



## Mike Baker

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## Election Unexpectedly Sparks Massive Rate Spike

Heading into the election, interest rates tended to rise with Clinton's chances of victory. But it was a Trump victory that sent rates on their wildest ride since the 2013 Taper Tantrum. Why?!

Mortgage rates are based primarily on trading levels in mortgage-backed-securities, which are part of the broader bond market. When investors buy bonds, they're paying for the privilege of collecting interest. When demand for bonds increases, investors pay more for that privilege, thus allowing lenders to charge lower interest rates and still make money.

One of the quintessential investment strategies is to sell stocks and buy bonds in times of uncertainty. This is exactly what happened when the FBI reopened the Clinton email case in the 11th hour of the election. A potential Trump victory was associated with "uncertainty," while a Clinton victory would have been "status quo."

When some news outlets reported that an "indictment was likely" in the FBI case, stocks tumbled, and investors sought safety in the bond market, thus pushing rates lower. When the FBI cleared Clinton, stocks and rates moved quickly back in the other direction and continued higher heading into election night.

Everything seemed logical at the time:

**If Clinton were to win**, uncertainty is minimized. Buy stocks. Sell bonds.

**If Trump were to win**, uncertainty surges. Buy bonds. Sell Stocks.

And that's exactly what happened! As Trump took a decisive lead in swing states on election night, bonds staged their biggest intraday rally since Brexit and stock futures plummeted to their lowest levels since Brexit. The logical, narrowly focused trading strategy was playing out perfectly...

...for about 3 hours

Logical though it may be, the problem with reactionary trading based on single flashpoint events is that it neglects to answer the question: "what next?"

## 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 6.0	100.09	-0.08
MBS GNMA 6.0	100.23	-0.10
10 YR Treasury	4.4385	+0.0405
30 YR Treasury	4.5957	+0.0317

Pricing as of: 7/1 8:54AM 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%

# US Housing Market Weekly

When it became apparent that Trump would win, markets turned to answering that question. Markets knew **exactly** how Clinton would have governed, but Trump's likely policy path had to be extrapolated from plausible campaign promises, past precedent in the business world, and perhaps an episode or two of the Apprentice. Point being, markets had to have some dialogue and debate about what was likely to happen under the Trump administration.

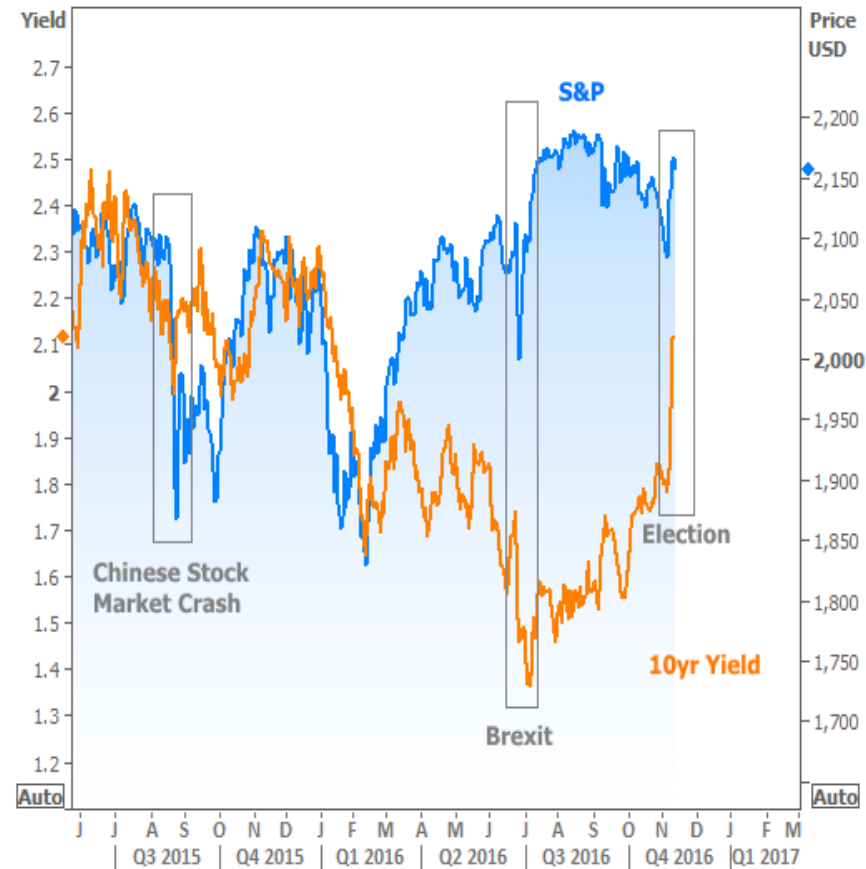
The GOP sweep of the House and Senate was a wild card that kicked the dialogue into high gear. **Light bulbs began going off** in traders' minds, illuminating things like protectionist trade policies, hefty tax cuts, increased infrastructure spending, abandonment of the Fannie/Freddie conservatorship, the potential repeal of Dodd Frank, a dismantling of the Affordable Care Act, and a muzzling of the CFPB.

Much of that list points to **one conclusion: increased inflation**. And that's the worst possible news for interest rates.

Consider the following: Rates are as low as they are because the Fed has struggled to create inflation via **MONETARY** policy. The Fed itself has frequently pleaded for **FISCAL** policy to join in the fight. And now, such fiscal policies just became infinitely more possible overnight.

It all adds up to the need for markets to very quickly reassess their longer-term inflation expectations. Unfortunately, this reassessment manifests itself as a **brutal spike** in longer term rates.

Stocks vs Bonds



By a decisive margin, the last 2 days of this week were the **worst 2 days** for rates since the taper tantrum in June 2013. The existing uptrend in rates was completely shattered, and history suggests there's still a chance of more pain ahead.

# US Housing Market Weekly

10yr Treasury Yield



10yr Treasury Yield

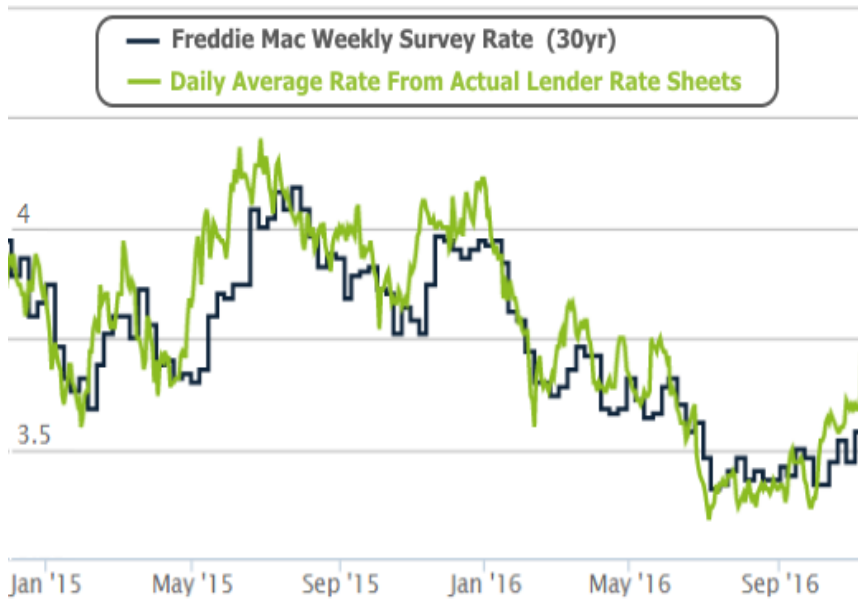


# US Housing Market Weekly

With respect to the chart above, we'd be **hoping** that the current rate spike ends up calming down like the early-2012 example. However, if the European Central Bank actually **does** announce a plan to taper its asset purchases, a 2013-style rate spike becomes much more possible. We'll hear from them on December 8th.

Between now and then, anyone at **any stage** of the mortgage process should be in close contact with their originator to discuss the **game-plan** for navigating the increased volatility.

Keep in mind that there can be a **wide discrepancy** between the actual rates on any given day and those reported by some media outlets. Case in point, Freddie Mac's widely-cited weekly rate survey often lags the actual day-to-day changes on lender rate sheets. It only showed a 0.03% increase this week whereas the actual change was closer to 0.25%.



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## 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**

