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## Interest Rate Volatility Comes Roaring Back

Last week marked an **abrupt end** to the gentle, sideways-to-slightly-lower trend in interest rates that had been intact since late February. This week, things got worse.

Whether we're talking about 10yr Treasury yields or the average 30yr fixed mortgage, rates jumped to their highest levels in more than 4 years on Monday. The next two days were even worse.

By Wednesday afternoon, prospective borrowers were seeing rates that were at least a **quarter of percentage point** higher compared to the beginning of last week. This marked the first dose of true rate volatility in more than a month.

Throughout March and into the first half of April, day to day changes in rates were relatively small. Moreover, there weren't very many days spent moving in the same direction. Several days saw **NO** change.

Volatility began creeping up last week with rates moving higher for 3 straight days. But even then, only one of those days saw the average 30yr fixed rate move 0.03% or more. This week, we've seen 0.03% **every single day**, at minimum. The following chart shows those day-over-day changes.

## National Average Mortgage Rates



|                            | Rate  | Change | Points |
|----------------------------|-------|--------|--------|
| <b>Mortgage News Daily</b> |       |        |        |
| 30 Yr. Fixed               | 6.89% | 0.00   | 0.00   |
| 15 Yr. Fixed               | 6.33% | +0.01  | 0.00   |
| 30 Yr. FHA                 | 6.33% | +0.01  | 0.00   |
| 30 Yr. Jumbo               | 7.05% | 0.00   | 0.00   |
| 5/1 ARM                    | 6.58% | 0.00   | 0.00   |

### Freddie Mac

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.77% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.05% | -0.11 | 0.00 |

Rates as of: 7/22

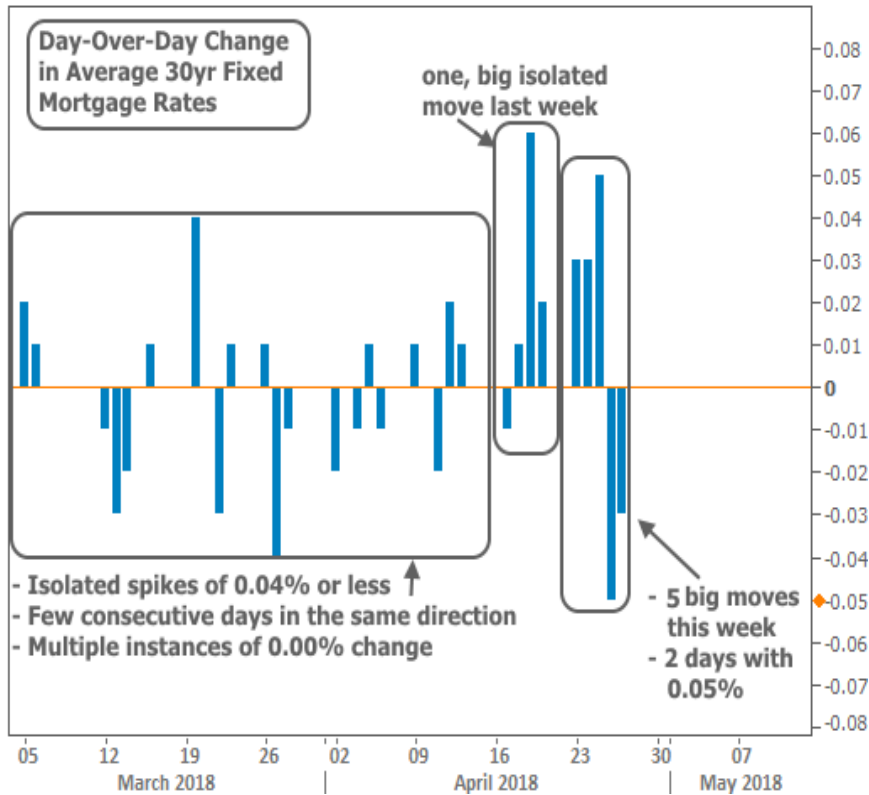
## Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.5   | 99.47         | +0.08   |
| MBS GNMA 5.5   | 99.85         | +0.07   |
| 10 YR Treasury | 4.2306        | -0.0219 |
| 30 YR Treasury | 4.4552        | -0.0173 |

Pricing as of: 7/23 10:52AM 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%  |



Thankfully, rates ebbed back to Monday’s levels by the end of the week, but there’s still reason to be defensive. In fact, 2018 is all about being defensive when it comes to rates due to big-picture headwinds. These headwinds have been here for months and they’re not going anywhere quickly. They include:

- A **Federal Reserve** (aka “The Fed”) that’s more willing to hike its policy rate while continuing to reduce the amount of bonds it buys each month. (Foreign central banks are also moving toward policy tightening).
- **Fiscal policies** such as the tax bill that require government borrowing, thus creating excess supply in the bond market. More **supply** = lower bond prices = higher rates.
- Fiscal policies such as the tax bill that may add to **economic growth and inflation**. Growth and inflation generally contribute to higher rates.

The most recent manifestation of this “coming to terms” process was this week’s **break above 3.0%** in the 10yr Treasury Yield--the yardstick against which all other long-term rates in the US are measured.

Depending on whom you ask, the break above 3% ranges anywhere from “expected” to “a surefire sign that bonds are entering a **bear** market and that the decades-long **bull** market is over.”

Let’s get a few things straight:

- It would have been **shocking** had we **NOT** seen 10yr yields above 3% this year. If you stack up the headwinds listed above and compare them to the last time rates were 3%, there’s no question that market fundamentals say rates should be higher.
- The decades-long bull market in rates can’t go on forever because it would mean rates would have to go deeper and deeper into negative territory.

- The end of that bull market isn't as important to pinpoint as the scope of the next range. For instance, will rates then enter a BEAR market and head higher for years and years? Or will they carve out a more sideways trend?
- And finally, all it takes is a few simple lines on a chart to see that we **haven't broken out** of the decades-long positive trend quite yet

10yr Treasury Yield



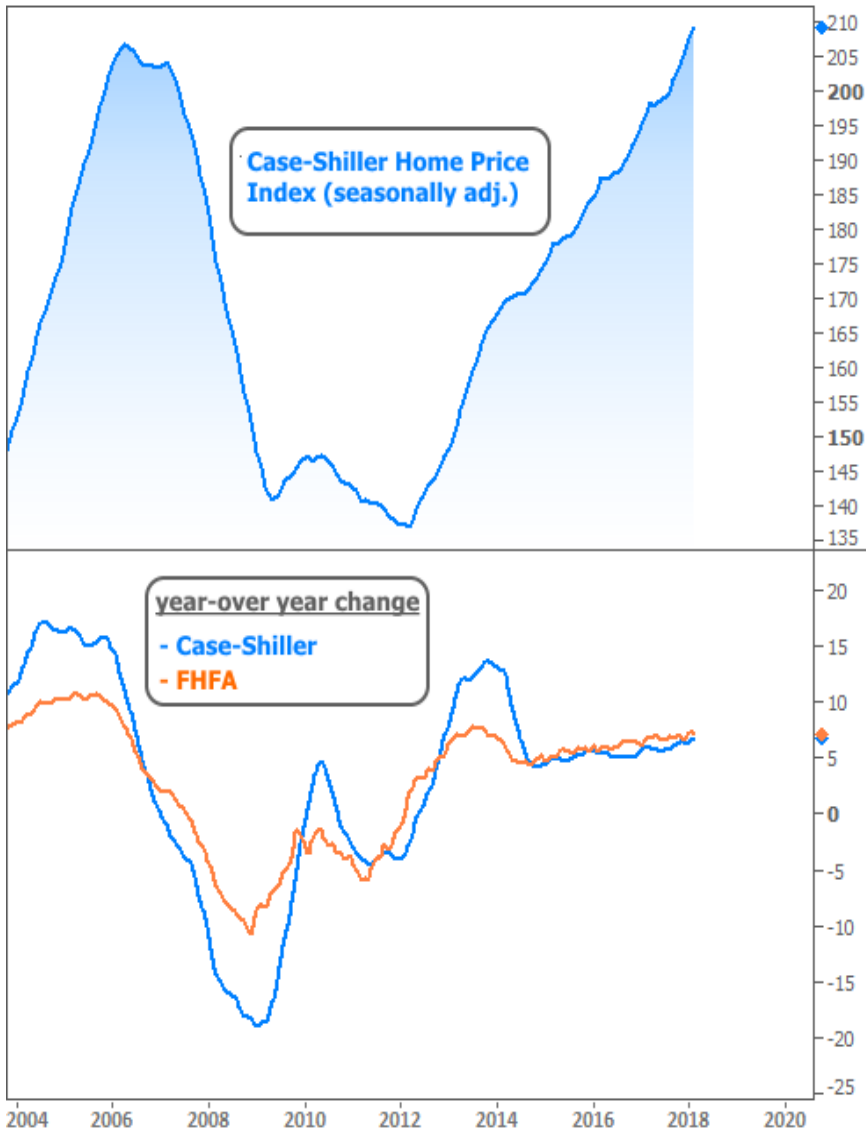
That said, it's good to remember that the next trend could already have taken shape inside the current trend. Some analysts are pointing to the "higher lows" in rates in 2017 and (likely) 2018. They could be right, but history has **sobering reminders** about predicting future market movement. Specifically, there are a ton of "higher lows" in the past that ended up going nowhere.



The previous chart isn't offered as proof that rates will soon be moving lower. Rather, it's proof that rates don't necessarily HAVE TO go higher.

In other housing-related news this week, the two most widely-followed home price reports were released (covering the month of February). Both Case-Shiller and the FHFA showed stronger-than-expected gains, with year-over-year appreciation near 7%.

## Home Prices



Both **New and Existing Homes Sales** reports were released this week (for the month of March), and both were stronger than expected. Existing Home Sales rose 1.1% versus a 0.2% median forecast, and New Home Sales added 4.0% versus a median forecast calling for a 1.9% gain.

### Existing Home Sales



### New Home Sales



Further to the point made in the last chart, here's what New and Existing sales look like when plotted on the same axis.

Existing vs New Home Sales



Next week brings the big jobs report (Employment Situation/Nonfarm Payrolls), which always has the potential to cause volatility for rates. Before that, we'll get a Fed policy announcement on Wednesday. The Fed can also cause huge moves for rates, but it's somewhat less likely next week. The Fed has 2 types of meetings: those that result in an announcement AND updated forecasts (as well as a press conference with the Fed Chair) and those that simply end with the announcement. Next week's is the latter, and that iteration tends not to pack the same sort of punch.

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## Recent Economic Data

| Date                     | Event                            | Actual | Forecast | Prior  |
|--------------------------|----------------------------------|--------|----------|--------|
| <b>Monday, Apr 23</b>    |                                  |        |          |        |
| 10:00AM                  | Mar Existing home sales (ml)     | 5.60   | 5.54     | 5.54   |
| 10:00AM                  | Mar Exist. home sales % chg (%)  | 1.1    | 0.2      | 3.0    |
| <b>Tuesday, Apr 24</b>   |                                  |        |          |        |
| 9:00AM                   | Feb CaseShiller 20 yy (%)        | 6.8    | 6.3      | 6.4    |
| 9:00AM                   | Feb CaseShiller 20 mm SA (%)     | 0.8    | 0.7      | 0.8    |
| 9:00AM                   | Feb Monthly Home Price yy (%)    | 7.2    |          | 7.3    |
| 10:00AM                  | Mar New home sales-units mm (ml) | 0.694  | 0.630    | 0.618  |
| 10:00AM                  | Mar New home sales chg mm (%)    | +4.0   | 1.9      | -0.6   |
| 10:00AM                  | Apr Consumer confidence          | 128.7  | 126.0    | 127.7  |
| 1:00PM                   | 2-Yr Note Auction (bl)           | 32     |          |        |
| <b>Wednesday, Apr 25</b> |                                  |        |          |        |
| 7:00AM                   | w/e Mortgage Refinance Index     | 1145.5 |          | 1149.5 |

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date                     | Event                                   | Actual        | Forecast | Prior  |
|--------------------------|---|---------------|----------|--------|
| 7:00AM                   | w/e MBA Purchase Index                  | 262.4         |          | 262.4  |
| 1:00PM                   | 5-Yr Note Auction (bl)                  | 35            |          |        |
| <b>Thursday, Apr 26</b>  |   |               |          |        |
| 8:30AM                   | Mar Durable goods (%)                   | 2.6           | 1.6      | 3.0    |
| 8:30AM                   | w/e Jobless Claims (k)                  | 209           | 230      | 232    |
| 1:00PM                   | 7-Yr Note Auction (bl)                  | 29            |          |        |
| <b>Friday, Apr 27</b>    |   |               |          |        |
| 8:30AM                   | Q1 GDP Advance (%)                      | 2.3           | 2.0      | 2.9    |
| 10:00AM                  | Apr U Mich Sentiment Final (ip)         | 98.8          | 98.0     | 97.8   |
| 10:00AM                  | Apr U Mich 1Yr Inf Final (%)            | 2.7           |          | 2.7    |
| 10:00AM                  | Apr U Mich 5-Yr Inf Final (%)           | 2.5           |          | 2.4    |
| <b>Monday, Apr 30</b>    |   |               |          |        |
| 8:30AM                   | Mar Personal Income (%)                 | 0.3           | 0.4      | 0.4    |
| 8:30AM                   | Mar Consumer Spending (Consumption) (%) | 0.400         | 0.400    | 0.200  |
| 8:30AM                   | Mar Core PCE (y/y) (%)                  | 1.900         | 1.900    | 1.600  |
| 8:30AM                   | Mar Core PCE (m/m) (%)                  | 0.200         | 0.200    | 0.200  |
| 9:45AM                   | Apr Chicago PMI                         | 57.6          | 58.0     | 57.4   |
| 10:00AM                  | Mar Pending Home Sales (%)              | 0.4           | 1.0      | 3.1    |
| 10:00AM                  | Mar Pending Sales Index                 | 107.6         |          | 107.5  |
| <b>Tuesday, May 01</b>   |   |               |          |        |
| 10:00AM                  | Apr ISM Manufacturing PMI               | 57.3          | 58.3     | 59.3   |
| 10:00AM                  | Apr ISM Mfg Prices Paid                 | 79.3          | 78.0     | 78.1   |
| 10:00AM                  | Mar Construction spending (%)           | -1.7          | 0.5      | 0.1    |
| <b>Wednesday, May 02</b> |   |               |          |        |
| 7:00AM                   | w/e Mortgage Refinance Index            | 1104.9        |          | 1145.5 |
| 7:00AM                   | w/e MBA Purchase Index                  | 258.1         |          | 262.4  |
| 8:15AM                   | Apr ADP National Employment (k)         | 204           | 200      | 241    |
| 9:45AM                   | Apr ISM-New York index                  | 779.3         |          | 772.1  |
| 2:00PM                   | N/A FOMC rate decision (%)              | 1.500 - 1.750 | 1.625    | 1.625  |
| <b>Thursday, May 03</b>  |   |               |          |        |
| 8:30AM                   | Q1 Productivity Preliminary (%)         | 0.7           | 0.9      | 0.0    |
| 8:30AM                   | Q1 Labor Costs Preliminary (%)          | 2.7           | 2.9      | 2.5    |
| 8:30AM                   | w/e Jobless Claims (k)                  | 211           | 220      | 209    |
| 8:30AM                   | Mar International trade mm \$ (bl)      | -49.0         | -50.0    | -57.6  |
| 10:00AM                  | Apr ISM N-Mfg PMI                       | 56.8          | 58.1     | 58.8   |
| 10:00AM                  | Mar Factory orders mm (%)               | 1.6           | 1.4      | 1.2    |
| <b>Friday, May 04</b>    |   |               |          |        |
| 8:30AM                   | Apr Non-farm payrolls (k)               | +164          | 192      | 103    |
| 8:30AM                   | Apr Unemployment rate mm (%)            | 3.9           | 4.0      | 4.1    |



## Experience, Responsive, Expertise

Whether you're buying, selling, refinancing, or building your dream home, you have a lot riding on your loan specialist. Since market conditions and mortgage programs change frequently, you need to make sure you're dealing with a top professional who is able to give you quick and accurate financial advice. I have the expertise and knowledge you need to explore the many financing options available.

Ensuring that you make the right choice for you and your family is my ultimate goal. And I am committed to providing my customers with mortgage services that exceed their expectations.

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