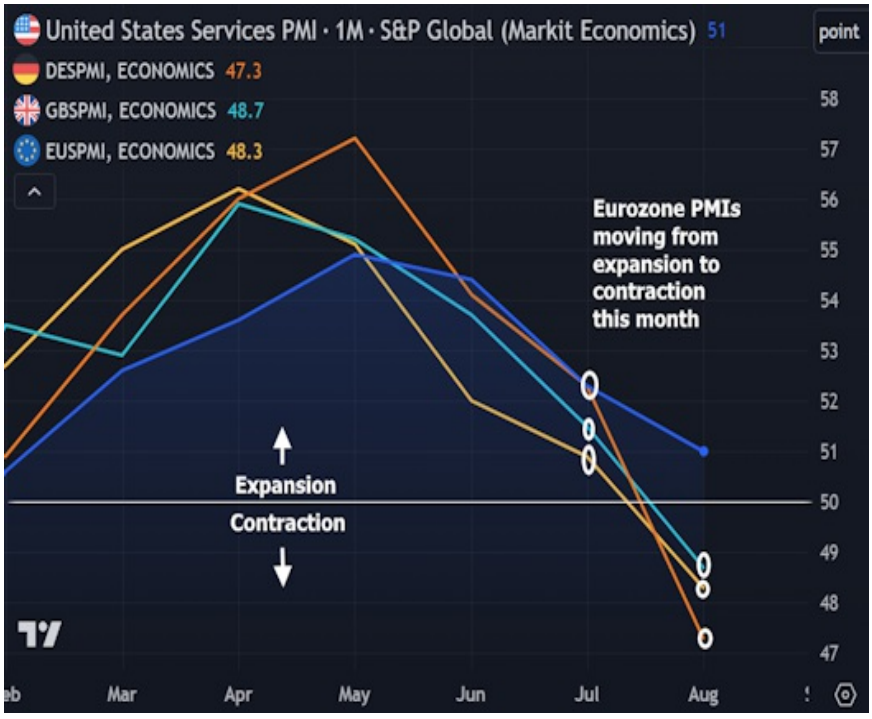


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Markets Were Anxious Over Powell, But Next Week Deserves More Attention

As the week began, the bond market continued heading toward higher rates at the same pace seen in the previous week. This made for the highest mortgage rates in more than 2 decades on both Monday and Tuesday (albeit not much higher than those seen in late 2022). Things calmed down on Wednesday as multiple European countries logged slower economic growth in a closely watched series of data. The US version of the same data was also weaker than expected, thus helping rates have their best day in several weeks and one of the best days in several months.



In general, weaker economic data coincides with falling rates. This is econ 101, but it's also a concept that the Fed has been driving home increasingly in the current environment. Rather than worry about weaker data, the Fed sees stronger data as a bigger risk. The economy has been more resilient than expected in the face of significantly higher rates, and the Fed has been clear in saying that it has little incentive to cut rates until the data suggests a bigger negative impact.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.03	0.00
15YR Fixed	6.91%	-0.01	0.00
30YR FHA	6.95%	+0.04	0.00
30YR Jumbo	7.45%	-0.07	0.00
7/6 SOFR	6.71%	+0.01	0.00
30YR VA	6.97%	+0.05	0.00

Rates as of: 11/3

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.95	+0.20
10 YR Treasury	4.9502	-0.0201
30 YR Treasury	5.3308	-0.0010

Pricing as of: 11/4 10:29AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
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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Additionally, while many on the Fed have mentioned the possibility that rate hikes are done for now, just as many have expressed uncertainty as to whether additional hikes would be needed. The key determining factor would be inflation, but the Fed's concern is that economic strength could translate to unexpected resilience in inflation.

The market was looking forward (perhaps a bit too forward) to getting some greater clarity on these and other topics from Fed Chair Powell at Friday's annual Jackson Hole Symposium.

Hosted by the Kansas City Federal Reserve Bank, Jackson Hole draws central bankers and economists from around the world and has occasionally served as a venue that offers a sneak peek at potential shifts in policy or the economy itself.

More frequently, Jackson Hole is notable only for its great expectations and underwhelming reality. This year's example mostly falls into this category.

Powell was slated for the opening remarks. Market watchers were waiting for him to say something about the "neutral rate of return" (also R* or "R-Star")--a hypothetical policy rate resulting in stable economic growth and stable, on-target inflation. The recent obsession over R-Star is due to the fear that the low baseline for interest rates has moved up permanently for a variety of reasons that can't possibly be determined or calculated any time soon.

As such, it wasn't too surprising to hear Powell say "we cannot identify with certainty the neutral rate of interest, and thus there is always uncertainty about the precise level of monetary policy restraint." Translation: he has no idea if R-Star is changing or will change.

The other even crazier anticipation surrounded the Fed's 2% inflation target with some market watchers wondering if the Fed was considering increasing the target due to the same sort of underlying structural issues that would underpin a higher R-star. Powell was even more clear on that topic: "Two percent is and will remain our inflation target."

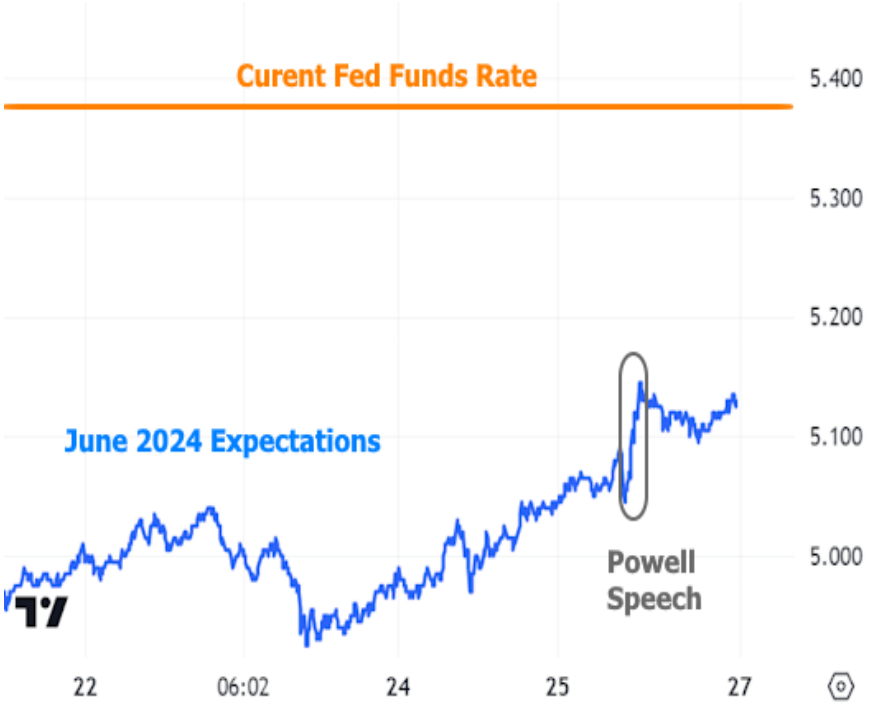
In addition, the Fed Chair was extremely consistent with the press conference from July with respect to the delicate dance of fighting inflation without crippling the economy. On both occasions, by his own admission, they are flying blind to some extent. In his words, the Fed is "navigating by the stars under cloudy skies," and that "we will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data."

The market was apparently hoping for something a bit more rate-friendly. The reaction largely consisted of the futures market shifting bets on the level of the Fed Funds Rate at various points in the future. It's not so much that traders thought Powell was saying the Fed was more inclined to hike, but instead, simply less inclined to cut as quickly. In other words, markets were pricing in almost 2 rate cuts of 0.25% in by the middle of next year, but after this week, it's closer to only 1 rate cut.

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All of the above kept some pressure on longer term bonds on Friday morning, resulting in the average mortgage lender offering higher rates out of the gate. As the day progressed and bonds stabilized, several lenders offered mid-day improvements. The net effect was slightly higher rates for the average lender, but not as high as those seen at the beginning of the week.

When it comes to events that inspire volatility, next week is a higher probability than Jackson Hole. There are multiple economic reports with strong, recent track records of influencing the bond market and, thus, interest rates. Starting on Tuesday, there is an important report every single day of the week. Several days have more than one, and Friday will bring the release of the jobs report for August--arguably the most important report of any given month.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Aug 22				
10:00AM	Jul Existing home sales (ml)	4.07M	4.15M	4.16M
Wednesday, Aug 23				
7:00AM	Aug/18 MBA Refi Index	397.1		408.4
7:00AM	Aug/18 MBA Purchase Index	142		149.5
9:45AM	Aug S&P Global Services PMI	51	52.2	52.3
10:00AM	Jul New Home Sales (ml)	0.714M	0.705M	0.684M
Thursday, Aug 24				
8:30AM	Jul Durable goods (%)	-5.2%	-4%	4.7%
8:30AM	Aug/19 Jobless Claims (k)	230K	240K	239K
Friday, Aug 25				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:00AM	Aug Consumer Sentiment (ip)	69.5	71.2	71.6
10:05AM	Powell Jackson Hole Speech			
Monday, Aug 28				
11:30AM	2-Yr Note Auction (bl)	45		
1:00PM	5-Yr Note Auction (bl)	46		
Tuesday, Aug 29				
9:00AM	Jun Case Shiller Home Prices-20 y/y (%)	-1.2%	-1.3%	-1.7%
9:00AM	Jun FHFA Home Prices y/y (%)	3.1%		2.8%
10:00AM	Jul USA JOLTS Job Openings	8.827M	9.465M	9.582M
1:00PM	7-Yr Note Auction (bl)	36		
Wednesday, Aug 30				
8:15AM	Aug ADP jobs (k)	177K	195K	324K
8:30AM	Jul Wholesale inventories mm (%)	-0.1%		-0.5%
8:30AM	Q2 GDP Advance (%)	2.1%	2.4%	2%
10:00AM	Jul Pending Home Sales (%)	0.9%	-0.6%	0.3%
Thursday, Aug 31				
7:30AM	Aug Challenger layoffs (k)	75.151K		23.697K
8:30AM	Aug/26 Jobless Claims (k)	228K	235K	230K
8:30AM	Jul Core PCE (m/m) (%)	0.2%	0.2%	0.2%
8:30AM	Jul Core PCE Inflation (y/y) (%)	4.2%	4.2%	4.1%
9:45AM	Aug Chicago PMI	48.7	44.1	42.8
Friday, Sep 01				
8:30AM	Aug Average earnings mm (%)	0.2%	0.3%	0.4%
8:30AM	Aug Non Farm Payrolls	187K	170K	187K
8:30AM	Aug Unemployment rate mm (%)	3.8%	3.5%	3.5%
10:00AM	Aug ISM Manufacturing PMI	47.6	47	46.4

The Right Advice Is What Saves You Money

A Mortgage is a financial tool. The right tools help you build. At Cornerstone First, my tool belt is filled with many different tools so I can say "Yes" to more clients and referral partners.

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