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## The Day Ahead: What Now?

Yesterday Yellen said that **economic expansions don't die of old age**. What she meant to say is that the Fed has been thinking a lot about the irrefutable fact that economic expansions die of old age and that this was, in fact, one of the key motivations for the rate hike.

Let me explain. For a while now (most of 2015), many market-savvy folks have wondered aloud just how in the heck the Fed was **justifying** a rate hike with inflation so dang low and with the only really stellar economic data being payroll creation. One of the clues gleaned from a few Fed speeches was that they wanted to hike rates so they'd have something to cut when the economy ultimately hit the next downturn.

This was a polarizing thought in my circles. It mostly consisted of people smarter than me telling me I was dumb for thinking this, and the Fed **couldn't possibly** be playing that sort of simplistic **speculative game of chess**. Meh.. They were probably right and I was grasping at straws.

The **hike still didn't make sense** though. If they were going due to the strength in certain economic metrics, they'd clearly waited too long. And if they were going to hike due to other economic metrics (like inflation), they clearly hadn't waited long enough. So one couldn't help but wonder what was really driving the decision.

While it's likely a combination of several factors, and while I think I could make the Fed's case in a fairly rational way, we now come to find out that the **legend of the dry powder was real**. None other than Yellen, herself, said that before the Fed would begin shrinking its balance sheet, she'd like to have seen at least a few rate hikes. "One factor is the desirability of having some scope to respond to an adverse shock to the economy. It would be nice to have a buffer in terms of having raised the federal funds rate to a certain extent."

**Allow me to translate:** "We figured we'd better hurry up and hike because God knows we don't want to have to deal with executing another round of QE!"

In other words, the Fed **knows** that economic cycles don't last forever. When Yellen emphatically said that expansions don't die of old age, it was like a **criminal interrogator's dream come true**. If we didn't know how much she was thinking about this before, we do now. The fact that she admitted the "dry powder" theory a few moments later was just icing on the cake.

## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	<b>-0.15</b>
MBS GNMA 6.0	100.78	<b>+0.04</b>
10 YR Treasury	4.4223	<b>+0.0454</b>
30 YR Treasury	4.5610	<b>+0.0549</b>

Pricing as of: 5/17 5:59PM EST



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.09%	<b>+0.07</b>	0.00
15 Yr. Fixed	6.56%	<b>+0.03</b>	0.00
30 Yr. FHA	6.62%	<b>+0.07</b>	0.00
30 Yr. Jumbo	7.35%	<b>+0.04</b>	0.00
5/1 ARM	7.30%	<b>+0.06</b>	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	7.02%	<b>-0.42</b>	0.00
15 Yr. Fixed	6.28%	<b>-0.48</b>	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.08%	<b>-0.10</b>	0.63
15 Yr. Fixed	6.61%	<b>+0.01</b>	0.65
30 Yr. FHA	6.89%	<b>-0.03</b>	0.94
30 Yr. Jumbo	7.22%	<b>-0.09</b>	0.58
5/1 ARM	6.56%	<b>-0.04</b>	0.66

Rates as of: 5/17

So now the question becomes one of watching for signs of that big picture turning point. As I've said on several occasions in the run up to this rate hike, it could be as early as 2016, it could take several more years. Either way, with this hike behind us, we're **suddenly much more interested in economic data**. Today is fairly light, with only Philly Fed and Jobless Claims at 8:30am (technically the Trade Deficit and Leading Indicators come out as well, but no one much cares about those reports).

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With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

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