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Renewed Hopes For Low Rates, But With a Price

If you're in a position to hope for rates to move lower, you **unavoidably become a fan** of some fairly morbid economic developments. Rates move lower when the price of bonds moves higher, and bonds are the quintessential safe-haven for investors.

For instance, if economic data or geopolitical headlines suggest tough times for the economy or big risks for the countries that make up the global financial system, investors may well want to stash their cash in something with a lower, but more predictable rate of return. As far as low, predictable rates of return go, it's **hard to beat the bond market**.

While concerns over the global economy have been increasing, they've been offset by relatively stronger readings on the US economy as well as a steady stream of rhetoric from the Fed. In other words, the international picture might motivate investors to buy more bonds (thus **pushing rates lower**), but the domestic picture and Fed policy had the opposite effect.

That may be **starting to change**.

This past week, we've received additional economic data that suggests the US economy **is, in fact, being dragged down** by the global malaise. Particularly, Retail Sales continue to be weak and producer level inflation dropped significantly (inflation has negative connotations in general, but in the current environment, the Fed would view it as a sign of an improving economy).

As investors consider the risk that the US economy is **facing a big-picture shift**, we've been seeing that classic example of 'safe-haven' strategy. This means that stocks have been lower and bonds have improved (which, again, means lower rates). In fact, rates hit new 5-month lows this week just as stocks struggled to break back above a ceiling that's been intact since late August.

This ceiling bears close watching. Using the **S&P 500 as an example**, it would be 2023, which can be seen as the flat line on the chart below. As stocks continue to flirt with that ceiling—but avoid breaking—rates have increasingly moved lower.

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	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:20PM 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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This situation will continue to play out IF the data continues to disappoint. The risk is that some economic reports come out in the next few weeks that help sooth investors' anxiety. That could be all it takes for stocks to **break the ceiling** and for expectations for rates to get back to doing what many thought they would be doing in 2015 (move higher). If that happens, the move higher in rates would be
abrupt and decisive.

If it doesn't happen, the move lower in rates would be slower, and more volatile. Adjust accordingly when it comes to locking and floating. **Bottom line:** look for opportunities to lock at periodic lows. If low rate fans end up getting their wish, there will be plenty of justification to refinance at even lower rates next year).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Oct 12				
12:00AM	Columbus Day			

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate

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Date	Event	Actual	Forecast	Prior
Wednesday, Oct 14				
7:00AM	w/e Mortgage Refinance Index	1631.4		2106.2
7:00AM	w/e MBA Purchase Index	169.6		257.4
8:30AM	Sep Retail sales mm (%)	+0.1	0.2	0.2
Thursday, Oct 15				
8:30AM	w/e Continued jobless claims (ml)	2.158	2.203	2.204
8:30AM	w/e Initial Jobless Claims (k)	255	265	263
8:30AM	Oct NY Fed manufacturing	-11.36	-8.00	-14.67
8:30AM	Sep CPI mm, sa (%)	-0.2	-0.2	-0.1
8:30AM	Sep Core CPI mm, sa (%)	+0.2	0.1	0.1
8:30AM	Sep Core CPI index, sa	243.21		242.69
10:00AM	Oct Philly Fed Business Index	-4.5	-1.0	-6.0
Monday, Oct 19				
10:00AM	Oct NAHB housing market indx	64	62	62
Tuesday, Oct 20				
8:30AM	Sep Build permits: change mm (%)	-5.0		2.7
8:30AM	Sep Building permits: number (ml)	1.103	1.164	1.161
8:30AM	Sep Housing starts number mm (ml)	1.206	1.150	1.126
Thursday, Oct 22				
10:00AM	Sep Exist. home sales % chg (%)	+4.7	1.4	-4.8
10:00AM	Sep Existing home sales (ml)	5.55	5.38	5.31

☆☆ Important
★★ Very Important

Responsive service, experienced expertise

I've dedicated my 26 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

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