



**Tom Payne**

Senior Loan Consultant, loanDepot  
 NMLS# 1017004 #174457 Licensed in all 50 States  
 2835 St. Rose Parkway, Suite 120 Henderson, NV 89052

Office: 702-303-0243  
 Mobile: 702-303-0243  
[tompaynemortgage@gmail.com](mailto:tompaynemortgage@gmail.com)  
[View My Website](#)

## Let's Get Real About Interest Rates and The Stock Crash

An abrupt stock market sell-off dominated the week's financial news. It was the kind of move that gets everyone talking (and speculating, and worrying, and explaining). In those conversations and in the news, certain concepts have garnered broad agreement. **Unfortunately**, just because something is often repeated, it's **not** necessarily true.

To make a long story short, almost any explanation you'll hear for this week's nosedive in stocks will pin the blame on rising interest rates, inflation concerns, or a combination of the two. While there are a few elements of truth in these explanations, they're **mostly bogus**, as the charts below will clearly show.

I'll admit, it's tempting and even logical to notice that rates are at the highest level in years and assume the extreme behavior in one major market sector has something to do with the extreme behavior in the other. This week's short-term charts validated that assumption, as long as those charts ignored important considerations like the **percent change** in bond **prices** compared to the percent change in stock prices.

The upper pane of the following chart does just that. In it, we see high rates at the scene of Monday's big drop in stocks. When rates moved back up into the 2.8% range, stocks dropped again. Case closed, right? 10yr yields over 2.8% are bad for stocks! **Right?**

**Not exactly...** While it's true that rates are at long-term highs and that stocks **seemed to respond**, in terms of percentage change, rates barely budged this week compared to stocks. When we look at the price of 10yr Treasury notes (which serve as the foundation for long-term interest rates in the US), investors weren't taken on nearly as wild of a ride.

## 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

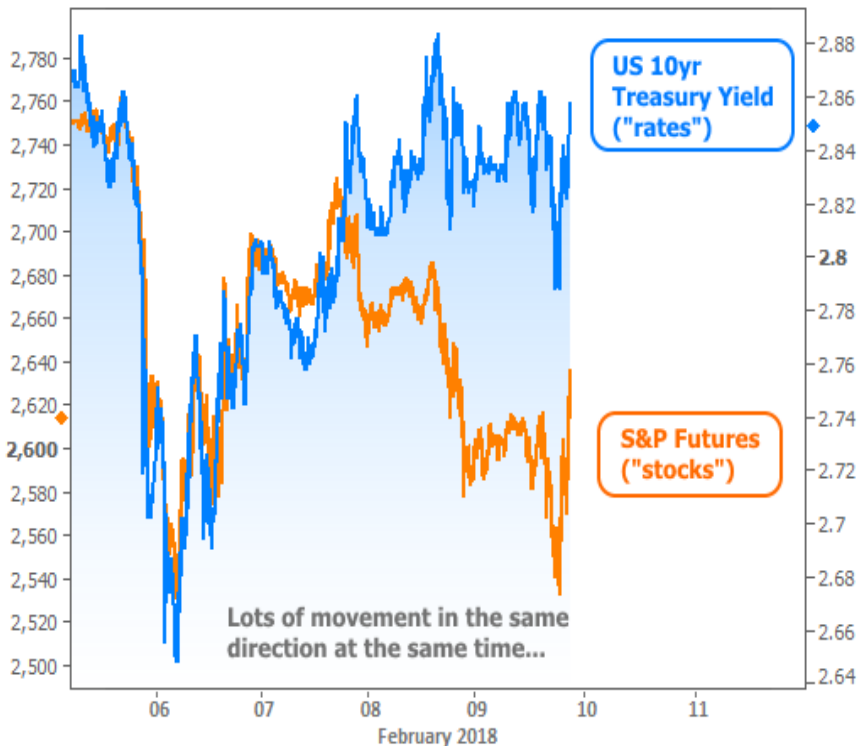
## Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2393	-0.0132
30 YR Treasury	4.4598	-0.0127

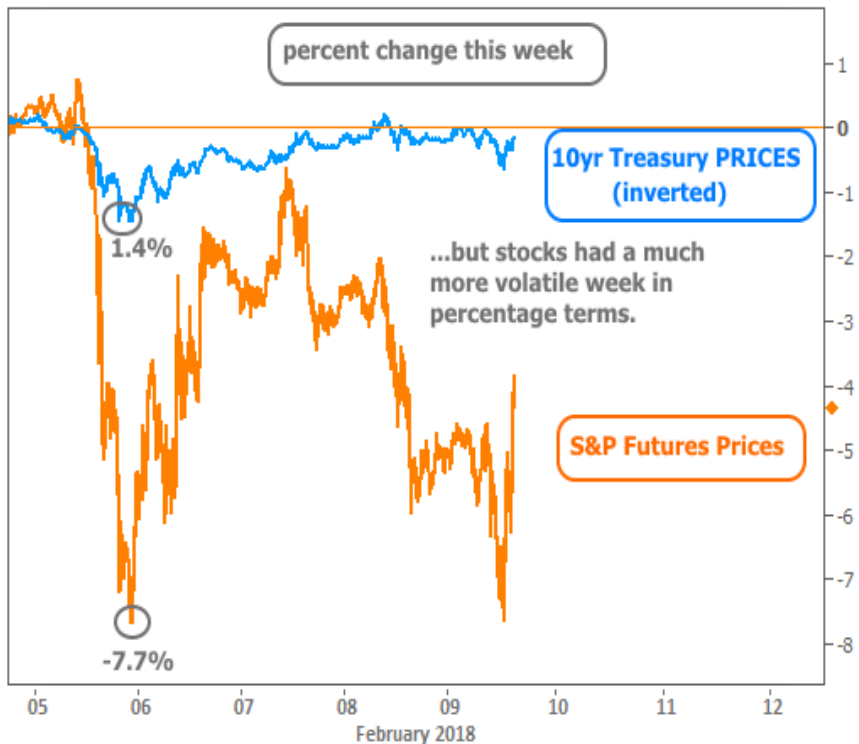
Pricing as of: 7/23 5:02AM EST

## 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%

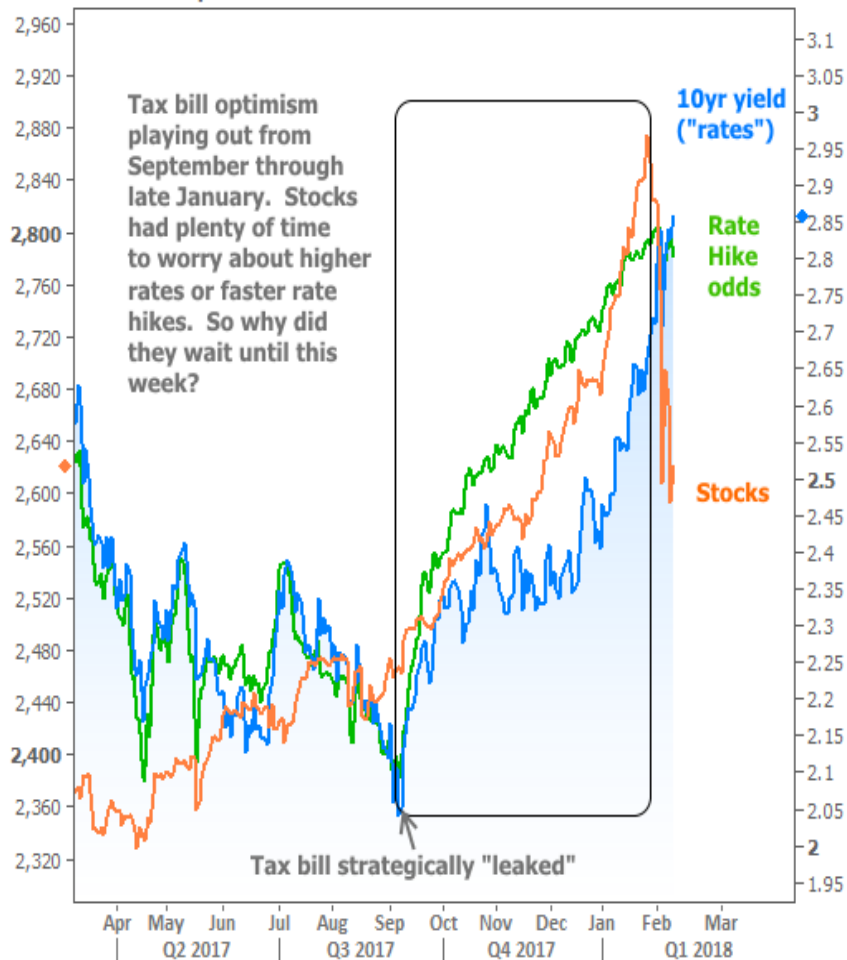


Stocks vs Bonds



In other words, **it took a lot of movement** in stocks to make a comparatively tiny dent in rates. Rates might not have moved that much this week otherwise, or they may have done what they've been doing and simply continued higher. Either way, higher rates and an accelerated Fed rate hike outlook haven't been an issue for **almost the entire time** that markets have trading the potential effects of the **tax bill** (the key fundamental market motivation since September). One must wonder: why now?

Rates vs Rate Hike Expectations vs Stocks



Tax bill optimism playing out from September through late January. Stocks had plenty of time to worry about higher rates or faster rate hikes. So why did they wait until this week?

Tax bill strategically "leaked"

There are **two arguments** you might hear for the "why now" question. The first concerns **outright levels**. Specifically, proponents of this theory suggest that the stock market was OK with 10yr yields in the 2.6% range, but that stocks **started to freak out** when rates moved over 2.8%. In other words, there's a limit to how high rates can go before stock investors assume collateral damage.

It's true that higher rates can and will restrict economic activity, and thus cause potential headwinds for stocks. The only problem with choosing a magic line in the sand is that rates **have been higher** in the past, and it **hasn't** had the same effect that's being argued this week. Not only that, but the trip to those levels was **much** more abrupt in the past without so much as an inconvenienced sigh from the stock market.

Rates vs Stocks



When confronted with that chart, proponents of this week's stock market scapegoat hunt might turn their attention to **inflation**. They might say 2013 was different because inflation expectations hadn't yet become worrisome, and that new fiscal policies and a tight labor market are creating major inflation risks. Here too, the **conceptual** part of the analysis would work just fine were it not for that **pesky little matter** of past precedent.

The following chart shows the S&P overlaid against market-based inflation expectations. It's pretty conclusive. In fact, one could use it to suggest that falling inflation gave stocks pause in 2015--the **opposite** of the relationship being argued this week!

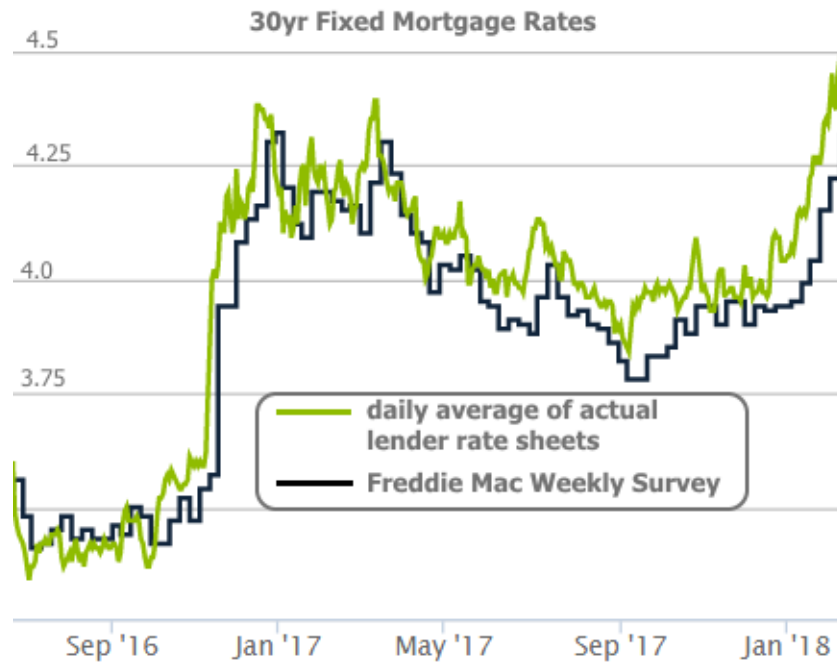
Inflation vs Stocks



Of course, that's **not** what gave stocks pause in 2015, but that's exactly the point. Inflation is not the scapegoat we're looking for. It's just another interconnected cog in the global financial system and will therefore periodically exhibit certain degrees of correlation to other cogs. This is really good to remember when someone tells you 2 things in financial markets are connected. They usually ARE connected, but usually not as much as it seems.

If you're waiting to hear what actually caused this week's drop in stocks, I'm sorry to disappoint. I can only tell you what DIDN'T cause the drop. I will say that the truth is **almost always more nuanced and complex** than the easy answers offered up by news stories. While it may not be as glamorous or conclusive as playing the blame game, I do know that while any given market is moving surprisingly higher for a surprisingly long time with surprisingly low volatility, the **eventual** move back in the other direction is simultaneously becoming bigger and more inevitable.

But enough of this hashing out of who did what to whom! Things are what they are! Rates are where they are. Even though there's always a chance they'll bounce lower, most of the industry is bracing for more upward pressure in 2018.



Higher rates create obvious challenges for the **housing and mortgage markets**, but so far, those challenges have been slow to crop up. Most of the recent housing data has been solid. In fact, just this week, Fannie Mae's Home Purchase Sentiment Index hit the [highest levels since its inception](#) in 2011.

In separate news, [mortgage applications managed to improve](#), even if only slightly. Still, any improvement is striking considering the data is seasonally adjusted. That means applications **aren't** merely improving because the Spring homebuying season is approaching.

Granted, we could simply be witnessing some **delayed reaction** to rates that are finally getting high enough to throw a wrench into the housing market's engine. If that's the case, it will become increasingly apparent in February's housing-related data (released in March). In the meantime, weekly reports (like Mortgage Applications) will offer clues as early as next Wednesday.

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

**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
<b>Monday, Feb 05</b>				
10:00AM	Jan ISM N-Mfg PMI	59.9	56.5	55.9
<b>Tuesday, Feb 06</b>				
8:30AM	Dec International trade mm \$ (bl)	-53.1	-52.0	-50.5
1:00PM	3-Yr Note Auction (bl)	26		
<b>Wednesday, Feb 07</b>				
7:00AM	w/e MBA Purchase Index	255.4		255.5
7:00AM	w/e Mortgage Refinance Index	1299.3		1288.0
<b>Thursday, Feb 08</b>				
8:30AM	w/e Jobless Claims (k)	221	228	230

**Event Importance:**

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

Date	Event	Actual	Forecast	Prior
<b>Friday, Feb 09</b>				
10:00AM	Dec Wholesale inventories mm (%)	0.4	0.2	0.2
<b>Wednesday, Feb 14</b>				
7:00AM	w/e Mortgage Market Index			416.3
8:30AM	Jan Retail Sales (%)	-0.3	0.2	0.4
8:30AM	Jan CPI mm, sa (%)	+0.5	0.3	0.1
8:30AM	Jan Core CPI Year/Year (%)	+1.8	1.7	1.8
<b>Thursday, Feb 15</b>				
8:30AM	Jan Producer Prices (%)	+0.4	0.4	-0.1
8:30AM	Jan Core Producer Prices YY (%)	+2.2	2.1	2.3
8:30AM	Feb Philly Fed Business Index	25.8	21.1	22.2
8:30AM	Feb NY Fed Manufacturing	13.1	17.50	17.70
8:30AM	w/e Jobless Claims (k)	230	230	221
9:15AM	Jan Industrial Production (%)	-0.1	0.2	0.9
9:15AM	Jan Capacity Utilization (%)	77.5	78.0	77.9
10:00AM	Feb NAHB housing market indx	72	72	72
<b>Friday, Feb 16</b>				
8:30AM	Jan Import prices mm (%)	+1.0	0.6	0.1
8:30AM	Jan Export prices mm (%)	+0.8	0.3	-0.1
8:30AM	Jan House starts mm: change (%)	+9.7		-8.2
8:30AM	Jan Build permits: change mm (%)	+7.4		-0.2
10:00AM	Feb 5yr Inflation Outlook (%)	2.5		2.5
10:00AM	Feb Consumer Sentiment	99.9	95.5	95.7
10:00AM	Feb 1yr Inflation Outlook (%)	2.7		2.7
<b>Wednesday, Apr 11</b>				
1:00PM	10-yr Note Auction (bl)	21		
<b>Thursday, Apr 12</b>				
1:00PM	30-Yr Bond Auction (bl)	13		

## 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](mailto:TPayne@loandepot.com)

We are a direct nationwide lender.  
EQUAL HOUSING LENDER

**Tom Payne**

