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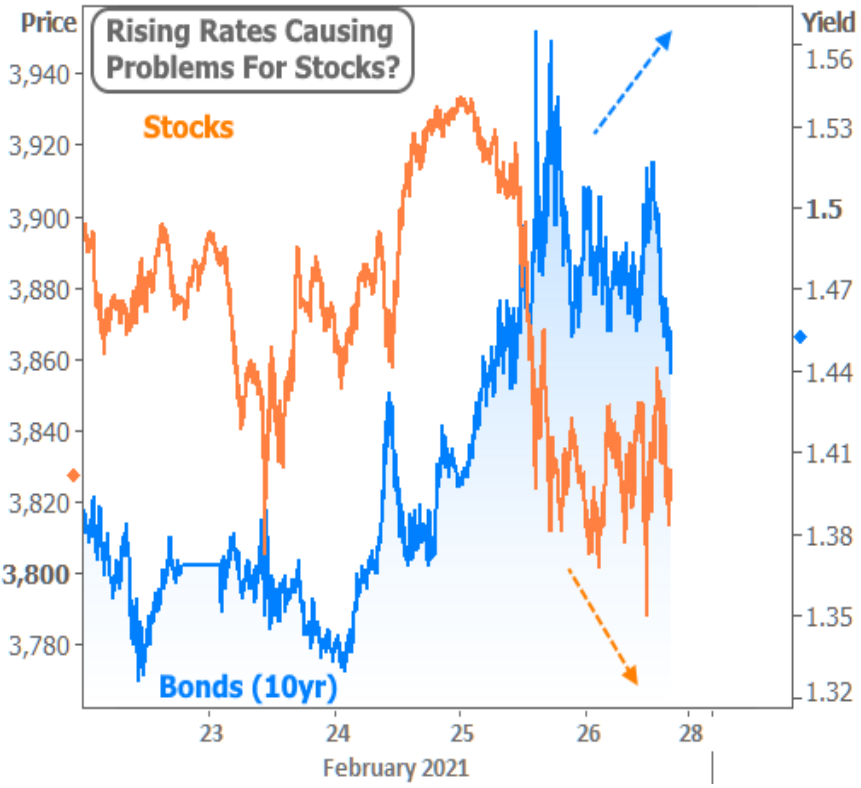
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Brutal Week For Rates But There's Hope (Hopefully)

Rising rates have been on the menu for months, but the drama kicked into a higher gear this week.

Maybe you heard about this? We've certainly been discussing it in recent newsletters (especially last week's). The rising rate narrative hit the mainstream this week as it was widely credited for doing damage to the stock market.



Perhaps you even caught one of Thursday's many mortgage rate headlines citing the spike in Freddie Mac's weekly mortgage rate survey. Freddie reported a jump in 30yr fixed rates from 2.81 to 2.97, their **biggest** in nearly a year.

Unfortunately, Freddie was **low** last week and they're **WAY low** this week. This is a common problem when things are this volatile. Although their survey is published on Thursdays, most of the responses are in by Monday. As such, their numbers didn't capture the **brutal** spikes that came later in the

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	98.70	+0.00
10 YR Treasury	5.1260	-0.0082
30 YR Treasury	5.4741	-0.0017

Pricing as of: 11/16 7:31PM 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%

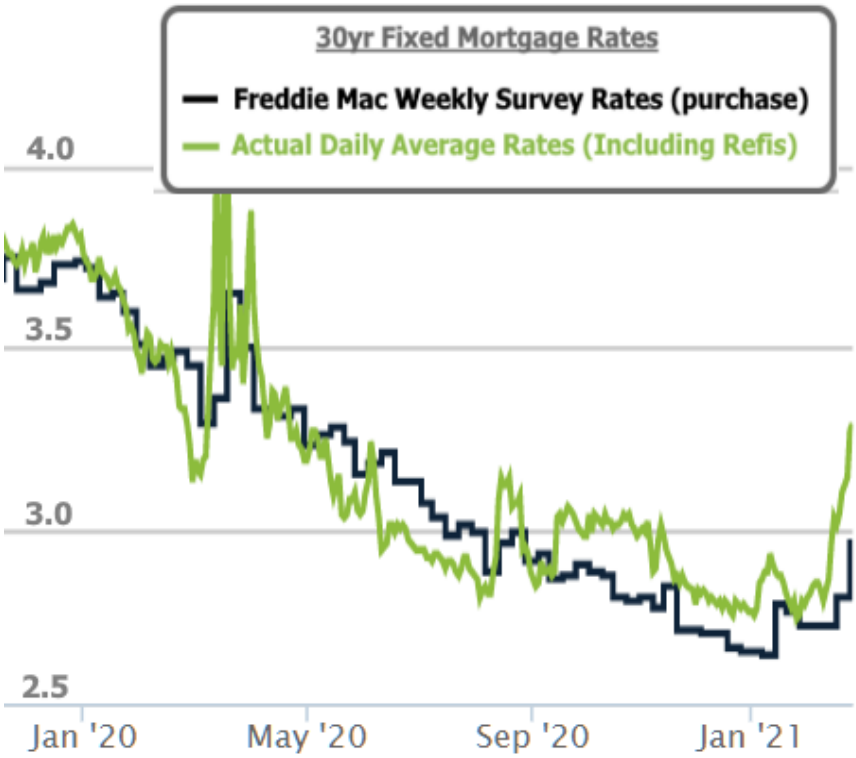
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week.

How brutal can a spike really be if we're still talking about rates in the low 3's? That's entirely a matter of perspective. If you'd decided to float your rate back at 2.75%, figuring that rates only ever go lower, February hasn't been great for you.



So why is all this happening? And more importantly, is it going to **KEEP** happening?

First off, **two separate things** are happening. On the one hand, we have the well-known, well-understood, and well-explained rising rate trend that's been intact for months. If you're a regular reader of the newsletter, you might be tired of that one by now. You can revisit one of any number of past newsletters for a refresher (here's a good one from late January).

In a nutshell, if covid caused a rapid surge to persistent all-time low rates, the improving outlook had the opposite effect--albeit a gradual one at first.

The other thing that's happening is a recent acceleration in the longstanding trend--first in 2021, but then to an even greater degree over the past 2 weeks.

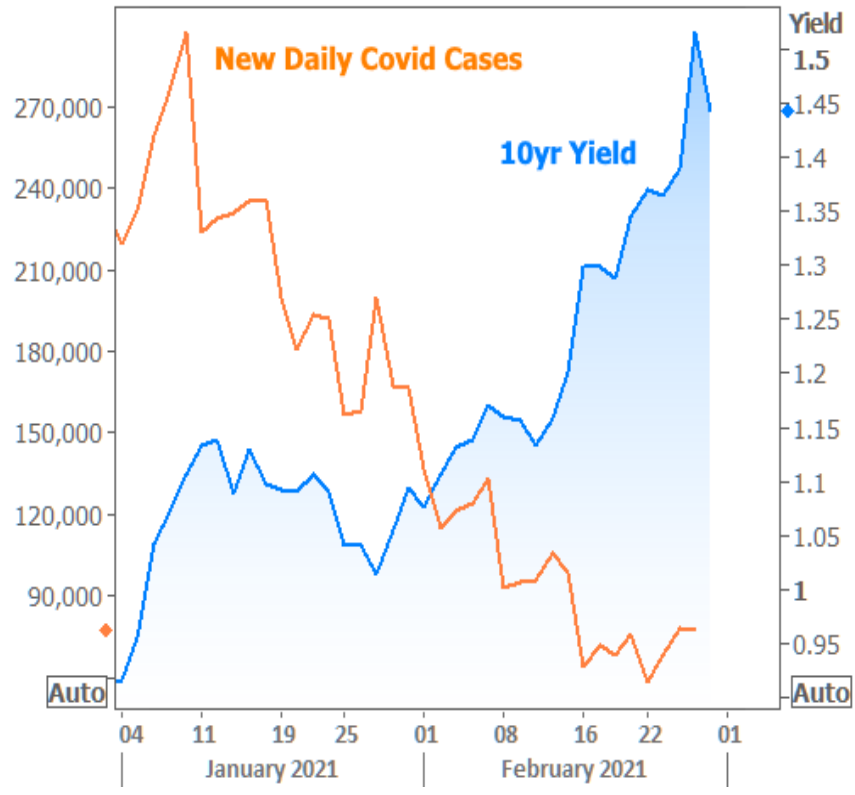
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Plummeting case counts played a big, logical role here as well as the Georgia senate election and progress on fiscal stimulus. Stimulus hurts rates by increasing the supply of Treasuries, and higher supply means higher rates, all other things being equal.



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There was a fresh reminder about Treasury market supply at center stage for this week's rout. The 7yr Treasury auction on Thursday was the worst of its kind since its debut in 2009 (a bad auction speaks to an **absence of demand**, which has a similar effect on rates as an abundance of supply). Bonds hit their weakest levels of the week/month/year immediately after that, but thankfully appear to have stabilized since then.



The Treasury auction definitely wasn't the **only** consideration this week. After all, the volatility had already kicked into higher gear last week. There aren't any satisfying specifics though. It's a combo deal that all speaks to the improved outlook for covid and the post-covid economy.

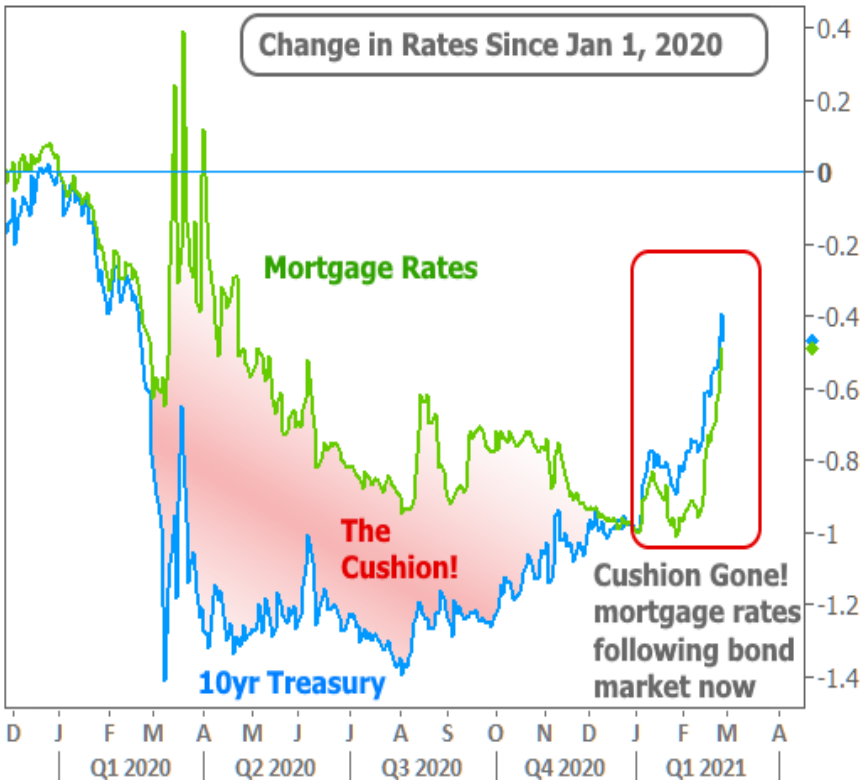
There are also some highly technical trading motivations for bond investors that have to do with the changes in the rate landscape. These can force money managers to make big adjustments to their holdings, and those adjustments often play out in these sorts of "snowball selling" episodes when traders have the same collective realizations.

As for the mortgage market specifically, everything is happening exactly as we said it would more than 2 months ago. Mortgage rates have increasingly been **forced** to pay attention to broader bond market volatility. This week was the best (worst) example yet. The cushion is deflated, and the mortgage market is no longer invincible.

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Reasons aside, the **big question** is whether the drama continues, or the bounce back is just the beginning of a deeper recovery. While there's never any way to know for sure, what we CAN know is that our odds (of a recovery) **improve** as rates move **higher**. In that sense, the brutality of the past 2 weeks is one of the best indications of potential support. While that doesn't necessarily make a friendly bounce **likely**, it's **more likely** than it was after last week's big rate spike.

Optimism aside, keep in mind that this is a **rising rate environment** in general, and we don't currently have a reason to believe that trend is at risk of dying. What we'd be hoping for here is a return to a more stable uptrend in rates. That "return" could help rates move a bit lower in the short term before resuming their gradual uptrend. Ultimately, it will be up to the course of the pandemic, the economy, fiscal spending, Fed policy, inflation, and other macroeconomic factors to determine the rate range through the end of the year.

Next week brings important updates as far as economic data is concerned. There will be several reasonably important reports throughout the week culminating in Friday's all-important jobs report.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 23				
9:00AM	Dec CaseShiller 20 yy (%)	+10.1	9.9	9.1
9:00AM	Dec CaseShiller 20 mm SA (%)	+1.3	1.3	1.4
9:00AM	Dec Monthly Home Price yy (%)	+11.4		11.0
10:00AM	Feb Consumer confidence	91.3	90.0	89.3

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:24AM	Powell Congressional Testimony			
Wednesday, Feb 24				
7:00AM	w/e MBA Purchase Index	264.9		299.5
7:00AM	w/e MBA Refi Index	3848.1		4337.0
10:00AM	Jan New Home Sales (%) (%)	4.3	2.1	1.6
10:00AM	Jan New Home Sales (ml)	0.923	0.855	0.842
10:32AM	Powell Congressional Testimony			
1:00PM	5-Yr Note Auction (bl)	61		
Thursday, Feb 25				
8:30AM	Q4 GDP Prelim (%)	4.1	4.2	4.0
8:30AM	Jan Durable goods (%)	3.4	1.1	0.5
8:30AM	Jan Core CapEx (%)	0.5	0.7	0.7
8:30AM	w/e Jobless Claims (k)	730	775	861
10:00AM	Jan Pending Sales Index	122.8		125.5
10:00AM	Jan Pending Home Sales (%)	-2.8	0.0	-0.3
Friday, Feb 26				
8:30AM	Jan Core PCE Inflation (y/y) (%)	1.5	1.4	1.5
9:45AM	Feb Chicago PMI	59.5	61.1	63.8
10:00AM	Feb Sentiment: 5y Inflation (%)	2.7		2.7
10:00AM	Feb Sentiment: 1y Inflation (%)	3.3		3.3
10:00AM	Feb Consumer Sentiment (ip)	76.8	76.5	76.2
Monday, Mar 01				
10:00AM	Feb ISM Manufacturing PMI	60.8	58.8	58.7
10:00AM	Jan Construction spending (%)	1.7	0.8	1.0
Wednesday, Mar 03				
8:15AM	Feb ADP National Employment (k)	+117	177	174
10:00AM	Feb ISM N-Mfg PMI	55.3	58.7	58.7
10:00AM	Feb ISM N-Mfg Bus Act	55.5	60.0	59.9
Thursday, Mar 04				
8:30AM	Q4 Labor Costs Revised (%)	6.0	6.6	6.8
10:00AM	Jan Factory orders mm (%)	2.6	2.1	1.1
Friday, Mar 05				
8:30AM	Feb Non-farm payrolls (k)	379	182	166
8:30AM	Feb Unemployment rate mm (%)	6.2	6.3	6.3
8:30AM	Jan International trade mm $ (bl)	-68.2	-67.5	-66.6

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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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