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How One Unexpected Event Completely Stole The Show This Week

Back on February 3rd, the last jobs report sent rates screaming higher. It was the biggest market mover of the month and traders have been waiting for the March 10th installment ever since. When it finally arrived, an **unexpected guest stole the show**.

The Department of Labor issues the Employment Situation early each month. Frequently referred to simply as "the jobs report," **no other** monthly economic data is so consistent when it comes to influencing interest rates.

Employment data affects rates because jobs are at the heart of the economy, driving growth and speaking to inflation. Economic growth and inflation are the two **biggest** inputs for interest rates.

The jobs report happened to be **doubly** important this week as markets sought clarity after last month's extremely strong reading. Adding to the anticipation, in Tuesday's senate testimony, Fed Chair Powell called out the jobs data as one of only 2 key reports that would have a bearing on the size of the next rate hike.

All that to say: all eyes were on the jobs report on Friday morning. It would have taken a shocking event such as a massive natural disaster, a major military escalation involving the U.S., or an unexpected failure of a very large financial institution.

A high profile bank failure is exactly what happened. While **Silicon Valley Bank (SVB)** wasn't even a tenth of the size of the Chase or BofA, it was nonetheless the 16th largest bank in terms of assets, bigger than household names like Morgan Stanley and Keybank.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
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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BANK NAME	RANK	ASSETS (mlns of $'s)
CHASE	1	3,201,942
BANK OF AMERICA	2	2,418,508
CITIBANK	3	1,766,752
WELLS FARGO	4	1,717,531
U.S. BANK	5	585,136
PNC	6	552,307
TRUIST	7	546,228
GOLDMAN SACHS	8	486,967
CAPITOL ONE	9	453,313
TD BANK	10	386,799
BANK OF NY MELLON	11	324,646
STATE STREET	12	298,020
CITIZENS BANK	13	226,402
FIRST REPUBLIC	14	212,639
MORGAN STANLEY (PRIVATE)	15	209,664
SILICON VALLEY BANK	16	209,026
FIFTH THIRD BANK	17	206,289
MORGAN STANLEY (PUBLIC)	18	201,363
M&T BANK	19	200,263
KEYBANK	20	187,590

There are multiple accounts of the events leading SVB's collapse, but all of the timelines are **best measured in hours**. Concerns began to swirl on Thursday, but really came to a head on Friday morning when the stock price continued to plummet. Before noon eastern time, the FDIC announced the seizure of SVB's assets.

Back on Tuesday, the average market participant would have **scoffed** at the idea of a top-20 bank failure happening in such a precipitous way by the end of the same week. Suddenly it was a reality and that raised immediate questions involving words like "contagion" and "systemic risk" (Wall St jargon for a domino effect). Pundits hearkened back to the events leading up to the Great Financial Crisis (GFC), and while the present situation is unequivocally different, it still had a big impact on markets at the end of the week.

When it comes to markets, stocks and bonds are the two **team captains**. Investors tend to buy stocks when they are more open to risk in exchange for higher returns. They tend to move away from risk by buying bonds which offer a lower return, but on predetermined terms that won't improve if the market improves.

This divergent risk/reward relationship means that investors often **sell** stocks to **buy** bonds (and vice versa) depending on the level of risk they want to take. Recently, however, it's been the norm to see stocks and bonds win and lose in unison due to the market's focus on the Federal Reserve.

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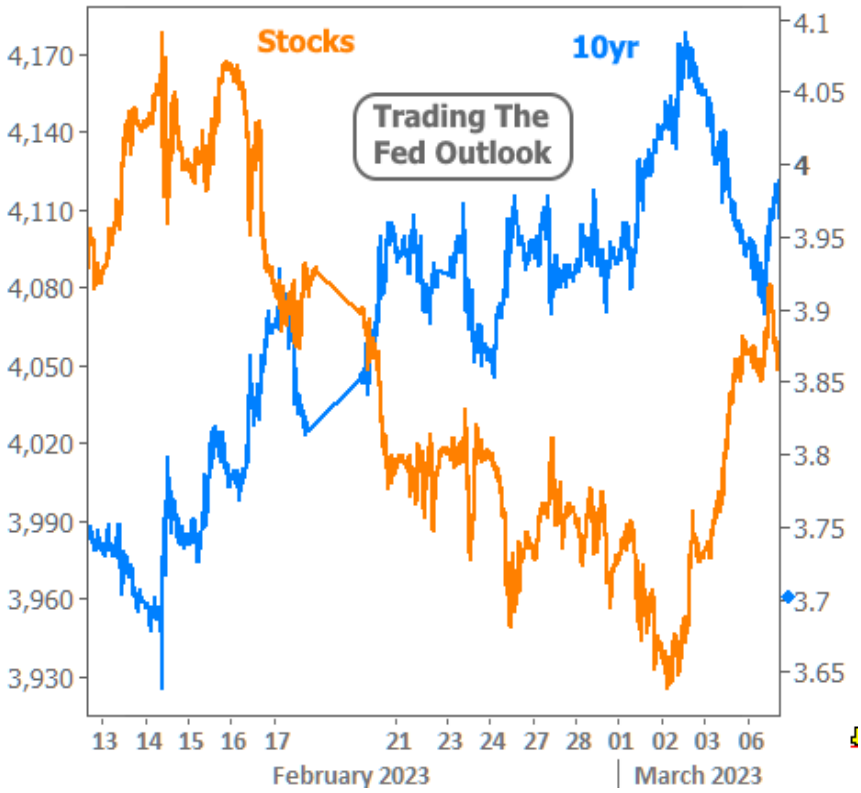
The underlying premise is **simple:** a friendly Fed is a rising tide that lifts all boats. Stocks and bonds both improve when the Fed is accommodative. On a chart, this would look like stock prices moving higher and bond yields (like a 10yr Treasury yield) moving lower. Conversely, when the Fed is cranky, stocks would drop and bond yields would rise. Either way, the two lines would be carving out a generally symmetrical mirror image. That's exactly what we saw in the weeks leading up to this one.



In fact, the traditional pattern **hasn't** been very common since the beginning of 2022. That all changed at the end of this week as markets locked in to an old fashioned "flight to safety" (sell stocks, buy bonds).

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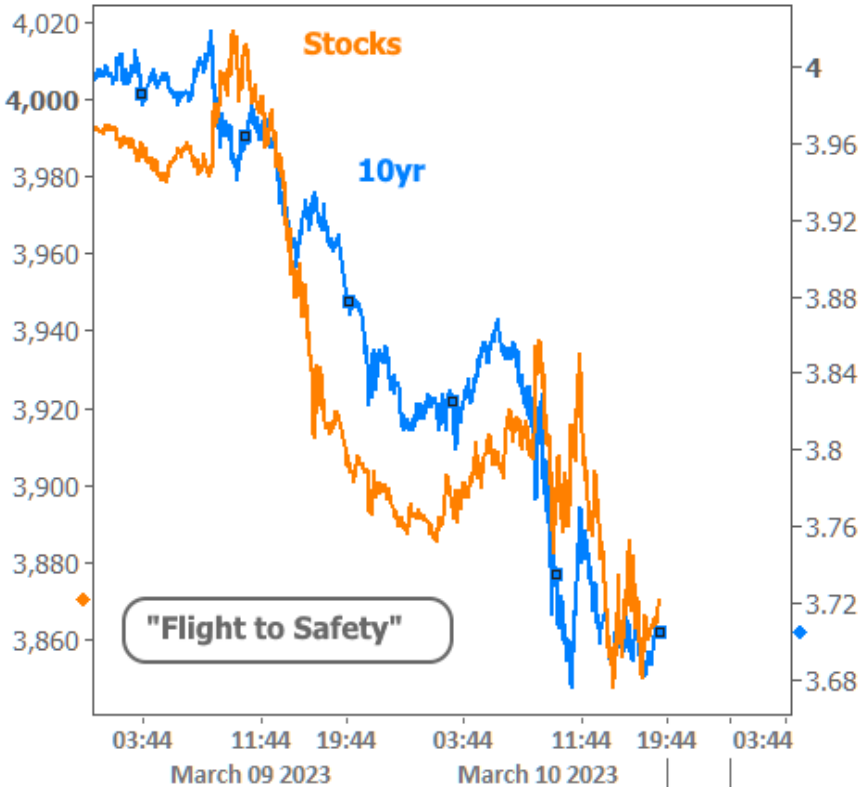

The impulse was so strong on Friday that the hotly anticipated jobs report was reduced to **2nd fiddle**. We're left to merely **guess** at what its impact might have been in the absence of the bank failure. There's no way to know for sure because headline job creation was much stronger than expected, but lower than last time. Additionally, wage growth cooled and unemployment ticked up--both would be good for rates/bonds.

> *Side note: how do we have strong job creation and higher unemployment? Part of the reason is that more workers re-entered the workforce, but that's not enough to account for the discrepancy. The bigger reason is that the unemployment rate is determined by a survey of American households where respondents provide their own job status whereas the job creation headline comes from a survey of businesses who report the number of workers on payroll. There are frequently mixed signals between the two.*

Between Fed Chair Powell's congressional testimony earlier in the week and Friday's bank news, the outlook for the Fed's next rate hike **shifted sharply** in both directions by roughly equal amounts. Powell made markets expect a higher Fed Funds Rate, and all of those expectations were erased by the end of the week.

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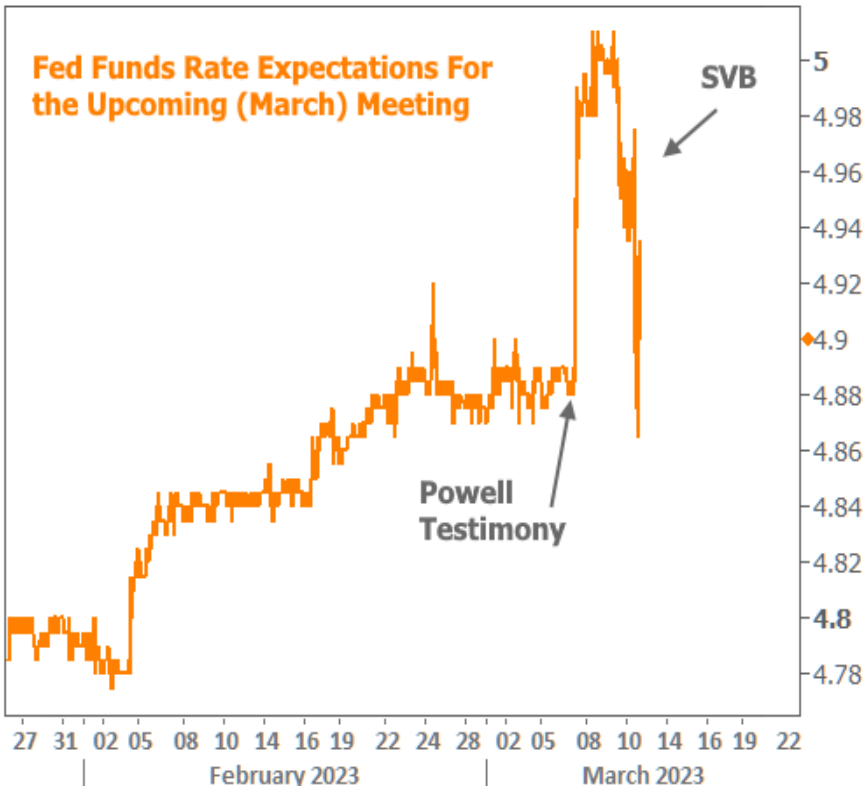
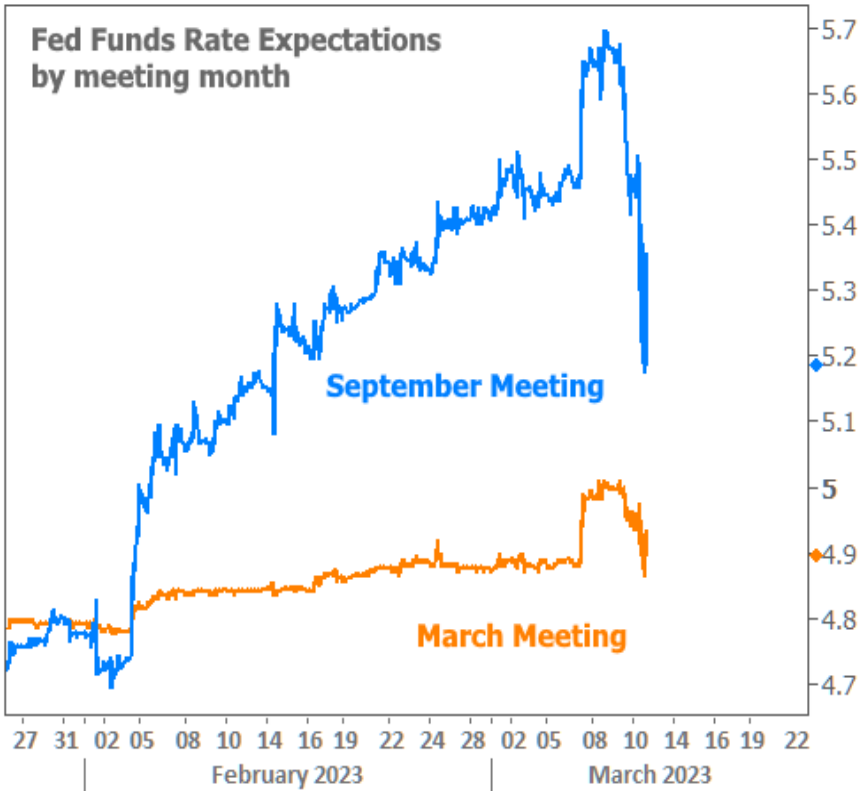


It's important to keep scaling in mind here. The chart apparently shows a big move, but it wouldn't even have been enough for the Fed to hike rates by any more than the 0.25% markets had been expecting before Powell's testimony. Things change when we look at expectations for meetings later in the year.



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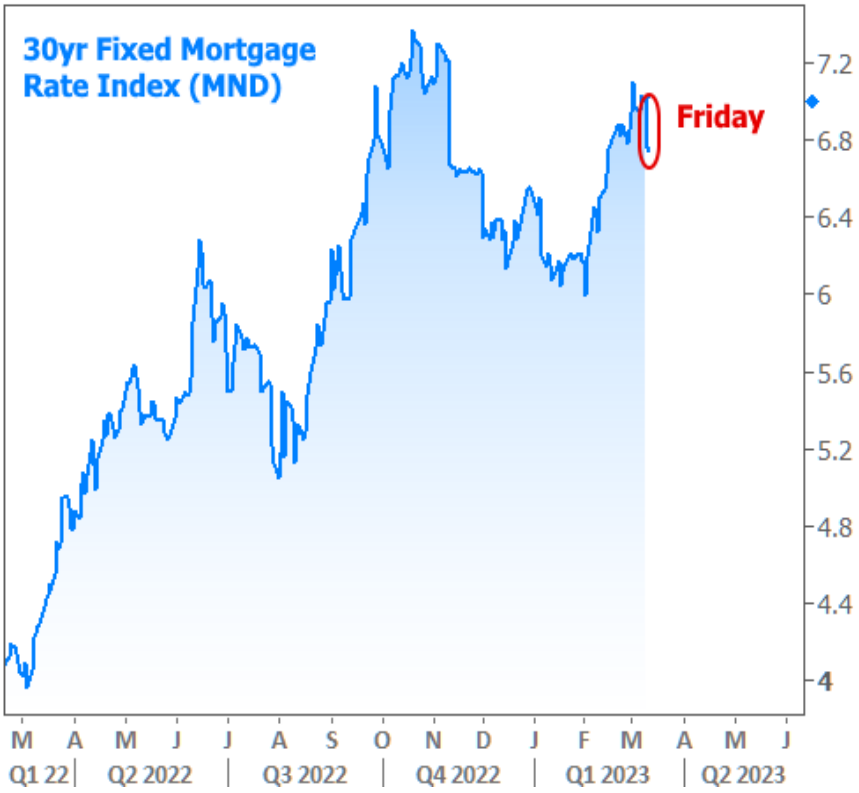
Simply put, traders saw the Fed hiking to just under 5.5% at the start of the week, just under 5.7% after Powell, and then down to 5.2% on Friday.

The charts above refer to the Fed Funds Rate, which applies to overnight lending among large institutions. Mortgage rates are **not** directly dictated by the Fed Funds Rate, but in general, when markets shift to expect lower Fed Funds Rates in the future, mortgage rates also tend to move down. This week is no exception, but the mortgage market didn't move nearly as much as other parts of the rate market.



There are **two reasons** for this. First off, US Treasuries always do better than the mortgage market amid these sorts of "flights to safety." Secondly, Silicon Valley Bank had large holding of mortgage-backed-securities (MBS), the bonds that underlie and dictate the mortgage rate environment. The issue there isn't as much about concern over the quality of the bonds (this is definitely NOT 2007, and we're not just saying that...) as concern about additional supply of MBS hitting the market (higher supply = higher rates, all other things being equal).

What's Next?

From here, the market turns its attention to next Tuesday's **Consumer Price Index (CPI)**--the only other monthly economic report in the same league as the jobs report. On several occasions in the past year, it's had an even bigger impact.

We know the Fed wanted to see the jobs report and CPI before deciding on the size of the next rate hike. Markets clearly think the bank failure news will serve as evidence that the Fed's restrictive monetary policies are now causing substantial damage to sectors of the economy beyond the obvious (housing and mortgage market...).

The Fed is now in its **"blackout period."** No, that doesn't mean they're going back to college. Rather, it refers to the 12 days leading up to any Fed announcement where Fed members abstain from public comment on policy. This leaves financial markets to guess at how the data will impact the decision, thus potentially increasing volatility.

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Of course CPI is only the big to-do if there aren't any big new surprises on the "contagion" front next week. In other words, are other banks' assets exposed in a certain way due to this week's bank failure? Will certain banks see more demand for withdrawals than they can handle simply because investors are nervous? Never say never, but to an infinitely greater extent than was the case the last time a top 20 bank folded, significant domino effects would be surprise. Translation: we hope to get back to waiting on econ data and the Fed to set the tone.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Mar 06				
10:00AM	Jan Factory orders mm (%)	-1.6	-1.8	1.8
Tuesday, Mar 07				
10:00AM	Jan Wholesale inventories mm (%)	-0.4	-0.4	-0.4
10:00AM	Powell Senate Testimony			
1:00PM	3-Yr Note Auction (bl)	40		
3:00PM	Jan Consumer credit (bl)	14.80	20.00	11.56
Wednesday, Mar 08				
7:00AM	w/e MBA Purchase Index	154.4		138.8
7:00AM	w/e MBA Refi Index	437.9		444.0
8:15AM	Feb ADP jobs (k)	242	200	106
8:30AM	Jan Trade Gap (bl)	-68.3	-68.9	-67.4
10:00AM	Job Openings and Labor Turnover Survey (JOLTS) (mln)	10.824	10.546	11.012
10:00AM	Powell Testimony (day 2)			
Thursday, Mar 09				
7:30AM	Feb Challenger layoffs (k)	77.770		102.943
Friday, Mar 10				
8:30AM	Feb Unemployment rate mm (%)	3.6	3.4	3.4
8:30AM	Feb Non-farm payrolls (k)	311	205	517
8:30AM	Feb Average earnings mm (%)	0.2	0.3	0.3
Tuesday, Mar 14				
8:30AM	Feb m/m Headline CPI (%)	0.4	0.4	0.5
8:30AM	Feb y/y CORE CPI (%)	5.5	5.5	5.6
8:30AM	Feb m/m CORE CPI (%)	0.5	0.4	0.4
8:30AM	Feb y/y Headline CPI (%)	6.0	6.0	6.4
Wednesday, Mar 15				
7:00AM	w/e MBA Purchase Index	165.6		154.4
7:00AM	w/e MBA Refi Index	458.9		437.9
8:30AM	Feb Core Producer Prices YY (%)	4.4	5.2	5.4
8:30AM	Feb Retail Sales (%)	-0.4	-0.3	3.0

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Feb Core Producer Prices MM (%)	0.0	0.4	0.5
8:30AM	Mar NY Fed Manufacturing	-24.6	-8.00	-5.80
Thursday, Mar 16				
8:30AM	Feb Import prices mm (%)	-0.1	-0.2	-0.2
8:30AM	Feb House starts mm: change (%)	9.8		-4.5
8:30AM	Feb Build permits: change mm (%)	13.8		0.1
8:30AM	Mar Philly Fed Business Index	-23.2	-15.6	-24.3
8:30AM	w/e Jobless Claims (k)	192	205	211
Friday, Mar 17				
9:15AM	Feb Industrial Production (%)	0.0	0.2	0.0
10:00AM	Mar Consumer Sentiment	63.4	67.0	67.0
10:00AM	Feb Leading index chg mm (%)	-0.3	-0.3	-0.3
Wednesday, Apr 12				
1:00PM	10-yr Note Auction (bl)	32		
Thursday, Apr 13				
1:00PM	30-Yr Bond Auction (bl)	18		

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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