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# Just How Much Do Stocks Matter For Rates?

Last week we discussed the bond market paradox that has been **dominating the new year**, whereby interest rates moved lower despite stronger economic data. In a normal, boring, perfect world, interest rates AND stock prices would generally move higher when economic data is stronger and vice versa.

At present, there is a disconnect between stocks and economic data. In fact, equities markets continue to have the **worst start to a year—ever**—despite some of the best economic reports in recent memory (like the most recent jobs report which crushed estimates and ranked among the 10 best of the recovery).

The disconnect is a **pleasant surprise for interest rates**, which have been falling in concert with stocks. But it begs the question: if rates are moving lower with stocks right now, why haven't they been moving higher with stocks for the past few years?

If the Fed's response to the financial crisis reinforced any lesson about markets, it's that stocks and bonds **don't always have to follow** each other. This was easiest to observe when both sides of the market would respond favorably to increased accommodation from the Fed (i.e. loose monetary policy helped stocks rise and rates fall simultaneously).

But to be sure, it was **only a reminder** of something we could have already seen in the past. In fact, it's as simple as pulling up a long term chart of stock prices and 10yr Treasury yields (which generally moves in concert with mortgage rates).

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.34% | +0.01 | 0.00 |
| 15YR Fixed | 6.89% | 0.00 | 0.00 |
| 30YR FHA | 6.96% | +0.01 | 0.00 |
| 30YR Jumbo | 7.45% | +0.01 | 0.00 |
| 7/6 SOFR | 6.83% | +0.02 | 0.00 |
| 30YR VA | 6.97% | 0.00 | 0.00 |

Rates as of: 11/23

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.78 | +0.22 |
| 10 YR Treasury | 4.8899 | -0.0563 |
| 30 YR Treasury | 5.2789 | -0.0295 |

Pricing as of: 11/24 11:58AM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 11 | 199.8 | -2.35% |
| Building Permits | Oct | 1.3M | -7.5% |
| Housing Starts | Oct | 1.31M | +7.21% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Oct | 63 | -4.69% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Nov | 25 | -13.79% |

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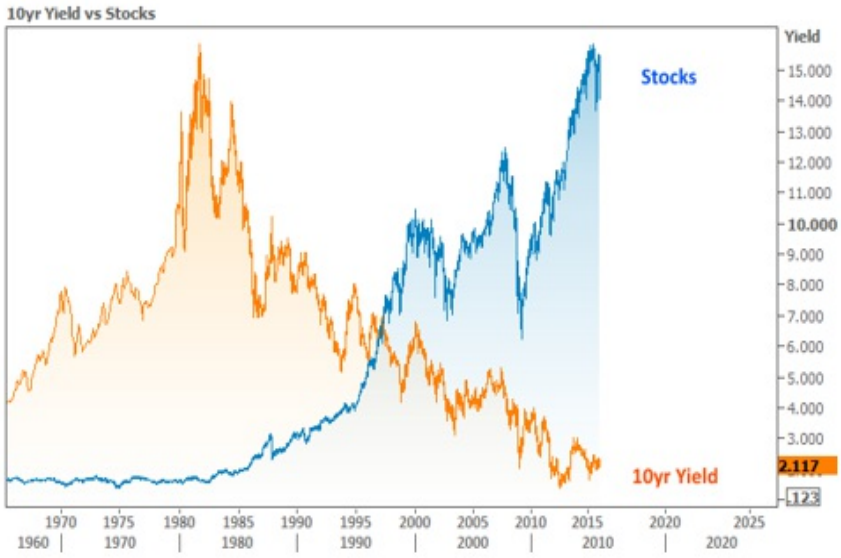


There's **no trick** involved with this chart. Bond yields really did fall consistently since the early 80's while stocks exploded higher. It's only when we zoom in to much shorter time scales that we see the correlation.




The bigger the losses in stocks, the more likely bond markets are to be paying attention (i.e. falling rates), and early 2016 losses have been massive. **Why so big?** Opinions vary, but one of the easiest reasons to grasp would be that investors are worried about something like this:

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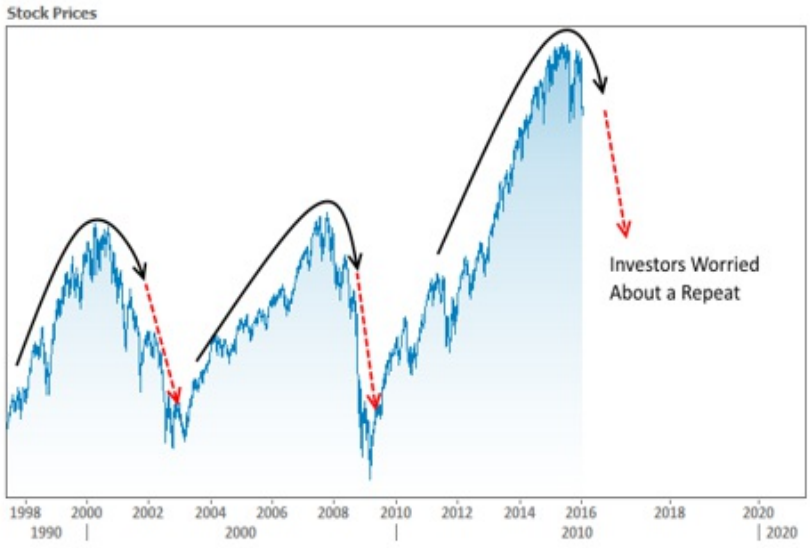


If stocks are indeed headed for another long term shift like that seen in the chart above, it would make sense for investors to **frantically search** for places to keep their money safe. The bond market is a natural safe haven and additional buying demand in bonds is what helps rates go lower.

On a qualitative note, there's really no telling how long this paradox will last. It already seems to have taken many market participants off guard.

Housing-specific news was light this week. CoreLogic noted "remarkable improvement" in **foreclosure** statistics.

Black Knight had an **interesting perspective** regarding the increase in "tappable" equity likely to result in a HELOC resurgence.

Somewhat in line with the bigger-picture stock market gloominess, a **Fed Survey** found that consumers are expecting low wages and inflation to match.

On a final note, keep in mind that this is a **3-day weekend** for financial markets. Mortgage lenders will be closed on Monday in observance of Martin Luther King Jr. Day.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Jan 12** | | | | |
| 11:30AM | 26-Week Bill Auction (bl) | 45 | | |
| 1:00PM | 3-Yr Note Auction (bl) | 24 | | |
| **Wednesday, Jan 13** | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 1380.4 | | 1114.8 |
| 7:00AM | w/e MBA Purchase Index | 231.1 | | 196.2 |
| 1:00PM | 10-yr Note Auction (bl) | 21 | | |
| **Thursday, Jan 14** | | | | |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 8:30AM | w/e Continued jobless claims (ml) | 2.263 | 2.248 | 2.230 |
| 8:30AM | w/e Initial Jobless Claims (k) | 284 | 279 | 277 |
| 8:30AM | Dec Export prices mm (%) | -1.1 | -0.5 | -0.6 |
| 8:30AM | Dec Import prices mm (%) | -1.2 | -1.4 | -0.4 |
| 1:00PM | 30-Yr Bond Auction (bl) | 13 | | |
| **Friday, Jan 15** | | | | |
| 8:30AM | Jan NY Fed manufacturing | -19.37 | -4.00 | -4.59 |
| 8:30AM | Dec Retail sales mm (%) | -0.1 | 0.0 | 0.2 |
| **Monday, Jan 18** | | | | |
| 12:00AM | Martin Luther King Day | | | |
| **Tuesday, Jan 19** | | | | |
| 10:00AM | Jan NAHB housing market indx | 60 | 61 | 61 |
| 4:00PM | Nov Foreign buying, T-bonds (bl) | +38.4 | | -55.2 |
| **Wednesday, Jan 20** | | | | |
| 8:30AM | Dec Building permits: number (ml) | 1.232 | 1.200 | 1.282 |
| 8:30AM | Dec CPI mm, sa (%) | -0.1 | 0.0 | 0.0 |
| 8:30AM | Dec Build permits: change mm (%) | -3.9 | | 10.4 |
| 8:30AM | Dec Core CPI mm, sa (%) | +0.1 | 0.2 | 0.2 |
| 8:30AM | Dec Housing starts number mm (ml) | 1.149 | 1.200 | 1.173 |
| 8:30AM | Dec Core CPI index, sa | 244.45 | | 244.14 |
| **Thursday, Jan 21** | | | | |
| 8:30AM | Jan Philly Fed Business Index | -3.5 | -5.0 | -10.2 |
| **Friday, Jan 22** | | | | |
| 10:00AM | Dec Exist. home sales % chg (%) | +14.7 | 8.9 | -10.5 |
| 10:00AM | Dec Existing home sales (ml) | 5.46 | 5.20 | 4.76 |
| **Thursday, May 19** | | | | |
| 1:00PM | 10yr TIPS Auction (bl) | 11 | | |

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