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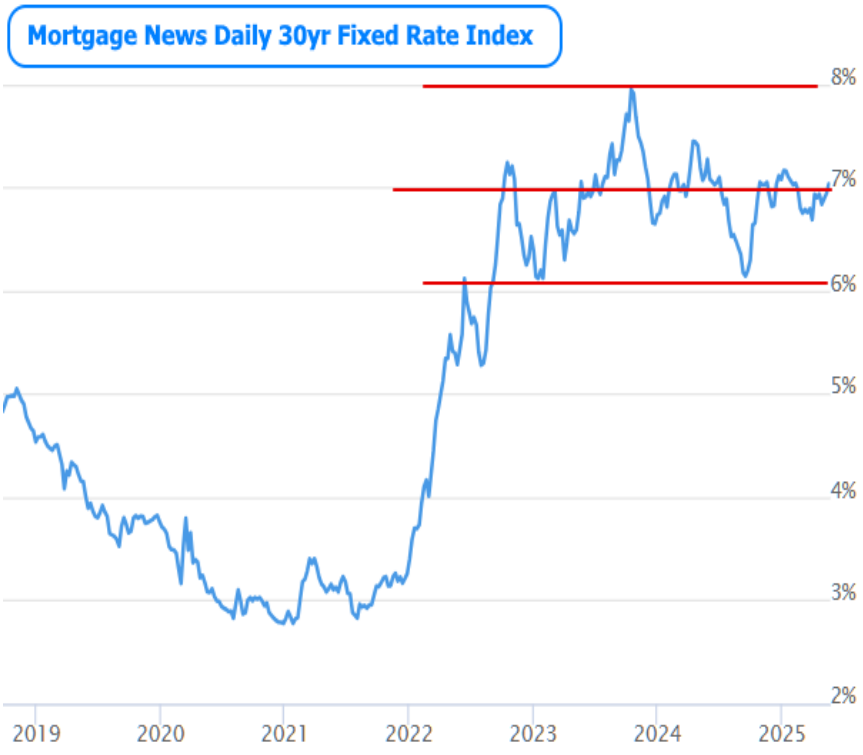
Rates Back to 7%. What Will It Take For Them to Drop?

Markets began the week with a hangover from last Friday's late-day announcement of a US credit rating downgrade from Moody's with both stocks and bonds losing ground in early trading.

When bonds "lose ground," it means lower prices and higher yields (aka "rates"). While those losses were ultimately almost completely erased by the end of Monday, bonds couldn't find any reasons to keep that momentum going. Conversely, they found several reasons to revisit higher yields, ultimately hitting the weakest levels in several months.

Again, "weakness" in bonds = higher interest rates, and that was on full display in the mortgage market. Mortgage News Daily's 30yr fixed rate index jumped to a 3 month high and remained over 7% for 3 straight days.

7% rates aren't fun, but they're also not new. One need only go back to February to see the better part of a month spent over 7%. In the even bigger picture, the long term high of 8.03% in October 2023 and a subsequent low near 6% about a year later means that 7% is exceedingly "middle of the road."



National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.17%	0.00	0.00
15YR Fixed	6.83%	+0.03	0.00
30YR FHA	6.82%	+0.02	0.00
30YR Jumbo	7.38%	+0.01	0.00
7/6 SOFR	6.50%	-0.16	0.00
30YR VA	6.84%	+0.02	0.00

Rates as of: 11/6

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	100.31	-0.04
10 YR Treasury	4.8625	+0.0273
30 YR Treasury	5.2640	+0.0085

Pricing as of: 11/6 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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The problem, for most people, is that it's been the middle of the road for far longer than anticipated. As has been and continues to be the case, there's not much incentive for a big improvement without 1 or more of the following 3 things:

1. A sharp and sustained decline in inflation
2. A sharp and sustained downturn in economic activity
3. A sincere, bipartisan effort to reduce the deficit

Bullet point number 3 was on full display this week as bond traders generally protested an absence of more serious efforts to reduce spending amid congressional debate on the current bill. Why do bonds care? Simply put, the US sells Treasury debt to meet its spending obligations (tax revenue alone isn't enough). Treasuries are like any other economic commodity: the more there are, the lower the price, all other things being equal. And when bond prices fall, rates go up.

The display came to a head on Wednesday afternoon when a 20yr Treasury auction met with somewhat lackluster demand. On any other week, this wouldn't have been a big deal for the market, but with deficit tensions running high, it was seen as the latest endorsement of the bond market's protest.

Bonds improved a bit on Thursday and then again in Friday's early morning hours following Trump's comments on raising EU tariffs to 50%. By the end of the week, bonds were at higher yields than last week, but not quite as high as a few days ago.

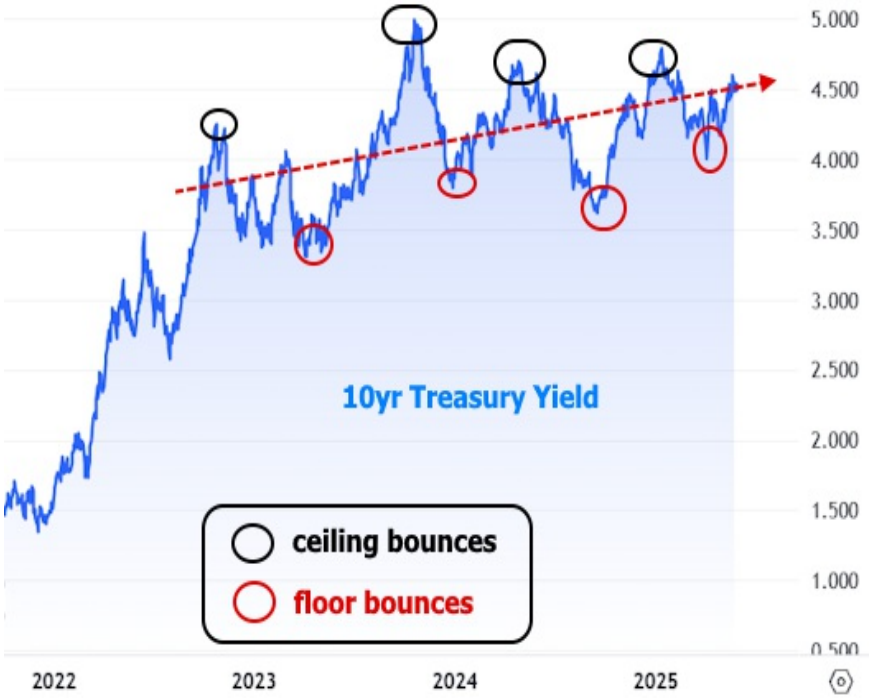


A single week is far too narrow a frame of reference for the current challenges. Very little is actually happening in the bigger picture. Rather, the interesting development is what's NOT happening. The month of May is increasingly sending the message that bonds have once again failed to maintain a trend back toward lower yields. This hasn't even been as serious an attempt as the last two (noted by red circles in the chart below). The net effect is a broader trend of sideways to slightly higher yields/rates, and a mortgage market that continues to wait for one of the 3 bullet points above to offer some relief.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Thursday, May 22				
8:30AM	May/17 Jobless Claims (k)	227K	230K	229K
9:45AM	May S&P Global Services PMI	52.3	50.8	50.8
9:45AM	May S&P Global Manuf. PMI	52.3	50.1	50.2
10:00AM	Apr Existing home sales (ml)	4M	4.1M	4.02M
Friday, May 23				
10:00AM	Apr New Home Sales (ml)	0.743M	0.692M	0.724M
Monday, May 26				
12:00AM	Memorial Day			
Tuesday, May 27				
8:30AM	Apr Durable goods (%)	-6.3%	-7.8%	7.5%
9:00AM	Mar FHFA Home Prices y/y (%)	3.7%		3.9%
9:00AM	Mar Case Shiller Home Prices-20 y/y (%)	4.1%	4.5%	4.5%
10:00AM	May CB Consumer Confidence (%)	98.0	87	86.0
1:00PM	2-Yr Note Auction (bl)	69		
Wednesday, May 28				
1:00PM	5-Yr Note Auction (bl)	70		
2:00PM	FOMC Minutes			

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Thursday, May 29				
8:30AM	Q1 GDP (%)	-0.2%	-0.3%	2.4%
8:30AM	May/24 Jobless Claims (k)	240K	230K	227K
10:00AM	Apr Pending Home Sales (%)	-6.3%	-0.9%	6.1%
1:00PM	7-Yr Note Auction (bl)	44		
Friday, May 30				
8:30AM	Apr Core PCE (m/m) (%)	0.1%	0.1%	0.0%
8:30AM	Apr Core PCE Inflation (y/y) (%)	2.5%	2.5%	2.6%
9:45AM	May Chicago PMI	40.5	45	44.6
10:00AM	May Consumer Sentiment (ip)	52.2	51	52.2

Introducing Montana Mortgage Partners!

I am excited to announce I have partnered with 3 industry experts, Annika Harris, Lindsay Kinniburgh, and Amanda Kneeland to open Montana Mortgage Partners! In my 18 years of being a local Real Estate Lender, Investor, and Developer I have experienced the full spectrum of changes in the lending industry and in our market. As the industry changes as must we to be confident we are able to offer the best products and service with the most competitive terms possible. A mortgage is an investment, and we have all the tools and more to assure your investment is the best fit for your long term financial goals. Feel free to reach out at any time to explore everything we have to offer or chat about how I may be able to add value to your business.

Cheers!

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