



**Mid Valley Financial**

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## Higher Stocks and Lower Rates. Who's Lying?

Low interest rates have been one of 2020's most pleasant surprises. Heading into the end of 2019, there were more than a few reasons to worry that rates would be moving steadily higher this year. The upside is that they would at least be starting that journey near enough to all time lows and that the same forces pushing rates higher would also help stocks pursue new all-time highs.

But wait... How can we be talking about rates near all-time lows while stocks are near all-time highs? Doesn't conventional wisdom dictate that rates and stock prices typically move in the **same** direction?

Yes and no. It is true that economic strength generally puts upward pressure on both stocks and rates (and vice versa), but that's far from the only factor. Inflation has historically been a fairly critical factor for rates and it really threw the long-term relationship with stocks out of whack in the early 80's. Hyper-inflation set the highest bar we're ever likely to see for rates, and most of the past 40 years has simply been a return to earth. Meanwhile, stocks have done what stocks generally do.

## National Average Mortgage Rates



	Rate	Change	Points
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### 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

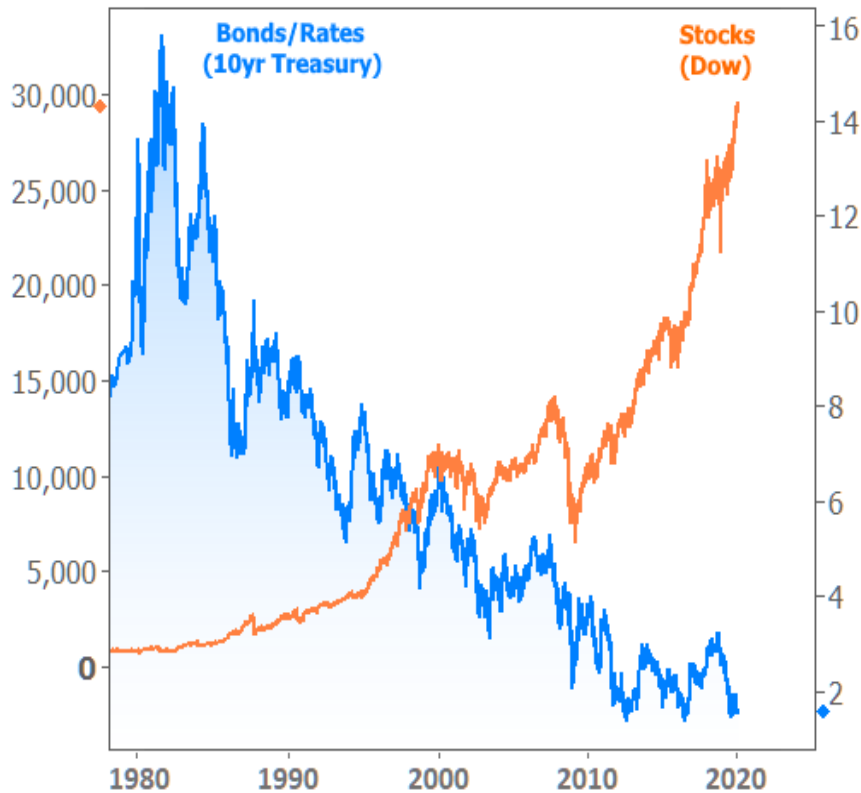
## Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2535	+0.0010
30 YR Treasury	4.4720	-0.0005

Pricing as of: 7/23 2:54AM EST

## Recent Housing Data

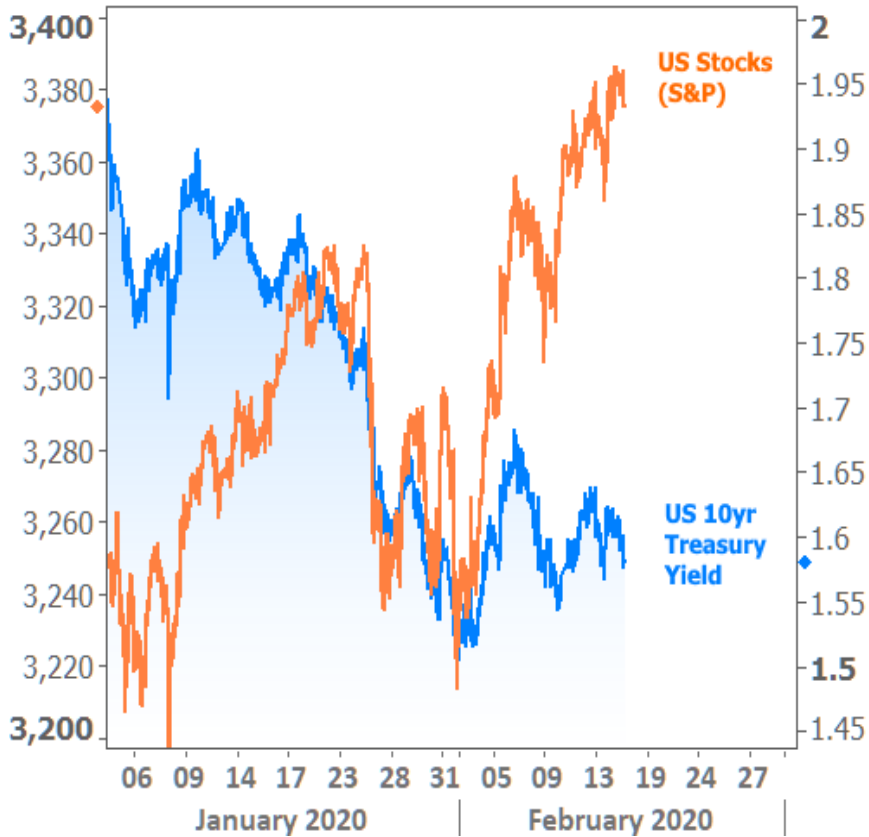
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



While there will always be "down times" for stocks, in the long run, they'll continue to grow as long as the economy grows. Rates, on the other hand, are **designed to oscillate** inside a range (even though the 80's make it seem otherwise) regardless of the size of the economy.

Unless the economy is actively moving into or out of a recession, our best chance to actually see correlation between stocks and bonds is to look at much shorter time-frames. Odds improve when the overall market is in the middle of reacting to some **temporary, unexpected shock**. The Fed complicates things as accommodative Fed policy generally acts to push stocks and bond yields in opposite directions.

Right now, we do indeed have a friendly Fed and we're definitely not actively moving into or out of a recession. In other words, there's very little to inform stock/bond correlation apart from **unexpected market shocks like coronavirus**. As the following chart shows, coronavirus took a clear toll on both stocks and bonds in late January. The improved outlook in early February prompted a rebound, but bonds haven't been as quick to move back up.

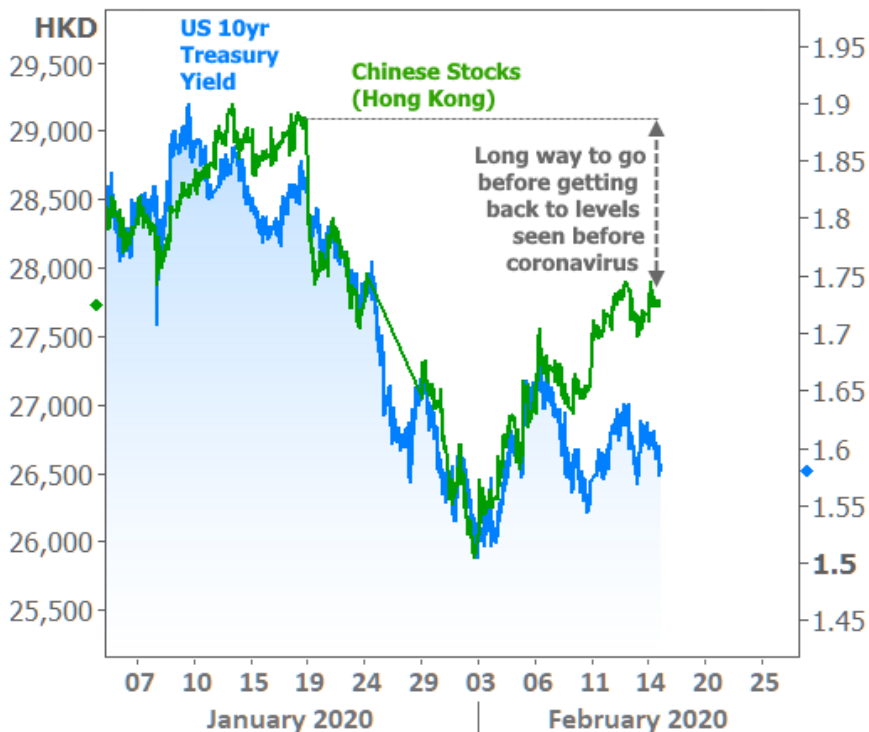


Even without coronavirus, the general trend over the past year has been toward higher stocks and lower rates. Correlations certainly emerged when the trade war hit (that's one of those "unexpected shocks"), then again when trade prospects improved, and most recently amid the coronavirus volatility. But in the bigger picture, we're **still** left with bonds resisting a move higher despite stocks surging to all-time highs.



To reiterate, the Fed is a big piece of that puzzle. They've been able to offer the market accommodation in a few ways recently. The most significant way is simply their guidance about what it would take for them to hike rates. Strong economic data would normally cause concern for Fed rate hikes, but that won't do it this time around. They'd have to see a big uptick in inflation, and that's proven to be elusive time and again in recent years (so much so that policy officials openly express confusion as to why it hasn't shown up). Additionally, the Fed repeatedly says the next economic downturn will see a reprisal of the same sort of bond buying programs that juiced financial markets during the great recovery (2011-2015).

All that to say, bonds/rates have some reasons to avoid a quick return to recent highs, even as the stock market can justify it. Coronavirus adds to the discrepancy because bonds are accounting for the economic impact likely to be seen in the near future while stocks are fresh off a strong earnings season and generally riding the wave of ongoing US economic expansion. Bonds are also a global safe haven in times of uncertainty. The US economy is decent for now, so US stocks are forgiven for being as high as they are. But the Chinese economy will undoubtedly take a bigger hit from coronavirus--so much so that investors haven't been nearly as quick to fuel a rebound in Chinese stocks.



Bottom lines on stock/bond discrepancy:

- A friendly Fed serves as a backdrop for generally lower rates and higher stock prices
- Coronavirus hurts the Chinese and global economies more than the US economy
- Global investors use the US bond market as a safe haven (which puts downward pressure on rates)
- The US bond market always does more to price in economic expectations for the future than the stock market

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, Feb 11</b>				
1:00PM	3-Yr Note Auction (bl)	38		
<b>Wednesday, Feb 12</b>				
7:00AM	w/e Mortgage Refinance Index	3123.6		2975.7
7:00AM	w/e MBA Purchase Index	267.4		283.8
<b>Thursday, Feb 13</b>				
8:30AM	Jan Core CPI (Annual) (%)	+2.3	2.2	2.3
8:30AM	w/e Jobless Claims (k)	205	210	202
<b>Friday, Feb 14</b>				
8:30AM	Jan Retail Sales (%)	0.3	0.3	0.3
8:30AM	Jan Import prices mm (%)	0.0	-0.2	0.3
9:15AM	Jan Industrial Production (%)	-0.3	-0.2	-0.3
10:00AM	Feb Consumer Sentiment	100.9	99.5	99.8

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Dec Business Inventories (%)	+0.1	0.1	-0.2
<b>Monday, Feb 17</b>				
12:00AM	Presidents Day			
<b>Tuesday, Feb 18</b>				
8:30AM	Feb NY Fed Manufacturing	12.90	5.00	4.80
10:00AM	Feb NAHB housing market indx	74	75	75
<b>Wednesday, Feb 19</b>				
7:00AM	w/e MBA Purchase Index	258.4		267.4
7:00AM	w/e Mortgage Refinance Index	2875.1		3123.6
8:30AM	Jan Core Producer Prices YY (%)	+1.7	1.3	1.1
8:30AM	Jan House starts mm: change (%)	-3.6		16.9
8:30AM	Jan Housing starts number mm (ml)	1.567	1.425	1.608
8:30AM	Jan Build permits: change mm (%)	9.2		-3.7
8:30AM	Jan Building permits: number (ml)	1.551	1.450	1.420
<b>Thursday, Feb 20</b>				
8:30AM	Feb Philly Fed Business Index	36.7	12.0	17.0
8:30AM	w/e Jobless Claims (k)	210	212	205
10:00AM	Jan Leading index chg mm (%)	0.8	0.4	-0.3
<b>Friday, Feb 21</b>				
9:45AM	Feb PMI-Manufacturing (Markit)	50.8	51.5	51.9
9:45AM	Feb PMI-Services (Markit)	49.4	53.0	53.4
10:00AM	Jan Existing home sales (ml)	5.46	5.43	5.54
10:00AM	Jan Exist. home sales % chg (%)	-1.3	-1.8	3.6
<b>Tuesday, Apr 07</b>				
1:00PM	10-yr Note Auction (bl)	25		
<b>Wednesday, Apr 08</b>				
1:00PM	30-Yr Bond Auction (bl)	17		

## 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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