

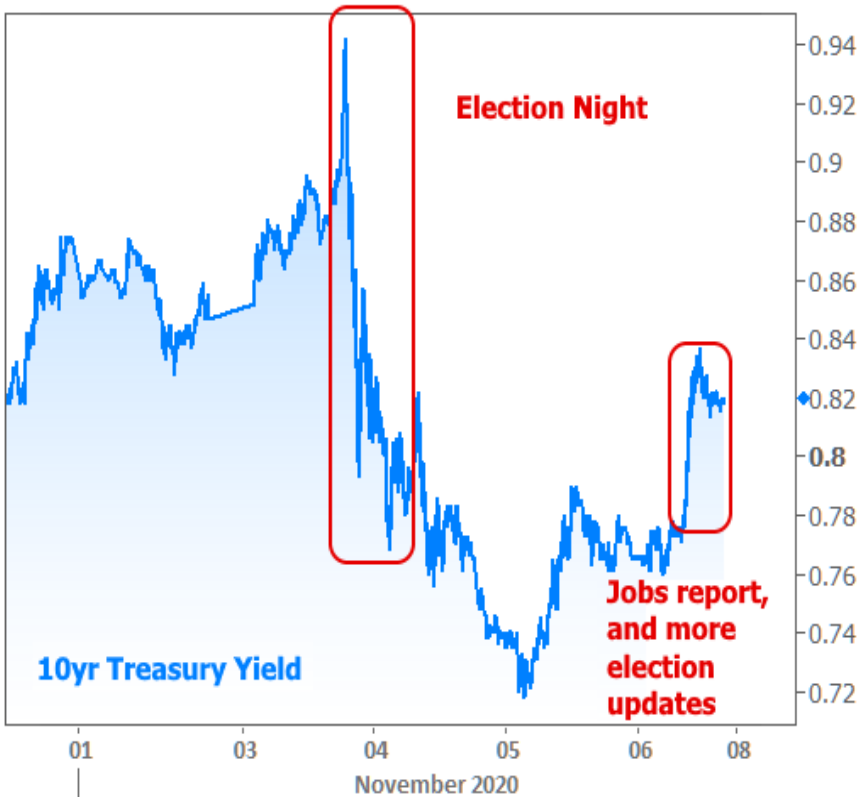
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Election Week Was a Win For Mortgage Rates

Heading into the presidential election, there were significant risks for mortgage rates and a wide range of potential outcomes. We knew there would be volatility either way, and we were right!

Volatility goes both ways. Heading into the election, the bond market (the biggest driver of interest rates) was defensive. That means rates (aka bond yields) were heading higher. Shortly into election night, however, yields began to drop **precipitously**. It wasn't until Friday that a strong jobs report and a few additional political developments brought some weakness back to bonds.



Why are bonds moving the way they're moving? The consensus is that a democratic sweep would have resulted in the guarantee of bigger stimulus in January and more spending in general. In turn, government bonds would be used to pay for that stimulus. The higher the issuance of government bonds, the more upward pressure on bond yields/rates, all other things being equal.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.81	-0.02
10 YR Treasury	4.9299	+0.0084
30 YR Treasury	5.3082	+0.0081

Pricing as of: 10/30 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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Moreover, if that stimulus proved effective in helping the economy bounce back, it would only **add** to the upward rate pressure (stronger economy = higher rates).

With that in mind, it **wasn't** the Biden vs Trump narrative that ultimately moved markets as much as the fact that Republicans looked set to keep control of the Senate. Incidentally, some of the rise in rates seen on Friday had to do with Fresh speculation that Georgia's run-off elections could still change the balance of power in the Senate by January.

In other words, we're still **not totally out of the woods** with respect to politics putting upward pressure on rates. Perhaps that's why 10yr Treasury yields opted to remain inside their prevailing trend. Or maybe this is simply the slow, steady course leading back from deepest depths of pandemic-driven fear and uncertainty. While it's true that covid case counts are spiking, it's also true that the economy is doing a better job of keeping doors open this time around.

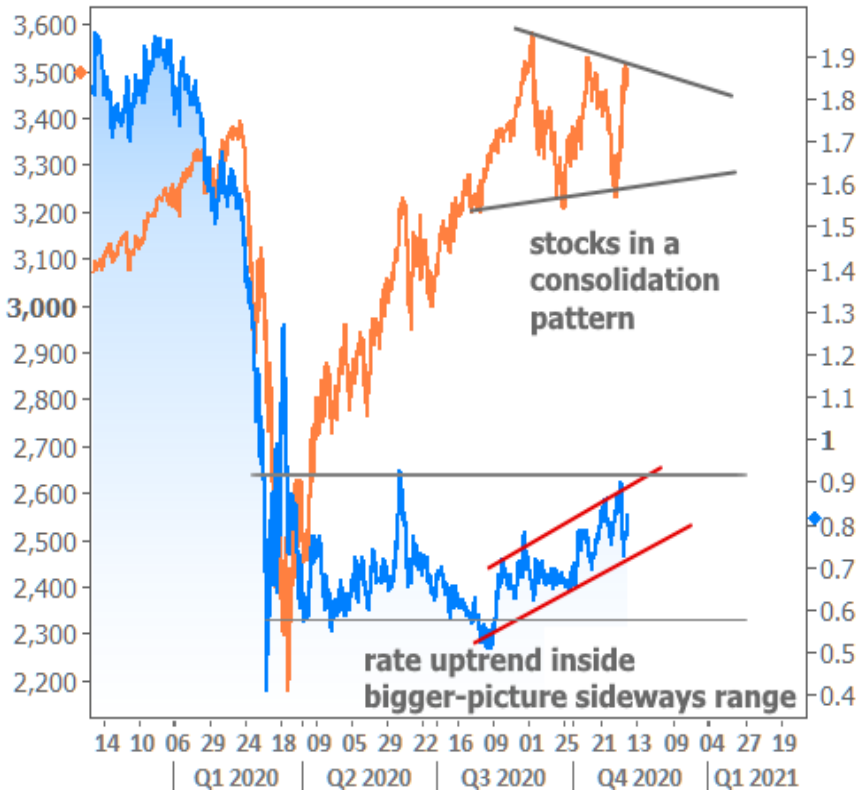


Of course things **could change at any moment** if the current covid surge begins taking a new and obvious economic toll. Along with election-driven uncertainty, this could help explain why stocks have been consolidating for months and why the negative trend in rates has yet to break the longer-term sideways range.

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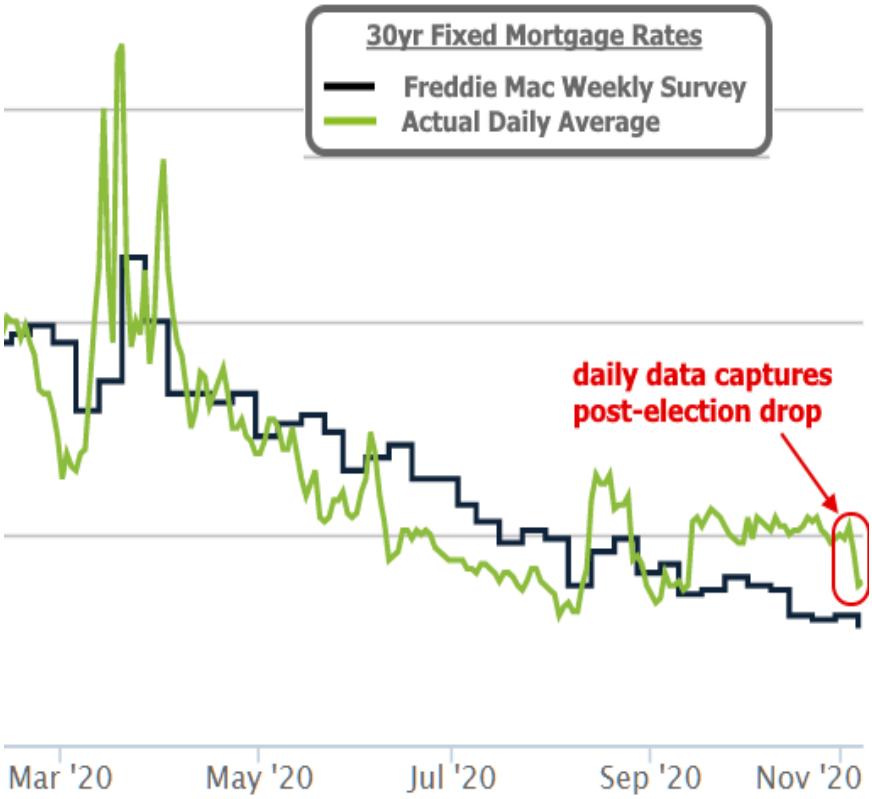
The silver lining to all of the above is the fact that mortgage rates **aren't** operating under exactly the same set of rules as the broader bond market. They were **slower to drop** at the start of the pandemic, and they've been catching up in a carefully controlled pace as lenders ensure they're not overwhelmed by new applications. That means mortgage rates haven't risen as much as Treasury yields over the past 3 months.

Heading into the election, mortgage lenders were understandably cautious, however. For the first time in a long time, they raised rates **more** than the bond market suggested. Fortunately, when bonds weathered the storm, the mortgage market lowered its defenses in grand fashion, making for the best 2-day move we've seen in weeks.

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The discrepancy in the chart above (green and black lines moving in different directions recently) has most to do with purchase vs refinance loans. Refis got hit by the new adverse market fee in August. The fee was then delayed until Dec 1st. That caused some confusion for consumers because the Dec 1st deadline refers to the "delivery date" for the loans in question--a milestone in the loan process that occurs 2-4 weeks AFTER closing.

Bottom line, if it's a conventional refinance that's not already locked and in process, it's getting hit by the fee. There are limited exceptions for lower loan amounts and certain programs geared toward first time homebuyers. Purchase rates, on the other hand, are indeed in line with all-time lows for many lenders.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Nov 02				
10:00AM	Oct ISM Manufacturing PMI	59.3	55.8	55.4
10:00AM	Sep Construction spending (%)	0.3	1.0	1.4
Tuesday, Nov 03				
10:00AM	Sep Factory orders mm (%)	1.1	1.0	0.7
Wednesday, Nov 04				
7:00AM	w/e MBA Purchase Index	301.2		305.2
7:00AM	w/e Mortgage Refinance Index	3949.8		3711.6

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
7:00AM	w/e Mortgage Market Index	838.2		807.8
8:15AM	Oct ADP National Employment (k)	365	650	749
8:30AM	Sep International trade mm $ (bl)	-63.9	-63.8	-67.1
10:00AM	Oct ISM N-Mfg PMI	56.6	57.5	57.8
Thursday, Nov 05				
8:30AM	Q3 Labor Costs Preliminary (%)	-8.9	-11.5	9.0
8:30AM	Q3 Productivity Preliminary (%)	4.9	5.6	10.1
8:30AM	w/e Jobless Claims (k)	751	738	751
2:00PM	N/A FOMC rate decision (%)	0 - 0.25	0.125	0.125
Friday, Nov 06				
8:30AM	Oct Unemployment rate mm (%)	6.9	7.7	7.9
8:30AM	Oct Non-farm payrolls (k)	638	600	661
10:00AM	Sep Wholesale inventories mm (%)	0.4	-0.1	-0.1
Monday, Nov 09				
1:00PM	3-Yr Note Auction (bl)	54		
Wednesday, Nov 11				
7:00AM	w/e Mortgage Refinance Index	3973.1		3949.8
7:00AM	w/e MBA Purchase Index	293.5		301.2
Thursday, Nov 12				
8:30AM	Oct Core CPI (Annual) (%)	1.6	1.8	1.7
Friday, Nov 13				
8:30AM	Oct Core Producer Prices YY (%)	1.1	1.2	1.2
10:00AM	Nov Consumer Sentiment	77.0	82.0	81.8
Tuesday, Jan 12				
1:00PM	10-yr Note Auction (bl)	38		
Wednesday, Jan 13				
1:00PM	30-Yr Bond Auction (bl)	24		

Who We Are

When choosing a mortgage loan officer, trust is a key component. You want a lender who will honor their commitments, create a satisfying customer experience and recommend and provide loan products that meet your financing goals. We are readily accessible and committed to serving you and your needs. We aim to not only meet, but to exceed your expectations. We are a lender you can trust.

Wil Harmsen 

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