



## The Arizona Loan Baron

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## The Week Ahead: Total Agreement on Where Rates are Headed?

I remember when I used to think that certain super smart, well-connected, high-powered traders actually knew where rates would be heading with better than 50% probability. I used to think that even the savviest analyst-types would know better than a magic 8-ball.

You tend to hear a lot of retrospective commentary from people when they were right about a call in the past, but only the best prognosticators give equal treatment to their failures. What makes them the best? It's certainly not about being right more than wrong. It's more about being right or wrong in a thoughtful and adaptive way, understanding victories and defeats, and applying logical takeaways. For instance, if someone who makes predictions is typically wrong, yet in such a way that you had an opportunity to evaluate and disagree with their reasoning ahead of time, then their bad prediction was actually a good prediction for your purposes.

With all that out of the way, consider the following: "As Treasury yields hover close to the lowest since August, almost no one on Wall Street expects them to fall much more in 2015." This was the opening line in a [Bloomberg piece](#) over the weekend. It goes on to say that "**not one** of the 63 analysts" expects 10yr yields to be below 2 percent by the end of the year. In fact, the article quotes one of the analysts as saying "it's difficult to price in a more dovish path from here."

Let's talk about what that means. "**Price in**" simply refers to bond markets adjusting yield levels to convey an expectation about the Fed. "**Dovish**" essentially means "less likely to hike." So the quoted individual is saying bonds are as low as they can without considering the possibility of the Fed simply not hiking.

Let's talk about why that's such a crazy thing to say. I think it's as simple as looking at the median forecast for bond yields 6-months into the future at almost any time since the beginning of 2014. Analysts have been unanimously foreseeing higher rates just around the corner, but they were **only ever right** about it when they made that call at the early 2015 lows. Rates did indeed go much higher into June, but have moved lower ever since. So the first part of the craziness is that there is ample, recent track record of analysts being wrong about strong consensus on rates moving higher.

## MBS & Treasury Market Data

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

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



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.28%	<b>-0.09</b>	0.00
15 Yr. Fixed	6.75%	<b>-0.07</b>	0.00
30 Yr. FHA	6.70%	<b>-0.12</b>	0.00
30 Yr. Jumbo	7.48%	<b>-0.07</b>	0.00
5/1 ARM	7.35%	<b>-0.07</b>	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	7.22%	<b>-0.22</b>	0.00
15 Yr. Fixed	6.47%	<b>-0.29</b>	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.24%	<b>+0.11</b>	0.66
15 Yr. Fixed	6.75%	<b>+0.11</b>	0.64
30 Yr. FHA	7.01%	<b>+0.11</b>	0.94
30 Yr. Jumbo	7.45%	<b>+0.05</b>	0.56
5/1 ARM	6.64%	<b>+0.12</b>	0.87

Rates as of: 5/3

In terms of nuts and bolts, it's **even more crazy**. First of all, the Fed isn't the only game in town. Even if they were, why would we draw conclusions about longer term yields based on Fed policy? The Fed can hike and long term rates might not care (they probably would, but they might not). If the Fed hikes and the global economy continues to struggle and inflation remains elusive, longer term yields will only see the short-term rate hike as more of a long-term ally, despite any incidental short-term volatility.

The bottom line is this: whatever the Fed actually does... it will have a much bigger impact on something like a 2yr yield as opposed to a 10yr yield. With that in mind, 10's and 2's have a lot of history together, and they're **nowhere near the 'inverted'** (10yr yields lower than 2yr yields) days of yore. Even if they merely returned to their recently closest relationship, that would be a net gain of more than 20bps for 10yr yields. In other words, if 2s simply held flat, 10's could drop into the high 1.8's.



Now, back on the topic of **predictions**. Am I saying this **WILL happen**? Not necessarily. I think a significant drop in yields to end the year is less likely, but it is important to know that it absolutely could happen and on that time scale, it would have less to do with the Fed and more to do with an increasingly gloomy global economic outlook.

The week ahead is a warm up for the following week's FOMC Announcement. Data is housing-focused, but not necessarily the kind of thing markets are interested in when it comes to that big-picture economic outlook. Trade flows and technicals (traders trading based purely on necessity, price levels, and patterns) could dominate the action as opposed to fundamentals (trading based on clues about the economy and inflation--aka economic data).

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## The Arizona Loan Baron

The Arizona Loan Baron is at your service!

I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me the opportunity to be your mortgage lending partner.

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