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## Is The Fed Going to Kill The Economy?

January has been a month marked by the market's adjustment to a shift in the Fed policy outlook. This began right at the outset and resulted in higher rates and lower stock prices.

### Why?

Last week's newsletter goes into great detail on the matter. Revisit it [HERE](#).

This week merely served to **confirm what we already knew**, namely that the Fed would not be making any policy changes this week, but that it would do nothing to push back on the expectation for policy changes at the next meeting.

Language was added to the announcement to suggest a rate hike at the next meeting, and there was **no change** to the pace of tapering (which will be concluded before the March Fed meeting). Last but not least, Powell said the Fed remains on track to begin trimming the balance sheet as early as the June Fed meeting--perfectly in line with our previous assumptions.

Stocks and bonds get a bit **cranky** when the Fed yanks the proverbial punch bowl away--even if they knew it was coming. Fortunately, they'd prepared quite well for this week in terms of trading levels. Sure, there was a bit of a volatile reaction at first, but the next 2 days of trading confirm that the Fed didn't truly surprise the market (i.e. volatile trading with rates and stocks ultimately making it back near pre-Fed levels).

## 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

### 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

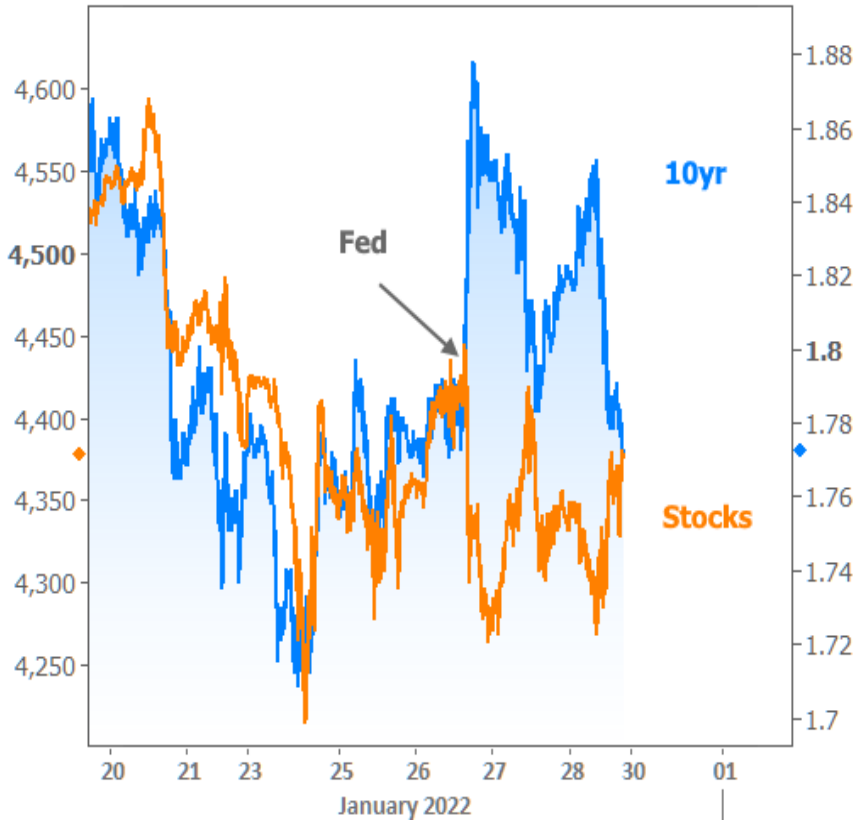
## Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4079	+0.0099
30 YR Treasury	4.5760	+0.0120

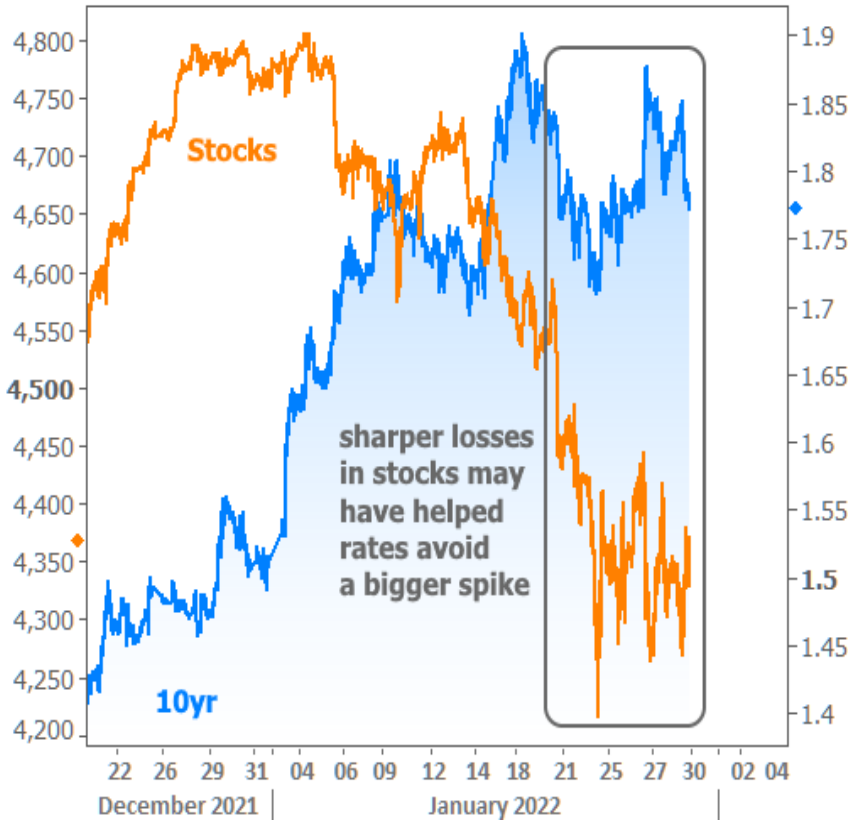
Pricing as of: 6/30 8:43PM EST

## Recent Housing Data

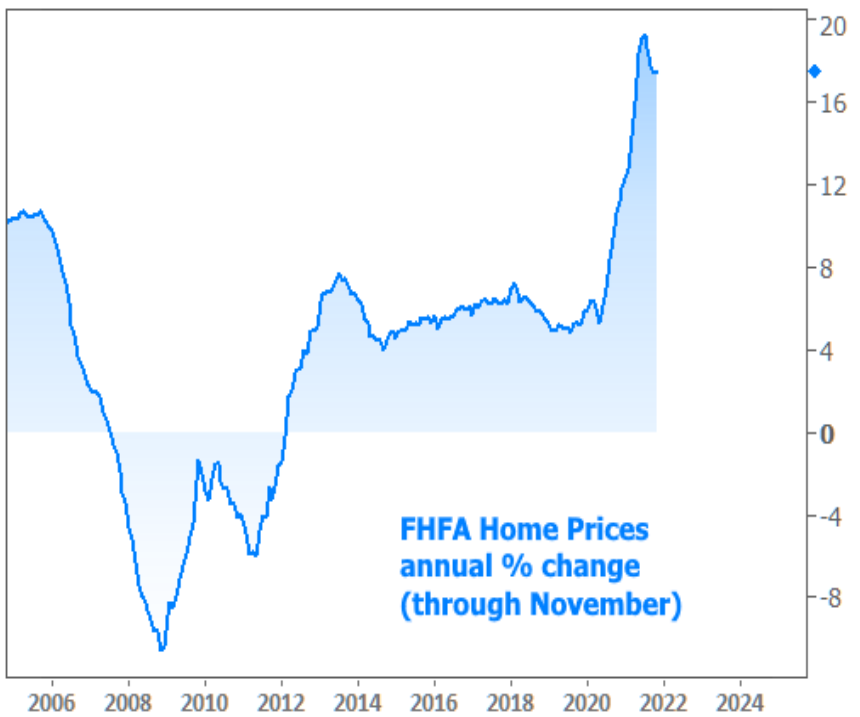
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



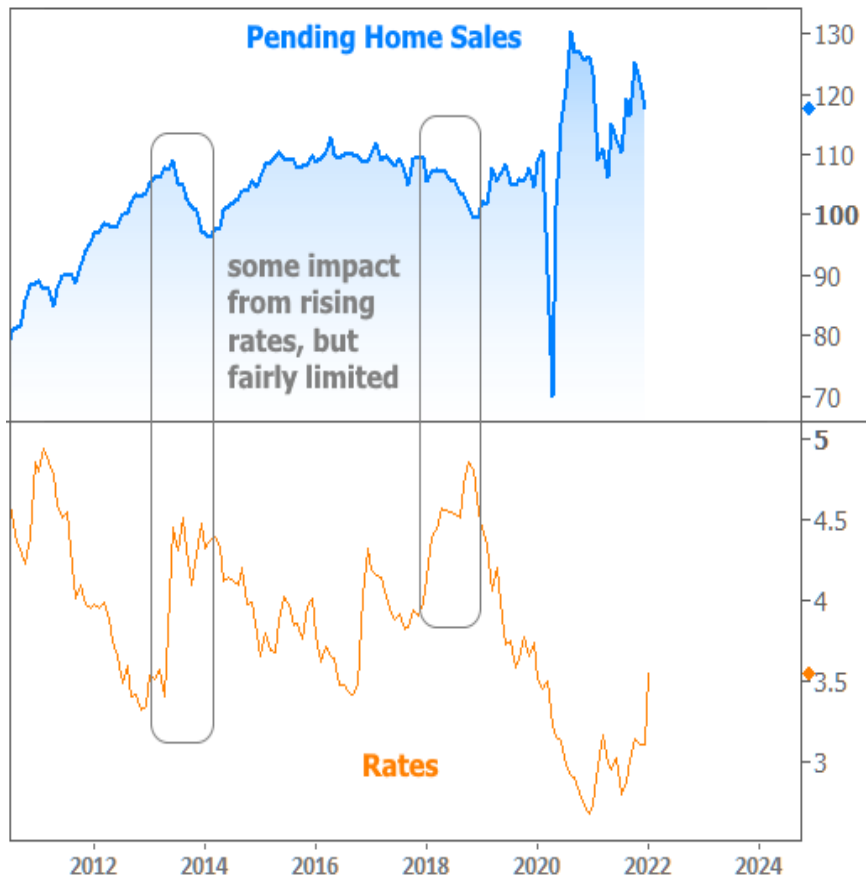
In the slightly bigger picture, we can see the damage that's already been done (and the possibility that big stock losses have helped rates avoid bigger spikes).



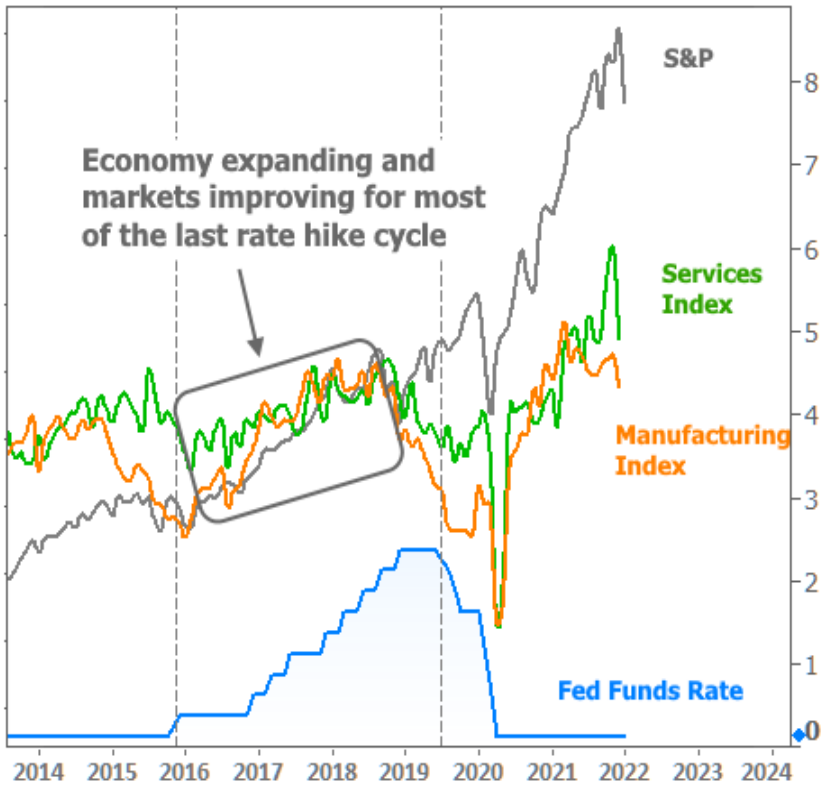
Despite the ultimately flat reaction to this week's Fed news, some market participants are worried the impending Fed rate hikes will do something to tank the economy. This includes potential damage to home prices, stocks, and home sales. With those concerns in mind, and with the caveat that this data was only updated through **November** this week, here's how **home prices** are doing:



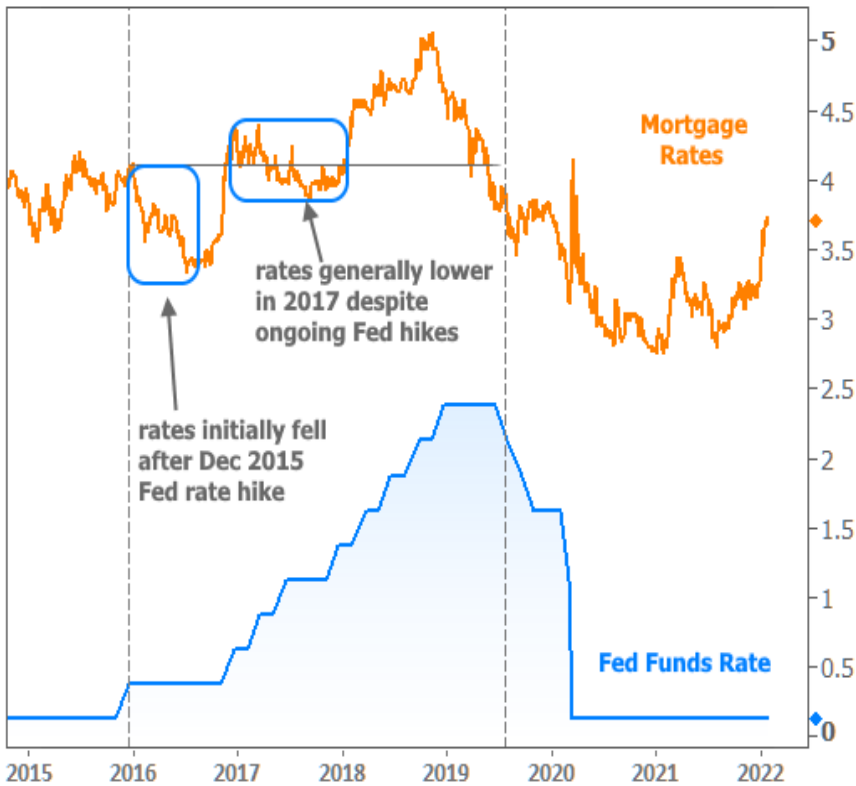
Here's how Pending Home Sales are doing (with a bonus overlay of mortgage rates):



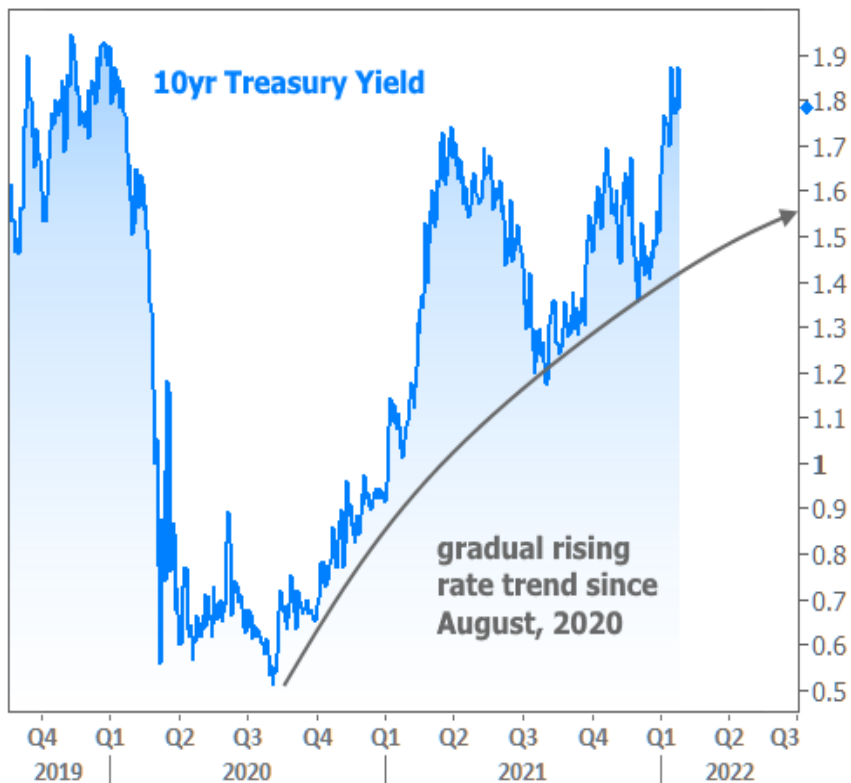
And here's how stocks are doing (gray line). This chart also includes the most recent Fed rate hike cycle along with broad economic metrics for the **manufacturing** and **services** sectors. It shows that the economy and the market continued to expand for years as the Fed continued hiking rates.



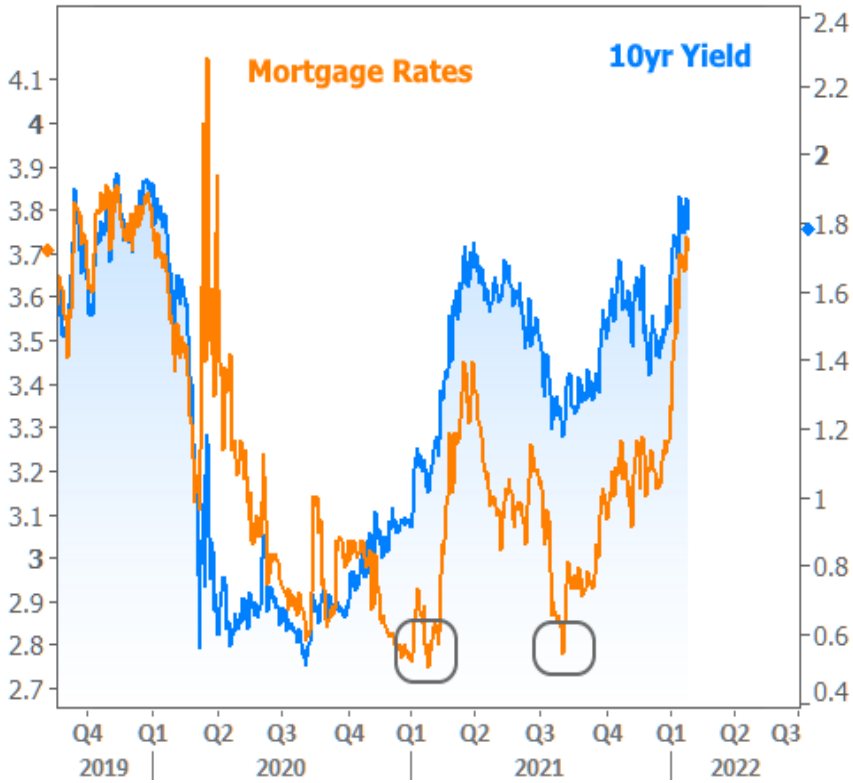
**How about rates?** If the Fed is hiking the Fed Funds Rate, what does that do to mortgages? The Fed only meets 8 times a year. Meanwhile, rates move every day. As such, rates do a great job of getting in position for Fed rate hikes before they happen. That's one of the reasons mortgage rates were able to fall for roughly a year after the previous Fed lift-off.



How have rates been doing in terms of getting ahead of Fed policy changes this time around? In a nutshell, it was even more of a given this time compared to 2015. We knew covid was taking an artificial bite out of the economy and that rates would **move back up** as the pandemic progressed. Unexpected speedbumps have slowed down the initial rising rate trend, but it began all the way back in August of 2020.



If it doesn't **FEEL** like rates have been rising since August 2020, that may be because mortgage rates were a notable exception at times for a variety of reasons.



This apparently large rate spike is only now getting rates back into what had previously been the all-time low range.



If the rising rate environment of 2016-2018 is any guide, rates could indeed **continue higher**. That's actually the baseline assumption for the average market participant, but it relies on continued progress against the pandemic, and an absence of other significant market shocks. Even if rates stick to the unfriendly trend, history suggests it won't be the end of the world, and perhaps not even the end of the economic expansion (not any time soon anyway, but critics often fault the Fed for leaving rates too high for too long as economic contractions approach).

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Jan 24</b>				
1:00PM	2-Yr Note Auction (bl)	54		
<b>Tuesday, Jan 25</b>				
9:00AM	Nov Case Shiller Home Prices y/y (%)	18.3	18.0	18.4
9:00AM	Nov FHFA Home Prices y/y (%)	17.5		17.4
9:00AM	Nov CaseShiller Home Prices m/m (%)	1.2	0.9	0.9
9:00AM	Nov FHFA Home Price Index m/m (%)	1.1		1.1
10:00AM	Jan Consumer confidence	113.8	111.8	115.8
1:00PM	5-Yr Note Auction (bl)		55	
<b>Wednesday, Jan 26</b>				
10:00AM	Dec New Home Sales (%) (%)	11.9		12.4
10:00AM	Dec New Home Sales (ml)	0.811	0.760	0.744
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
2:30PM	Powell Press Conference			
<b>Thursday, Jan 27</b>				
8:30AM	Q4 GDP Advance (%)	6.9	5.5	2.3
8:30AM	Dec Durable goods (%)	-0.9	-0.5	2.6
8:30AM	w/e Jobless Claims (k)	260	260	286
10:00AM	Dec Pending Home Sales (%)	-3.8	-0.2	-2.2
10:00AM	Dec Pending Sales Index	117.7		122.4
1:00PM	7-Yr Note Auction (bl)	53		
<b>Friday, Jan 28</b>				
8:30AM	Q4 Employment costs (%)	1.0	1.2	1.3
8:30AM	Dec Core PCE Inflation (y/y) (%)	4.9	4.8	4.7
10:00AM	Jan Sentiment: 1y Inflation (%)	4.9		4.9
10:00AM	Jan Sentiment: 5y Inflation (%)	3.1		3.1
10:00AM	Jan Consumer Sentiment (ip)	67.2	68.7	68.8
<b>Monday, Jan 31</b>				
9:45AM	Jan Chicago PMI	65.2	61.7	63.1
<b>Tuesday, Feb 01</b>				

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important



Date	Event	Actual	Forecast	Prior
10:00AM	Jan ISM Manufacturing PMI	57.6	57.5	58.7
10:00AM	Jan ISM Mfg Prices Paid	76.1	68.1	68.2
10:00AM	Dec Construction spending (%)	0.2	0.6	0.4
<b>Wednesday, Feb 02</b>				
7:00AM	w/e MBA Purchase Index	312.2		300.1
7:00AM	w/e MBA Refi Index	2355.4		1989.4
8:15AM	Jan ADP National Employment (k)	-301	207	807
<b>Thursday, Feb 03</b>				
10:00AM	Jan ISM N-Mfg PMI	59.9	59.5	62.0
10:00AM	Dec Factory orders mm (%)	-0.4	-0.2	1.6
<b>Friday, Feb 04</b>				
8:30AM	Jan Average earnings mm (%)	0.7	0.5	0.6
8:30AM	Jan Non-farm payrolls (k)	467	150	199
8:30AM	Jan Unemployment rate mm (%)	4.0	3.9	3.9

## 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.

Mike Baker

