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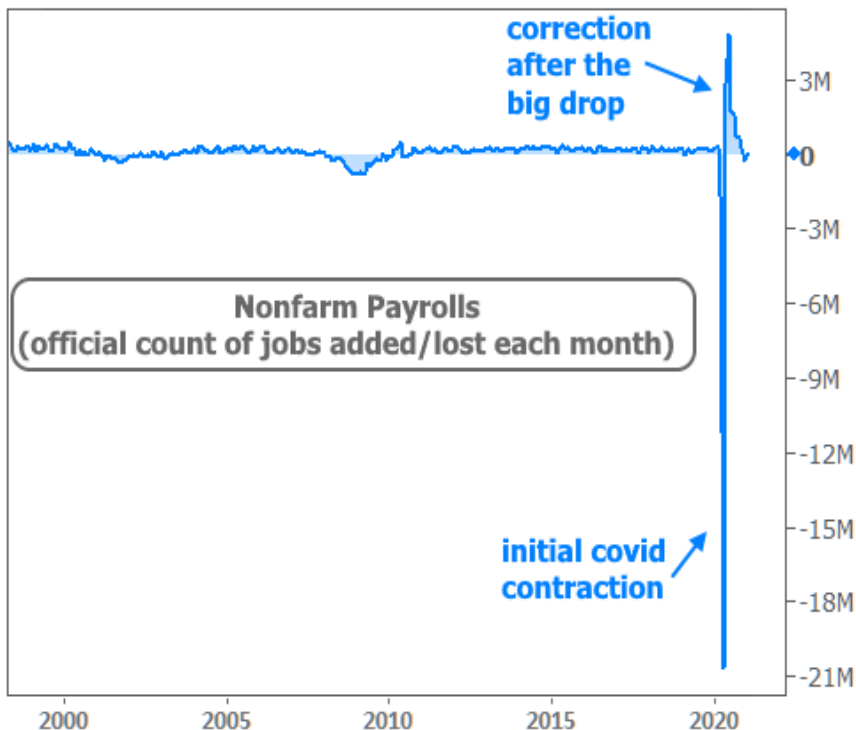
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Rates Under Pressure Despite Weak Jobs Report

Economic data is traditionally one of the key contributors to interest rate movement. Of the regularly-scheduled reports, none has more market-moving street cred than The Employment Situation--otherwise known as "the jobs report" or simply NFP (due to its headline component: Non-Farm Payrolls).

The relationship between econ data and rates can wax and wane. Covid definitely threw a wrench in the works, and economists still don't know exactly how things will shake out. In general, the market is trading on the assumption that things continue to improve **even if** the data isn't making that case today.

In fact, today's jobs report specifically suggests something **quite different**. The economy only created 49k new jobs in January, and the last few reports were revised much lower to boot. Taken together, these reports effectively put an end to the "correction" phase of the labor market recovery.



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

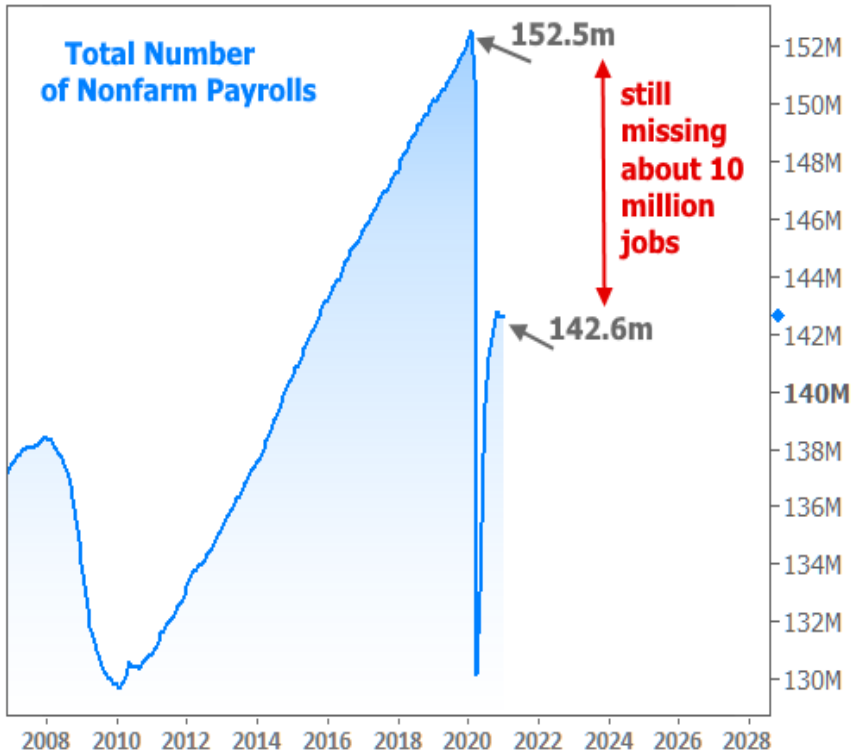
	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2418	-0.0107
30 YR Treasury	4.4622	-0.0103

Pricing as of: 7/22 9:01PM 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%

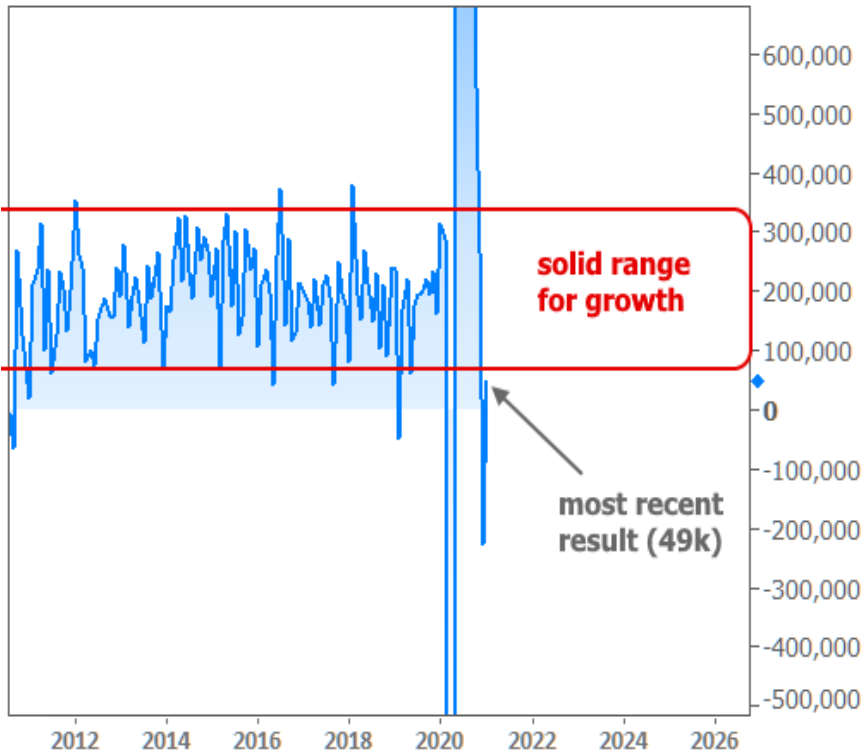
In other words, payrolls plummeted at the onset of covid ("contraction" phase). They'd been bouncing back in record fashion through September, but have since returned to **closer to zero** growth. That's not great news considering we're still roughly 10 million jobs away from pre-covid levels.



Based **solely** on the data above, interest rates shouldn't be eager to rise. A 10 million job deficit is a big deal and it speaks to a level of economic activity that promotes risk-aversion (which, in turn, benefits rates).

But rates have **other factors** on their mind. In fact, we don't even need to move on to other factors to consider one counterpoint. Simply put, the labor market recovery is **still playing out**. While it's true we've seen the big contraction and correction, there's a lot of uncertainty surrounding the coming months. It's too soon to declare the death of the labor market based on the past few months--especially when seasonal adjustments are considered.

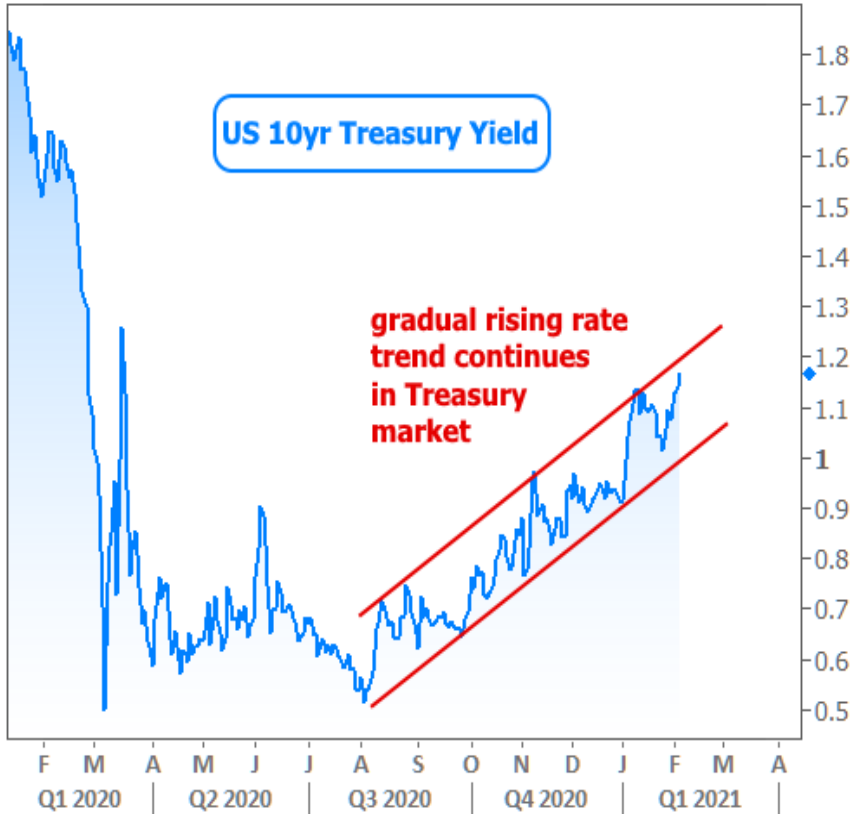
The following chart zooms in on the monthly job count to show the recent volatility and the normal range for solid job growth. One could easily imagine returning to that range as lockdown restrictions are eased and vaccine distribution improves. To a large extent, the bond market (and thus, interest rates) is operating based on its **best guesses about the next 6-12 months** as opposed to what it mostly already knew about January 2020. Bottom line: if job growth is going to end up in that "solid range," we wouldn't necessarily know it yet.



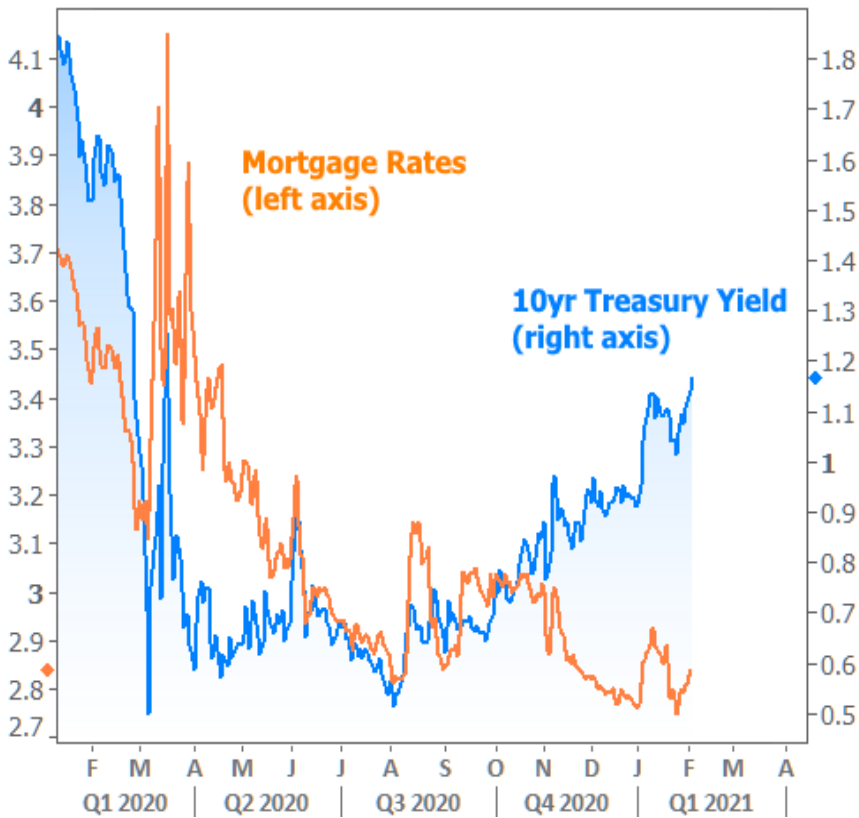
Moving on from jobs data, the bond market has other timely concerns. Next week brings another round of record-setting Treasury issuance. Treasuries = US government debt. The more money the government needs to spend (and the less revenue it takes in), the more Treasuries it must issue. The greater the issuance, the more **upward pressure on rates**--all other things being equal.

At the same time, congress passed a budget resolution that paves the way for the **\$1.9 trillion covid relief bill** to pass in as little as 2 weeks. Stimulus hurts bonds/rates on two fronts by increasing Treasury issuance and by (hopefully) strengthening the economy. A stronger economy can sustain higher interest rates, in general.

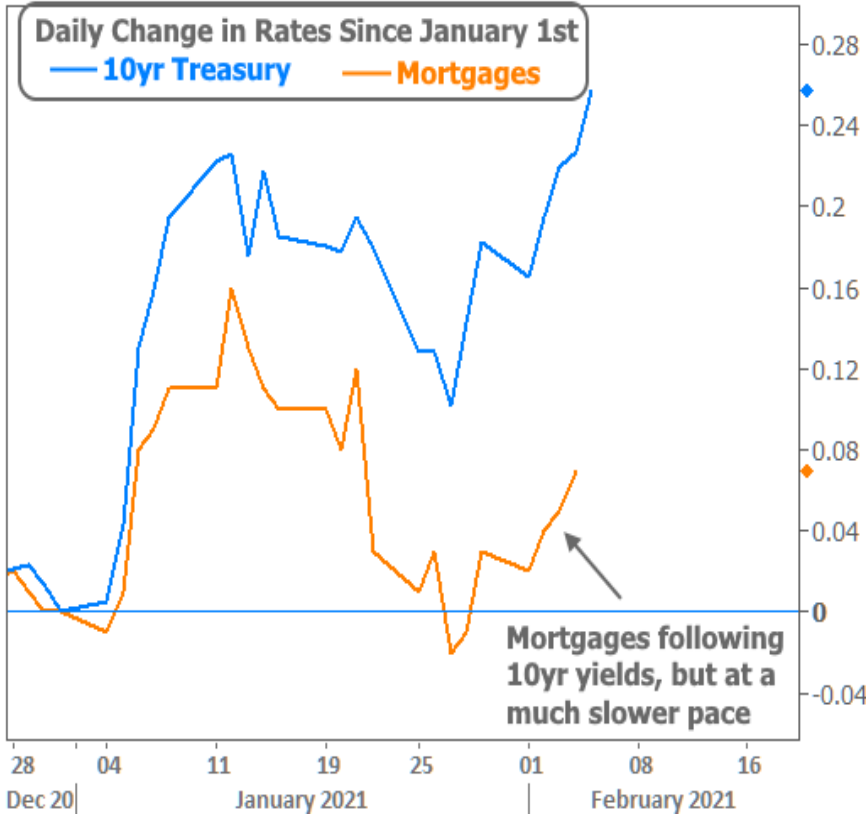
With all of the above in mind, it's no great surprise to see a continuation of a **well-established trend** toward higher yields in 10yr US Treasuries. The 10yr yield is the benchmark for longer-term rates in the US and it tends to correlate extremely well with mortgages. As such, this chart would normally be a concern for the mortgage market.



But as we discussed last week, mortgage rates have diverged from Treasury trends in an unprecedented way.

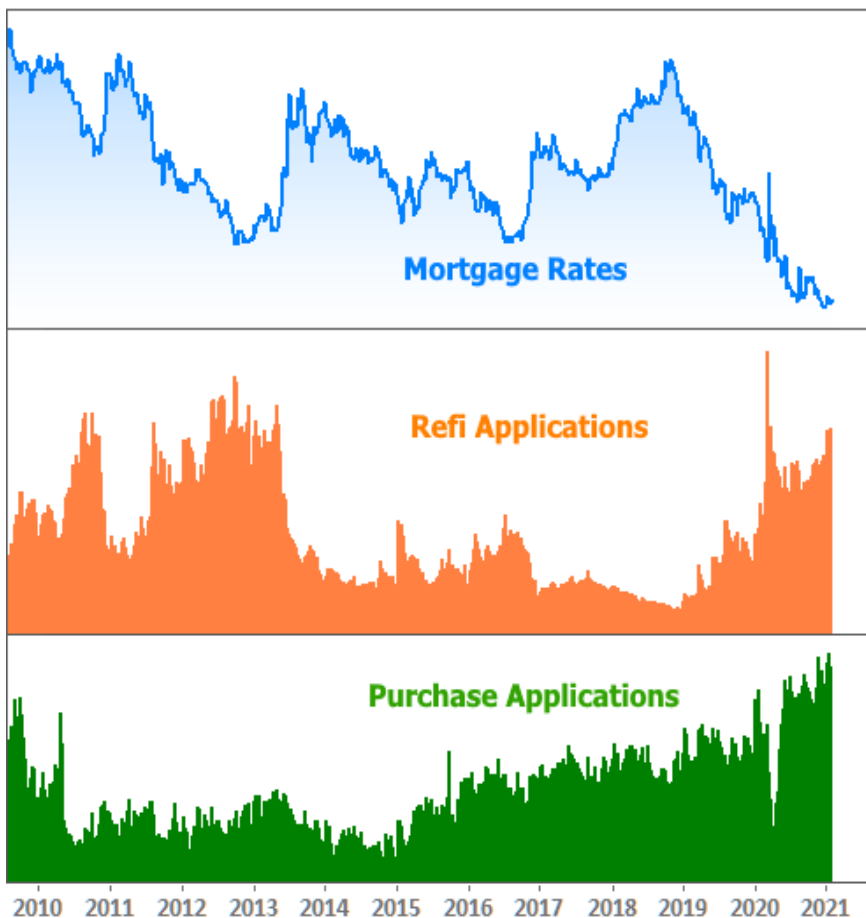


Despite the departure, the point of last week's newsletter was to provide another reminder that mortgage rates **can't keep this up forever**. Indeed, when we zoom in on the actual day-to-day changes in 10yr yields and mortgage rates, we can see strong correlation again--just with much smaller steps taken by mortgages.



The takeaway is that it's **no longer safe** to bank on a series of increasingly lower all-time lows in mortgage rates. As long as the broader bond market remains under pressure, so too will the mortgage market--even if it takes less damage by comparison. If these trends continue, mortgage rates may not rise as fast as Treasuries, but they'd still be rising.

For now though, the sun is still shining on the mortgage market. Both purchase and refi applications are soaring, and new housing inventory can't come fast enough.



Next week's focal point for interest rates will be the Treasury auctions in the middle of the week--especially the 10yr Note Auction on Wednesday. Last time around, that auction marked a turning point for a rising rate trend that shared several similarities with the current one.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Feb 01				
10:00AM	Dec Construction spending (%)	1.0	0.9	0.9
10:00AM	Jan ISM Manufacturing PMI	58.7	60.0	60.7
Tuesday, Feb 02				
9:45AM	Jan ISM-New York index	818.2		817.6
Wednesday, Feb 03				
7:00AM	w/e MBA Purchase Index	334.6		334.2
7:00AM	w/e MBA Refi Index	4746.2		4261.5
8:15AM	Jan ADP National Employment (k)	174	49	-123
10:00AM	Jan ISM N-Mfg PMI	58.7	56.8	57.2
Thursday, Feb 04				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Q4 Labor Costs Preliminary (%)	6.8	4.0	-6.6
8:30AM	Q4 Productivity Preliminary (%)	-4.8	-2.8	4.6
8:30AM	w/e Jobless Claims (k)	779	750	847
10:00AM	Dec Factory orders mm (%)	1.1	0.7	1.0
Friday, Feb 05				
8:30AM	Jan Non-farm payrolls (k)	49	50	-140
8:30AM	Jan Unemployment rate mm (%)	6.3	6.7	6.7
Tuesday, Feb 09				
1:00PM	3-Yr Note Auction (bl)	58		
Wednesday, Feb 10				
7:00AM	w/e MBA Purchase Index	318.8		334.6
7:00AM	w/e MBA Refi Index	4549.2		4746.2
8:30AM	Jan Consumer Price Index (CPI) (%)	0.3	0.3	0.4
8:30AM	Jan Core CPI (Annual) (%)	1.4	1.5	1.6
10:00AM	Dec Wholesale inventories mm (%)	0.3	0.1	0.1
Friday, Feb 12				
10:00AM	Feb Consumer Sentiment	76.2	80.8	79.0
Monday, Apr 12				
1:00PM	10-yr Note Auction (bl)	38		
Tuesday, Apr 13				
1:00PM	30-Yr Bond Auction (bl)	24		

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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