Mid Valley Financial
Mortgage Banker, Since 1985
Broker CA DRE#01206057 | NMLS ID#219418
7644 N. Palm Avenue Fresno, CA 93711

Office: (559) 432-8221
Mobile: (559) 432-8221
info@mvloans.com
View My Website

Failing Banks, Falling Rates, Falling Prices. Should You Worry?

While there were no further bank failures this week, there was plenty of concern and speculation about who might be next. Those concerns teamed up with Wednesday's Fed announcement to push interest rates lower (yes, even though the Fed hiked rates). Meanwhile, two separate reports showed a decline in home prices.

Bank Failures Driving Markets

Since the failure of Silicon Valley Bank earlier this month, financial markets drastically shifted their trading patterns. Up until that point, the default reaction was for stocks and bonds to win and lose together depending on the implications for Fed policy.

Specifically, if economic data came out that made the market think the Fed would be friendlier, stocks and bonds would improve together (note: an improvement in bonds results in lower yields/rates). If something looked like it would make the Fed cranky, both lost together. It made for an interesting mirror image effect on charts.

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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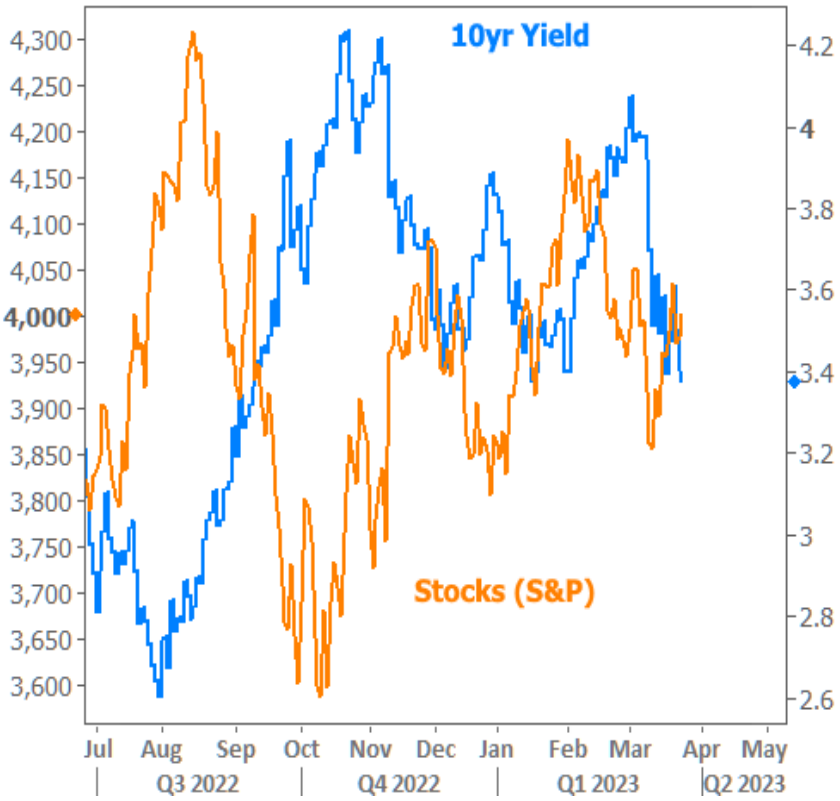
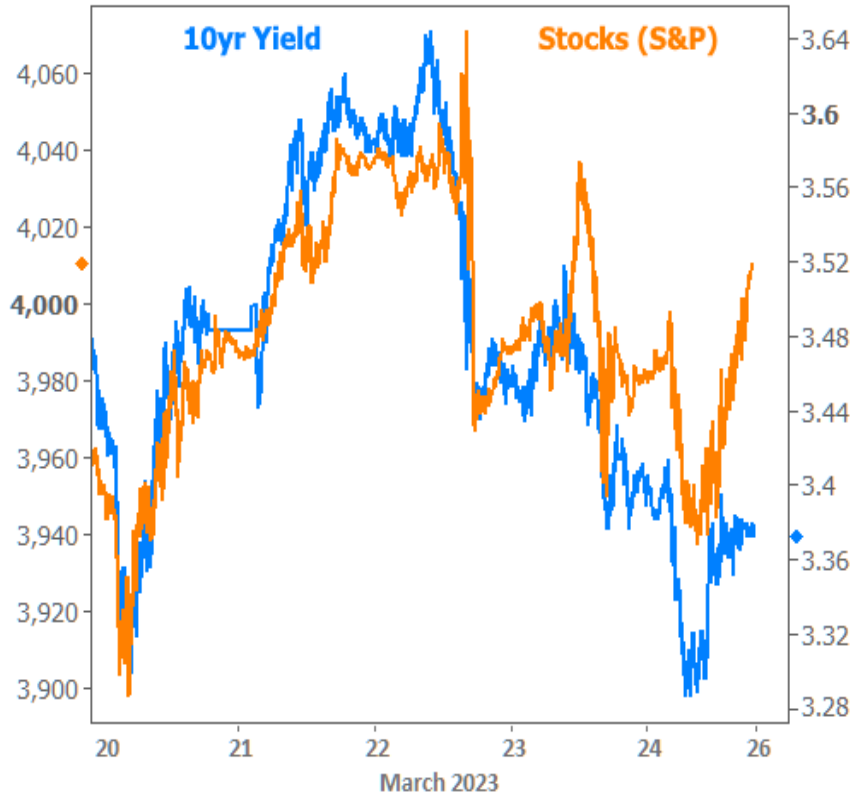


In the chart above, you may notice that the mirror image pattern starts getting less obvious over the past few weeks. If we zoom into a more granular view, we can see that pattern has shifted to one that's more purely correlated--especially this week.



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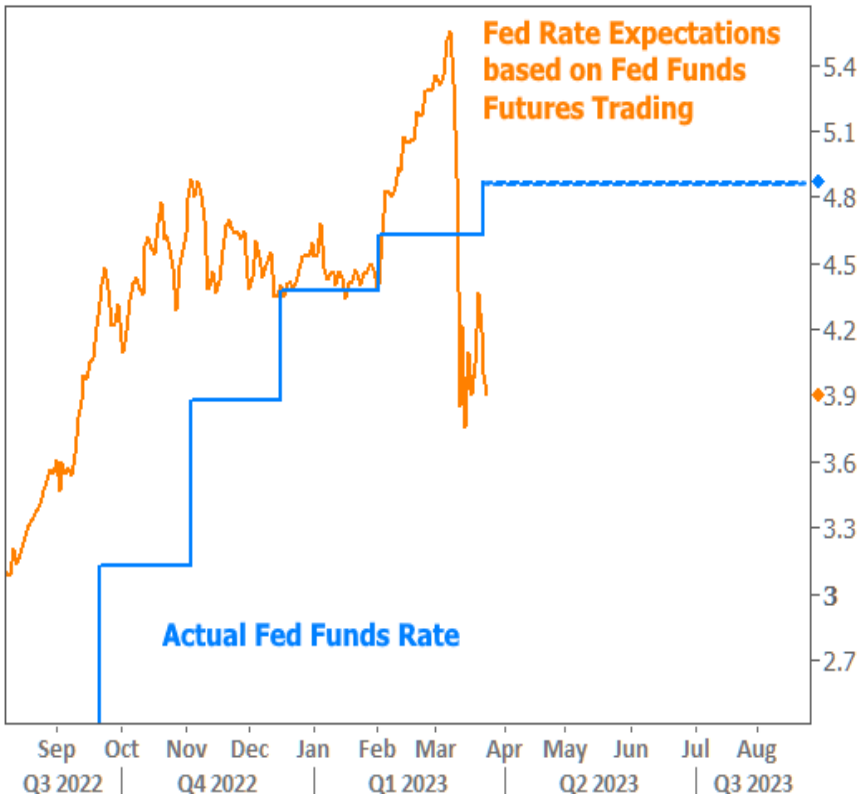
What's up with this? The simple answer is that fears about the banking sector drive what's known as a "flight to safety." This involves the selling of riskier assets like stocks and the purchase of safer havens like bonds. These ebbs and flows have followed the various bank contagion headlines as well as the Fed's comments on that topic on Wednesday the 22nd.

Wednesday's Fed Announcement

The Fed was widely expected to hike rates by 0.25% in spite of the banking drama. As such, the hike itself had little-to-no impact on markets. Instead, traders focused on Fed Chair Powell's willingness to entertain additional risks posed by stress in the banking sector. He likened the uncertainty to a "free rate hike" in that it has the effect of tightening financial conditions without the Fed needing to hike rates again. Many market participants saw this as paving the way for the Fed to be less aggressive with rate hikes going forward.

That said, Fed members can't really change their forecasts to speculate about more bank failures. Markets would read those forecasts as an endorsement of additional panic, thus making rate cuts a self-fulfilling prophecy. Instead, the Fed's outlook for its own policy rate remains around 5% all the way through 2024. Meanwhile, financial markets are already betting on roughly a full point of rate cuts by the end of 2023 (3.9% according to markets vs the current Fed Funds Rate just under 4.9%).



Here's another way to look at the market's view vs the view presented in the Fed's forecasts (also known as the "dot plot" because the Fed publishes said plot in its forecast materials 4 times a year). The red line shows market expectations while the purple line conveys the median view among Fed members.

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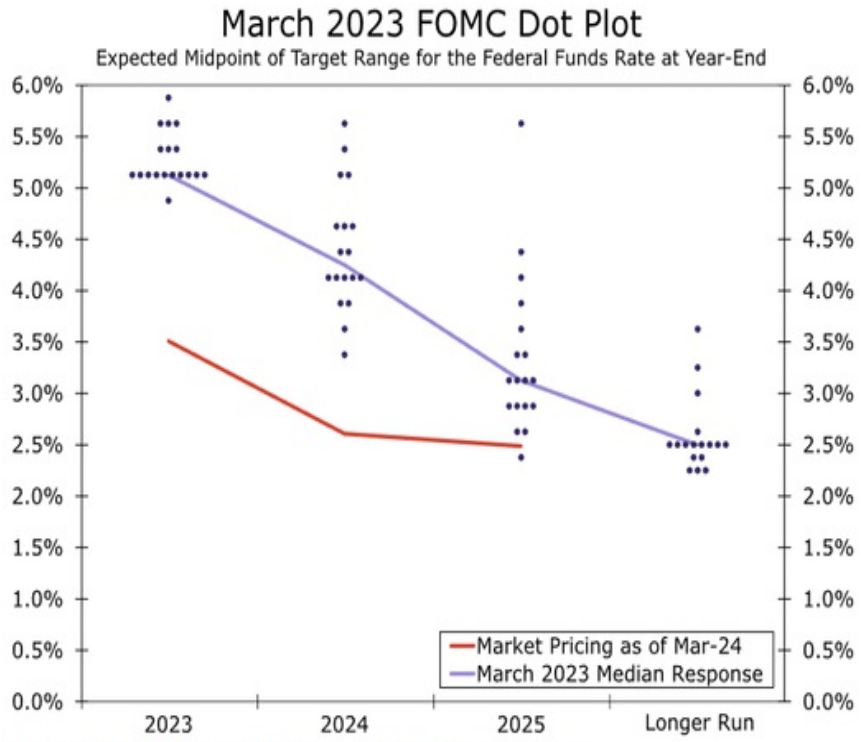

Source: Federal Reserve Board and Wells Fargo Economics

Mortgage rates tend to track fairly well with 10yr Treasury yields and this week was no exception. Both pushed into their lowest levels since Early February. From here, rates can lurch lower abruptly and infrequently in the event of additional bank failures or significant spikes in contagion fears. Rates can move higher as well, but such a move would likely be more gradual considering traders will only take their guard down slowly as days go by without additional bank failures.

Banking issues aside, there's an economy and inflation to worry about. If banks fade to the background, rates will once again be most readily influenced by inflation and the economic activity that shapes it.

What's Up With Home Prices?

If rates are looking for signs of lower inflation, one might argue they'd see it in the housing market. While this unfortunately isn't the way that housing inflation is measured, two reports on home sales showed an ongoing drop in home price inflation this week. The data made headlines because both New and Existing Home Sales showed prices turning negative in year over year terms.

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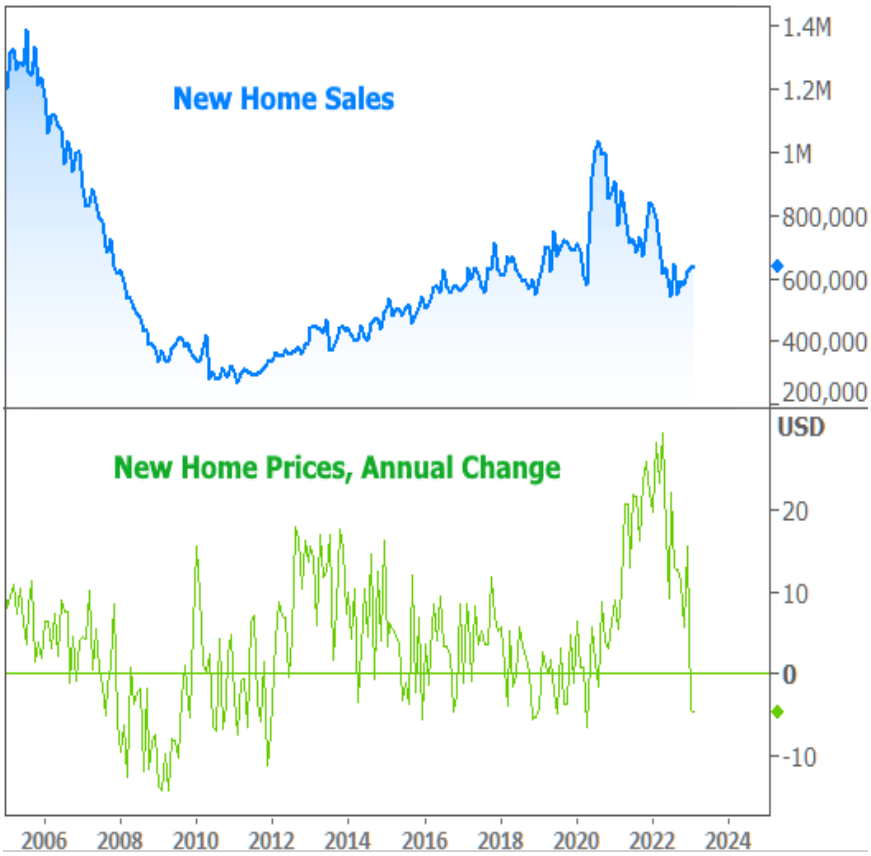



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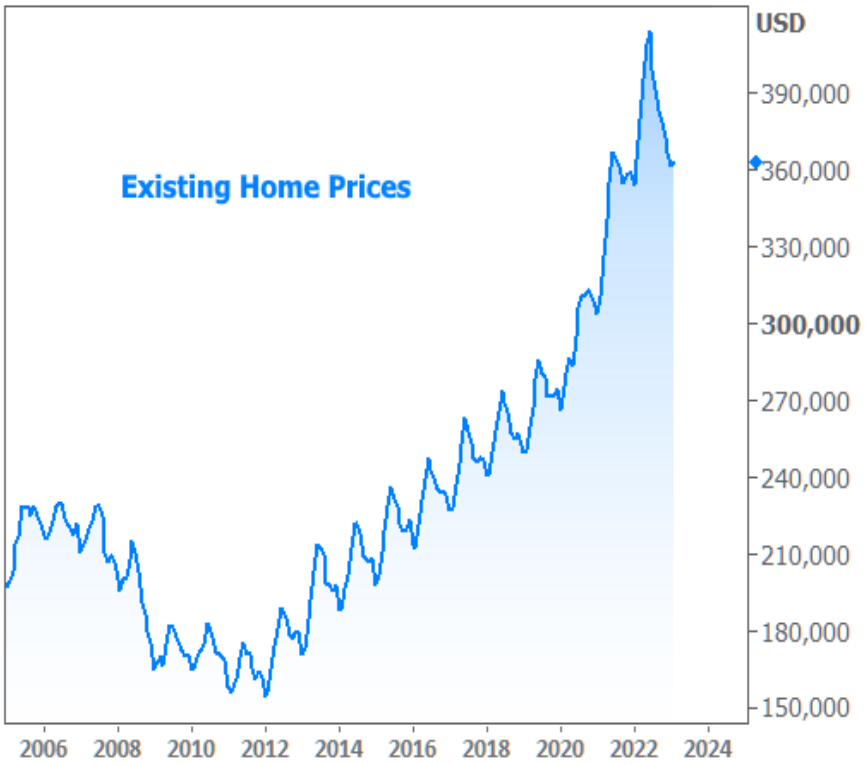
First off, let's address whether this is just the beginning of another housing crisis or anything remotely like it. No it's not. The most recent spike in prices happened for vastly different reasons and the underlying financial conditions of the mortgage market are infinitely more sound. Perhaps most importantly of all, there simply is not a glut of new or existing home supply as there was back then--a point that we've brought up multiple times in the past few months.

Home prices were badly in need of a correction and this is that correction. It could get a bit deeper or it could stabilize. The details depend on geography and the broader economy. Either way, when we look at a chart of outright prices (the same prices that account for the green line in the chart above), we're left with a slightly different impression:



Did your mind's eye see it? If not, here's the "different impression" implied above:

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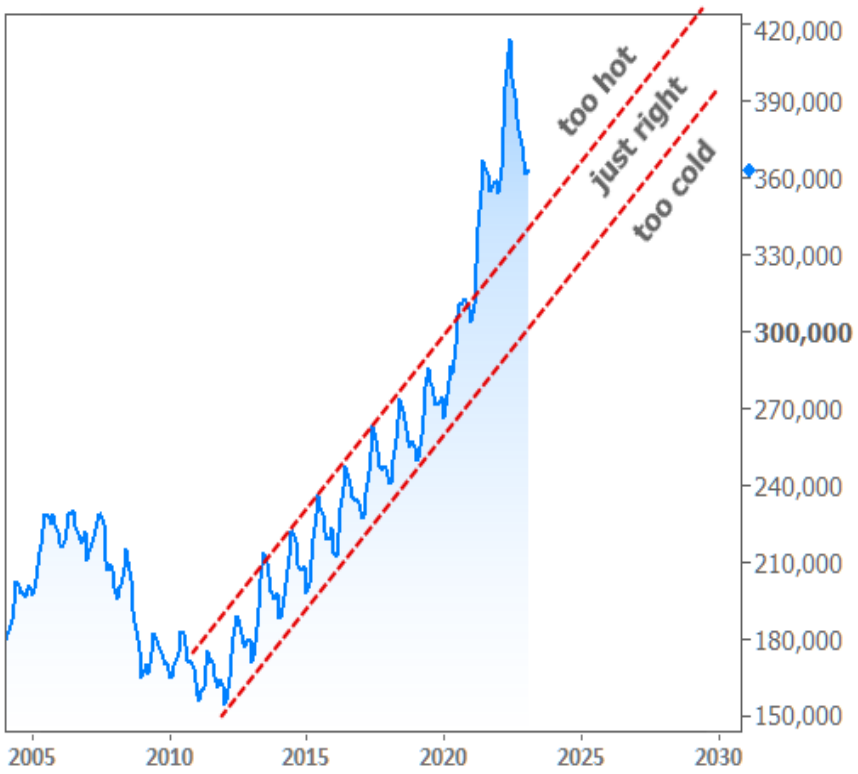

Current prices are still very high relative to the exceptionally stable trend in the decade before covid. Combine that with elevated rates and affordability is a major challenge. That would continue to be the case if prices remain "too high." On the other hand, we wouldn't want prices to quickly swing into "too cold" territory, because that would indicate a problem in housing or the economy, and it could cause prospective buyers to wait for prices to fall farther.

And just in case these charts make you wonder if you should wait for prices to fall, please note that home prices are seasonal and February already moved higher versus January--it just did so at a slower pace than last year.

What's Next?

The banking issues have led the market to shift gears away from a steady trend toward higher rates. The new environment is more neutral as markets wait to see how the banking situation plays out at home and abroad. Traders will also wait for the more relevant economic data in April (primarily the big jobs report and the Consumer Price Index). There are good cases to be made for both camps, but even the Fed can't deny that the case for higher rates looks a lot shakier than it did a few weeks ago.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Mar 21				
10:00AM	Feb Existing home sales (ml)	4.58	4.20	4.00
10:00AM	Feb Exist. home sales % chg (%)	+14.5	5.0	-0.7
Wednesday, Mar 22				
7:00AM	w/e MBA Refi Index	481.3		458.9

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	169.3		165.6
2:00PM	N/A FOMC rate decision (%)	4.750 - 5.000	4.875	4.625
2:30PM	Powell Press Conference			
Thursday, Mar 23				
8:30AM	w/e Jobless Claims (k)	191	197	192
10:00AM	Feb New Home Sales (ml)	0.640	0.650	0.670
10:00AM	Feb New Home Sales (%) (%)	1.1		7.2
Friday, Mar 24				
8:30AM	Feb Durable goods (%)	-1.0	0.6	-4.5
9:45AM	Mar Markit Composite PMI	53.3	47.5	50.1
Monday, Mar 27				
1:00PM	2-Yr Note Auction (bl)	42		
Tuesday, Mar 28				
9:00AM	Jan Case Shiller Home Prices-20 y/y (%)	2.5	2.5	4.6
9:00AM	Jan FHFA Home Prices y/y (%)	5.3		6.6
10:00AM	Mar Consumer confidence	104.2	101.0	102.9
1:00PM	5-Yr Note Auction (bl)	43		
Wednesday, Mar 29				
7:00AM	w/e MBA Purchase Index	172.7		169.3
7:00AM	w/e MBA Refi Index	504.4		481.3
10:00AM	Feb Pending Sales Index	83.2		82.5
1:00PM	7-Yr Note Auction (bl)	35		
Thursday, Mar 30				
8:30AM	Q4 GDP Final (%)	2.6	2.7	2.7
8:30AM	w/e Jobless Claims (k)	198	196	191
Friday, Mar 31				
8:30AM	Feb Core PCE Inflation (y/y) (%)	4.6	4.7	4.7
9:45AM	Mar Chicago PMI	43.8	43.4	43.6
10:00AM	Mar Consumer Sentiment (ip)	62.0	63.2	63.4

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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

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EQUAL HOUSING OPPORTUNITY

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