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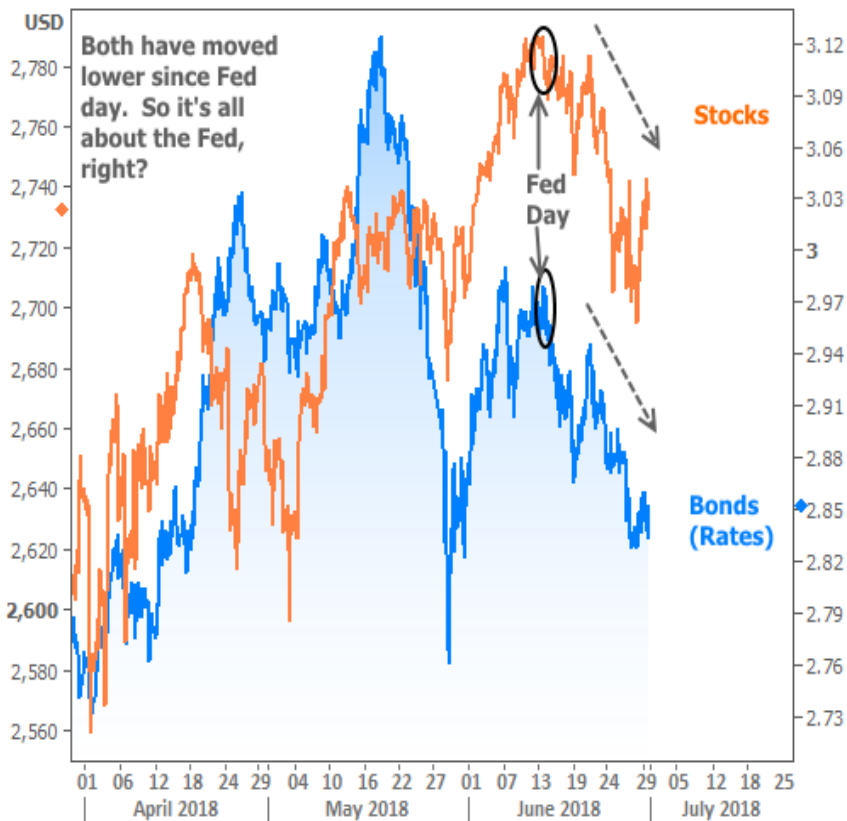
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Who (or What) Is Pulling The Strings?

Conventional market wisdom tends to classify stocks and bonds as archetypal investments on opposite ends of the risk spectrum. Stocks are for those who feel confident enough in the economy to take risks and bet on growth. Bonds are safe havens that offer at least some return no matter what.

With this in mind, it's no surprise to see correlations. The month of June has been a great example. Both sides of the market even **bounced at the same time** right after the June 13th Fed announcement. (NOTE: the big spike in the blue line in late May was all about *Italy*, and isn't relevant to what follows).

Stocks vs Bonds



So, it's all about the Fed?

While the Fed definitely had an effect, this chart actually tells us other forces are at work. The clue is that Fed policy tends to push stocks and bond yields in **OPPOSITE** directions.

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	4.4089	+0.0109
30 YR Treasury	4.5731	+0.0091

Pricing as of: 7/1 6:46AM 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

Think of it this way: if the Fed is seen as being more generous (refilling the proverbial punch bowl, if you like), it's good for everyone at the party. Stocks would rise and bond yields (which move inversely to bond prices) would fall.

In the chart, however, we see stocks and bond yields falling together. In other words, investors **really are** shedding risk in the stock market and moving some money into safer havens like bonds.

But why?

Trade war fears are high on most investors' lists when it comes to explaining recent stock weakness and bond strength. The fact that we can plainly see both sides of the market react to trade-related headlines means it would be silly to argue. That said, it also might be good to expand.

Some investors are nervous that the longstanding economic expansion is going to "die of old age." Trade war fear is **just the latest** reason to ask if it's too soon to start thinking about the next recession (as we asked [2 months ago](#)).

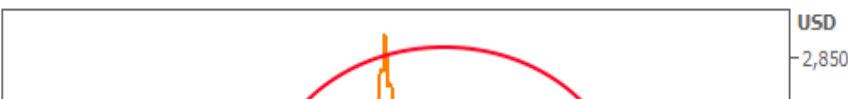
When markets are asking such questions, they tend to CONSOLIDATE. Consolidations are useful because they let us know that markets are getting ready to make their next move.

10yr Treasury Yield

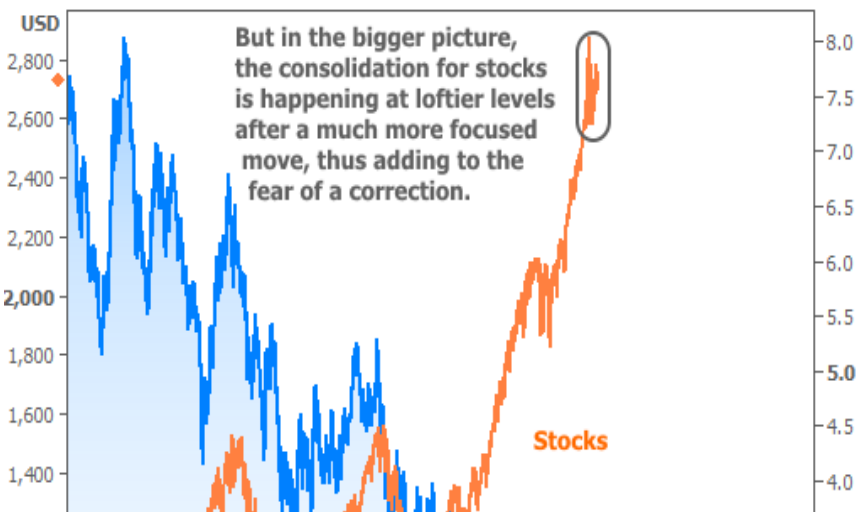
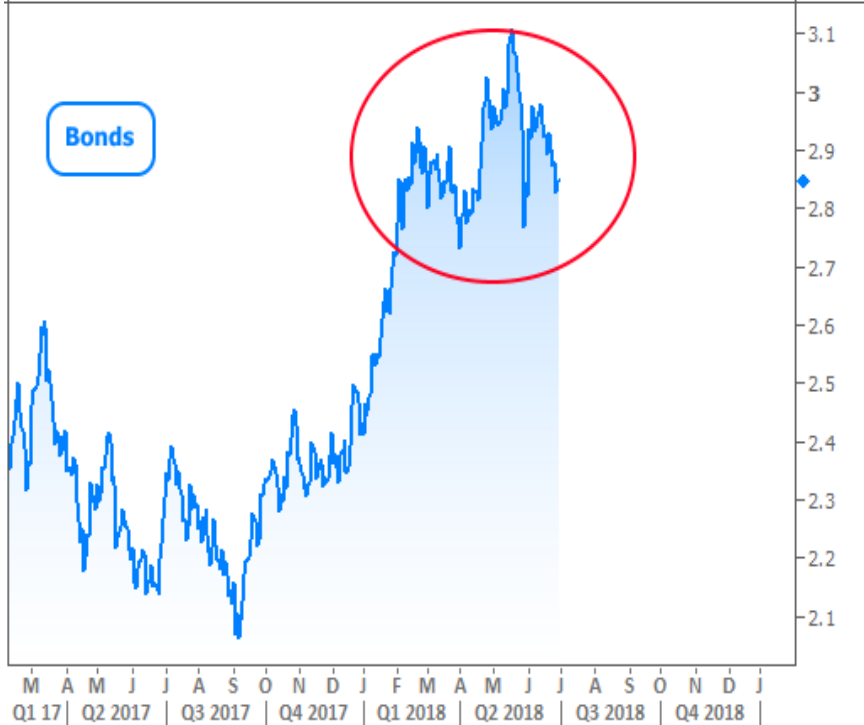


We can't be sure if it will be a "bounce" or a "continuation"--only that it's coming. In the current case, investors are particularly interested in the stock market's consolidation **because of where it sits** in the grandest of schemes.

Stocks vs Bonds



US Housing Market Weekly



US Housing Market Weekly



Simply put: if stocks start snowballing lower from there, things could get ugly. Fortunately, most of the recent economic data suggests the economy is firing on all cylinders.

If the data is good, why worry about a shift?

A simple "fear of losing something really nice" isn't cause for much concern on its own. But there's an important metric that more and more pundits are discussing, and it continues pointing in an **alarming** direction.

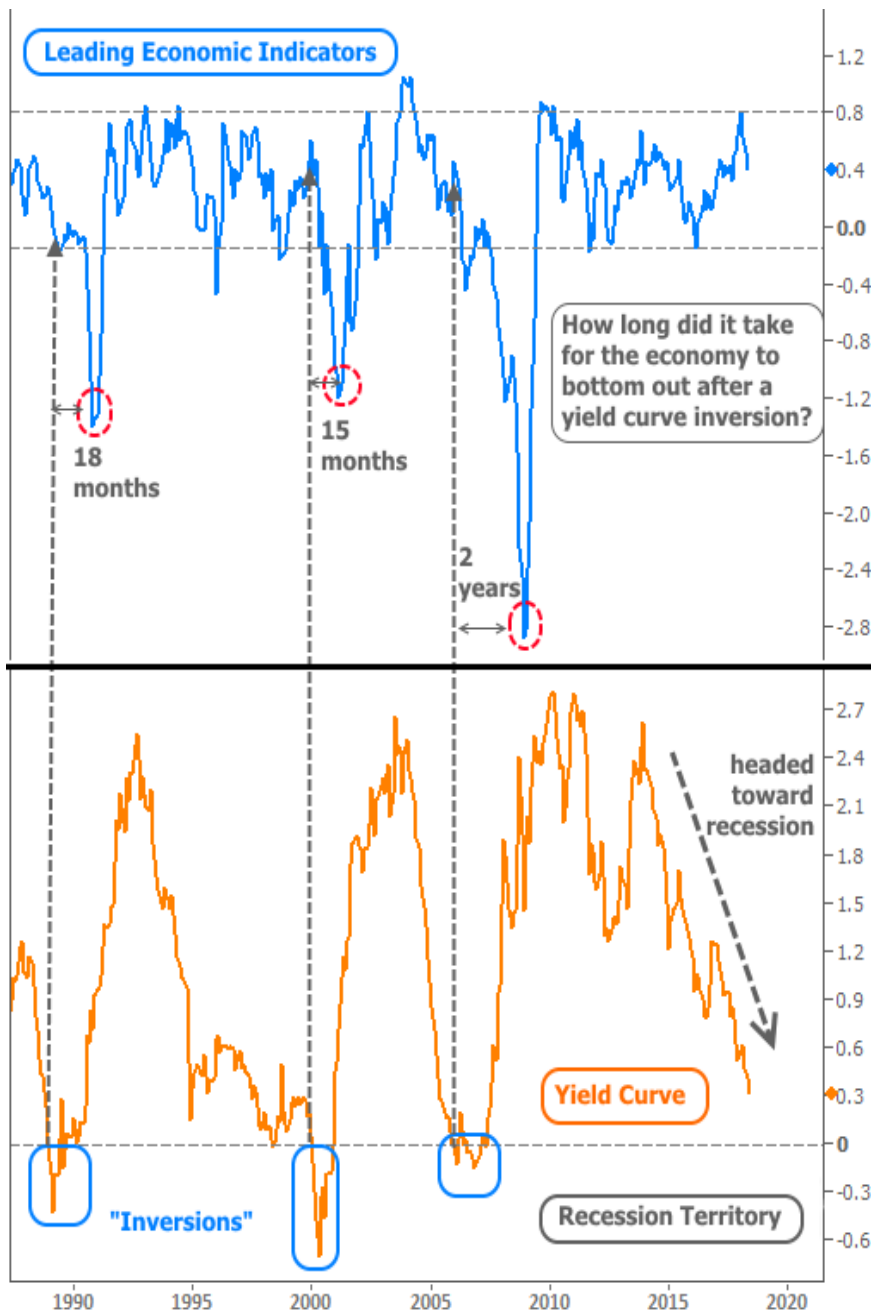
The metric in question is the **YIELD CURVE**. Technically, the curve refers to the whole spectrum of US Treasury yields, but for all practical purposes, it's synonymous with the gap between 2-year and 10-year yields (which is why you may see it referred to as the "twos tens curve").

Why do people care?

At least in terms of modern economic history, the curve has quite the batting average when it comes to predicting recessions, and the current trajectory of the curve makes the next one look inevitable.

If it's inevitable, why aren't markets panicking more?

First of all, nothing is ever truly inevitable when it comes to financial markets. The yield curve may not **fully** invert (2yr yields higher than 10yr yields), and even if it does, there's typically considerable lag time between the inversion and its ill effects.



Perhaps the most important point made by the chart above was one that I **didn't** highlight. Notice the drop in the yield curve heading into 1995. An inversion looked **even more inevitable** than it does in 2018. While the inversion did eventually happen, the next several years served to **extend** an already strong economic expansion.

Bottom line: there will eventually be a recession. In hindsight, scholars will say the yield curve proved to be a surefire indicator yet again. But for those of us living through the realities of this economy today--and especially for those of us who are stakeholders in the **housing/mortgage markets**, such surefire predictions leave much to be desired when it comes to adopting an outlook for the near-term future.

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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.

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