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### A Message from Stephen Moye:

"Rates are near the lowest they have been in 9 months!"

## The Day Ahead: Suddenly, The Fed Isn't Looking Too Crazy

If you thought last week's Fed announcement was surprisingly dovish/friendly/concerned, you weren't alone. Compared to the "steady-as-she-goes" December announcement, January's marked an abrupt shift. Whereas the Fed was seen hiking several more times, they were suddenly done hiking (maybe). Whereas they had been talking about being nowhere close to reopening the floodgates of bond holding reinvestments, **suddenly**, they're promising big news on that topic at the next meeting.

Stocks and bonds obviously enjoyed the incredibly market-friendly Fed (lower rates and more bond buying!), but the justification offered--global growth concerns and uncertainty surrounding fiscal developments--didn't quite add up. Two days later, a slew of economic data suggested the Fed was **taking crazy pills** as it all came in surprisingly strong. This led to 2 days of bond market weakness, and raised the risk that momentum would continue toward higher rates if data continued to surprise to the upside.

But we've clearly been able to stabilize this week. At first, this looked like it might have been as simple as the weaker ISM Non-Manufacturing report on Tuesday, but as of today, there is definitely a **bigger narrative**. While this narrative is still written in English, it's spoken with a European accent.

While there are always analysts who call out global growth risks, it's only recently that I've seen several of my even-keeled buddies mention a potential recession in Germany and offer concerns about a more meaningful downturn in Europe. Their contention is that a few of the key pieces of economic data are just adding up. Combine that with the **surprisingly cautious** ECB announcement 2 weeks back (and Draghi testimony at the beginning of last week) and we can actually build a case for Europe being the x-factor in arresting the rising rate trend at the beginning of 2019.

### 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

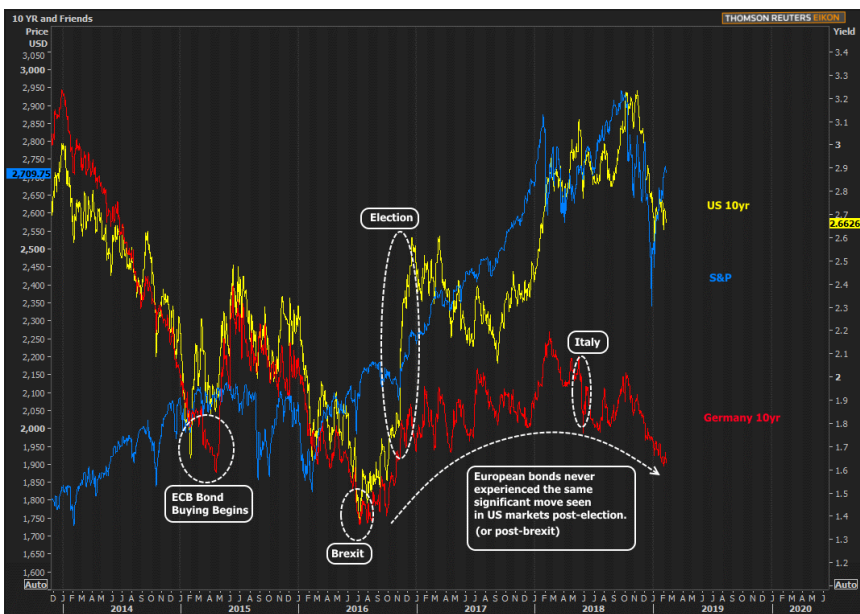
	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
<b>Mortgage Bankers Assoc.</b>			
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



	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

The biggest vindication for the Fed's "global growth concerns" came overnight when the EU issued a GDP forecast update that **lopped off huge chunks** of expected growth in 2019 for the EU as a whole and especially for Germany. Simply put, the Fed may not be so crazy. Maybe they were paying attention to the way German Bund yields hit the lowest levels in 2 years right about the time they were putting the finishing touches on last week's announcement. If so, they would have seen warning signs about the grand post-Trump/post-Brexit rate recovery not taking root in Europe.



Notably, it looked like there was **still a chance** for European rates to follow US rates higher at the beginning of 2018. Then the Italian political drama took out one of engines. Trade wars, stock crashes, and more Brexit drama seem to have taken out the other wing over the past few months. This is why many analysts are waiting to see if the EU economy keeps losing altitude. To whatever extent that continues to happen, US bond markets would likely continue to benefit.

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