

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

## 2016 Reminds Us How Completely Crazy Next Week Could Be For Rates

The 2016 election won't soon be forgotten in the mortgage or bond markets. Many of the predictions were dead wrong when it came to how interest rates would react to a Trump victory, and the reason ended up being very simple in hindsight. Are there any parallels that can help us prepare for the coming week?

First off, let's be clear on what we're discussing. A picture is worth more than words in this case.



10yr Treasury yields are the best indication of the longer-term bond market. Mortgage-backed bonds (which determine mortgage rates) tend to move in a substantially similar way over time. As such, it was **no surprise** to see mortgages walk a similar path. In short, interest rates got rocked (in a bad way).

## National Average Mortgage Rates



Rate      Change      Points

### Mortgage News Daily

30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00

### Freddie Mac

30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Rates as of: 8/30

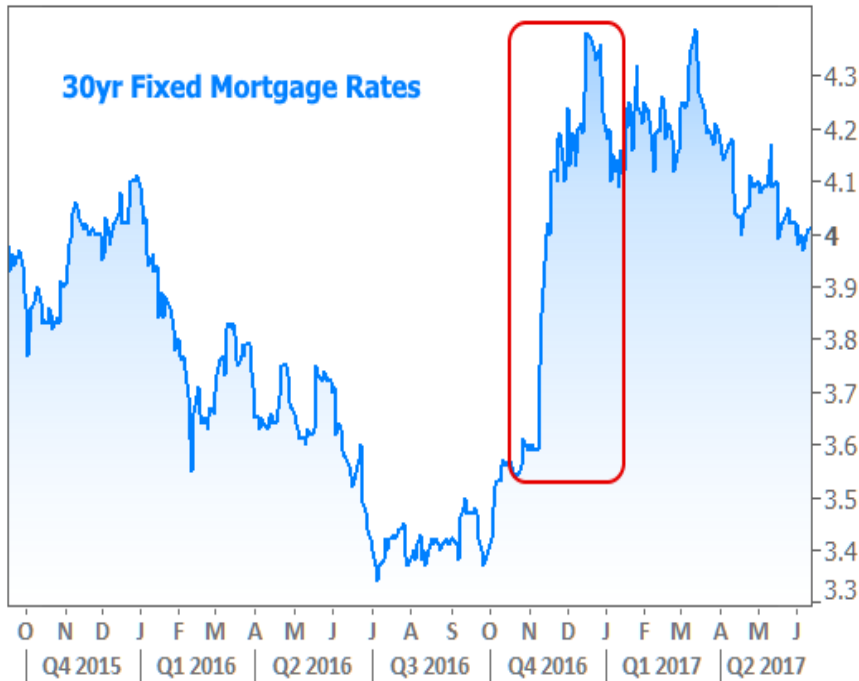
### Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM EST

### Recent Housing Data

	Value	Change
Mortgage Apps	Aug 28 226.9	+0.49%
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%



While the average market maven was preoccupied with the "uncertainty" of a Trump presidency causing stock losses and bond gains (i.e. lower rates), the reality was that unified republican control meant a tax cut was basically **guaranteed**. It only took markets a few hours in the middle of election night to wake up to that fact. Everyone who expected "uncertainty" to usher in lower rates was left scratching their heads (at least until 2019 when uncertainty surrounding the trade war actually did help rates move significantly lower).

That **begs the question**: can 2020 bring the same sort of volatility to the bond market and mortgage rates as 2016? The set-up is strikingly similar. Stocks are fresh off all-time highs. Bond yields are fresh off all-time lows and rising. One political party has a shot to win unified control of congress and the presidency.

To be very clear, we could **absolutely** see a big move in markets and sustained upward pressure in rates in November. **But** it would be a surprise to see a rate spike the size of 2016's--even more surprising than it was in 2016!

The pandemic is the first limiting factor. It doesn't seem to be going away any time soon. To whatever extent it subdues economic growth expectations heading into the winter, rates would be hard pressed to freak out like they did last time.

That said, rates **can still freak out**. Like 2016, the biggest risk for market volatility would be the shift from a legislative stalemate to unified control.

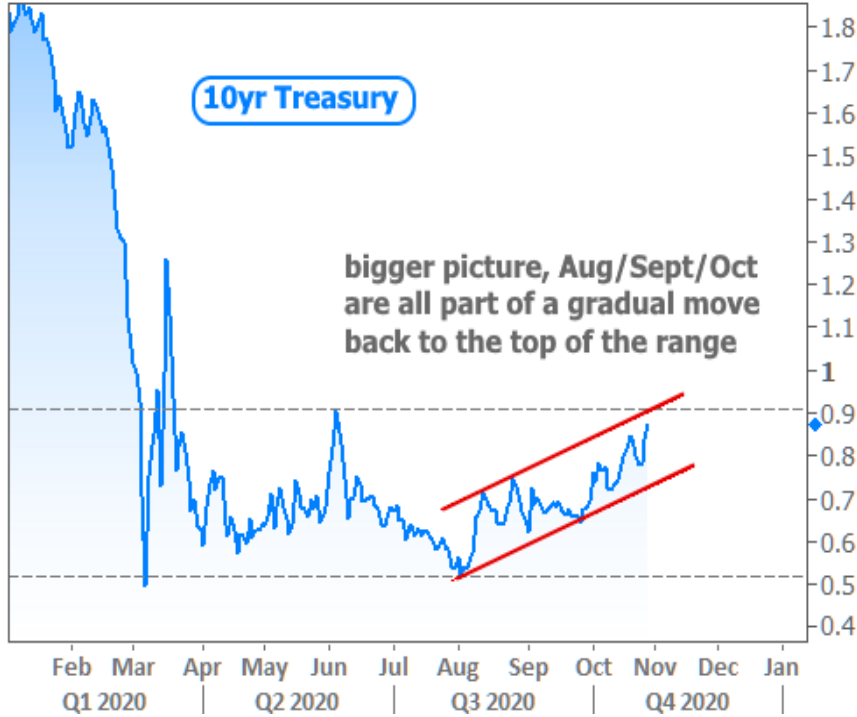
Like 2016, there are predictions and assumptions about what unified control would mean, but in addition to the point above about 2016's consensus being so wrong, 2020's implications are **easier to argue two ways**--at least until we have the benefit of hindsight, then suddenly everyone will talk about how clear it all was!

Almost every forecaster agrees unified democratic control would mean big stimulus and a tax policy adjustment in 2021. There's less agreement about the implications.

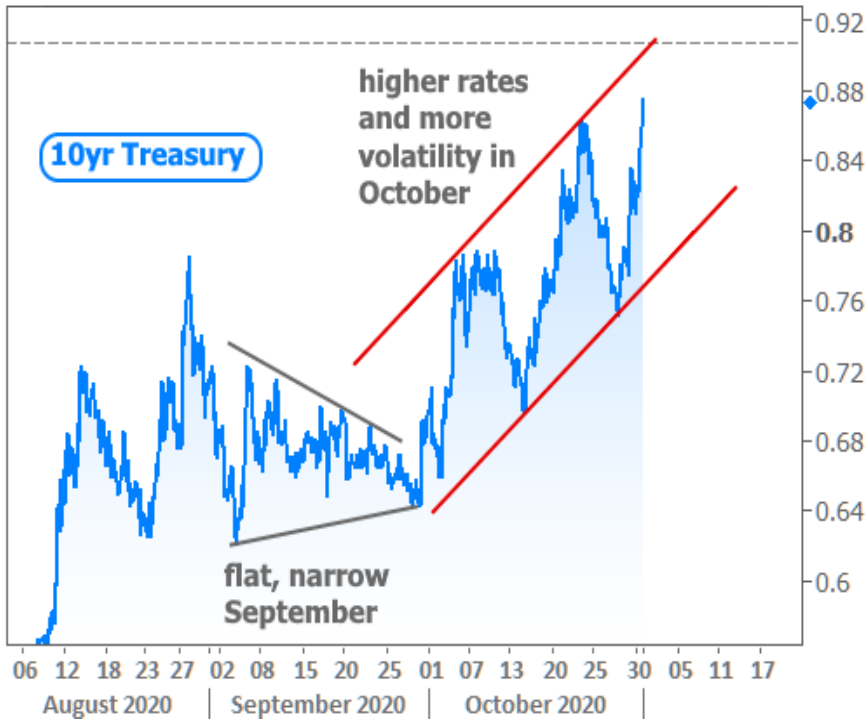
On the one hand, stimulus implies Treasury issuance (more government bonds to pay for "stuff") and thus a stronger economic recovery--both of which are bad for rates. On the other hand, tax hikes can hurt stocks, and they would unequivocally increase revenue, thus limiting the need for additional Treasury issuance. Both those things are **good** for rates, all other things being equal.

All other things are rarely equal and the path forward is no exception. Sure, tax revenue and a bear market in stocks would be great for rates, **but** stimulus spending (and the general ability of a unified government to spend more money) could overshadow the tax-based revenue benefits. By the time we add the economic benefits of fiscal stimulus, bonds could be very unhappy indeed.

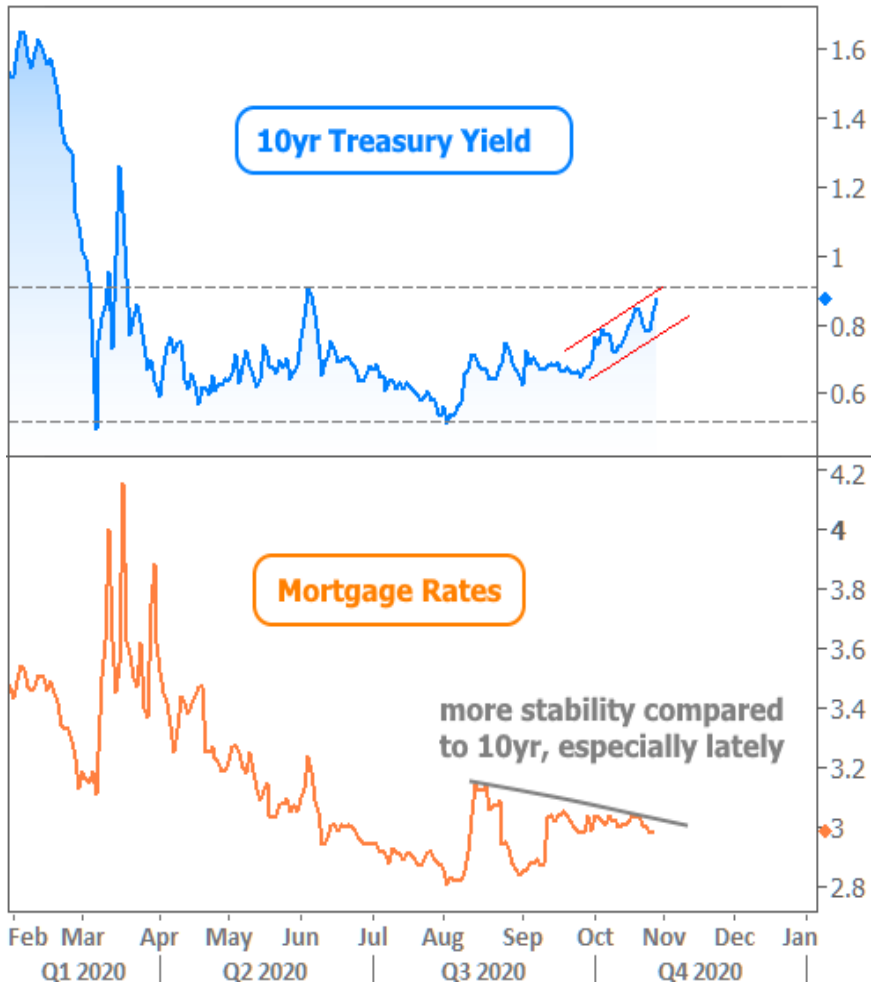
Perhaps this is a reason that Treasury yields have already taken a lead-off in an unhappy direction, moving back to the top of their range over the last 3 months.



The move in October is **even more telling**. In fact, bonds looked like they were calming down in September, but once October hit, the tone completely changed. This was initially a reaction to bipartisan stimulus prospects, but when rates continued higher even after stimulus was put on hold (and despite rising covid case counts), the election moved into the scapegoat spotlight.



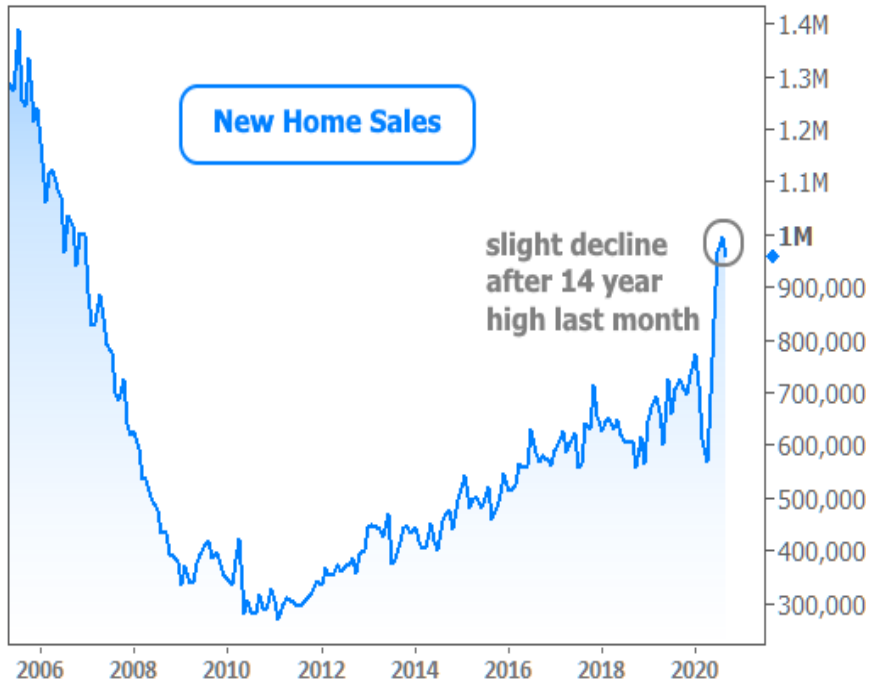
And now for the **biggest caveat of all**: mortgage rates have been **heroically defiant** throughout the rising rate trend seen in the past 2 charts. Let's compare them with Treasuries. Both spiked in August, but only one has done a nice job of recovering since then.

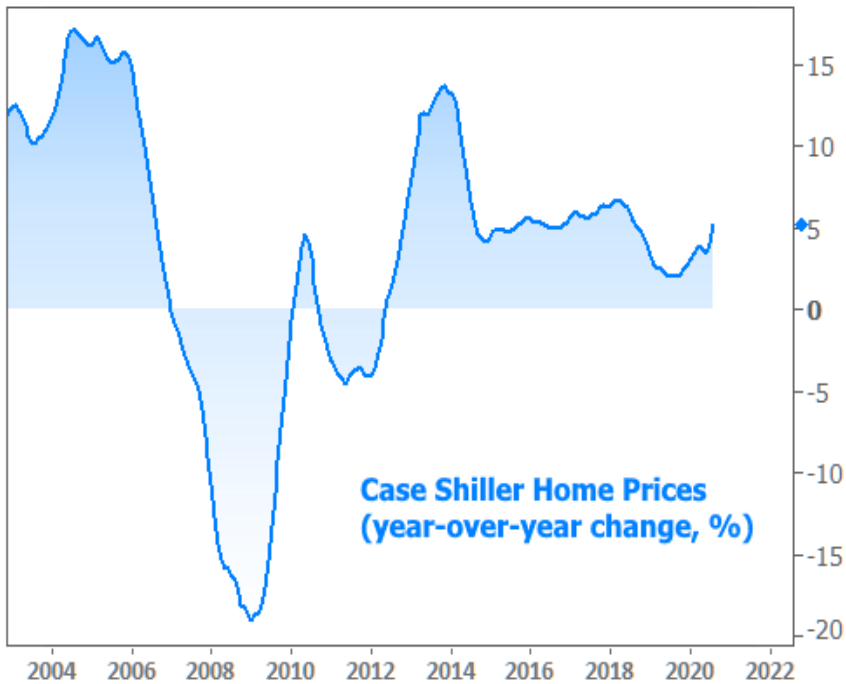


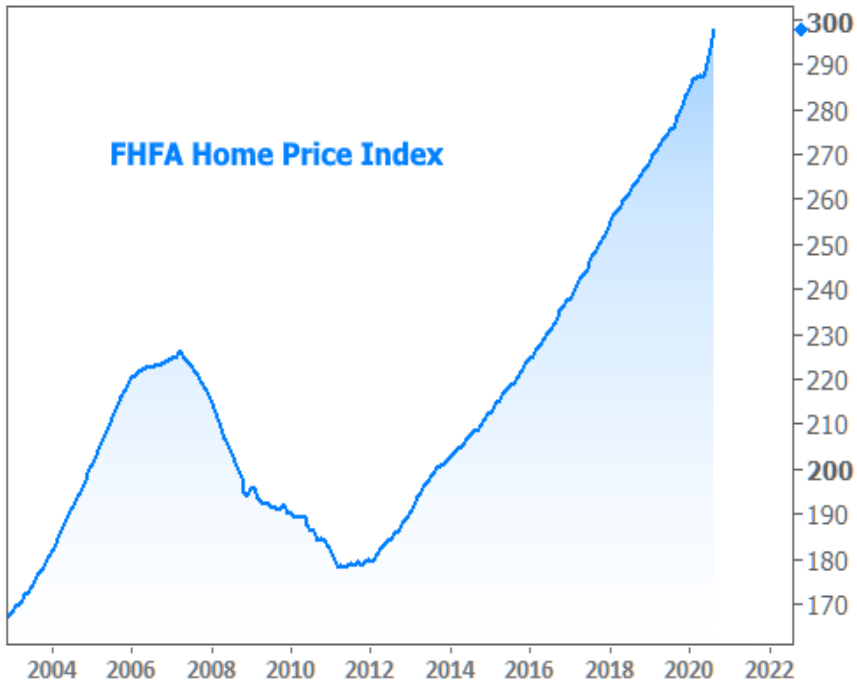
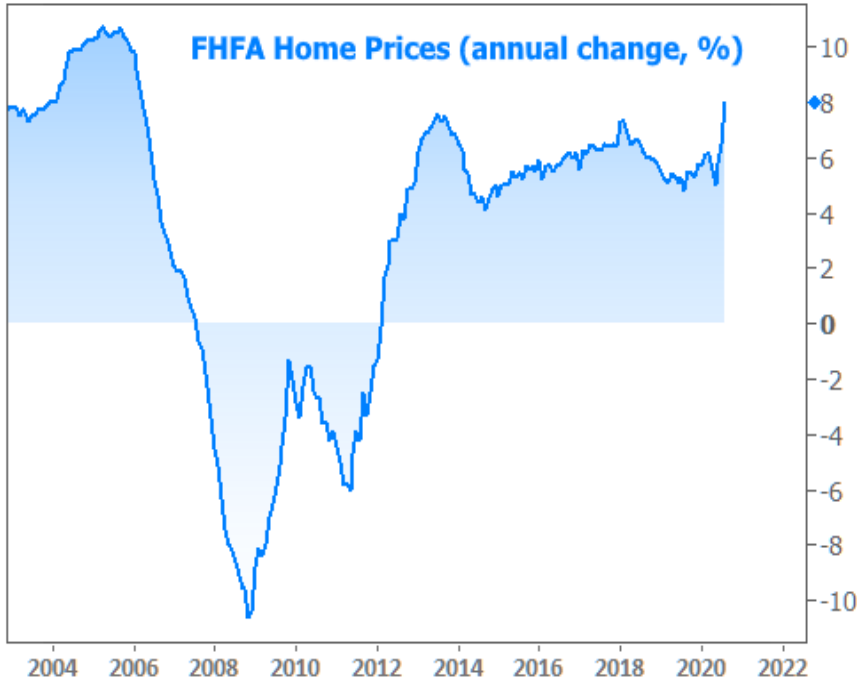
This **isn't** evidence of some special ability on the part of the mortgage market. Rather, it's a lingering byproduct of a mortgage-specific limitation. At the onset of the pandemic, mortgage rates simply weren't able to keep pace with the drop in Treasury yields. To this day, the average 30yr fixed mortgage rate is still farther away from 10yr Treasury yields than it ever was before the pandemic.

In other words, mortgage rates haven't had to rise much in the past few months because they never fell as much as the broader bond market suggested in the first place. **Bottom line:** yes, rates can definitely still rise as a result of next week's election. They could even enter a sustained period of upward movement. But a relatively apocalyptic scenario like the one seen in 2016 seems like more of a long shot this time around.

This week's housing data recap in charts:







One interesting fact about this last report (FHFA home prices) is that this data feeds the calculation for updated conforming loan limits next month. Given the acceleration in home price appreciation, the new loan limit is tracking for an increase of nearly \$40,000.

Subscribe to my newsletter online at: <http://mortgageratesupdate.com/tedrood>

**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
Monday, Oct 26				

**Event Importance:**

No Stars = Insignificant  
 ☆ Low



Date	Event	Actual	Forecast	Prior
10:00AM	Sep New home sales-units mm (ml)	0.959	1.025	1.011
10:00AM	Sep New home sales chg mm (%)	-3.5	2.8	4.8
<b>Tuesday, Oct 27</b>				
8:30AM	Sep Durable goods (%)	1.9	0.5	0.5
9:00AM	Aug CaseShiller 20 yy (%)	+5.2	4.2	3.9
9:00AM	Aug Monthly Home Price yy (%)	8.0		6.5
10:00AM	Oct Consumer confidence	100.9	102.0	101.8
1:00PM	2-Yr Note Auction (bl)	54		
<b>Wednesday, Oct 28</b>				
7:00AM	w/e MBA Purchase Index	305.2		304.6
7:00AM	w/e Mortgage Refinance Index	3711.6		3620.5
1:00PM	5-Yr Note Auction (bl)	55		
<b>Thursday, Oct 29</b>				
8:30AM	Q3 GDP Advance (%)	33.1	31.0	-31.4
8:30AM	w/e Jobless Claims (k)	751	733	787
10:00AM	Sep Pending Sales Index	130.0		132.8
10:00AM	Sep Pending Home Sales (%)	-2.2	3.4	8.8
1:00PM	7-Yr Note Auction (bl)	53		
<b>Friday, Oct 30</b>				
8:30AM	Sep Core PCE Inflation (y/y) (%)	1.5	1.7	1.6
9:45AM	Oct Chicago PMI	61.1	58.0	62.4
10:00AM	Oct Consumer Sentiment (ip)	81.8	81.2	81.2
<b>Monday, Nov 02</b>				
10:00AM	Oct ISM Manufacturing PMI	59.3	55.8	55.4
10:00AM	Sep Construction spending (%)	0.3	1.0	1.4
<b>Tuesday, Nov 03</b>				
10:00AM	Sep Factory orders mm (%)	1.1	1.0	0.7
<b>Wednesday, Nov 04</b>				
7:00AM	w/e MBA Purchase Index	301.2		305.2
7:00AM	w/e Mortgage Refinance Index	3949.8		3711.6
8:15AM	Oct ADP National Employment (k)	365	650	749
8:30AM	Sep International trade mm \$ (bl)	-63.9	-63.8	-67.1
10:00AM	Oct ISM N-Mfg PMI	56.6	57.5	57.8
<b>Thursday, Nov 05</b>				
2:00PM	N/A FOMC rate decision (%)	0 - 0.25	0.125	0.125
<b>Friday, Nov 06</b>				
8:30AM	Oct Non-farm payrolls (k)	638	600	661
8:30AM	Oct Unemployment rate mm (%)	6.9	7.7	7.9
10:00AM	Sep Wholesale inventories mm (%)	0.4	-0.1	-0.1

- ★ Moderate
- ★★ Important
- ★★★ Very Important

## 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** 