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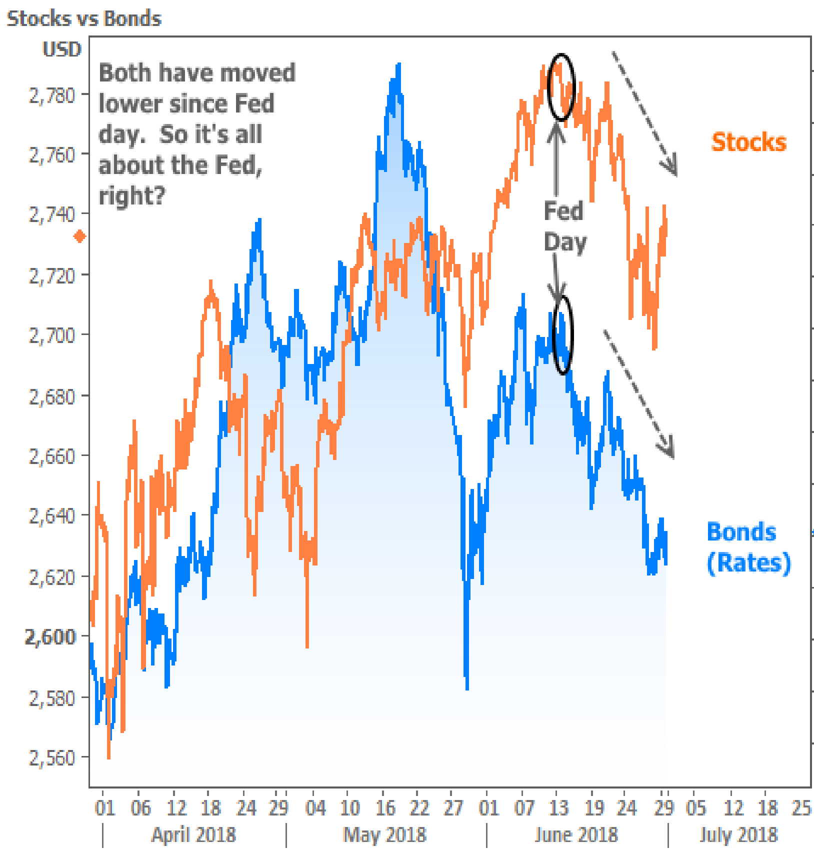
Who (or What) Is Pulling The Strings?

Conventional market wisdom tends to classify stocks and bonds as archetypal investments on opposite ends of the risk spectrum. Stocks are for those who feel confident enough in the economy to take risks and bet on growth. Bonds are safe havens that offer at least some return no matter what.

With this in mind, it's no surprise to see correlations. The month of June has been a great example. Both sides of the market even **bounced at the same time** right after the June 13th Fed announcement. (NOTE: the big spike in the blue line in late May was all about Italy, and isn't relevant to what follows).



So, it's all about the Fed?

While the Fed definitely had an effect, this chart actually tells us other forces are at work. The clue is that Fed policy tends to push stocks and bond yields in **OPPOSITE** directions.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Rates as of: 8/30

Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM 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%

Think of it this way: if the Fed is seen as being more generous (refilling the proverbial punch bowl, if you like), it's good for everyone at the party. Stocks would rise and bond yields (which move inversely to bond prices) would fall.

In the chart, however, we see stocks and bond yields falling together. In other words, investors **really are** shedding risk in the stock market and moving some money into safer havens like bonds.

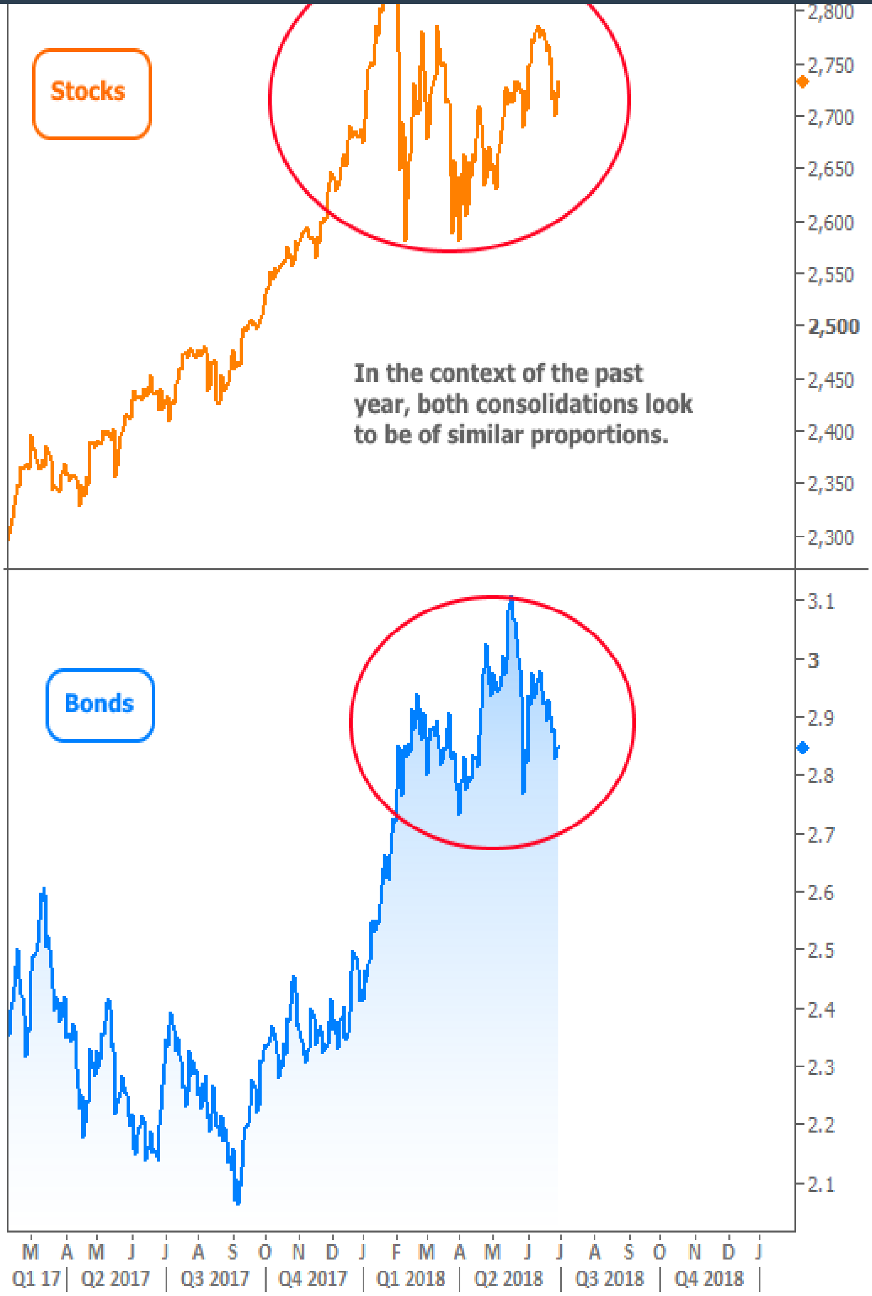
But why?

Trade war fears are high on most investors' lists when it comes to explaining recent stock weakness and bond strength. The fact that we can plainly see both sides of the market react to trade-related headlines means it would be silly to argue. That said, it also might be good to expand.

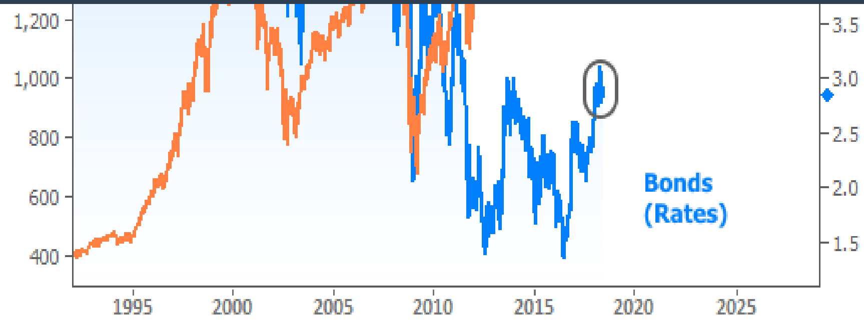
Some investors are nervous that the longstanding economic expansion is going to "die of old age." Trade war fear is **just the latest** reason to ask if it's too soon to start thinking about the next recession (as we asked 2 months ago).

When markets are asking such questions, they tend to CONSOLIDATE. Consolidations are useful because they let us know that markets are getting ready to make their next move.

We can't be sure if it will be a "bounce" or a "continuation"--only that it's coming. In the current case, investors are particularly interested in the stock market's consolidation **because of where it sits** in the grandest of schemes.


Stocks
In the context of the past year, both consolidations look to be of similar proportions.
Bonds
Q1 17
Q2 2017
Q3 2017
Q4 2017
Q1 2018
Q2 2018
Q3 2018
Q4 2018


USD
But in the bigger picture, the consolidation for stocks is happening at loftier levels after a much more focused move, thus adding to the fear of a correction.
Stocks



Simply put: if stocks start snowballing lower from there, things could get ugly. Fortunately, most of the recent economic data suggests the economy is firing on all cylinders.

If the data is good, why worry about a shift?

A simple "fear of losing something really nice" isn't cause for much concern on its own. But there's an important metric that more and more pundits are discussing, and it continues pointing in an **alarming** direction.

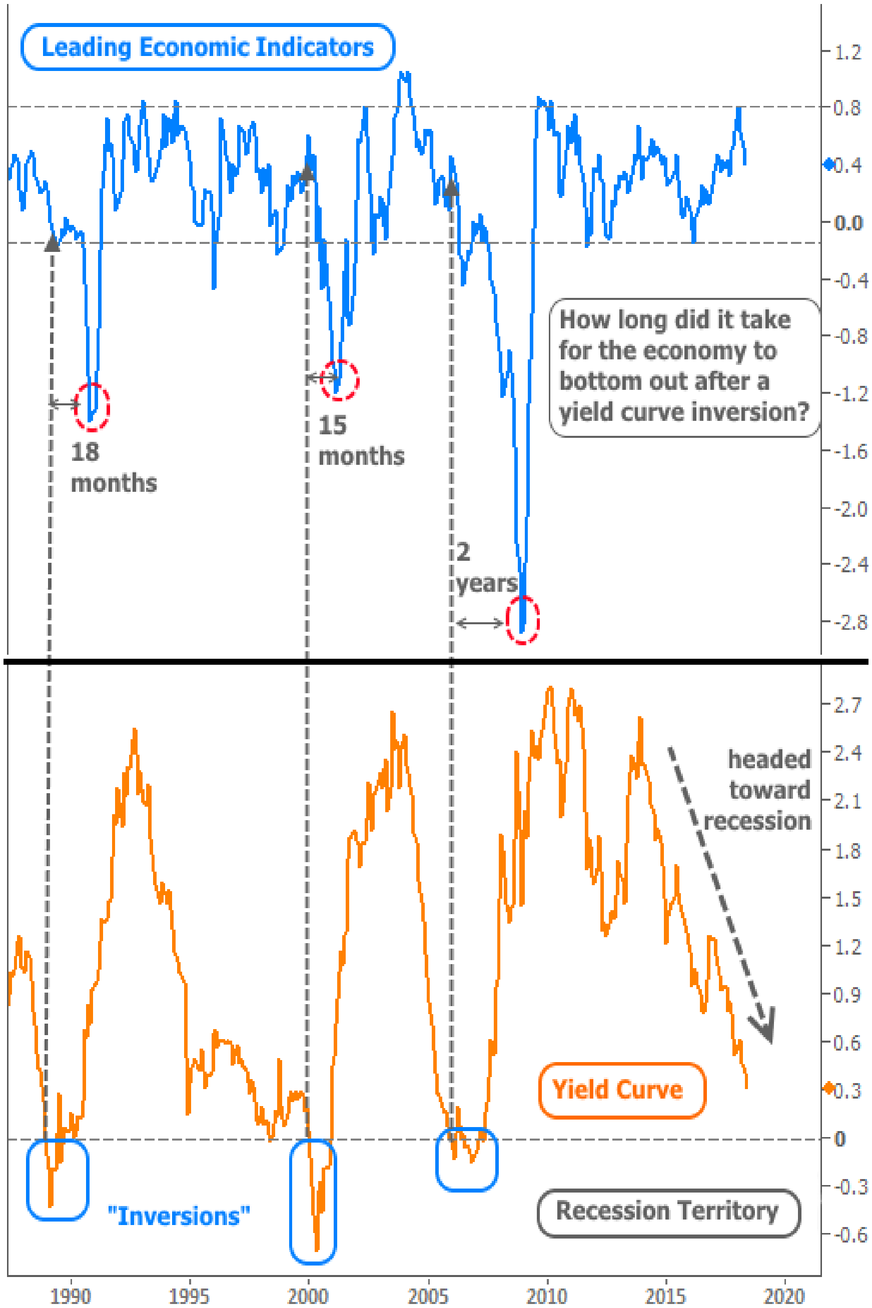
The metric in question is the **YIELD CURVE**. Technically, the curve refers to the whole spectrum of US Treasury yields, but for all practical purposes, it's synonymous with the gap between 2-year and 10-year yields (which is why you may see it referred to as the "twos tens curve").

Why do people care?

At least in terms of modern economic history, the curve has quite the batting average when it comes to predicting recessions, and the current trajectory of the curve makes the next one look inevitable.

If it's inevitable, why aren't markets panicking more?

First of all, nothing is ever truly inevitable when it comes to financial markets. The yield curve may not **fully** invert (2yr yields higher than 10yr yields), and even if it does, there's typically considerable lag time between the inversion and its ill effects.



Perhaps the most important point made by the chart above was one that **I didn't** highlight. Notice the drop in the yield curve heading into 1995. An inversion looked **even more inevitable** than it does in 2018. While the inversion did eventually happen, the next several years served to **extend** an already strong economic expansion.

Bottom line: there will eventually be a recession. In hindsight, scholars will say the yield curve proved to be a surefire indicator yet again. But for those of us living through the realities of this economy today--and especially for those of us who are stakeholders in the **housing/mortgage markets**, such surefire predictions leave much to be desired when it comes to adopting an outlook for the near-term future.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 25				
10:00AM	May New home sales-units mm (ml)	0.689	0.667	0.662
10:00AM	May New home sales chg mm (%)	+6.7	0.7	-1.5
Tuesday, Jun 26				
9:00AM	Apr CaseShiller 20 yy (%)	6.6	6.8	6.8
10:00AM	Jun Consumer confidence	126.4	128.0	128.0
1:00PM	2-Yr Note Auction (bl)	34		
Wednesday, Jun 27				
7:00AM	w/e Mortgage Refinance Index	1015.9		1052.3
7:00AM	w/e MBA Purchase Index	244.3		259.6
8:30AM	May Durable goods (%)	-0.6	-1.0	-1.6
8:30AM	May Nondefense ex-air (%)	-0.2	0.5	1.0
10:00AM	May Pending Home Sales (%)	-0.5	0.5	-1.3
10:00AM	May Pending Sales Index	105.9		106.4
1:00PM	5-Yr Note Auction (bl)	36		
Thursday, Jun 28				
8:30AM	Q1 GDP Final (%)	+2.0	2.2	2.2
8:30AM	w/e Jobless Claims (k)	227	224	218
1:00PM	7-Yr Note Auction (bl)	30		
Friday, Jun 29				
8:30AM	May Personal Income (%)	+0.4	0.4	0.3
8:30AM	May Consumer Spending (Consumption) (%)	+0.2	0.4	0.6
8:30AM	May Core PCE (y/y) (%)	+2.0	1.9	1.8
9:45AM	Jun Chicago PMI	64.1	60.0	62.7
10:00AM	Jun U Mich 1Yr Inf Final (%)	3.0		2.9
10:00AM	Jun U Mich 5-Yr Inf Final (%)	2.6		2.6
10:00AM	Jun U Mich Sentiment Final (ip)	98.2	99.2	99.3
Monday, Jul 02				
10:00AM	Jun ISM Manufacturing PMI	60.2	58.4	58.7
10:00AM	May Construction spending (%)	+0.4	0.5	1.8
Tuesday, Jul 03				
9:45AM	Jun ISM-New York index	785.0		782.5
10:00AM	May Factory orders mm (%)	+0.4	0.0	-0.8
Wednesday, Jul 04				
12:00AM	Independence Day			
Thursday, Jul 05				
7:00AM	w/e MBA Purchase Index			244.3

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

Date	Event	Actual	Forecast	Prior
7:00AM	w/e Mortgage Refinance Index			1015.9
8:15AM	Jun ADP National Employment (k)	177.0	190	178
8:30AM	w/e Jobless Claims (k)	231	230	227
10:00AM	Jun ISM N-Mfg PMI	59.1	58.3	58.6
Friday, Jul 06				
8:30AM	Jun Average earnings mm (%)	+0.2	0.3	0.3
8:30AM	Jun Private Payrolls (k)	+202	190	218
8:30AM	Jun Non-farm payrolls (k)	+213	195	223
8:30AM	Jun Unemployment rate mm (%)	4.0	3.8	3.8

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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