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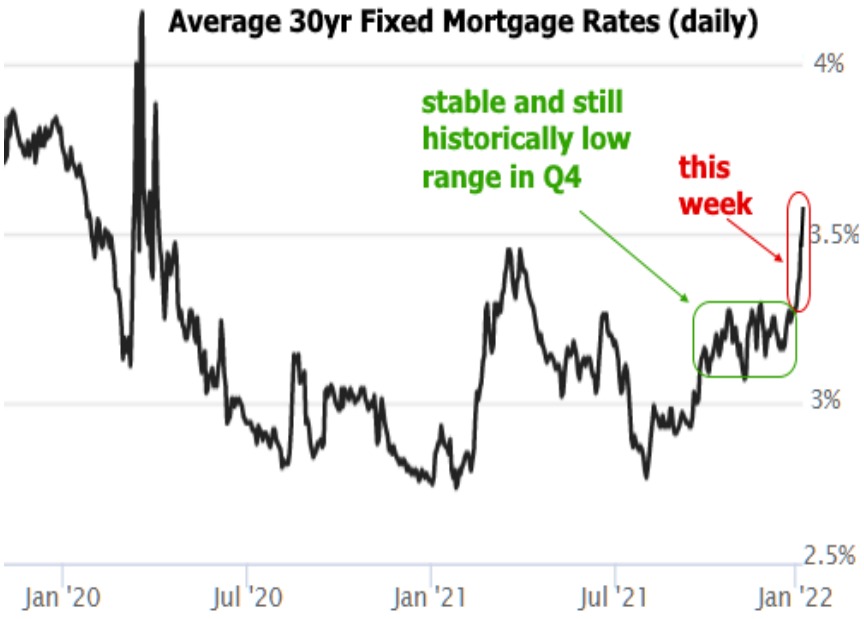
# Highest Mortgage Rates in Nearly 2 Years

Seemingly overnight, the mortgage rate narrative has changed rather drastically, at least in relative terms. While rates had risen gradually from near-all-time lows in August, they were still in a historically low range by the end of December. A week later and we're at the **highest levels in 2 years**.

There are all kinds of ways to quantify the movement, but a chart provides the clearest picture.




In other words, rates weren't **ridiculously** far from longer-term highs even before this week. It's just a bit of a surprise to see how quickly they closed that gap.

So **WHY** did it happen?

Rates are based primarily on the bond market and bonds have **several concerns** at the moment. The biggest general concern is the shift in the narrative surrounding covid and the omicron variant.

Traders were already prepared for a big uptick in covid case counts based on the omicron surge in other countries and subsequently in certain parts of the US in December, but they're also cognizant of the possibility that omicron may not impact the economy in the same way as the delta variant. At the same time, there's speculation that record-setting cases counts could hasten

## National Average Mortgage Rates

| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.29% | -0.06 | 0.00 |
| 15YR Fixed | 6.95% | -0.05 | 0.00 |
| 30YR FHA | 6.91% | -0.08 | 0.00 |
| 30YR Jumbo | 7.55% | -0.05 | 0.00 |
| 7/6 SOFR | 6.88% | +0.02 | 0.00 |
| 30YR VA | 6.92% | -0.08 | 0.00 |

Rates as of: 10/29

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.68 | +0.09 |
| 10 YR Treasury | 4.9705 | -0.0460 |
| 30 YR Treasury | 5.3125 | -0.0328 |

Pricing as of: 10/29 3:43PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 14 | 188.6 | -5.32% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Aug | 684K | +12.69% |
| 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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covid's endemic status **much earlier** than previously expected.

Bonds feed on fear, turmoil, and risk aversion. If the pandemic outlook might be improving, the net effect is upward pressure on rates, all other things being equal. Whether they're right or wrong, traders are **looking past** what may be a challenging January in terms of covid and forward to a more economically palatable phase of the pandemic. At the very least, they're positioning for the possibility, and in this case, that means higher rates.

But that's just the general side of the story. There are specifics as well--individual events that can be clearly tied to drama in the bond market. This week's most notable example was an update from the Federal Reserve that suggested an even more rapid removal of rate-friendly policies.

We already know the Fed is decreasing the amount of **new bonds** it buys each month (aka "**tapering**"). That means the Fed's bond portfolio is still growing, but at a slower pace each month.

We also already know that the Fed **accelerated** their tapering process as announced 3 weeks ago. They did this in order to hike the Fed Funds Rate sooner (the Fed's playbook calls for finishing tapering before hiking rates).

The bond market had done a good job digesting all of the above because according the Fed's playbook, they would still be reinvesting 100% of the proceeds from those bond holdings for quite some time even after rate hikes begin. The last time they normalized policy in this way, there was a **TWO YEAR gap** between the first rate hike and the first instance of balance sheet reduction.

That brings us to this week's big news from the Fed. The minutes of the last Fed meeting were released on Wednesday. They offered new insights to the Fed's line of thinking. To make a long, boring, complicated story very short, they are **NOT using exactly the same playbook** this time around when it comes to shrinking the balance sheet. In fact, rather than 2 years, it looks like balance sheet runoff could begin **only a few months** after the first rate hike.

With much of the market expecting the first rate hike in March, that means the balance sheet runoff could start as early as June. At least one Fed speaker confirmed such a timeline by the end of the week. That would mean the Fed moved from a tapering announcement to balance sheet reduction in just over 6 months. That same process took nearly 4 years last time (December 2013 tapering announcement and September 2017 balance sheet announcement).

All of the above is **a bit sudden** as far as the bond market is concerned. Simply put, traders are rushing to get in position for this new reality.

One other key data point this week was the Employment Situation report for December (aka, the jobs report, or non-farm payrolls). The jobs data was a bit confusing when it came to the market reaction. The payroll count fell **well short** of expectations and that's typically good for rates. This time around, rates continued to rise to new, long-term highs.

One **counterpoint** is that although the payroll number was lower, other aspects of the report were solid. These included the 3.9% unemployment rate and stronger than expected wage growth. Low unemployment rates are occasionally explained away by drops in labor force participation, but in this case, there was no drop. Moreover, the age demographics of the unemployment numbers were also economically encouraging.

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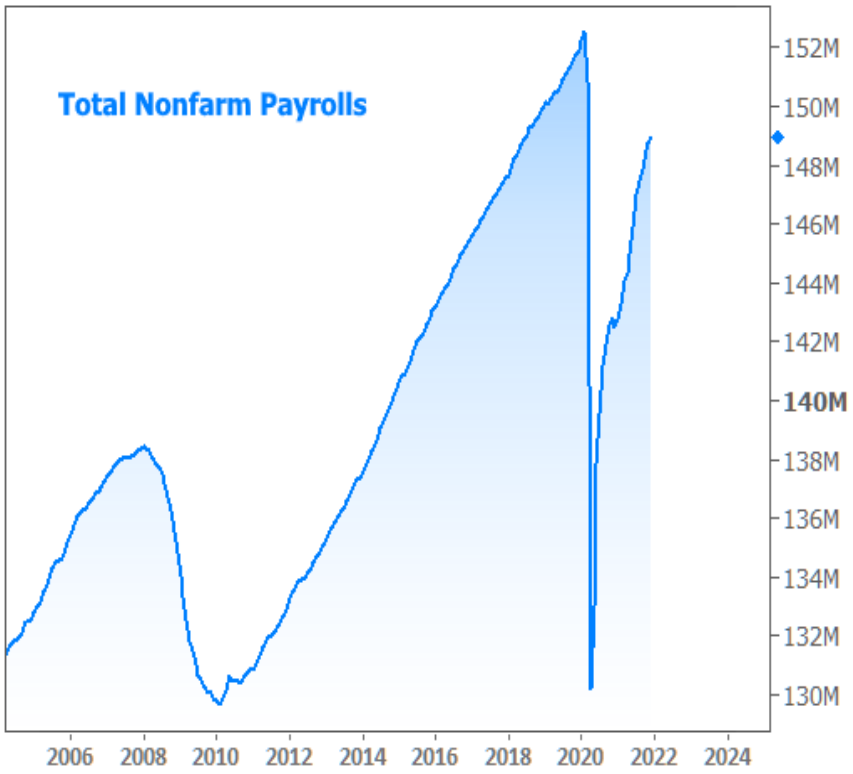


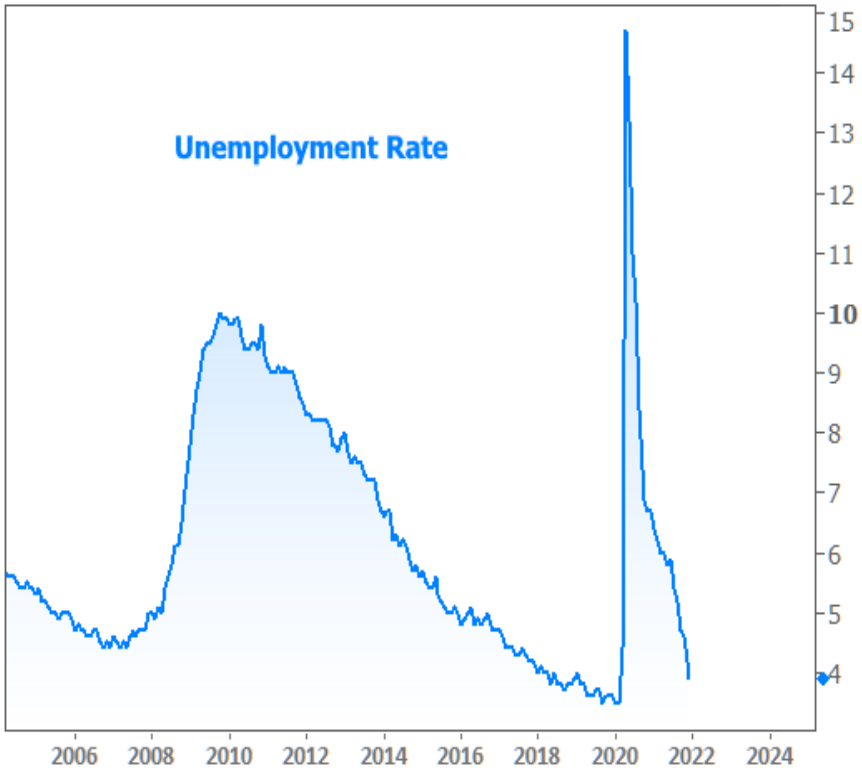


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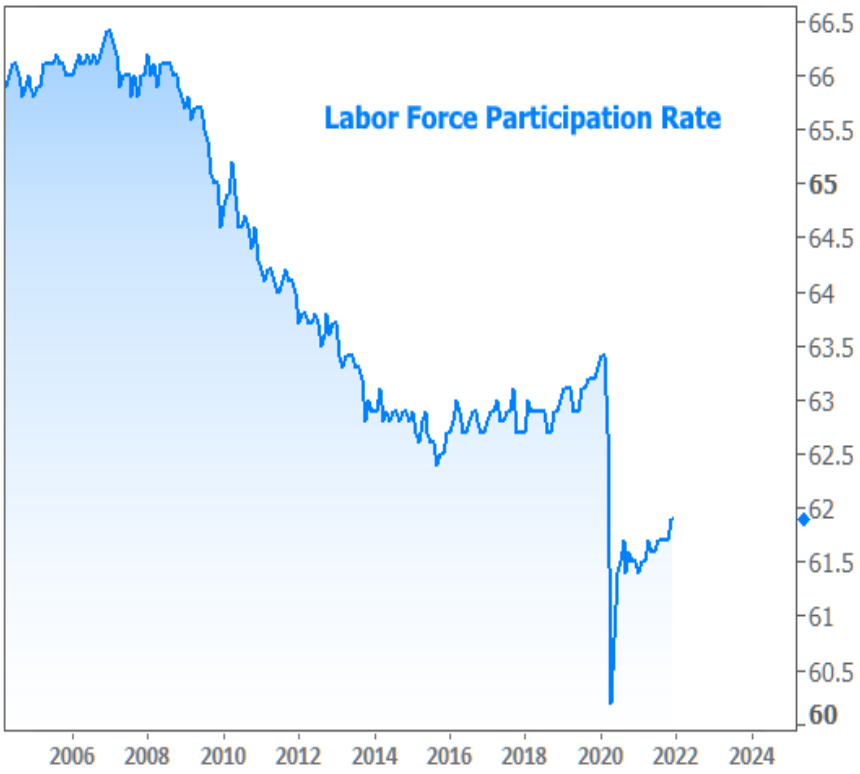


Ultimately though, the most important part of the jobs data was that it wasn't discouraging enough to raise any major objection to the Fed's message from earlier in the week. Until Friday morning, some traders may have been holding out for that.

The bottom line is that a very big, very important, and relatively abrupt "repricing" of expectations is taking place. It has to do both with omicron's impact and the Fed's policy outlook. Batten down the hatches, etc. Things could get worse before they get better.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Jan 03** | | | | |
| 10:00AM | Dec ISM Manufacturing PMI | | 60.2 | 61.1 |
| **Tuesday, Jan 04** | | | | |
| 10:00AM | Dec ISM Manufacturing PMI | 58.7 | 60.0 | 61.1 |
| 10:00AM | Dec ISM Mfg Prices Paid | 68.2 | 79.5 | 82.4 |
| **Wednesday, Jan 05** | | | | |
| 7:00AM | w/e MBA Purchase Index | 277.3 | | 308.7 |
| 7:00AM | w/e MBA Refi Index | 2351.3 | | 2411.3 |
| 8:15AM | Dec ADP National Employment (k) | 807 | 400 | 534 |
| 10:00AM | Dec ISM N-Mfg Bus Act | | | 74.6 |
| 10:00AM | Dec ISM N-Mfg PMI | | 67.0 | 69.1 |
| 2:00PM | Fed Meeting Minutes | | | |
| **Thursday, Jan 06** | | | | |
| 8:30AM | w/e Jobless Claims (k) | 207 | 197 | 198 |
| 8:30AM | w/e Continued Claims (ml) | 1.754 | 1.688 | 1.716 |
| 10:00AM | Dec ISM N-Mfg Bus Act | 67.6 | 71.0 | 74.6 |
| 10:00AM | Dec ISM N-Mfg PMI | 62.0 | 66.9 | 69.1 |
| **Friday, Jan 07** | | | | |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 8:30AM | Dec Average earnings mm (%) | 0.6 | 0.4 | 0.3 |
| 8:30AM | Dec Non-farm payrolls (k) | 199 | 400 | 210 |
| 8:30AM | Dec Average workweek hrs (hr) | 34.7 | 34.8 | 34.8 |
| 8:30AM | Dec Unemployment rate mm (%) | 3.9 | 4.1 | 4.2 |
| **Monday, Jan 10** | | | | |
| 10:00AM | Nov Wholesale inventories mm (%) | 1.4 | 1.2 | 1.2 |
| **Tuesday, Jan 11** | | | | |
| 7:00AM | w/e MBA Purchase Index | | | 277.3 |
| 7:00AM | w/e MBA Refi Index | | | 2351.3 |
| 1:00PM | 3-Yr Note Auction (bl) | 52 | | |
| **Wednesday, Jan 12** | | | | |
| 8:30AM | Dec Core CPI (Annual) (%) | 5.5 | 5.4 | 4.9 |
| 8:30AM | Dec Consumer Price Index (CPI) (%) | 0.5 | 0.4 | 0.8 |
| 1:00PM | 10-yr Note Auction (bl) | 36 | | |
| **Thursday, Jan 13** | | | | |
| 8:30AM | Dec Core Producer Prices YY (%) | +8.3 | 8.0 | 7.7 |
| 8:30AM | Dec Producer Prices (%) | +0.2 | 0.4 | 0.8 |
| 1:00PM | 30-Yr Bond Auction (bl) | 22 | | |
| **Friday, Jan 14** | | | | |
| 8:30AM | Dec Retail Sales (%) | -1.9 | 0.0 | 0.3 |
| 8:30AM | Dec Import prices mm (%) | -0.2 | 0.3 | 0.7 |
| 9:15AM | Dec Industrial Production (%) | -0.1 | 0.3 | 0.5 |
| 10:00AM | Jan 1yr Inflation Outlook (%) | 4.9 | | 4.8 |
| 10:00AM | Jan 5yr Inflation Outlook (%) | 3.1 | | 2.9 |
| 10:00AM | Jan Consumer Sentiment | 68.8 | 70.0 | 70.6 |
| 10:00AM | Nov Business Inventories (% ) | 1.3 | 1.3 | 1.2 |


## Your Trusted Home Loan Expert

Experience, knowledge, professionalism, and honesty are the cornerstones of my service. If this is what you are looking for in your Mortgage Loan Originator, then look no further. As a direct lender, Homestead Funding offers loan program options to fit your financial needs. I look forward to helping you understand the qualifications and differences of each. Trust your next home loan to a seasoned expert and contact me today.

**Mark Foley**


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