

**Philip Bennett**
President, Bennett Capital Partners Mortgage Brokers
Business NMLS # 2046862
1101 Brickell Ave STE 800 Miami, FL 33131

Office: 800-457-9057
Mobile: 305-407-0747
philip@bcpmortgage.com
View My Website

# Let's Get Real About Interest Rates and The Stock Crash

An abrupt stock market sell-off dominated the week's financial news. It was the kind of move that gets everyone talking (and speculating, and worrying, and explaining). In those conversations and in the news, certain concepts have garnered broad agreement. **Unfortunately**, just because something is often repeated, it's **not** necessarily true.

To make a long story short, almost any explanation you'll hear for this week's nosedive in stocks will pin the blame on rising interest rates, inflation concerns, or a combination of the two. While there are a few elements of truth in these explanations, they're **mostly bogus**, as the charts below will clearly show.

I'll admit, it's tempting and even logical to notice that rates are at the highest level in years and assume the extreme behavior in one major market sector has something to do with the extreme behavior in the other. This week's short-term charts validated that assumption, as long as those charts ignored important considerations like the **percent change** in bond **prices** compared to the percent change in stock prices.

The upper pane of the following chart does just that. In it, we see high rates at the scene of Monday's big drop in stocks. When rates moved back up into the 2.8% range, stocks dropped again. Case closed, right? 10yr yields over 2.8% are bad for stocks! **Right?**

**Not exactly**... While it's true that rates are at long-term highs and that stocks **seemed to respond**, in terms of percentage change, rates barely budged this week compared to stocks. When we look at the price of 10yr Treasury notes (which serve as the foundation for long-term interest rates in the US), investors weren't taken on nearly as wild of a ride.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.51% | +0.01 | 0.00 |
| 15YR Fixed | 7.04% | +0.01 | 0.00 |
| 30YR FHA | 7.08% | +0.03 | 0.00 |
| 30YR Jumbo | 7.52% | +0.02 | 0.00 |
| 7/6 SOFR | 7.12% | -0.01 | 0.00 |
| 30YR VA | 7.10% | +0.03 | 0.00 |

Rates as of: 11/16

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 98.73 | +0.02 |
| 10 YR Treasury | 5.1250 | -0.0092 |
| 30 YR Treasury | 5.4731 | -0.0027 |

Pricing as of: 11/16 7:33PM EST

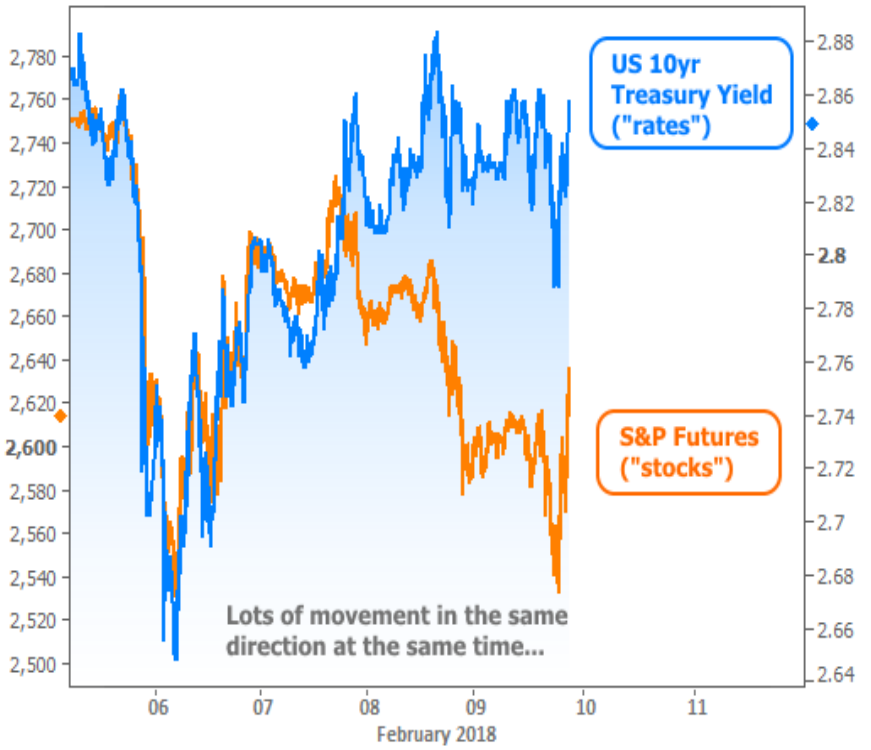
## Recent Housing Data

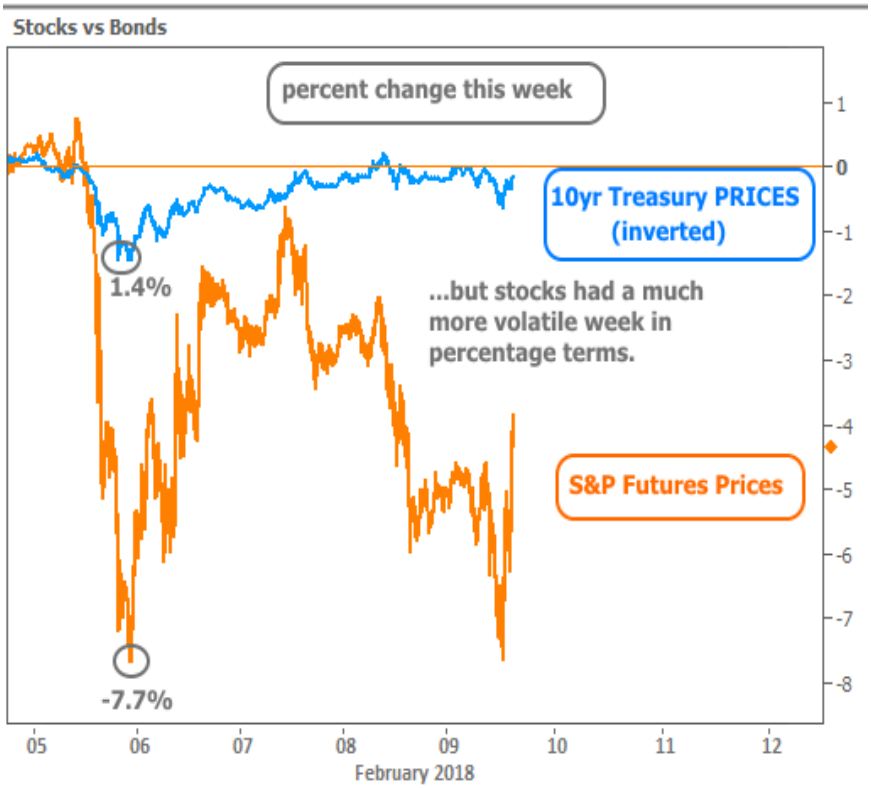
| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 4 | 204.6 | +6.23% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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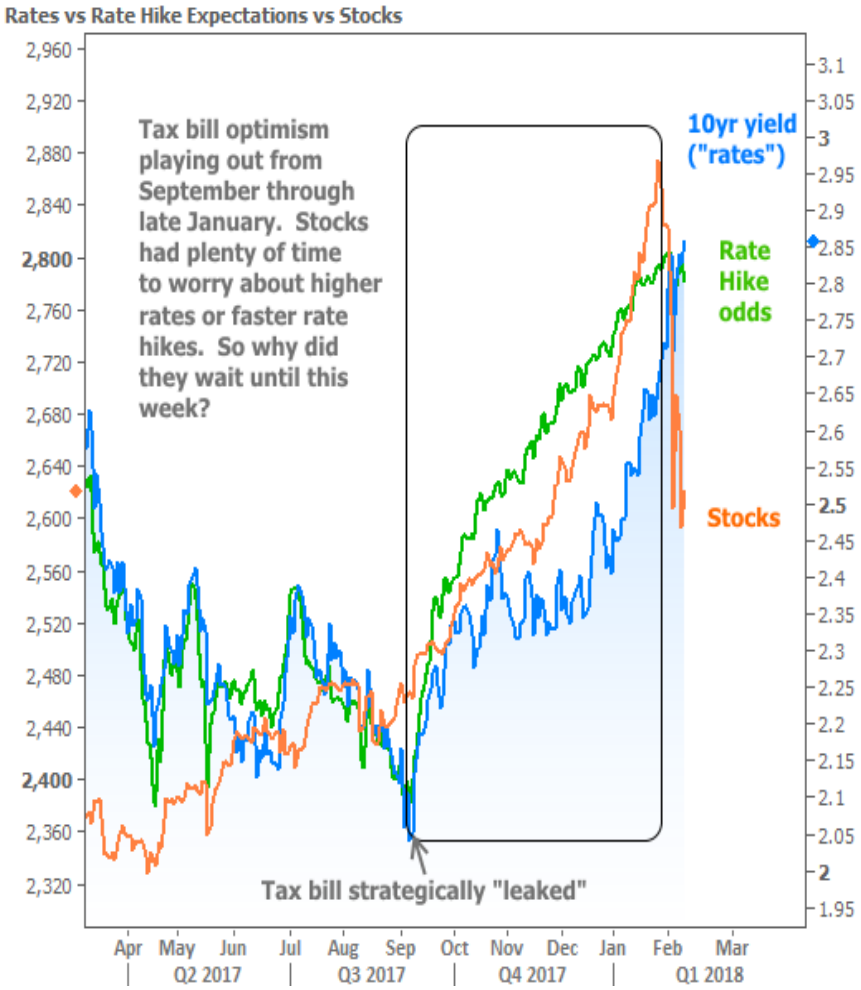




In other words, **it took a lot of movement** in stocks to make a comparatively tiny dent in rates. Rates might not have moved that much this week otherwise, or they may have done what they've been doing and simply continued higher. Either way, higher rates and an accelerated Fed rate hike outlook haven't been an issue for **almost the entire time** that markets have trading the potential effects of the **tax bill** (the key fundamental market motivation since September). One must wonder: why now?

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There are **two arguments** you might hear for the "why now" question. The first concerns **outright levels**. Specifically, proponents of this theory suggest that the stock market was OK with 10yr yields in the 2.6% range, but that stocks **started to freak out** when rates moved over 2.8%. In other words, there's a limit to how high rates can go before stock investors assume collateral damage.

It's true that higher rates can and will restrict economic activity, and thus cause potential headwinds for stocks. The only problem with choosing a magic line in the sand is that rates **have been higher** in the past, and it **hasn't** had the same effect that's being argued this week. Not only that, but the trip to those levels was **much** more abrupt in the past without so much as an inconvenienced sigh from the stock market.

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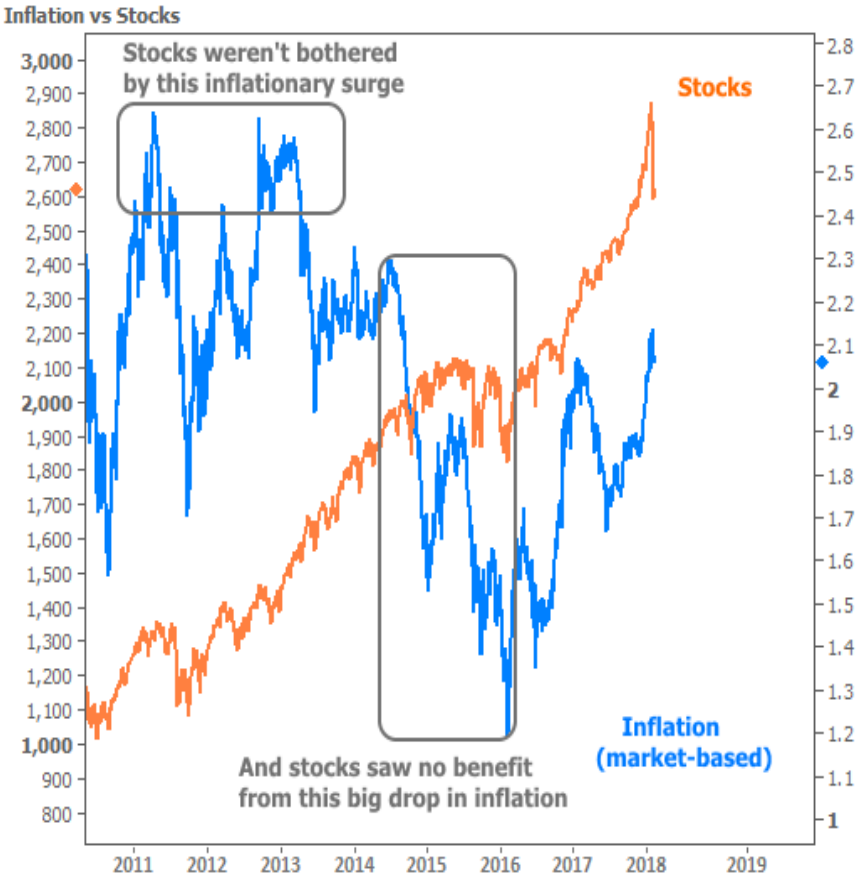

When confronted with that chart, proponents of this week's stock market scapegoat hunt might turn their attention to **inflation**. They might say 2013 was different because inflation expectations hadn't yet become worrisome, and that new fiscal policies and a tight labor market are creating major inflation risks. Here too, the **conceptual** part of the analysis would work just fine were it not for that **pesky little matter** of past precedent.

The following chart shows the S&P overlaid against market-based inflation expectations. It's pretty conclusive. In fact, one could use it to suggest that falling inflation gave stocks pause in 2015--the **opposite** of the relationship being argued this week!

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Of course, that's **not** what gave stocks pause in 2015, but that's exactly the point. Inflation is not the scapegoat we're looking for. It's just another interconnected cog in the global financial system and will therefore periodically exhibit certain degrees of correlation to other cogs. This is really good to remember when someone tells you 2 things in financial markets are connected. They usually ARE connected, but usually not as much as it seems.

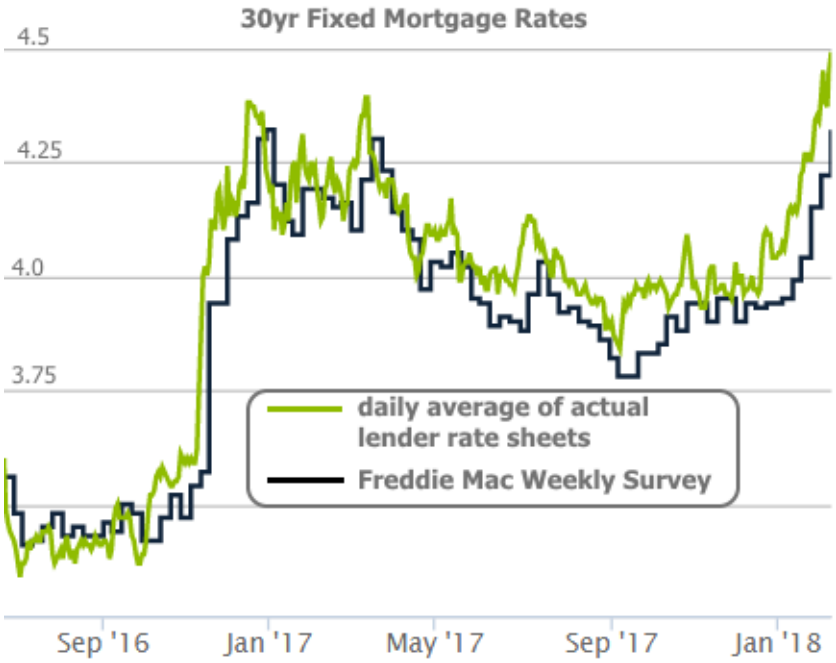
If you're waiting to hear what actually caused this week's drop in stocks, I'm sorry to disappoint. I can only tell you what DIDN'T cause the drop. I will say that the truth is **almost always more nuanced and complex** than the easy answers offered up by news stories. While it may not be as glamorous or conclusive as playing the blame game, I do know that while any given market is moving surprisingly higher for a surprisingly long time with surprisingly low volatility, the **eventual** move back in the other direction is simultaneously becoming bigger and more inevitable.

But enough of this hashing out of who did what to whom! Things are what they are! Rates are where they are. Even though there's always a chance they'll bounce lower, most of the industry is bracing for more upward pressure in 2018.

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Higher rates create obvious challenges for the **housing and mortgage markets**, but so far, those challenges have been slow to crop up. Most of the recent housing data has been solid. In fact, just this week, Fannie Mae's Home Purchase Sentiment Index hit the highest levels since its inception in 2011.

In separate news, mortgage applications managed to improve, even if only slightly. Still, any improvement is striking considering the data is seasonally adjusted. That means applications **aren't** merely improving because the Spring homebuying season is approaching.

Granted, we could simply be witnessing some **delayed reaction** to rates that are finally getting high enough to throw a wrench into the housing market's engine. If that's the case, it will become increasingly apparent in February's housing-related data (released in March). In the meantime, weekly reports (like Mortgage Applications) will offer clues as early as next Wednesday.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Feb 05** | | | | |
| 10:00AM | Jan ISM N-Mfg PMI | 59.9 | 56.5 | 55.9 |
| **Tuesday, Feb 06** | | | | |
| 8:30AM | Dec International trade mm $ (bl) | -53.1 | -52.0 | -50.5 |
| 1:00PM | 3-Yr Note Auction (bl) | 26 | | |
| **Wednesday, Feb 07** | | | | |
| 7:00AM | w/e MBA Purchase Index | 255.4 | | 255.5 |
| 7:00AM | w/e Mortgage Refinance Index | 1299.3 | | 1288.0 |
| **Thursday, Feb 08** | | | | |
| 8:30AM | w/e Jobless Claims (k) | 221 | 228 | 230 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Friday, Feb 09** | | | | |
| 10:00AM | Dec Wholesale inventories mm (%) | 0.4 | 0.2 | 0.2 |
| **Wednesday, Feb 14** | | | | |
| 7:00AM | w/e Mortgage Market Index | | | 416.3 |
| 8:30AM | Jan Retail Sales (%) | -0.3 | 0.2 | 0.4 |
| 8:30AM | Jan CPI mm, sa (%) | +0.5 | 0.3 | 0.1 |
| 8:30AM | Jan Core CPI Year/Year (%) | +1.8 | 1.7 | 1.8 |
| **Thursday, Feb 15** | | | | |
| 8:30AM | Jan Producer Prices (%) | +0.4 | 0.4 | -0.1 |
| 8:30AM | Jan Core Producer Prices YY (%) | +2.2 | 2.1 | 2.3 |
| 8:30AM | Feb Philly Fed Business Index | 25.8 | 21.1 | 22.2 |
| 8:30AM | Feb NY Fed Manufacturing | 13.1 | 17.50 | 17.70 |
| 8:30AM | w/e Jobless Claims (k) | 230 | 230 | 221 |
| 9:15AM | Jan Industrial Production (%) | -0.1 | 0.2 | 0.9 |
| 9:15AM | Jan Capacity Utilization (%) | 77.5 | 78.0 | 77.9 |
| 10:00AM | Feb NAHB housing market indx | 72 | 72 | 72 |
| **Friday, Feb 16** | | | | |
| 8:30AM | Jan Import prices mm (%) | +1.0 | 0.6 | 0.1 |
| 8:30AM | Jan Export prices mm (%) | +0.8 | 0.3 | -0.1 |
| 8:30AM | Jan House starts mm: change (%) | +9.7 | | -8.2 |
| 8:30AM | Jan Build permits: change mm (%) | +7.4 | | -0.2 |
| 10:00AM | Feb 5yr Inflation Outlook (%) | 2.5 | | 2.5 |
| 10:00AM | Feb Consumer Sentiment | 99.9 | 95.5 | 95.7 |
| 10:00AM | Feb 1yr Inflation Outlook (%) | 2.7 | | 2.7 |
| **Wednesday, Apr 11** | | | | |
| 1:00PM | 10-yr Note Auction (bl) | 21 | | |
| **Thursday, Apr 12** | | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 13 | | |

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# From Bennett Capital Partners Mortgage Brokers

At Bennett Capital Partners Mortgage Brokers, located on Brickell Avenue in Miami, we are your trusted Florida mortgage broker, specializing in residential and commercial loans.

Our services are tailored to your needs, offering competitive rates and fast turnarounds. Whether you're seeking a conventional, VA, or FHA loan, we've got you covered. We also offer financing for warrantable and non-warrantable condos, condo-tels, first-time homebuyers, foreign nationals, and more.

Our specialties include:

- DSCR loans
- No Doc Loans
- Hard money loans
- Bridge Loans
- Private lending
- Jumbo loans
- Investment property loans
- 100 percent financing

We proudly serve all of Florida, including areas like Edgewater, South Beach, Brickell, Coral Gables, Tampa, Orlando, Fort Lauderdale, Naples, and more. Contact us today for expert mortgage advice and personalized loan solutions across the state!

**Philip Bennett** 

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