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Rates Could Still Go Lower, But With a Price

Interest rates continued to **move lower** this week as bond markets followed through on their initial reaction to last week's Fed Announcement. They were helped along by a series of weaker-than-expected economic reports including the April employment data released on Friday.

Historically, we've seen far more correlation between economic data and market movement than we're seeing right now. That's because markets are only interested in **very specific clues** that might be gleaned from the data. Specifically, markets want clarity on the Fed's rate hike path and a better read on the risk of a major downturn in stocks or the economy.

It should be noted that market participants typically haven't had to worry about both of these eventualities (Fed hikes and bear markets) at the same time. Fed hikes are usually well underway by the time stocks maintain bull market status for a few years. This time around, the stock rally was **already "old"** by historical standards before the Fed began hiking.

Enter the curveball: growing doubt that the Fed will even be able to hike before the next economic downturn. Markets now see the SECOND fed rate hike happening in 2017!

Earlier this year, the Fed's reluctance to hike helped stocks pull up from their nosedive. Now that stocks have corrected, all that remains is uncertainty. The **question at the back of everyone's minds:** if stocks can't break to new highs with the Fed holding rates this low, how can they possibly avoid another nosedive? How can the Fed continue its plan to hike rates if it brings about the next recession?

This burgeoning uncertainty is helping rates stay inside the ranges seen in the following chart.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
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

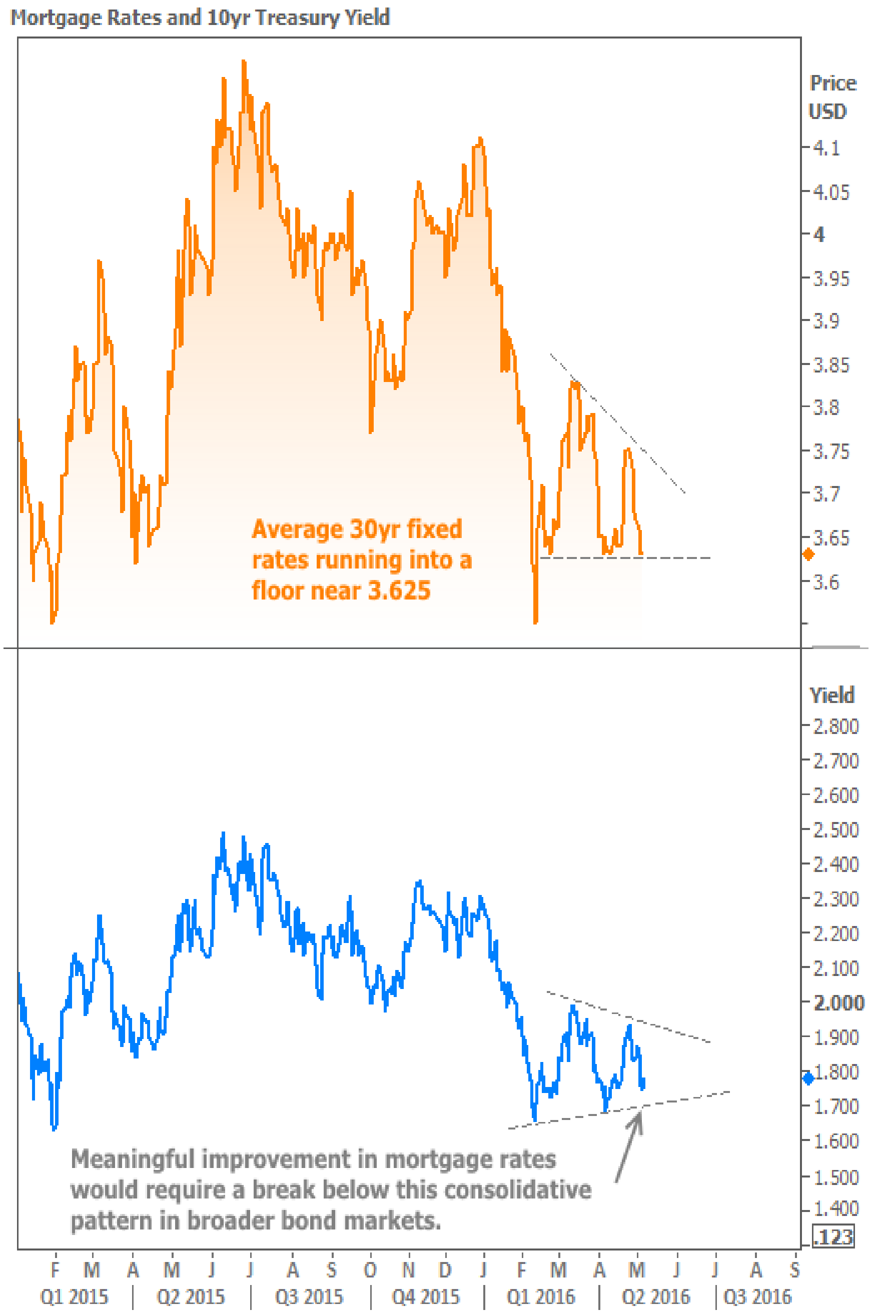
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.49	+0.10
MBS GNMA 5.5	99.91	+0.13
10 YR Treasury	4.2320	-0.0205
30 YR Treasury	4.4542	-0.0183

Pricing as of: 7/23 8:57AM EST

Recent Housing Data

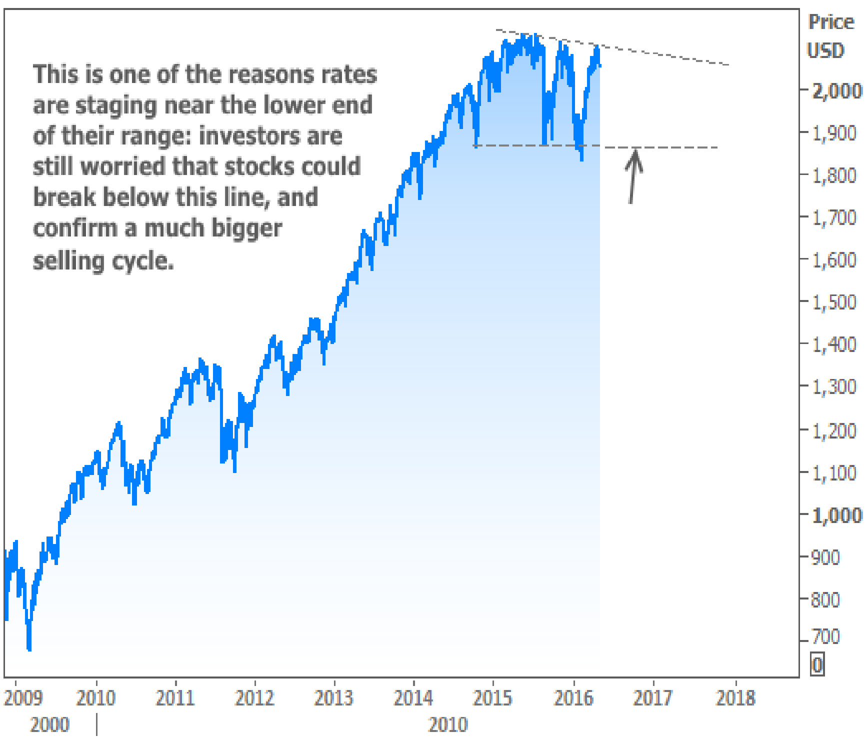
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



For the sake of perspective, here's what's at stake in the event that interest rates are indeed able to break lower. The following chart is a longer-term view of 10yr yields and stocks. If rates break lower, it would set us up for a run at all-time lows. But the price of admission could be a move into **bear market** territory for stocks.

10yr Treasury Yield

S&P



In **housing-specific news**, there were several readings on home prices out this week. As has been the case, gains continued to be the norm. CoreLogic's Home Price Index was substantially higher yet again, with March prices 6.7 percent higher than March 2015 and 2.1 percent higher than February.

Home price gains are a double-edged sword according to Black Knight's Mortgage Monitor report. The firm noted the impacts on affordability as the overall decline in mortgage rates hasn't been able to keep up with the pace of rising prices.

Both **Fannie and Freddie reported earnings** this week. Freddie Mac posted its first loss since 2012, but it wasn't enough to trigger a draw on its line of credit with the US Treasury. Even if it did, Freddie is definitely back in black considering it's paid $98.2 bln back to Treasury versus the $71.3 bln it received in support. While there had been some speculation that Freddie would need to request additional taxpayer funds

Fannie Mae posted a profit and thus will be adding to the money already paid back to Treasury. With this quarter's expected dividend, the total comes to $148.5 billion versus a cumulative draw of $116.1 billion.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, May 02				
10:00AM	Apr ISM Manufacturing PMI	50.8	51.4	51.8
10:00AM	Apr ISM Mfg Prices Paid	59.0	52.0	51.5
10:00AM	Mar Construction spending (%)	+0.3	0.5	-0.5
Wednesday, May 04				
7:00AM	w/e Mortgage Market Index	488.4		505.4
8:15AM	Apr ADP National Employment (k)	156.0	196	200
8:30AM	Mar International trade mm $ (bl)	-40.44	-41.5	-47.1
10:00AM	Apr ISM N-Mfg PMI	55.7	54.7	54.5
10:00AM	Mar Factory orders mm (%)	1.1	0.6	-1.7
Thursday, May 05				
8:30AM	w/e Initial Jobless Claims (k)	274	270	257
Friday, May 06				
8:30AM	Apr Non-farm payrolls (k)	+160	202	215
8:30AM	Apr Unemployment rate mm (%)	5.0	5.0	5.0
Tuesday, May 10				
10:00AM	Mar Wholesale inventories mm (%)	+0.1	0.1	-0.5
1:00PM	3-Yr Note Auction (bl)	24		
Wednesday, May 11				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
7:00AM	w/e Mortgage Market Index	490.5		488.4
Thursday, May 12				
8:30AM	Apr Import prices mm (%)	0.3	0.5	0.2
8:30AM	Apr Export prices mm (%)	0.5	0.1	0.0
Friday, May 13				
8:30AM	Apr Retail sales mm (%)	1.3	0.8	-0.4

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Mar Business inventories mm (%)	+0.4	0.2	-0.1
Tuesday, Jul 12				
1:00PM	10-yr Note Auction (bl)	20		
Wednesday, Jul 13				
1:00PM	30-Yr Bond Auction (bl)	12		

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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