



## 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](mailto:stephen.moye@nafinc.com)  
[View My Website](#)

## Winter is Coming, But That's Good For Rates

Winter is coming, both literally and figuratively. While the fallout remains to be seen, financial markets are already reacting.

In the literal sense, colder ambient temperatures are generally correlated with increased covid case counts. The following chart shows per capita covid hot spots juxtaposed with a low temp map from 2 weeks prior.

## National Average Mortgage Rates



	Rate	Change	Points
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### 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

Rates as of: 8/30

## Market Data

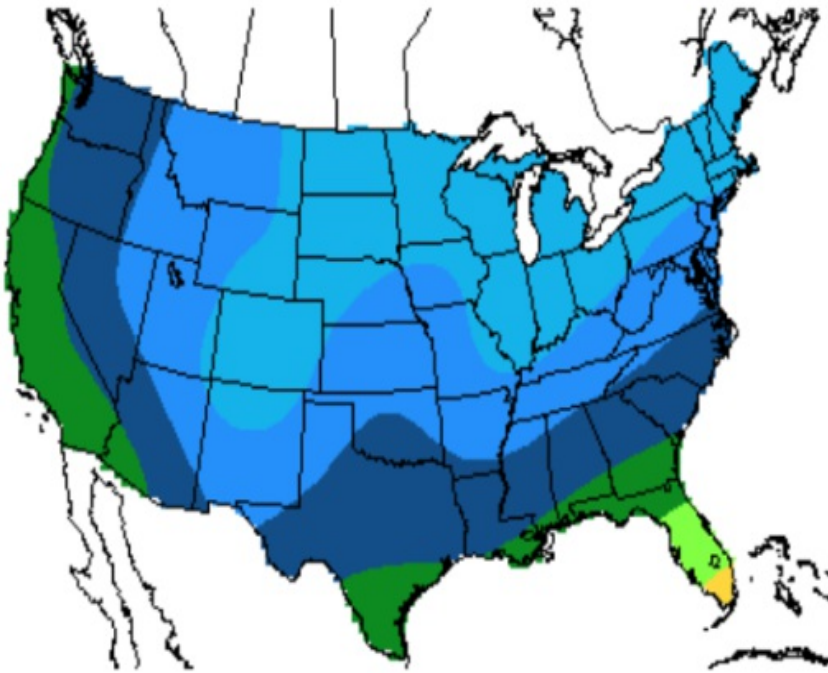
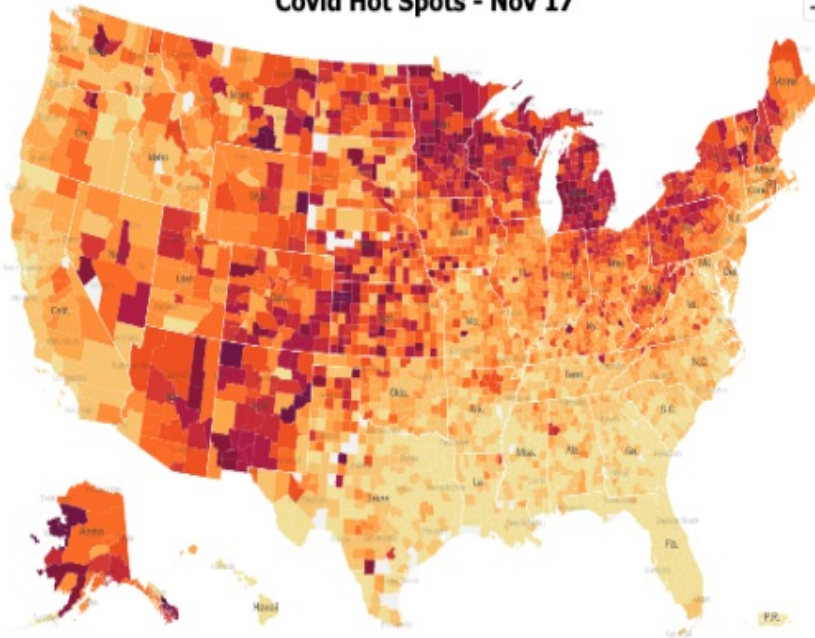
	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM EST

## Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
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%

Covid Hot Spots - Nov 17



Low Temps 2 weeks prior

source: NYT and NOAA

	Value	Change
Existing Home Sales	Feb 3.97M	-0.75%
Builder Confidence	Mar 51	+6.25%

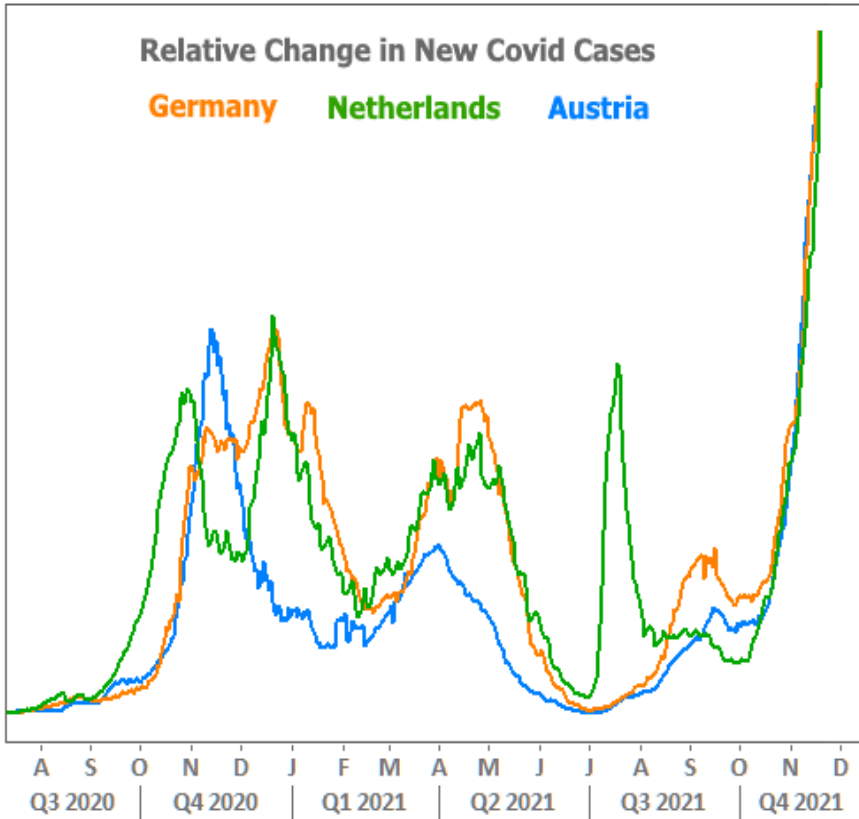
Market participants aren't necessarily epidemiologists, but the correlation is simple enough for the average trader to act upon. In this sense, the market is pricing in the metaphorical winter of a slower global economy due to covid-related lockdowns (or other measures that inhibit the free flow of business).

The latest example arrived at the end of the week as Austria announced new lockdown measures and vaccine mandates. Here's how the market reacted:



Traders can draw their own conclusions, but

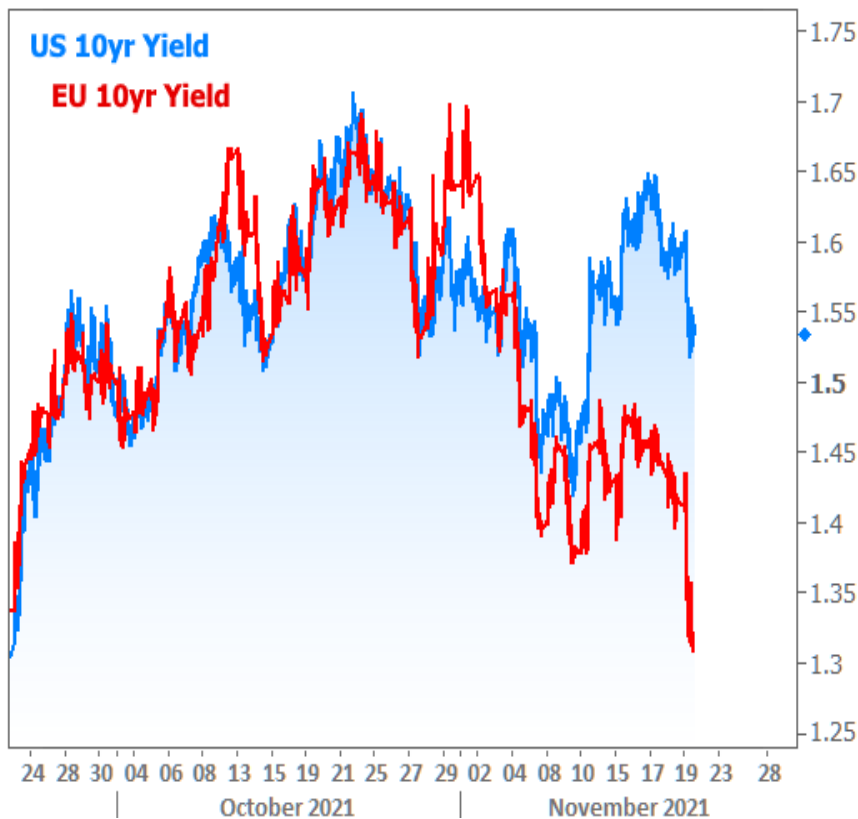
they're certainly considering the fact that Austria is not alone in its case count surge.



If it can happen there, it can happen here. The specifics don't even need to line up. The bottom line is that "more covid" = "downward pressure on rates," all other things being equal. That's why we've revisited this chart in recent weeks as declining case counts leveled off and reversed course in the U.S.



Even if the U.S. remained in better shape than Europe, it's a global economy with interconnected financial markets. Europe has already helped limit the damage that would have otherwise been seen during the most recent run-up in interest rates. If EU yields hadn't been declining in November, US yields likely would have had an easier time revisiting October's levels.



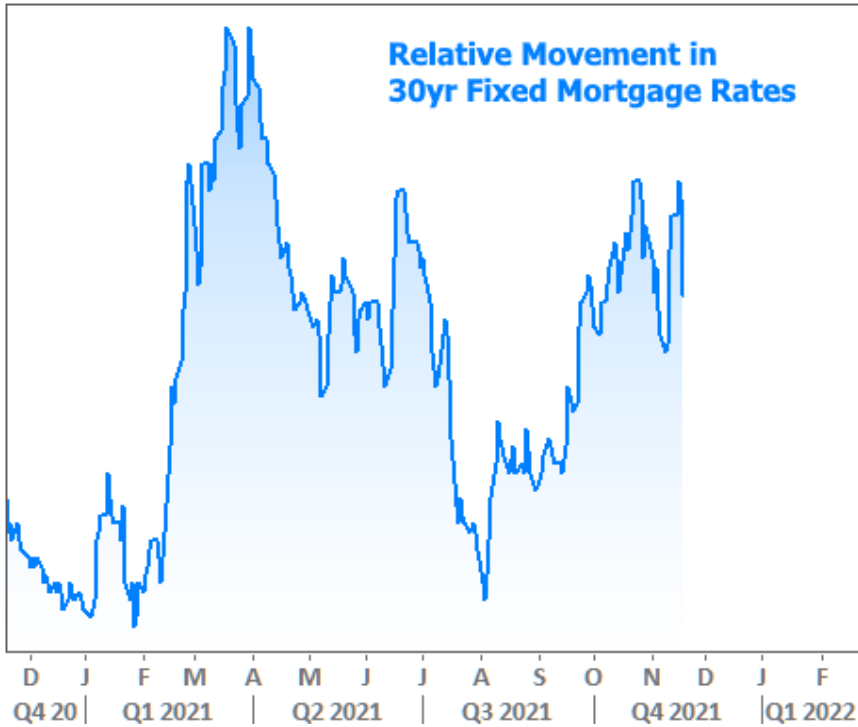
None of the above is to suggest that rates are destined to continue lower. It's simply to explain their resilience. After all, there are several important factors that suggest more upward pressure on rates than we've seen in recent weeks. These include the following, to name a few:

- Fewer bond purchases from the Fed
- More inflation
- Earlier rate hike expectations from the Fed
- An absence of runaway covid numbers in the new school year
- Fiscal policy creating bond market "supply"

In addition, several economic reports have shown faster growth than expected. This week alone, Retail Sales and the Philadelphia Fed's Business Index both came in at historically high levels (notwithstanding the more significant covid-related distortions from earlier in the pandemic).



Mortgage rates began the week in apparent trouble, moving higher at the fastest pace in months, but found their footing by Wednesday. Bond market improvements in the 2nd half of the week help to keep us solidly in the prevailing range, but still well off the summertime lows.



Thanksgiving week brings several mid-tier economic reports as well as home sales data. Treasury will also auction 2, 5, and 7yr notes. The auctions may end up being the biggest sources of volatility if the results are far from expectations. In general, volatility is a bigger risk than normal due to trading conditions associated with the holiday-shortened week (all of the above will be crammed into the first 3 days).

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