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What's Up With Market Madness After Fed's Rate Hike?

Last week we discussed the possibility of mortgage rates continuing to **fall** despite the near certainty of this week's Fed rate **hike**. That's exactly what happened, but it was the move in stocks that got the most attention--not a surprising result given the following chart.



While there has been plenty of news coverage of the potential government **shutdown** and Trump's potential legal issues, markets were far more interested in the Federal Reserve's policy announcement. It was clearly this week's **defining event** for both stocks and bonds.

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

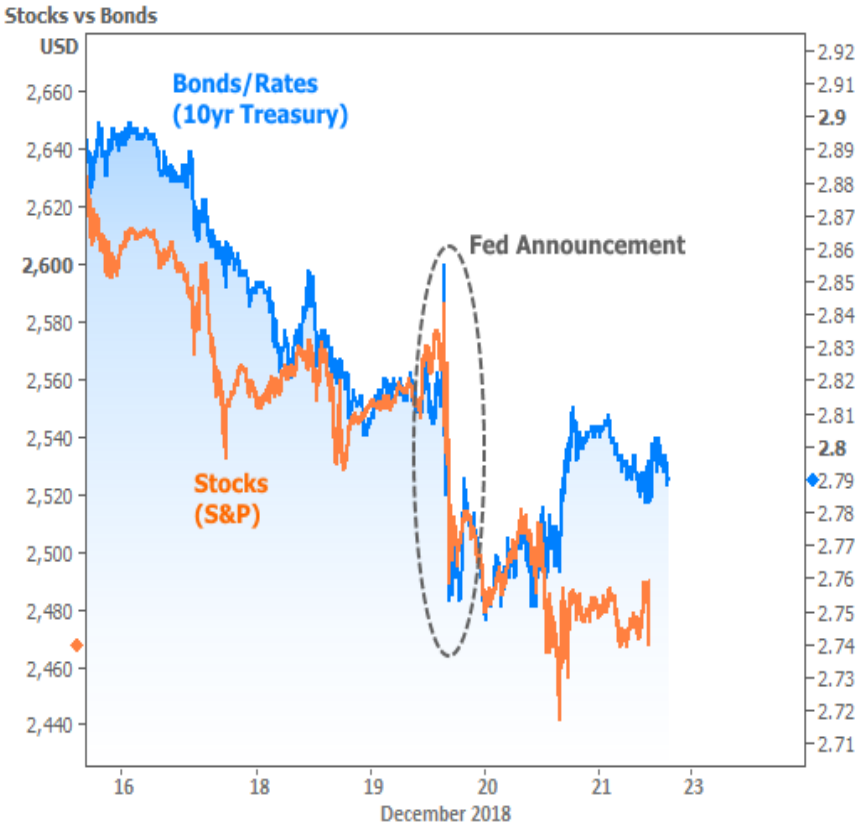
Recent Housing Data

		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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So what did the Fed say/do to bring about such a reaction? And **were they justified?**

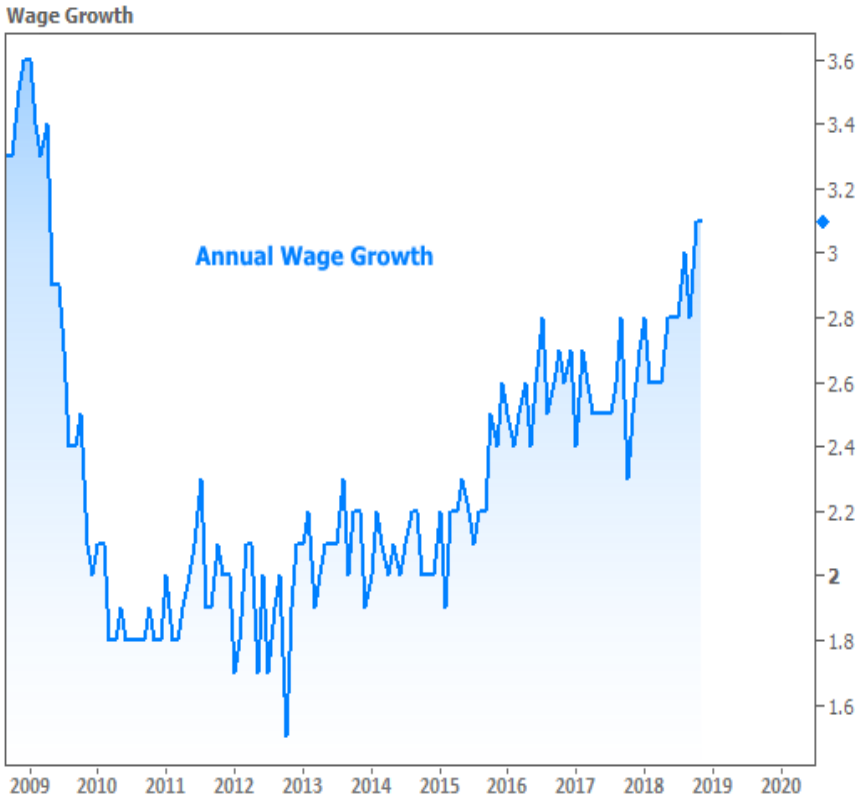
First thing's first: you won't hear any bond traders asking whether or not the Fed was justified in hiking rates this week. The probability of this hike has been as close to 100% as it gets for several months. Not only was it a foregone conclusion, but it's very hard to argue that the Fed should have reconsidered for any reason other than the heavy stock losses of late.

Unfortunately for stocks, the Fed is primarily concerned with employment and inflation. In that regard, the most recent update on the unemployment rate shows it at the lowest level since 1969. While no one sees inflation running to unmanageable levels, the Fed is keeping an eye on wage growth--a precursor to inflation. Here's what that looks like:

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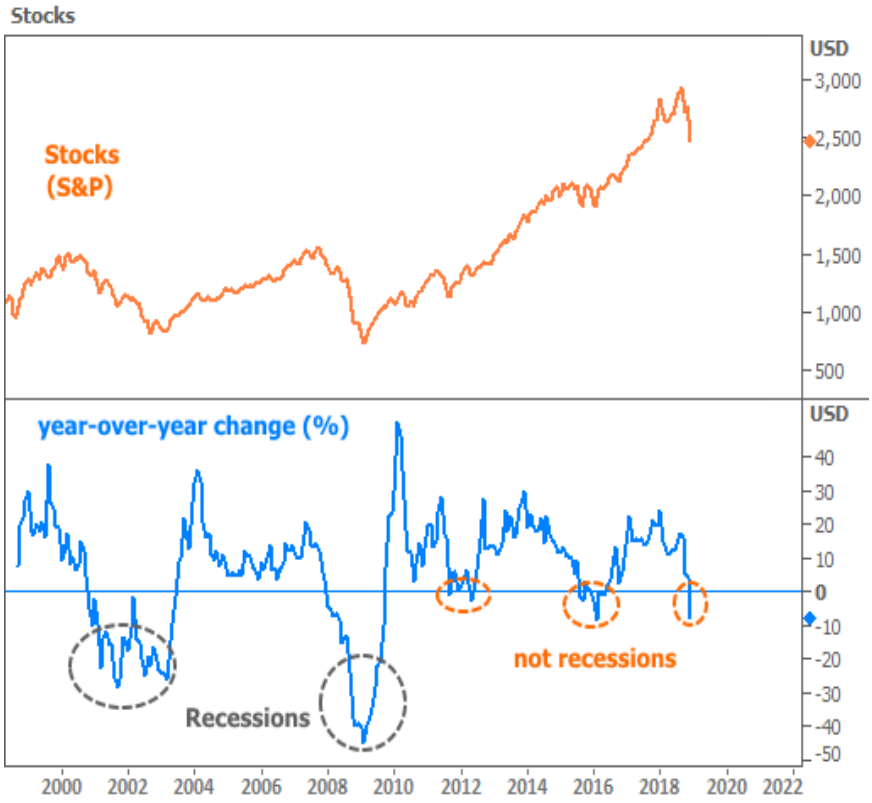
Granted, the stock market's motivations are too complicated to pin on only one factor, but when it comes to the Fed, stocks are basically **whining**. Notably, the last time they whined like this was in early 2016, **right after** the Fed began hiking rates for the first time after 8 years of record lows.

It's hard to see evidence of that "whining" simply by looking at stock prices, but if we look at the annual rate of change (blue line in the following chart), we see that the current losses are similar to those seen in 2016.

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Because we're still in the middle of a market move that could continue, we **can't rule out** the possibility that stocks continue to fall. Conversely, because stocks have yet to show any recession-level panic, there's just as much of a chance that they'll find their footing. If that happens, it could be bad for interest rates.

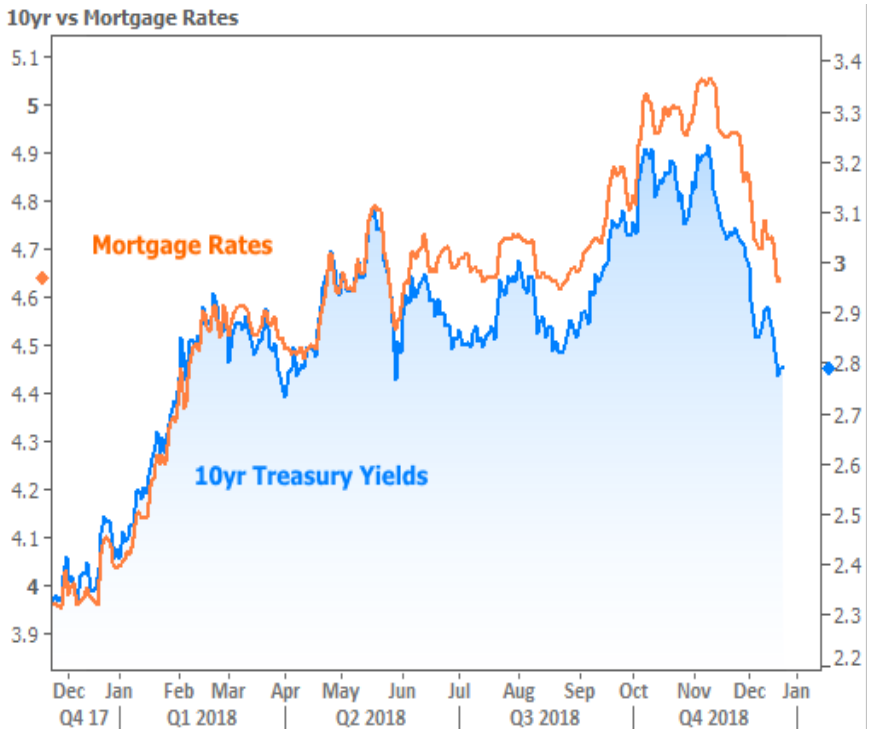
Stocks and rates don't always move in the same direction. Recently, however, stock losses have created buying demand in bonds, which are viewed as a safe haven for return-on-investment when stocks are losing ground (more bond buying = lower rates). Incidentally, the last time rates had 2 back-to-back months this good was early 2016 (the last time stocks were this panicked).

If rates end up bouncing higher, the **silver lining** is that mortgage rates don't have as much to lose as US Treasuries. Treasuries are the benchmark for essentially every other interest rate in the US. Among the big asset classes, they're the first to benefit from stock market panic--a fact that's left mortgages out in the cold, relatively.

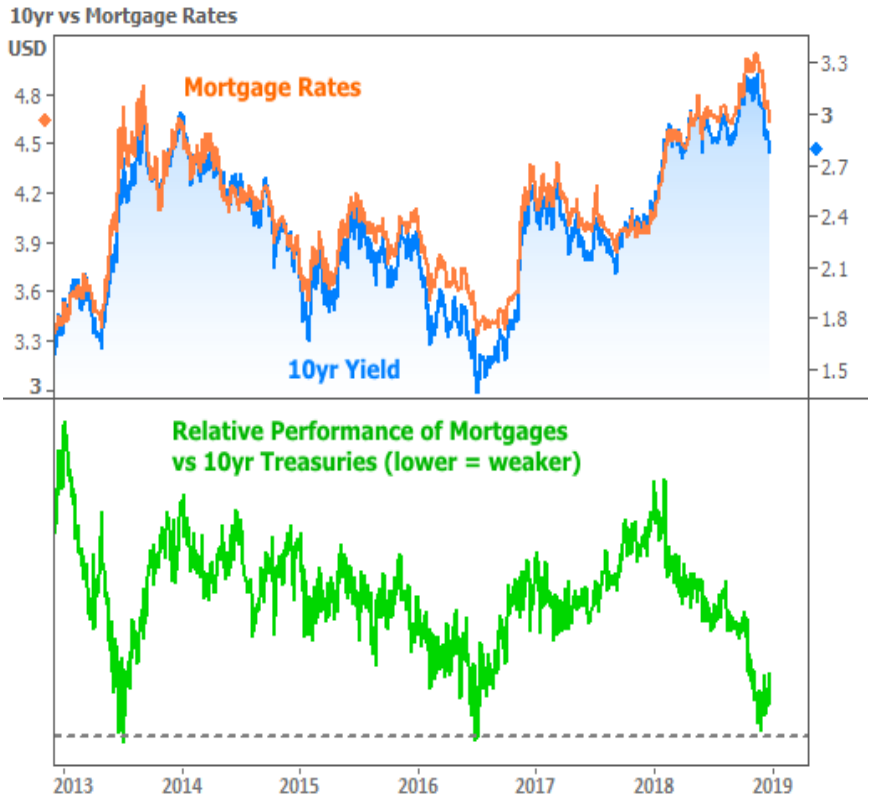
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There are more complex ways to look at the relationship between mortgages and Treasuries. The green line in the following chart represents one of the methods. In not so many words, it compares the **relative level of demand** for mortgage bonds versus Treasuries among bond investors.



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The chart above is **actually good news for mortgage rates**. The green line looks like it's bouncing at the same floor seen in 2013 and 2016. This floor means that bond investors are seeing strong enough returns in mortgages to start buying more of them. This doesn't **guarantee** lower rates in and of itself, but it does suggest mortgages would be better able to participate in good news and less affected by bad news.

The housing market would certainly not object to good news for rates. Several of the **key monthly housing reports were released this week**, showing an interesting mix of panic and resilience. The most downbeat report was NAHB's Housing Market Index (basically, home builder confidence).



At the same time, **actual construction numbers** were conveying far less panic:



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Existing Home Sales also had a better month in November, rising from an annual pace of 5.22 million units to 5.32 million. This defied analysts' expectations for further softening.



The **most exciting thing** about any housing market resilience seen in November is that the numbers have not yet had a chance to fully benefit from recently lower rates. That's a feather in the cap for December and January's numbers.

Next week brings the Christmas holiday. Bond markets will be closed on Tuesday and only in for a half day on Monday. Even in the 2nd half of the week, markets won't really be operating normally. For that, we'll have to wait until the end of the **following** week which brings the all-important jobs report on Friday, January 4th.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Dec 17				
10:00AM	Dec NAHB housing market indx	56	61	60
Tuesday, Dec 18				
8:30AM	Nov House starts mm: change (%)	+3.2		1.5
8:30AM	Nov Build permits: change mm (%)	5.0		-0.4
8:30AM	Nov Housing starts number mm (ml)	1.256	1.225	1.228
8:30AM	Nov Building permits: number (ml)	1.328	1.259	1.265
Wednesday, Dec 19				
7:00AM	w/e Mortgage Refinance Index	832.2		851.6
7:00AM	w/e MBA Purchase Index	238.6		256.1
10:00AM	Nov Exist. home sales % chg (%)	+1.9	-0.6	1.4
10:00AM	Nov Existing home sales (ml)	5.32	5.20	5.22

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
2:00PM	N/A FOMC rate decision (%)	2.250 - 2.500	2.375	2.125
2:31PM	Powell Press Conference			
Thursday, Dec 20				
8:30AM	Dec Philly Fed Business Index	9.4	15.0	12.9
8:30AM	w/e Jobless Claims (k)	214	216	206
10:00AM	Nov Leading index chg mm (%)	0.2	0.0	0.1
Friday, Dec 21				
8:30AM	Q3 GDP Final (%)	3.4	3.5	3.5
8:30AM	Nov Durable goods (%)	0.8	1.6	-4.3
8:30AM	Nov Nondefense ex-air (%)	-0.6	0.2	0.0
10:00AM	Nov Core PCE Inflation (y/y) (%)	+1.9	1.9	1.8
10:00AM	Dec Consumer Sentiment (ip)	98.3	97.5	97.5
Monday, Dec 24				
11:30AM	2-Yr Note Auction (bl)	40		
Wednesday, Dec 26				
9:00AM	Oct CaseShiller 20 mm SA (%)	+0.4	0.2	0.3
1:00PM	5-Yr Note Auction (bl)	41		
Thursday, Dec 27				
8:30AM	w/e Jobless Claims (k)	216	217	214
9:00AM	Oct Monthly Home Price mm (%)	0.3		0.2
9:00AM	Oct Monthly Home Price yy (%)	+5.7		6.0
10:00AM	Nov New home sales-units mm (ml)		0.560	0.544
10:00AM	Nov New home sales chg mm (%)		2.9	-8.9
10:00AM	Dec Consumer confidence	128.1	133.7	135.7
1:00PM	7-Yr Note Auction (bl)	32		
Friday, Dec 28				
9:45AM	Dec Chicago PMI	65.4	62.0	66.4
10:00AM	Nov Pending Sales Index	101.4		102.1
10:00AM	Nov Pending Home Sales (%)	-0.7	0.7	-2.6

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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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EQUAL HOUSING LENDER

EQUAL HOUSING OPPORTUNITY

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