



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

Fax: (559) 432-8298

info@mvloans.com

[View My Website](#)

Too Soon to Think About The Next Recession?

One short week after witnessing a return of interest rate volatility, it disappeared again this week. Mortgage rates saw **some** small-scale ups and downs, but generally held very close to last Friday's levels. All this despite the presence of important economic data and a policy announcement from the Fed.

Investors are **wrestling with bigger decisions** about where the economy goes from here. This might seem a bit silly considering economic data has been stable and strong for so long, but financial markets are always doing their best to price-in the future.

When the tax bill was just coming to fruition in early 2018, the future seemed much clearer. Treasury yields would still have to rise because they hadn't yet priced-in the excess government debt supply associated with the tax bill (more supply = higher rates).

On the other side of the market, equities traders were **just beginning** to price-in the tax bill's anticipated effect on corporate earnings. And of course, the Fed would have to hike rates a bit more quickly if the tax bill ended up having a stimulative effect.

As of mid-February, markets were telling us this "pricing-in" process was potentially winding down. Bonds had reached a bit of a plateau and were **finally** moving sideways. Stocks had recovered from the early February flash crash and began to consolidate without making new highs. We even saw a plateau in the markets that bet on the Fed's rate hike pace.

Then the **trade war headlines** began to circulate. This was to be the theme that would underpin a growing level of indecision in the marketplace. It was the manifestation of the question: have investors priced-in enough of the future's positive economic potential?

While it **may** well be **far** too early for the debate, the question of the timing of the next recession (or simply the next economic deceleration) is already being asked. One of the most common arguments in favor of asking the question is the falling (or flattening) "yield curve"--the spread between 2yr and 10yr Treasury yields.

Although many pundits and even several Fed members have opined that **history will not repeat itself** in the same way this time around, in the past, an

National Average Mortgage Rates



	Rate	Change	Points
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	99.49	+0.10
MBS GNMA 5.5	99.91	+0.13
10 YR Treasury	4.2315	-0.0210
30 YR Treasury	4.4542	-0.0183

Pricing as of: 7/23 8:58AM EST

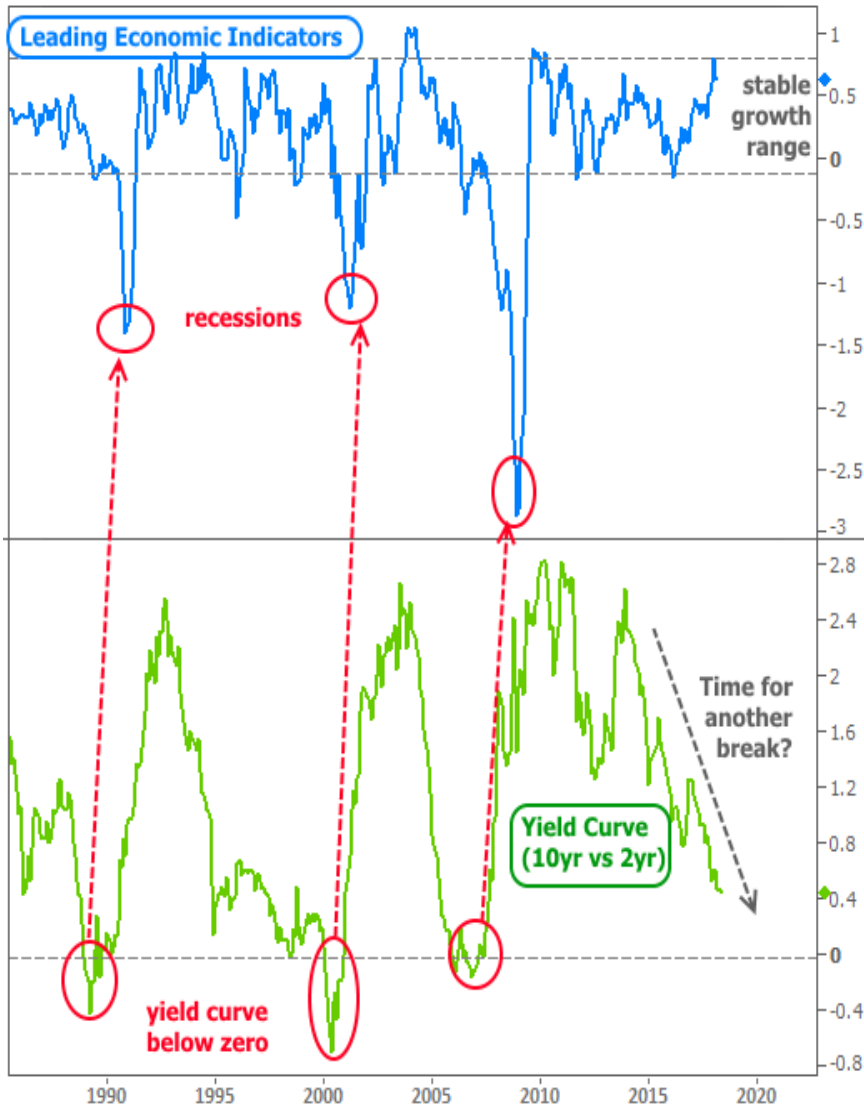
Recent Housing Data

		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%

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inverted yield curve (2yr > 10yr) has preceded 3 out of the last 3 recessions.

Economy vs Yield Curve



As you might guess, a recession has negative implications for stocks, but it typically coincides with lower interest rates. The timing **isn't coincidental**. Stocks have been consolidating in an ever-narrower range. This means they **MUST** break out soon.

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Bonds are also at a crossroads, having just lived through their **2nd** encounter with the **most important rate ceiling** in more than 10 years. We've already discussed reasons that 3% shouldn't be as firm of a ceiling when comparing the present situation to that seen in 2013/2014, but some investors are still holding out hope. Granted, it **COULD** happen if the bigger picture gets cloudy enough, quickly enough, but the 2 pessimistic scenarios in the following chart of 10yr yields are also on the table.

US 10yr Yield



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As for nearer-term, smaller scale considerations, the **unsung hero** of the past few weeks (and potentially even the past few months) has been a downturn in European economic data and European bond yields. The German 10yr yield is the representative benchmark rate for Europe, and it's arguably been leading the way for US 10yr yields at times.

This week, a **sharp** drop in European rates helped US rates just as much as the important domestic data that came out on Wednesday (a Treasury auction announcement that allayed concerns about how new bond supply could hit the market, and the Fed's relatively tame policy announcement). Things will get more interesting if German yields manage to break the floor seen in the lower pane of the chart (and interesting in a bad way if they break the highs seen during the last "bounce"):

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US vs European Bonds



US vs European Bonds



The modest volatility at the end of the week came courtesy of the **big jobs report**. The job tally missed the mark, but was essentially 'as-expected' after we count last month's revisions. Wage growth slowed, but not in a terrifying way. At first glance, the slightly weaker data was good for bonds, but because last month's data was so rotten, **this month's** only had to come close in order to keep bonds from getting too excited. With that, rates finished out the week roughly unchanged.

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In **housing-related news**, Pending Home Sales improved, but by slightly less than forecast. The series continues grinding sideways near its post-crisis plateau--something that's unlikely to change without a big shift in the inventory situation.

Pending Home Sales



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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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