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## Is The Fed Going to Kill The Economy?

January has been a month marked by the market's adjustment to a shift in the Fed policy outlook. This began right at the outset and resulted in higher rates and lower stock prices.

### Why?

Last week's newsletter goes into great detail on the matter. Revisit it [HERE](#).

This week merely served to **confirm what we already knew**, namely that the Fed would not be making any policy changes this week, but that it would do nothing to push back on the expectation for policy changes at the next meeting.

Language was added to the announcement to suggest a rate hike at the next meeting, and there was **no change** to the pace of tapering (which will be concluded before the March Fed meeting). Last but not least, Powell said the Fed remains on track to begin trimming the balance sheet as early as the June Fed meeting--perfectly in line with our previous assumptions.

Stocks and bonds get a bit **cranky** when the Fed yanks the proverbial punch bowl away--even if they knew it was coming. Fortunately, they'd prepared quite well for this week in terms of trading levels. Sure, there was a bit of a volatile reaction at first, but the next 2 days of trading confirm that the Fed didn't truly surprise the market (i.e. volatile trading with rates and stocks ultimately making it back near pre-Fed levels).

## National Average Mortgage Rates



|                            | Rate  | Change | Points |
|----------------------------|-------|--------|--------|
| <b>Mortgage News Daily</b> |       |        |        |
| 30 Yr. Fixed               | 6.86% | -0.05  | 0.00   |
| 15 Yr. Fixed               | 6.31% | -0.02  | 0.00   |
| 30 Yr. FHA                 | 6.32% | -0.06  | 0.00   |
| 30 Yr. Jumbo               | 7.04% | -0.03  | 0.00   |
| 5/1 ARM                    | 6.53% | -0.02  | 0.00   |

### Freddie Mac

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.78% | -0.08 | 0.00 |
| 15 Yr. Fixed | 6.07% | -0.09 | 0.00 |

Rates as of: 7/26

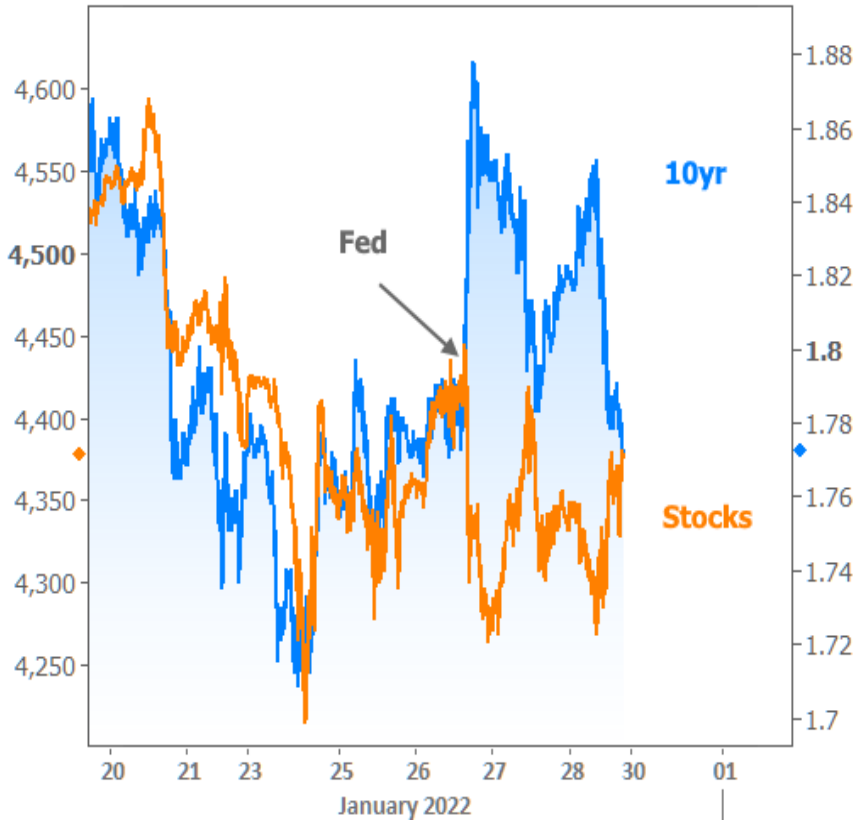
## Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.5   | 99.68         | +0.27   |
| MBS GNMA 5.5   | 99.98         | +0.13   |
| 10 YR Treasury | 4.1958        | -0.0474 |
| 30 YR Treasury | 4.4523        | -0.0305 |

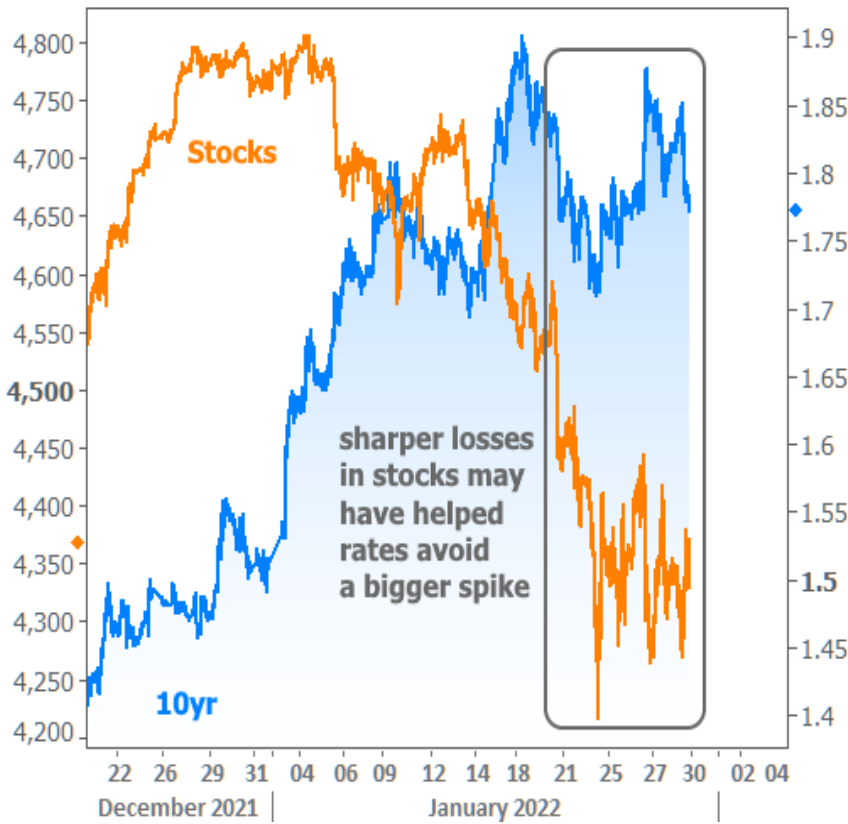
Pricing as of: 7/26 5:59PM EST

## Recent Housing Data

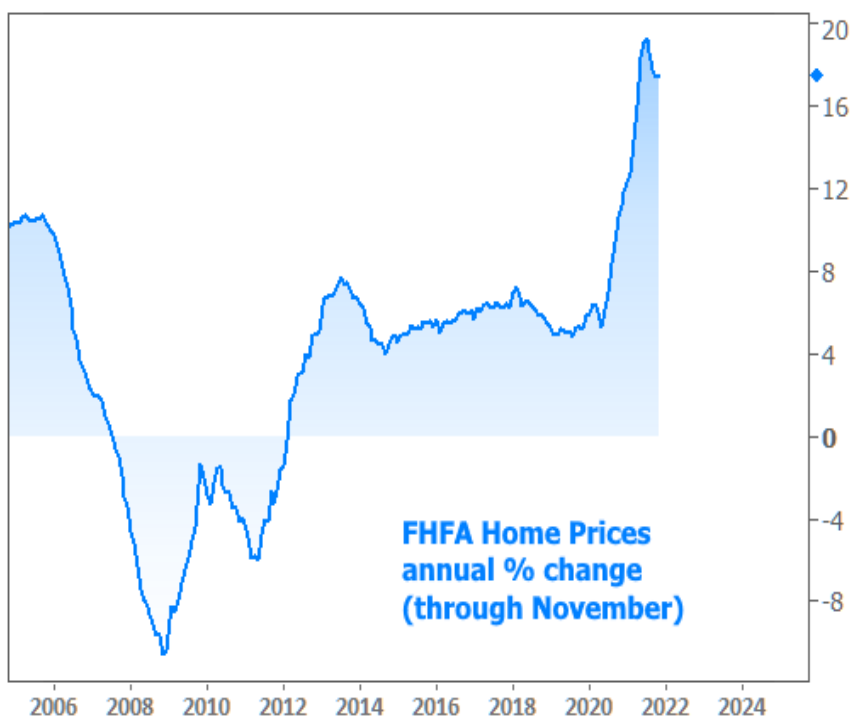
|                     |        | Value | Change  |
|---------------------|--------|-------|---------|
| Mortgage Apps       | Jul 10 | 206.1 | -0.19%  |
| Building Permits    | Mar    | 1.46M | -3.95%  |
| Housing Starts      | Mar    | 1.32M | -13.15% |
| New Home Sales      | Mar    | 693K  | +4.68%  |
| Pending Home Sales  | Feb    | 75.6  | +1.75%  |
| Existing Home Sales | Feb    | 3.97M | -0.75%  |
| Builder Confidence  | Mar    | 51    | +6.25%  |



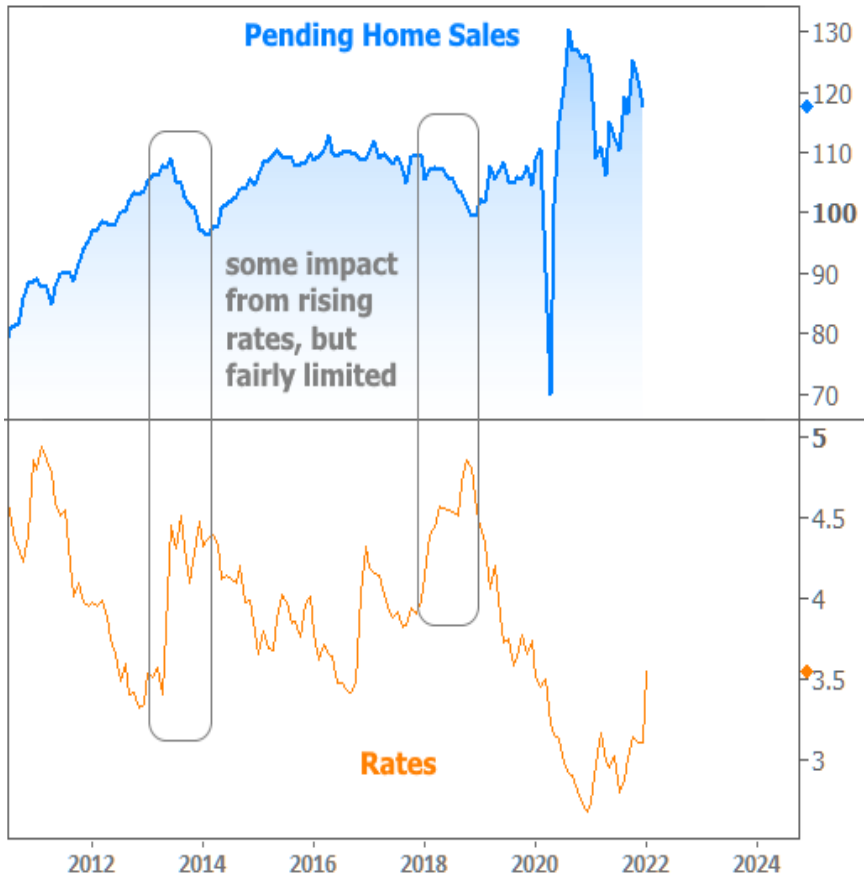
In the slightly bigger picture, we can see the damage that's already been done (and the possibility that big stock losses have helped rates avoid bigger spikes).



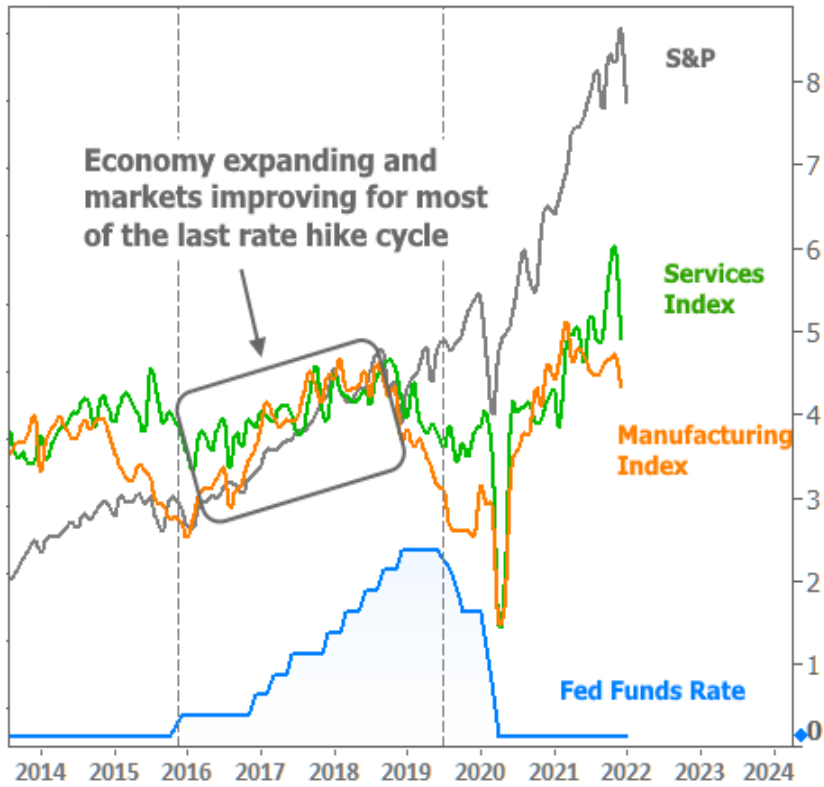
Despite the ultimately flat reaction to this week's Fed news, some market participants are worried the impending Fed rate hikes will do something to tank the economy. This includes potential damage to home prices, stocks, and home sales. With those concerns in mind, and with the caveat that this data was only updated through **November** this week, here's how **home prices** are doing:



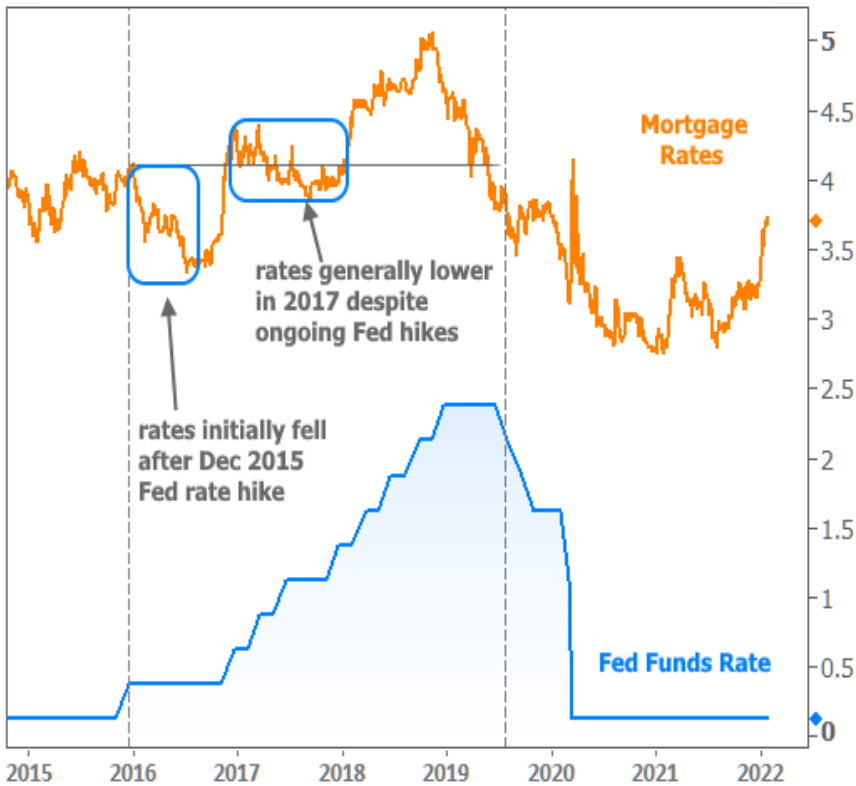
Here's how Pending Home Sales are doing (with a bonus overlay of mortgage rates):



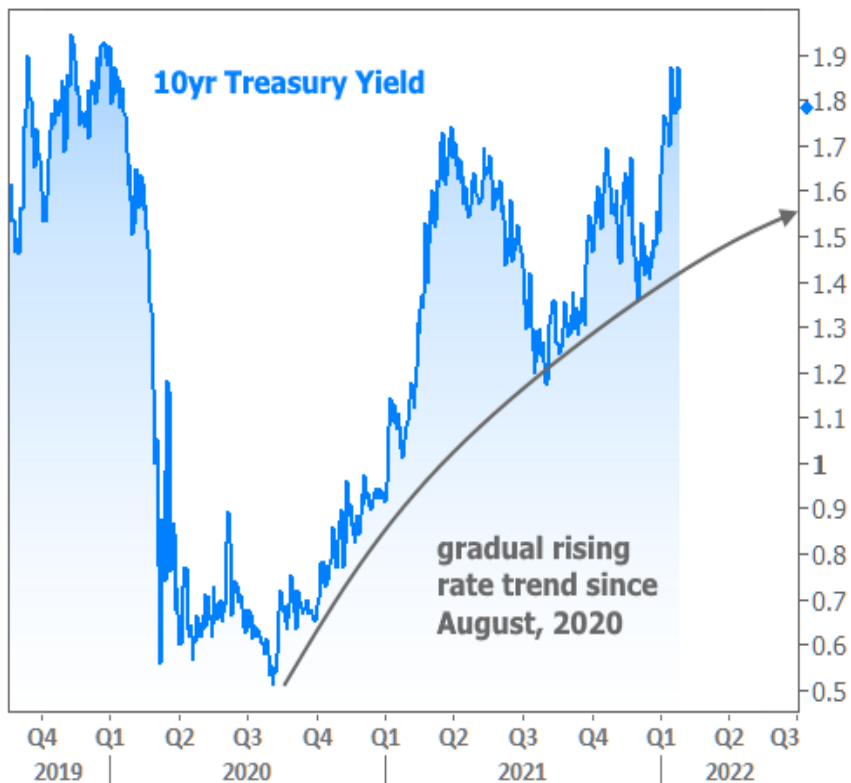
And here's how stocks are doing (gray line). This chart also includes the most recent Fed rate hike cycle along with broad economic metrics for the **manufacturing** and **services** sectors. It shows that the economy and the market continued to expand for years as the Fed continued hiking rates.



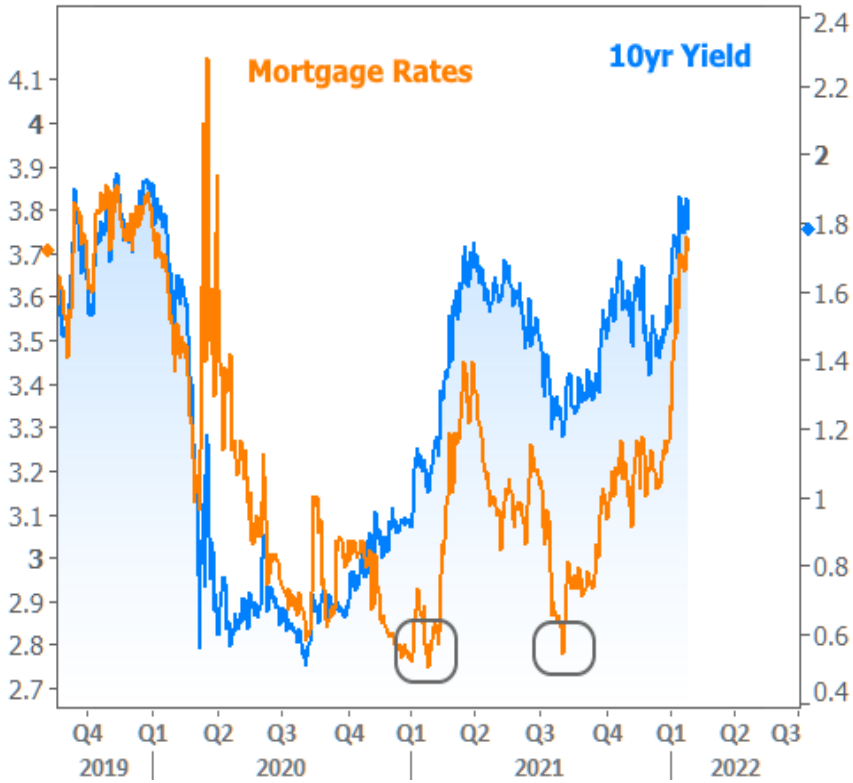
**How about rates?** If the Fed is hiking the Fed Funds Rate, what does that do to mortgages? The Fed only meets 8 times a year. Meanwhile, rates move every day. As such, rates do a great job of getting in position for Fed rate hikes before they happen. That's one of the reasons mortgage rates were able to fall for roughly a year after the previous Fed lift-off.



How have rates been doing in terms of getting ahead of Fed policy changes this time around? In a nutshell, it was even more of a given this time compared to 2015. We knew covid was taking an artificial bite out of the economy and that rates would **move back up** as the pandemic progressed. Unexpected speedbumps have slowed down the initial rising rate trend, but it began all the way back in August of 2020.



If it doesn't **FEEL** like rates have been rising since August 2020, that may be because mortgage rates were a notable exception at times for a variety of reasons.



This apparently large rate spike is only now getting rates back into what had previously been the all-time low range.



If the rising rate environment of 2016-2018 is any guide, rates could indeed **continue higher**. That's actually the baseline assumption for the average market participant, but it relies on continued progress against the pandemic, and an absence of other significant market shocks. Even if rates stick to the unfriendly trend, history suggests it won't be the end of the world, and perhaps not even the end of the economic expansion (not any time soon anyway, but critics often fault the Fed for leaving rates too high for too long as economic contractions approach).

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## Recent Economic Data

| Date                     | Event                                | Actual        | Forecast | Prior |
|--------------------------|--------------------------------------|---------------|----------|-------|
| <b>Monday, Jan 24</b>    |                                      |               |          |       |
| 1:00PM                   | 2-Yr Note Auction (bl)               | 54            |          |       |
| <b>Tuesday, Jan 25</b>   |                                      |               |          |       |
| 9:00AM                   | Nov Case Shiller Home Prices y/y (%) | 18.3          | 18.0     | 18.4  |
| 9:00AM                   | Nov FHFA Home Prices y/y (%)         | 17.5          |          | 17.4  |
| 9:00AM                   | Nov CaseShiller Home Prices m/m (%)  | 1.2           | 0.9      | 0.9   |
| 9:00AM                   | Nov FHFA Home Price Index m/m (%)    | 1.1           |          | 1.1   |
| 10:00AM                  | Jan Consumer confidence              | 113.8         | 111.8    | 115.8 |
| 1:00PM                   | 5-Yr Note Auction (bl)               |               | 55       |       |
| <b>Wednesday, Jan 26</b> |                                      |               |          |       |
| 10:00AM                  | Dec New Home Sales (%) (%)           | 11.9          |          | 12.4  |
| 10:00AM                  | Dec New Home Sales (ml)              | 0.811         | 0.760    | 0.744 |
| 2:00PM                   | N/A FOMC rate decision (%)           | 0.000 - 0.250 | 0.125    | 0.125 |
| 2:30PM                   | Powell Press Conference              |               |          |       |
| <b>Thursday, Jan 27</b>  |                                      |               |          |       |
| 8:30AM                   | Q4 GDP Advance (%)                   | 6.9           | 5.5      | 2.3   |
| 8:30AM                   | Dec Durable goods (%)                | -0.9          | -0.5     | 2.6   |
| 8:30AM                   | w/e Jobless Claims (k)               | 260           | 260      | 286   |
| 10:00AM                  | Dec Pending Home Sales (%)           | -3.8          | -0.2     | -2.2  |
| 10:00AM                  | Dec Pending Sales Index              | 117.7         |          | 122.4 |
| 1:00PM                   | 7-Yr Note Auction (bl)               | 53            |          |       |
| <b>Friday, Jan 28</b>    |                                      |               |          |       |
| 8:30AM                   | Q4 Employment costs (%)              | 1.0           | 1.2      | 1.3   |
| 8:30AM                   | Dec Core PCE Inflation (y/y) (%)     | 4.9           | 4.8      | 4.7   |
| 10:00AM                  | Jan Sentiment: 1y Inflation (%)      | 4.9           |          | 4.9   |
| 10:00AM                  | Jan Sentiment: 5y Inflation (%)      | 3.1           |          | 3.1   |
| 10:00AM                  | Jan Consumer Sentiment (ip)          | 67.2          | 68.7     | 68.8  |
| <b>Monday, Jan 31</b>    |                                      |               |          |       |
| 9:45AM                   | Jan Chicago PMI                      | 65.2          | 61.7     | 63.1  |
| <b>Tuesday, Feb 01</b>   |                                      |               |          |       |

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important



| Date                     | Event                           | Actual | Forecast | Prior  |
|--------------------------|---------------------------------|--------|----------|--------|
| 10:00AM                  | Jan ISM Manufacturing PMI       | 57.6   | 57.5     | 58.7   |
| 10:00AM                  | Jan ISM Mfg Prices Paid         | 76.1   | 68.1     | 68.2   |
| 10:00AM                  | Dec Construction spending (%)   | 0.2    | 0.6      | 0.4    |
| <b>Wednesday, Feb 02</b> |                                 |        |          |        |
| 7:00AM                   | w/e MBA Purchase Index          | 312.2  |          | 300.1  |
| 7:00AM                   | w/e MBA Refi Index              | 2355.4 |          | 1989.4 |
| 8:15AM                   | Jan ADP National Employment (k) | -301   | 207      | 807    |
| <b>Thursday, Feb 03</b>  |                                 |        |          |        |
| 10:00AM                  | Jan ISM N-Mfg PMI               | 59.9   | 59.5     | 62.0   |
| 10:00AM                  | Dec Factory orders mm (%)       | -0.4   | -0.2     | 1.6    |
| <b>Friday, Feb 04</b>    |                                 |        |          |        |
| 8:30AM                   | Jan Average earnings mm (%)     | 0.7    | 0.5      | 0.6    |
| 8:30AM                   | Jan Non-farm payrolls (k)       | 467    | 150      | 199    |
| 8:30AM                   | Jan Unemployment rate mm (%)    | 4.0    | 3.9      | 3.9    |

## 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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