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# Mortgage Market Remains Transfixed by War

The Iran war continues to dominate financial markets and mortgage rates are no exception. That's no great surprise considering rates are driven by movement in the bond market. Still, the direction of the movement may be a surprise to some.

All else equal, things that cause economic pain and uncertainty tend to be good for rates because they drive investors out of riskier assets like stocks and into safer havens like bonds. Higher demand for bonds begets lower interest rates.

"War" typically qualifies as a rate-friendly catalyst, but there's an important exception for wars that lead to inflation. The chain of causality here is fairly simple. A lot of the world's energy products pass through a waterway that has been heavily impacted by the war. In turn, the prices of those commodities have risen sharply, thus increasing inflation expectations.

Rising inflation expectations go hand in hand with higher interest rates and lower odds of Fed rate cuts. The following chart shows how Fed Funds Rate expectations have changed for the September Fed meeting.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.33% | -0.12 | 0.00 |
| 15YR Fixed | 6.89% | -0.10 | 0.00 |
| 30YR FHA | 6.95% | -0.10 | 0.00 |
| 30YR Jumbo | 7.44% | -0.06 | 0.00 |
| 7/6 SOFR | 6.81% | -0.19 | 0.00 |
| 30YR VA | 6.97% | -0.10 | 0.00 |

Rates as of: 11/20

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.52 | +0.42 |
| 10 YR Treasury | 4.9438 | -0.0998 |
| 30 YR Treasury | 5.3308 | -0.0754 |

Pricing as of: 11/20 4:30PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 11 | 199.8 | -2.35% |
| Building Permits | Oct | 1.3M | -7.5% |
| Housing Starts | Oct | 1.31M | +7.21% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Oct | 63 | -4.69% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Nov | 25 | -13.79% |

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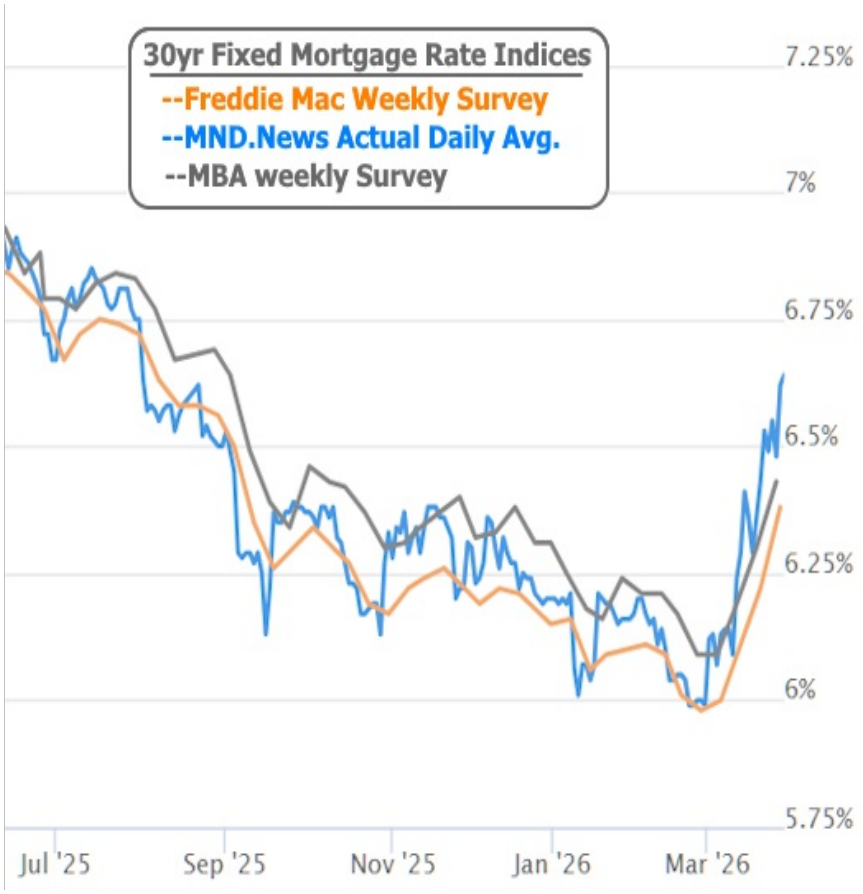



In other words, the market currently sees no chance of a rate cut and a small chance of a rate hike having taken place by then. The trajectory of mortgage rates has been similar with MND's daily index rising above 6.6% this week while weekly indices continue catching up.

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The bond/rate market may be seeing some small benefit from the classic "safe-haven trade" based on the following chart. It shows accelerating losses into the weekend in stocks whereas bond yields are only modestly worst than they were on Monday morning.

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Unfortunately, the bond market is also telling us it will take more than mere stability in oil prices to stem the tide of inflation expectations. Oil prices are actually well under levels seen earlier this month and modestly lower than Monday's levels as well.

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Translation: the rate market assumes that oil prices above 90 dollars will do ongoing damage to the inflation outlook even though "recession" is another potential outcome.

What does this mean for rates/housing? Nothing that can't already be seen in this week's mortgage rate chart. At risk of stating the obvious, the longer the war continues, the more potential there is for rates to rise. If the war officially ends, rates can recover a bit, but it's highly unlikely they'd recover what we've lost so far this month any time soon.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Mar 23** | | | | |
| 10:00AM | Jan Construction spending (%) | -0.3% | 0.1% | 0.3% |
| **Tuesday, Mar 24** | | | | |
| 9:45AM | Mar S&P Global Manuf. PMI | 52.4 | 51.3 | 51.6 |
| 9:45AM | Mar S&P Global Services PMI | 51.1 | 51.5 | 51.7 |
| **Wednesday, Mar 25** | | | | |
| 7:00AM | Mar/20 MBA Purchase Index | 163.6 | | 172.9 |
| 7:00AM | Mar/20 MBA Refi Index | 1145.0 | | 1341.0 |
| 8:30AM | Feb Import prices mm (%) | 1.3% | 0.5% | 0.2% |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Thursday, Mar 26** | | | | |
| 8:30AM | Mar/21 Jobless Claims (k) | 210K | 210K | 205K |
| **Friday, Mar 27** | | | | |
| 10:00AM | Mar Consumer Sentiment (ip) | 53.3 | 54 | 56.6 |
| 10:00AM | Mar Sentiment: 1y Inflation (%) | 3.8% | 3.4% | 3.4% |
| 10:00AM | Mar Sentiment: 5y Inflation (%) | 3.2% | 3.2% | 3.3% |
| **Tuesday, Mar 31** | | | | |
| 9:00AM | Jan FHFA Home Prices y/y (%) | 1.6% | | 1.8% |
| 9:00AM | Jan Case Shiller Home Prices-20 y/y (%) | 1.2% | 1.3% | 1.4% |
| 9:45AM | Mar Chicago PMI | 52.8 | 55 | 57.7 |
| 10:00AM | Feb USA JOLTS Job Openings (ml) | 6.882M | 6.92M | 6.946M |
| 10:00AM | Mar CB Consumer Confidence (%) | 91.8 | 88 | 91.2 |
| **Wednesday, Apr 01** | | | | |
| 8:15AM | Mar ADP jobs (k) | 62K | 40K | 63K |
| 10:00AM | Mar ISM Manufacturing PMI | 52.7 | 52.5 | 52.4 |
| **Thursday, Apr 02** | | | | |
| 8:30AM | Mar/28 Jobless Claims (k) | 202K | 212K | 210K |
| 8:30AM | Feb Trade Gap (bl) | $-57.3B | $-59.2B | $-54.5B |
| **Friday, Apr 03** | | | | |
| 8:30AM | Mar Unemployment rate mm (%) | 4.3% | 4.4% | 4.4% |
| 8:30AM | Mar Non Farm Payrolls (k) | 178K | 60K | -92K |
| **Monday, Apr 06** | | | | |
| 10:00AM | Mar ISM N-Mfg PMI | 54.0 | 55 | 56.1 |

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