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Why Rates Keep Breaking 2017 Lows

After the presidential election last November, a clear narrative took root in financial markets. A Trump presidency was supposed to result in faster policy tightening at the Fed, more growth, more inflation, and higher rates. With each new move to 2017's **lowest** rates, that narrative continues to unravel. This week provided a great example.

Rates began the week surging to new 2017 lows as news broke that North Korea tested what it claimed was a hydrogen bomb. Additionally, South Korea warned that another test launch was possible in the coming weeks, and Trump pledged to make **"sophisticated military equipment"** available for purchase by allies in the region.

In other words, it was just another weekend with looming risk of global nuclear conflict. While that's nothing new these days (sadly), it's still scary every time. Financial markets tend to process that fear by moving out of stocks and into safe-haven assets like bonds, cash, and gold. Excess investor demand for bonds results in **lower rates**.

Later in the week, rates **continued** lower as the European Central Bank released a very timid policy statement as well as a downwardly revised inflation forecast. Whether at home or abroad, the longer it takes for big central banks to unwind their bond-buying programs (bond-buying helps rates) and for inflation to pick up (inflation hurts rates), the easier it becomes for rates to stay low (or move even lower).

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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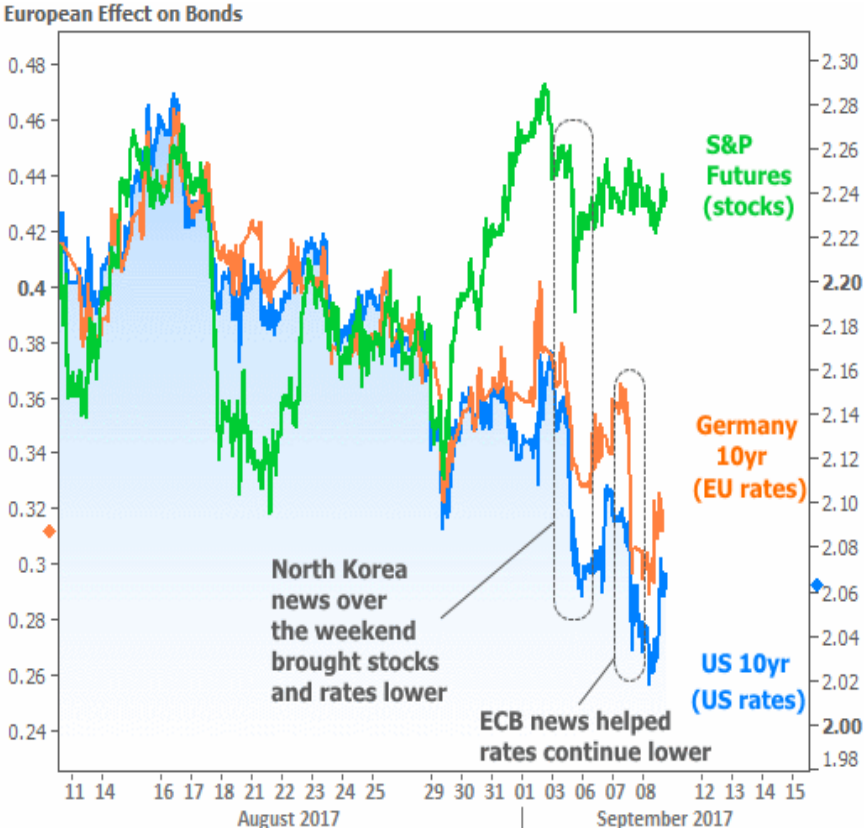

What makes this week's push to lower rates interesting is the fact that 2017's Trump-related narrative actually saw some support. Trump reached across the aisle and **struck a deal** with congressional democrats that funded disaster relief and temporarily raised the debt ceiling through the end of the year.

While this successful example of bipartisan policymaking clearly did **some** damage to bond markets (i.e. rates went a bit higher on Wednesday), its effects were ultimately steamrolled by the week's dominant events. In other words, investors don't suddenly see **new** inflation risks and growth potential due to this week's legislative efforts.

In fact, some of the biggest, savviest investors haven't been too concerned about such things for many months. Before Trump was elected, rates had generally been falling the better part of 3 years. Volatility was decreasing and it **wasn't** clear what it would take for things to change.

The Trump victory **provided a solution** for one of two reasons. For those who believed that new policies could stimulate growth and inflation, there were good reasons to push rates rapidly higher at the end of 2016. Those who **didn't** necessarily see fiscal policy miracles in store were **still** thrilled to have justification to get bond markets moving again. They saw great buying opportunities in the future based on the inflation/growth narrative.

As fiscal policy progress continues proving elusive, and as inflation has moved frustratingly lower, that pessimistic group of investors has been ringing the cash register by buying the bonds that the average investor **couldn't wait** to sell.

If we look at this process in terms of 10yr Treasury yields (the best benchmark for momentum in long-term rates like mortgages), we can see where some investors stepped in to buy bonds when yields hit 2.5-2.6. There was relative equilibrium around 2.35%, with sellers able to keep yields from falling much lower in the 1st quarter.

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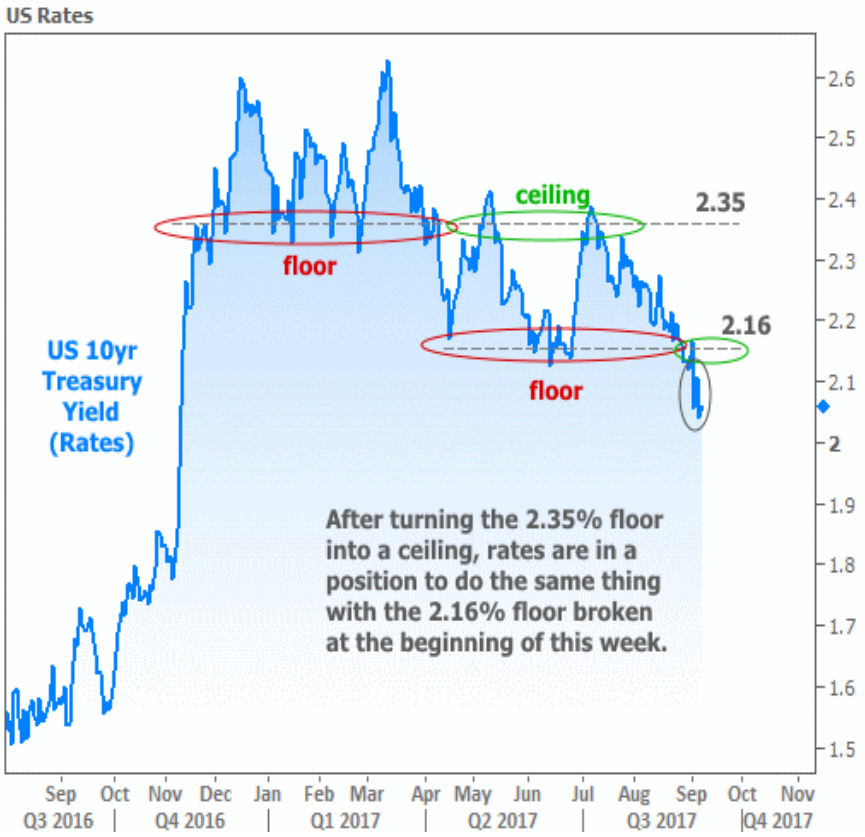

Things changed in April, with rising geopolitical tensions, fiscal policy missteps, and a more timid Federal Reserve. What **had been** a "floor" around 2.35% now became a ceiling, and the game between buyers and sellers resumed.

This time around, the floor was closer to 2.12%. While it didn't see bounces as frequently, the big bounce in late June was a **watershed moment** for global bond markets. That's when investors picked up their first major signal that the European Central Bank (ECB) might be close to winding down its bond-buying plan.

2.12% quickly became a distant memory. Whether or not the ECB was serious, investors figured those rates were **too low** until they could get clarification. As mentioned above, that clarification came this week and was joined by the North Korea headlines. The combination of the two events was enough to break the 2.12% floor.

Now the question becomes whether this **floor** will be able to act as a **ceiling**. It's too soon to say--especially with the Fed's hotly-anticipated policy announcement coming up in just under 2 weeks. At the very least, 2017 has proven to be much more of a friend than an enemy for fans of low rates.

That friendliness is apparent in the mortgage market. Now that the seasonal slide in home purchase activity has set in (compounded by non--seasonal weakness due to inventory constraints), **refinances** are picking up the slack in mortgage applications. If rates continue lower, loans originated in the first quarter will increasingly be "in the money" when it comes to a refinancing.

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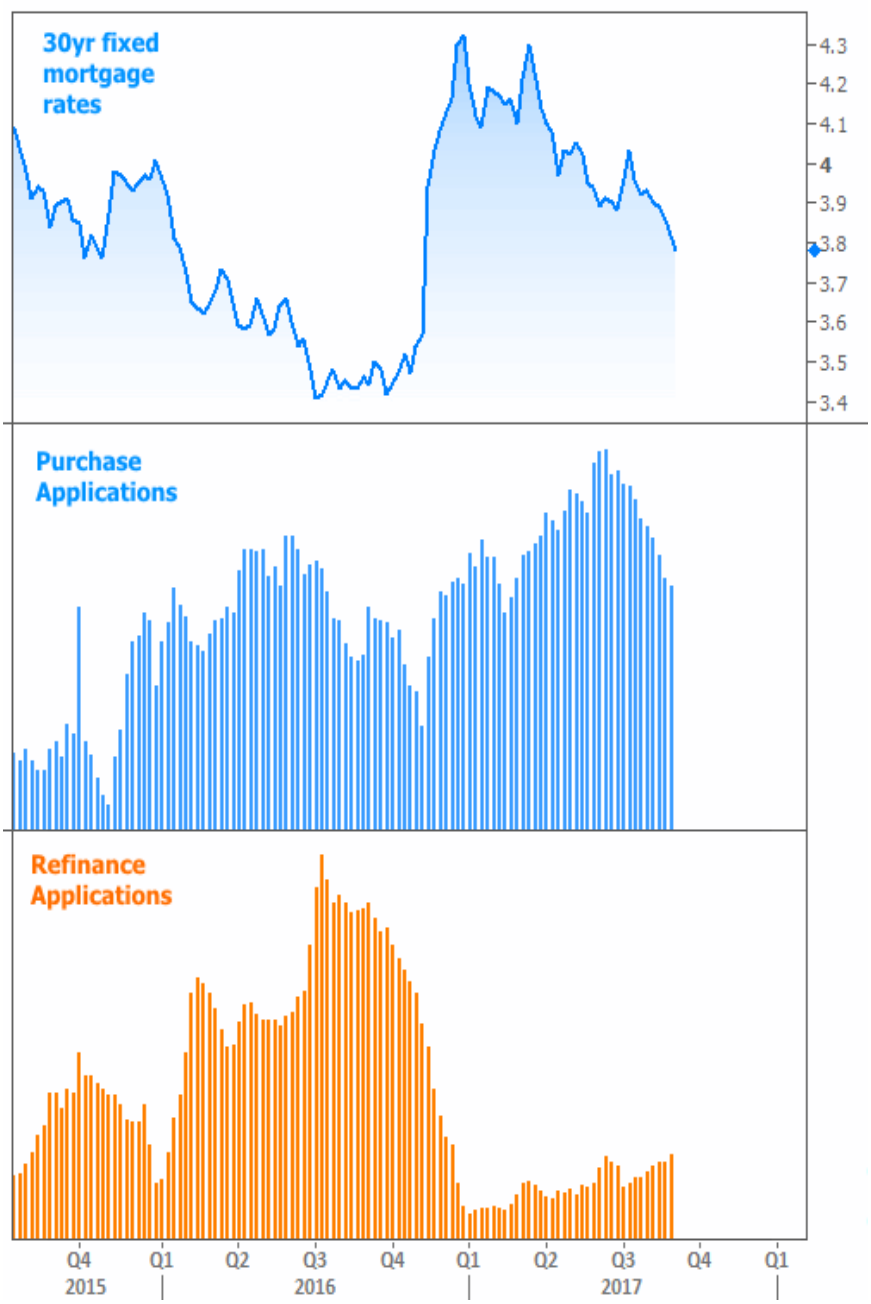

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Sep 05				
9:45AM	Aug ISM-New York index	748.8		745.5
10:00AM	Jul Factory orders mm (%)	-3.3	-3.3	3.0
Wednesday, Sep 06				
7:00AM	w/e MBA Purchase Index	227.3		224.1
7:00AM	w/e Mortgage Refinance Index	1502.6		1430.3

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Jul International trade mm $ (bl)	-43.7	-44.6	-43.6
10:00AM	Aug ISM N-Mfg PMI	55.3	55.4	53.9
Thursday, Sep 07				
8:30AM	Q2 Labor Costs Revised (%)	+0.2	0.3	0.6
8:30AM	Q2 Productivity Revised (%)	+1.5	1.3	0.9
8:30AM	w/e Jobless Claims (k)	298	300	236
Friday, Sep 08				
10:00AM	Jul Wholesale inventories mm (%)	+0.6		0.4
10:00AM	Jul Wholesale sales mm (%)	-0.1	0.4	0.7
Monday, Sep 11				
1:00PM	3-Yr Note Auction (bl)	24		
Wednesday, Sep 13				
7:00AM	w/e Mortgage Market Index	462.1		420.5
8:30AM	Aug Producer Prices (%)	0.2	0.3	-0.1
8:30AM	Aug Core Producer Prices YY (%)	2	2.1	1.8
Thursday, Sep 14				
8:30AM	Aug CPI mm, sa (%)	+0.4	0.3	0.1
8:30AM	Aug Core CPI Year/Year (%)	+1.7	1.6	1.7
Friday, Sep 15				
8:30AM	Aug Retail Sales (%)	-0.2	0.1	0.6
9:15AM	Aug Industrial Production (%)	-0.9	0.1	0.2
10:00AM	Jul Business Inventories (%)	0.2	0.2	0.5
10:00AM	Sep Consumer Sentiment	95.3	95.1	96.8
Wednesday, Oct 11				
1:00PM	10-yr Note Auction (bl)	20		
Thursday, Oct 12				
1:00PM	30-Yr Bond Auction (bl)	12		

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Who is Mid Valley Financial?

Since 1985, Mid Valley Financial has been a trusted partner for complex real estate financing solutions. We specialize in handling unique and challenging loan scenarios, including those with non-traditional income or asset documentation. Our expertise in hard money and private money lending offers quick funding and flexible terms for real estate investors, business owners, and agricultural operators. Whether you need funds for purchasing, renovating, or refinancing properties, our experienced team is here to help.

Beyond hard money lending, we offer a comprehensive suite of competitively priced home loan options, including conventional, FHA, VA, and jumbo loans. So whether you are a first-time homebuyer, looking to secure the family estate or vacation property, or have unique financial circumstances, our experienced team can help you find the best solution.

Our commitment to exceptional customer service and innovative financing solutions has made us one of the leading direct lenders and mortgage brokers in the California real estate market. With a proven track record of success and a focus on building long-term relationships, we're here to help you achieve your financial goals.

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