



Mid Valley Financial

Mortgage Banker, Since 1985

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Market Reacts to Tariffs and New Fed Chair

There were two key considerations for financial markets this week: Fed Chair Jerome Powell's first congressional **testimony**, and the announcement of new **trade tariffs** by the White House. Both caused volatility for interest rates in the short term and raised questions for the future.

In [last week's newsletter](#), we examined recent stability in rates and laid out a line in the sand that they'd need to cross in order to "defeat" 2018's relentless uptrend. The **good news** is that they crossed that line! The bad news is that it came at a price.

Earlier in the week, it was **far from a given** that rates would defeat 2018's negative trend. Fed Chair Powell began his first round of congressional testimony on Tuesday morning at 10am. About 40 minutes later, he made a comment about his personal assessment of the economy being stronger than it had been in December.

Markets latched onto Powell's words and quickly began pricing-in higher odds of an additional Fed rate hike in 2018. Although the Fed Funds Rate only applies to overnight time frames, Fed rate hike **expectations** can have a direct impact on longer-term rates like 10yr Treasury yields and mortgages.

Fortunately, Fed rate hike expectations aren't the only consideration for longer-term rates. As can be seen in the following chart, 10yr Treasury yields (a benchmark for long-term rates) managed to move **lower** even as rate hike expectations held steady in the middle of the week. Rates continued even lower when the White House made its tariff announcement.

National Average Mortgage Rates



| | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

Mortgage News Daily

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.89% | 0.00 | 0.00 |
| 15 Yr. Fixed | 6.33% | +0.01 | 0.00 |
| 30 Yr. FHA | 6.33% | +0.01 | 0.00 |
| 30 Yr. Jumbo | 7.05% | 0.00 | 0.00 |
| 5/1 ARM | 6.58% | 0.00 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.77% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.05% | -0.11 | 0.00 |

Rates as of: 7/22

Market Data

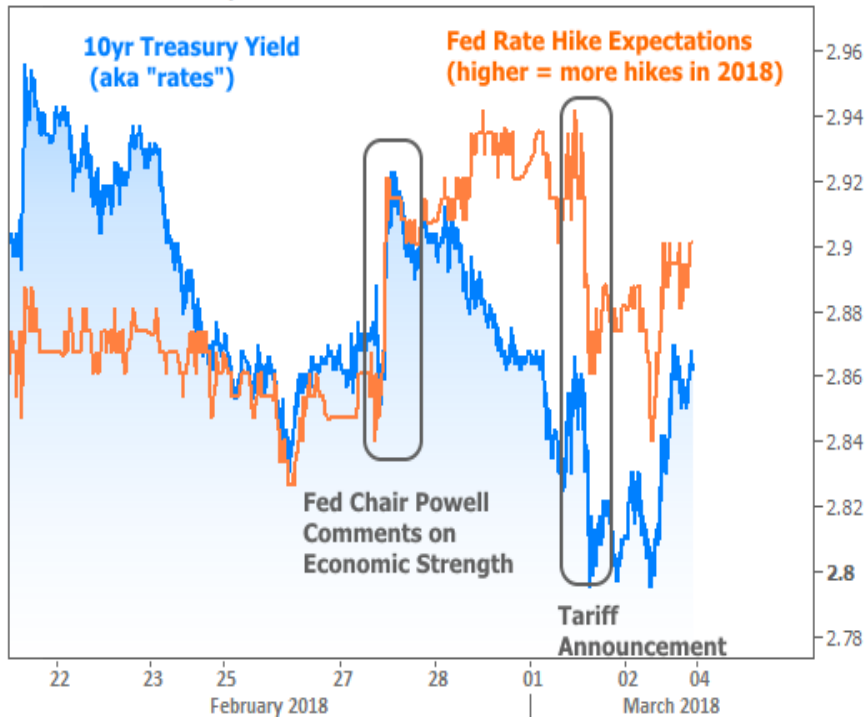
| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.49 | +0.10 |
| MBS GNMA 5.5 | 99.93 | +0.16 |
| 10 YR Treasury | 4.2276 | -0.0249 |
| 30 YR Treasury | 4.4500 | -0.0225 |

Pricing as of: 7/23 8:46AM EST

Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Jul 10 | 206.1 | -0.19% |
| 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% |

Rates and Rate Hike Expectations



The chart tells us that rates weren't too terribly surprised by Powell. True, rate hike expectations moved slightly higher, but the scaling of the chart overstates the size of the move. In objective terms, investors only saw the Fed Funds Rate **moving 0.04% higher** in 2018. A full rate hike is 0.25%.

The chart also tells us that **there's a limit** to how quickly longer-term rates are willing to fall in this environment. The tariff news caused an unexpected drop and rates weren't ready for that much of a good thing. 10yr yields bounced firmly on 3 separate occasions near 2.80% before moving right back up to previous levels. Bigger-picture headwinds for rates aren't going anywhere anytime soon, so any progress is more likely to look like cautious, sideways movement.

US Housing Market Weekly

US 10yr Yield ("rates")



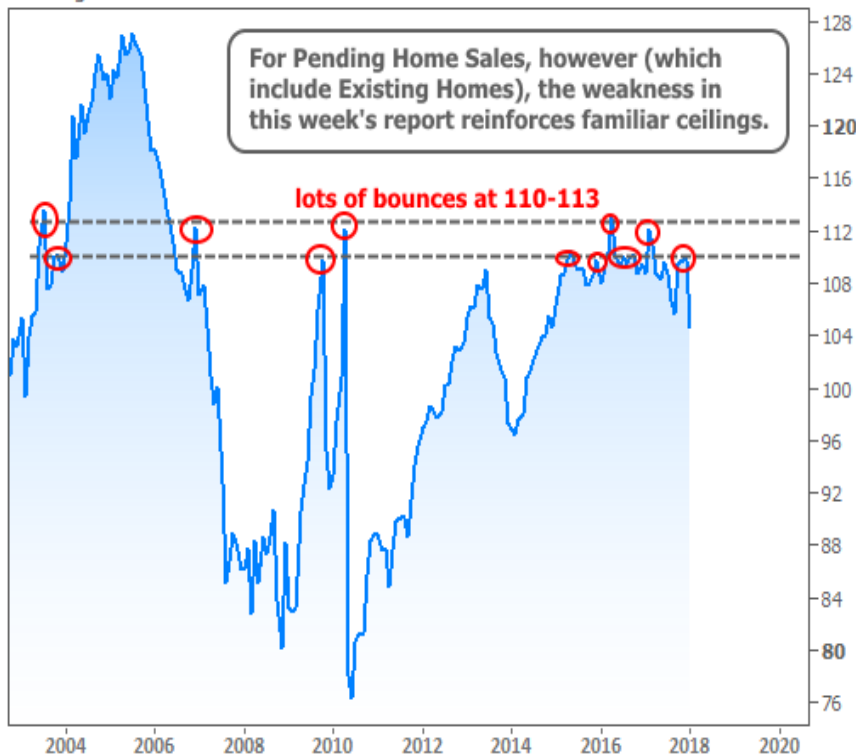
US 10yr Yield ("rates")



US Housing Market Weekly

Although rates have been digging their heels in over the past few weeks, the broader move higher began to show up in **home sales** figures. Sales tend to **increase** briefly as rates first begin spiking (buyers motivated to get off a fence by the prospect of higher payments). From there, rates tend to create headwinds as long as they continue higher. In the current crop of data, this is most readily seen in the Pending Home Sales Index.

Pending Home Sales



Meanwhile, **new home sales** are still safely inside their broader trend of improvement.

New Home Sales



Of course rates are far from the only input for home sales. As we discussed last week, **inventory** is an ongoing problem, as is affordability. The tariff news creates more uncertainty on that front. Tariffs could increase building costs and hinder the construction of affordable homes, according to Lawrence Yun, chief economist of the National Association of Realtors.

At the same time, the news caused a drop in the stock market as investors generally view it as **negative for the broader economy**. To whatever extent that negativity plays out, it could impact homebuyer attitudes by decreasing the "wealth effect" for any prospective homebuyers who own stocks.

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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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