

Scott Munds

Senior Loan Officer, Promise Home Loans NMLS #OR 272506 Serving the Northwest - Portland Office, OR 97224

The Fed's Playbook is Already Out For Next Week And Rates Have Already Reacted

The first few months of 2022 have seen rates rise at the fastest pace since the 1980s as a confluence of known issues collided with unexpected volatility due to the war in Ukraine.

Known issues were actually fairly straightforward before Ukraine.

Issue 1: The Fed's New Inflation Framework

In August 2020, the Fed announced a long-awaited **change to its inflation fighting strategy.** Applying lessons from the past decade of monetary policy, the Fed concluded that the economic recovery would have been better for a wider group of Americans if inflation had been allowed to run a bit hotter for a bit longer. The newly announced framework meant the Fed would be waiting longer to hike rates the next time it was faced with that decision-something that was incidentally quite relevant considering it had just cut rates to record lows (0-0.25%) at the onset of the pandemic.

Along with the big rate cut, the Fed was also buying mortgage debt and Treasuries at the fastest pace ever. This bond buying made low rates even lower. The inflation landscape in August 2020 suggested no end in sight for the Fed's rate-friendly policies. The line in the following chart would need to rise well above 2.5% for the Fed to even open a conversation on tapering bond purchases or hiking rates. Office: (971) 708-0281 Mobile: (503) 969-9929 Fax: (971) 260-2540 smunds@promiseloans.com View My Website

National Average Mortgage Rates



Mortgage News Daily

intoi tgage i tews i	Dany		
30 Yr. Fixed	7.52%	+0.13	0.00
15 Yr. Fixed	6.91%	+0.08	0.00
30 Yr. FHA	7.00%	+0.13	0.00
30 Yr. Jumbo	7.68%	+0.10	0.00
5/1 ARM	7.55%	+0.15	0.00
Freddie Mac			
30 Yr. Fixed	7.17%	-0.27	0.00
15 Yr. Fixed	6.44%	-0.32	0.00
Rates as of: 4/25			

Market Data

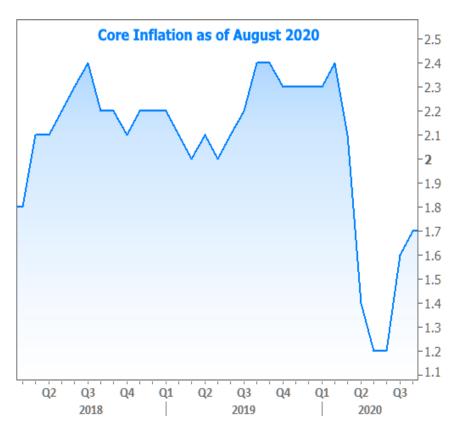
	Price / Yield	Change
MBS UMBS 6.0	99.09	-0.34
MBS GNMA 6.0	100.12	-0.13
10 YR Treasury	4.7029	+0.0607
30 YR Treasury	4.8123	+0.0411
Pricing as of: 4/25 4:29PM EST		

Recent Housing Data

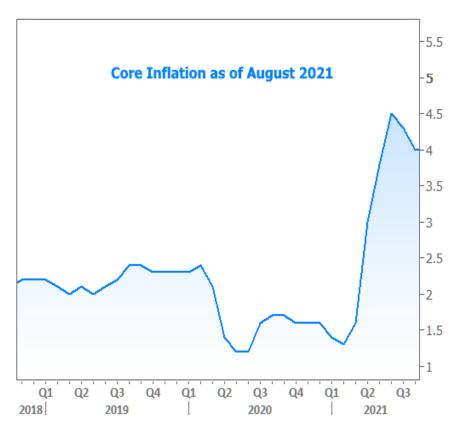
		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

© 2024 MBS Live, LLC. - This newsletter is a service of MarketNewsletters.com.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.



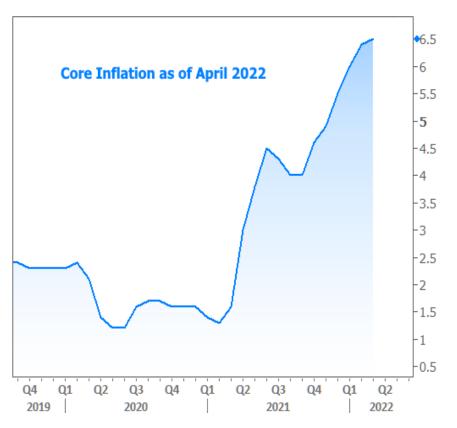
In the months that followed, inflation actually declined as the more normal months from late 2019 and early 2020 fell off the year-over-year calculation. But by the 2nd half of 2021, it would be an understatement to say that things were changing quickly.



© 2024 MBS Live, LLC. - This newsletter is a service of MarketNewsletters.com.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.

Despite this surge in inflation, the Fed believed it would subside with pandemic-related supply bottlenecks eased. It was determined not to shortchange the economic recovery by making what it feared would be the mistake of tightening policy too early to achieve the best economic recovery. Unfortunately, this happened:

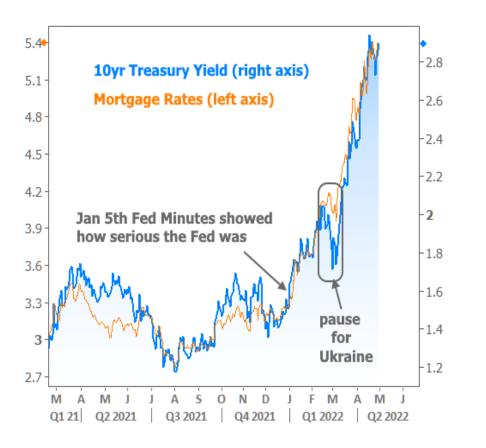


Issue 2: The Underestimation of Post-Covid Inflation

By the 4th quarter of 2021, it was clear the Fed had miscalculated the inflation trend and had to move quickly to tighten policy. They began the process in September, but they were forced to make a series of harsher adjustments as inflation intensified. The onset of 2022 lines up very well with the market's most jarring realizations about the Fed's sense of urgency, largely due to the minutes from December's Fed meeting (released on January 5th).

© 2024 MBS Live, LLC. - This newsletter is a service of <u>MarketNewsletters.com.</u>

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.



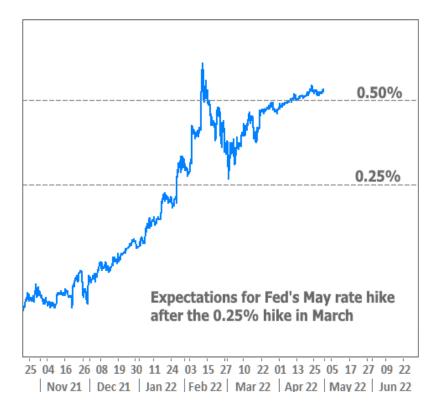
Issue 3: The Pause For Ukraine

As the chart above shows, rates recovered for several weeks at the onset of the Ukraine war. This is logical because massive geopolitical risks tend to drive investors toward the safest havens like US Treasuries (and mortgage bonds, to a lesser extent). In the case of Russia and Ukraine, however, there were also inflation implications associated with the war. The narrative quickly became one that was going to be bad for rates either way: if the war ended quickly, rates would bounce higher as investors moved out of safe havens. If the war persisted, rates would bounce higher as inflation fear ran wild.

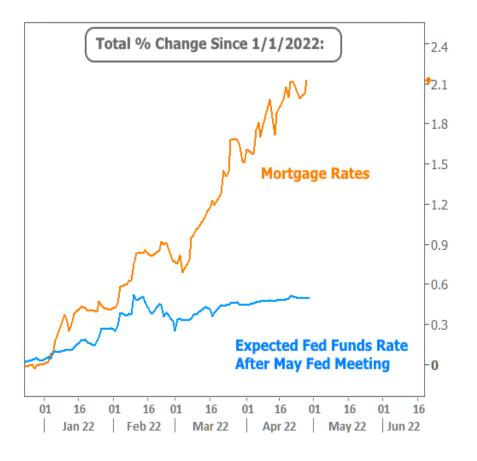
The bottom line with the Ukraine issue is that it stretched rates briefly lower like a rubber band, thus increasing the momentum with which they continued to skyrocket. The Ukraine effect was easiest to see in shorter term rates and expectations for Fed rate hikes.

© 2024 MBS Live, LLC. - This newsletter is a service of MarketNewsletters.com.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.



But the rubber band effect was felt more readily in longer term rates like those for 30yr fixed mortgages.



Issue 4: The Mortgage Market's Specific Problem

© 2024 MBS Live, LLC. - This newsletter is a service of MarketNewsletters.com.

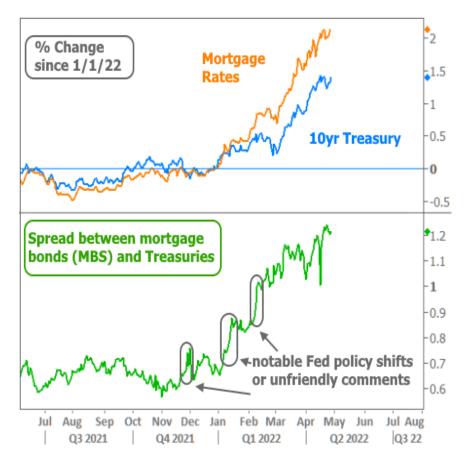
The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.

Mortgage rates are based on the trading price of mortgage-backed securities (MBS). The Fed had been buying MBS by the truckload until it began winding down purchases in late 2021, ultimately ending any new purchases in March. That said, MBS basically mean the Fed is a mortgage lender, and as payments come in on those mortgage holdings, the Fed was still reinvesting them back into the MBS market. In this way, the Fed was not technically adding new bonds to its portfolio--just replacing those that had "run-off."

Past precedent suggested it would be a while before the Fed would allow its balance sheet to begin running off, thereby reducing the amount of MBS purchases. This process of decreasing overall MBS holdings is known as "balance sheet normalization." But week after week--especially in March and April--Fed speakers hinted at a much faster pace of normalization.

Normalization is a bigger issue for MBS than for US Treasuries (the other type of bond on the Fed's chopping block). MBS are also more susceptible to volatility. Last but not least, several Fed speakers suggested the Fed could actually SELL MBS outright--something that had never been on the table before. These combined issues lead the mortgage market to underperform the Treasury market. With Treasury yields also moving higher, this meant mortgage rates had to move higher at an even faster pace.

The chart below captures the underperformance in mortgages, both in terms of 30yr fixed rates rising more quickly, and in terms of investors' valuation of MBS (the higher the green line is, the worse MBS are doing versus Treasuries).

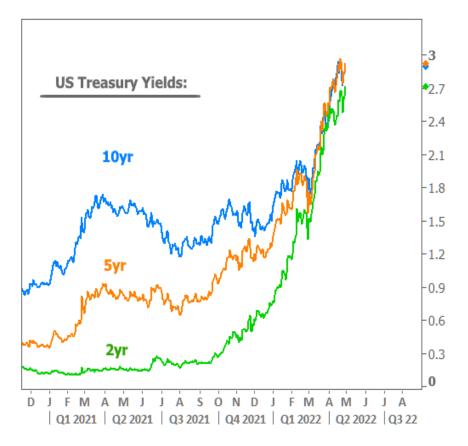


Bringing it All Together.

© 2024 MBS Live, LLC. - This newsletter is a service of <u>MarketNewsletters.com</u>.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.

The net effect is that 30yr fixed rates have risen almost an additional 0.60% above the spike suggested by the often used 10yr Treasury yield benchmark. To be clear, this has much more to do with the Fed's normalization outlook than it does with the rate hike outlook. The mortgage market really doesn't care much about how big the next Fed rate hike will be. It cares far more about how high the Fed will ultimately hike and how quickly it completely stops reinvesting MBS proceeds. Longer term rates have suffered much less than shorter-term rates:



Is There Any Hope?

First off, it's important to understand that much of the impact from the Ukraine war and the associated commodity price spike has yet to work its way through inflation reports. Much depends on how the inflation narrative unfolds in the coming months. What we do know is that when short-term rates rise to meet longer term rates as seen in the chart above, the "next thing" that happens is for all rates to move lower again.

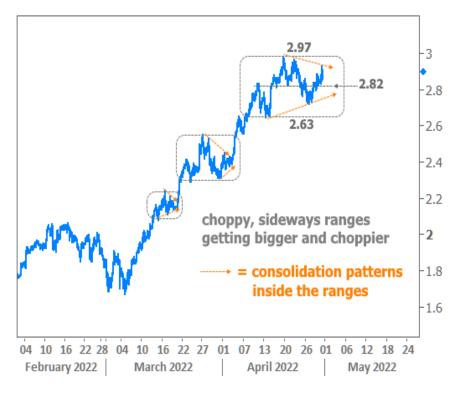
That sounds like great news! But be warned: the **timing** of that "next thing" is measured in "months" at a minimum, and in 2005, it took more than a year for the big reversal to happen.

© 2024 MBS Live, LLC. - This newsletter is a service of MarketNewsletters.com.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.



In the short term, rates continue to look for opportunities to consolidate. Several recent opportunities have failed, so we continue to defend against repeat performances (i.e. expect the blue line to move up and out of its most recent box) while hoping to see something change.



© 2024 MBS Live, LLC. - This newsletter is a service of <u>MarketNewsletters.com</u>.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.

The biggest to-do in the coming days will be next week's Fed announcement and press conference. NOTE: it is already a foregone conclusion that the Fed will hike by 0.50%. The market has already priced this in (for more a month, in fact!):



Nearly as certain is the fact that the Fed will announce balance sheet normalization. There too, the bond market has already been trading accordingly. What we don't know is whether the bond market has over-prepared or under-prepared for the normalization announcement. We also don't know what other details the Fed may communicate, or if they will be different than those suggested by the meeting minutes from early April. Either way, **significant volatility** is possible next week, especially surrounding Wednesday afternoon's Fed announcement.

Subscribe to my newsletter online at: http://housingmarketweekly.com/scottmunds

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Apr 26				
8:30AM	Mar Durable goods (%)	0.8	1.0	-2.1
9:00AM	Feb Case Shiller Home Prices-20 y/y (%)	+20.2	19.0	19.1
9:00AM	Feb FHFA Home Prices y/y (%)	19.4		18.2
10:00AM	Apr Consumer confidence	107.3	108.0	107.2
10:00AM	Mar New Home Sales (ml)	0.763	0.765	0.772
10:00AM	Mar New Home Sales (%) (%)	-8.6		-2.0
Wednesday, Apr 27				
7:00AM	w/e MBA Purchase Index	234.7		254.0
7:00AM	w/e MBA Refi Index	930.7		1023.2
10:00AM	Mar Pending Home Sales (%)	-1.2	-1.6	-4.1

Event Importance:



© 2024 MBS Live, LLC. - This newsletter is a service of MarketNewsletters.com.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.

Date	Event	Actual	Forecast	Prior
10:00AM	Mar Pending Sales Index	103.7		104.9
Thursday	v, Apr 28			
8:30AM	Q1 GDP Advance (%)	-1.4	1.1	6.9
8:30AM	w/e Jobless Claims (k)	180	180	184
Friday, A	pr 29			
8:30AM	Q1 Employment costs (%)	1.4	1.1	1.0
8:30AM	Mar Core PCE Inflation (y/y) (%)	5.2	5.3	5.4
9:45AM	Apr Chicago PMI	56.4	62.0	62.9
10:00AM	Apr Sentiment: 1y Inflation (%)	5.4		5.4
10:00AM	Apr Sentiment: 5y Inflation (%)	3.0		3.0
10:00AM	Apr Consumer Sentiment (ip)	65.2	65.7	65.7
Monday,	May 02			
10:00AM	Apr ISM Manufacturing PMI	55.4	57.6	57.1
10:00AM	Mar Construction spending (%)	0.1	0.7	0.5
Tuesday,	May 03			
10:00AM	Mar Factory orders mm (%)	2.2	1.1	-0.5
Wednesc	lay, May 04		· ·	
7:00AM	w/e MBA Purchase Index	244.4		234.7
7:00AM	w/e MBA Refi Index	932.3		930.7
8:15AM	Apr ADP National Employment (k)	247	395	455
10:00AM	Apr ISM N-Mfg PMI	57.1	58.5	58.3
2:00PM	N/A FOMC rate decision (%)	0.750 - 1.000	0.875	0.375
Friday, May 06				
8:30AM	Apr Average earnings mm (%)	0.3	0.4	0.4
8:30AM	Apr Non-farm payrolls (k)	428	391	431
8:30AM	Apr Unemployment rate mm (%)	3.6	3.5	3.6

 $\ensuremath{\mathbb{C}}$ 2024 MBS Live, LLC. - This newsletter is a service of $\underline{\mathsf{MarketNewsletters.com}}$.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.

"We exist to make a difference in people's lives by providing the right mortgage products."

Scott is the Portland Mortgage Coach, an Ideas Machine, a Revolutionist and a Rock N' Roller!

With over 20 years in the Mortgage Industry. Scott Munds is #1 a family man. Married over 25 years to his lovely wife Susie with four amazing children all living in the Portland Metro area. He enjoys spending time in the community serving with the Community Action group and the Blanchet House. Scott has a serving heart! In business, Scott is known as a straight shooter full of Integrity and is a Master at the Mortgage Loan Process. With a legendary reputation in the mortgage and real estate industry. Scott has earned an extensive following of Real Estate agents, Clients who love Scott and an Avant-Garde mind that attracts Respect inside and out of his business.

If you are looking for the Nordstrom Mortgage Loan experience... you have found the right guru and mortgage team to Open the Door to your new home!



© 2024 MBS Live, LLC. - This newsletter is a service of <u>MarketNewsletters.com</u>.

The interest rates provided in this newsletter are national averages from independent data sources. Rate/APR terms may differ from those listed above based on the creditworthiness of the borrower. All information provided "as is" for informational purposes only, not intended for trading purposes or financial advice.