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Time to Wake Up To The New Mortgage Rate Reality

There's **no precedent** for the winning streak enjoyed by mortgage rates in the 2nd half of 2020. We've never seen so many new record lows in the same year, and we never spent as much time at those lows (not even close). All of the above makes it easy to get lulled into a false sense of low-rate security, but it's time to wake up.

Actually, the alarm has been going off for a while now. Previous newsletters pointed out the disconnect between the bond market and mortgage rates on multiple occasions in 2020. Near the end of the year, we warned against complacency in **no unspecific terms**.

Following the Georgia senate election, we've been tracking a **surge** in bond market volatility based on the expectation that it would increasingly spill over to the mortgage rate world.

(**Read More: 1/8/21: Have We Seen The End of Record Low Rates?**)

As of this week, that spillover arrived in grand fashion with many lenders quoting rates that are as much as three eighths of a point **higher** than they were last week. That means if you were looking at something in the 2.75% neighborhood on Friday, it could be 3.125% today. **What gives?**

Again, the upward pressure is **nothing new**. Treasury yields have been telling the story since August and mortgage rates have finally used up enough of their cushion that they've been forced to follow the broader trends.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.50%	+0.06	0.00
15 Yr. Fixed	6.89%	+0.04	0.00
30 Yr. FHA	6.95%	+0.09	0.00
30 Yr. Jumbo	7.64%	+0.04	0.00
5/1 ARM	7.40%	+0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.88%	-0.56	0.00
15 Yr. Fixed	6.16%	-0.60	0.00

Rates as of: 4/16

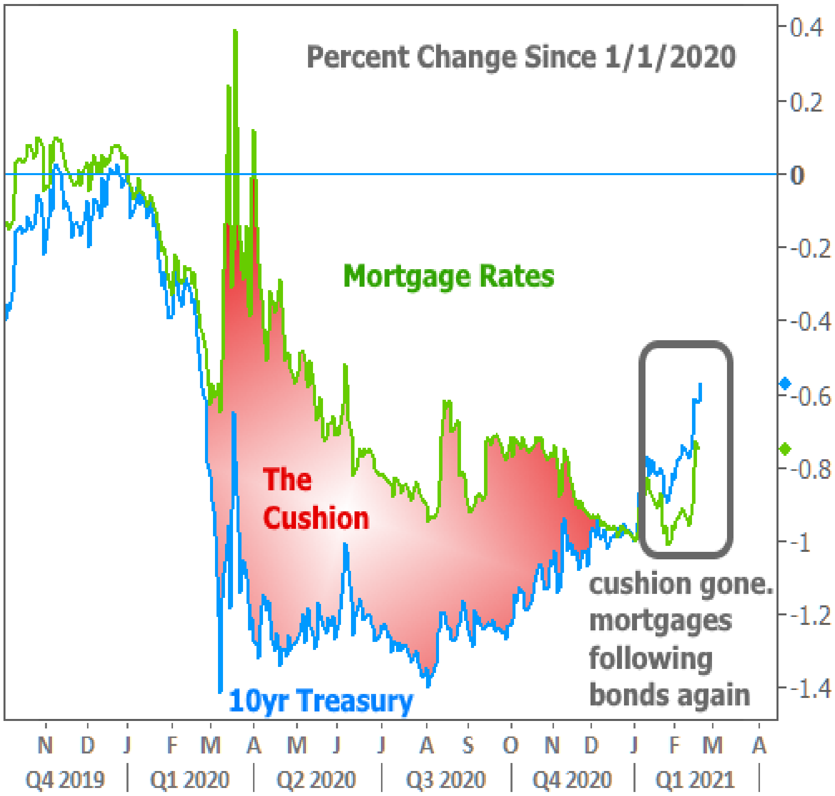
Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.10	-0.25
MBS GNMA 6.0	99.88	-0.27
10 YR Treasury	4.6572	-0.0112
30 YR Treasury	4.7548	-0.0104

Pricing as of: 4/16 11:10PM EST

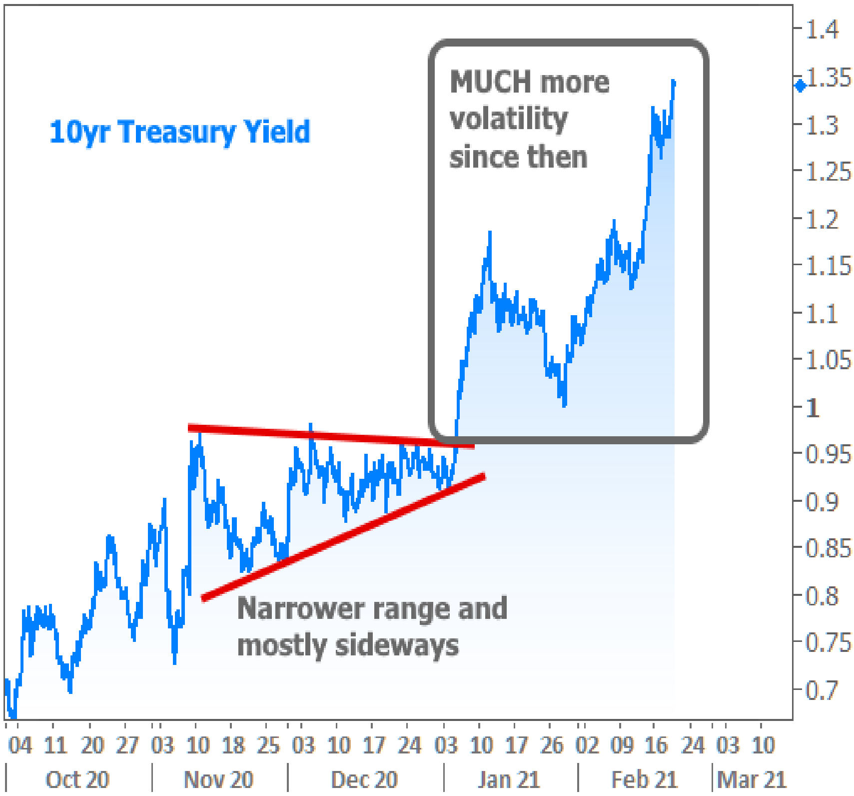
Recent Housing Data

		Value	Change
Mortgage Apps	Apr 10	195.7	+0.05%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Feb	662K	+0.15%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

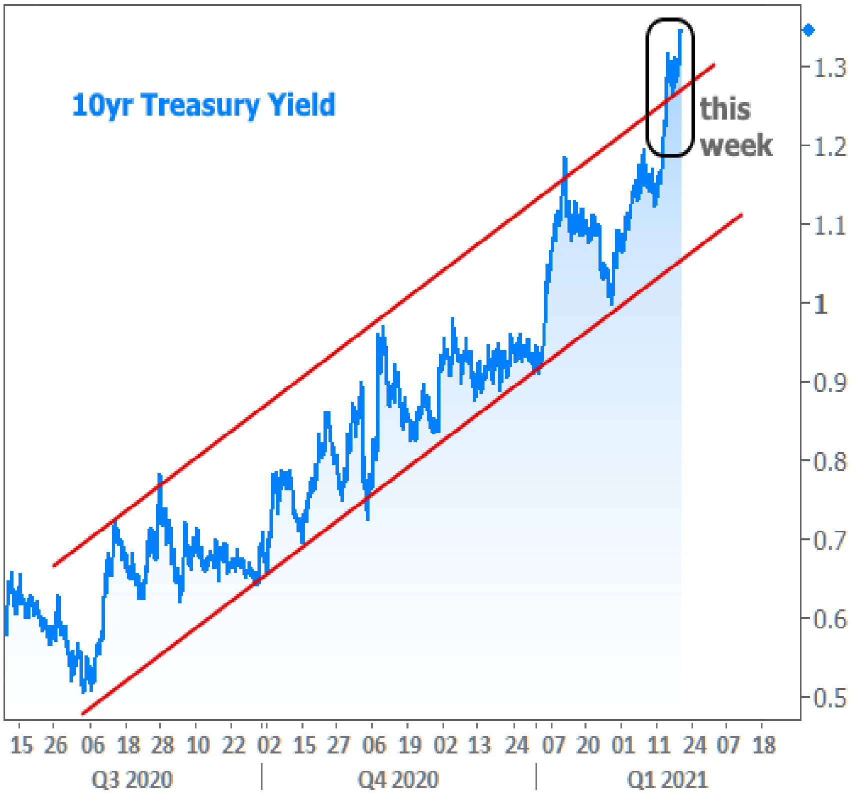


Why have things been so abrupt? Using up "the cushion" is one thing, but that alone doesn't force rates to go higher. For that, we need **"broader bond market volatility."** In other words, Treasury yields need to be spiking.

As it turns out, that's been one of their favorite things to do in 2021. If it seems abrupt, that has a lot to do with bonds coiling in a conservative pattern heading into the Georgia senate election, and **unleashing chaos** thereafter.



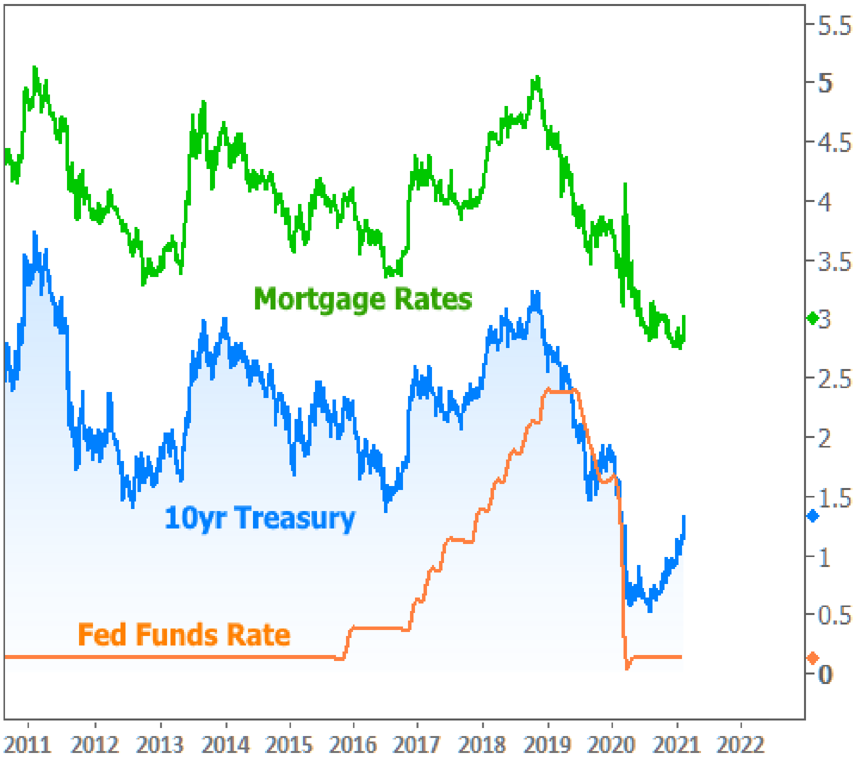
The election is old news now though. It simply got the ball of volatility rolling. Most recently, plummeting covid case counts, improved vaccine distribution, stronger economic reports, and progress on fiscal stimulus **reinvigorated** the volatility. This week, 10yr yields broke up and out of their prevailing "trend channel" (the parallel lines seen below).



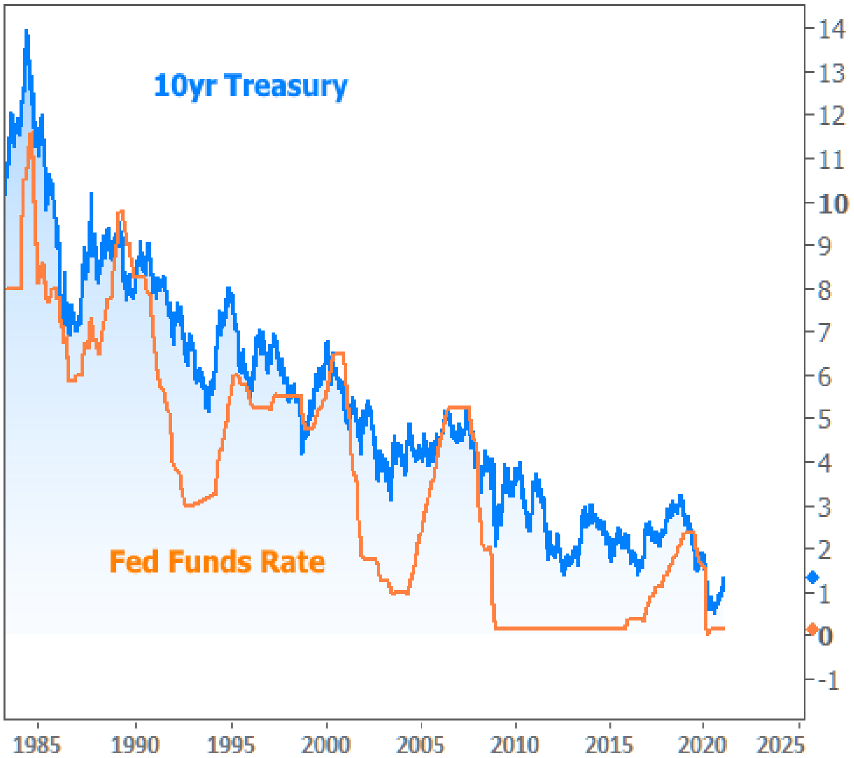
There's no magic rule that says Treasuries **have to** stay inside those red lines, but this sort of breakout can be a cue for traders to intensify selling pressure. In other words, that upper line was a **trigger** for yields to move even higher.

"But wait... I thought the Fed said it was keeping rates low for YEARS. What happened to that?"

The Fed sets the Fed Funds Rates... NOT mortgage rates. The Fed Funds Rate is a super short-term rate ("overnight," in fact). 10yr Treasuries, on the other hand, last 10 years. The average 30yr fixed mortgage lasts between 5 and 10 years depending on the market conditions. Investors place different premiums on rates with different terms. Simply put, the Fed Funds Rate is indeed still at rock bottom, but longer-term rates are not.



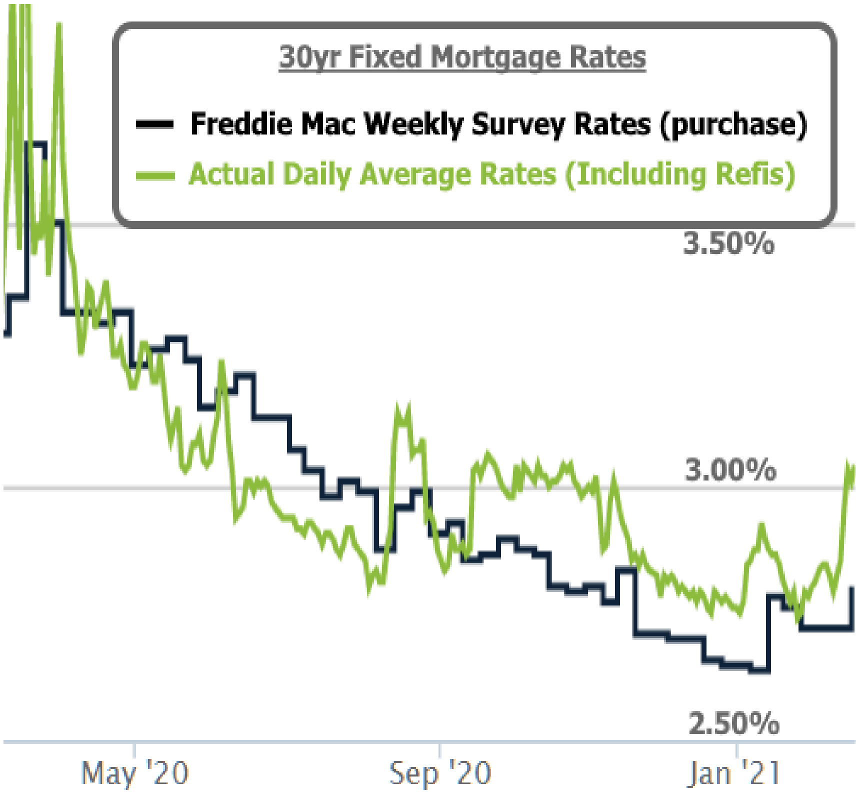
This isn't anything new or different, for what it's worth. The Fed Funds Rate has **always** ebbed and flowed in relation to longer term rates.



"But wait... I heard that mortgage rates are still really low and that they only went up a tiny amount this week!"

Well, that depends on your perspective. Is 3.125% still really low for the average 30yr fixed mortgage rate? Yes! That was the all-time low before covid. But is it much higher relative to the past few weeks and months? Here too, it depends on your perspective, so **let's leave it at this:** rates rose more this week than on **any** other week in the past 11 months.

If you've heard that rates only rose slightly, it may have to do with headlines quoting Freddie Mac's weekly survey. While that survey is accurate over time, it **doesn't** capture short-term volatility. It also tends to stop measuring most of any given week's volatility on Monday, and Monday was a holiday! As such, it's lagging the reality on the street.

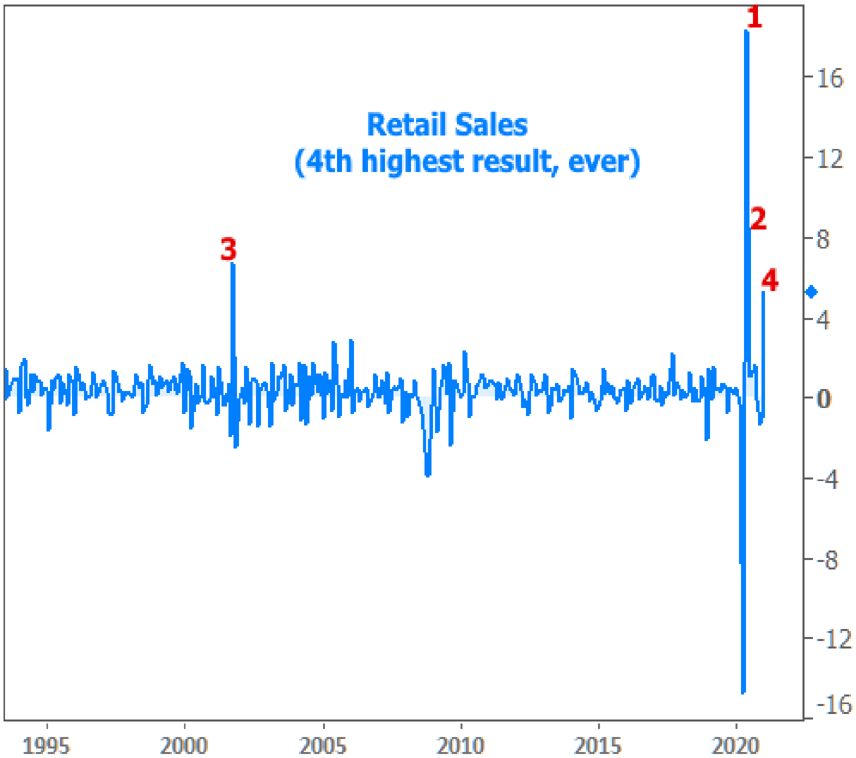


More important than what rates have done in the recent past is what they **may do** in the future. Perhaps the best point to be made on that front is that they've already risen quite a bit faster than many "experts" expected.

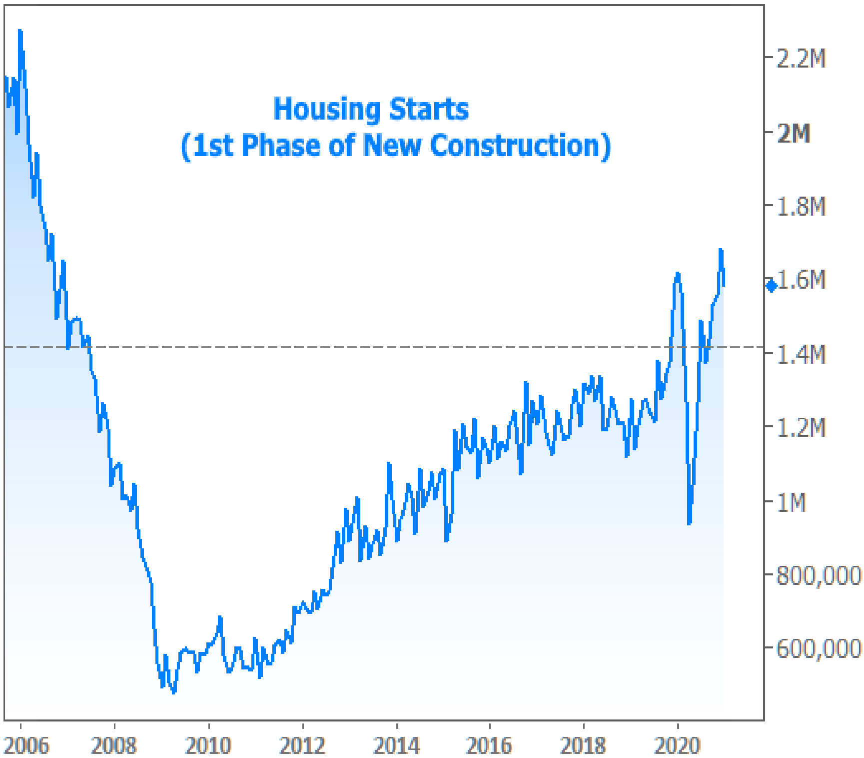
"Expert opinion" is **worth even less** than normal during this unprecedented economic event. We've never had a globally coordinated recession and recovery surrounding a global pandemic. Conclusions based on past precedent can be dangerous as a result.

COULD rates find their ceiling here and have a good week next week? Yes, that's totally **possible**, but as we learned this week, they're also perfectly capable of moving **higher** despite cries of "too high, too fast!" No matter what happens in the short term, it's far easier to conclude that rates are generally moving higher until further notice.

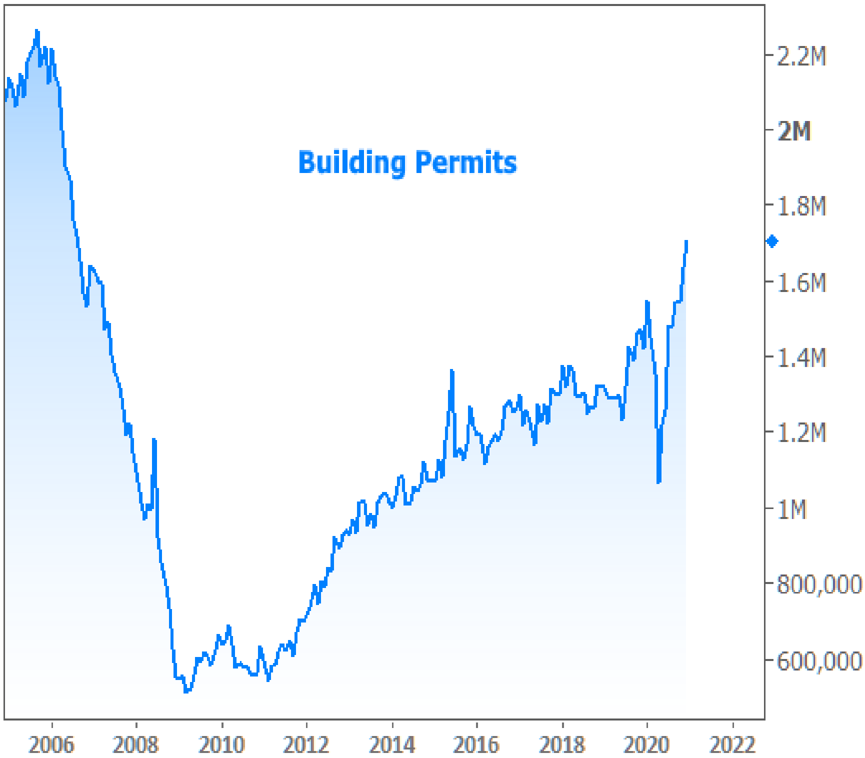
On the economic data front, Retail Sales (this week's biggest report) rose at the **4th fastest pace** since records began in the early 90s. In general, stronger economic data puts upward pressure on rates.



In terms of housing-specific data, this week brought an update on residential construction numbers. They're still stellar.



Whereas Housing Starts are subject to weather-related delays and other potential roadblocks, building permits are a bit more free-flowing, and they just set **another long-term high**.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Feb 17				
7:00AM	w/e MBA Refi Index	4337.0		4549.2
7:00AM	w/e MBA Purchase Index	299.5		318.8
8:30AM	Jan Retail Sales (%)	5.3	1.1	-0.7
8:30AM	Jan Core Producer Prices YY (%)	2.0	1.1	1.2
9:15AM	Jan Industrial Production (%)	0.9	0.5	1.6
10:00AM	Feb NAHB housing market indx	84	83	83
10:00AM	Dec Business Inventories (%)	0.6	0.5	0.5
Thursday, Feb 18				
8:30AM	Jan Import prices mm (%)	1.4	1.0	0.9
8:30AM	Jan Export prices mm (%)	2.5	0.7	1.1
8:30AM	Jan Building permits: number (ml)	1.881	1.678	1.704
8:30AM	Jan Housing starts number mm (ml)	1.580	1.658	1.669
8:30AM	Feb Philly Fed Business Index	23.1	20.0	26.5
8:30AM	Jan Build permits: change mm (%)	10.4		4.2
8:30AM	Jan House starts mm: change (%)	-6.0		5.8
8:30AM	w/e Jobless Claims (k)	861	843	793
Friday, Feb 19				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
9:45AM	Feb PMI-Composite (source:Markit)	58.8		58.7
10:00AM	Jan Exist. home sales % chg (%)	0.6	-1.5	0.7
10:00AM	Jan Existing home sales (ml)	6.69	6.61	6.76
Monday, Feb 22				
10:00AM	Jan Leading index chg mm (%)	+0.5	0.5	0.3
Tuesday, Feb 23				
9:00AM	Dec CaseShiller 20 yy (%)	+10.1	9.9	9.1
9:00AM	Dec Monthly Home Price yy (%)	+11.4		11.0
10:00AM	Feb Consumer confidence	91.3	90.0	89.3
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
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
10:00AM	Jan Pending Sales Index	122.8		125.5
10:00AM	Jan Pending Home Sales (%)	-2.8	0.0	-0.3
1:00PM	7-Yr Note Auction (bl)	62		
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 Consumer Sentiment (ip)	76.8	76.5	76.2

Because Integrity Matters™

Jeffrey has spent the last three decades perfecting an Honest, Open and Transparent (HOT™) loan and closing process that is laser-focused on enhancing the consumer mortgage experience. By combining old-school, trustworthy customer service with real-time, mobile-friendly technology, he has successfully built thousands of loyal, raving fans.

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