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What's Brexit and Why Should You Care?

First there was "Grexit"--financial markets' pet term for Greece potentially exiting the European Union. It was a serious situation because Greece shared the Euro currency with 18 other countries and was at risk of defaulting on sovereign debt.

The fear was a **systemic collapse** of the Eurozone (**think "dominoes"**), and investors bought bonds in the strongest countries in order to keep their money safe. That resulted in lots of volatility and a massive drop in global interest rates (when investors buy bonds, rates fall) before finally fading from prominence with the Greek bailout deal.

When Brexit headlines emerged (a potential British exit of the EU), no one thought much of it. The U.K. **does NOT share** the Euro currency with the rest of the Union and wasn't facing potential default. What's the big deal?

It turns out there are several big deals--at least for now. The U.K. may not use the same currency as the Eurozone countries, but it is part of the European Union--a system designed to facilitate the free flow of trade, people, money, and legislation in Europe. **No one really knows** what to expect if The U.K. leaves, but at the very least, investors assume it would detract from growth in several ways at a time where the EU needs all the growth it can get.

Still, it's not the growth implications that are most important to investors at the moment. Rather, it's the systemic implications. In other words, if The UK leaves, **who will leave next?** And if the entire EU is at risk of disintegrating--even if only partially--how are investors supposed to prepare for that? Even the Fed says a June rate hike is unlikely because it wants to see what happens in the wake of the Brexit vote at the end of the month.

If the Fed cares that much, it's automatically a big deal for the rest of the world. So what should investors do about it? Faced with a potential 'first,' fear of the unknown has prompted investors to **buy bonds and sell stocks**. Of course, this is primarily a consideration for European markets and indeed, that's where we see the biggest movement, but the direct effects reverberate through global financial markets.

One of the frontline beneficiaries happens to be US bond markets, as you can see in the chart below.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.82	+0.01
10 YR Treasury	4.9073	-0.0226
30 YR Treasury	5.2730	-0.0352

Pricing as of: 11/2 9:13AM EST

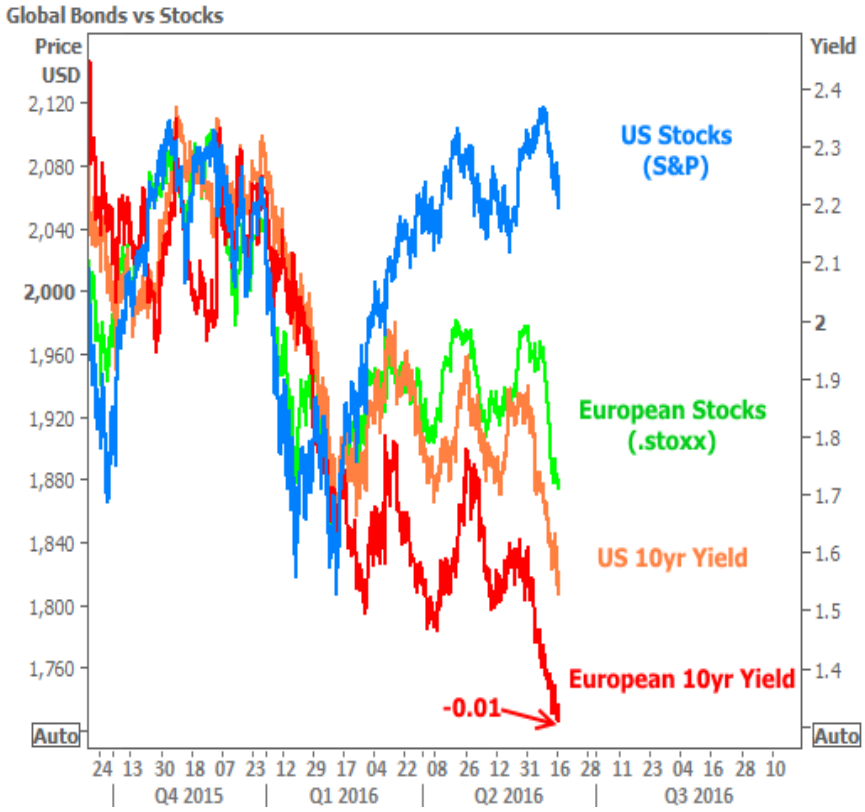
Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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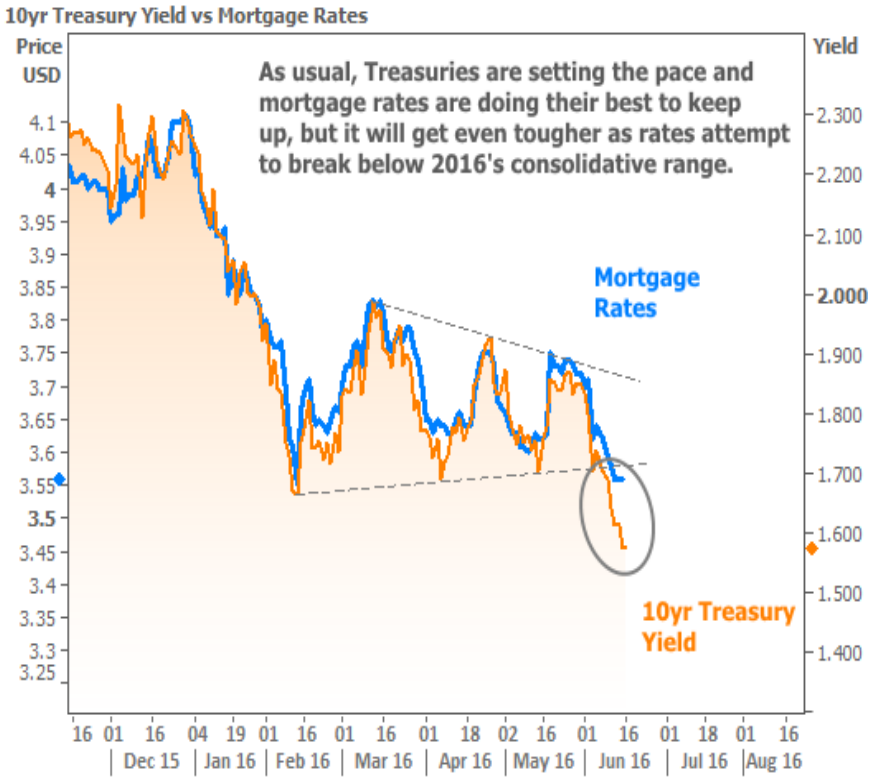


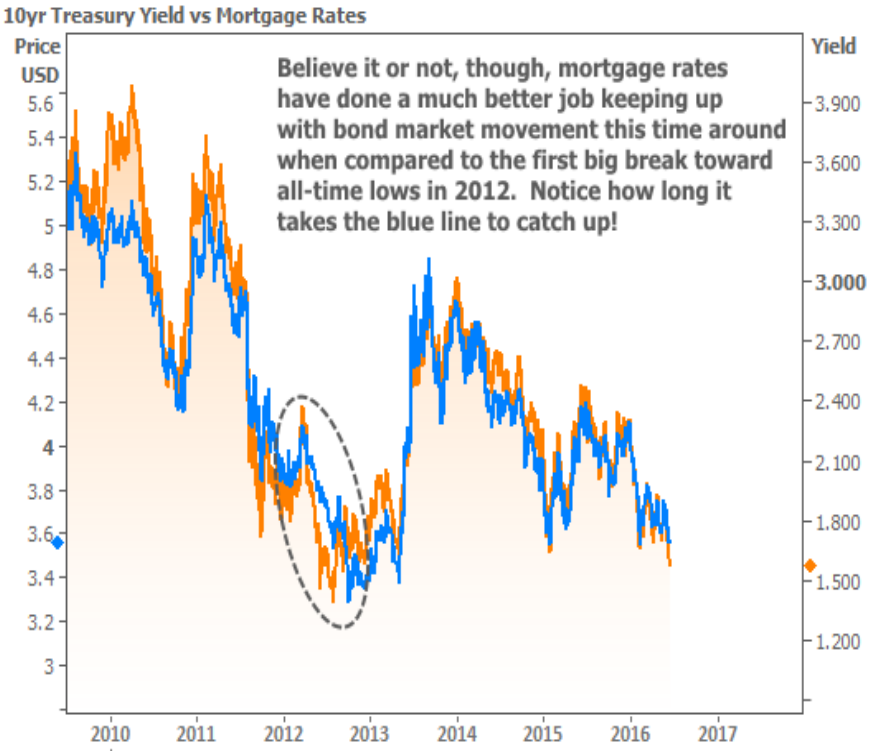
If US Treasuries are one degree removed from the Brexit-related market momentum, **Mortgage Rates** are yet another degree removed. It's not that they haven't been moving lower, just that they cannot possibly keep pace with Treasuries. Not only is this a normal turn of events, but it's actually a stronger performance than we saw in 2012--the last time global financial markets were panicking over systemic European risk.

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And so it came to be that **this week's Fed Announcement**--something that was previously destined to be a major market mover--was relegated to being a speedbump for market movement that was already in progress. If anything, the Fed merely confirmed they were spooked by Brexit risks, as well as the most recent jobs data.

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This sets up a very big showdown over the next few weeks. If The U.K. happens to vote to remain in the EU and the next jobs report happens to be exceptionally strong, investors will **QUICKLY** start talking about a **summertime rate hike** from the Fed. With rates as low as they are right now, that would make for an abrupt correction higher.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jun 14				
8:30AM	May Import prices mm (%)	+1.4	0.7	0.3
8:30AM	May Retail sales mm (%)	+0.5	0.3	1.3
Wednesday, Jun 15				
7:00AM	w/e Mortgage Market Index	507.7		520.4
8:30AM	Jun NY Fed manufacturing	+6.01	-4.00	-9.02
8:30AM	May US PPI Final Demand MM (%)	+0.4	0.3	0.2
8:30AM	May U PPI exFood/Energy YY (%)	+1.2	1.0	0.9
9:15AM	May Industrial output mm (%)	-0.4	-0.2	0.7
9:15AM	May Capacity utilization mm (%)	74.9	75.2	75.4
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	0.375
2:30PM	Yellen Remarks on Rate Decision			
Thursday, Jun 16				
8:30AM	Jun Philly Fed Business Index	4.7	0.0	-1.8
8:30AM	May Core CPI mm, sa (%)	+0.2	0.2	0.2
8:30AM	May Core CPI yy, nsa (%)	+2.2	2.2	2.1
8:30AM	w/e Initial Jobless Claims (k)	277	270	264
10:00AM	Jun NAHB housing market indx	60	59	58
Friday, Jun 17				
8:30AM	May Housing starts number mm (ml)	1.164	1.150	1.172
8:30AM	May Building permits: number (ml)	1.138	1.150	1.130
Monday, Jun 20				
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Jun 21				
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Jun 22				
9:00AM	Apr Monthly Home Price mm (%)	0.2		0.7
10:00AM	May Existing home sales (ml)	5.53	5.54	5.45
1:00PM	7-Yr Note Auction (bl)	28		
Thursday, Jun 23				
10:00AM	May New home sales-units mm (ml)	0.551	0.560	0.619

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, Jun 24				
8:30AM	May Durable goods (%)	-2.2	-0.5	3.4
10:00AM	Jun U Mich Sentiment Final (ip)	93.5	94.0	94.3

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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 to be your mortgage lending partner.

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