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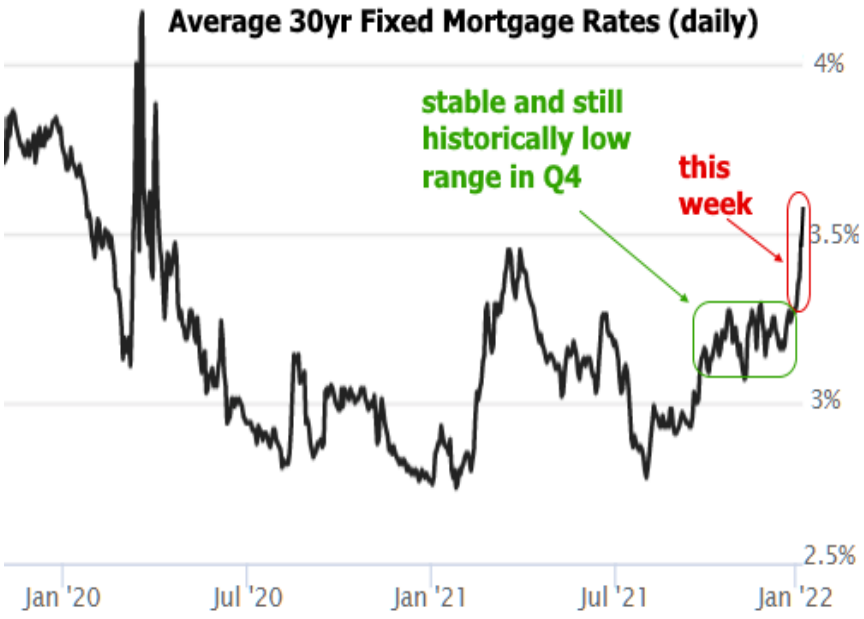
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Highest Mortgage Rates in Nearly 2 Years

Seemingly overnight, the mortgage rate narrative has changed rather drastically, at least in relative terms. While rates had risen gradually from near-all-time lows in August, they were still in a historically low range by the end of December. A week later and we're at the **highest levels in 2 years**.

There are all kinds of ways to quantify the movement, but a chart provides the clearest picture.



In other words, rates weren't **ridiculously** far from longer-term highs even before this week. It's just a bit of a surprise to see how quickly they closed that gap.

So **WHY** did it happen?

Rates are based primarily on the bond market and bonds have **several concerns** at the moment. The biggest general concern is the shift in the narrative surrounding covid and the omicron variant.

Traders were already prepared for a big uptick in covid case counts based on the omicron surge in other countries and subsequently in certain parts of the US in December, but they're also cognizant of the possibility that omicron may not impact the economy in the same way as the delta variant. At the same time, there's speculation that record-setting cases counts could hasten

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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covid's endemic status **much earlier** than previously expected.

Bonds feed on fear, turmoil, and risk aversion. If the pandemic outlook might be improving, the net effect is upward pressure on rates, all other things being equal. Whether they're right or wrong, traders are **looking past** what may be a challenging January in terms of covid and forward to a more economically palatable phase of the pandemic. At the very least, they're positioning for the possibility, and in this case, that means higher rates.

But that's just the general side of the story. There are specifics as well--individual events that can be clearly tied to drama in the bond market. This week's most notable example was an update from the Federal Reserve that suggested an even more rapid removal of rate-friendly policies.

We already know the Fed is decreasing the amount of **new bonds** it buys each month (aka "**tapering**"). That means the Fed's bond portfolio is still growing, but at a slower pace each month.

We also already know that the Fed **accelerated** their tapering process as announced 3 weeks ago. They did this in order to hike the Fed Funds Rate sooner (the Fed's playbook calls for finishing tapering before hiking rates).

The bond market had done a good job digesting all of the above because according the Fed's playbook, they would still be reinvesting 100% of the proceeds from those bond holdings for quite some time even after rate hikes begin. The last time they normalized policy in this way, there was a **TWO YEAR gap** between the first rate hike and the first instance of balance sheet reduction.

That brings us to this week's big news from the Fed. The minutes of the last Fed meeting were released on Wednesday. They offered new insights to the Fed's line of thinking. To make a long, boring, complicated story very short, they are **NOT using exactly the same playbook** this time around when it comes to shrinking the balance sheet. In fact, rather than 2 years, it looks like balance sheet runoff could begin **only a few months** after the first rate hike.

With much of the market expecting the first rate hike in March, that means the balance sheet runoff could start as early as June. At least one Fed speaker confirmed such a timeline by the end of the week. That would mean the Fed moved from a tapering announcement to balance sheet reduction in just over 6 months. That same process took nearly 4 years last time (December 2013 tapering announcement and September 2017 balance sheet announcement).

All of the above is **a bit sudden** as far as the bond market is concerned. Simply put, traders are rushing to get in position for this new reality.

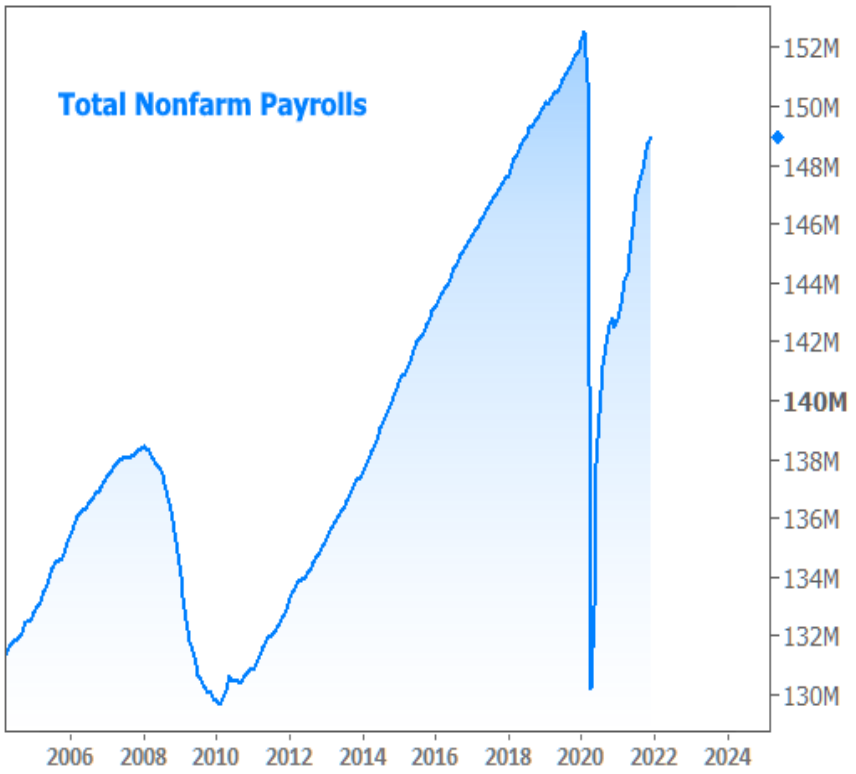
One other key data point this week was the Employment Situation report for December (aka, the jobs report, or non-farm payrolls). The jobs data was a bit confusing when it came to the market reaction. The payroll count fell **well short** of expectations and that's typically good for rates. This time around, rates continued to rise to new, long-term highs.

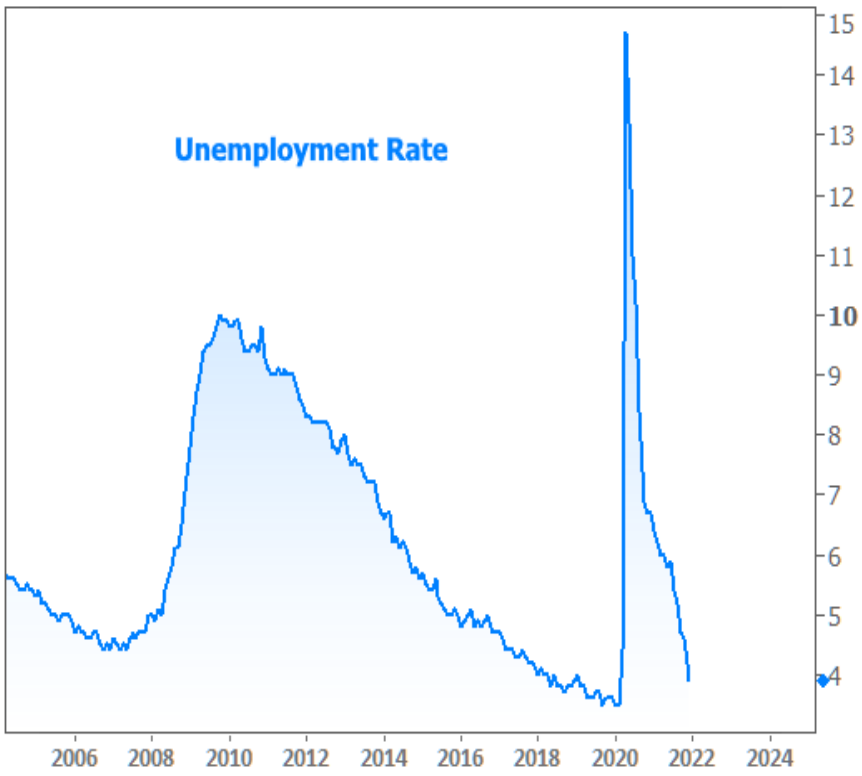
One **counterpoint** is that although the payroll number was lower, other aspects of the report were solid. These included the 3.9% unemployment rate and stronger than expected wage growth. Low unemployment rates are occasionally explained away by drops in labor force participation, but in this case, there was no drop. Moreover, the age demographics of the unemployment numbers were also economically encouraging.

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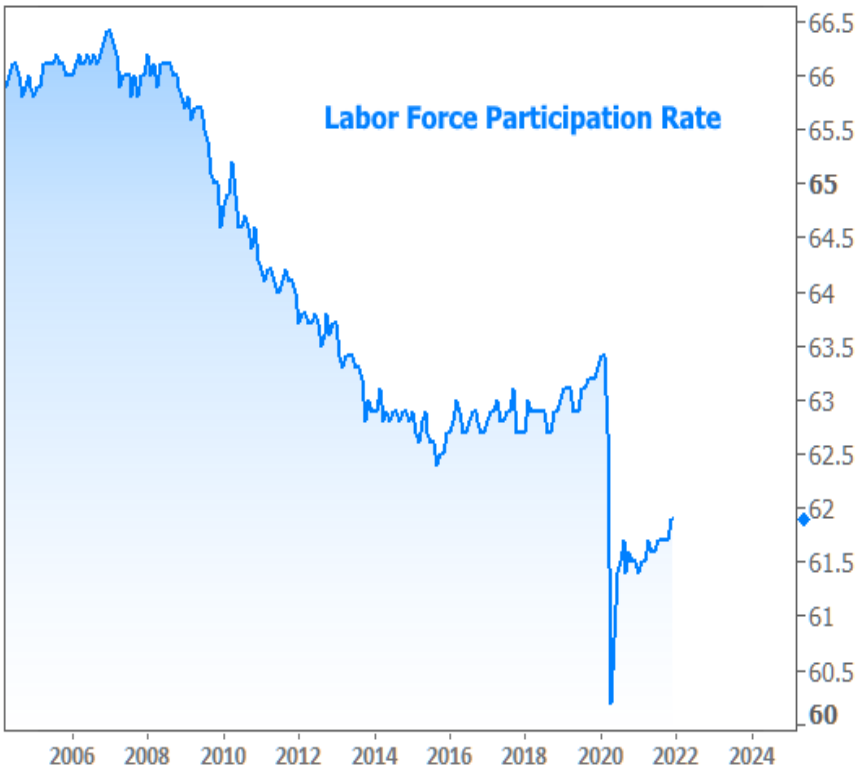




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Ultimately though, the most important part of the jobs data was that it wasn't discouraging enough to raise any major objection to the Fed's message from earlier in the week. Until Friday morning, some traders may have been holding out for that.

The bottom line is that a very big, very important, and relatively abrupt "repricing" of expectations is taking place. It has to do both with omicron's impact and the Fed's policy outlook. Batten down the hatches, etc. Things could get worse before they get better.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jan 03				
10:00AM	Dec ISM Manufacturing PMI		60.2	61.1
Tuesday, Jan 04				
10:00AM	Dec ISM Manufacturing PMI	58.7	60.0	61.1
10:00AM	Dec ISM Mfg Prices Paid	68.2	79.5	82.4
Wednesday, Jan 05				
7:00AM	w/e MBA Purchase Index	277.3		308.7
7:00AM	w/e MBA Refi Index	2351.3		2411.3
8:15AM	Dec ADP National Employment (k)	807	400	534
10:00AM	Dec ISM N-Mfg Bus Act			74.6
10:00AM	Dec ISM N-Mfg PMI		67.0	69.1
2:00PM	Fed Meeting Minutes			
Thursday, Jan 06				
8:30AM	w/e Jobless Claims (k)	207	197	198
8:30AM	w/e Continued Claims (ml)	1.754	1.688	1.716
10:00AM	Dec ISM N-Mfg Bus Act	67.6	71.0	74.6
10:00AM	Dec ISM N-Mfg PMI	62.0	66.9	69.1
Friday, Jan 07				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Dec Average earnings mm (%)	0.6	0.4	0.3
8:30AM	Dec Non-farm payrolls (k)	199	400	210
8:30AM	Dec Average workweek hrs (hr)	34.7	34.8	34.8
8:30AM	Dec Unemployment rate mm (%)	3.9	4.1	4.2
Monday, Jan 10				
10:00AM	Nov Wholesale inventories mm (%)	1.4	1.2	1.2
Tuesday, Jan 11				
7:00AM	w/e MBA Purchase Index			277.3
7:00AM	w/e MBA Refi Index			2351.3
1:00PM	3-Yr Note Auction (bl)	52		
Wednesday, Jan 12				
8:30AM	Dec Core CPI (Annual) (%)	5.5	5.4	4.9
8:30AM	Dec Consumer Price Index (CPI) (%)	0.5	0.4	0.8
1:00PM	10-yr Note Auction (bl)	36		
Thursday, Jan 13				
8:30AM	Dec Core Producer Prices YY (%)	+8.3	8.0	7.7
8:30AM	Dec Producer Prices (%)	+0.2	0.4	0.8
1:00PM	30-Yr Bond Auction (bl)	22		
Friday, Jan 14				
8:30AM	Dec Retail Sales (%)	-1.9	0.0	0.3
8:30AM	Dec Import prices mm (%)	-0.2	0.3	0.7
9:15AM	Dec Industrial Production (%)	-0.1	0.3	0.5
10:00AM	Jan 1yr Inflation Outlook (%)	4.9		4.8
10:00AM	Jan 5yr Inflation Outlook (%)	3.1		2.9
10:00AM	Jan Consumer Sentiment	68.8	70.0	70.6
10:00AM	Nov Business Inventories (%)	1.3	1.3	1.2

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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