



**Mike Baker**

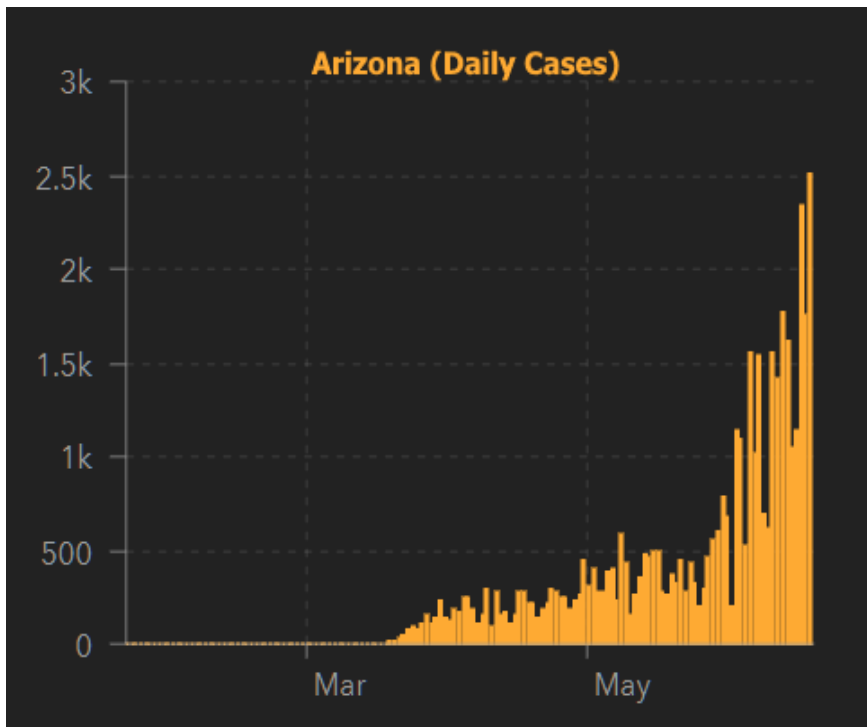
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## The Great Debate for Rates, Housing, and Markets

Coronavirus hit markets with unprecedented force in March. Stock prices and bond yields sank. When the outlook grew less dire, markets began moving back in the other direction. As quarantine measures ease, fear surrounding a second wave of COVID-19 is **pushing back** on the recovery in markets.

Let's quantify the fear using daily COVID-19 case counts in several key states.



## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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
<b>Freddie Mac</b>			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

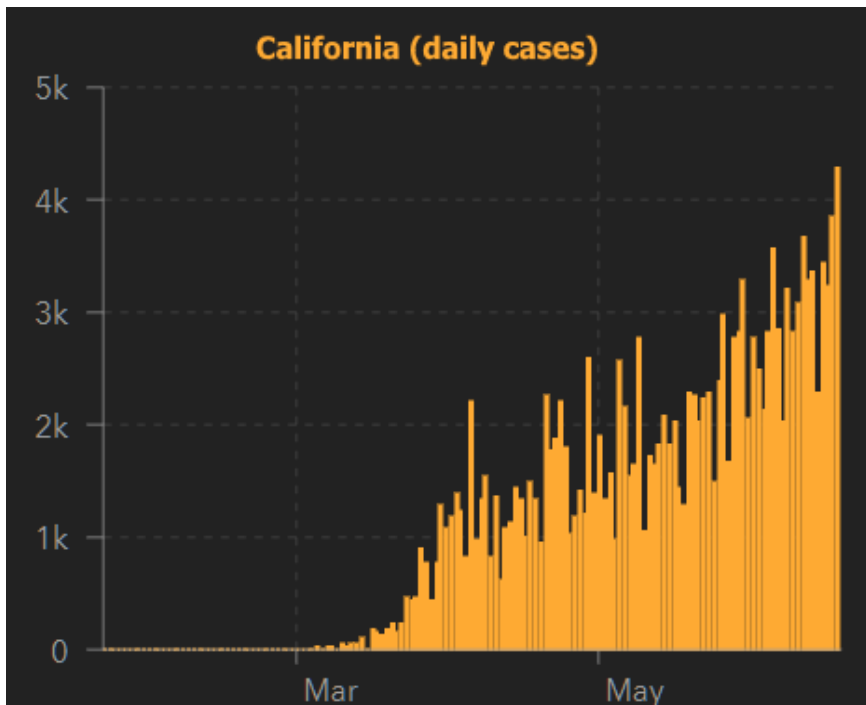
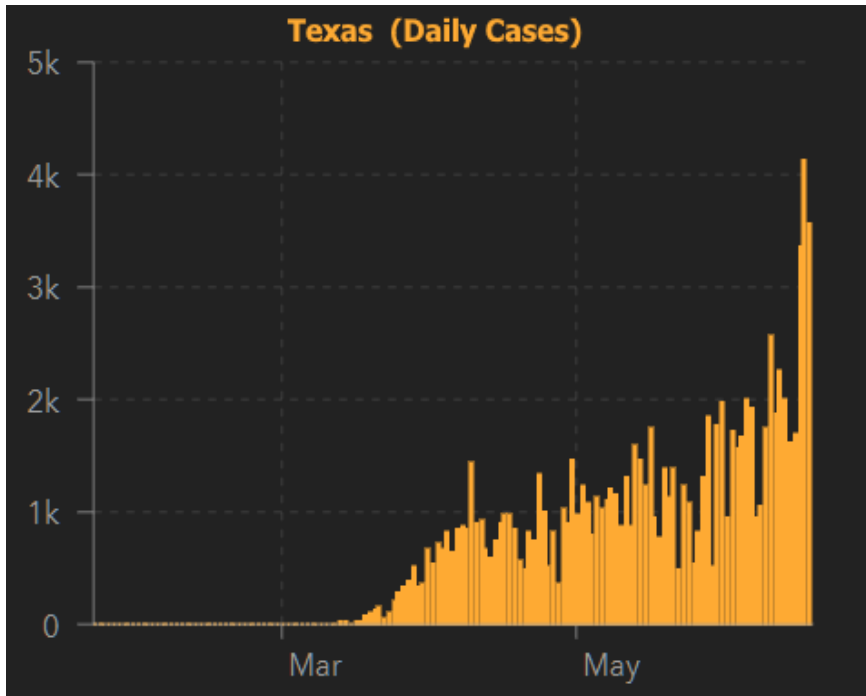
## Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3902	-0.0078
30 YR Treasury	4.5578	-0.0062

Pricing as of: 7/1 12:49AM 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%



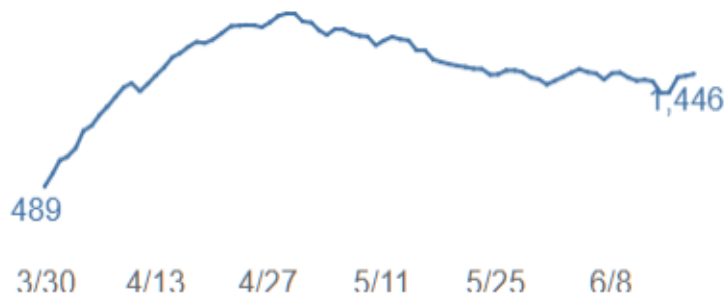
There's no question that these trends are alarming at face value, but the **implications can vary** quite a bit due to increased testing. We can get a clearer sense of the risks by looking at hospitalization data.

For example, the **seemingly dire** situation in California looks quite different based on LA County hospitalizations. Numbers remain elevated, but they're not rising nearly as fast as case counts.

Positive COVID-19 Patients

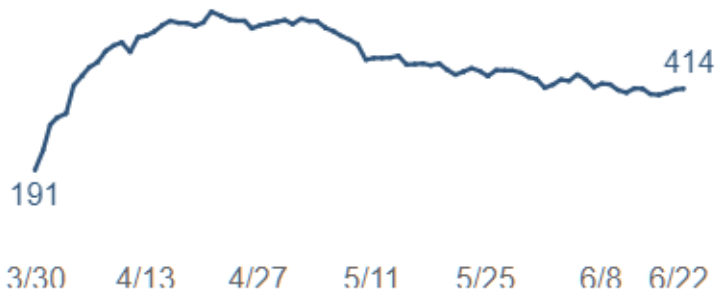
1,446 +17  
+1.2%

Los Angeles  
County

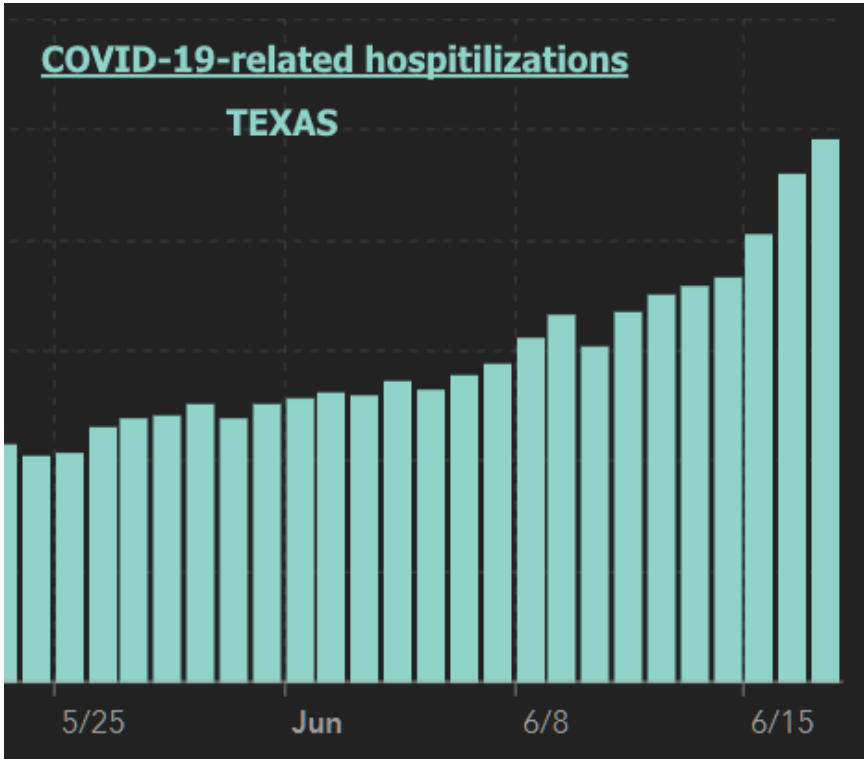


ICU Positive COVID-19 Patients

414 +2  
+0.5%

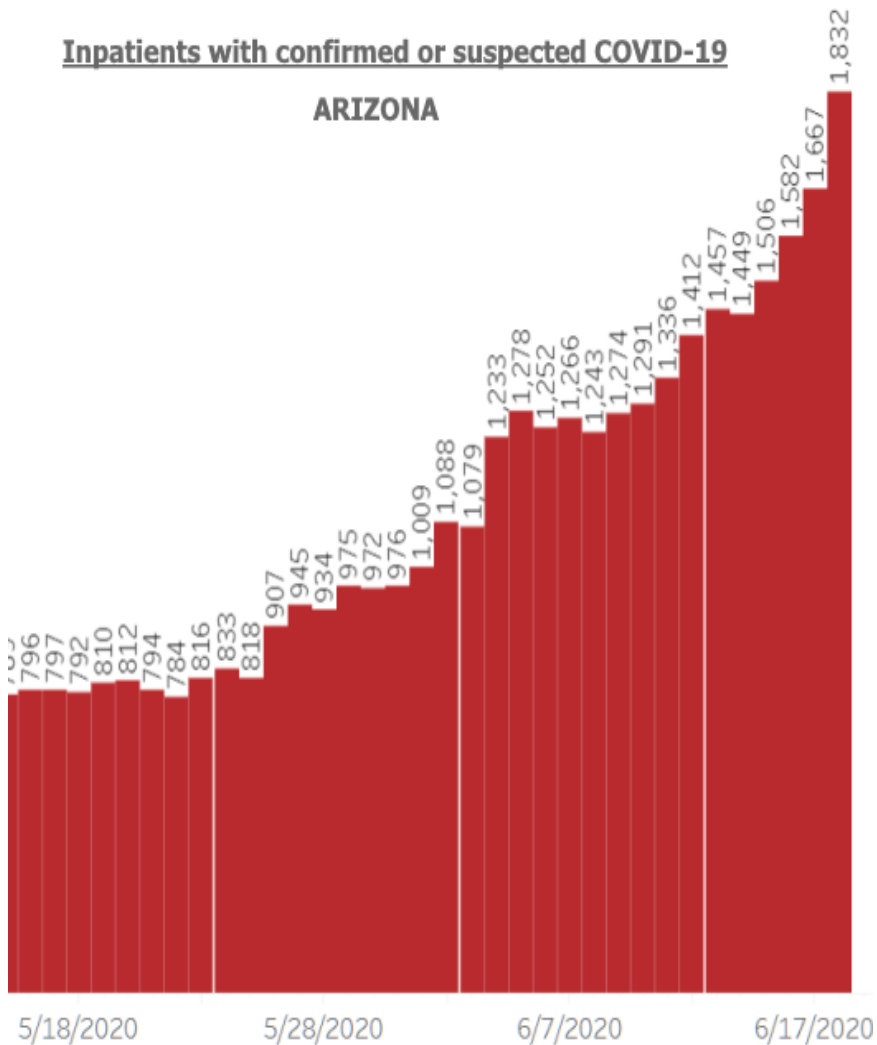


In Texas and Arizona, however, hospitalizations **confirm** the negative trends.



Inpatients with confirmed or suspected COVID-19

ARIZONA

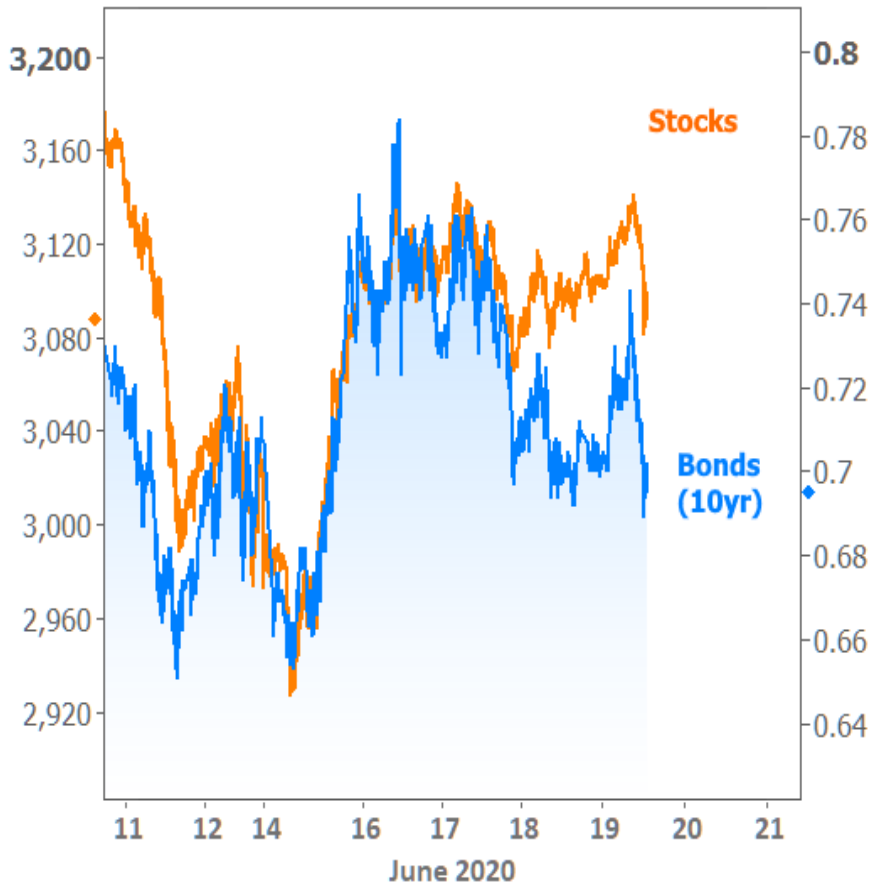


This data raises more questions than it answers, and it's at the heart of why markets are entering a highly uncertain time. Simply put, panic and defensiveness were absolutely the right calls in March. And some level of optimism was clearly warranted after that. In other words, it **made sense** to see stocks and bond yields tank in March and then move higher.

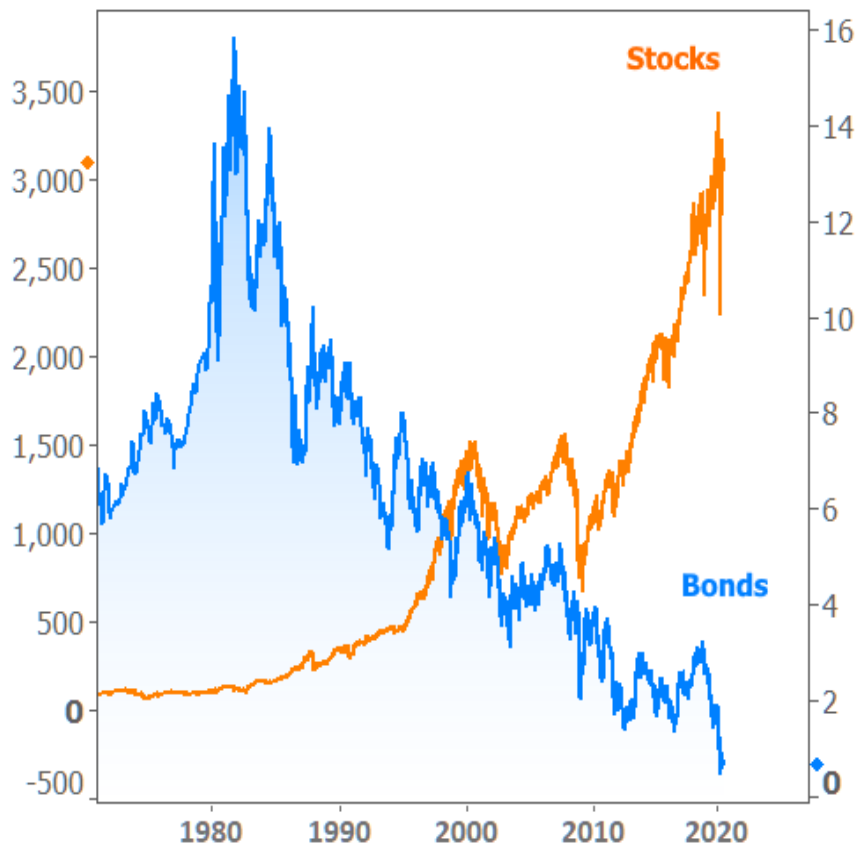
But **now what?** After attempting to run higher in early June, both stocks and bonds fell abruptly 2 weeks ago. This coincided with a ramp up in concerns about a second wave of COVID-19 impacts. Are we standing on the brink of a market reversal or merely trying to find the right balance between economic reopenings and public health risk?



To whatever extent markets trade the "2nd wave" narrative, we could see stocks and bonds try to move below the dotted lines in the chart above. No matter where they go, they're **increasingly likely** to take cues from each other (i.e. stock prices and bond yields moving in the same direction). This is easiest to see over shorter periods of time.



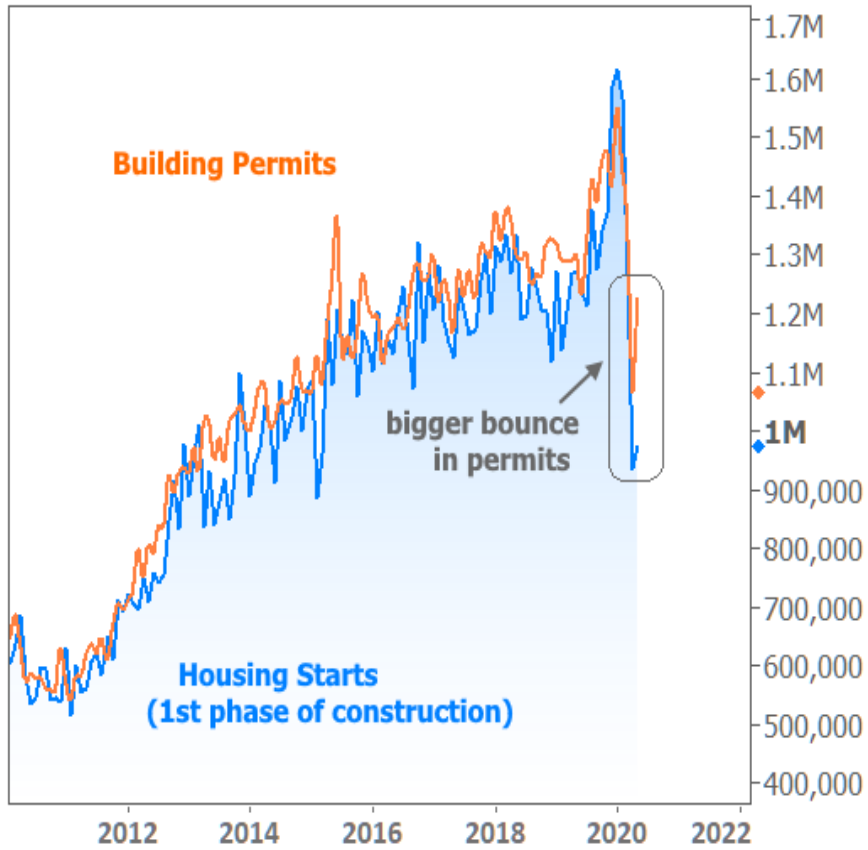
And no reference to stock/bond correlation would be complete without a reminder that one should **never** expect this relationship to play out in the longer term:



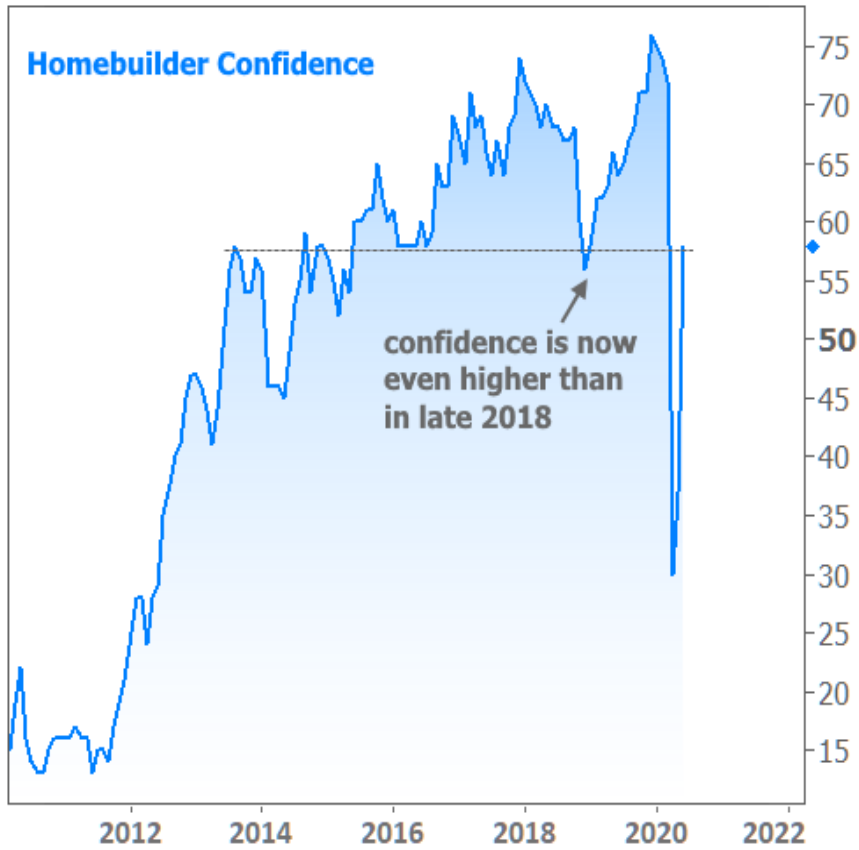
Financial markets are one thing, but how about the **housing and mortgage** markets? This week brought data on new home construction as well as builder confidence. The numbers speak to optimism about the future while still conveying the ill effects of the present.

Specifically, "Housing Starts" which measure the actual ground-breaking phase of construction, are still noticeably **depressed** relative to previous levels. Meanwhile, Building Permits bounced back in **grand fashion** (up 14.4% in May and April's 21% loss was revised to only a 5.7% loss). Neither are back to pre-covid levels, but permits are close.

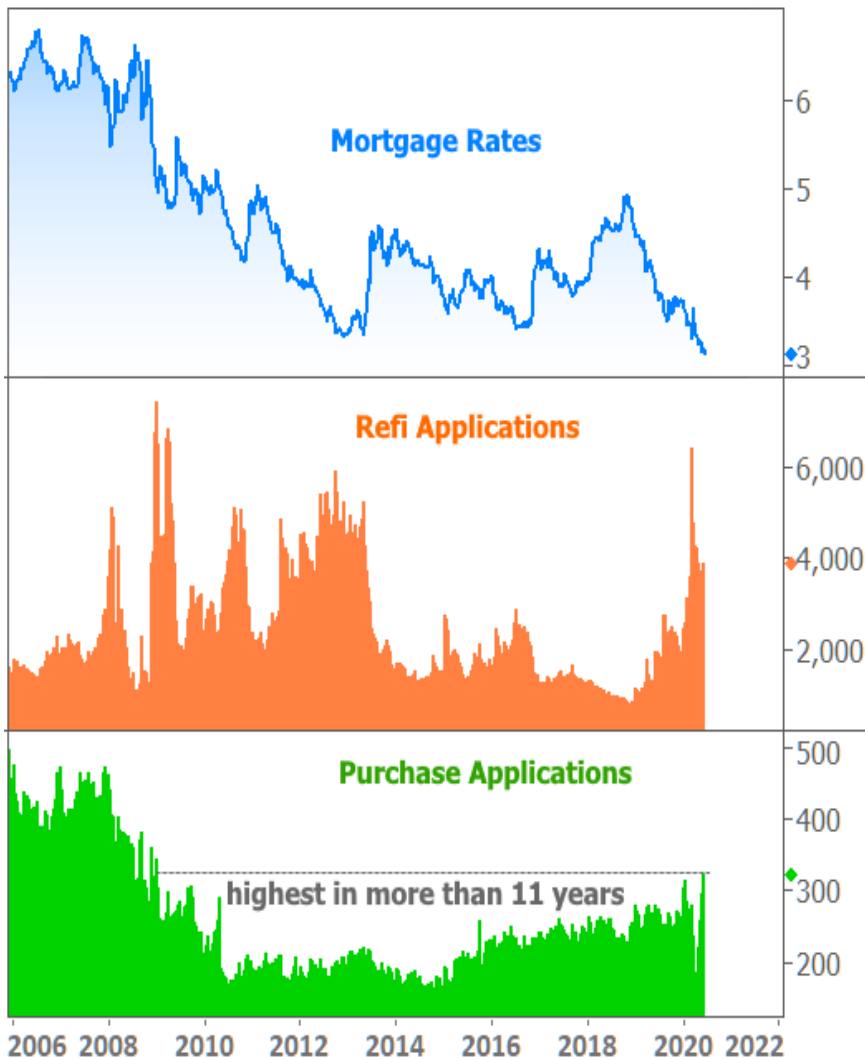




It's no surprise, then, to find that **builder confidence soared** in the National Association of Home Builder's latest survey. Notably, this survey data was collected well **after** the Housing Starts data in the chart above. As such, it may suggest a stronger bounce in construction next month.



Are builders participating in reality or is this **false hope**? If the weekly mortgage application data from the Mortgage Bankers Association is any indication, optimism is justified. Purchase applications were as high as they've been since late 2008!



The chart above brings **another question** into focus: how much of the strength in the housing market is due to mortgage rates holding near all-time lows? Unequivocally, rates are helping housing numbers reach higher than they otherwise would be, but keep in mind, mortgages are much harder to get for certain scenarios right now. Beyond that, the home shopping process has challenges of its own that are keeping some would-be buyers sidelined for a bit longer.

The **takeaway** is that the bounce back in housing numbers is just like the bounce back in many other sectors of the economy. Things got bad enough that there was simply plenty of room for improvement.

No one is saying "everything's fine now... back to business as usual!" Rather, many things are just quite a bit better than they were--so much so that we're now in a position to debate whether the recovery narrative continues or cools off. That's a debate that will remain open as long as COVID-19 numbers are pushing back on states' lifting of quarantine measures.

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**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
<b>Monday, Jun 15</b>				
8:30AM	Jun NY Fed Manufacturing	-0.2	-29.80	-48.50

**Event Importance:**

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★ Very Important

Date	Event	Actual	Forecast	Prior
<b>Tuesday, Jun 16</b>				
8:30AM	May Retail Sales (%)	17.7	8.0	-16.4
9:15AM	May Industrial Production (%)	1.4	2.9	-11.2
10:00AM	Apr Business Inventories (%)	-1.3	-0.8	-0.2
10:00AM	Jun NAHB housing market indx	58	45	37
<b>Wednesday, Jun 17</b>				
7:00AM	w/e MBA Purchase Index	322.5		311.7
7:00AM	w/e Mortgage Refinance Index	3891.5		3529.0
8:30AM	May House starts mm: change (%)	4.3		-30.2
8:30AM	May Build permits: change mm (%)	14.4		-21.4
8:30AM	May Building permits: number (ml)	1.220	1.228	1.066
8:30AM	May Housing starts number mm (ml)	0.974	1.095	0.891
<b>Thursday, Jun 18</b>				
8:30AM	Jun Philly Fed Business Index	27.5	-23.0	-43.1
8:30AM	w/e Jobless Claims (k)	1508	1300	1542
10:00AM	May Leading index chg mm (%)	2.8	2.3	-4.4
<b>Monday, Jun 22</b>				
10:00AM	May Existing home sales (ml)	3.91	4.12	4.33
10:00AM	May Exist. home sales % chg (%)	-9.7	-3.0	-17.8
<b>Tuesday, Jun 23</b>				
10:00AM	May New home sales-units mm (ml)	0.676	0.640	0.623
10:00AM	May New home sales chg mm (%)	16.6	2.9	0.6
<b>Wednesday, Jun 24</b>				
7:00AM	w/e MBA Purchase Index	312.7		322.5
7:00AM	w/e Mortgage Refinance Index	3434.6		3891.5
9:00AM	Apr Monthly Home Price yy (%)	5.5		5.9
<b>Thursday, Jun 25</b>				
8:30AM	Q1 GDP Final (%)	-5.0	-5.0	-5.0
8:30AM	May Durable goods (%)	15.8	10.9	-17.7
<b>Friday, Jun 26</b>				
8:30AM	May Core PCE Inflation (y/y) (%)	1.0	0.9	1.0
10:00AM	Jun Consumer Sentiment (ip)	78.1	79.0	78.9

## 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.

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