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Mortgage Banker, Since 1985

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Fed Reminds Markets Why Rates Went Sharply Higher in August

While it was never likely to contain too many surprises, this week's much-anticipated Jackson Hole speech from Fed Chair Powell served as an important reminder as to why rates have risen so sharply in August.

The Fed has 8 scheduled policy meetings per year. At the conclusion of those meetings, the Fed releases an official statement which includes any potential changes in the Fed Funds Rate.

The Fed Funds Rate is quite different from mortgage rates, but the things that lead the Fed to adjust its rate hike pace often have an impact on longer-term rates like mortgages and 10yr Treasury yields.

All that to say, there was no official policy statement from the Fed this week and no change to the Fed Funds Rate. Markets were nonetheless eager to check in with Fed Chair Powell and were forced to rely on a brief speech delivered at the Fed's annual Jackson Hole Economic Symposium, or simply "Jackson Hole" to market watchers.

Jackson Hole has been responsible for helping to telegraph a few important shifts in Fed policy over the years. As such, it always garners a bit of speculation as a potential flashpoint for the market, even if the big reactions have been more scarce over the years.

This year was perhaps more deserving of some anxiety considering the Fed's policy path as communicated by Powell in late July and multiple Fed members in the subsequent weeks. In short, the Fed Funds Rate has risen quickly enough that policymakers can BEGIN to consider slowing the pace of rate hikes.

The promise of that policy shift--highly conditional though it may have been--coincided with several downbeat economic reports in late July. The result was July standing as one of the best months for downward movement in mortgage rates in decades. And the market has been pushing back against that exuberance ever since.

Why?

To reiterate, the Fed's late-July message was highly conditional. The slightly friendlier inflation data would need to continue in the same vein for **months** to build a disinflationary case (inflation is a key reason rates have been as high as they are) and a handful of weak economic reports didn't mean

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00

Freddie Mac

30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00

Rates as of: 5/17

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.40	-0.15
MBS GNMA 6.0	100.78	+0.04
10 YR Treasury	4.4223	+0.0454
30 YR Treasury	4.5610	+0.0549

Pricing as of: 5/17 5:59PM EST

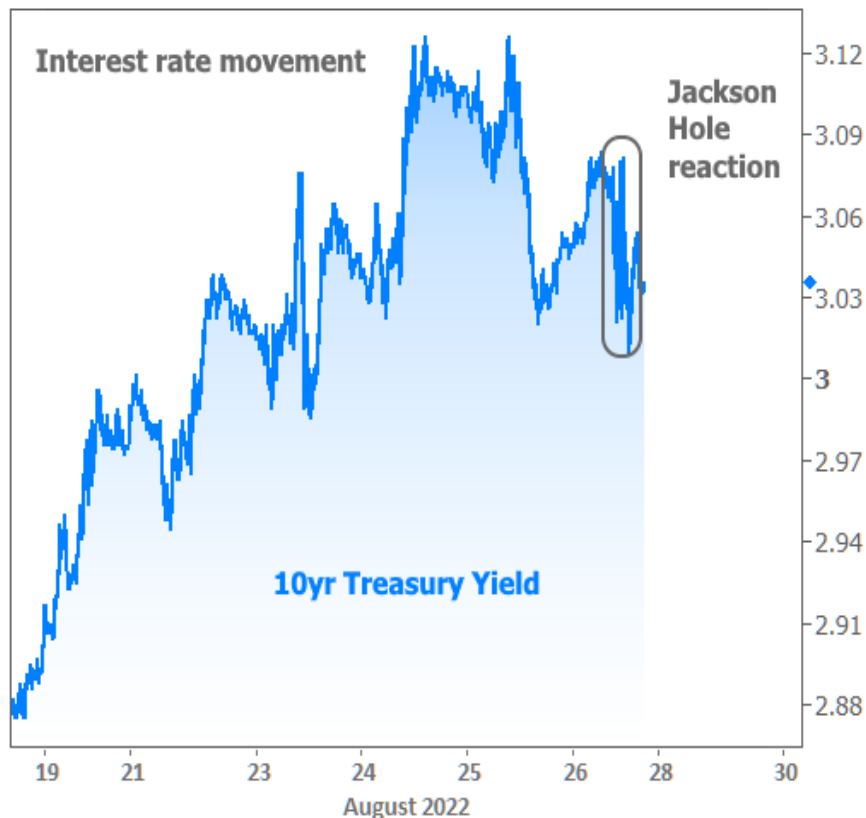
Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
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%

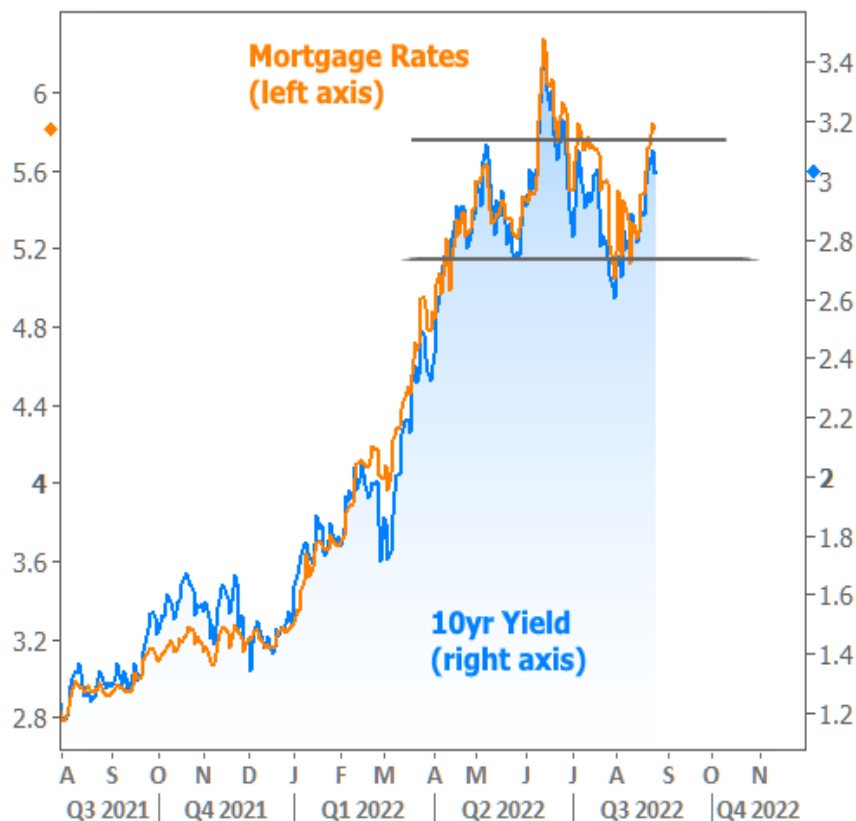
anything conclusive unless they too were joined by subsequent months of deterioration (weaker economic data tends to coincide with lower rates).

To make matters worse, economic data began to improve in August--in some cases substantially. Then speculation increased that July's inflation news was more of a one-off due to a big correction in fuel prices. Last but not least, a slew of other Fed speakers was saying essentially all of these same things over the past few weeks. One of the most sobering parts of the thesis was the need to do damage to the economy (by continuing to hike rates) in order to achieve inflation goals.

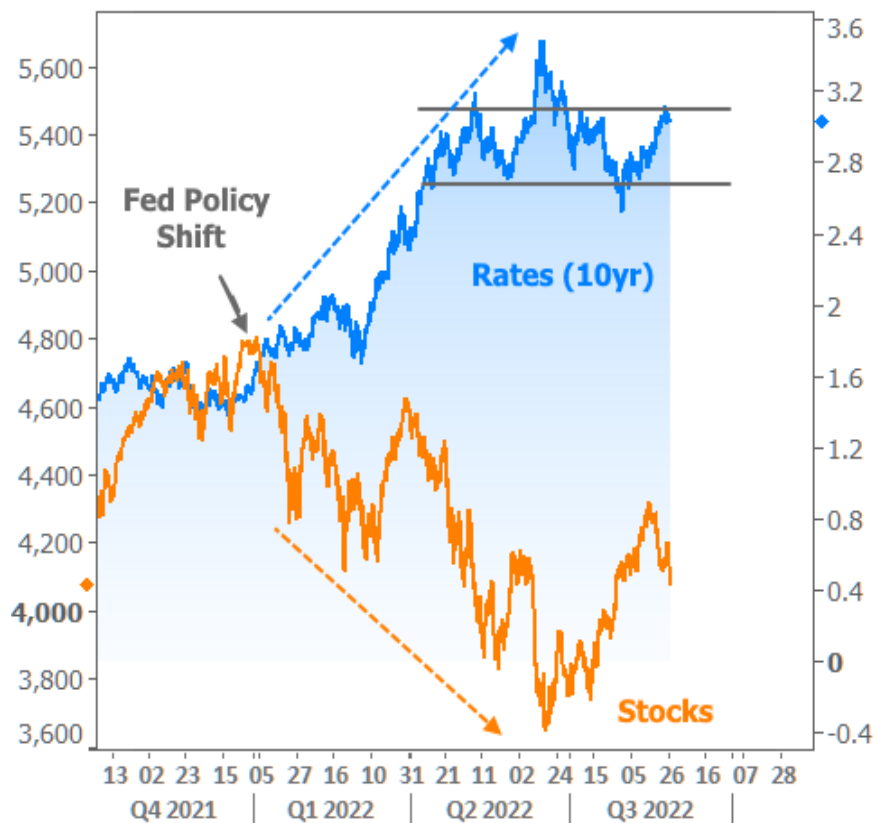
Thus it came to be that the market was positioned at the highest rates in more than a month before Friday's speech from Powell. When Powell bluntly reiterated everything we already knew, there wasn't much for the bond market to do. While that was a good thing in terms of avoiding additional rate spikes, it also meant there was no compelling case for rates to drop quickly. The following chart shows the range-bound indecision in 10yr Treasury yields after having risen throughout the week in advance of Powell's speech.



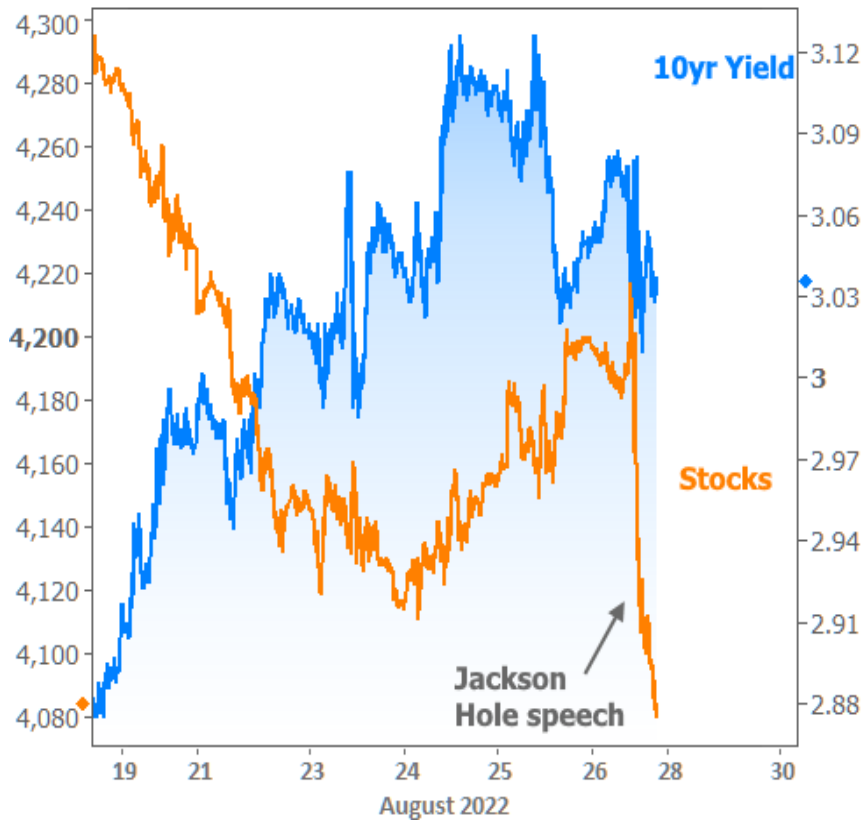
While the 10yr yield doesn't directly dictate mortgage rates, the two are highly correlated most of the time.



There is a bit of a counterargument to the notion that the market was fully prepared for Fed Chair Powell's direct tone. It comes courtesy of the reaction in stocks. But before we examine that in detail, let's take a moment to remember that friendly Fed policies are like proverbial rising tides that lift all boats. They help both stocks and bonds. Conversely, when the Fed shifts toward tighter policy, stocks and bonds often lose ground together. That's basically 2022 in a nutshell: a big, unfriendly shift from the Fed followed by heavy selling on both sides of the market.

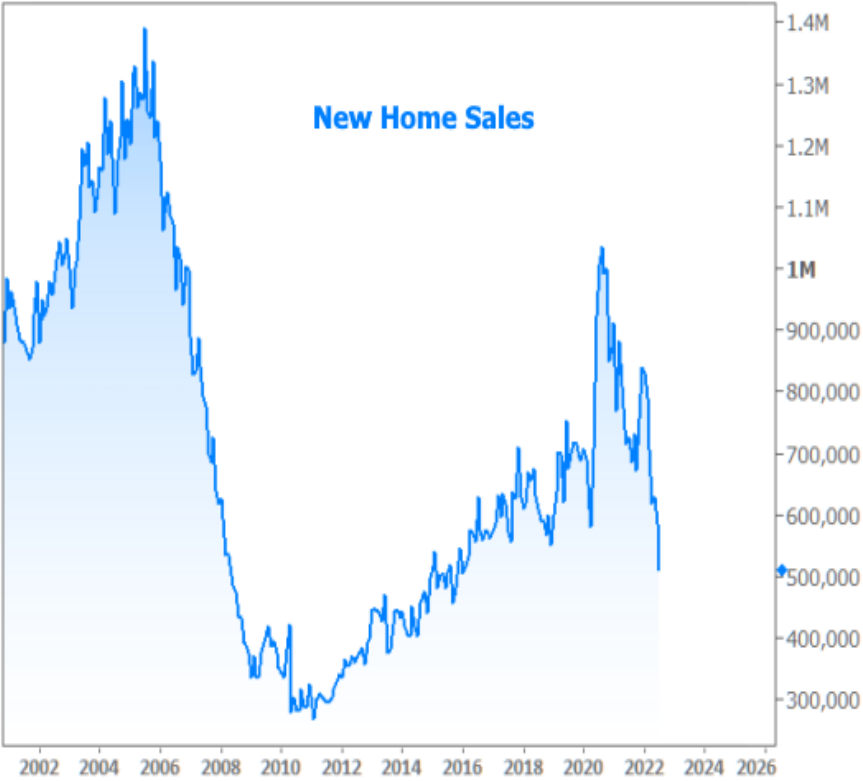


With that in mind, Friday's stock market reaction to Powell suggests stocks were not nearly as well positioned as bonds/rates. In fact, stocks lost so much ground that bonds/rates may have had a bit of additional benefit from investors fleeing the stock market to seek safer havens. In other words, rates might have risen more noticeably after Powell's speech were it not for the stock market taking the news so hard.

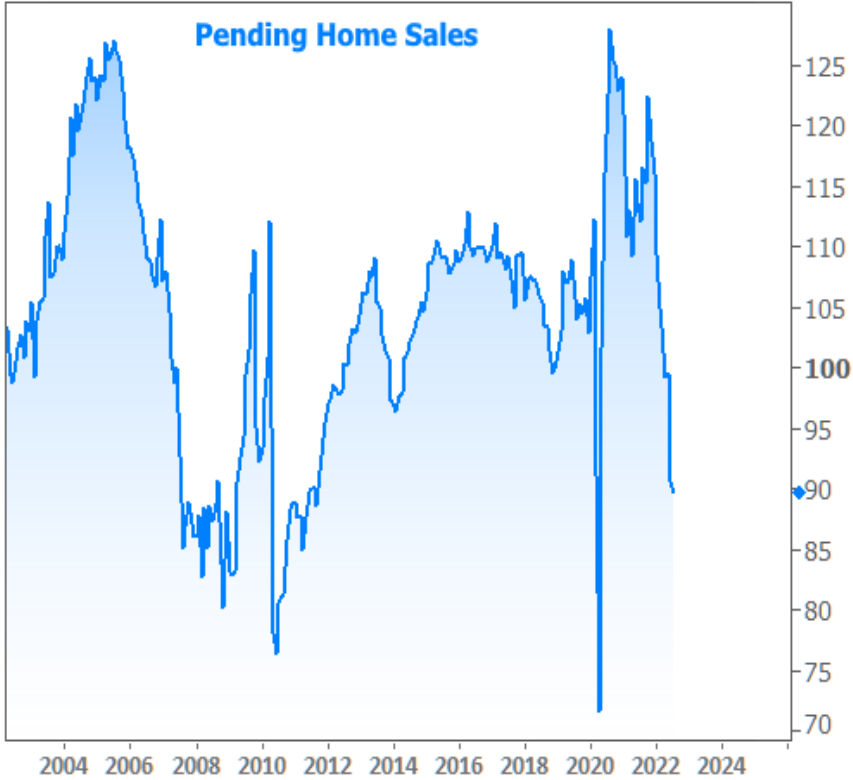


At the end of the day, the rate market is probably right about where it should be: not at the absolute highs of 2022, but not taking too much of a lead-off back down to lower levels. In order for a sustained drop to make sense, we need several more friendly inflation readings and, unfortunately, to see the negative impacts on the economy that the Fed is expecting.

At least one sector of the economy can already claim to be experiencing quite a bit of drama thanks to the shift in rates. If you're anywhere close to the housing market, you already know. This week brought more of the same in that regard with a big drop in New Home Sales.



Pending Home Sales also declined, but at a far slower pace in this week's data (which covered the month of July).



The chart above doesn't look great, but keep in mind that July only accounted for a 1% decline versus June whereas June dropped almost 9% vs May. This deceleration prompted a hopeful comment from NAR's chief economist Lawrence Yun, who said, "in terms of the current housing cycle, we may be at or close to the bottom in contract signings."

Looking ahead

Next week could be critically important in shaping the rate trend because it brings several economic reports that have recently had a big impact on rate momentum. Chief among these is Friday's jobs report, which is expected to show a major deceleration in jobs growth from July's 528k to 285k for August.

We'll also get June's FHFA Home Price Index. While that's not a big market mover, it's part of a larger data set that helps determine conforming loan limits. June marks the end of Q2 and will round out 3 of the 4 quarters that feed the conforming loan limit equation. The equation becomes complete in late November when Q3 home prices are released.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Aug 23				
9:45AM	Aug Markit Composite PMI	45.0		47.7
9:45AM	Aug Markit Services PMI	44.1	49.2	47.3
9:45AM	Aug Markit Manuf. PMI	51.3	52.0	52.2
10:00AM	Jul New Home Sales (ml)	0.511	0.575	0.590
10:00AM	Jul New Home Sales (%) (%)	-12.6		-8.1
1:00PM	2-Yr Note Auction (bl)	44		
Wednesday, Aug 24				
7:00AM	w/e MBA Refi Index	609.8		627.1
7:00AM	w/e MBA Purchase Index	202.8		203.8
8:30AM	Jul Durable goods (%)	0.0	0.6	2.0
10:00AM	Jul Pending Sales Index	89.8		91.0
10:00AM	Jul Pending Home Sales (%)	-1.0	-4.0	-8.6
1:00PM	5-Yr Note Auction (bl)	45		
Thursday, Aug 25				
8:30AM	Q2 GDP Prelim (%)	-0.6	-0.8	-0.9
8:30AM	w/e Jobless Claims (k)	243	253	250
1:00PM	7-Yr Note Auction (bl)	37		
Friday, Aug 26				
8:30AM	Jul Core PCE Inflation (y/y) (%)	4.6	4.7	4.8
10:00AM	Aug Sentiment: 1y Inflation (%)	4.8		5.0
10:00AM	Aug Sentiment: 5y Inflation (%)	2.9		3.0
10:00AM	Aug Consumer Sentiment (ip)	58.2	55.2	55.1
10:00AM	Powell at Jackson Hole			
Tuesday, Aug 30				
9:00AM	Jun Case Shiller Home Prices-20 y/y (%)	18.6	19.5	20.5
9:00AM	Jun FHFA Home Prices y/y (%)	16.2		18.3
9:00AM	Jun FHFA Home Price Index m/m (%)	0.1		1.4

Event Importance:

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

Date	Event	Actual	Forecast	Prior
9:00AM	Jun CaseShiller Home Prices m/m (%)	0.4	1.0	1.3
10:00AM	Aug Consumer confidence	103.2	97.7	95.7
Wednesday, Aug 31				
7:00AM	w/e MBA Purchase Index	199.1		202.8
7:00AM	w/e MBA Refi Index	562.5		609.8
9:45AM	Aug Chicago PMI	52.2	52.0	52.1
Thursday, Sep 01				
8:15AM	Jun ADP National Employment (k)		288	128
8:30AM	Q2 Labor Costs Revised (%)	10.2	10.7	10.8
8:30AM	w/e Jobless Claims (k)	232	248	243
10:00AM	Jul Construction spending (%)	-0.4	-0.4	-1.1
10:00AM	Aug ISM Manufacturing PMI	52.8	52.0	52.8
Friday, Sep 02				
8:30AM	Aug Average earnings mm (%)	0.3	0.4	0.5
8:30AM	Aug Non-farm payrolls (k)	315	300	528
8:30AM	Aug Unemployment rate mm (%)	3.7	3.5	3.5
10:00AM	Jul Factory orders mm (%)	-1.0	0.2	2.0

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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