



## Michael Baker

Senior Mortgage Loan Officer, Fountain Mortgage

Individual NMLS: 259076 Company NMLS: 2579  
8340 Mission Rd, Ste 240 Prairie Village, KS 66206

Office: 913-735-8455

Mobile: 913-735-5363

[mbaker@fountainmortgage.com](mailto:mbaker@fountainmortgage.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
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.20%	<b>+0.01</b>	0.00
15 Yr. Fixed	6.66%	<b>+0.02</b>	0.00
30 Yr. FHA	6.64%	<b>+0.02</b>	0.00
30 Yr. Jumbo	7.41%	<b>0.00</b>	0.00
5/1 ARM	7.33%	<b>+0.03</b>	0.00

### Freddie Mac

30 Yr. Fixed	7.22%	<b>-0.22</b>	0.00
15 Yr. Fixed	6.47%	<b>-0.29</b>	0.00

Rates as of: 5/8

## Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.99	<b>-0.08</b>
MBS GNMA 6.0	100.89	<b>-0.02</b>
10 YR Treasury	4.5156	<b>+0.0183</b>
30 YR Treasury	4.6748	<b>+0.0328</b>

Pricing as of: 5/9 8:12AM EST

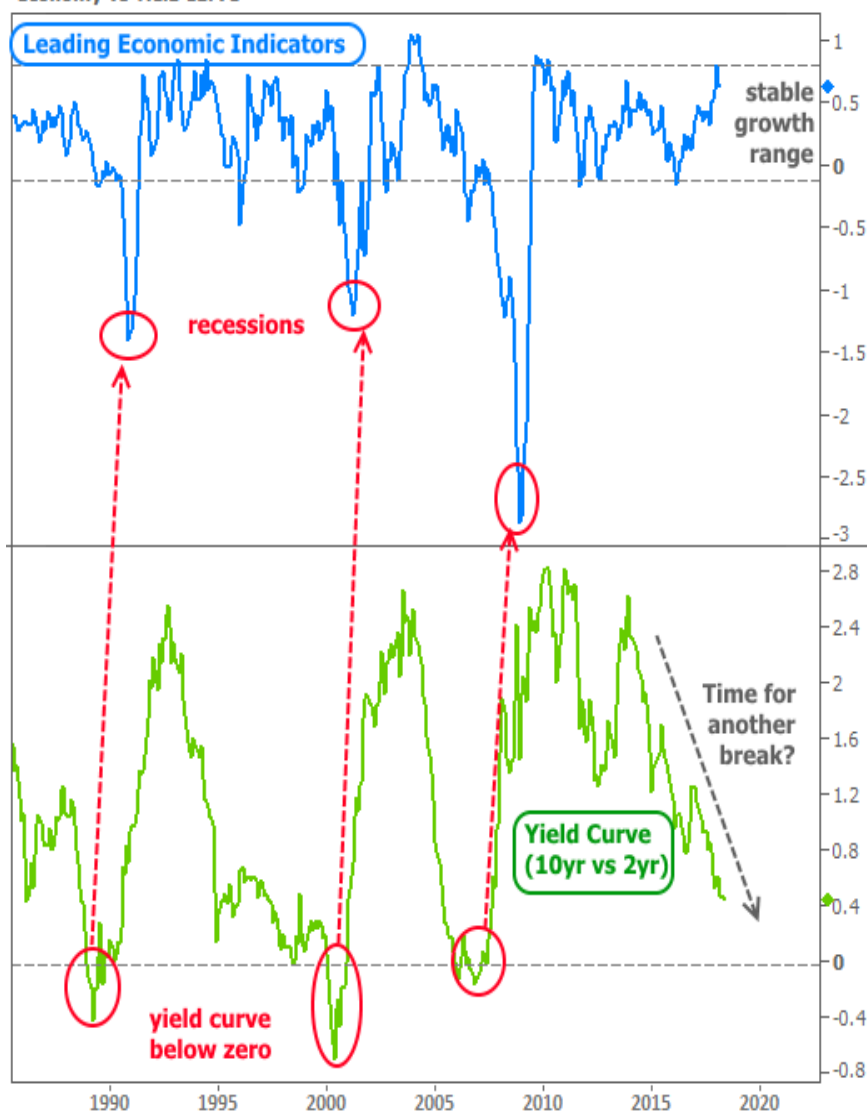
## Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
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%

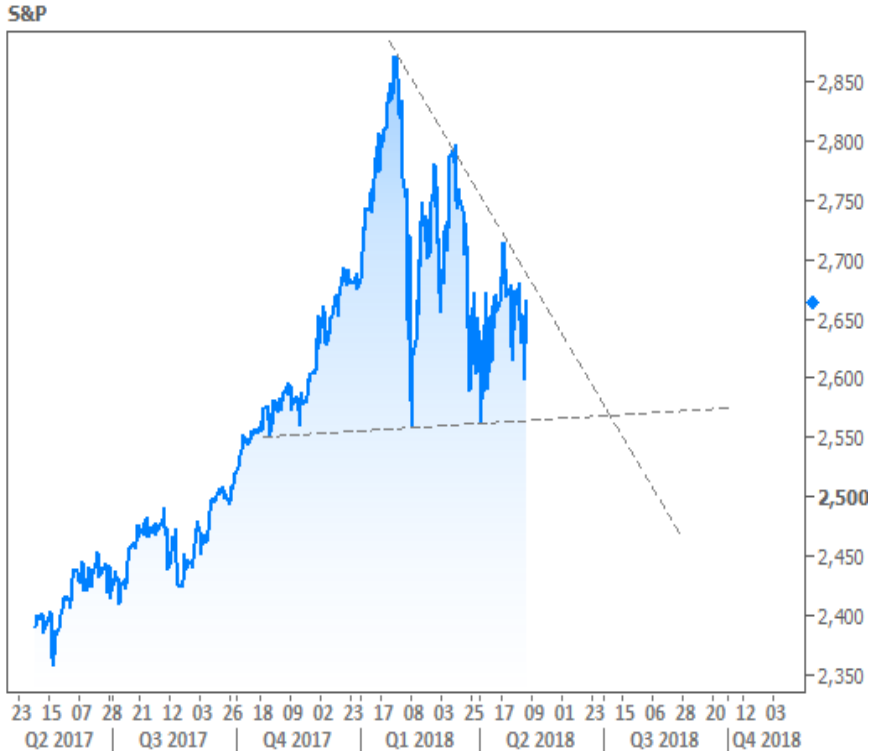
# US Housing Market Weekly

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.



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.

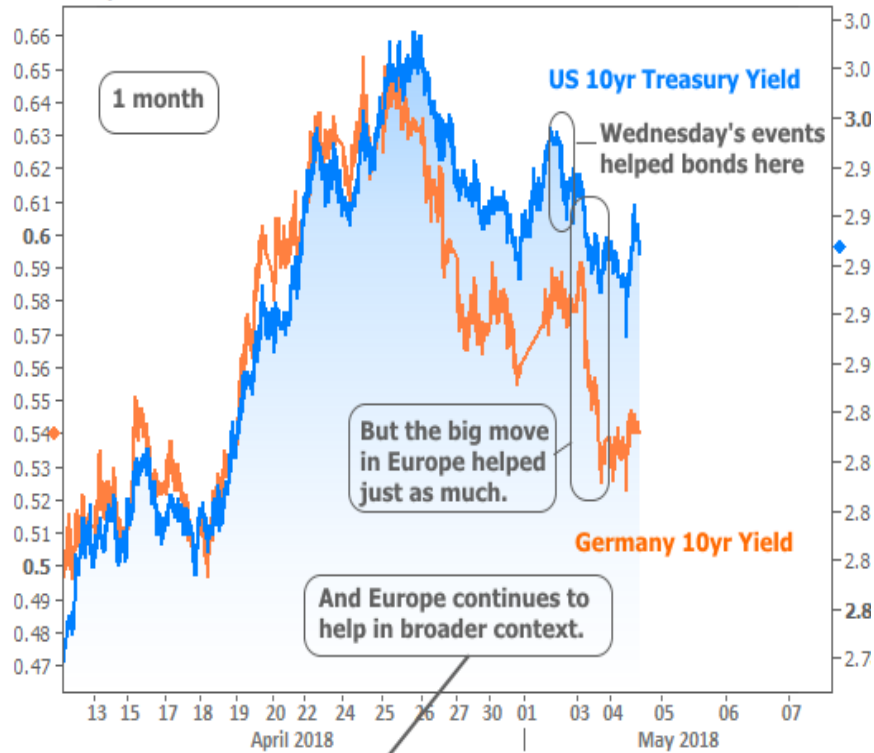


# US Housing Market Weekly

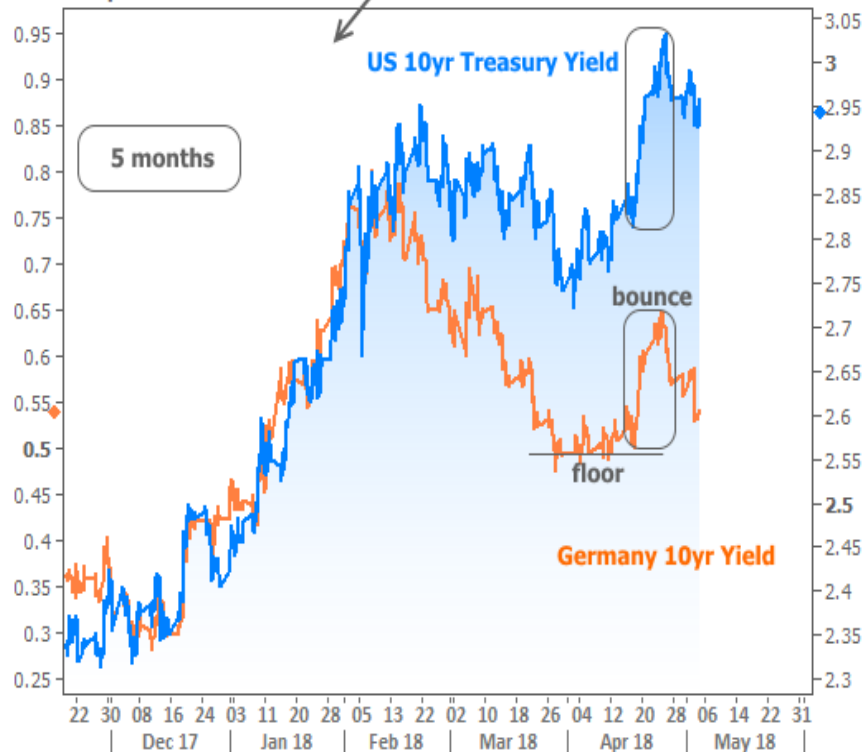
As for nearer-term, smaller scale considerations, the **unsung hero** of the past few weeks (and potentially even the past few months) has been a downturn in European economic data and European bond yields. The German 10yr yield is the representative benchmark rate for Europe, and it's arguably been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

US vs European Bonds

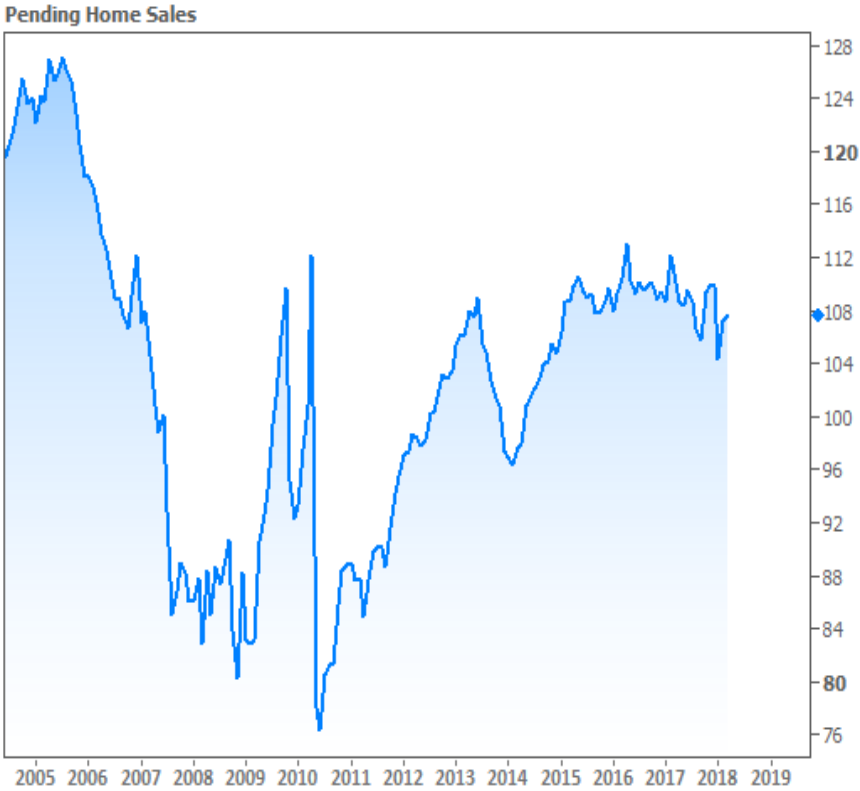


US vs European Bonds



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.

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.



Subscribe to my newsletter online at: <http://housingnewsletters.com/michaelbaker>

## About Michael

If you are thinking about buying or refinancing a home in the Kansas City area, you've probably faced the dilemma of hiring the right Loan Officer to handle your mortgage. You may be concerned about working with someone that doesn't know the area, or who doesn't listen to you. Maybe you're worried about a loan officer who is more concerned with a commission than making sure you're properly taken care of.

Great news - I can help!

IF YOU ARE THINKING OF BUYING A HOME... I would love to share with you the mortgage loan products that are available to you, and also talk about what homes might be coming onto the market very soon. As a Kansas City resident who also went to college just down the street in Lawrence, I'm not just your loan officer but also your neighbor. I'd love to talk to you about my knowledge not only about the Kansas City market, and what neighborhoods would be perfect to you but also help you truly understand the landscape of the mortgage industry today, and introduce you to great Real Estate Agents that are ready to go to work for you and find you the perfect home. I'll help guide you through appraisals, inspections, title searches, and finally closing.

IF YOU ARE A REALTOR LOOKING FOR A REFERRAL PARTNER... I would love to sit down with you over a cup of coffee and show you ways to generate leads for your business and help you grow your clientele through some easy processes that NO other Real Estate Agents are doing. I am a growing Social Media guru that can show you my tips and tricks on how I've doubled my Twitter base in just a month!

If it sounds like I can help you, please contact me directly through Linked In, email me at [mbaker@affinityhomeloan.com](mailto:mbaker@affinityhomeloan.com) or call/text me at 913-735-5363. If you're not yet ready for a conversation, but you'd like to learn more about me and how I can help you or about the mortgage process in general, including great blog posts to send out to your clients, check out my website at <http://www.michaelbakerhomeloans.com>.

**Michael Baker**

