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Looking For Silver Linings

When it comes to the mortgage and housing markets, there's been no shortage of gloomy news for months. This generally involves slumping sales, lower prices, and higher rates. All of the above are interconnected to some extent. The interconnection can be summed up in a single paragraph:

> Home prices surged post-covid as demand greatly outpaced supply and low rates increased buying power. High home prices (and rents) then contributed significantly to decades-high inflation numbers. Decades-high inflation is the single biggest reason for the fastest rate spike since the 1980s. Newly high rates made buyers increasingly reluctant to shop for homes and homeowners increasingly reluctant to give up the super low rates obtained over the previous 2 years.

In January, it looked like there might be some reprieve for high rates and slumping sales. But then February happened. A series of economic reports caused an immediate renewal of fear over the inflation outlook, and again, inflation is the key input for rates right now.

The most recent addition to the inflation narrative was this week's PCE Price Index which is frequently referred to as the Federal Reserve's favorite inflation indicator. PCE doesn't usually impact markets too much. That honor is reserved for CPI (the Consumer Price Index, which comes out earlier in the month). But if PCE delivers a different message, it can get the market's attention. That's what happened this week.

By Thursday, rates were showing signs that they might be willing to calm down after several weeks spent surging quickly higher. Then Friday's PCE inflation numbers came out hotter than expected with the closely-watched "core" number, which excludes more volatile food and energy, rising back to the highest month-over-month levels in decades. This paints a very different picture than the CPI version of the data which had generally been trending lower for more than a year.

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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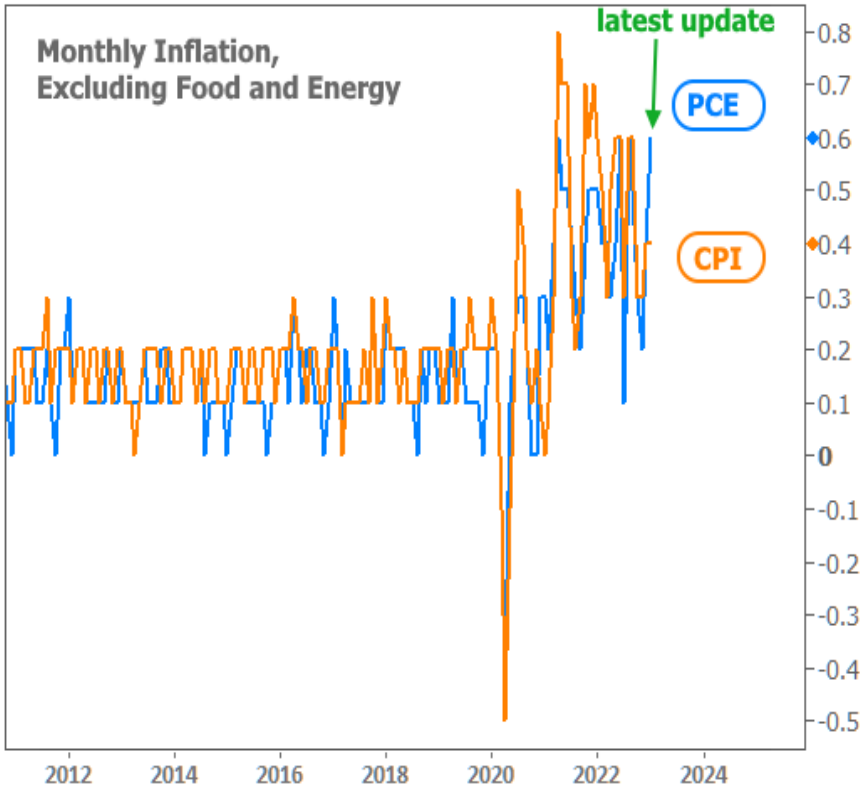

Whether core inflation is 0.4 or 0.6 in month over month terms, that implies a range of 4.8% to 7.2% annually. That's catastrophically high in either case considering the Fed's target is 2.0%.

The Fed attempts to control inflation by raising overnight lending rates, so it was no surprise to see another bump in rate hike expectations after the data. The following chart shows the market's expectations for the Fed Funds Rate at various points in the future. Notice that December is now seen remaining very close to the high rates achieved in June/Sept ("narrow range") and that the outlook has moved higher across the board.

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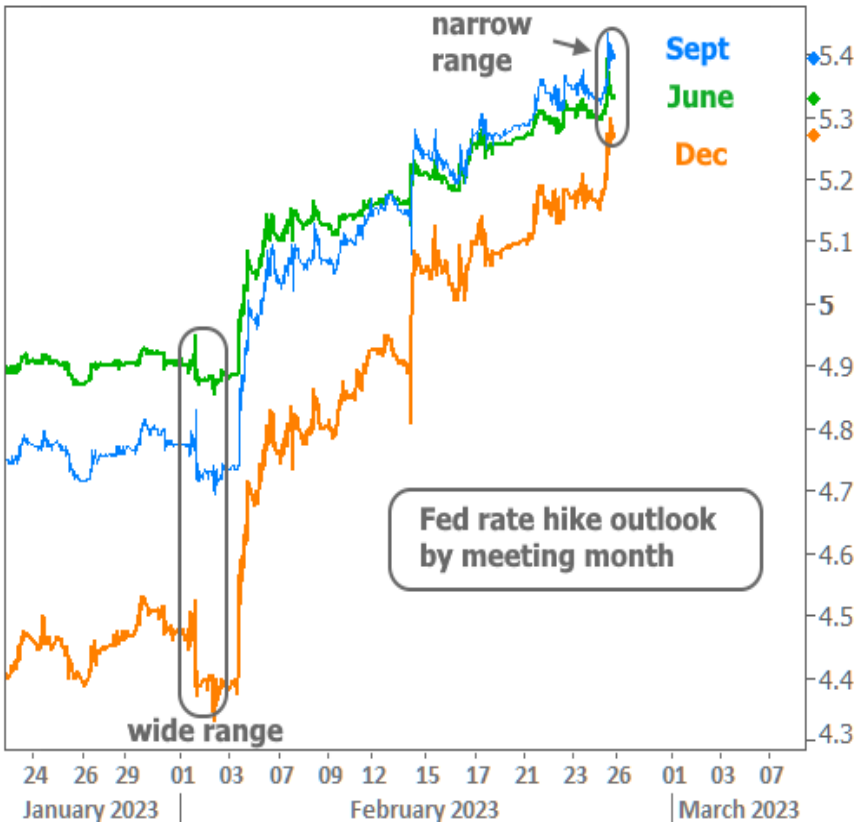

The Fed Funds Rate doesn't dictate mortgage rates, but the long-run rate outlook lines up very well with mortgage rate momentum, much like 10yr Treasury yields. The following chart overlays 10yr yields on the December Fed Funds Rate expectations to show the correlation.

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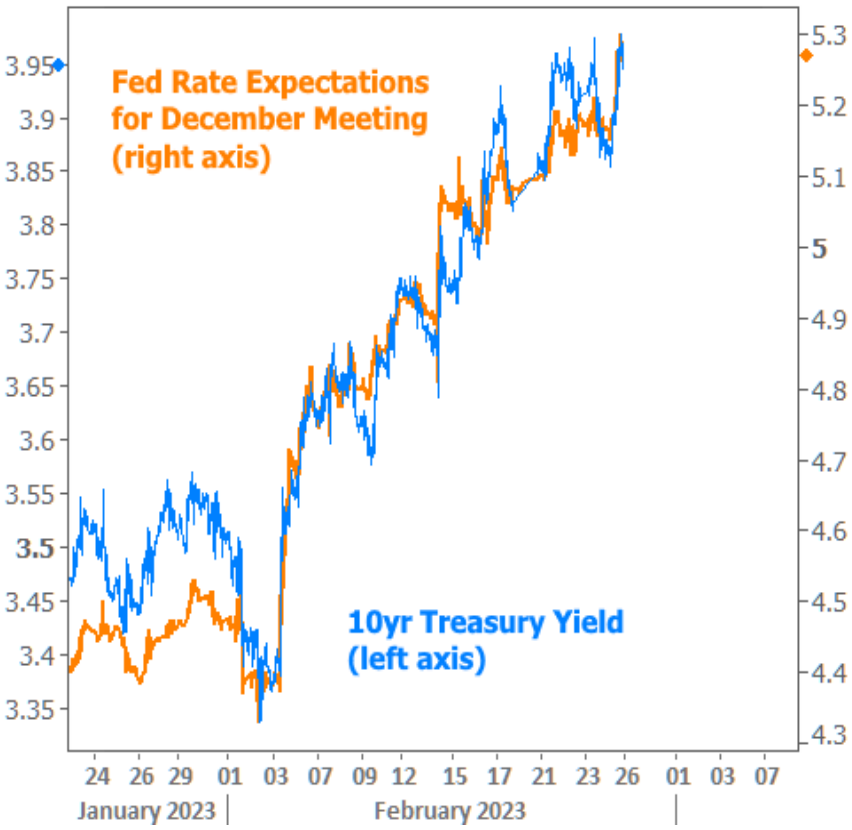

In other words, higher inflation and stronger economic data caused traders to bet on more Fed rate hikes in the future. Longer term rates (like 10yr Treasuries and mortgage rates) moved up in response to the shift in the outlook.

Mortgage rate data isn't as granular as the charts above, but it's easy to see the big jump in February.

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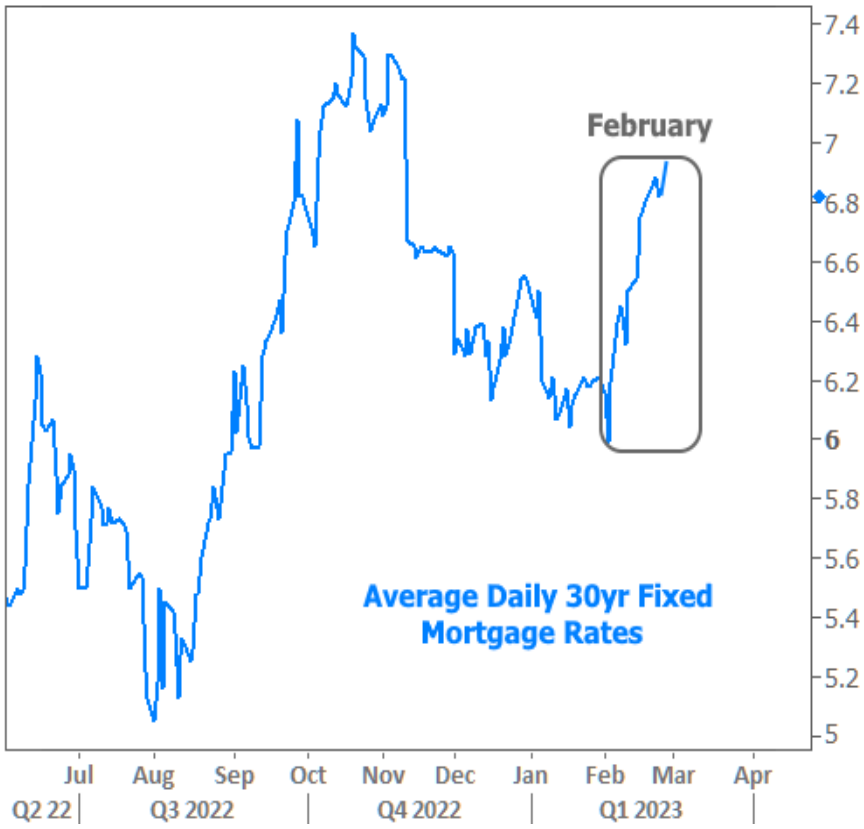

The silver lining here is that mortgage rates were more cautious at the end of January than they were in August. This time around the rate spike--while no doubt unpleasant--hasn't had the same sort of frantic quality. It has occurred in measured steps and each step has come in response to economic data that legitimately makes a case for higher rates. This means that rates should remain receptive when the data eventually shifts.

When that happens, there are signs that the housing market will also be receptive. To be sure, outright sales numbers have plummeted in the Existing Homes market, but the drop has been very different from the last comparable drop seen during the Financial Crisis. Back then, the mortgage market was systemically imploding and there was an unprecedented glut of inventory.

The opposite is true these days. Granted, mortgage companies have certainly been contracting due to the rapid decline in loan origination, but from an investor's standpoint, present day lending is infinitely more sound and sustainable than it was before the Financial Crisis. The inventory contrast is even clearer. Simply put: there is none!

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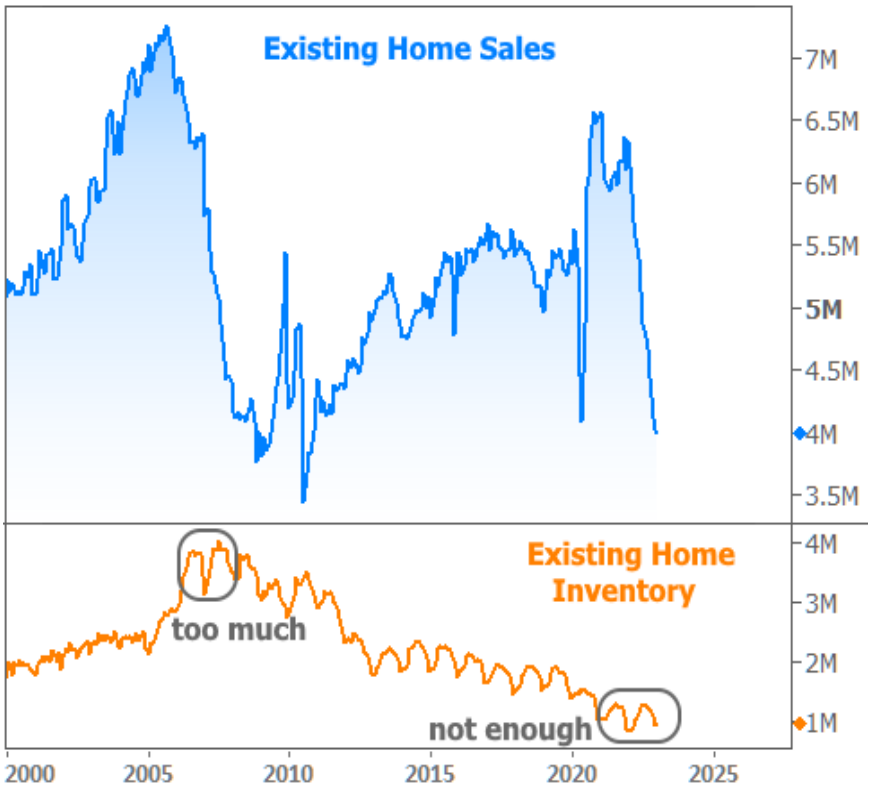

The takeaway is that a sensible moderation in interest rates (the kind we'll see whenever economic data suggests inflation is calming down and the labor market is losing some steam) can pave the way for an uptick in inventory, affordability, and demand. That's a fairly ideal recipe for stronger sales. The only question is how long it takes for that data to show up.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 21				
9:45AM	Feb Markit Services PMI	50.5	47.2	46.8
10:00AM	Jan Existing home sales (ml)	4.00	4.10	4.02
10:00AM	Jan Exist. home sales % chg (%)	-0.7	2.0	-1.5
1:00PM	2-Yr Note Auction (bl)	42		
Wednesday, Feb 22				
1:00PM	5-Yr Note Auction (bl)	43		
2:00PM	Fed Minutes			
Thursday, Feb 23				
8:30AM	Q4 GDP Prelim (%)	2.7	2.9	2.9
Friday, Feb 24				
8:30AM	Jan Core PCE Inflation (y/y) (%)	4.7	4.3	4.4
10:00AM	Feb Sentiment: 1y Inflation (%)	4.1		4.2
10:00AM	Feb Consumer Sentiment (ip)	67.0	66.4	66.4

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:00AM	Jan New Home Sales (ml)	0.670	0.620	0.616
10:00AM	Jan New Home Sales (%) (%)	7.2		2.3
Monday, Feb 27				
8:30AM	Jan Durable goods (%)	-4.5	-4.0	5.6
10:00AM	Jan Pending Sales Index	82.5		76.9
10:00AM	Jan Pending Home Sales (%)	+8.1	1.0	2.5
Tuesday, Feb 28				
9:00AM	Dec Case Shiller Home Prices-20 y/y (%)	+4.6	5.8	6.8
9:00AM	Dec FHFA Home Prices y/y (%)	6.6		8.2
9:00AM	Dec CaseShiller Home Prices m/m (%)	-0.5	-0.5	-0.5
9:00AM	Dec FHFA Home Price Index m/m (%)	-0.1		-0.1
9:45AM	Feb Chicago PMI	43.6	45.0	44.3
10:00AM	Feb Consumer confidence	102.9	108.5	107.1
Wednesday, Mar 01				
7:00AM	w/e MBA Purchase Index	138.8		147.1
7:00AM	w/e MBA Refi Index	444.0		469.9
10:00AM	Jan Construction spending (%)	-0.1	0.2	-0.4
10:00AM	Feb ISM Mfg Prices Paid	51.3	45.1	44.5
10:00AM	Feb ISM Manufacturing PMI	47.7	48.0	47.4
Thursday, Mar 02				
8:30AM	Q4 Labor Costs Revised (%)	3.2	1.6	1.1
8:30AM	w/e Jobless Claims (k)	190	195	192
Friday, Mar 03				
10:00AM	Feb ISM N-Mfg PMI	55.1	54.5	55.2
Tuesday, Feb 25				
1:00PM	7-Yr Note Auction (bl)	70		

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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.

Mid Valley Financial MVF

EQUAL HOUSING LENDER

EQUAL HOUSING OPPORTUNITY

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