Mike Baker
Head Interest Rate Shopper, The Rate Shop
Individual NMLS: 259076 Company NMLS: 2554765 State
23211 W 45th St Shawnee, KS 66226

Office: 913-213-3335
Mobile: 913-213-3335
mike@rateshopkc.com
View My Website

Is Everything Already Changing in 2019?

It was a long December for the stock market, which had its **worst month** since the financial crisis (in terms of % change). Meanwhile, interest rates had their best month since June 2016.

The size and direction of those moves caused speculation about a **big reversal** at the beginning of 2019. In both cases, traders figured stocks and rates had moved so much lower so quickly that some sort of bounce was inevitable.

This line of thinking (i.e. that markets should bounce simply because they've moved "too far, too fast") speaks to an actual concept in market analysis. In a word, the concept is "momentum," but it's often discussed in the binary form of "**overbought**" vs "**oversold.**"

Simply put, the more any given financial market does one thing, the greater the risk becomes that it will do the opposite. The **big catch** here is that there's no hard and fast rule about the timing or the size of the bounce. In fact, sometimes the market even seems to punish a herd mentality that is hoping for such bounces for such simple reasons.

With all of the above in mind, this was destined to be a highly uncertain and potentially volatile week. Perhaps we would see stocks bounce more than they already had at the end of December. Perhaps we would see bonds ignore stocks and do their own thing, much like last week. Perhaps it would be Friday's slate of important events that would set the tone for the new year.

As it turned out, it was **all of the above**, at least for now. Bond markets (aka "rates") spent the first 2 days of 2019 doing their own thing, moving lower at a much quicker pace than stocks. Some of that movement was purely incidental, but a majority of the gains were driven by an exceptionally weak ISM Manufacturing report on Thursday morning. Then on Friday, an exceptionally strong jobs report coupled with a few choice remarks from Fed Chair Powell sent everything back in the other direction.

Stocks were less volatile by comparison. They responded modestly to the weak manufacturing data before ultimately edging up past last week's highs after Friday's events. In particular, they appreciated **Powell's comment** about the Fed being "sensitive to the message markets are sending." That's his way of acknowledging that heavy stock losses could actually affect Fed policy.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

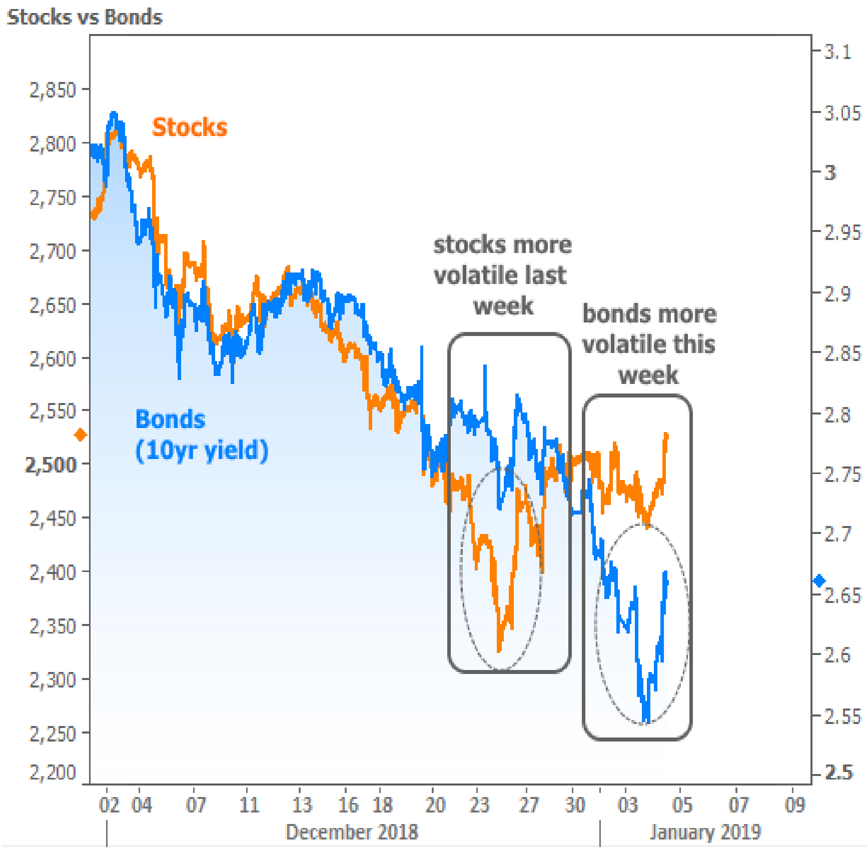
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3951	-0.0029
30 YR Treasury	4.5645	+0.0005

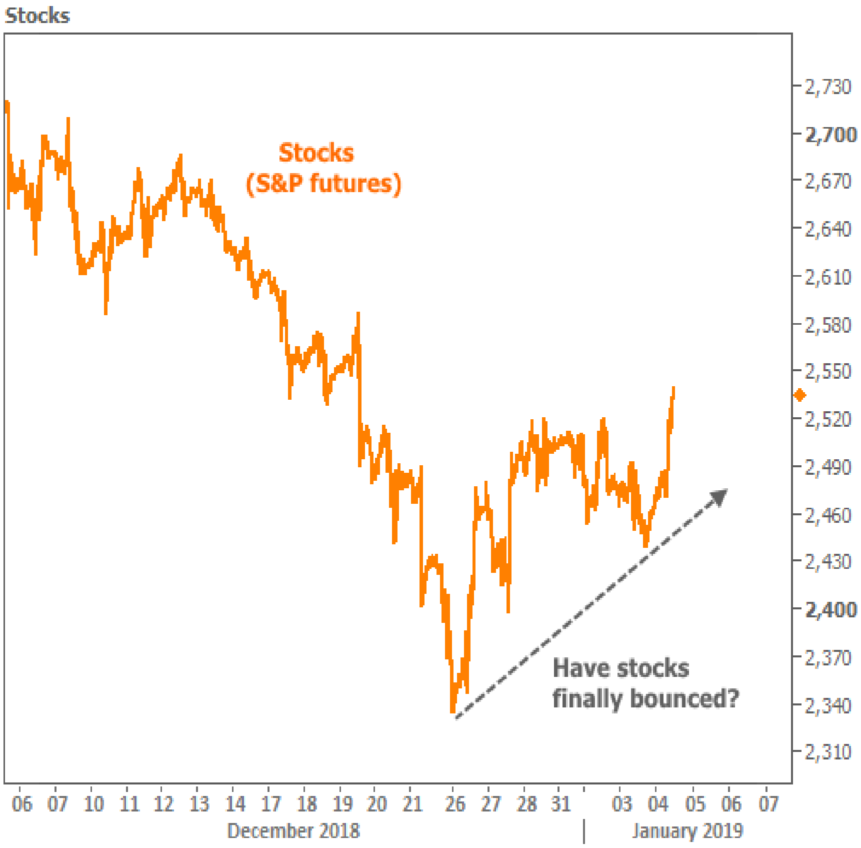
Pricing as of: 7/1 2:45AM EST

Recent Housing Data

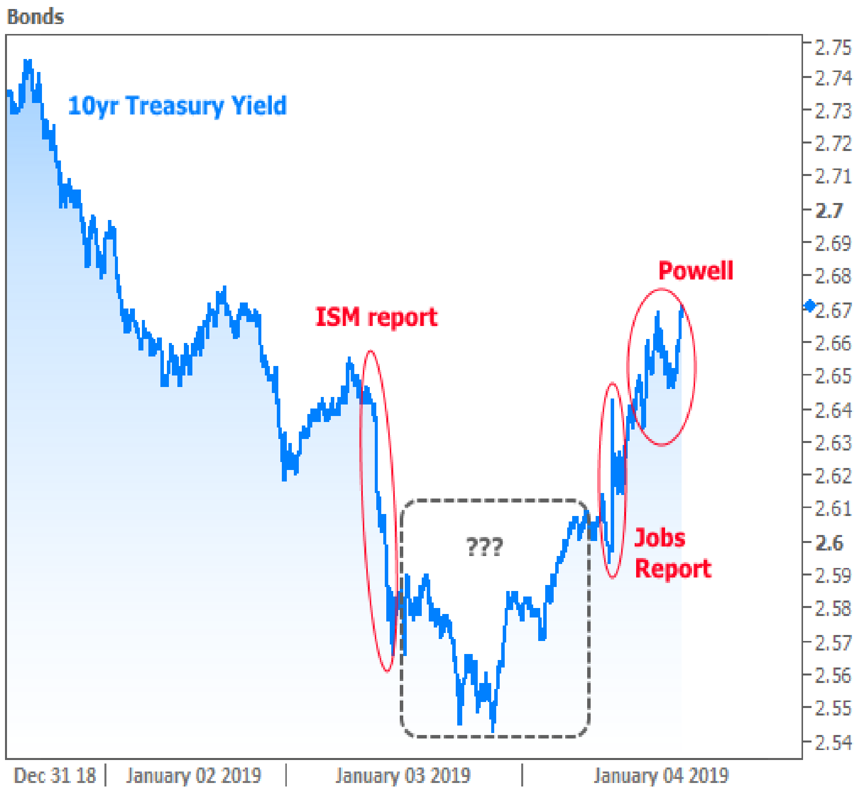
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



If we isolate stocks and bonds individually, we can better assess a potential momentum shift. With respect to stocks, if this bounce continues, it will have had **more** to do with late December and **less** to do with Friday's seemingly all-important calendar events.



A somewhat similar case could be made for bonds, although we'll need to zoom in and see the overnight trading between Thursday and Friday.

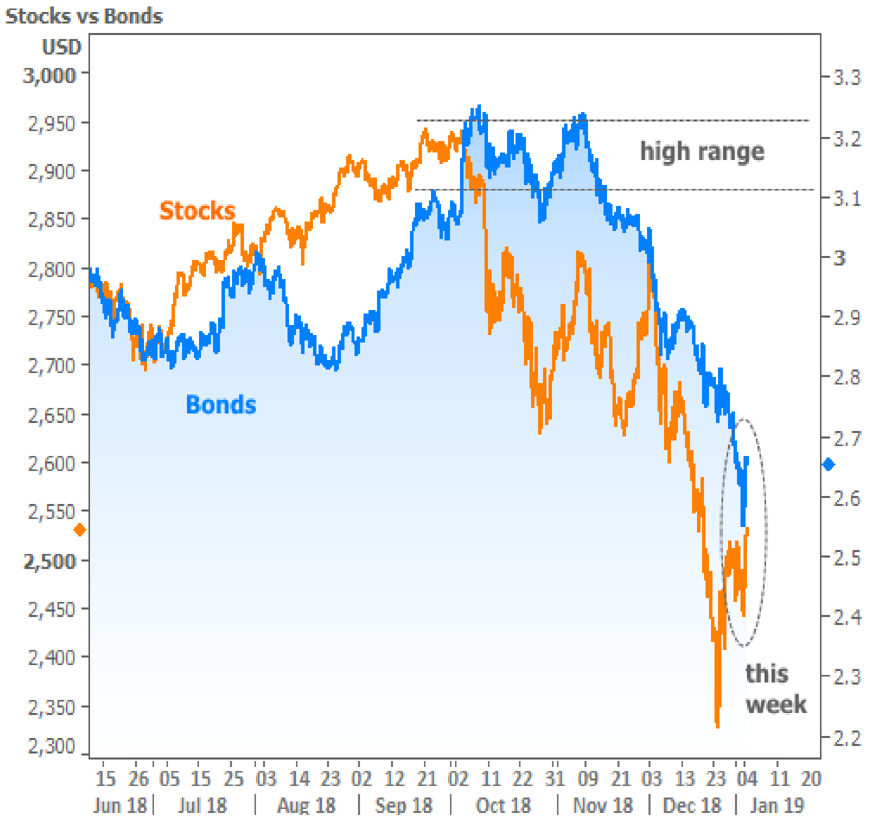


As the chart suggests, roughly half of this week's bounce in rates occurred during the "???" hours overnight, and **weren't** directly tied to any calendar events. This is momentum at work! It was finally the moment when traders agreed that rates had "fallen far enough" for now. The jobs report and Powell's speech merely added some emphasis to the bounce.

So, does this mean **everything is changing in 2019?**

First off, an entire year is a long time to be guessing at ongoing themes. Things could still change several times before 2019 is over. Secondly, it's **entirely too soon** to answer that question.

All we know now is that stocks and bonds agree that the risk of an early 2019 bounce (higher rates, higher stocks) remains on the table. Clearly, we've already seen some of it. It makes sense to defend against the possibility of even higher rates next week, but keep in mind that both sides of the market have a long way to go before they're anywhere close to the recent high range.



Subscribe to my newsletter online at: http://housingnewsletters.com/rateshopkc

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Thursday, Jan 03				
8:00AM	w/e Mortgage Refinance Index	729.9		816.0
8:00AM	w/e MBA Purchase Index	219.0		236.9
8:15AM	Dec ADP National Employment (k)	271.0	178	179
8:30AM	w/e Jobless Claims (k)	231	220	216
10:00AM	Nov Construction spending (%)		0.2	-0.1

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Dec ISM Manufacturing PMI	54.1	57.9	59.3
Friday, Jan 04				
8:30AM	Dec Average earnings mm (%)	+0.4	0.3	0.2
8:30AM	Dec Non-farm payrolls (k)	+312	177	155
8:30AM	Dec Unemployment rate mm (%)	3.9	3.7	3.7
Monday, Jan 07				
10:00AM	Dec ISM N-Mfg PMI	57.6	59.0	60.7
10:00AM	Nov Factory orders mm (%)		0.3	-2.1
Tuesday, Jan 08				
1:00PM	3-Yr Note Auction (bl)	38		
Wednesday, Jan 09				
7:00AM	w/e Mortgage Refinance Index	987.9		729.9
7:00AM	w/e MBA Purchase Index	255.2		219.0
1:00PM	10-yr Note Auction (bl)	24		
Thursday, Jan 10				
8:30AM	w/e Jobless Claims (k)	216	220	231
10:00AM	Nov Wholesale inventories mm (%)		0.5	0.7
1:00PM	30-Yr Bond Auction (bl)	16		
Friday, Jan 11				
8:30AM	Dec Core CPI Year/Year (%)	2.2	2.2	2.2

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is “your rates sound too good to be true”. Well they’re not, and here is why…

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It’s simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It’s just a lie that the big box mortgage companies have been telling you for years. Don’t believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker