

THE FEDERAL SAVINGS BANK



Co. NMLS# 411500

**Ted Rood**

Mortgage Banker, Homesite Mortgage LLC

NMLS #543290

2299 Technology Drive, Suite 2A5 O Fallon, Missouri

Office: 3147400004

Mobile: 314-740-0004

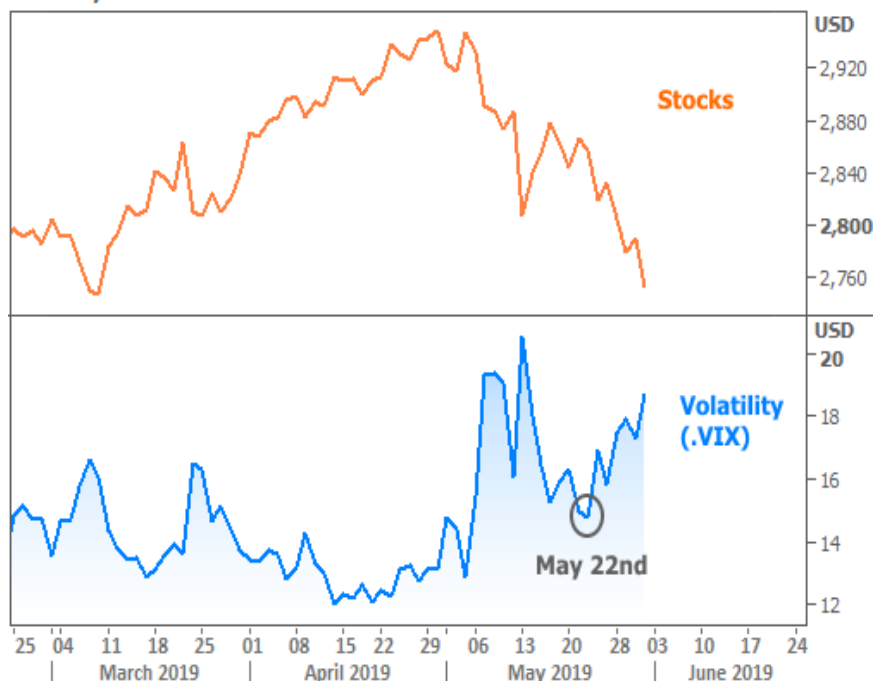
[ted\\_rood@yahoo.com](mailto:ted_rood@yahoo.com)

## Another Wild Week Leaves Rates at Long-Term Lows

Financial markets went on a **fairly wild ride** last week as downbeat manufacturing data combined with geopolitical news to lead a reversal in stocks and bonds. The current week brought just as much volatility by Thursday, but Friday took everyone by surprise--at least as far as rates were concerned.

Let's start by taking a look at the tamer side of the market. In the current case, that honor goes to stocks. Notice the initial spike in VIX (a stock-specific volatility gauge) in early May, which resulted from Trump's tariff announcement on Chinese imports. The next 2 weeks saw a barrage of trade-related headlines, but the news cycle was noticeably calming through the first half of last week. Then on May 23rd, **volatility returned** and stocks moved back to multi-month lows.

Volatility vs Stocks



The move in the bond market was even more pronounced. Whereas stocks surged down to the lowest levels since March, bond yields would have to look much farther back before finding similar levels. This makes good sense when we consider the major motivations for each side of the market.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.52%	<b>+0.13</b>	0.00
15 Yr. Fixed	6.91%	<b>+0.08</b>	0.00
30 Yr. FHA	7.00%	<b>+0.13</b>	0.00
30 Yr. Jumbo	7.68%	<b>+0.10</b>	0.00
5/1 ARM	7.55%	<b>+0.15</b>	0.00

### Freddie Mac

30 Yr. Fixed	7.17%	<b>-0.27</b>	0.00
15 Yr. Fixed	6.44%	<b>-0.32</b>	0.00

Rates as of: 4/25

## Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.06	<b>-0.37</b>
MBS GNMA 6.0	100.08	<b>-0.17</b>
10 YR Treasury	4.7107	<b>+0.0068</b>
30 YR Treasury	4.8214	<b>+0.0075</b>

Pricing as of: 4/25 8:19PM EST

## Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Looking at the most basic themes since late 2018, we can divide stock/bond movement into a few sections (as broken out below). In late 2018, stocks began to swoon due to high rates, a seeming lack of concern from the Fed, and a weaker global growth outlook. The Fed changed its tune in early 2019, which benefited **both** stocks and bonds. It was only after the early May Trump tweets that stocks reversed course and began falling. Simply put, a friendly Fed and a weak economic outlook is a mixed bag for stocks, but it's all good for bonds/rates.



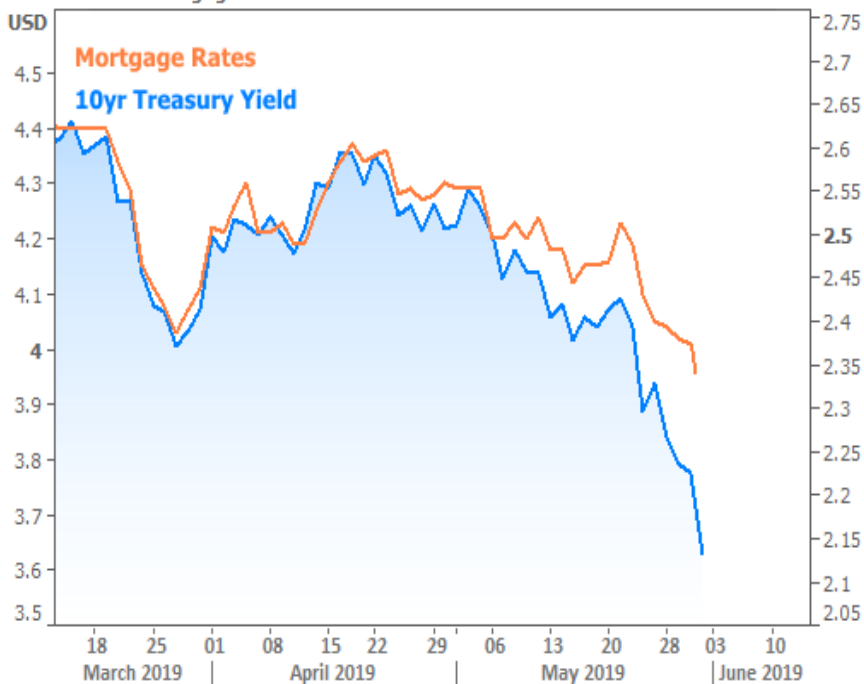
And the market is definitely expecting the Fed to be **increasingly friendly**. Those expectations increased sharply on Thursday night when another round of Trump tweets announced new tariffs on Mexican imports. All told, the trade war narrative can be credited for investors expecting **almost 2 additional Fed rate cuts** compared to early May. Those rate expectations go hand in hand with interest rate momentum.

Rates vs Fed Rate Hike Expectations

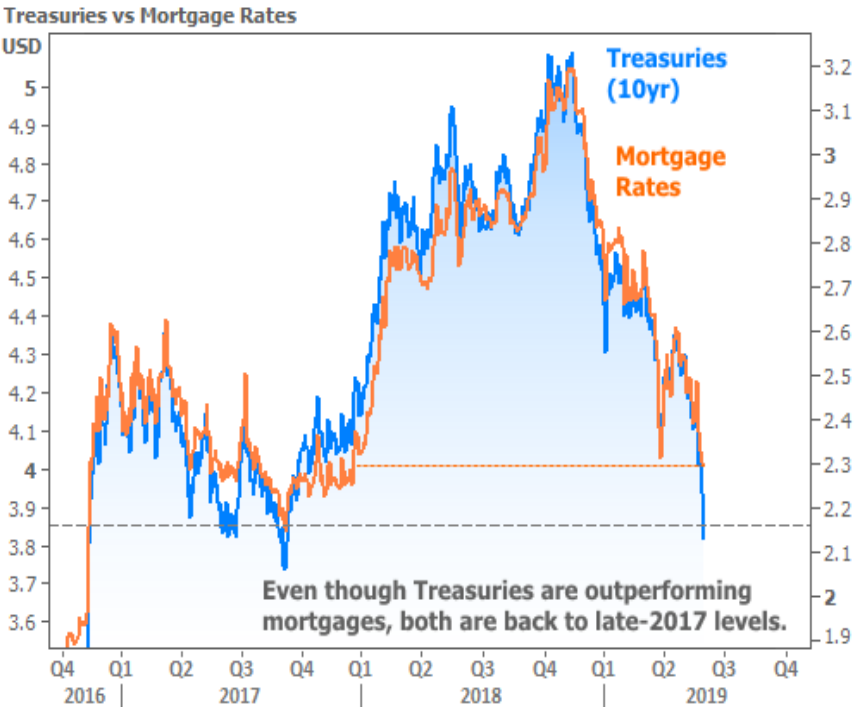


But how well are US Treasuries correlating with **mortgage rates** these days? The two are normally very well connected, but there's been quite a divergence recently.

Treasuries vs Mortgage Rates



This has been happening for several fairly complicated reasons (e.g. the speed of recent mortgage payoffs had a big negative effect on mortgage bond valuations. Market volatility spiked at the same time, which only further damaged valuations). Don't worry about that esoteric stuff though. The important thing is that the divergence will likely be temporary. Even then, mortgage rates were **still** able to make it back to the **lowest levels** since late 2017 this week, with top tier 30yr fixed rates officially moving just under 4%!



**Can the good times keep rolling?** That depends on Trump's willingness to continue driving hard bargains at the trade negotiation table. At the very least, unless there's a surprisingly optimistic announcement in the meantime, the possibility of significant progress is likely on hold until the G20 Summit in late June. That means the fate of rates may fall back in the hands of economic data. With that in mind, next week is packed with several of the most important reports we see in any given month. Adding to the volatile potential is a policy announcement and press conference from the European Central Bank on Thursday morning.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 28				
9:00AM	Mar CaseShiller 20 yy (%)	+2.7	2.6	3.0
10:00AM	May Consumer confidence	134.1	130.0	129.2
1:00PM	5-Yr Note Auction (bl)		41	
Wednesday, May 29				
7:00AM	w/e Mortgage Refinance Index	1255.4		1334.9
7:00AM	w/e MBA Purchase Index	259.4		263.0
1:00PM	7-Yr Note Auction (bl)	32		
Thursday, May 30				
8:30AM	Q1 GDP Prelim (%)	3.1	3.1	3.2
8:30AM	w/e Jobless Claims (k)	215	215	211
10:00AM	Apr Pending Home Sales (%)	-1.5	0.9	3.8
10:00AM	Apr Pending Sales Index	104.3		105.8

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

Date	Event	Actual	Forecast	Prior
<b>Friday, May 31</b>				
8:30AM	Apr Core PCE Inflation (y/y) (%)	+1.6	1.6	1.6
9:45AM	May Chicago PMI	54.2	53.7	52.6
10:00AM	May Consumer Sentiment (ip)	100.0	101.5	102.4
<b>Monday, Jun 03</b>				
10:00AM	May ISM Manufacturing PMI	52.1	53.0	52.8
10:00AM	Apr Construction spending (%)	0.0	0.4	-0.9
<b>Tuesday, Jun 04</b>				
10:00AM	Apr Factory orders mm (%)	-0.8	-0.9	1.9
<b>Wednesday, Jun 05</b>				
7:00AM	w/e MBA Purchase Index	253.1		259.4
7:00AM	w/e Mortgage Refinance Index	1335.6		1255.4
8:15AM	May ADP National Employment (k)	27	180	275
10:00AM	May ISM N-Mfg PMI	56.9	55.5	55.5
<b>Thursday, Jun 06</b>				
8:30AM	Q1 Labor Costs Revised (%)	-1.6	-0.8	-0.9
8:30AM	Apr International trade mm \$ (bl)	-50.8	-50.7	-50.0
8:30AM	w/e Jobless Claims (k)	218	220	215
<b>Friday, Jun 07</b>				
8:30AM	May Non-farm payrolls (k)	75	185	263
8:30AM	May Unemployment rate mm (%)	3.6	3.6	3.6
10:00AM	Apr Wholesale inventories mm (%)	0.8	0.7	0.7

## 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**

