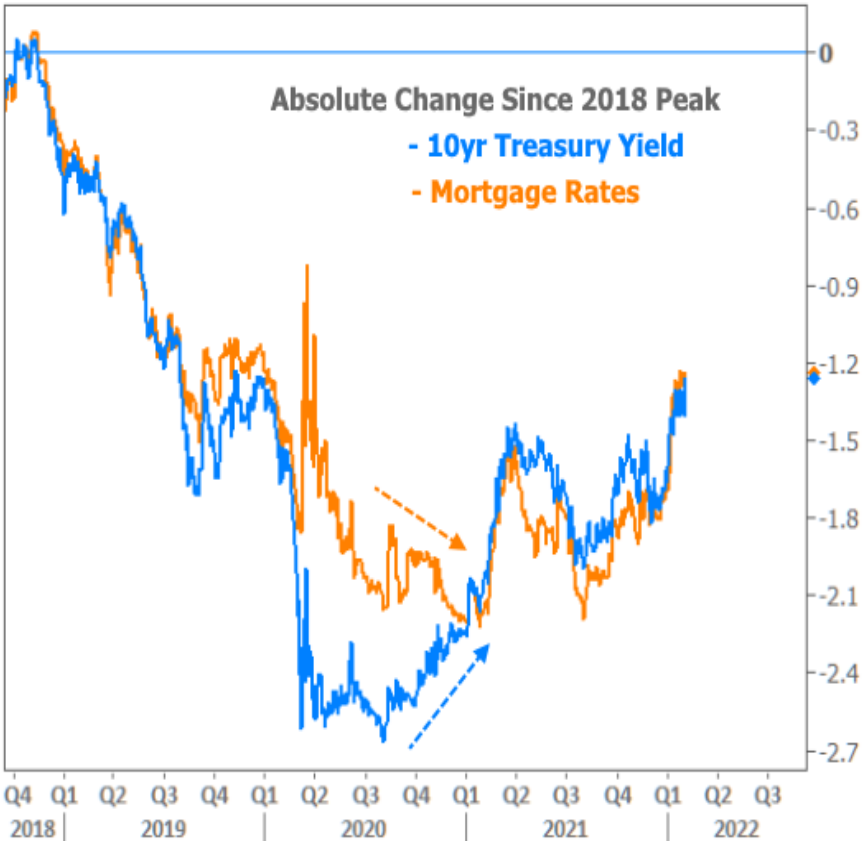


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Mortgage Rates Leap Toward 4.0% After Jobs Report Shocker

Rates have been trending higher in fits and starts since August 2020, but the mortgage market was **insulated** from much of the pain due to its disconnect from Treasuries in 2020 (they typically correlate very well). In fact, mortgage rates were falling throughout the 2nd half of 2020 while 10yr yields were steadily rising.



As we predicted, expected, and warned, 2021 saw the correlation return despite a few divergences due to things like mortgage-specific fee changes. By the end of 2021, both Treasury yields and mortgage rates were moving higher with a purpose.

Enter 2022, and with it, a fairly big shift in tone from the Federal Reserve regarding the pace at which it will be removing accommodation (fancy words for "doing things that aren't helpful for interest rates"). That made January one of the worst months for mortgage rates of the past decade, but more of

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	0.00	0.00
15YR Fixed	6.92%	0.00	0.00
30YR FHA	6.91%	+0.01	0.00
30YR Jumbo	7.52%	-0.03	0.00
7/6 SOFR	6.70%	-0.08	0.00
30YR VA	6.92%	+0.01	0.00

Rates as of: 11/2

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.79	-0.08
10 YR Treasury	4.9331	+0.0283
30 YR Treasury	5.3077	+0.0182

Pricing as of: 11/3 10:55AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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the damage was seen at the beginning of the month.

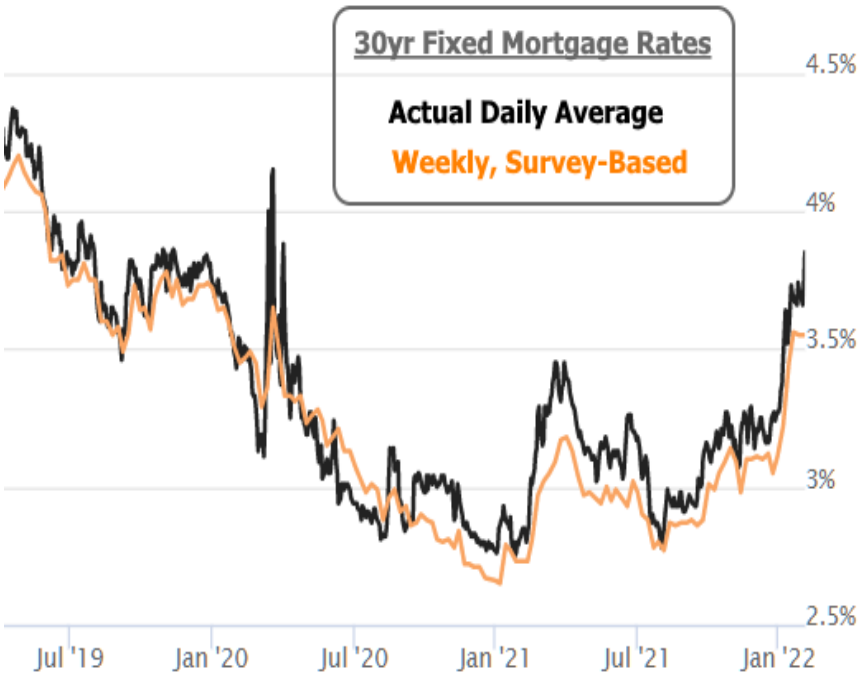
Over the past few weeks, we could make a decent enough case that rate momentum had leveled off and was drifting sideways. That's **not** an uncommon development after a big spike. The market might do this to catch its breath before the next move higher, or to signify a supportive ceiling before a moderately friendly correction. Such things aren't decided ahead of time. They happen in response to ongoing input from data and events that matter to rates.

The big monthly jobs report is something that **typically** matters a great deal to rates. Oddly enough, Friday's jobs report was **NOT** seen having much of an impact for a few reasons. First off, analysts expected a much weaker number due to Omicron's likely impact. Moreover, the Fed is almost exclusively focused on inflation right now as opposed to the labor market (employment and prices are the 2 key parts of the Fed's job description). In short, no matter what today's jobs numbers turned out to be, they weren't likely to impact the market's view of the Fed's reaction.

All of that is now **out the window**, sort of. Although there are several important caveats regarding major seasonal adjustments, the jobs numbers were so much higher than the average forecast that markets were forced to respond. Fed rate hike expectations increased briskly and bond yields surged to their highest levels in more than 2 years.

If we disregard the once-in-a-lifetime volatility seen in March 2020 (and we absolutely should), today's mortgage rates are now in line with the highs seen in October 2019. On Friday alone, the average lender was an eighth of a point higher day-over-day, and more than a full percentage point higher versus the August 2021 lows. Many less than perfect loan scenarios are seeing **rates over 4%.**

NOTE: mainstream rate tracking surveys have NOT yet caught up with this move. Freddie Mac's weekly survey, for instance, was published on Thursday and is based largely on the rates that were available this past Monday. Quite a bit has changed since then...



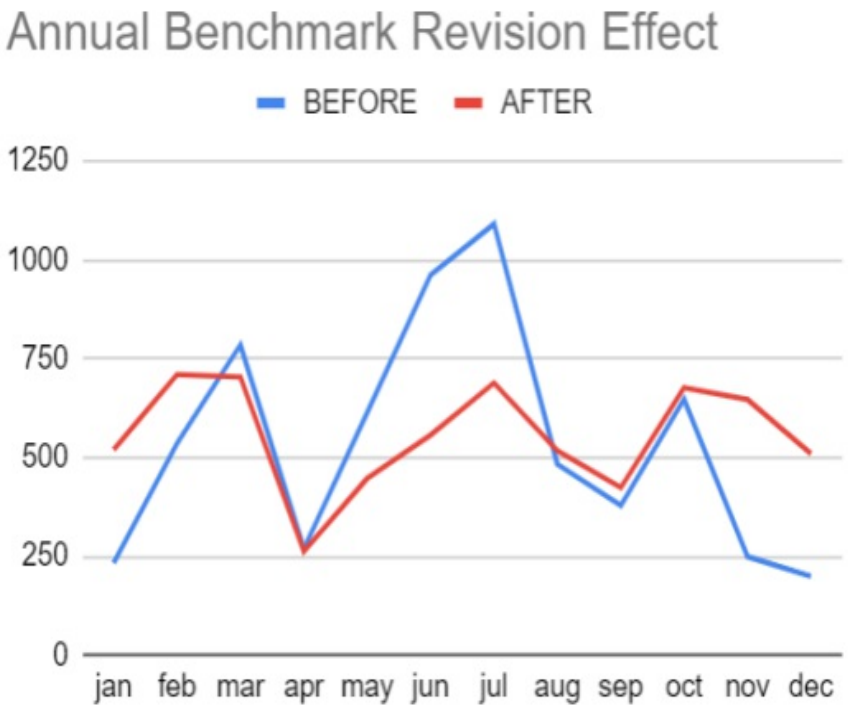
Getting back to the matter at hand, why were markets so surprised by the jobs report and is that the main reason for all the drama? The answer is both simple and complicated.

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The complicated points surround the parsing of the more arcane aspects of the jobs data. Specifically, January's data (reported in early February) always coincides with annual revisions to the Labor Department's seasonal adjustment benchmarks. In the current case, those revisions acted to smooth out a volatile year of jobs data. In so doing, they made the middle of 2021 look a lot worse and the past few months look a lot better.



In addition to the payroll counts, markets also keyed in on a strong showing in the unemployment rate. Granted, it was higher than expected (4.0 vs 3.9), but the labor force participation rate moved up 0.3%. That means the rise in the unemployment rate is explained by workers returning the workforce more than 3 times over.

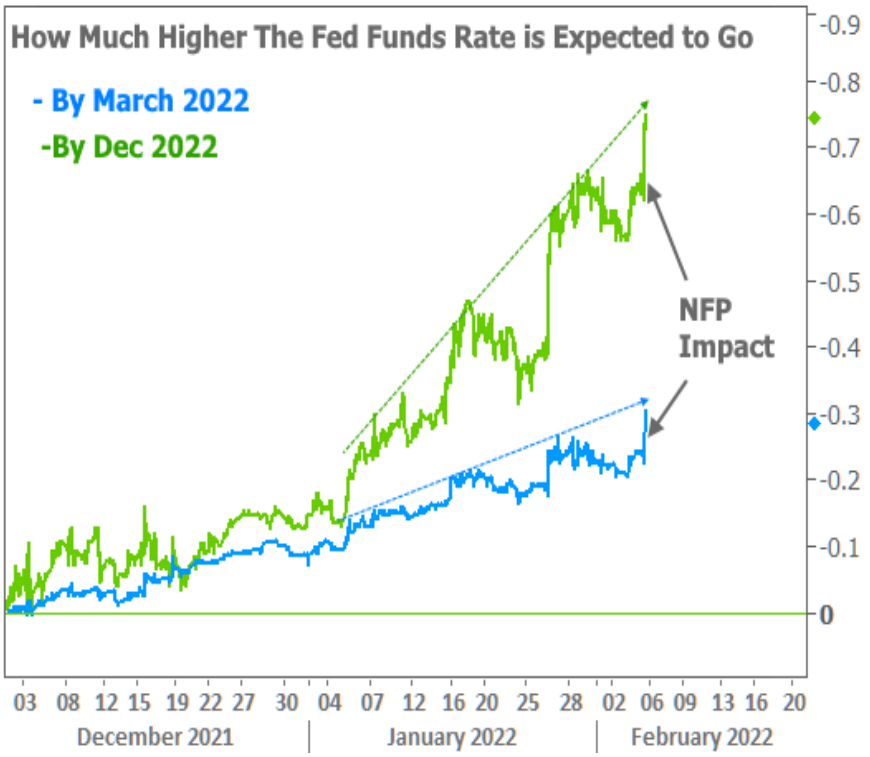
This is a surprising turn of a events on a month where omicron was supposed to result in rampant absenteeism. But not only are we dealing with seasonally adjusted numbers, the survey that drives the unemployment rate was also subject to revisions based on population growth.

Looking past the data points affected by the revision process, some pundits suggest that strong wage growth increases inflationary risks and forces the Fed to consider faster rate hikes. Indeed, when we look at Fed Funds Futures (securities that allow traders to bet on future levels of the Fed Funds Rate), we can see on obvious spike after the jobs data (referred to in the chart as NFP for the 'nonfarm payrolls' component that headlines the report).

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If you're noticing that this week's spike fits nicely in the longer term trend, you're already seeing what matters. We can isolate the March meeting expectations to make it easier to see.

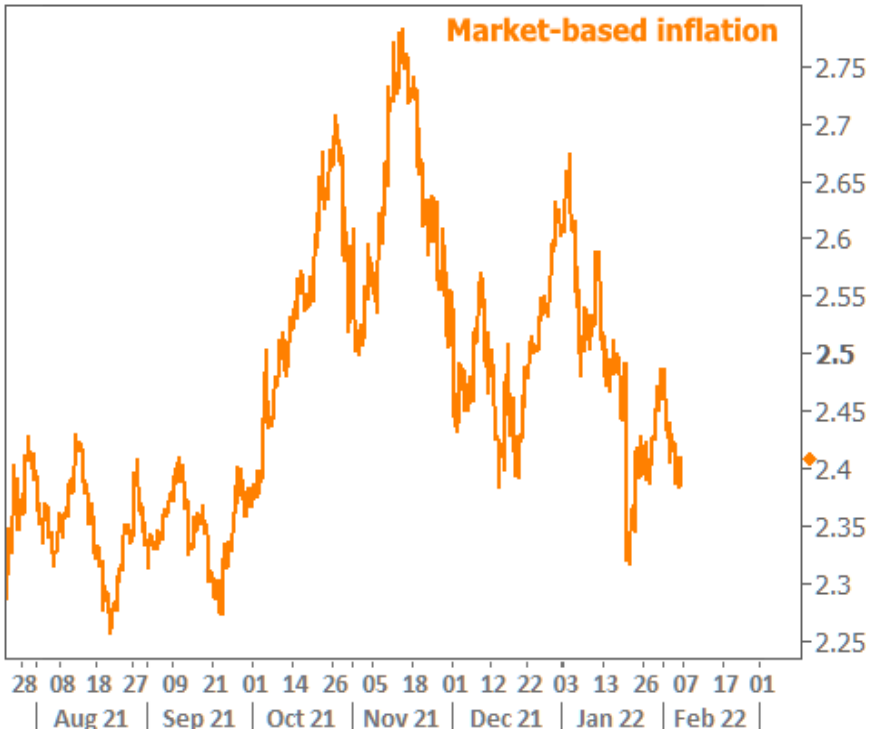


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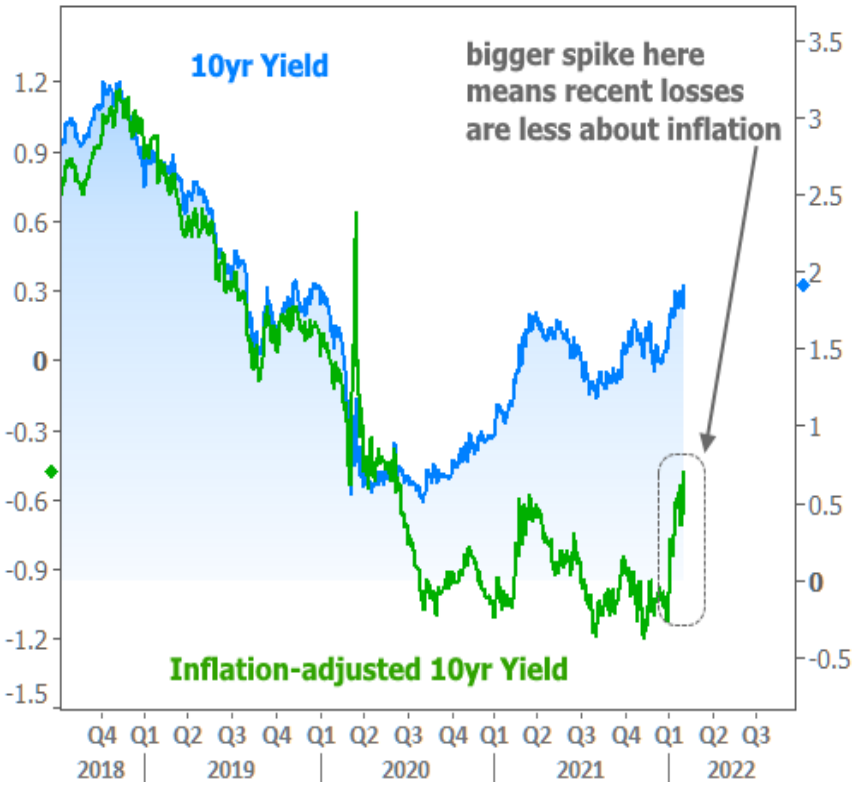
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We can push back on this inflation narrative more decisively by examining recent changes if market-based inflation expectations. Not only are they lower this week, but they're significantly lower since November. If traders were truly freaked out by wage-driven inflation implications, this number would have jumped after the jobs report.



In fact, most of the recent run up in rates is due to NON-inflation-related components of bond yields. The following chart shows actual 10yr yields and the inflation-free component of 10yr yields (determined by inflation-protected bonds).



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The fact is that rates have been moving higher since August 2020, and abruptly higher in 2022. They'd cooled off in a sideways consolidation pattern in the past few weeks and today delivered enough of a nudge to challenge the boundary of that consolidation. When breakouts like this occur in the bond market, they're often followed by additional momentum in the same direction.



The other fact is that we can look at the past month as a sideways-to-slightly-higher grind in bond yields. The pace of increases suggested by the lower boundary of this range was not even broken by Friday's yield spike.

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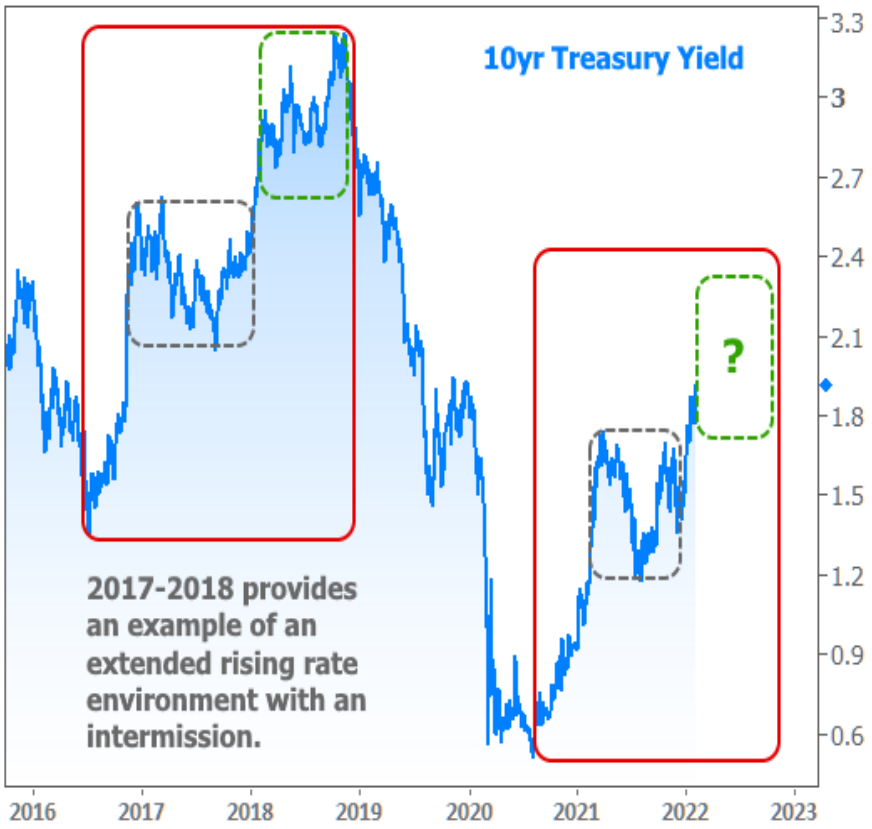
So rates are rising... We get it... But how much worse could things get?

As is always the case, if the market knew for sure, it would already be there. Deceptive bounces are possible in the short term even as pressure remains toward higher rates in the long term. Eventually, things will turn around, but we don't have any great precedent for how rates should normalize after a pandemic. At the very least, the most recent example of a longer-term rising rate environment serves as an important reminder that rates could easily go higher before the big turn.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jan 31				
9:45AM	Jan Chicago PMI	65.2	61.7	63.1
Tuesday, Feb 01				
10:00AM	Jan ISM Manufacturing PMI	57.6	57.5	58.7
10:00AM	Jan ISM Mfg Prices Paid	76.1	68.1	68.2
Wednesday, Feb 02				
7:00AM	w/e MBA Purchase Index	312.2		300.1
7:00AM	w/e MBA Refi Index	2355.4		1989.4
8:15AM	Jan ADP National Employment (k)	-301	207	807
Thursday, Feb 03				
7:30AM	Jan Challenger layoffs (k)	19.064		19.052
8:30AM	Q4 Labor Costs Preliminary (%)	0.3	1.5	9.6
8:30AM	w/e Jobless Claims (k)	238	245	260
10:00AM	Jan ISM N-Mfg PMI	59.9	59.5	62.0
10:00AM	Dec Factory orders mm (%)	-0.4	-0.2	1.6

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, Feb 04				
8:30AM	Jan Average earnings mm (%)	0.7	0.5	0.6
8:30AM	Jan Non-farm payrolls (k)	467	150	199
8:30AM	Jan Unemployment rate mm (%)	4.0	3.9	3.9
Tuesday, Feb 08				
1:00PM	3-Yr Note Auction (bl)	50		
Wednesday, Feb 09				
7:00AM	w/e MBA Refi Index	2183.5		2355.4
7:00AM	w/e MBA Purchase Index	282.3		312.2
10:00AM	Dec Wholesale inventories mm (%)	2.2	2.1	2.1
Thursday, Feb 10				
8:30AM	Jan Consumer Price Index (CPI) (%)	0.6	0.5	0.5
8:30AM	Jan Core CPI (Annual) (%)	6.0	5.9	5.5
Friday, Feb 11				
10:00AM	Feb 5yr Inflation Outlook (%)	3.1		3.1
10:00AM	Feb 1yr Inflation Outlook (%)	5.0		4.9
10:00AM	Feb Consumer Sentiment	61.7	67.5	67.2
Tuesday, Apr 12				
1:00PM	10-yr Note Auction (bl)	34		
Wednesday, Apr 13				
1:00PM	30-Yr Bond Auction (bl)	20		

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We know that each customer has specific needs, so we strive to meet those specific needs with a wide array of products, investment tools, mortgages and best of all quality service and individual attention.

Today's technology is providing a more productive environment to work in. For example, through our website, you can submit a complete on-line, secure loan application or pre-qualify for a home loan. You may also evaluate your different financing options by using our interactive calculators and going over various mortgage scenarios.

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