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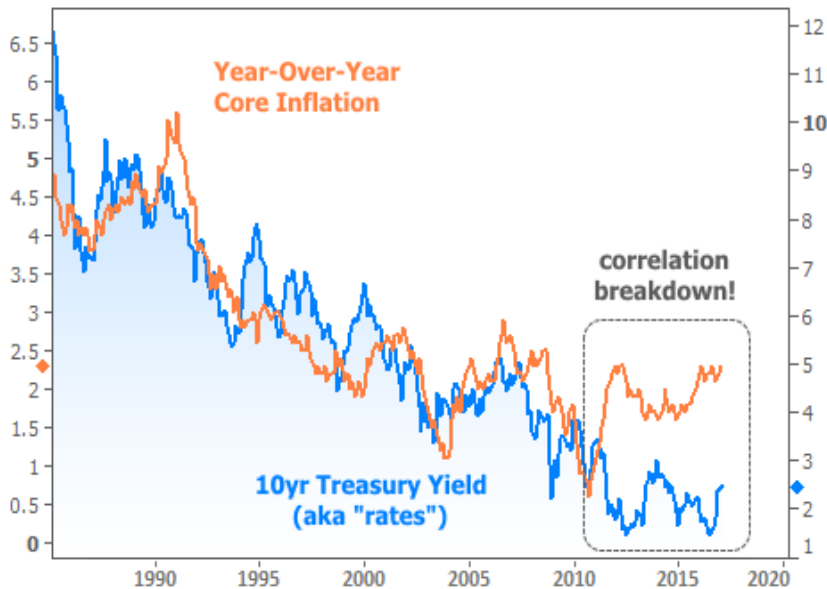
## Inflation is Just One of Rates' Multiple Personalities

It used to be that higher inflation meant higher rates, **period**. That changed abruptly beginning in 2011. Inflation moved higher and rates plummeted. Many investors were puzzled at first, but most grew to accept the new reality. Now, that reality might be changing.

The breakdown in the long-standing correlation between rates and inflation is best viewed as a **hiatus** brought on by global financial panic and unconventional monetary policy. It's impossible to truly separate rates and inflation because higher inflation will always result in higher rates, **all other things being equal**.

When all other things **are not equal**, inflation's impact on rates can be **overshadowed**. From 2011-2016 it was vastly overshadowed!

Core CPI vs Rates



During the time highlighted in the chart above, rates remained lower as global market turmoil and ongoing central bank stimulus drove demand for high quality government debt (higher demand = higher bond prices and lower rates).

As central banks continue trying to wind down their bond buying programs and the threat of a European market collapse subsides, inflation has **quickly** found its seat at the table. The US presidential election merely

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.43%	<b>+0.02</b>	0.00
15 Yr. Fixed	5.95%	<b>0.00</b>	0.00
30 Yr. FHA	5.82%	<b>+0.02</b>	0.00
30 Yr. Jumbo	6.62%	<b>0.00</b>	0.00
5/1 ARM	6.28%	<b>-0.01</b>	0.00

### Freddie Mac

30 Yr. Fixed	6.35%	<b>-0.51</b>	0.00
15 Yr. Fixed	5.51%	<b>-0.65</b>	0.00

Rates as of: 8/30

## Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	<b>+0.02</b>
MBS GNMA 5.0	99.93	<b>+0.02</b>
10 YR Treasury	3.9068	<b>+0.0029</b>
30 YR Treasury	4.1960	<b>+0.0028</b>

Pricing as of: 9/1 7:34PM EST

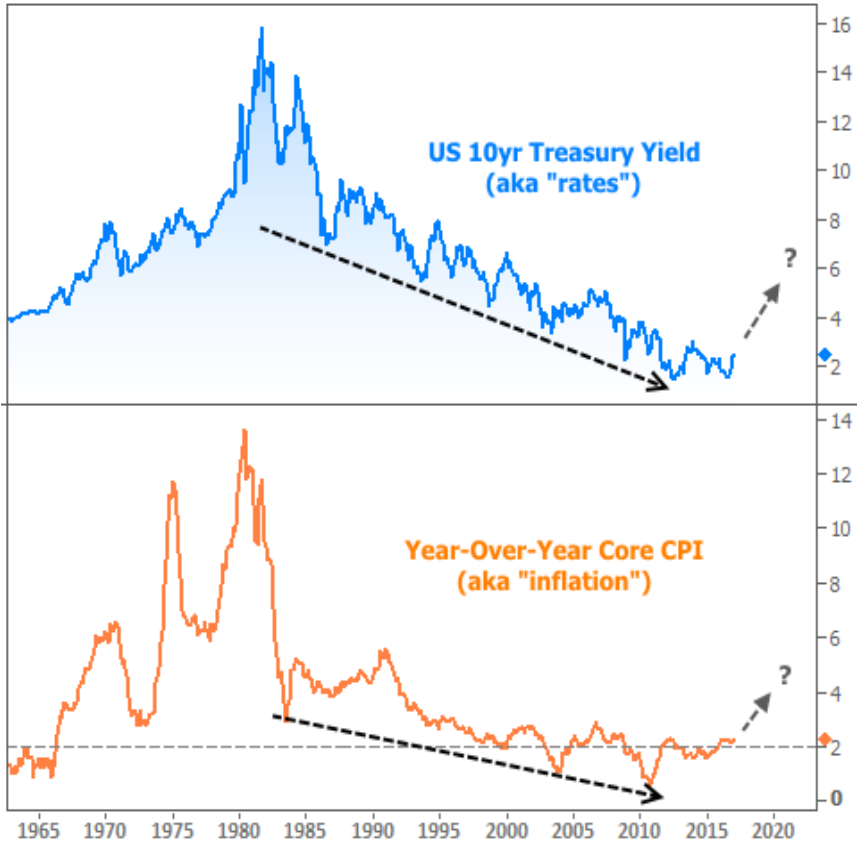
## Recent Housing Data

	Value	Change
Mortgage Apps	Aug 28 226.9	+0.49%
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%

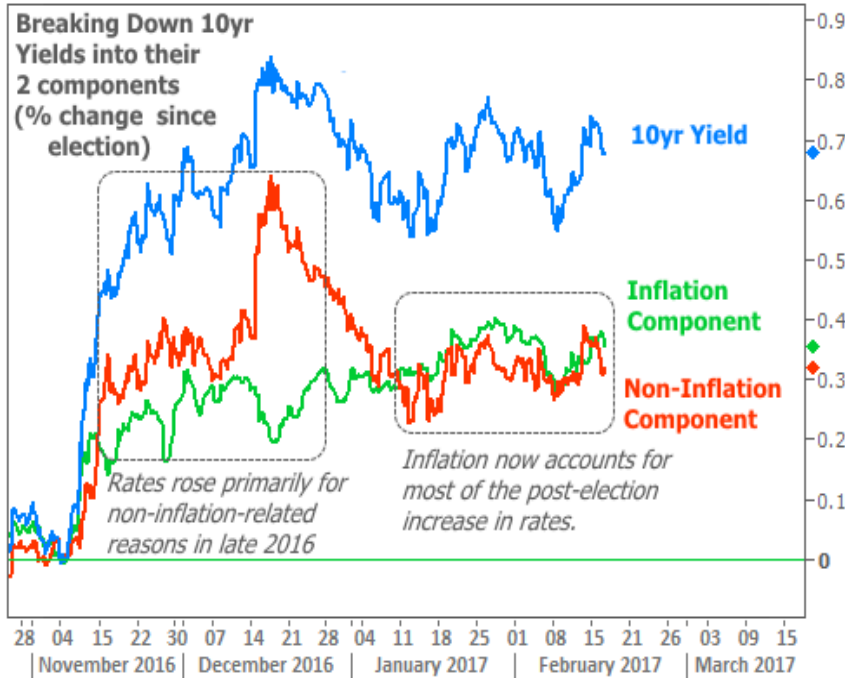
served as the dinner bell. It forced the question: what if growth and inflation increase from here?

If Trump's policies could indeed stimulate an already relatively healthy economy with official inflation figures running over 2% year-over-year, then long-term interest rates had no business being under 2%. Many investors quickly became concerned that a decades-long trend toward lower inflation and rates was at an end.

Core CPI vs Rates



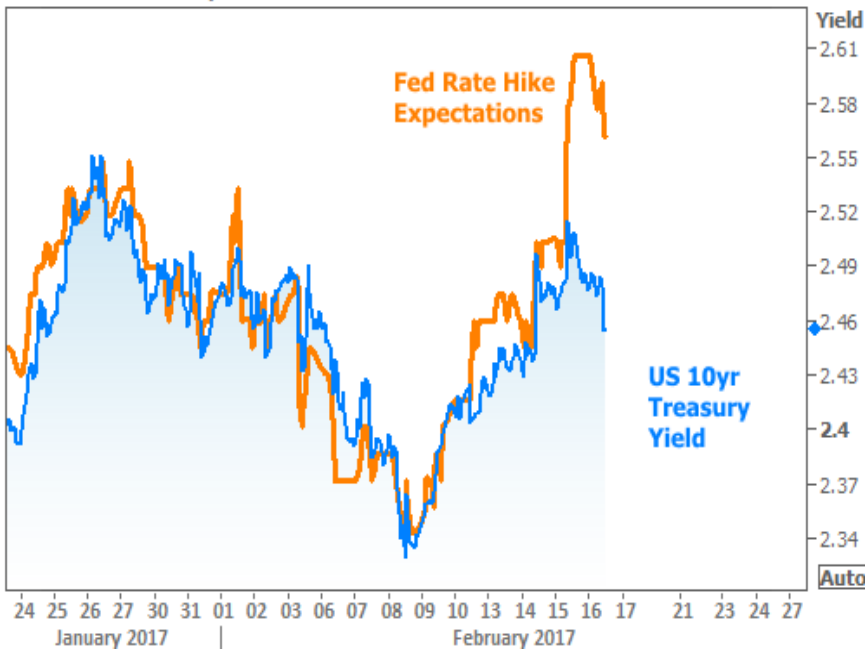
Those concerns are being compounded by their own implications. If inflation is indeed turning a corner, then the Fed may need to hike rates more quickly. Indeed the Fed said as much in December, and you can see the reaction in nominal rates (the non-inflation-related component of rates represented by the red line in the following chart).



In the new year, nominal rates have pulled back somewhat (red line, above), but inflation expectations (the green line) remain elevated. **That's why rates have been sideways** for the past few months. They're waiting to see which of the two personalities will be in control going forward.

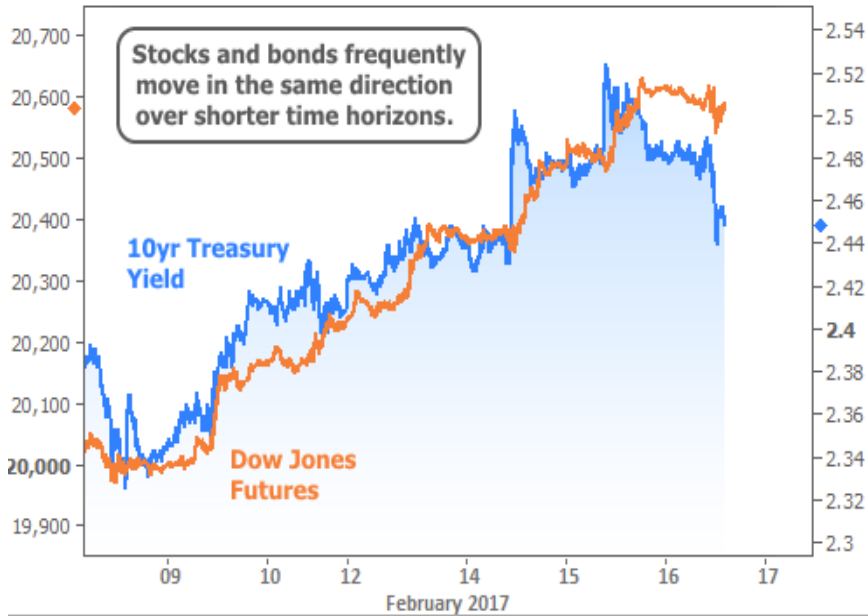
Trying to pick a winner is complicated because the two are so interconnected. We got **fresh evidence** of that this week when the Consumer Price Index--an inflation metric--rose more than expected. It led investors to increase bets on a Fed rate hike at the upcoming meeting, which in turn put some upward pressure on rates on Wednesday morning (the sharp spike in the orange line in the chart below).

Rates vs Fed Hike Expectations



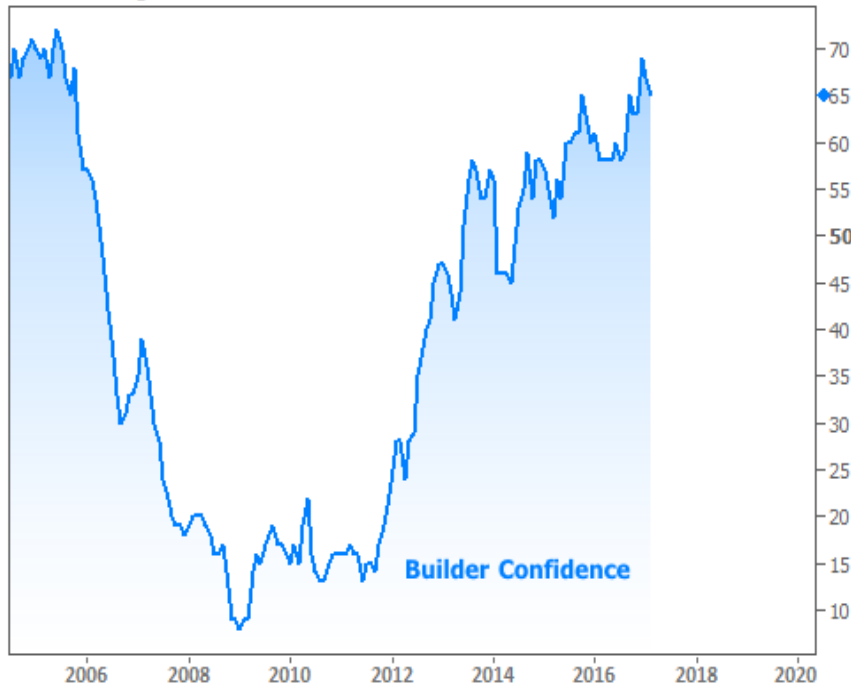
Beyond inflation and nominal rates, there's a popular misconception that stock prices drive interest rates. It's popular because **it's partially true!** The stock market is indeed a minor player in the bond market's multiple personality disorder, but this particular personality never gets full control. Correlation is easiest to see over the shortest time frames, and completely vanishes in the bigger picture.

### Stocks vs Bonds



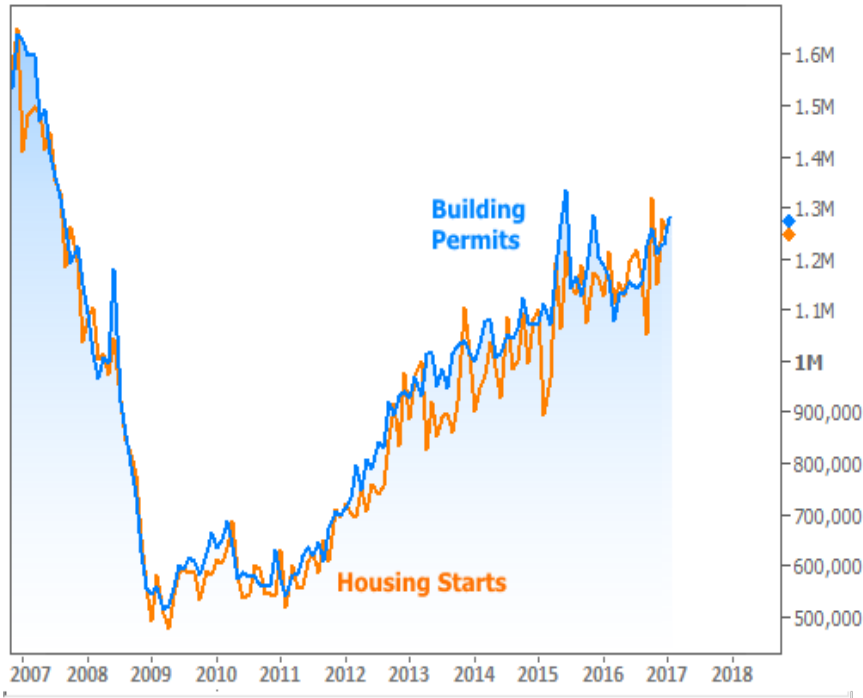
In **housing-specific data** this week, Builder Sentiment pulled back slightly, but remained near post-crisis highs according to the NAHB's Housing Market Index.

### NAHB Housing Market Index



On a similar note, [Housing Starts](#) fell slightly but remained in strong shape overall. The same data showed Building Permits making some **encouraging gains**, hitting the best levels in more than a year.

### Housing Starts vs Building Permits



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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, Feb 14</b>				
8:30AM	Jan Producer Prices (%)	+0.6	0.3	0.2
8:30AM	Jan Core Producer Prices YY (%)	+1.2	1.1	1.6
10:00AM	Yellen Testimony before Senate Banking Committee			
<b>Wednesday, Feb 15</b>				
7:00AM	w/e Mortgage Market Index	379.0		393.6
7:00AM	w/e MBA Purchase Index	223.1		233.7
7:00AM	w/e Mortgage Refinance Index	1239.6		1276.4
8:30AM	Jan Retail sales mm (%)	+0.4	0.1	0.6
8:30AM	Jan CPI mm, sa (%)	+0.6	0.3	0.3
8:30AM	Jan Core CPI Year/Year (%)	+2.3	2.1	2.2
9:15AM	Jan Industrial Production (%)	-0.3	0.0	0.8
9:15AM	Jan Capacity Utilization (%)	75.3	75.5	75.5
10:00AM	Dec Business inventories mm (%)	+0.4	0.4	0.7
10:00AM	Feb NAHB housing market indx	65	67	67
<b>Thursday, Feb 16</b>				
8:30AM	Jan Housing starts number mm (ml)	1.246	1.222	1.226
8:30AM	Jan Building permits: number (ml)	1.285	1.230	1.228
8:30AM	Feb Philly Fed Business Index	43.3	18.0	23.6
8:30AM	w/e Initial Jobless Claims (k)	239	242	234
<b>Monday, Feb 20</b>				
12:00AM	Presidents Day			
<b>Tuesday, Feb 21</b>				
1:00PM	2-Yr Note Auction (bl)	26		
<b>Wednesday, Feb 22</b>				
10:00AM	Jan Existing home sales (ml)	5.69	5.54	5.49
1:00PM	5-Yr Note Auction (bl)	34		
<b>Thursday, Feb 23</b>				
9:00AM	Dec Monthly Home Price mm (%)	0.4		0.5
1:00PM	7-Yr Note Auction (bl)	28		
<b>Friday, Feb 24</b>				
10:00AM	Jan New home sales-units mm (ml)	0.555	0.570	0.536
10:00AM	Feb U Mich Sentiment Final (ip)	96.3	96.0	95.7

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

## Service oriented, responsive, competitive rates and an in depth knowledge of todays mortgage market

After completing my degree in finance at the University of Connecticut, I started in the mortgage business right out of college in 2004. With 15+ years of experience and a primary objective of thoroughly explaining all available loan options to my clients with what is typically the largest investment in their lives, I strive to always make myself available. I constantly educate myself with respect to the mortgage industry and underwriting guidelines for FHA, VA, conventional and jumbo financing. I deliver on the expectations discussed up front and provide the service level my clients deserve from day one. I will remain in touch throughout the process and continue to follow up with you after closing. My goal is to wow you and turn you into clients for life. I want you to be so impressed that throughout and after the process you share my information with your friends, family, neighbors and co-workers who may value from my services.

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