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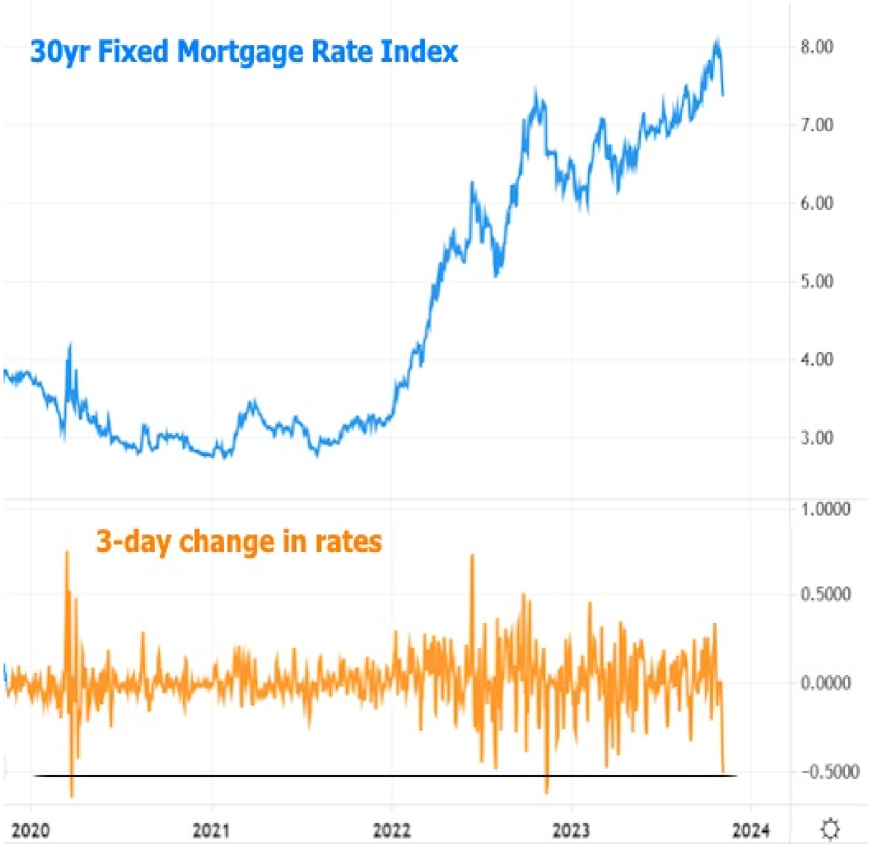
Tremendous Week For Interest Rates And Possibly Even For The Rate Outlook

The average top tier 30yr fixed mortgage rate was at 23 year highs as recently as October 19th. It wasn't much lower by the start of present week. What a difference a few days make, especially the last 3 which resulted in a massive 0.50% drop!

The improvement seen on Wed-Fri is the 3rd biggest in well over a decade. And if we throw out March 2020 (as we often do, due to unprecedented volatility relating to the onset of the pandemic), we're left with only one other similar example back in early November of 2022.



Like the present example, last November's big drop in rates happened only after setting new super-long-term highs. That's an important consideration because it speaks to market positioning and the psychology of momentum. It's no coincidence that we often see positive records just after hitting big negative milestones.

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	99.40	0.00
MBS GNMA 5.5	99.78	+0.01
10 YR Treasury	4.2540	+0.0161
30 YR Treasury	4.4729	+0.0261

Pricing as of: 7/22 4:53PM 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%

That's not to say the improvement is random or that it is exclusively a reaction to previous rate spikes. The previous rate spikes merely add some "oomph" to the next big drop in rates. Big drops still need justification.

Last November, the justification was a low reading in the Consumer Price Index (CPI) that gave investors hope regarding a shift in inflation. Unfortunately, that shift proved to be a head-fake and rates continued lower into February of 2023, it's been up, up, and away since then.

This time around, economic data was a catalyst yet again, but it didn't act alone. The good times began to roll on Wednesday after Treasury announced lower-than-expected auction amounts. Treasury supply has been an increasingly hot topic for rates because supply has increased so much in the past few years. All else being equal, higher supply means higher rates for Treasuries, mortgages, and almost everything else.

This week's announcement was expected to show MORE supply, but the market expected even higher numbers. In addition, the announcement suggested that Treasury supply would only be going up one more time next quarter. That was received as good new by the bond market which had previously been acting like there was no end in sight.

The rally gained momentum with economic data at 10am and again with the Fed announcement in the afternoon. Thursday was mild by comparison, but kept the trajectory intact with help from slightly higher Jobless Claims data, and especially from traders exiting bets on higher rates.

In the bond market, the simple act of "no longer betting on higher rates" or technically, "short covering," forces a trader to effectively enter a bet on lower rates. In other words, if you'd been betting on higher rates, you'd have to buy bonds to end that bet, and bond buying puts more downward pressure on rates.

With an immense amount of improvement already seen on Wed/Thu, Friday's jobs report was in a unique position to cast a deciding vote on the past 2 days of potential exuberance. If jobs came in higher than forecast, the previous drop in rates would indeed have seemed overly exuberant and we would likely be seeing a decent push back.

As it happened, jobs were **lower** than forecast (good for rates). Additionally, the unemployment rate ticked up more than expected (good for rates) and the past few months of jobs gains were revised lower (good for rates!).

To be sure, the labor market is still exceptionally strong, but the rate market had been pricing in something even stronger. Friday's jobs numbers increasingly paint a picture of a labor market that is cooling back down to more historically normal levels.

The result of all of the above is the best 3 days for mortgage rates and bonds that we've seen since rates first began to launch higher 2 years ago. Granted, the magnitude of the drop is greatly facilitated by the fact rates were at multi-decade highs in the past few weeks, but we're not complaining.

10yr Treasury yields allow us to see the individual contributions outlined above:

As welcome as this drop in rates may be, context is important. This victory speaks to things that have already happened. It doesn't necessarily guarantee or even speak to what's to come. Even after this week's big drop, yields are merely back in line with a trend that's been pointing sharply higher since late July.

There's certainly not a rule that prohibits that red line from being broken, but the point is that it will take more time and data for deeper healing in the rate market. Yes, this week's data represents the best chance yet at that kind of healing, but if the data makes a miraculous recovery in the weeks ahead, the healing is on hold.

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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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