



**Roland Wilcox**

Owner, Sierra Capital Mortgage Company  
 NMLS License #245214  
 1055 E. Colorado Blvd. Suite 500 Pasadena, CA

Office: (626) 449-8545  
 Fax: (888) 965-8240  
[roland@sierracap.net](mailto:roland@sierracap.net)  
[View My Website](#)

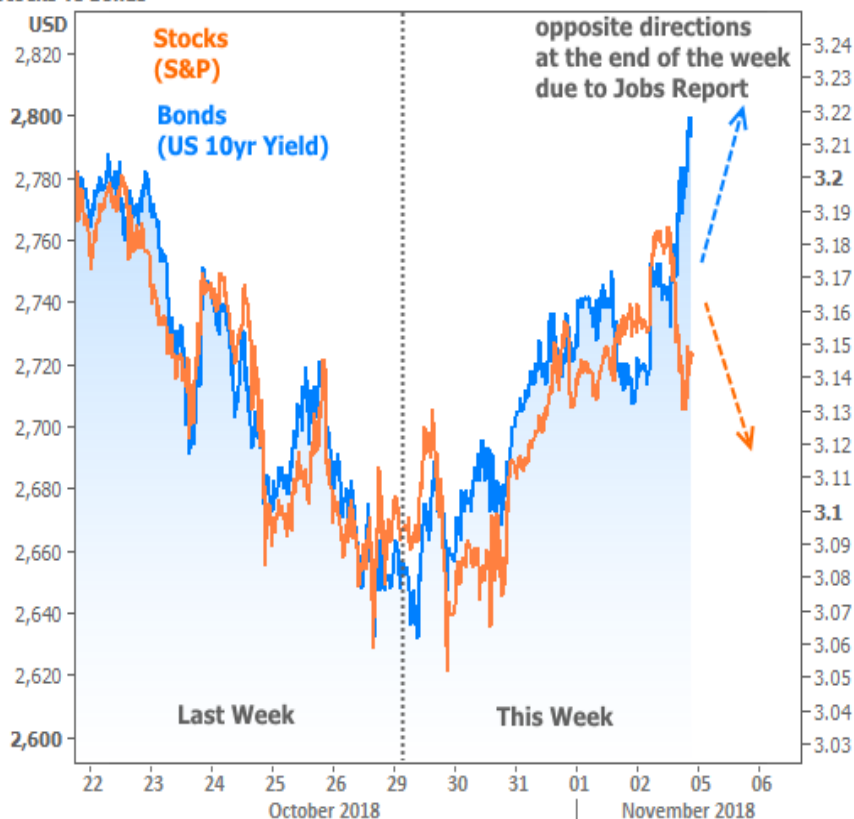
## Why Strong Job Gains Hurt Both Sides of The Market

October has a bit of a reputation in financial markets as being more prone to volatility than most months. While there are solid theories as to why (earnings, start of Federal fiscal year, seasonal staffing patterns among traders), there's no solid rhyme or reason as to how the volatility will play out.

This time around, October was **horrible** for stocks and mixed for bonds/rates. In general, most days saw stocks and rates move lower together, but that changed in a big way this week as markets transitioned into November.

In stark contrast to last week, both sides of the market moved **almost exclusively higher**. The only exception was the divergent move seen after Friday's surprisingly strong jobs report.

Stocks vs Bonds



## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

### Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

### Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.47	+0.08
MBS GNMA 5.5	99.84	+0.07
10 YR Treasury	4.2286	-0.0239
30 YR Treasury	4.4547	-0.0178

Pricing as of: 7/23 10:54AM EST

### Recent Housing Data

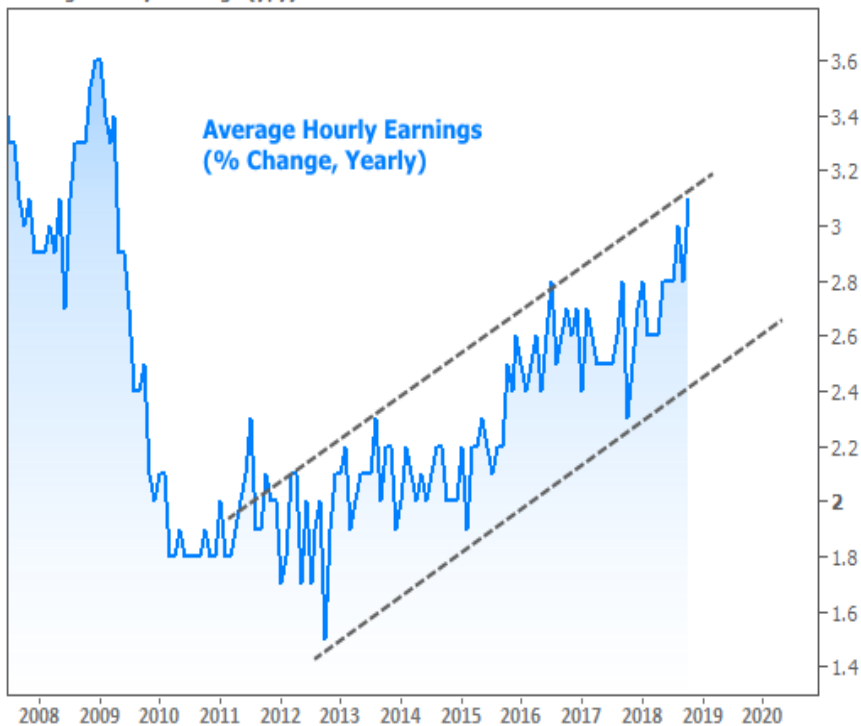
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Strong economic data tends to help stocks and hurt bonds/rates. **Why did it hurt stocks this time around?** The short answer is that the jobs report was so good that it increased the odds of additional Fed rate hikes. And the stock market doesn't like rate hikes any more than the bond market!

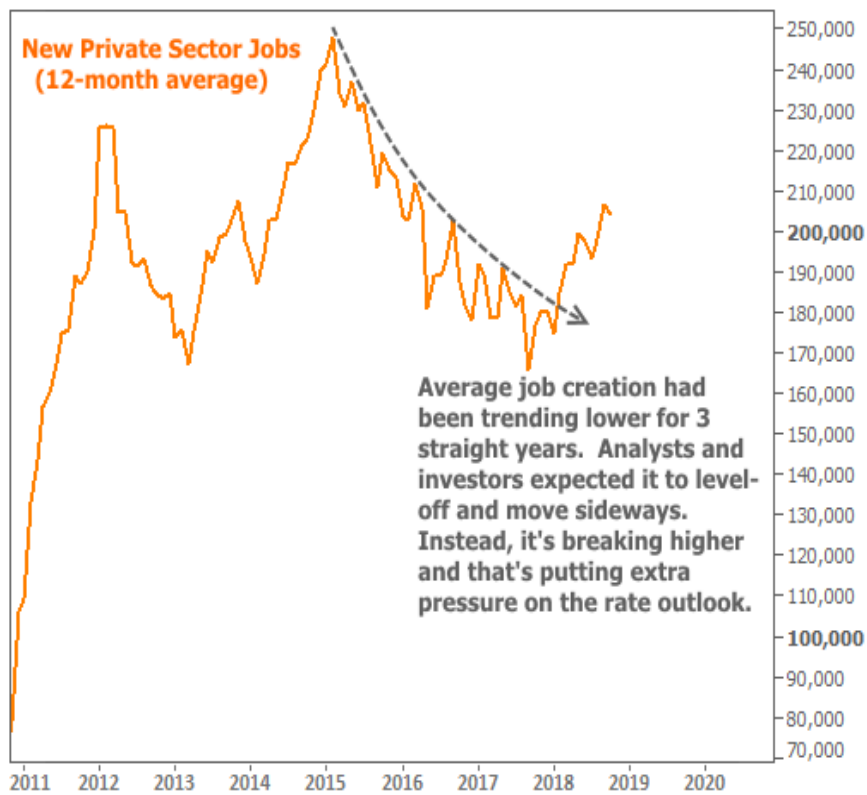
Investors are **already** counting on a few more rate hikes by the middle of next year. That means the current trajectory of Fed rate hikes is baked in to current trading levels. If something happens to change the trajectory, trading levels can change fairly quickly, and the jobs report was strong enough to do just that.

**What was so good** about the jobs report? On a purely objective level, wage growth is the highest it's been since before the recession. Wages are seen as a key driver of inflation. The Fed is tasked with keeping inflation in check--something it does via rate hikes. Logically then, faster wage growth should steel the Fed's rate hike resolve.

average hourly earnings (y/y)



On a more subjective note (but with objective data to back it up), the pace of job growth has been **surprisingly strong** lately. The following chart shows the 12-month average of new private sector jobs created. Based on past economic cycles, most investors were expecting to see job growth level-off and hold fairly flat for the next few years.



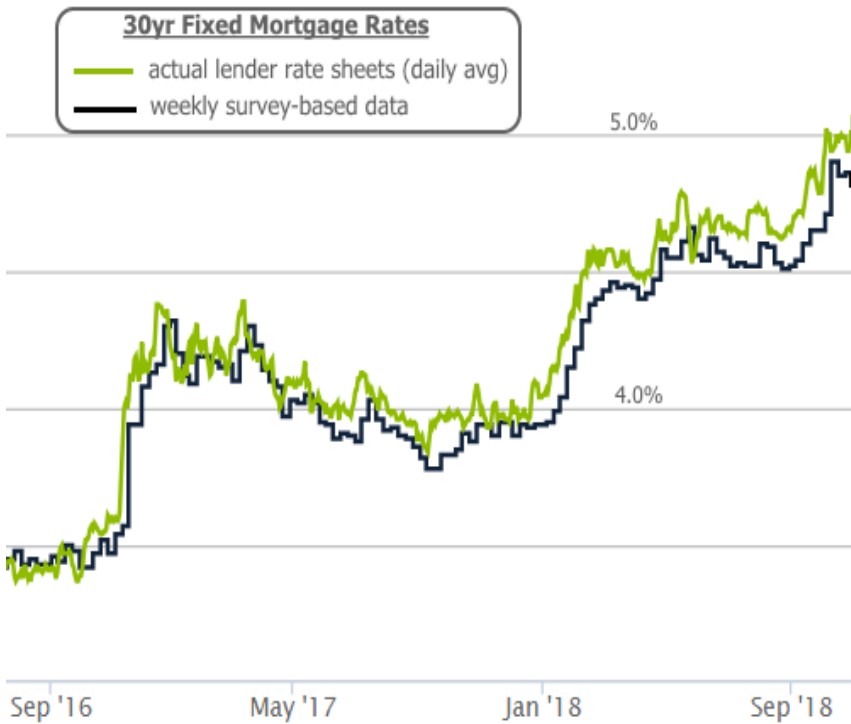
Instead, job growth has broken higher in a way not normally seen at this phase of an economic cycle. That's forced traders to make **increasingly abrupt adjustments** as this weird new reality continues to assert itself month after month. The fallout from such adjustments can be seen in another breakout for interest rates.

## Rates



The chart above shows 10yr Treasury yields--the most widely followed representation of "longer-term rates" in the US. Of course those of us with a stake in the housing market are generally **more interested** in mortgage rates.

Unfortunately, the bonds that underlie mortgages **don't** cope with volatility as well as plain old US Treasuries. As such, mortgage rates have been underperforming. In fact, the week ended with average 30yr fixed rates at their **highest** levels in more than 7 years. This assertion is at odds with several mortgage rate headlines from well known publications, and that's normal. Those publications are relying on survey based data from Freddie Mac which is based primarily on rate quotes from the first 2-3 days of any given week. As such, if there is a big move in the 2nd half of the week, Freddie's survey might indicate rates moved one direction when they actually moved another.



Subscribe to my newsletter online at: <http://housingnewsletters.com/sierracapital>

**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
<b>Monday, Oct 29</b>				
8:30AM	Sep PCE (y/y) (%)	+2.0		2.2
8:30AM	Sep Core PCE (y/y) (%)	+2.0	2.0	2.0
<b>Tuesday, Oct 30</b>				
9:00AM	Aug CaseShiller 20 yy (%)	+5.5	5.8	5.9
10:00AM	Oct Consumer confidence	137.9	136.0	138.4
<b>Wednesday, Oct 31</b>				
7:00AM	w/e MBA Purchase Index	224.9		228.4
7:00AM	w/e Mortgage Refinance Index	884.2		919.6
8:15AM	Oct ADP National Employment (k)	227	189	230
9:45AM	Oct Chicago PMI	58.4	60.0	60.4
<b>Thursday, Nov 01</b>				
8:30AM	Q3 Productivity Preliminary (%)	2.2	2.2	2.9
8:30AM	Q3 Labor Costs Preliminary (%)	1.2	1.0	-1.0
8:30AM	w/e Jobless Claims (k)	214	215	215
10:00AM	Oct ISM Manufacturing PMI	57.7	59.0	59.8
10:00AM	Oct ISM Mfg Prices Paid	71.6	65.0	66.9
10:00AM	Sep Construction spending (%)	0.0	0.1	0.1

**Event Importance:**

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

Date	Event	Actual	Forecast	Prior
<b>Friday, Nov 02</b>				
8:30AM	Oct Non-farm payrolls (k)	250	190	134
8:30AM	Oct Unemployment rate mm (%)	3.7	3.7	3.7
8:30AM	Oct Average earnings mm (%)	0.2	0.2	0.3
8:30AM	Sep International trade mm \$ (bl)	-54.0	-53.6	-53.2
9:45AM	Oct ISM-New York index	831.9		822.0
10:00AM	Sep Factory orders mm (%)	0.7	0.5	2.3
<b>Monday, Nov 05</b>				
10:00AM	Oct ISM N-Mfg PMI	60.3	59.3	61.6
<b>Wednesday, Nov 07</b>				
7:00AM	w/e Mortgage Refinance Index	861.8		884.2
7:00AM	w/e MBA Purchase Index	213.6		224.9
<b>Thursday, Nov 08</b>				
8:30AM	w/e Jobless Claims (k)	214	215	214
2:00PM	N/A FOMC rate decision (%)	2.000 - 2.250	2.125	2.125
<b>Friday, Nov 09</b>				
8:30AM	Oct Producer Prices (%)	0.6	0.2	0.2
8:30AM	Oct Core Producer Prices YY (%)	2.6	2.3	2.5
10:00AM	Nov Consumer Sentiment	98.3	98.0	98.6
10:00AM	Sep Wholesale inventories mm (%)	0.4	0.3	0.3
10:00AM	Nov 1yr Inflation Outlook (%)	2.8		2.9
10:00AM	Nov 5yr Inflation Outlook (%)	2.6		2.4
<b>Wednesday, Jan 09</b>				
1:00PM	10-yr Note Auction (bl)	24		
<b>Thursday, Jan 10</b>				
1:00PM	30-Yr Bond Auction (bl)	16		

## Expert advice, exceptional customer service

I am a seasoned Mortgage Broker with over 20 years of experience and a proven track record of closing loans in a timely manner. My goal is to provide clients throughout California with the best possible financing solutions by leveraging my experience and extensive network of lending partners. My professional background includes managerial positions at EarthLink and Mattel.

Previously I was a professional musician in Los Angeles having worked on numerous studio sessions and with Doc Severinsen and The Tonight Show Band. I have an MBA from the University of Southern California and a Bachelor's Degree from the Eastman School of Music in Rochester, NY.

**Roland Wilcox**



