

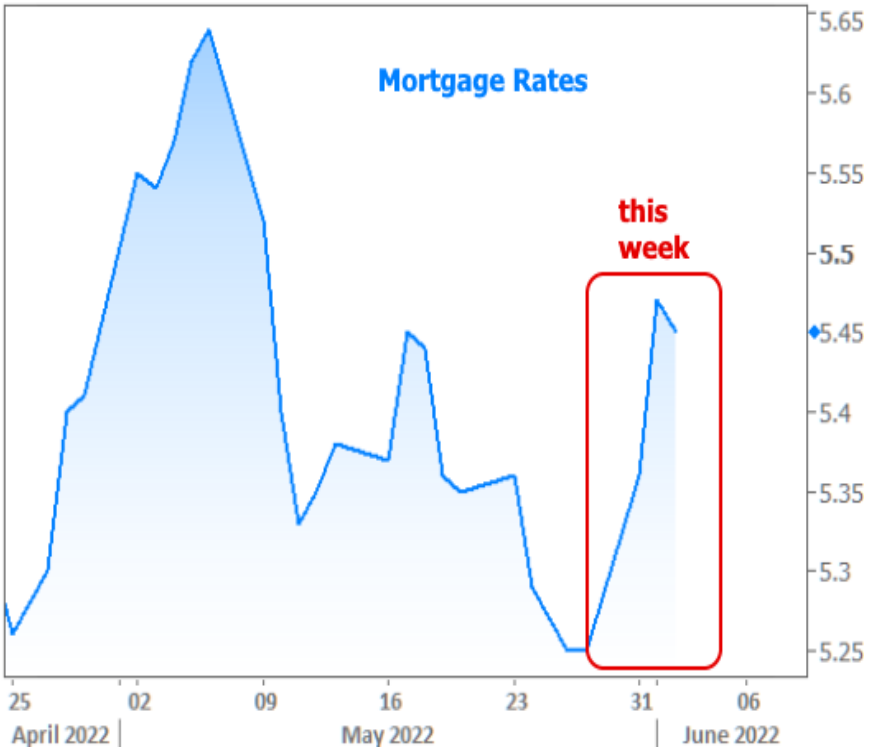
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Rates Bounce After 3 Weeks of Improvement; Prices Still Defying Gravity

By last Friday, rates had improved so much from recent highs that we were finally able to consider that 2022's trend had shifted gears from "skyrocketing" to "sideways." While that possibility can still be entertained, this week's rates are definitely higher.

Here's how things look when we zoom in to just the past 6 weeks:



Context is important. While these would be big swings during normal times, they are par for the course during 2022's heightened volatility.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.50%	-0.01	0.00
15YR Fixed	7.04%	0.00	0.00
30YR FHA	7.07%	-0.01	0.00
30YR Jumbo	7.52%	0.00	0.00
7/6 SOFR	7.12%	0.00	0.00
30YR VA	7.08%	-0.02	0.00

Rates as of: 11/17

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.84	+0.14
10 YR Treasury	5.0997	-0.0345
30 YR Treasury	5.4580	-0.0178

Pricing as of: 11/17 2:54PM EST

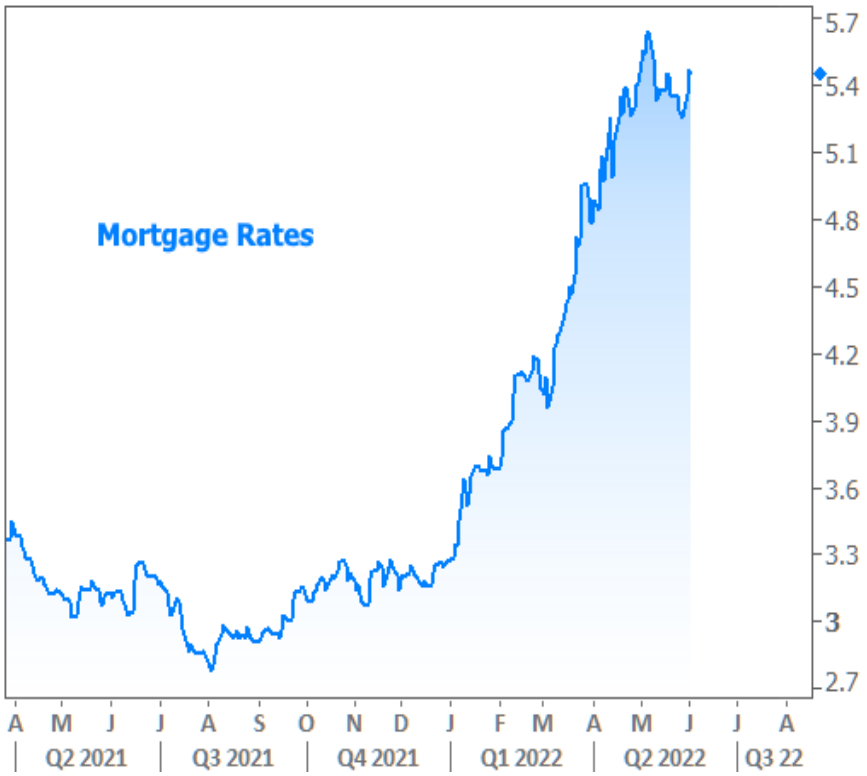
Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
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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In hoping for a shift to a sideways trend, we're simply hoping to avoid breaking back above the peak seen at the beginning of May. Such an achievement will likely have a lot to do with economic data.

2022's most closely-watched economic reports are those that pertain directly to **inflation**. In fact, for most of the year, the biggest reactions in rates have followed inflation reports and the policy response from the Fed.

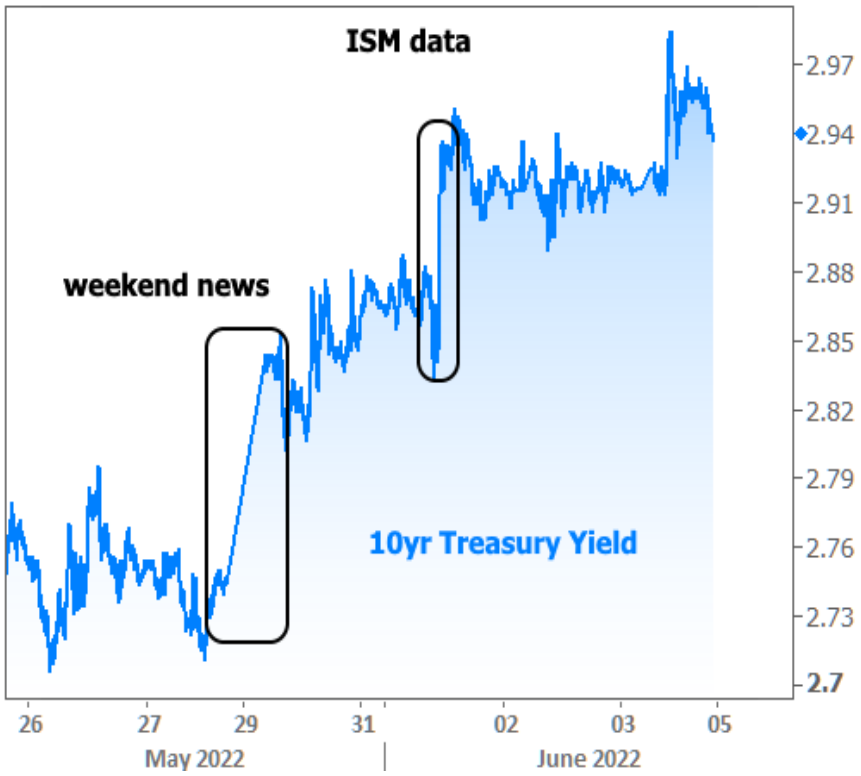
In the absence of any big ticket inflation reports this week, markets were forced to look elsewhere for inspiration. They found it over the weekend in overseas market developments. These included the lifting of covid lockdowns in China and record-setting inflation in the Eurozone.

The holiday closure of U.S. bond markets on Monday made for an abrupt start to the week on Tuesday. The following day, bonds were spooked once again by a key report from the Institute for Supply Management (ISM) that showed stronger than expected growth in the manufacturing sector.

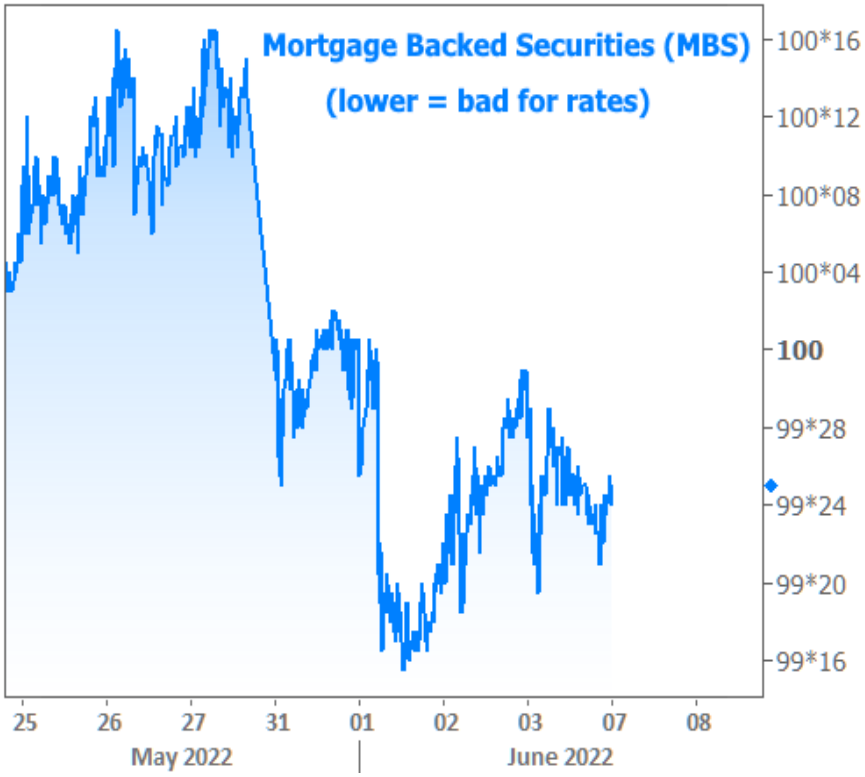
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10yr Treasury Yields don't directly dictate mortgage rates, but they tend to move in the same direction in similar proportion over time. They also give us a way to view more granular movement in the bond market. This is useful because bonds are the primary ingredient used by lenders to determine mortgage rates. Granted, there are bonds that directly pertain to the mortgage market (MBS), but they require a bit more explanation because they trade in PRICE (which moves inversely to rates). Either way, the **takeaway is the same** for this week's rate volatility.



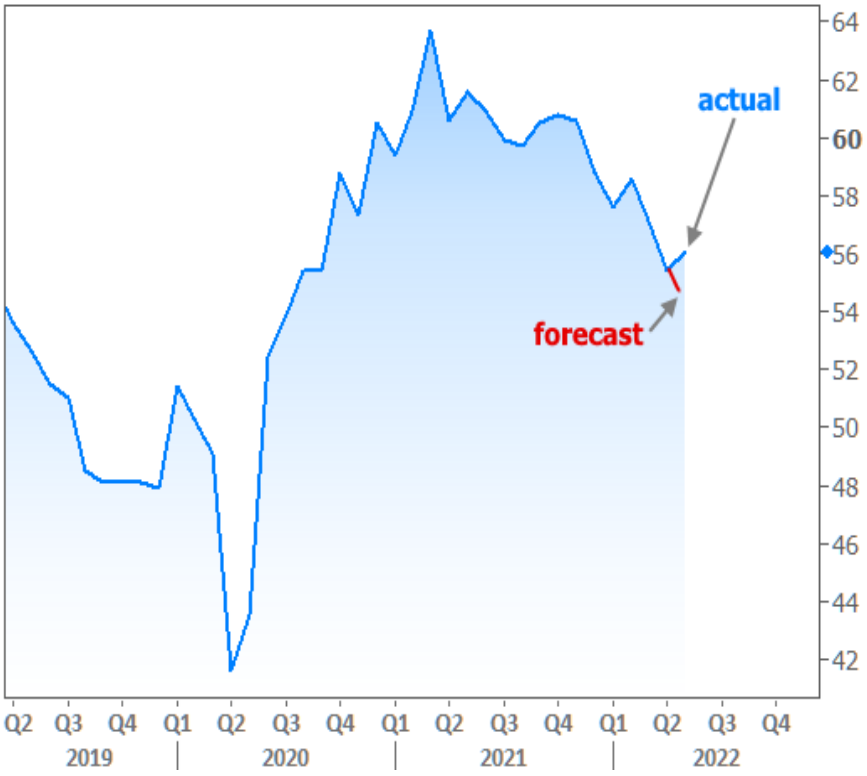
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It's **interesting** to consider just how prominent the bond market's reaction was to the ISM data. Although ISM has one of the strongest track records among other economic reports when it comes to inspiring rate movement, the impact has been lighter than normal over the past few years. Most recently, this could be chalked up to the market's hyperfocus on inflation.

But now that inflation is attempting to turn a corner, and on a week **without** any major inflation data, markets were free to consider the implications of other economic data. The interesting part is how big the reaction was **RELATIVE** to where the ISM numbers came in. The following chart shows the consensus among economic forecasters and the actual result.



In other words, it doesn't seem like such a small divergence from expectations should have mattered. To a slightly lesser extent, the same was true for Friday's big jobs report, which also resulted in bond yields moving higher.

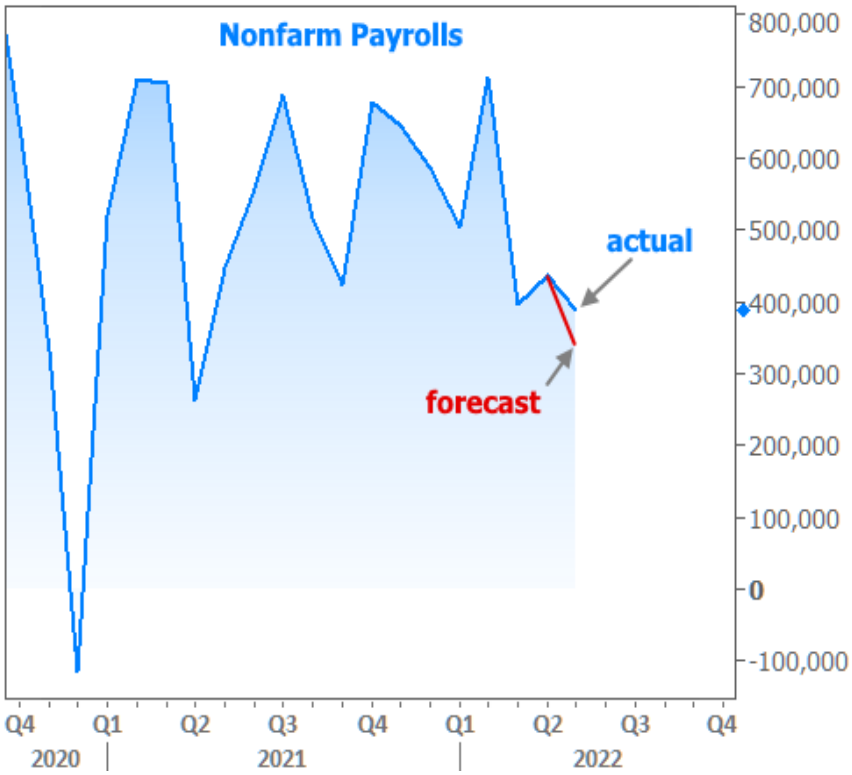
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And here's how the job count fared versus the forecast:



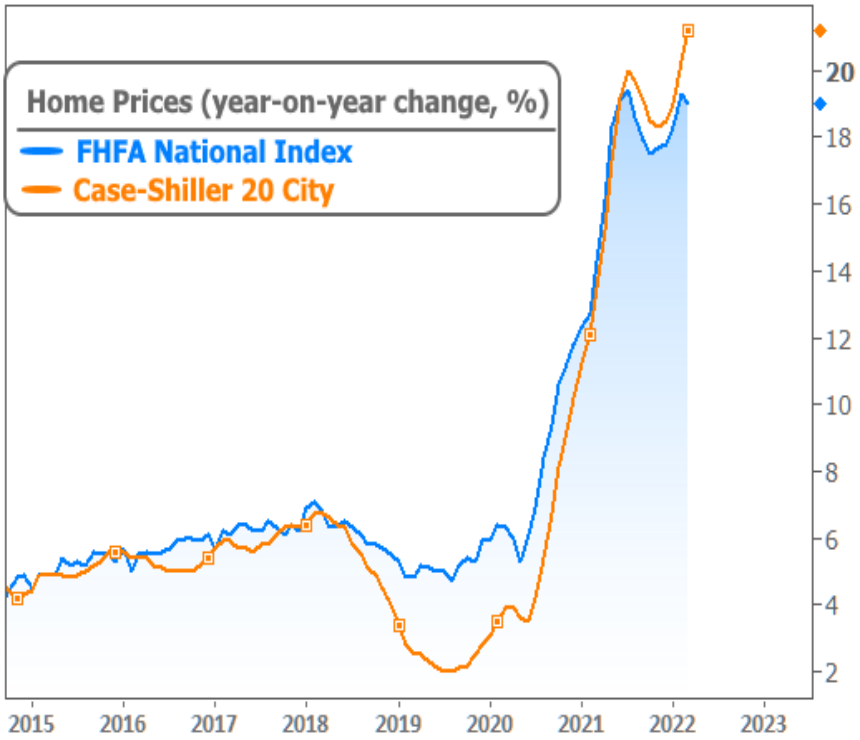
What this tells us is that there's a bit of a mismatch between economists and traders with the market having apparently bought in to a gloomier outlook. While the gloom may yet prove to be justified, the disagreement in the data is giving pause to recent rate-friendly trends.

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There was a smattering of other economic reports this week and while none of them moved the needle like those referenced above, at least one of them was quite interesting. Specifically, home prices continued to rise at a pace that suggests very little concern for rates. In fact, when it comes to Case-Shiller's 20-metro-area index, price appreciation set a new year-over-year record.



Does this actually mean **prices don't care about rates?** That's a complicated question. Certainly, rising rates combined with staggering price increases mean that affordability has suffered. In turn, the affordability situation will increasingly dampen homebuying demand. In the coming months, we'll likely see the effects in the home price data.

So why haven't we seen it yet? That's also not the most easily answered question, but there's **at least one simple consideration:** the home price data only covers transactions that closed in March. The prices associated with those transactions were decided at least another month prior. In other words, there's some lag (and yes, there are other complicating factors as well including but not limited to supply/demand imbalances in many areas).

Bottom line, don't be surprised when the lines in the chart above begin to fall. They will. And that's actually a good thing (because this pace of appreciation is unsustainable). What we can't currently know is what the reversal in appreciation will look like and whether it will give way to actual declines in value.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 31				
9:00AM	Mar FHFA Home Prices y/y (%)	19.0		19.4
9:00AM	Mar Case Shiller Home Prices-20 y/y (%)	21.2	19.9	20.2
9:45AM	May Chicago PMI	60.3	55.0	56.4
10:00AM	May Consumer confidence	106.4	104.0	107.3

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Wednesday, Jun 01				
7:00AM	w/e MBA Refi Index	751.6		794.9
7:00AM	w/e MBA Purchase Index	224.1		225.5
10:00AM	Apr Construction spending (%)	0.2	0.5	0.1
10:00AM	May ISM Manufacturing PMI	56.1	54.5	55.4
Thursday, Jun 02				
8:15AM	May ADP National Employment (k)	128	300	247
8:30AM	w/e Jobless Claims (k)	200	210	210
Friday, Jun 03				
8:30AM	May Non-farm payrolls (k)	390	325	428
8:30AM	May Unemployment rate mm (%)	3.6	3.5	3.6
10:00AM	May ISM N-Mfg PMI	55.9	56.4	57.1
Tuesday, Jun 07				
8:30AM	Apr International trade mm $ (bl)	-87.08	-89.5	-109.8
1:00PM	3-Yr Note Auction (bl)	44		
Wednesday, Jun 08				
7:00AM	w/e MBA Purchase Index	208.2		224.1
7:00AM	w/e MBA Refi Index	709.5		751.6
10:00AM	Apr Wholesale inventories mm (%)	2.2	2.1	2.1
Thursday, Jun 09				
7:45AM	ECB Statement (Press Conf. 830am)			
Friday, Jun 10				
8:30AM	May Consumer Price Index (CPI) (%)	1.0	0.7	0.3
8:30AM	May Core CPI (Annual) (%)	6.0	5.9	6.2
10:00AM	Jun 1yr Inflation Outlook (%)	5.4		5.3
10:00AM	Jun 5yr Inflation Outlook (%)	3.3		3.0
10:00AM	Jun Consumer Sentiment	50.2	58.0	58.4
Tuesday, Jul 12				
1:00PM	10-yr Note Auction (bl)	33		
Wednesday, Jul 13				
1:00PM	30-Yr Bond Auction (bl)	19		

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We're here to help with all home mortgage needs.

With over 20 years of mortgage industry experience, Scott Kepler has helped thousands of families to purchase or refinance their homes. As a Mortgage Lender, Scott and his team are able to give families access to a variety of home loan options; after all, no two situations are the same.

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Conventional (Fannie Mae/Freddie Mac)
FHA
VA
USDA
Jumbo
Reverse
Renovation
Self Employed
Home Equity Loans/Lines of Credit
Credit Challenged / Alt-A
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Small Commercial

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