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## What's Brexit and Why Should You Care?

First there was "Grexit"--financial markets' pet term for Greece potentially exiting the European Union. It was a serious situation because Greece shared the Euro currency with 18 other countries and was at risk of defaulting on sovereign debt.

The fear was a **systemic collapse** of the Eurozone (**think "dominoes"**), and investors bought bonds in the strongest countries in order to keep their money safe. That resulted in lots of volatility and a massive drop in global interest rates (when investors buy bonds, rates fall) before finally fading from prominence with the Greek bailout deal.

When Brexit headlines emerged (a potential British exit of the EU), no one thought much of it. The U.K. **does NOT share** the Euro currency with the rest of the Union and wasn't facing potential default. What's the big deal?

It turns out there are several big deals--at least for now. The U.K. may not use the same currency as the Eurozone countries, but it is part of the European Union--a system designed to facilitate the free flow of trade, people, money, and legislation in Europe. **No one really knows** what to expect if The U.K. leaves, but at the very least, investors assume it would detract from growth in several ways at a time where the EU needs all the growth it can get.

Still, it's not the growth implications that are most important to investors at the moment. Rather, it's the systemic implications. In other words, if The UK leaves, **who will leave next?** And if the entire EU is at risk of disintegrating--even if only partially--how are investors supposed to prepare for that? Even the Fed says a June rate hike is unlikely because it wants to see what happens in the wake of the Brexit vote at the end of the month.

If the Fed cares that much, it's automatically a big deal for the rest of the world. So what should investors do about it? Faced with a potential 'first,' fear of the unknown has prompted investors to **buy bonds and sell stocks**. Of course, this is primarily a consideration for European markets and indeed, that's where we see the biggest movement, but the direct effects reverberate through global financial markets.

One of the frontline beneficiaries happens to be US bond markets, as you can see in the chart below.

## National Average Mortgage Rates



|  | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

### Mortgage News Daily

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.86% | -0.05 | 0.00 |
| 15 Yr. Fixed | 6.31% | -0.02 | 0.00 |
| 30 Yr. FHA   | 6.32% | -0.06 | 0.00 |
| 30 Yr. Jumbo | 7.04% | -0.03 | 0.00 |
| 5/1 ARM      | 6.53% | -0.02 | 0.00 |

### Freddie Mac

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.78% | -0.08 | 0.00 |
| 15 Yr. Fixed | 6.07% | -0.09 | 0.00 |

Rates as of: 7/26

## Market Data

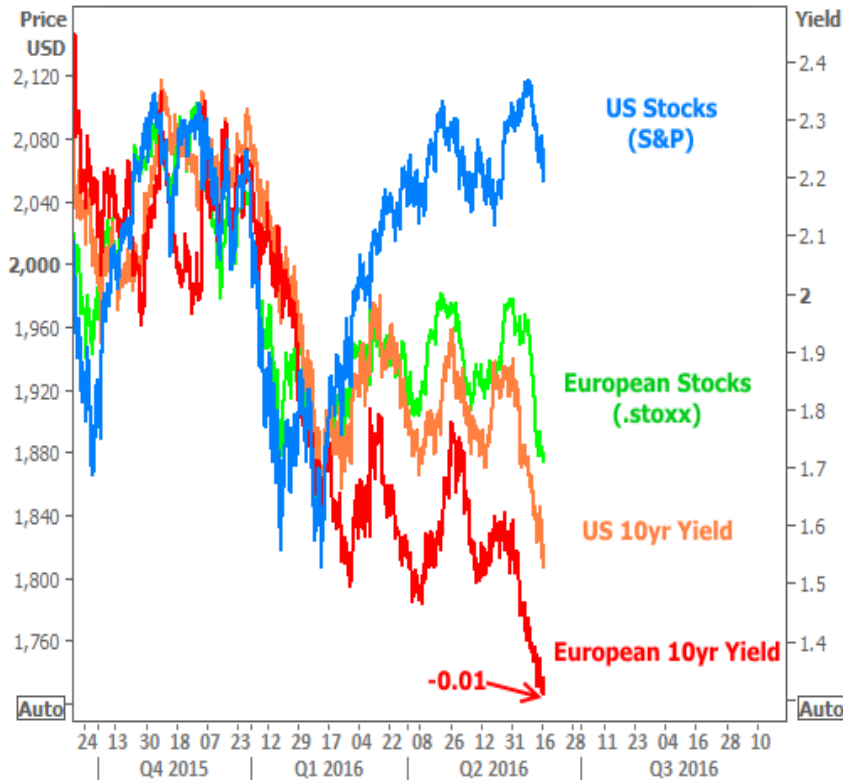
|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.5   | 99.68         | +0.27   |
| MBS GNMA 5.5   | 99.98         | +0.13   |
| 10 YR Treasury | 4.1958        | -0.0474 |
| 30 YR Treasury | 4.4523        | -0.0305 |

Pricing as of: 7/26 5:59PM EST

## Recent Housing Data

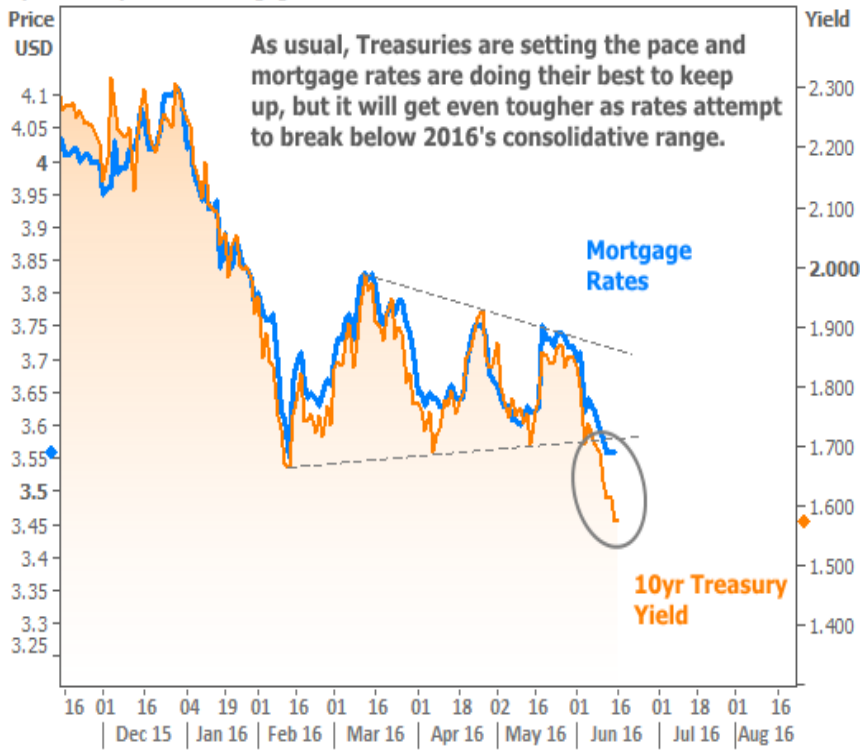
|                     |        | Value | Change  |
|---------------------|--------|-------|---------|
| Mortgage Apps       | Jul 10 | 206.1 | -0.19%  |
| Building Permits    | Mar    | 1.46M | -3.95%  |
| Housing Starts      | Mar    | 1.32M | -13.15% |
| New Home Sales      | Mar    | 693K  | +4.68%  |
| Pending Home Sales  | Feb    | 75.6  | +1.75%  |
| Existing Home Sales | Feb    | 3.97M | -0.75%  |
| Builder Confidence  | Mar    | 51    | +6.25%  |

Global Bonds vs Stocks

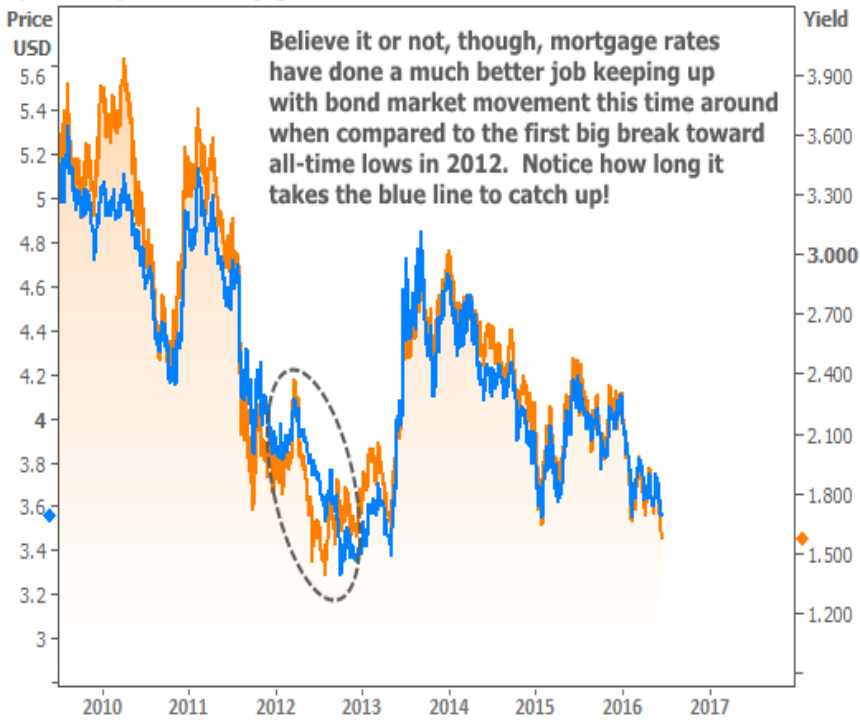


If US Treasuries are one degree removed from the Brexit-related market momentum, **Mortgage Rates** are yet another degree removed. It's not that they haven't been moving lower, just that they cannot possibly keep pace with Treasuries. Not only is this a normal turn of events, but it's actually a stronger performance than we saw in 2012--the last time global financial markets were panicking over systemic European risk.

10yr Treasury Yield vs Mortgage Rates



10yr Treasury Yield vs Mortgage Rates



And so it came to be that **this week's Fed Announcement**--something that was previously destined to be a major market mover--was relegated to being a speedbump for market movement that was already in progress. If anything, the Fed merely confirmed they were spooked by Brexit risks, as well as the most recent jobs data.

This sets up a very big showdown over the next few weeks. If The U.K. happens to vote to remain in the EU and the next jobs report happens to be exceptionally strong, investors will **QUICKLY** start talking about a **summertime rate hike** from the Fed. With rates as low as they are right now, that would make for an abrupt correction higher.

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## Recent Economic Data

| Date                     | Event                             | Actual    | Forecast | Prior |
|--------------------------|-----------------------------------|-----------|----------|-------|
| <b>Tuesday, Jun 14</b>   |                                   |           |          |       |
| 8:30AM                   | May Import prices mm (%)          | +1.4      | 0.7      | 0.3   |
| 8:30AM                   | May Retail sales mm (%)           | +0.5      | 0.3      | 1.3   |
| <b>Wednesday, Jun 15</b> |                                   |           |          |       |
| 7:00AM                   | w/e Mortgage Market Index         | 507.7     |          | 520.4 |
| 8:30AM                   | Jun NY Fed manufacturing          | +6.01     | -4.00    | -9.02 |
| 8:30AM                   | May US PPI Final Demand MM (%)    | +0.4      | 0.3      | 0.2   |
| 8:30AM                   | May U PPI exFood/Energy YY (%)    | +1.2      | 1.0      | 0.9   |
| 9:15AM                   | May Industrial output mm (%)      | -0.4      | -0.2     | 0.7   |
| 9:15AM                   | May Capacity utilization mm (%)   | 74.9      | 75.2     | 75.4  |
| 2:00PM                   | N/A FOMC rate decision (%)        | 0.25-0.50 | 0.375    | 0.375 |
| 2:30PM                   | Yellen Remarks on Rate Decision   |           |          |       |
| <b>Thursday, Jun 16</b>  |                                   |           |          |       |
| 8:30AM                   | Jun Philly Fed Business Index     | 4.7       | 0.0      | -1.8  |
| 8:30AM                   | May Core CPI mm, sa (%)           | +0.2      | 0.2      | 0.2   |
| 8:30AM                   | May Core CPI yy, nsa (%)          | +2.2      | 2.2      | 2.1   |
| 8:30AM                   | w/e Initial Jobless Claims (k)    | 277       | 270      | 264   |
| 10:00AM                  | Jun NAHB housing market indx      | 60        | 59       | 58    |
| <b>Friday, Jun 17</b>    |                                   |           |          |       |
| 8:30AM                   | May Housing starts number mm (ml) | 1.164     | 1.150    | 1.172 |
| 8:30AM                   | May Building permits: number (ml) | 1.138     | 1.150    | 1.130 |
| <b>Monday, Jun 20</b>    |                                   |           |          |       |
| 1:00PM                   | 2-Yr Note Auction (bl)            | 26        |          |       |
| <b>Tuesday, Jun 21</b>   |                                   |           |          |       |
| 1:00PM                   | 5-Yr Note Auction (bl)            | 34        |          |       |
| <b>Wednesday, Jun 22</b> |                                   |           |          |       |
| 9:00AM                   | Apr Monthly Home Price mm (%)     | 0.2       |          | 0.7   |
| 10:00AM                  | May Existing home sales (ml)      | 5.53      | 5.54     | 5.45  |
| 1:00PM                   | 7-Yr Note Auction (bl)            | 28        |          |       |
| <b>Thursday, Jun 23</b>  |                                   |           |          |       |
| 10:00AM                  | May New home sales-units mm (ml)  | 0.551     | 0.560    | 0.619 |

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date                  | Event                           | Actual | Forecast | Prior |
|-----------------------|---------------------------------|--------|----------|-------|
| <b>Friday, Jun 24</b> |                                 |        |          |       |
| 8:30AM                | May Durable goods (%)           | -2.2   | -0.5     | 3.4   |
| 10:00AM               | Jun U Mich Sentiment Final (ip) | 93.5   | 94.0     | 94.3  |

## Getting a mortgage doesn't have to be painful!

I call myself a Mortgage Navigator because I feel it is my duty to give you the best information possible, not matter what! I love making homebuyers homeowners! I've been a mortgage broker for 29 years and compare options from multiple lenders, delivering 5 ⭐ rates & service. Combined with my goal based mortgage planning, my desire is to help people make the best mortgage decisions while making the process less annoying and more fun. Not sure where to start?.. give me a call at 800-340-5465 or visit [www.IcanSaveMortgage](http://www.IcanSaveMortgage) to find your best options today. Be sure to check out my YouTube channel link below for more helpful mortgage information.

**Matt Stout**

