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Rates Spike, Home Sales Slide, Blame The Tax Plan?

Much was made of the Trump administration's **tax plan**, officially released this week. At first glance, it caused rates to spike on Wednesday, abruptly derailing a decent recovery from a broader rate spike that ended last week. But how much credit does it deserve?

"Some" is probably the best answer. It's important to understand that **no new changes** to the tax system were announced. The tax plan, which first arrived in the form of widespread media leaks on Tuesday night, is currently more like a set of **working principles** for eventual legislation.

Pundits don't expect congress to draft legislation that perfectly matches those principles, nor do they expect any major changes to the tax code to quickly sail through the legislative process. If that were the case, we'd expect to see **both** stocks and bonds reacting in a more **unified** way. Instead, stock prices didn't rise nearly as quickly as rates. That's our first clue that this week's rate spike had more than one motivation.

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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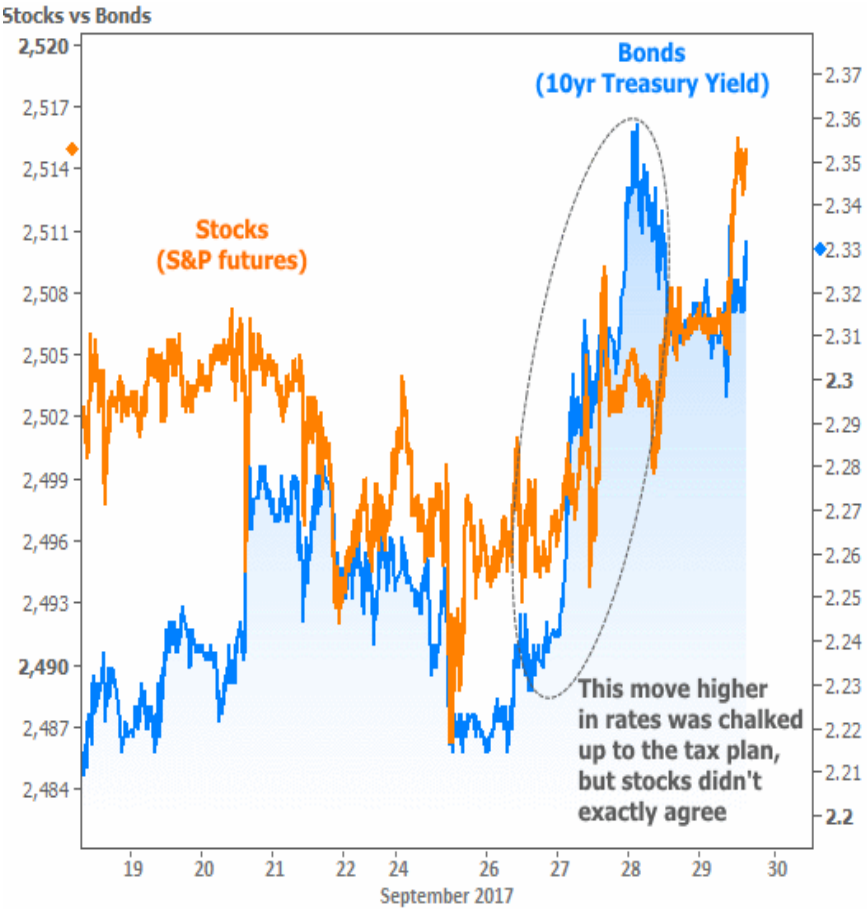

Rates might not have reacted much **at all** had it **not** been for the path they'd walked in recent weeks. Let's recap that path.

Rates fell **sharply** heading into the weekend of Sept 8-9th due to North Korea risks and apprehension over Hurricane Irma. An imbalance of trading positions played a key role in setting the pace of that move. Simply put, too many traders were betting on rates moving **higher** (betting on higher rates = "short positions").

When unexpected events like hurricanes or the threat of nuclear war push rates lower, traders holding short positions can be forced to "cover," which is accomplished by **buying** bonds. That bond-buying in turn pushes rates **lower still**, thus increasing the risk that the **next** trader in line will need to cover a short position. Before long, a domino effect known as a "short squeeze" forces most of the short positions to buy bonds, thus maximizing that particular drop in rates.

Once short squeezes run their course, the bounce back can be **abrupt**. That's what happened beginning on Sept 11th. The rate spike lasted all the way through last week's Fed Announcement, which served as the next opportunity for traders to change their betting strategy.

The **new** strategy called for buying the longest-term debt, like 30yr Treasury bonds, and shunning the shortest term debt. As can be seen in the chart below, another imbalance emerged. This time, it was in favor of lower long-term rates.

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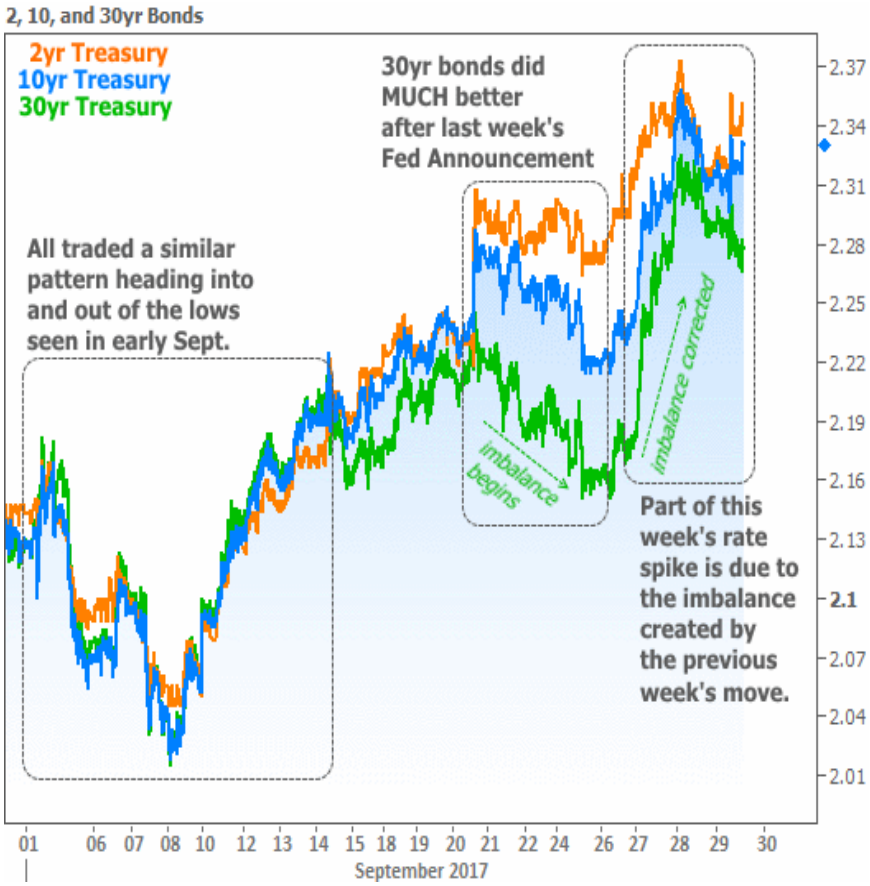

In short (no pun intended), the official announcement of the tax plan--combined with a generally optimistic reception from other lawmakers--served as a **wakeup call** for bond markets. If such a plan could get any traction, and if even **parts** of it became law, it suddenly didn't make as much sense for traders to be pushing long-term rates lower. After all, the goal of the plan is to "pay for itself" via better economic growth over the next 10 years--**not** the kind of news you want to hear if you just bought 10-30 year bonds.

The next chart is more of an **addendum** to this conversation on rates. It's a broader view of 10yr Treasury yields--the best benchmark for momentum in longer-term rates like mortgages. It shows how the recent "sideways-to-slightly-lower" trend was stretched earlier in the month and how quickly rates have moved back to test the other boundary.

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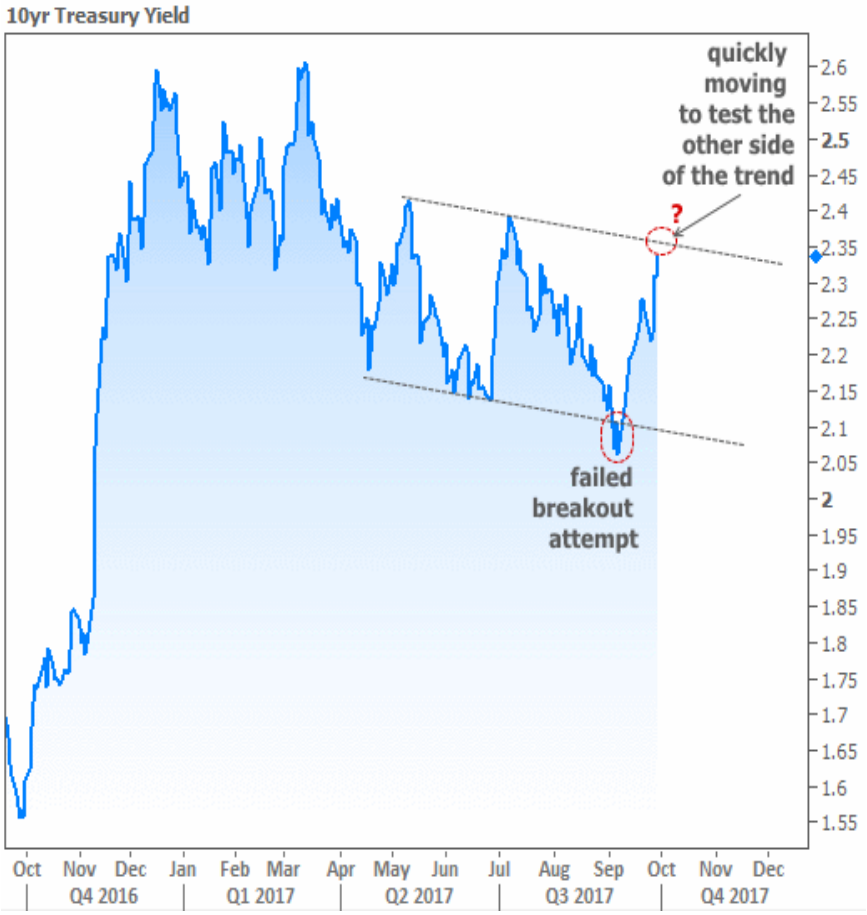

On a relative bright note, mortgage rates don't tend to follow this sort of volatility in lock-step. While 10yr yields have risen more than a quarter of a percentage point from September's lows, the average 30yr fixed mortgage rate has only seen a fraction of that move. The risk would be that bond markets generally **keep** weakening into the end of the year. In that case, mortgage rates would likely break out of their prevailing trend (green dotted line below) and risk a bigger move into the low 4% range (red dotted line).

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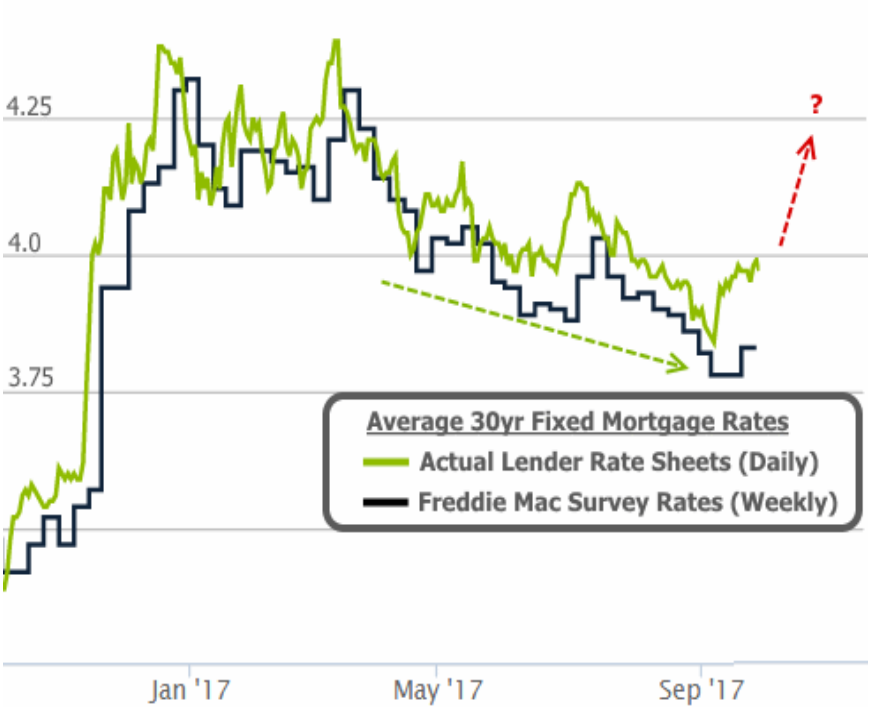

A rate spike comes at a **bad time** for home sales numbers. Both of this week's key reports were downbeat. New Home Sales fell to an annual pace of 560k from 580k last month. In and of itself, this **isn't** a major concern right now, as the broader trend could remain positive if sales pick back up. The more forward-looking Pending Home Sales data, on the other hand, is suggesting a gloomier outlook.



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Even if it's **a bit early** to be considering gloomy eventualities, **one thing's for sure:** rising rates won't last very long if they end up torpedoing the economy. Proponents of the tax plan argue higher rates would be absorbed by better growth and more retained income, but the average family with the average mortgage payment would see most of that benefit sucked up by higher mortgage payments if everything goes according to plan. Something's gotta give!

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Sep 26				
9:00AM	Jul CaseShiller 20 yy (%)	5.8	5.8	5.7
10:00AM	Sep Consumer confidence	119.8	120.0	122.9
10:00AM	Aug New home sales chg mm (%)	-3.4	3.3	-9.4
1:00PM	2-Yr Note Auction (bl)	26		
Wednesday, Sep 27				
7:00AM	w/e Mortgage Refinance Index	1445.6		1497.8
7:00AM	w/e MBA Purchase Index	231.0		224.7
8:30AM	Aug Durable goods (%)	1.7	1.0	-6.8
10:00AM	Aug Pending Home Sales (%)	-2.6	-0.5	-0.8
1:00PM	5-Yr Note Auction (bl)	34		
Thursday, Sep 28				
8:30AM	Q2 GDP Final (%)	3.1	3.0	3
8:30AM	w/e Jobless Claims (k)	272	268	259
1:00PM	7-Yr Note Auction (bl)	28		
Friday, Sep 29				
8:30AM	Aug Personal Income (%)	0.2	0.2	0.4
8:30AM	Aug Core PCE (y/y) (%)	1.3		1.4
9:45AM	Sep Chicago PMI	65.2	58.5	58.9
10:00AM	Sep U Mich Sentiment Final (ip)	95.1	95.3	95.3
10:00AM	Sep U Mich 5-Yr Inf Final (%)	2.5		2.6
Monday, Oct 02				
10:00AM	Aug Construction spending (%)	+0.5	0.4	-0.6
10:00AM	Sep ISM Manufacturing PMI	60.8	58.0	58.8
Wednesday, Oct 04				
7:00AM	w/e Mortgage Market Index	414.0		415.6
8:15AM	Sep ADP National Employment (k)	135.0	125	237
10:00AM	Sep ISM N-Mfg PMI	59.8	55.5	55.3
Thursday, Oct 05				
8:30AM	Aug International trade mm $ (bl)	-42.4	-42.7	-43.7
8:30AM	w/e Jobless Claims (k)		268	272

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, Oct 06				
8:30AM	Sep Non-farm payrolls (k)	-33	90	156
8:30AM	Sep Unemployment rate mm (%)	4.2	4.4	4.4
10:00AM	Aug Wholesale inventories mm (%)	0.9	1.0	1
10:00AM	Aug Wholesale sales mm (%)	1.7	0.0	-0.1

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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