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## Looking For Silver Linings

When it comes to the mortgage and housing markets, there's been no shortage of gloomy news for months. This generally involves slumping sales, lower prices, and higher rates. All of the above are interconnected to some extent. The interconnection can be summed up in a single paragraph:

Home prices surged post-covid as demand greatly outpaced supply and low rates increased buying power. High home prices (and rents) then contributed significantly to decades-high inflation numbers. Decades-high inflation is the single biggest reason for the fastest rate spike since the 1980s. Newly high rates made buyers increasingly reluctant to shop for homes and homeowners increasingly reluctant to give up the super low rates obtained over the previous 2 years.

In January, it looked like there might be some reprieve for high rates and slumping sales. But then February happened. A series of economic reports caused an immediate renewal of fear over the inflation outlook, and again, inflation is the key input for rates right now.

The most recent addition to the inflation narrative was this week's PCE Price Index which is frequently referred to as the Federal Reserve's favorite inflation indicator. PCE doesn't usually impact markets too much. That honor is reserved for CPI (the Consumer Price Index, which comes out earlier in the month). But if PCE delivers a different message, it can get the market's attention. That's what happened this week.

By Thursday, rates were showing signs that they might be willing to calm down after several weeks spent surging quickly higher. Then Friday's PCE inflation numbers came out hotter than expected with the closely-watched "core" number, which excludes more volatile food and energy, rising back to the highest month-over-month levels in decades. This paints a very different picture than the CPI version of the data which had generally been trending lower for more than a year.

## National Average Mortgage Rates



|                            | Rate  | Change | Points |
|----------------------------|-------|--------|--------|
| <b>Mortgage News Daily</b> |       |        |        |
| 30 Yr. Fixed               | 6.86% | -0.05  | 0.00   |
| 15 Yr. Fixed               | 6.31% | -0.02  | 0.00   |
| 30 Yr. FHA                 | 6.32% | -0.06  | 0.00   |
| 30 Yr. Jumbo               | 7.04% | -0.03  | 0.00   |
| 5/1 ARM                    | 6.53% | -0.02  | 0.00   |

### Freddie Mac

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.78% | -0.08 | 0.00 |
| 15 Yr. Fixed | 6.07% | -0.09 | 0.00 |

Rates as of: 7/26

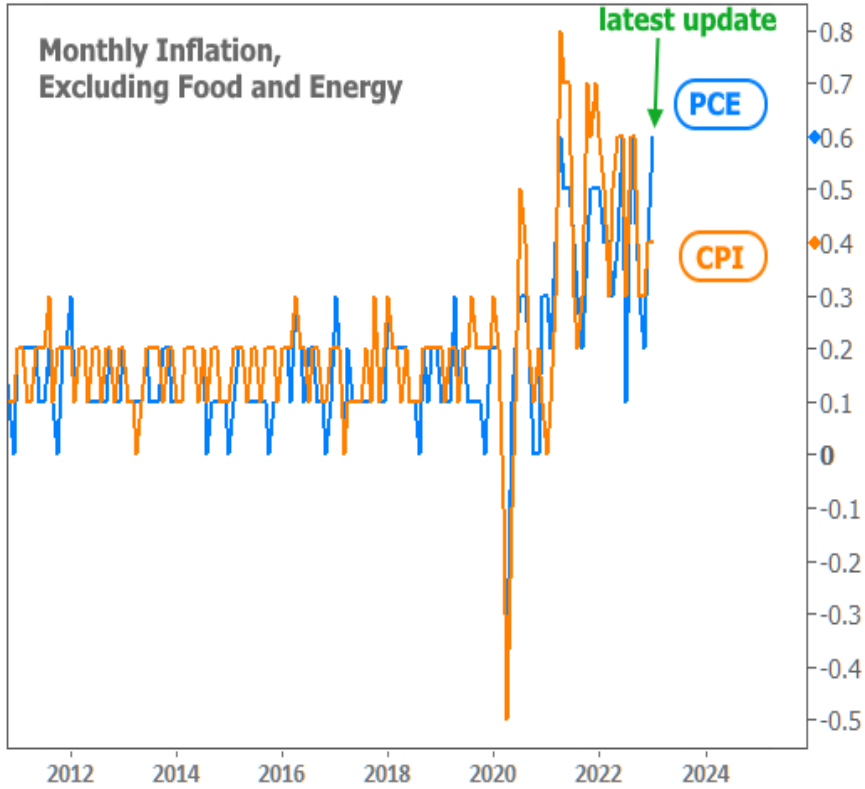
## Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.5   | 99.68         | +0.27   |
| MBS GNMA 5.5   | 99.98         | +0.13   |
| 10 YR Treasury | 4.1958        | -0.0474 |
| 30 YR Treasury | 4.4523        | -0.0305 |

Pricing as of: 7/26 5:59PM EST

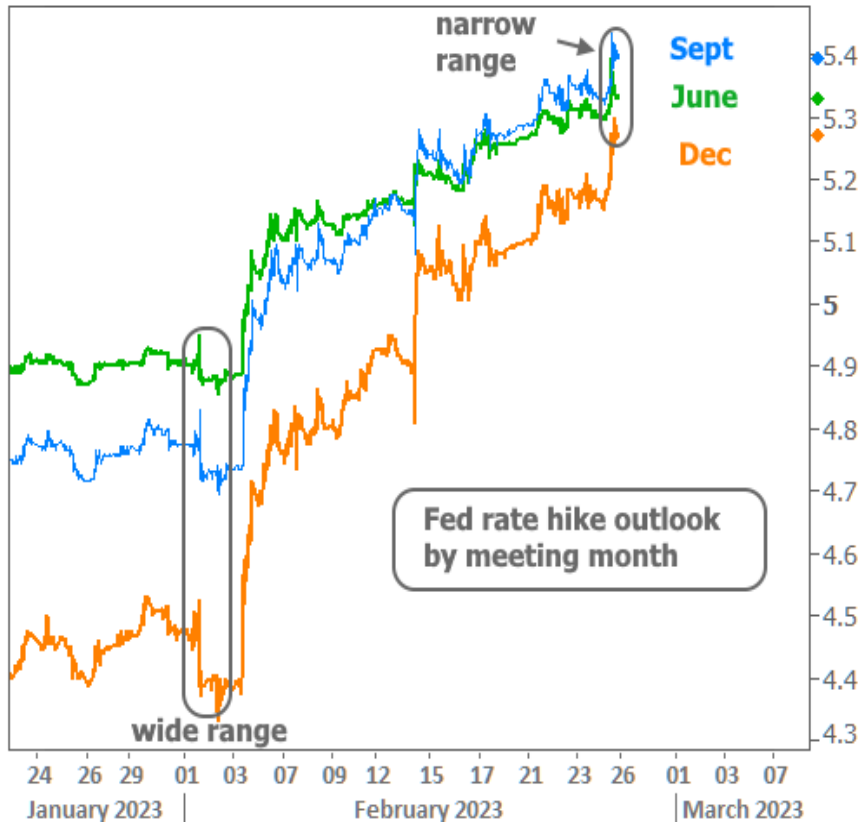
## Recent Housing Data

|                     |        | Value | Change  |
|---------------------|--------|-------|---------|
| Mortgage Apps       | Jul 10 | 206.1 | -0.19%  |
| 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%  |

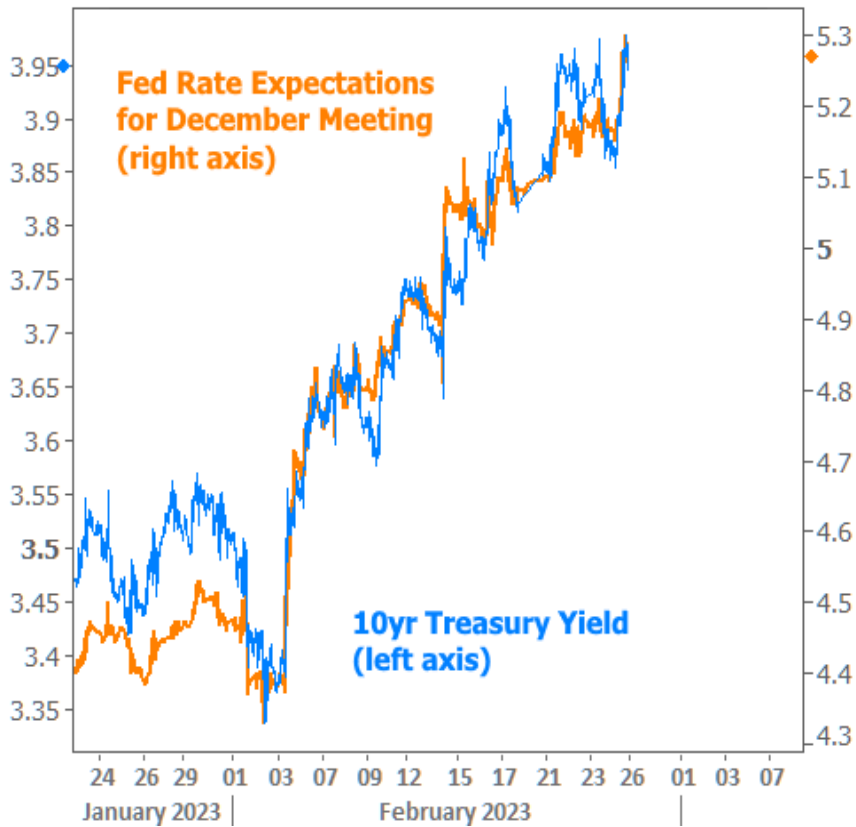


Whether core inflation is 0.4 or 0.6 in month over month terms, that implies a range of 4.8% to 7.2% annually. That's catastrophically high in either case considering the Fed's target is 2.0%.

The Fed attempts to control inflation by raising overnight lending rates, so it was no surprise to see another bump in rate hike expectations after the data. The following chart shows the market's expectations for the Fed Funds Rate at various points in the future. Notice that December is now seen remaining very close to the high rates achieved in June/Sept ("narrow range") and that the outlook has moved higher across the board.

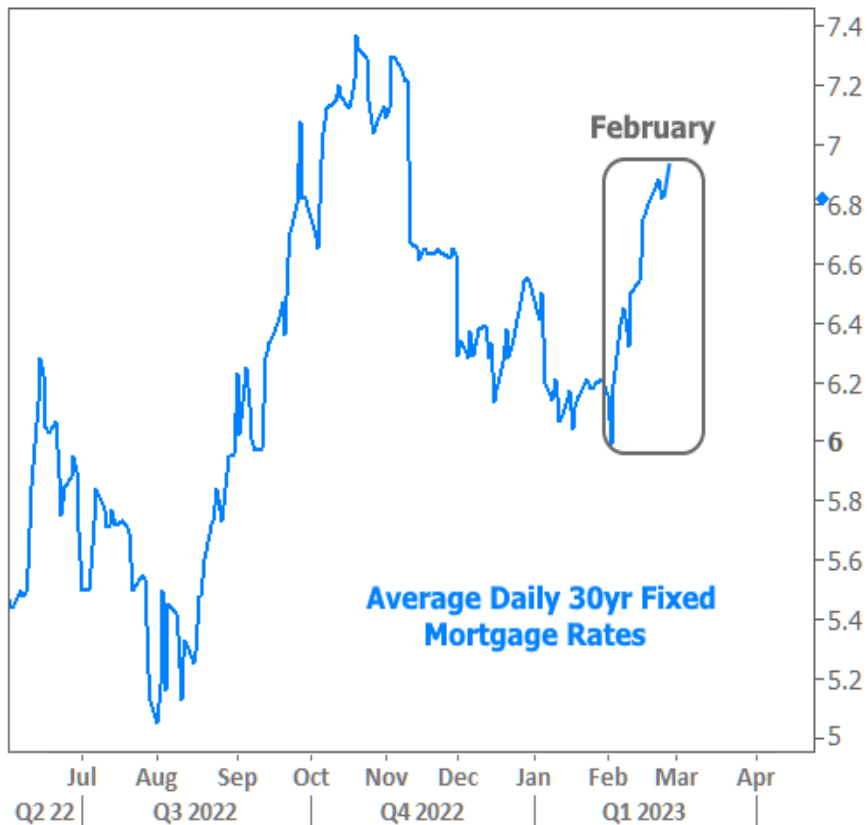


The Fed Funds Rate doesn't dictate mortgage rates, but the long-run rate outlook lines up very well with mortgage rate momentum, much like 10yr Treasury yields. The following chart overlays 10yr yields on the December Fed Funds Rate expectations to show the correlation.



In other words, higher inflation and stronger economic data caused traders to bet on more Fed rate hikes in the future. Longer term rates (like 10yr Treasuries and mortgage rates) moved up in response to the shift in the outlook.

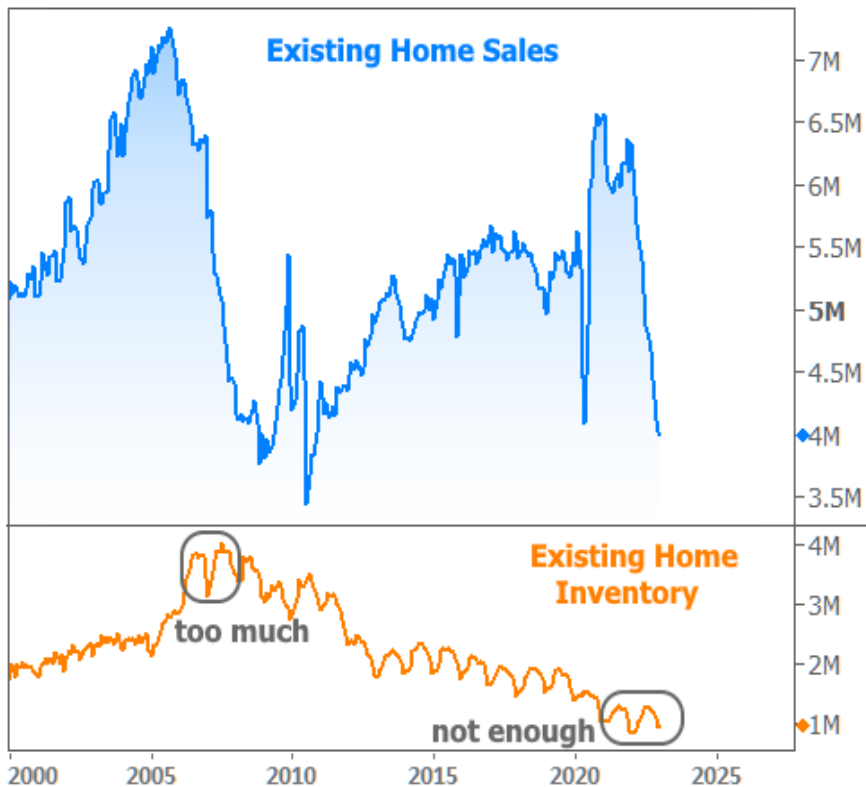
Mortgage rate data isn't as granular as the charts above, but it's easy to see the big jump in February.



The silver lining here is that mortgage rates were more cautious at the end of January than they were in August. This time around the rate spike--while no doubt unpleasant--hasn't had the same sort of frantic quality. It has occurred in measured steps and each step has come in response to economic data that legitimately makes a case for higher rates. This means that rates should remain receptive when the data eventually shifts.

When that happens, there are signs that the housing market will also be receptive. To be sure, outright sales numbers have plummeted in the Existing Homes market, but the drop has been very different from the last comparable drop seen during the Financial Crisis. Back then, the mortgage market was systemically imploding and there was an unprecedented glut of inventory.

The opposite is true these days. Granted, mortgage companies have certainly been contracting due to the rapid decline in loan origination, but from an investor's standpoint, present day lending is infinitely more sound and sustainable than it was before the Financial Crisis. The inventory contrast is even clearer. Simply put: there is none!



The takeaway is that a sensible moderation in interest rates (the kind we'll see whenever economic data suggests inflation is calming down and the labor market is losing some steam) can pave the way for an uptick in inventory, affordability, and demand. That's a fairly ideal recipe for stronger sales. The only question is how long it takes for that data to show up.

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Recent Economic Data

| Date                     | Event                            | Actual | Forecast | Prior |
|--------------------------|----------------------------------|--------|----------|-------|
| <b>Tuesday, Feb 21</b>   |                                  |        |          |       |
| 9:45AM                   | Feb Markit Services PMI          | 50.5   | 47.2     | 46.8  |
| 10:00AM                  | Jan Existing home sales (ml)     | 4.00   | 4.10     | 4.02  |
| 10:00AM                  | Jan Exist. home sales % chg (%)  | -0.7   | 2.0      | -1.5  |
| 1:00PM                   | 2-Yr Note Auction (bl)           | 42     |          |       |
| <b>Wednesday, Feb 22</b> |                                  |        |          |       |
| 1:00PM                   | 5-Yr Note Auction (bl)           | 43     |          |       |
| 2:00PM                   | Fed Minutes                      |        |          |       |
| <b>Thursday, Feb 23</b>  |                                  |        |          |       |
| 8:30AM                   | Q4 GDP Prelim (%)                | 2.7    | 2.9      | 2.9   |
| 1:00PM                   | 7-Yr Note Auction (bl)           | 35     |          |       |
| <b>Friday, Feb 24</b>    |                                  |        |          |       |
| 8:30AM                   | Jan Core PCE Inflation (y/y) (%) | 4.7    | 4.3      | 4.4   |
| 10:00AM                  | Feb Sentiment: 1y Inflation (%)  | 4.1    |          | 4.2   |

Event Importance:

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

| Date                     | Event                                   | Actual | Forecast | Prior |
|--------------------------|---|--------|----------|-------|
| 10:00AM                  | Feb Consumer Sentiment (ip)             | 67.0   | 66.4     | 66.4  |
| 10:00AM                  | Jan New Home Sales (ml)                 | 0.670  | 0.620    | 0.616 |
| 10:00AM                  | Jan New Home Sales (%) (%)              | 7.2    |          | 2.3   |
| <b>Monday, Feb 27</b>    |   |        |          |       |
| 8:30AM                   | Jan Durable goods (%)                   | -4.5   | -4.0     | 5.6   |
| 10:00AM                  | Jan Pending Sales Index                 | 82.5   |          | 76.9  |
| 10:00AM                  | Jan Pending Home Sales (%)              | +8.1   | 1.0      | 2.5   |
| <b>Tuesday, Feb 28</b>   |   |        |          |       |
| 9:00AM                   | Dec Case Shiller Home Prices-20 y/y (%) | +4.6   | 5.8      | 6.8   |
| 9:00AM                   | Dec FHFA Home Prices y/y (%)            | 6.6    |          | 8.2   |
| 9:00AM                   | Dec CaseShiller Home Prices m/m (%)     | -0.5   | -0.5     | -0.5  |
| 9:00AM                   | Dec FHFA Home Price Index m/m (%)       | -0.1   |          | -0.1  |
| 9:45AM                   | Feb Chicago PMI                         | 43.6   | 45.0     | 44.3  |
| 10:00AM                  | Feb Consumer confidence                 | 102.9  | 108.5    | 107.1 |
| <b>Wednesday, Mar 01</b> |   |        |          |       |
| 7:00AM                   | w/e MBA Purchase Index                  | 138.8  |          | 147.1 |
| 7:00AM                   | w/e MBA Refi Index                      | 444.0  |          | 469.9 |
| 10:00AM                  | Jan Construction spending (%)           | -0.1   | 0.2      | -0.4  |
| 10:00AM                  | Feb ISM Mfg Prices Paid                 | 51.3   | 45.1     | 44.5  |
| 10:00AM                  | Feb ISM Manufacturing PMI               | 47.7   | 48.0     | 47.4  |
| <b>Thursday, Mar 02</b>  |   |        |          |       |
| 8:30AM                   | Q4 Labor Costs Revised (%)              | 3.2    | 1.6      | 1.1   |
| 8:30AM                   | w/e Jobless Claims (k)                  | 190    | 195      | 192   |
| <b>Friday, Mar 03</b>    |   |        |          |       |
| 10:00AM                  | Feb ISM N-Mfg PMI                       | 55.1   | 54.5     | 55.2  |

## About Me

I am proud to say that I am one of the top producing mortgage brokers in the country, ranking in the top 20 nationally by Scotsman Guide for each of the past 5-years, the top producing mortgage broker for Utah volume 2019-2023, and the top producing VA mortgage broker in 2024. I have personally closed over 12,000 mortgage loans for \$4 billion in my 22-year career. In 2023, I was ranked #6 nationally by Scotsman Guide Top Mortgage Brokers, closing 400 loans for \$185 million, while guiding my clients through the entire loan process.

Since I began in this industry over 20-year ago, my focus has always been on improving systems and increasing efficiencies to drive down the cost of a mortgage loan for the consumer. I am obsessed with originating mortgage loans and helping consumers achieve their home financing goals in expeditious fashion. I adopt a "do whatever it takes" and "do it now" mentality until the job is done and my clients are completely satisfied.

My customer experience pillars are 1) An Extremely Low Price, 2) Fast Closing Time (~18 day average), 3) Instant Response and 4) Extreme Efficiency. My success in the mortgage field is attributable to my high level of integrity, reliability, efficiency, and obsession with client service. I look forward to helping you with any mortgage questions, and helping you obtain some of the very lowest mortgage rates available in the market.

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