



Steve Chizmadia

Mortgage Advisor - MLO-244902, Home Loans With Steve

NMLS ID: 1845124- CA BRE: 01524985 - 141 Providence Road Charlotte, NC 28207

Office: (760) 715-9688
 Mobile: (760) 715-9688
steve@homeloanswithsteve.com
[View My Website](#)

Markets Call The Fed's Bluff After Downbeat Data

The Federal Reserve (aka "The Fed") has a parrot problem, and it's on a crash course with economic reality... maybe.

The Fed sets policies that impact interest rates in an attempt to keep inflation in check without crippling the economy. After arguably leaving rate-friendly policies intact too long in 2021, they scrambled to put the brakes on inflation in 2022 with aggressive rate hikes (higher rates leave less money to buy other "stuff," thus hopefully lower inflation by decreasing demand).

For months on end, almost every Fed speaker has parroted a version of the same few thoughts:

- Inflation is too high
- Rates need to go higher still
- Once rates are as high as they can be, we need to keep them there for as long as we can
- We don't mind doing some economic damage if it means controlling inflation
- We'd rather do damage and beat inflation than protect the economy and risk another inflation spike
- We don't want to repeat the mistakes of the early 80s.

That last bullet point has obviously been a guiding principle for the Fed-- repeated by almost every member. It refers to a Fed rate cut in 1980 following a big drop in inflation. Before that, inflation had spike at an unprecedented level and the Fed hiked rates at an unprecedented level to fight it. In short, it looked like they won. They cut rates accordingly, but it proved to be too soon. Monetary scholars think the subsequent rate hikes to the highest levels ever could have been avoided if the Fed didn't declare victory so soon.

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

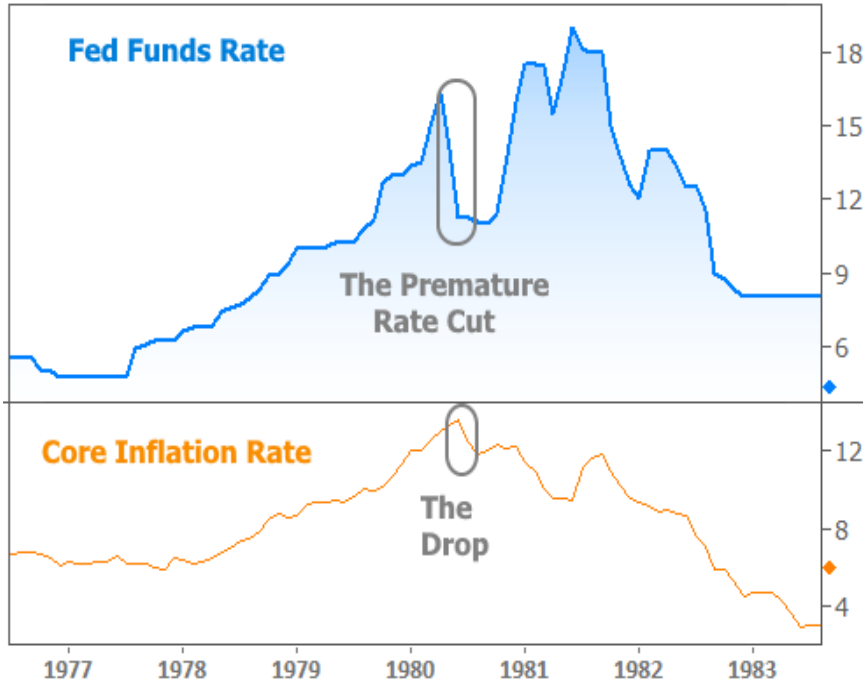
Market Data

	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%

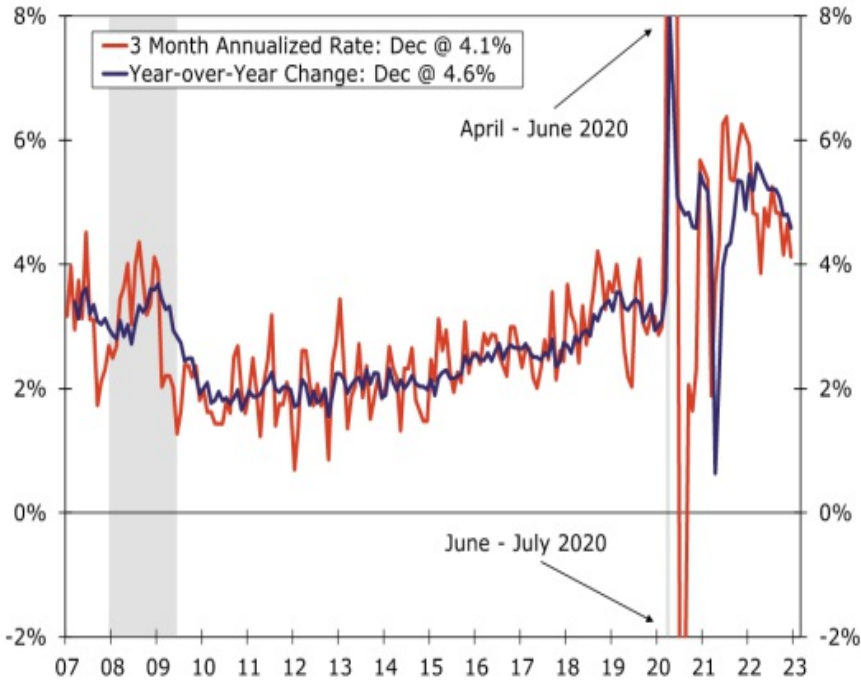


Fast forward to the present and the Fed is intent on avoiding those mistakes of the past. The market has generally done a good job of believing the Fed's guidance. Specifically, rates have surged higher, and stocks have languished. But we're starting to see a divergence, and it was highly evident in the responses to this week's various economic reports.

Thursday and Friday were the two most important days. A trifecta of upbeat labor market reports pushed rates higher and stocks lower on Thursday. This is the way the pattern plays out because a friendly Fed helps both stocks and bonds by making it cheaper to borrow money. Cheaper borrowing (aka lower rates) means more economic growth, which is why we often see rates falling and stocks rising when the market is trading Fed expectations.

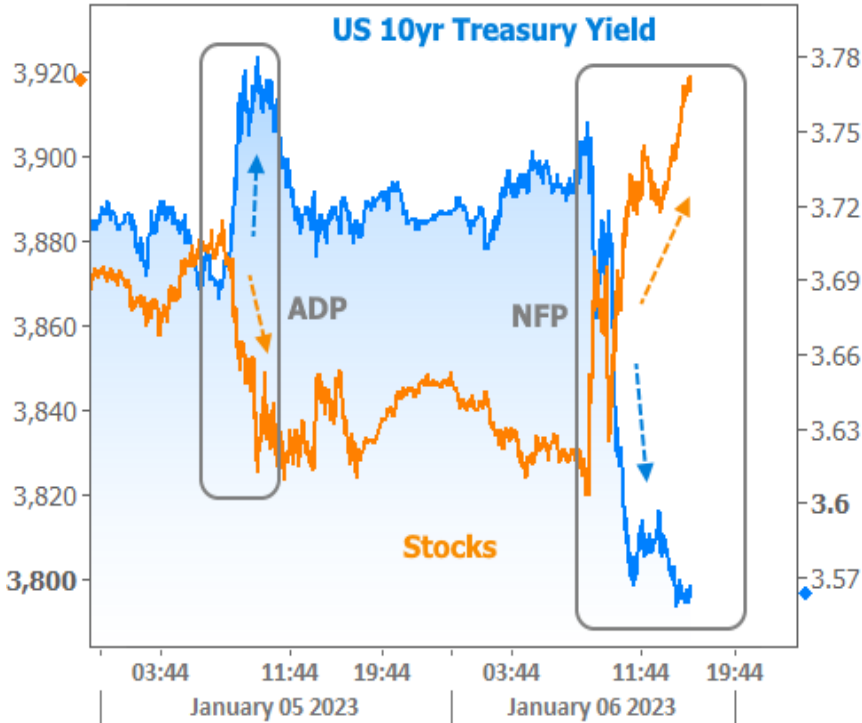
Thursday's data made markets think the Fed would continue to hike as aggressively as they've promised. Things changed abruptly on Friday. The big monthly jobs report showed strong job growth, but importantly, it also showed slower wage growth. Average hourly earnings came in under the median forecast. Moreover, last month's wage data was revised sharply lower. Taken together, it gives the impression that wage growth has turned a corner.

Average Hourly Earnings

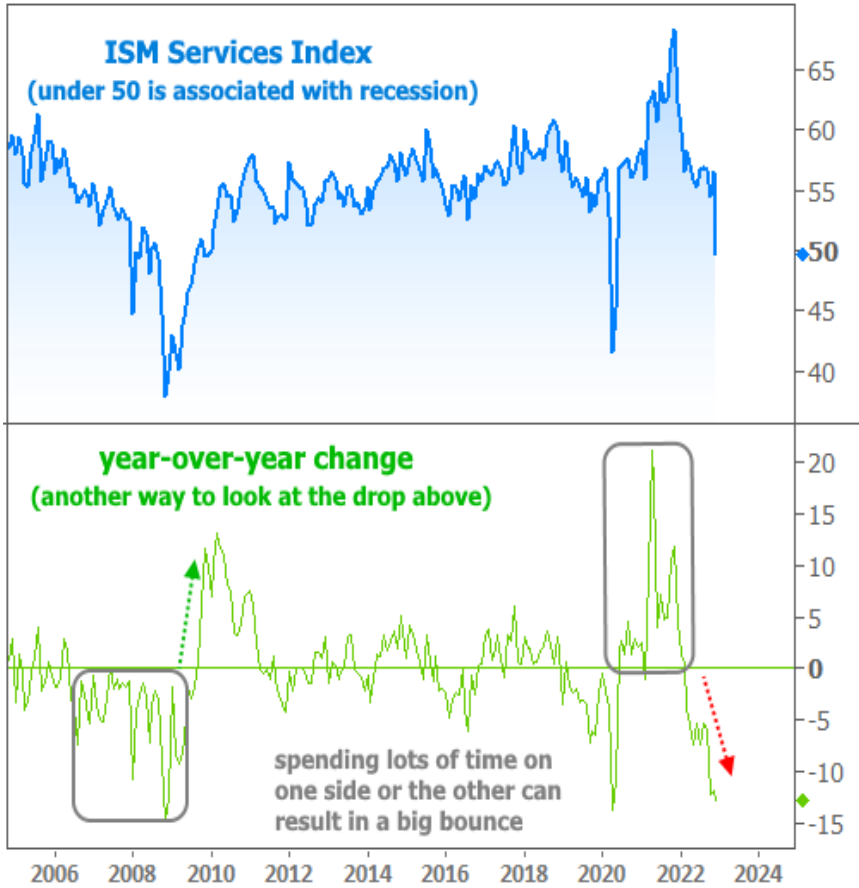


The wage component is/was important news because Fed Chair Powell specifically referenced wage growth concerns in the last press conference in mid December. If wages aren't accelerating, it's one less inflationary concern for the Fed. Markets traded accordingly. Then 90 minutes later, a separate report on the services sector showed massively unexpected weakness. Taken together, the two reports had markets thinking the Fed would end up softening its rate hike stance.

In the chart below, Thursday's data is referred to simply as "ADP" because the ADP employment report was the most relevant market mover that morning. Friday's data is referred to with "NFP" for "non-farm payrolls" (the main component of the big jobs report).



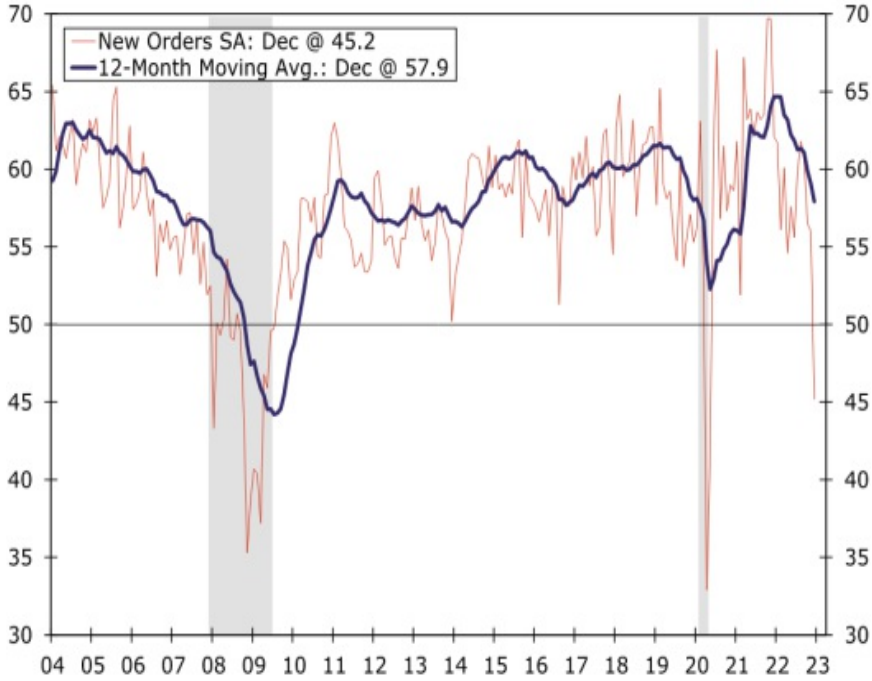
Despite the labels, Friday's biggest movement actually waited until after the services sector data from the Institute for Supply Management (ISM). ISM puts out an index for both manufacturing and services sectors. The latter has been a key focus for the Fed and generally a bigger market mover when it falls far from expectations. This particular report was as far from expectations as any report in more than a decade apart from the first few months of covid lockdowns. The only real counterpoint would be to say that this weakness is some sort of rebound effect after almost 2 years of large annual gains. The chart below shows the headline services index in blue, and the annual change in green.



Another "yeah but" can be seen in the "new orders" component of the index. When the red line dips below 50, it has been a good recession indicator. That may end up being the case this time as well, but Wells Fargo analysts pointed out the moving average remains much higher than during the past two dips. Granted, this could be a process that continues to play out, but the point is that we haven't seen utterly conclusive evidence of recession so far.

ISM Services New Orders

New Orders Index



It's that "yeah but" mentality that continues to guide the Fed. Moments after all of this transpired, Atlanta Fed's Bostic said the data did nothing to change his view on the need to continue hiking rates and keeping them at the peak well into 2024. Such views are at odds with financial markets' bets on Fed rate cuts, which are seen happening as early as late 2023.

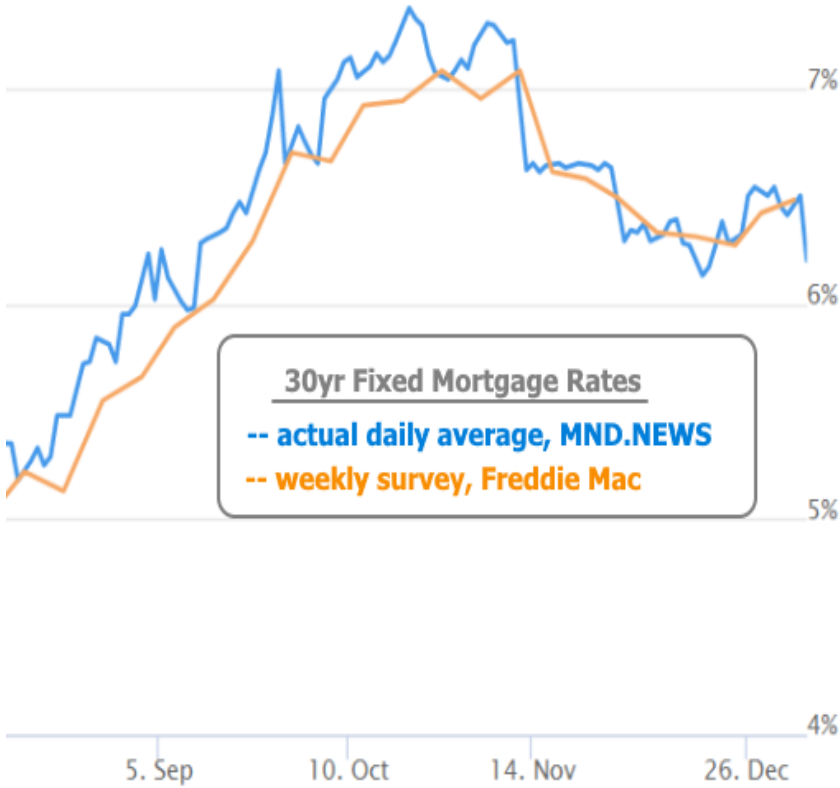
The following chart not only shows the expectation for September running more than 0.10% below June, but also the immediate and obvious reaction to Friday morning's economic data.



Long story short, the Fed is reading from the same old script where it feels compelled to talk very tough about how it will handle inflation. It justifiably worries that a change in that tone could lead markets to become too exuberant, thus shortchanging some of the work that's already been done to fight inflation. Remember, it's all about tamping down economic growth and demand to buy "stuff." If markets suddenly thought rates were headed precipitously lower, people might start buying enough stuff to keep inflation higher than it should be.

So the Fed will likely continue erring on the side of being a cranky old stick in the mud on rate policy and financial markets will likely continue to nod and smile while continuing to hedge bets with the same sort of logical reactions to data as those seen this week.

As for the mortgage rate response, Friday was the best day in a long time, but the average 30yr fixed rate is still quite high relative to levels earlier this year. In fact, the average lender didn't even quite make it back to the lows from mid December.



Subscribe to my newsletter online at: <http://mortgagenewsletter.net/homeloansbysteve>

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jan 03				
10:00AM	Nov Construction spending (%)	0.2	-0.4	-0.3
Wednesday, Jan 04				
7:00AM	w/e MBA Refi Index	310.9		325.3
7:00AM	w/e MBA Purchase Index	160.2		182.1
10:00AM	Dec ISM Manufacturing PMI	48.4	48.5	49.0
10:00AM	Dec ISM Mfg Prices Paid	39.4	42.6	43.0
2:00PM	Fed Meeting Minutes			
Thursday, Jan 05				
7:30AM	Dec Challenger layoffs (k)	43.651		76.835
8:15AM	Dec ADP jobs (k)	235	150	127
8:30AM	Nov Trade Gap (bl)	-61.5	-73.0	-78.2
8:30AM	w/e Jobless Claims (k)	204	225	225

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
Friday, Jan 06				
8:30AM	Dec Non-farm payrolls (k)	223	200	263
8:30AM	Dec Average earnings mm (%)	0.3	0.4	0.6
8:30AM	Dec Unemployment rate mm (%)	3.5	3.7	3.7
10:00AM	Dec ISM Biz Activity	54.7	59.5	64.7
10:00AM	Dec ISM N-Mfg PMI	49.6	55.0	56.5
Monday, Jan 09				
3:00PM	Nov Consumer credit (bl)	+27.96	25.00	27.08
Tuesday, Jan 10				
10:00AM	Nov Wholesale inventories mm (%)	1.0	1.0	1.0
Wednesday, Jan 11				
7:00AM	w/e MBA Purchase Index	159.4		160.2
7:00AM	w/e MBA Refi Index	326.7		310.9
1:00PM	10-yr Note Auction (bl)	32		
Thursday, Jan 12				
8:30AM	Dec y/y CORE CPI (%)	5.7	5.7	6.0
8:30AM	Dec m/m CORE CPI (%)	0.3	0.3	0.2
8:30AM	w/e Jobless Claims (k)	205	215	204
Friday, Jan 13				
10:00AM	Jan Consumer Sentiment	64.6	60.5	59.7

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.

Steve Chizmadia

