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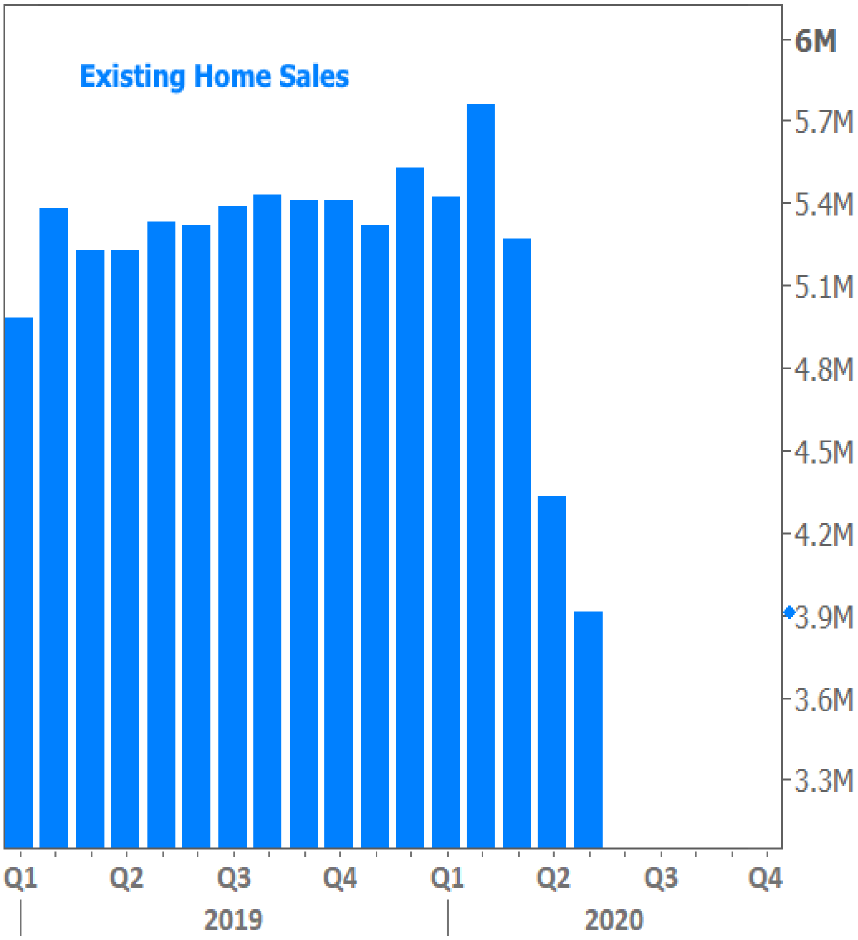
Rates Are Headed Higher... Eventually

The fates of the economy, the housing market, and interest rates remain closely intertwined with coronavirus. The pandemic is clearly responsible for the record-setting drop in economic activity (including the housing market).



And it has clearly been the key source of motivation for both stocks and interest rates (which we can follow most objectively via 10yr Treasury yields). A shorter-term chart shows how closely they've been following one another as they digest coronavirus updates.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.06%	+0.03	0.00
15 Yr. Fixed	6.47%	+0.03	0.00
30 Yr. FHA	6.51%	+0.03	0.00
30 Yr. Jumbo	7.27%	+0.02	0.00
5/1 ARM	7.04%	+0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.87%	-0.57	0.00
15 Yr. Fixed	6.13%	-0.63	0.00

Rates as of: 6/26

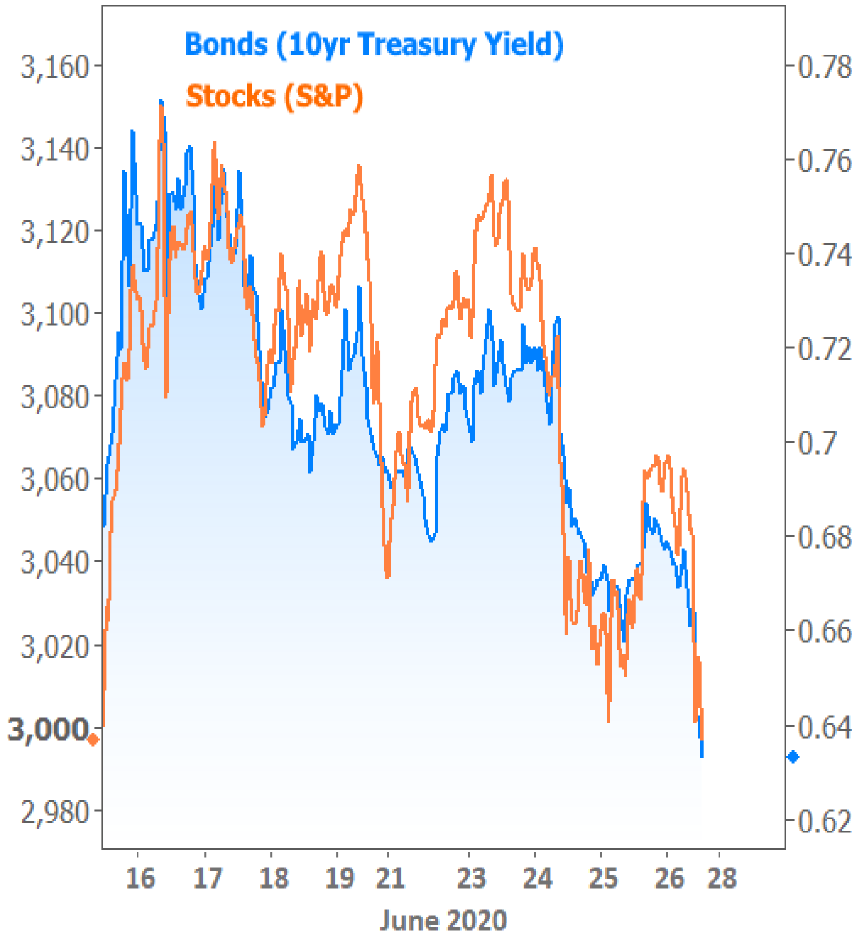
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.85	-0.22
MBS GNMA 5.5	99.38	-0.14
10 YR Treasury	4.3162	+0.0676
30 YR Treasury	4.4466	+0.0665

Pricing as of: 6/26 3:26PM EST

Recent Housing Data

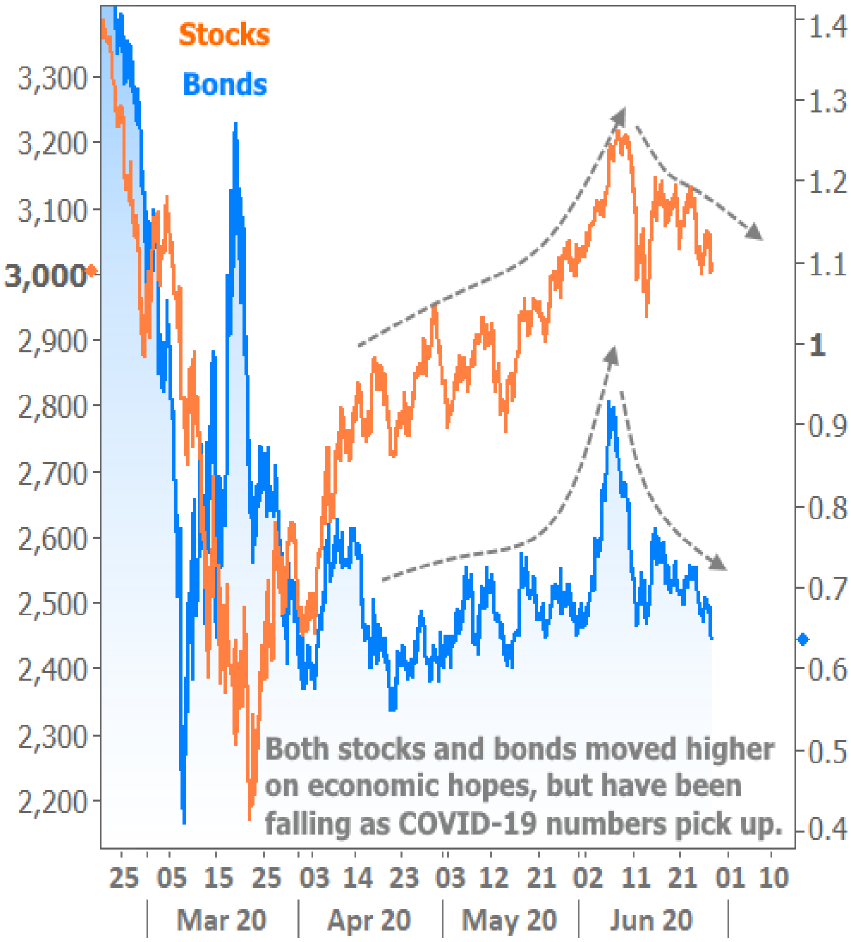
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



As the initial panic of March and early April subsided, and people began returning to work, it was perfectly reasonable to expect markets and the economy to begin **bouncing back** (i.e. higher stocks and bond yields).

That is arguably what happened in April and May. We've even seen several areas of the economy experience their first corrective bounce, such as New Home Sales (**note:** this chart of New Home Sales looks nothing like the Existing Home Sales chart above because it constitutes a smaller portion of the market, and pertains exclusively to new construction).

But now the market is having **second thoughts** due to accelerating case counts (and hospitalizations) in several states. Stocks and bond yields have been trending lower since topping out in early June.

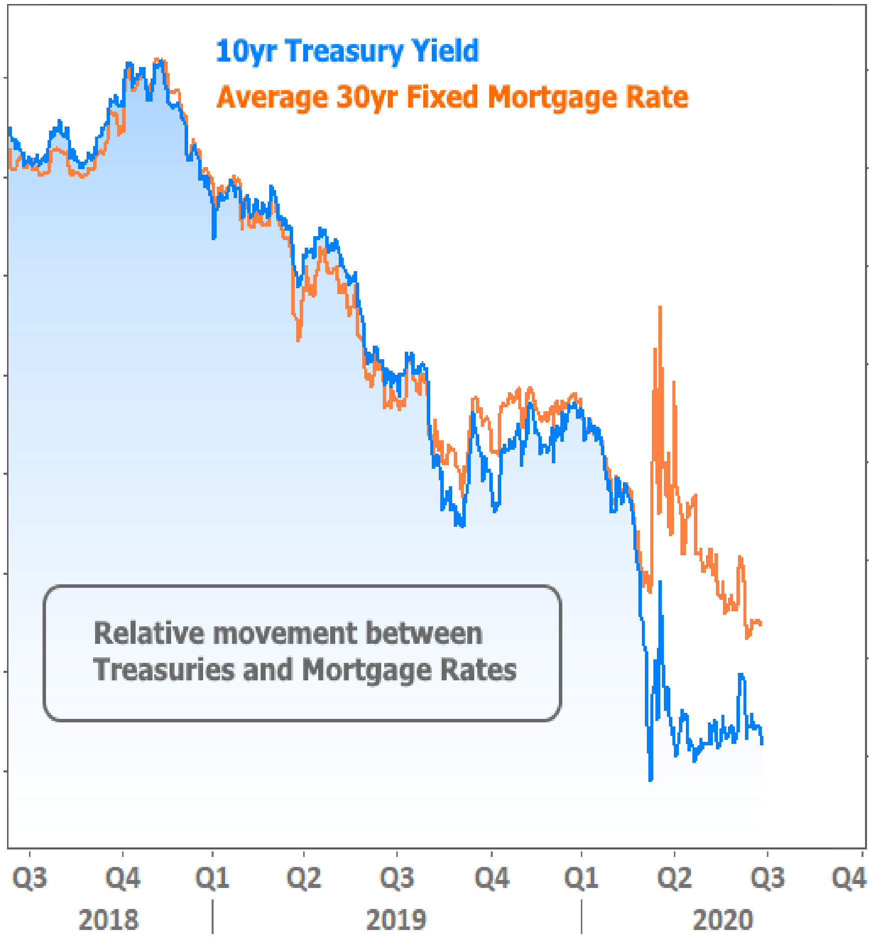


The fate of this market correction will be decided by the course of the pandemic--especially the resurgence of cases in the U.S. If more people can return to work without hospitals being overwhelmed, the less resistance there will be for interest rates and stocks to move **higher**. In fact, it's safe to say that **WILL** happen. The question is **"when?"**

There are **other questions** too. Which parts of the market and the economy will bounce back sooner and better? After all, we've already seen a pronounced difference between mortgage rates and the Treasury yields that typically follow the same trajectory.

A US Treasury Note is a debt instrument just like a mortgage. The 10yr US Treasury yield is a rate of return just like a mortgage rate. Historically, the average 30yr fixed mortgage lasts less than 10 years before the home is sold or the mortgage is refinanced. As such, 10yr Treasury yields should behave similarly to mortgage rates over time as both offer investors a fixed rate of return over a certain period of time.

But mortgage rates can deviate **tremendously** from Treasury yields on limited occasions. The onset of the pandemic was just such an occasion. At the time, mortgage rates weren't even remotely capable of keeping up with Treasuries. The unforeseen benefit is that mortgage rates have been able to move **lower** even as Treasury yields suggested the opposite.



The gap between the two was **much wider** in April and May. As the normal relationship slowly returns, mortgage rates will be less capable of defying marching orders from the broader bond market.

In other words, if the market finds a reason for stocks and bond yields to move **higher**, mortgage rates are increasingly likely to **follow**.

So will the market find that reason? Again, we already know **THAT** it will. We just don't know **WHEN** it will. That answer depends entirely on coronavirus. What we **DO** know is that the bond market's movement is similar to that seen during the financial crisis--something we didn't expect to see again so quickly.

That **past example suggests some caution**. In early 2009, the economy hadn't even bottomed out yet. Few were expecting to see rates move higher in any sort of threatening way, but that's exactly what they did. This speaks to a certain market psychology that spontaneously finds a limit to how much lower rates can go and for how long.

The chart above contains 10yr Treasury yields. Mortgage rates wouldn't move higher nearly as fast in this unpleasant scenario, but they would still move higher. To be clear, this is not a prediction. **It is a fact**. Rates **will** move higher. We just don't know when. The point is to be ready to react when that happens. What does readiness look like for you?

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 22				
10:00AM	May Exist. home sales % chg (%)	-9.7	-3.0	-17.8
10:00AM	May Existing home sales (ml)	3.91	4.12	4.33
Tuesday, Jun 23				
9:45AM	Jun PMI-Composite (source:Markit)	46.8		37.0
10:00AM	May New home sales-units mm (ml)	0.676	0.640	0.623
10:00AM	May New home sales chg mm (%)	16.6	2.9	0.6
Wednesday, Jun 24				
7:00AM	w/e MBA Purchase Index	312.7		322.5
7:00AM	w/e Mortgage Refinance Index	3434.6		3891.5
9:00AM	Apr Monthly Home Price yy (%)	5.5		5.9

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
Thursday, Jun 25				
8:30AM	Q1 GDP Final (%)	-5.0	-5.0	-5.0
8:30AM	May Durable goods (%)	15.8	10.9	-17.7
8:30AM	w/e Jobless Claims (k)	1480	1300	1540
8:30AM	w/e Continued jobless claims (ml)	19.522	19.968	20.544
Friday, Jun 26				
8:30AM	May Core PCE Inflation (y/y) (%)	1.0	0.9	1.0
10:00AM	Jun Consumer Sentiment (ip)	78.1	79.0	78.9
Monday, Jun 29				
10:00AM	May Pending Sales Index	99.6		69.0
10:00AM	May Pending Home Sales (%)	+44.3	18.9	-21.8
Tuesday, Jun 30				
9:00AM	Apr CaseShiller 20 yy (%)	+4.0	4.0	3.9
9:45AM	Jun Chicago PMI	36.6	45.0	32.3
10:00AM	Jun Consumer confidence	98.1	91.8	86.6
Wednesday, Jul 01				
7:00AM	w/e Mortgage Refinance Index	3359.2		3434.6
7:00AM	w/e MBA Purchase Index	308.7		312.7
8:15AM	Jun ADP National Employment (k)	2369	3000	-2760
10:00AM	Jun ISM Manufacturing PMI	52.6	49.5	43.1
10:00AM	May Construction spending (%)	-2.1	1.0	-2.9
Thursday, Jul 02				
8:30AM	Jun Non-farm payrolls (k)	4800	3000	2509
8:30AM	Jun Unemployment rate mm (%)	11.1	12.3	13.3
10:00AM	May Factory orders mm (%)	8.0	8.9	-13.0

Real estate is changing — 3 things you need to focus on today

1. Understand the change
Educating yourself is the first key to embracing these changes. Lean into your broker and your local MLS to ensure you are aware of updates to policies and forms. Attend training sessions and focus groups until you can confidently explain what changes are happening in your market and why those changes are beneficial to consumers.

2. Master your craft
Let's pause talking about buyer agency for a moment and reflect on the process used to secure a new listing. How do you prepare for an appointment with a seller? You work to understand the sellers' needs and desires. You create rapport. You provide a presentation that explains how your experience, knowledge and resources can help that seller achieve their goals. You explain compensation. You answer questions. You close for the business, and you manage objections.

3. Lead through the change
Our industry is getting a lot of attention on a national level. Today's consumer, along with many agents and brokers, is likely confused and misinformed. One of the most important jobs we hold as real estate and mortgage professionals is educating the public when it comes to what is happening in our local markets and the industry.

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

We are a direct nationwide lender.
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Tom Payne