



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
[View My Website](#)

Is Everything Already Changing in 2019?

It was a long December for the stock market, which had its **worst month** since the financial crisis (in terms of % change). Meanwhile, interest rates had their best month since June 2016.

The size and direction of those moves caused speculation about a **big reversal** at the beginning of 2019. In both cases, traders figured stocks and rates had moved so much lower so quickly that some sort of bounce was inevitable.

This line of thinking (i.e. that markets should bounce simply because they've moved "too far, too fast") speaks to an actual concept in market analysis. In a word, the concept is "momentum," but it's often discussed in the binary form of "**overbought**" vs "**oversold**."

Simply put, the more any given financial market does one thing, the greater the risk becomes that it will do the opposite. The **big catch** here is that there's no hard and fast rule about the timing or the size of the bounce. In fact, sometimes the market even seems to punish a herd mentality that is hoping for such bounces for such simple reasons.

With all of the above in mind, this was destined to be a highly uncertain and potentially volatile week. Perhaps we would see stocks bounce more than they already had at the end of December. Perhaps we would see bonds ignore stocks and do their own thing, much like last week. Perhaps it would be Friday's slate of important events that would set the tone for the new year.

As it turned out, it was **all of the above**, at least for now. Bond markets (aka "rates") spent the first 2 days of 2019 doing their own thing, moving lower at a much quicker pace than stocks. Some of that movement was purely incidental, but a majority of the gains were driven by an exceptionally weak ISM Manufacturing report on Thursday morning. Then on Friday, an exceptionally strong jobs report coupled with a few choice remarks from Fed Chair Powell sent everything back in the other direction.

Stocks were less volatile by comparison. They responded modestly to the weak manufacturing data before ultimately edging up past last week's highs after Friday's events. In particular, they appreciated **Powell's comment** about the Fed being "sensitive to the message markets are sending." That's his way of acknowledging that heavy stock losses could actually affect Fed policy.

National Average Mortgage Rates



	Rate	Change	Points
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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

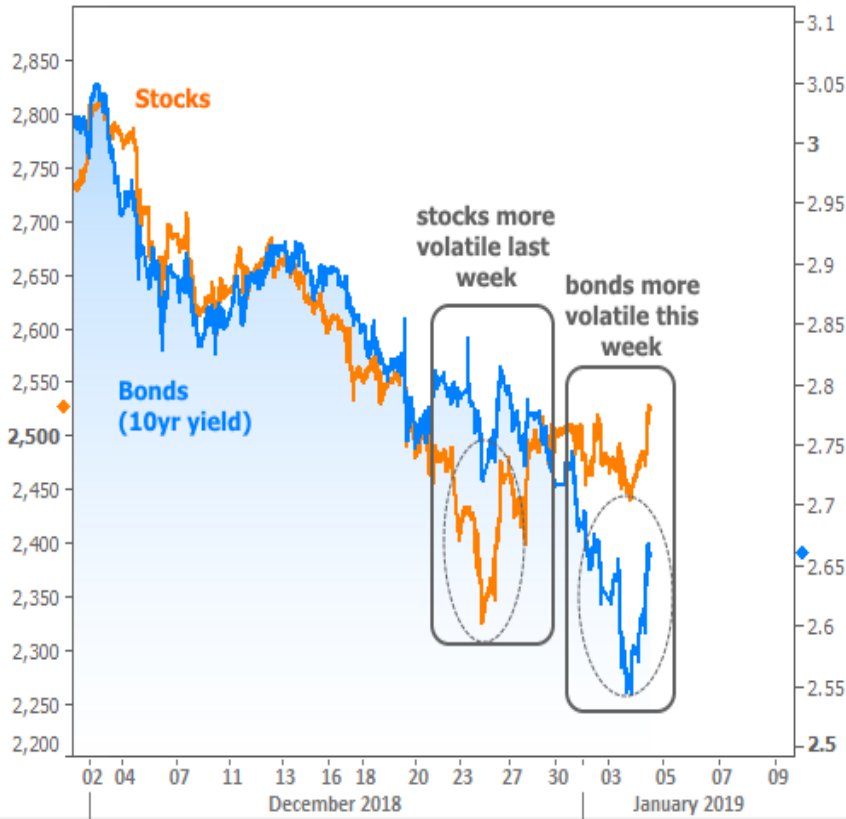
	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2364	-0.0161
30 YR Treasury	4.4542	-0.0183

Pricing as of: 7/23 12:48AM EST

Recent Housing Data

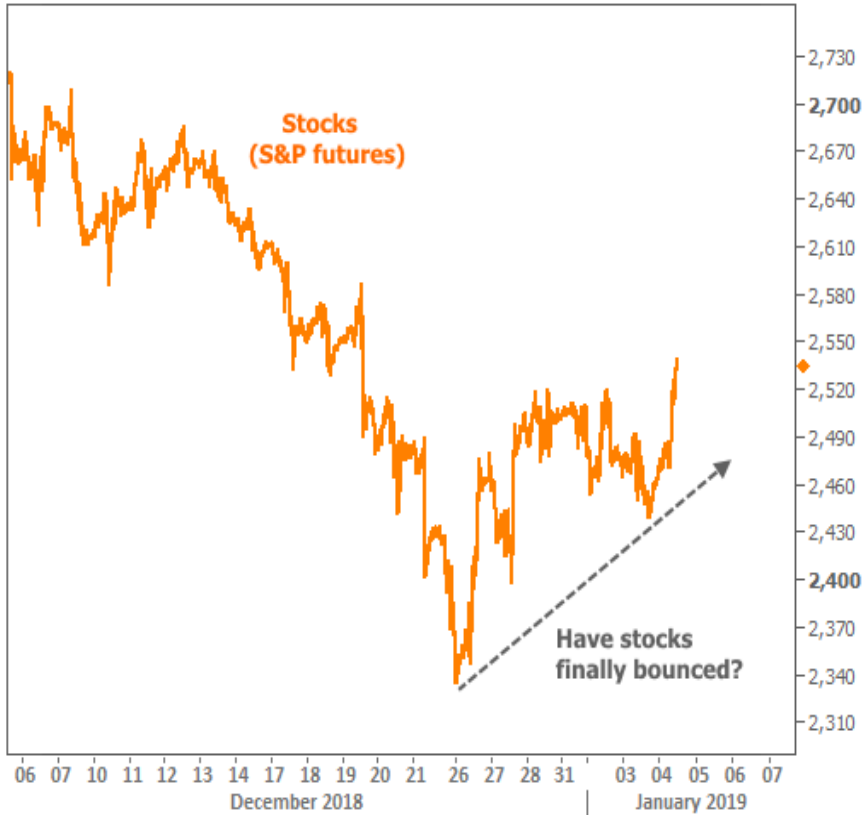
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Stocks vs Bonds



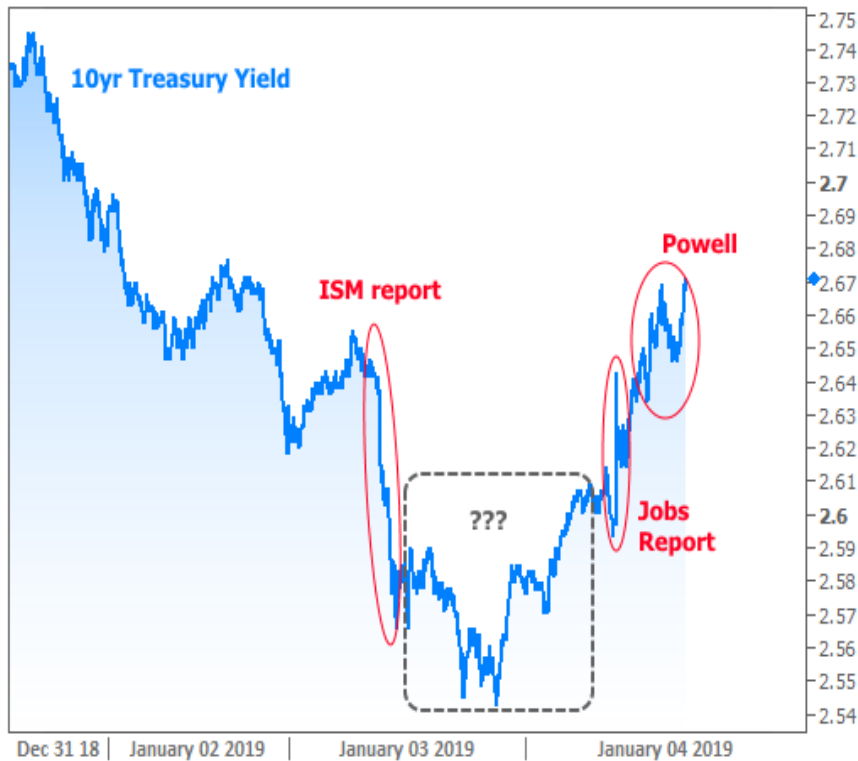
If we isolate stocks and bonds individually, we can better assess a potential momentum shift. With respect to stocks, if this bounce continues, it will have had **more** to do with late December and **less** to do with Friday's seemingly all-important calendar events.

Stocks



A somewhat similar case could be made for bonds, although we'll need to zoom in and see the overnight trading between Thursday and Friday.

Bonds



As the chart suggests, roughly half of this week's bounce in rates occurred during the "???" hours overnight, and weren't directly tied to any calendar events. This is momentum at work! It was finally the moment when traders agreed that rates had "fallen far enough" for now. The jobs report and Powell's speech merely added some emphasis to the bounce.

So, does this mean **everything is changing in 2019**?

First off, an entire year is a long time to be guessing at ongoing themes. Things could still change several times before 2019 is over. Secondly, it's **entirely too soon** to answer that question.

All we know now is that stocks and bonds agree that the risk of an early 2019 bounce (higher rates, higher stocks) remains on the table. Clearly, we've already seen some of it. It makes sense to defend against the possibility of even higher rates next week, but keep in mind that both sides of the market have a long way to go before they're anywhere close to the recent high range.

Stocks vs Bonds



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Thursday, Jan 03				
8:00AM	w/e Mortgage Refinance Index	729.9		816.0
8:00AM	w/e MBA Purchase Index	219.0		236.9
8:15AM	Dec ADP National Employment (k)	271.0	178	179
8:30AM	w/e Jobless Claims (k)	231	220	216
10:00AM	Nov Construction spending (%)		0.2	-0.1

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Dec ISM Manufacturing PMI	54.1	57.9	59.3
Friday, Jan 04				
8:30AM	Dec Average earnings mm (%)	+0.4	0.3	0.2
8:30AM	Dec Non-farm payrolls (k)	+312	177	155
8:30AM	Dec Unemployment rate mm (%)	3.9	3.7	3.7
Monday, Jan 07				
10:00AM	Dec ISM N-Mfg PMI	57.6	59.0	60.7
10:00AM	Nov Factory orders mm (%)		0.3	-2.1
Tuesday, Jan 08				
1:00PM	3-Yr Note Auction (bl)	38		
Wednesday, Jan 09				
7:00AM	w/e Mortgage Refinance Index	987.9		729.9
7:00AM	w/e MBA Purchase Index	255.2		219.0
1:00PM	10-yr Note Auction (bl)	24		
Thursday, Jan 10				
8:30AM	w/e Jobless Claims (k)	216	220	231
10:00AM	Nov Wholesale inventories mm (%)		0.5	0.7
1:00PM	30-Yr Bond Auction (bl)	16		
Friday, Jan 11				
8:30AM	Dec Core CPI Year/Year (%)	2.2	2.2	2.2

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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