YR Treasury	4.6632	-0.0686

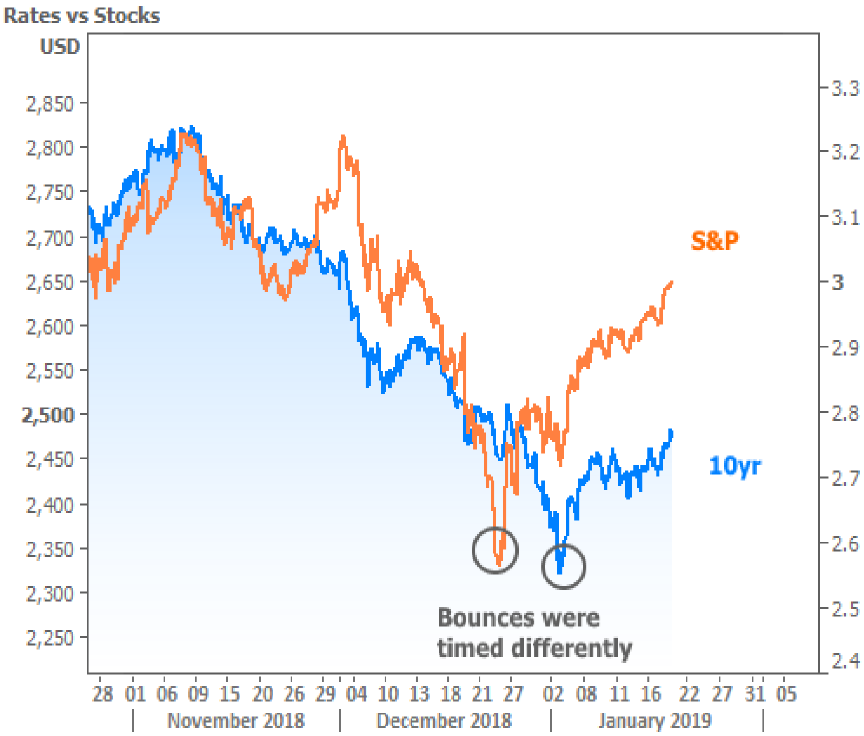
Pricing as of: 4/18 11:33PM EST

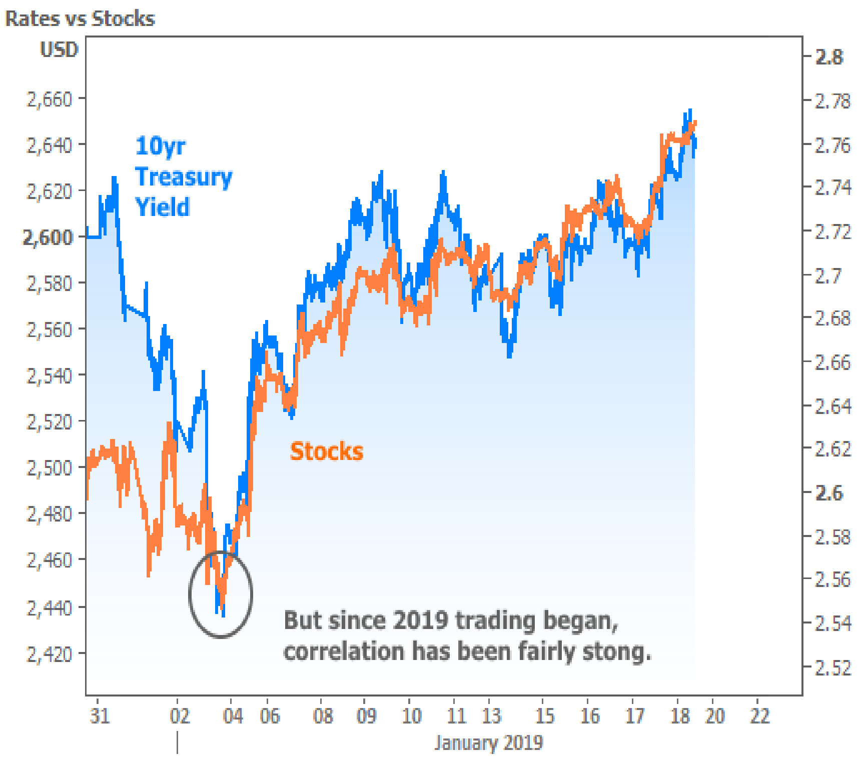
Recent Housing Data

		Value	Change
Mortgage Apps	Apr 17	202.1	+3.27%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Feb	662K	+0.15%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



All of the above **sounds like good news** for rates. And it would be, were it not for the fact that stocks have been in the process of bouncing higher in January 2019. Actually, stocks first bounced at the end of December while rates were able to continue lower. But rates eventually followed suit in early January. Since then, the correlation has strengthened again. That's hard to see on the chart above, but easier to see on the shorter-term charts below (same indicators, different scaling).





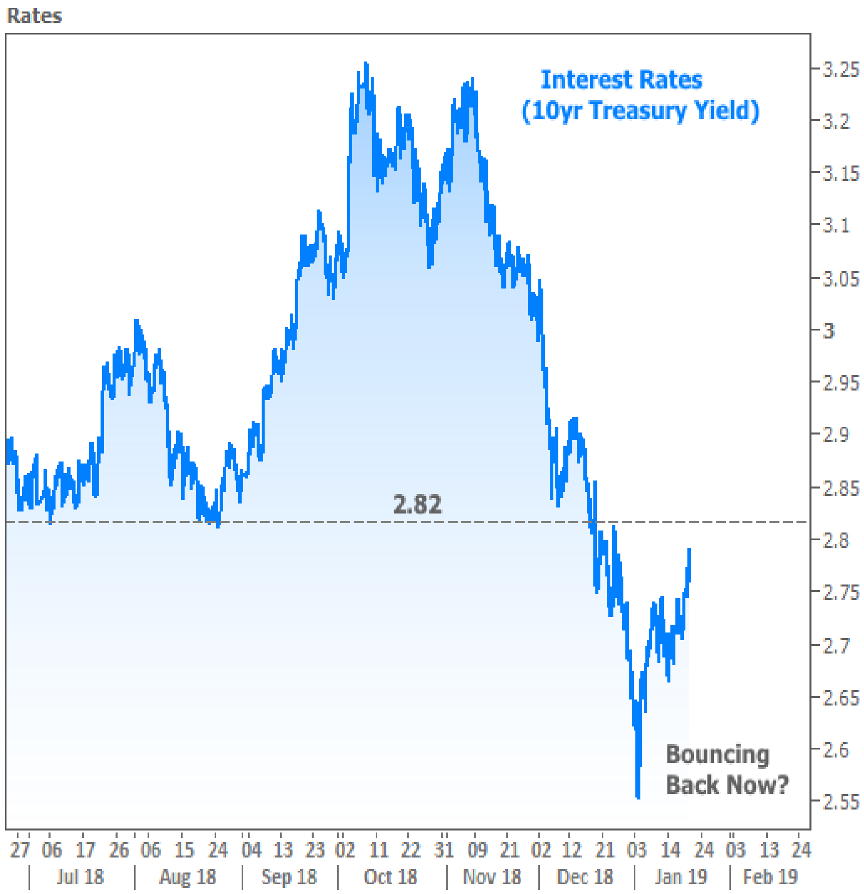
The bottom line is that interest rates have **relied on exceptional weakness** in the stock market. If stocks manage to shake off that weakness, it could be very hard for rates to hold on to any semblance of long-term lows.

The government shutdown and trade negotiations are **complicating factors**. Investors are currently sprinkling a bit of caution into their outlook until these uncertainties are resolved. For investors, "caution" is often synonymous with "sell stocks, buy bonds" (bond buying = lower rates). The implication is that the end of the government shutdown and the inking of a trade deal would only suggest higher stock prices and more pressure on rates.

With all of the above in mind, is there **any reason to hold out hope?**

Despite the apparently strong case for gloom and doom, there are reasons for hope. Nothing will change the fact that this economic expansion cycle is historically long and that investors are nervous about it ending. The Fed is increasingly talking like it might be done hiking rates if economic data doesn't support it. If the data begins to shift, it could easily prevent stocks from continuing higher and reinvigorate the interest rate rally.

Moreover, the most recent jump in rates hasn't been excessive so far. Ever since rates bottomed out 3 weeks ago, 2.82% in 10yr Treasuries has been an **important line in the sand** standing between the lowest rates for most of 2018 and the past few weeks. In other words, we could overlook a bit of additional weakness in rates, as long as we see some show of support just overhead.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jan 15				
8:30AM	Dec Producer Prices (%)	-0.2	-0.1	0.1
8:30AM	Dec Core Producer Prices YY (%)	2.7	2.9	2.7
8:30AM	Jan NY Fed Manufacturing	3.9	10.75	10.90
Wednesday, Jan 16				

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
7:00AM	w/e Mortgage Refinance Index	1172.4		987.9
7:00AM	w/e MBA Purchase Index	278.5		255.2
8:30AM	Dec Import prices mm (%)	-1.0	-1.3	-1.6
8:30AM	Dec Export prices mm (%)	-0.6	-0.6	-0.9
10:00AM	Jan NAHB housing market indx	58	56	56
Thursday, Jan 17				
8:30AM	Jan Philly Fed Business Index	17.0	10.0	9.4
8:30AM	w/e Jobless Claims (k)	213	220	216
Friday, Jan 18				
9:15AM	Dec Capacity Utilization (%)	78.7	78.5	78.5
9:15AM	Dec Industrial Production (%)	+0.3	0.2	0.6
10:00AM	Jan Consumer Sentiment	90.7	97.0	98.3
10:00AM	Jan 1yr Inflation Outlook (%)	2.7		2.7
10:00AM	Jan 5yr Inflation Outlook (%)	2.6		2.5
Monday, Jan 21				
12:00AM	Martin Luther King Day			
Tuesday, Jan 22				
10:00AM	Dec Existing home sales (ml)	4.99	5.25	5.32
10:00AM	Dec Exist. home sales % chg (%)	-6.4	-1.0	1.9
Wednesday, Jan 23				
7:00AM	w/e MBA Purchase Index	272.5		278.5
7:00AM	w/e Mortgage Refinance Index	1110.5		1172.4
9:00AM	Nov Monthly Home Price mm (%)	0.4		0.3
Thursday, Jan 24				
8:30AM	w/e Jobless Claims (k)	199	211	213

Responsive service, experienced expertise

I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood