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Are The Highest Interest Rates Behind Us?

Relative to the last 2 years of pain for rates, a **sense of hope** has emerged, seemingly overnight, as the 10yr Treasury yield (an important benchmark for longer-term rates like mortgages) broke through a key level.

3.05% had **consistently blocked** the advance of falling rates for more than 2 months. The most recent bounce happened just last week. Breaking through sets us up to challenge the big psychological barrier at 3.0%.

10yr Treasury



The catalyst for the late week surge was a **speech by Fed Chair Jerome Powell**. The Fed sets monetary policies that can have a direct impact on rates. Those policies are largely a function of objective economic data, but there is some room for interpretation.

The Fed's interpretation has arguably been fairly balanced over the past few years. On the one hand, they've been hiking at a much slower pace compared to past cycles. On the other hand, they've been hiking **regularly** and their outlook has clearly called for those hikes to **continue** well into 2019.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	0.00

Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00

Rates as of: 5/3

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.09	+0.31
MBS GNMA 6.0	101.03	+0.29
10 YR Treasury	4.5138	-0.0657
30 YR Treasury	4.6711	-0.0579

Pricing as of: 5/3 5:04PM EST

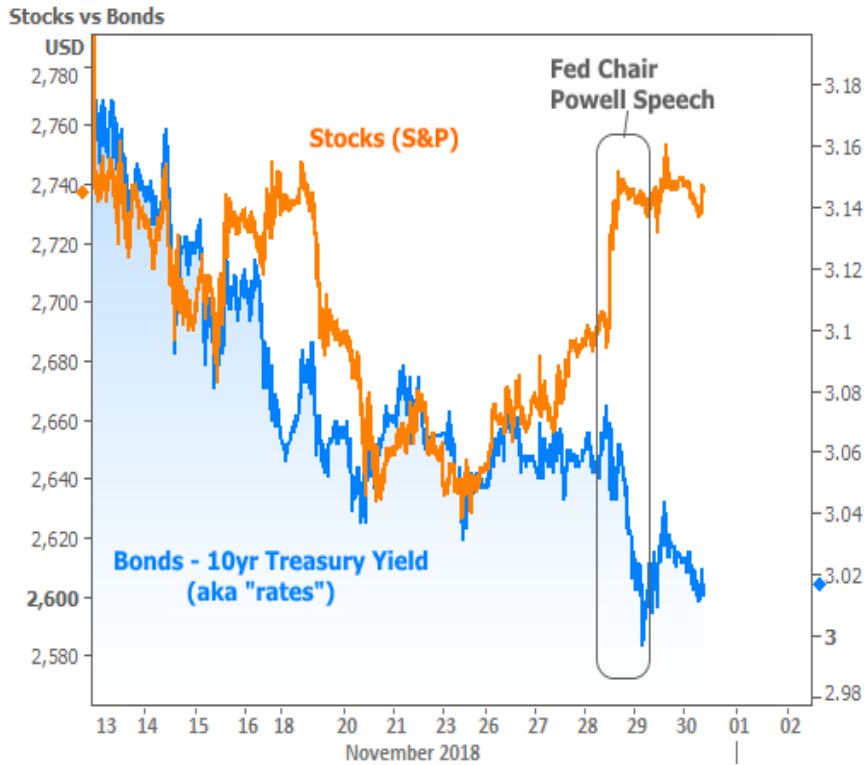
Recent Housing Data

		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%

Powell's speech upset the balance as far as many investors were concerned. Back in October, Powell said rates were "a long way from neutral, probably" before adding that the Fed may even raise rates past neutral (a level that neither promotes or discourages economic growth). He'd been sticking to that script regularly **until this week** when he said rates are now "just below" neutral.

Beyond the comment on rates, Powell also noted that the Fed's rate hike outlook is **no guarantee** of a policy path (translation: they might not end up hiking as much as anticipated). The determining factor in that policy path will be economic data. On that topic, Powell said the Fed "will be paying very close attention."

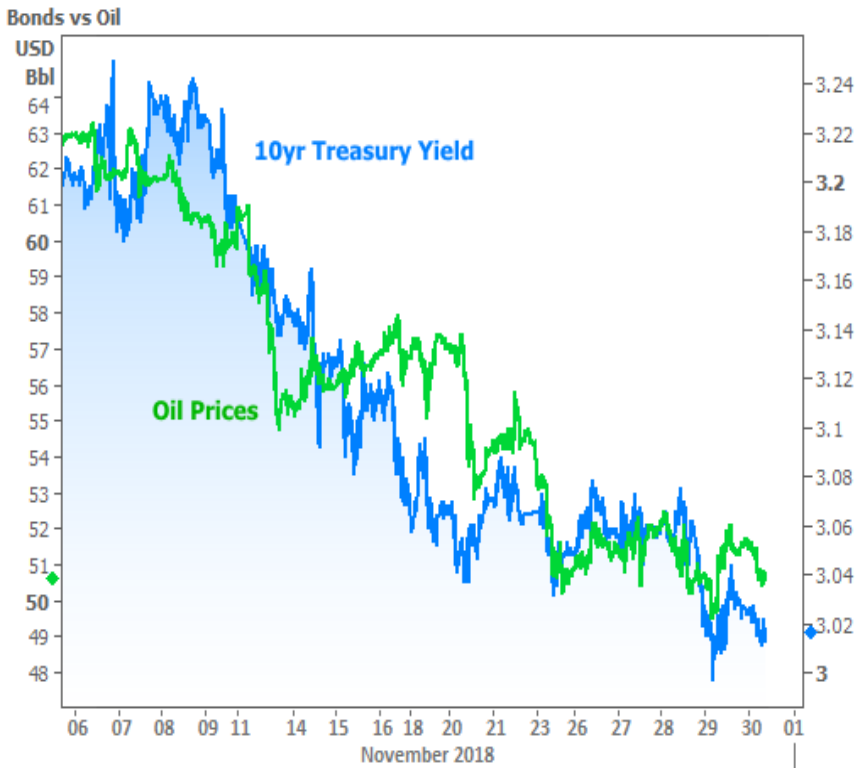
Stocks and bonds both seized on the **apparent shift** in tone from the Fed Chair. In general, when the Fed is perceived as less likely to hike rates, both sides of the market rally. That can be seen in the following chart with stocks surging and rates falling.



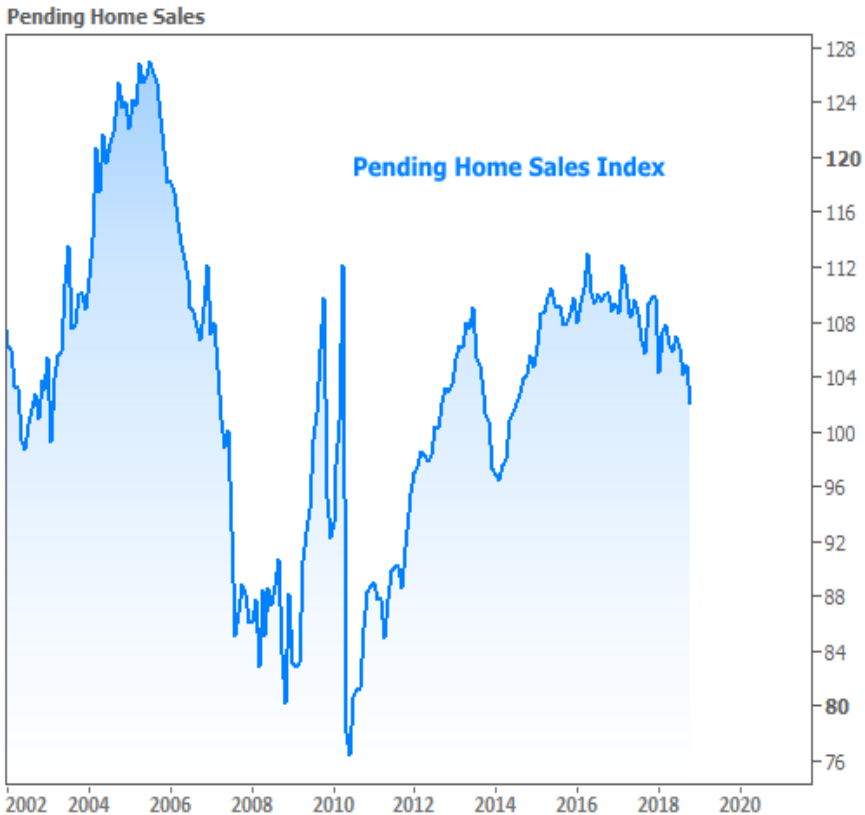
Combined with the positive move in rates that began 3 weeks ago, a sense of hope seems to be returning to the bond market. Keep in mind that at least **some** of that "hope" will come at the **expense** of stocks and the economy. After all, rates tend to fall when the economy is weak.



You might notice that the blue line (bonds) was more willing to move lower than the orange line (stocks) in November. Of course we just discussed the Powell effect, but well before Powell's speech, we can see bonds setting "lower lows" even as stocks try to hold the same defensive floor. One potential reason is **weakness in oil prices**. Oil has a bearing on inflation, and inflation has a bearing on bonds. Falling oil prices can add downward pressure on rates.



If these positive influences stick around, the highest rates for this economic cycle may indeed already be behind us. That **couldn't come a moment too soon** for the housing market where sales continued to slump according to two reports out this week.



Still, it's not necessarily safe to assume rates will keep moving lower. Keep Powell's comments about economic data in mind. The Fed will be watching the data closely. To whatever extent next week's important economic reports disappoint, **hope will remain alive** for rates. But if those reports are stronger than expected, rates could easily bounce back toward recent highs.

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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 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>.

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