



Stephen Moye

Sales Manager/Senior Loan Officer NMLS:
268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender Licensed by the Department of Business Oversight Under the California Residential Mortgage Lending Act CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender 1615 Murray Canyon Road #1050 San Diego, CA 92108

Office: 619-309-1678
Mobile: 619-895-8128
Fax: (619) 793-1026
stephen.moye@nafinc.com
[View My Website](#)

The Day Ahead: Bonds Still Focused on Defense, But Hoping Offense Figures it Out

One of the most important themes I've tried to communicate over the past 2 weeks is that the bond market is in the middle of redefining or repricing its relationship with the available data. There was a chance that 10yr yields would try to avoid a big break up and over 3%, but that chance relied heavily on risks that haven't materialized--at least not yet. If they materialize in the future, we'd likely see the positive effects on bonds at that time, but for now, here are a few of those unrealized risks:

- The trade war hasn't crippled the global economy, and it may end up looking more like "tough talk." The "renegotiation" of NAFTA is a poster child for this. Global markets can look at NAFTA 2.0 and conclude "that wasn't so bad... I guess I didn't need to buy quite as many safe-haven assets."
- Inflation hasn't turned tail and moved back below 2.0% due to tariffs. In fact, inflation is operating at post-crisis highs, and could even move higher this week.
- We have yet to see a cooling in the labor market. In fact, unemployment is at 3.7%.
- Trump is ostensibly that much safer in office thanks to the Kavanaugh confirmation
- Wages didn't bounce lower after hitting 2.8% (y/y) 4 months ago. Instead, they've been there or higher ever since--by far the strongest showing since before the Great Recession

The list could probably go on, but it really doesn't need to. The fact is that the potential saving graces for bonds have failed to show up. Moreover, the economic data has been stronger than expected. The Fed's response has been **logically unfriendly** for rates. There was really only one place for rates to go.

I want to say (and believe) that this leg of the journey is mostly over and that it would take another round of stronger data to push rates much higher. A lot of people are saying that, and I don't take too much exception to the idea.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Mortgage Bankers Assoc.

30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85

But the one thing I'm not seeing is the rationale for a swift move back toward lower rates. Such a move requires clearly-delineated motivation. We'll know it when we see it, and we haven't seen it yet. For now, that means we have to **keep playing defense** against the possibility that rates continue higher, and simply cross our fingers that 3.25%-ish is going to shape up as a ceiling.

	Rate	Change	Points
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30



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