The Housing Market Update

Schaefer Mortgage

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Bull Market in Bonds Nearing an End?

Mortgage rates have seen historic lows due to a long-running bull market in bonds. Specifically, mortgage backed securities. Demand has far exceeded supply which has driven down mortgage rates. As demand starts to pull back, mortgage rates will begin to move upward.

Say goodbye to the longest bull market for bonds in history. The market is at a turning point, say portfolio managers—some of whom are running the nation's largest bond funds. The reason: growing worries about inflation . While it is not a problem right now, there are several strong economic factors that typically lead to higher prices down the road.

Rates are already starting to rise, even without the Fed. This week, Treasuries and Mortgage Backed Securities saw a sharp sell-off, bringing yields—which move opposite to prices—to their highest level since October.

Rising yields, when coupled with inflation, are a double-whammy to the value of bonds.

With job growth comes purchasing power and pricing pressure on businesses and consumers. Yigal Jhirad, portfolio manager for Cohen & Steers, thinks this pressure is already underway.

While significant inflation and higher mortgage rates are still far down the road, it is clear that they are on the horizon. This is actually a good thing for housing. The housing market has always performed better in the "sweet spot" of mortgage rates which is in that 5.50% to 7.00% range.

What Happened to Rates Last Week?

Mortgage backed securities (MBS) lost -93 basis points from last Friday to the prior Friday which pushed mortgage rates significantly higher from the prior week and marks the second straight week of higher mortgage rates.

We have received month after month of positive economic news which would normally pressure mortgage rates upward but due to global instability, mortgage rates have benefitted from strong demand in MBS which have offset the positive economic news.

But bonds started to sell off in a big way last week which pushed mortgage rates higher.

Why? Because banks started to dump their vast holdings of Treasuries and MBS.

Banks had to hold on to capital while they were undergoing the Fed's "stress test". The "stress test" results were released last week and as a result, each bank definitively knew how much excess capital they had.

This meant that they could finally liquidate their holdings of their very low yielding mortgage backed securities....this caused demand for MBS to fall off which pushed mortgage rates upward.

What to Watch Out For This Week:

The following are the major economic reports that will hit the market this week. They each have the ability to affect the pricing of Mortgage Backed Securities and therefore, interest rates for Government and Conventional mortgages.

Date	Time	Economic Release	Actual	Cons. Estimate	Prior
19-Mar	10:00 AM	NAHB Housing Index	-	31	29
20-Mar	8:30 AM	Housing Starts	-	705K	699K
20-Mar	8:30 AM	Building Permits	-	695K	676K
21-Mar	7:00 AM	MBA Mortgage Index	-	NA	-2.40%
21-Mar	10:00 AM	Existing Home Sales	-	4.61M	4.57M
21-Mar	10:30 AM	Crude Inventories	-	NA	1.750M
22-Mar	8:30 AM	Initial Claims	-	355K	351K
22-Mar	8:30 AM	Continuing Claims	-	3363K	3343K
22-Mar	10:00 AM	FHFA Housing Price Index	-	NA	0.70%
22-Mar	10:00 AM	Leading Indicators	-	0.60%	0.40%
23-Mar	10:00 AM	New Home Sales	-	321K	321K

I will be watching these reports closely for you and let you know if there are any big surprises:

It is virtually impossible for you to keep track of what is going on with the economy and other events that can impact the housing and mortgage markets. Just leave it to me, I monitor the live trading of Mortgage Backed Securities which are the only thing government and conventional mortgage rates are based upon.

Quote of the week:

“ Inflation will be higher than they (Federal Reserve policy makers) think

Mark Zandi, Moody's Analytics chief economist