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Big Risks and Opportunities Heading Into The New Year

2018 has been an interesting year to say the least. Stocks hit **all-time highs** and are now in the midst of their **worst** month on record in terms of outright losses. Rates hit their highest levels in at least 7 years but have fallen fairly quickly heading into the end of the year.

The 11th-hour volatility raises **a few big questions** about what's on the horizon. Could rates continue to drop or was this just a temporary diversion? Will stocks regain much of the recently lost territory, or are we merely at the beginning of an even bigger crash?

There are plenty of opinions on both sides of these questions. Only time will tell, but if we assume a bigger stock crash requires decelerating economic growth, we're certainly getting closer with each passing day. Economic cycles may not **die of old age**, but the longer they live, the more time there is for them to discover new reasons for their mortality.

At the very least, we know investors are worrying about it. But we **also** know we **haven't** lost enough ground yet to call this "the big one" definitively. In fact, in percentage terms, current stock losses aren't much worse than those seen in 2016.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	0.00	0.00
15YR Fixed	6.92%	0.00	0.00
30YR FHA	6.91%	+0.01	0.00
30YR Jumbo	7.52%	-0.03	0.00
7/6 SOFR	6.70%	-0.08	0.00
30YR VA	6.92%	+0.01	0.00

Rates as of: 11/2

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.86	+0.05
10 YR Treasury	4.9048	-0.0251
30 YR Treasury	5.2895	-0.0187

Pricing as of: 11/2 5:59PM EST

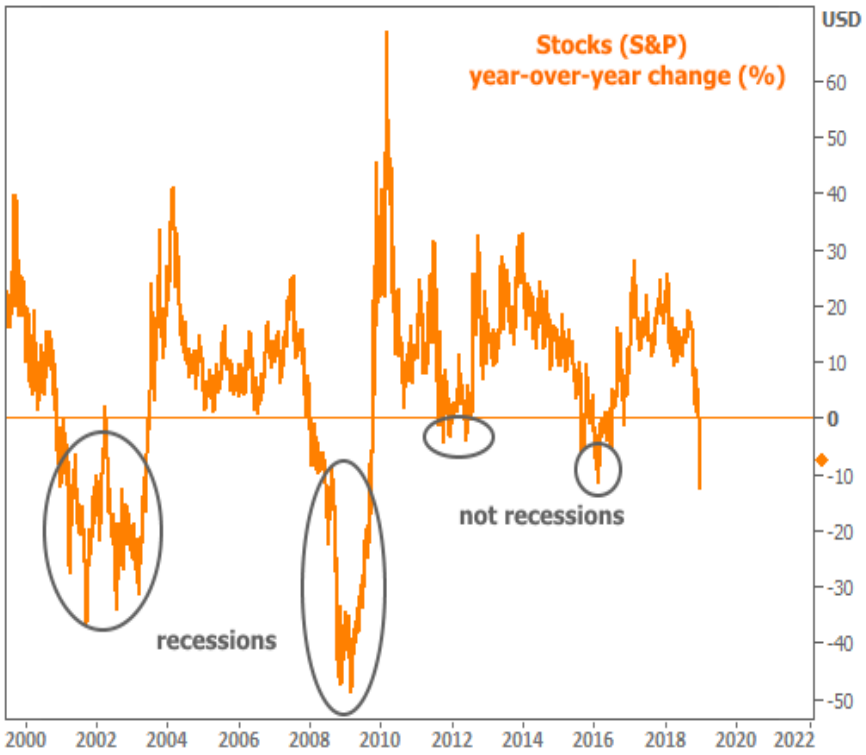
Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
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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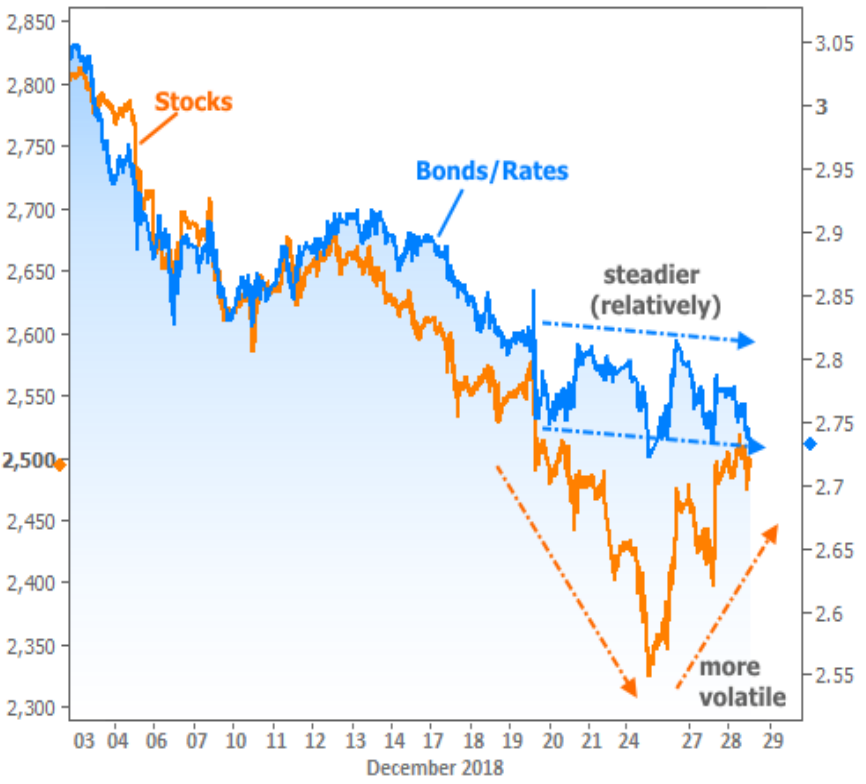
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All that to say there's still a **very real possibility** that stocks stage a miraculous recovery in January. From there, the question would shift to rates, considering much of the recent drop in rates can be traced to stock market volatility.

Fortunately, rates **haven't** been nearly as volatile as stocks in relative terms. This means they've dropped more slowly and been less eager to jump higher when stocks attempt to lead the way. Here's an example of how that played out this week:



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The **upcoming week** will be an interesting mix of holiday-related distortions and potentially significant economic data. Like the outgoing week, Monday will be a half day for the bond market and Tuesday will be a full closure (New Years Day instead of Christmas this time around). Then, 2019 begins in earnest as market participation ramps up heading into the big jobs report on Friday.

The jobs report (officially, the "Employment Situation," which provides the nation's official jobs tally as well as the unemployment rate) is **more important than normal** for a few reasons. We know the Fed is considering a slower pace of rate hikes and that it will be using key economic reports in its decision-making process. No other report is more 'key' than this one.

Additionally, while the government shutdown will prevent other reports from being released on time, as far as we know now, the jobs report will not be affected, thus magnifying its relative importance to the week's slate of actionable info. **Even without** the shutdown considerations, the jobs report would already be more important than normal simply due to timing. After all, markets are considering big questions for the new year and this will be the new year's first piece of data that's qualified to comment on those questions.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Dec 26				
9:00AM	Oct CaseShiller 20 yy (%)	+5.0	4.9	5.1
1:00PM	5-Yr Note Auction (bl)	41		
Thursday, Dec 27				
8:30AM	w/e Jobless Claims (k)	216	217	214
9:00AM	Oct Monthly Home Price mm (%)	0.3		0.2
9:00AM	Oct Monthly Home Price yy (%)	+5.7		6.0
10:00AM	Dec Consumer confidence	128.1	133.7	135.7
1:00PM	7-Yr Note Auction (bl)	32		
Thursday, Jan 03				
8:00AM	w/e Mortgage Refinance Index	729.9		816.0
8:00AM	w/e MBA Purchase Index	219.0		236.9
8:15AM	Dec ADP National Employment (k)	271.0	178	179
8:30AM	w/e Jobless Claims (k)	231	220	216
10:00AM	Dec ISM Manufacturing PMI	54.1	57.9	59.3
10:00AM	Nov Construction spending (%)		0.2	-0.1
Friday, Jan 04				
8:30AM	Dec Average earnings mm (%)	+0.4	0.3	0.2
8:30AM	Dec Non-farm payrolls (k)	+312	177	155
8:30AM	Dec Unemployment rate mm (%)	3.9	3.7	3.7

Event Importance:

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

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Listen, Analyze, Solve

David started in the mortgage industry in 2001 and has kept the same philosophy from day one: "Keep the client's best interest at the forefront of every transaction." What works for one client will not necessarily work for the next. David first listens, then evaluates and finally researches options making sure all possibilities have been considered. Once the proper path is determined, David works to make the process as quick and painless as possible, providing excellent service and communicating every step along the way.

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