



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](#)

Rates Ignore Trump's Covid Diagnosis. Has The Bond Market Gone Crazy?

After weeks of incredibly subdued volatility, the bond market (which dictates rates) is starting to show some signs of life, but not for the same old reasons.

Inflation?

Inflation is one of the oldest and most significant reasons to freak out about interest rates. It was by far and away the dominant source of drama in the 70's and 80's, arguably doing more than anything to shape the way policymakers would think about their rate-related goals going forward.

For instance, **3 decades** of runaway inflation caused Fed policy to gradually evolve into a deadly weapon against higher rates. The other school of thought is that inflation was destined to fall for reasons beyond the Fed's monetary policy decisions.

Either way, fall it did! By the late 90's core inflation was under 2.0% for the first time in 30 years. This was all so new/sudden, and the past 3 decades so traumatic, that the Fed was in **no hurry** to do anything to push inflation HIGHER for any reason. Still, they were willing to accept a moderate increase in inflation in order to combat the 2001 recession.

After Fed Chair Greenspan's significant rate cuts in the early 2000's, inflation managed to crest 2.0%, but it didn't spend much time there due to the onset of the financial crisis (recessions push rates and inflation lower, in general).

The financial crisis caused a massive rewriting of the Fed's inflation-fighting playbook. For the first time in modern economic memory, they were on the **OFFENSIVE**--attempting to prevent inflation from falling too much (something that lessons from history suggests is just as insidious as high inflation). Despite unprecedented efforts such as years of record low Fed Funds Rates and trillions of dollars of bond purchases, sustained inflation over 2.0% proved elusive.

The onset of the pandemic put instant **DOWNWARD** pressure on inflation (except for toilet paper?), and that's one of the reasons the Fed came out with guns blazing in March (promising low rates for years and as much bond buying as it takes). The new buzz word for inflation is "symmetric." It references the Fed's belief that inflation needs to run over 2.0% for a while to make up for time spent under 2.0%. The following charts illustrate that concept. The first one might be confusing, but the 2nd one is drastically

National Average Mortgage Rates



	Rate	Change	Points
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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	4.3931	-0.0049
30 YR Treasury	4.5597	-0.0043

Pricing as of: 6/30 10:43PM 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%

simplified a la Goldilocks.



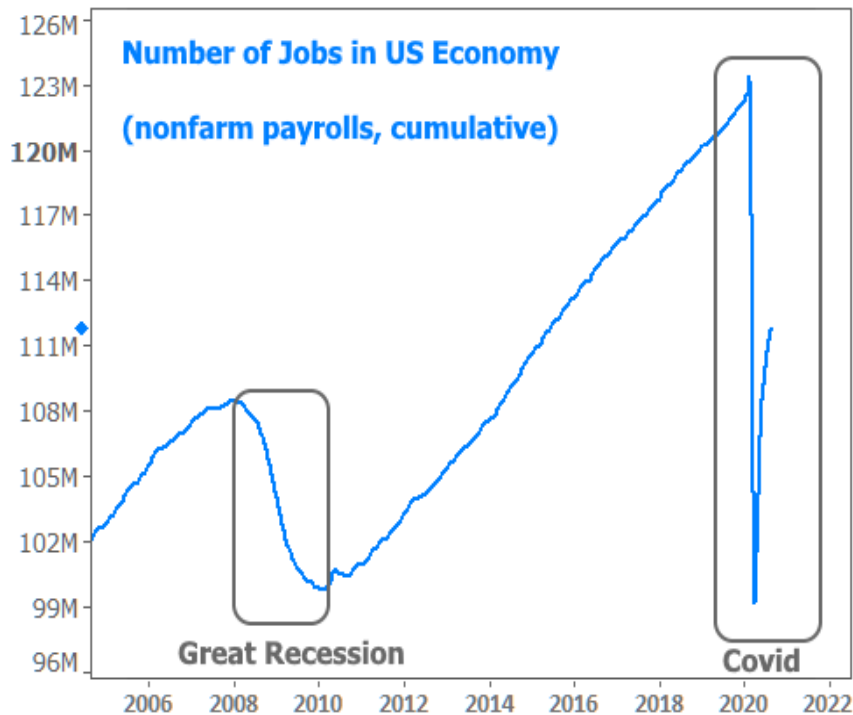
And the Goldilocks version:



The Fed's new policy stance is so aggressive that some market watchers wonder if it's time to worry about inflation again after taking the last 2 decades off. For now though, that's filed away in the drawer marked "bridges to be crossed when we come to them." **Case in point**, Core Inflation moved up to 1.6% this month from 1.4% last month and markets didn't blink.

Jobs?

If anything is more of a "same old reason" for rates to move than inflation, it's the jobs market, and this week brought the biggest jobs report of the month. Although the economy continues to recover jobs after the pandemic's record-setting eradication of the workforce, the pace of the recovery is **starting to slow**. After adding almost 1.5 million jobs back last month, this month's report added fewer than 900k jobs. With only about half of covid's labor market damage undone, some economists worry that it's too early to be seeing things level off like this. Even if those fears prove to be unfounded, the data certainly wasn't strong enough for interest rates to react.



Trump's Covid Diagnosis?

The president has covid. If we're talking about the normal reasons that interest rates might see volatility, this type of news would be filed under "headline risk" as well as "political uncertainty." You'd be **well within your right** to assume it could have an impact on the bond market and consequently on rates, but alas, it was mostly a factor for stocks.

The bond market is instead thinking LONG term, and thus not incredibly interested in making big moves until the pandemic changes in a big way. If you forced bonds to name their biggest sources of motivation, Trump's covid diagnosis **doesn't make the list** unless things get much worse. Even then, markets are already braced for change and uncertainty at the executive level due to the election.

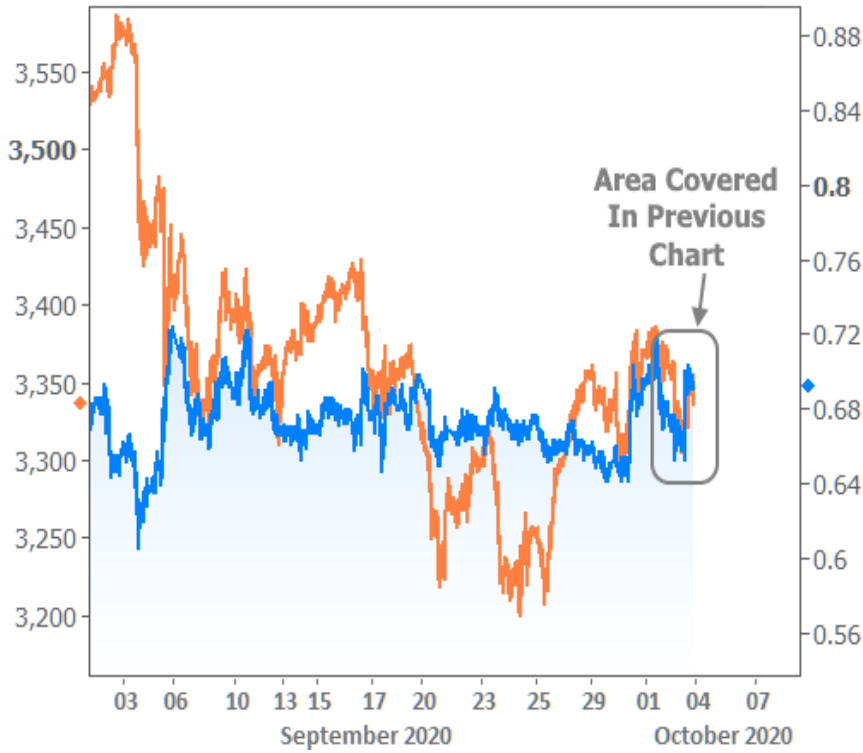
Stimulus!

Finally we come to the only item on the list that does NOT play a recurring role in the history of mortgage rate motivation. After all, large scale stimulus programs are not common in the first place--and downright unheard of when it comes to the scope of post-covid fiscal stimulus.

Simply put, no matter what you think of fiscal stimulus from a political standpoint, if the government is throwing **trillions** of dollars at the American people, markets are going to respond. The quintessential response is for stocks to improve and rates to rise, and that's generally what we've seen surrounding various key updates on stimulus negotiations. These updates were definitely the biggest market movers this week for bonds/rates. The following chart shows how Friday's stimulus headlines compared to the overnight news of Trump's covid diagnosis.



While it's true that the chart above suggests the Trump news was a big deal for stocks, context is also important. Here's the context :



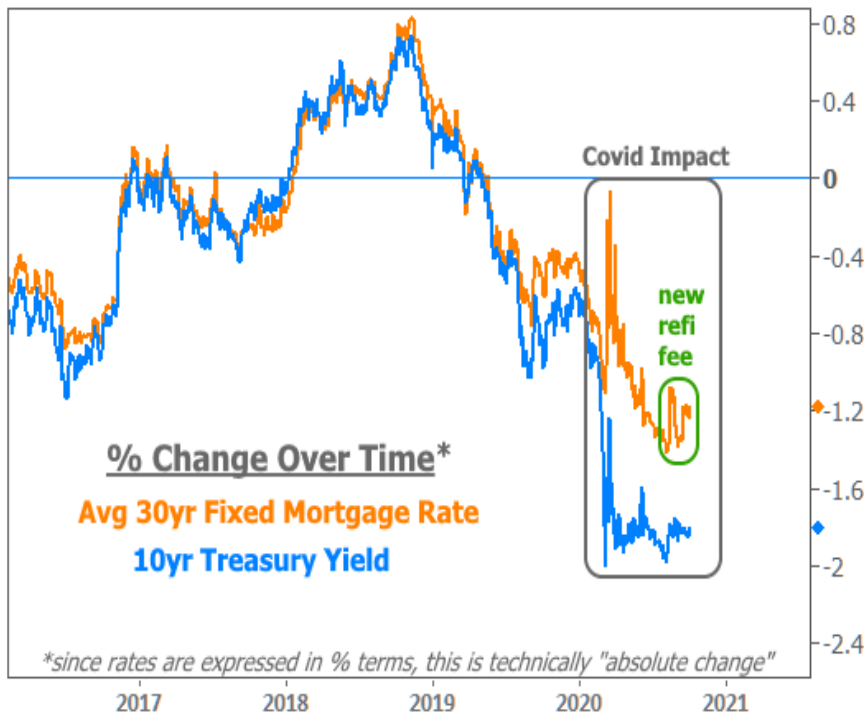
Bottom Line.

As we look at the chart above, we see stocks have experienced much bigger pockets of inspiration recently. We're also left with the sense that the bond market (the blue line) is more flat than anything. And although the blue line isn't perfectly flat, we also need to remember that mortgage rates are **a few degrees removed** from the 10yr Treasury yields.

Mortgage rates are based primarily on mortgage-backed-securities (MBS), which tend to move almost exactly like 10yr Treasury yields in the big picture. But in the smaller picture, we can see the two diverge quite a bit. Not only that, but mortgage lenders have a few other considerations **in addition** to MBS prices that can drive an even bigger wedge between the movement seen in mortgage rates compared to the 10yr Treasury yield.

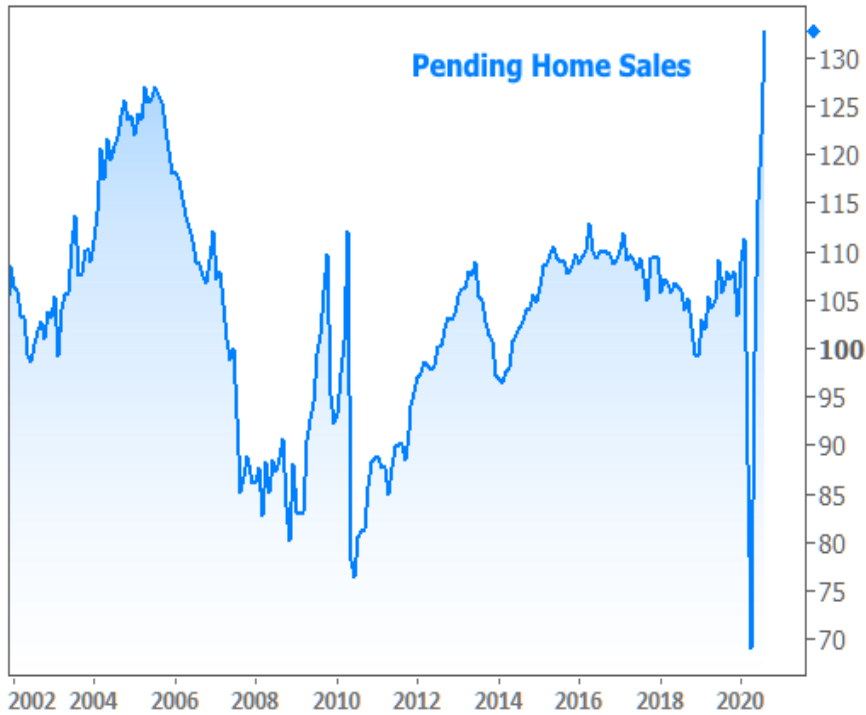
Covid created the biggest wedge ever. Not only did it hit MBS versus Treasuries, it also hit mortgage rates versus MBS--a true double whammy. Fortunately, this all occurred when rates were plummeting far below previous record lows. Simply put, **who cares** that mortgage rates are underperforming 10yr yields if you just saved hundreds a month on a refi?

The wedge has been slow to shrink and the [recently announced fee](#) for virtually all conventional refinances only prevented the shrinkage.



The **silver lining** to this "wedge" business is that mortgages have room to improve. That will take time though. After all, a huge reason for the blowout is the fact that lenders are just too busy to drop rates any faster.

Mortgage regulators also have to remember their mission to promote affordable home ownership--a mission that doesn't include the perpetual availability of juicy refi rates. Lenders need to be careful about lowering rates quickly enough to risk unintended consequences for homebuyers (i.e. overly long turn times, or overly aggressive bidding wars as low rates only put more upward pressure on home prices/sales). Don't believe it? Just ask this week's release of the most recent Pending Home Sales data.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Sep 29				
9:00AM	Jul CaseShiller 20 yy (%)	+3.9	3.8	3.5
10:00AM	Sep Consumer confidence	101.8	89.5	84.8
Wednesday, Sep 30				
7:00AM	w/e MBA Purchase Index	320.9		327.0
7:00AM	w/e Mortgage Refinance Index	3346.9		3579.8
8:15AM	Sep ADP National Employment (k)	749	650	428
8:30AM	Q2 GDP Final (%)	-31.4	-31.7	-31.7
9:45AM	Sep Chicago PMI	62.4	52.0	51.2
10:00AM	Aug Pending Sales Index	132.8		122.1
10:00AM	Aug Pending Home Sales (%)	+8.8	3.4	5.9
Thursday, Oct 01				
8:30AM	Aug Core PCE Inflation (y/y) (%)	1.6	1.4	1.3
8:30AM	w/e Jobless Claims (k)	837	823	870
10:00AM	Sep ISM Manufacturing PMI	55.4	56.4	56.0
10:00AM	Aug Construction spending (%)	1.4	0.8	0.1
Friday, Oct 02				
8:30AM	Sep Non-farm payrolls (k)	661	850	1371
8:30AM	Sep Unemployment rate mm (%)	7.9	8.2	8.4

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Sep Consumer Sentiment (ip)	80.4	79.0	78.9
Monday, Oct 05				
10:00AM	Sep ISM N-Mfg PMI	57.8	56.3	56.9
Tuesday, Oct 06				
8:30AM	Aug International trade mm \$ (bl)	-67.1	-66.1	-63.6
1:00PM	3-Yr Note Auction (bl)	52		
Wednesday, Oct 07				
7:00AM	w/e MBA Purchase Index	316.0		320.9
7:00AM	w/e Mortgage Refinance Index	3622.3		3346.9
1:00PM	10-yr Note Auction (bl)	35		
3:00PM	Aug Consumer credit (bl)	-7.22	14.00	12.25
Thursday, Oct 08				
1:00PM	30-Yr Bond Auction (bl)	23		
Friday, Oct 09				
10:00AM	Aug Wholesale inventories mm (%)	0.4	0.5	0.5

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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