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Weekly Newsletter

Provided to you by
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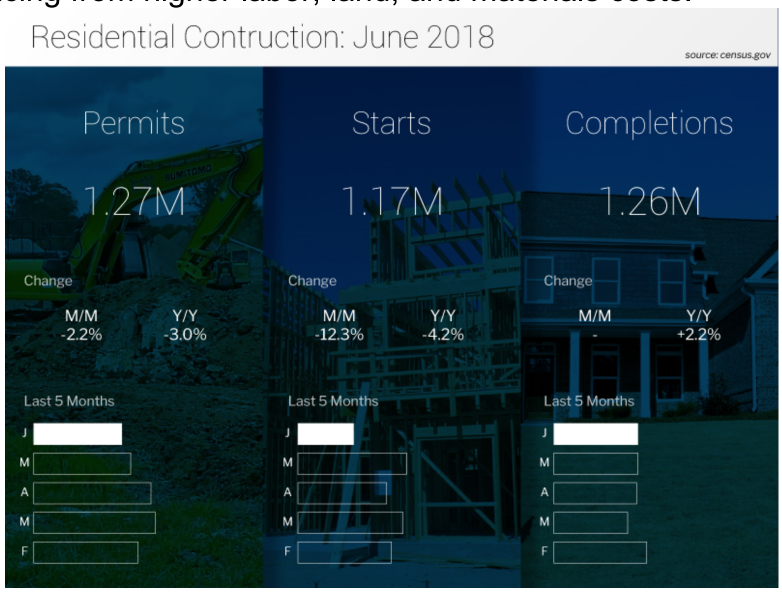
Weekly Review

This past week was the second week of earnings season resulting in a roughly flat finish for the stock market with bonds edging modestly lower. So far, approximately 20% of corporations have reported their second quarter earnings and they have mostly exceeded expectations as the economy continues to build strength. Evidence of the economy humming right along included the latest release of the Federal Reserve's Beige Book reporting "Economic activity continued to expand across the United States, with 10 of the 12 Federal Reserve Districts reporting moderate or modest growth." Plus, the Philadelphia Fed Manufacturing Index rose to 25.7 from 19.9 and that was 4.2 points better than expected.

Furthermore, the June Case Freight Index reported "The Cass Freight Shipments and Expenditures Indices are clearly signaling that the U.S. economy, at least for now, is ignoring all of the angst coming out of Washington D.C. about the trade war. Demand is exceeding capacity in most modes of transportation by a significant margin. In turn, pricing power has erupted in those modes to levels that continue to spark overall inflationary concerns in the broader economy." This hasn't gone unnoticed by the Fed. Fed Chair Jerome Powell gave Congress his semiannual update on the economy and monetary policy, speaking before both the Senate Banking and the House Financial Services Committees. Mr. Powell's testimony strengthened the view that improving economic conditions should allow the Fed to continue to gradually raise short-term interest rates. Rate hike odds are now showing about a 60% chance for two more hikes this year with the next likely one coming in September.

In housing, the Commerce Department reported homebuilding fell to a nine month low during June with housing starts dropping 12.3% to a seasonally adjusted annual rate of 1.173 million units. Economists had been expecting 1.318 million starts. Single-family homebuilding, accounting for the largest share of the housing market, fell 9.1% to a rate of 858,000 units. Meanwhile, building permits fell for the third consecutive month to a rate of 1.273 million units – a 2.2% decline to their lowest level since September 2017. The consensus forecast called for 1.301 million permits. Permits for single-family units increased a modest 0.8% to 850,000. The data from this report is somewhat surprising as it shows weakness at a time when there should be strength. This weakness reveals the difficulties builders are having finding adequate labor in addition to the challenges they are facing from higher labor, land, and materials costs.



The latest data from the Mortgage Bankers Association's (MBA) weekly mortgage applications survey released on Wednesday showed a decrease in mortgage applications. The MBA reported their overall seasonally adjusted Market Composite Index (application volume) fell 2.5% during the week ended July 13, 2018. The seasonally adjusted Purchase Index decreased 5.0% from the week prior while the Refinance Index increased by 2.0% from a week earlier.

Overall, the refinance portion of mortgage activity increased to 36.5% from 34.8% of total applications from the prior week. The adjustable-rate mortgage share of activity decreased to 6.1% from 6.3% of total applications. According to the MBA, the average contract interest rate for 30-year fixed-rate mortgages with a conforming loan balance increased to 4.77% from 4.76% with points increasing to 0.46 from 0.43.

For the week, the FNMA 4.0% coupon bond lost 17.1 basis points to close at $101.813 while the 10-year Treasury yield increased 6.23 basis points to end at 2.8931%. The Dow Jones Industrial Average gained 38.71 points to close at 25,058.12. The NASDAQ Composite Index fell 5.78 points to close at 7,820.20. The S&P 500 Index added 0.52 of one point to close at 2,801.83. Year to date on a total return basis, the Dow Jones Industrial Average has gained 1.37%, the NASDAQ Composite Index has advanced 13.28%, and the S&P 500 Index has added 4.80%.

This past week, the national average 30-year mortgage rate was unchanged at 4.63%; the 15-year mortgage rate rose to 4.13% from 4.12%; the 5/1 ARM mortgage rate increased to 3.96% from 3.95% while the FHA 30-year rate rose to 4.37% from 4.35%. Jumbo 30-year rates decreased to 4.50% from 4.54%.

Economic Calendar - for the Week of July 23, 2018

Economic reports having the greatest potential impact on the financial markets are highlighted in bold.

Date	Time ET	Event /Report /Statistic	For	Market Expects	Prior
July 23	**10:00**	**Existing Home Sales**	**June**	**5.45M**	**5.43M**
July 24	09:00	FHFA Housing Price Index	May	0.4%	0.1%
July 25	07:00	MBA Mortgage Applications Index	07/21	NA	-2.5%
July 25	**10:00**	**New Home Sales**	**June**	**670,000**	**689,000**
July 25	**10:30**	**Crude Oil Inventories**	**07/21**	**NA**	**+5.8M**
July 26	08:30	Advance International Trade in Goods	June	-$66.7B	-$64.8B
July 26	08:30	Advance Wholesale Inventories	June	NA	0.5%
July 26	**08:30**	**Durable Goods Orders**	**June**	**3.2%**	**-0.6%**
July 26	08:30	Durable Goods Orders excluding transportation	June	0.4%	-0.3%
July 26	**08:30**	**Initial Jobless Claims**	**07/21**	**215,000**	**207,000**
July 26	08:30	Continuing Jobless Claims	07/14	NA	1,751K
July 27	**08:30**	**Advance GDP**	**Qtr. 2**	**4.1%**	**2.0%**
July 27	**08:30**	**GDP Deflator**	**Qtr. 2**	**2.1%**	**2.2%**
July 27	10:00	Final Univ. of Michigan Consumer Sentiment Index	July	97.1	97.1

Mortgage Rate Forecast with Chart - FNMA 30-Year 4.0% Coupon Bond

The FNMA 30-year 4.0% coupon bond ($101.813, -17.1 bp) traded within a narrow 28.2 basis point range between a weekly intraday high of 102.063 on Thursday and a weekly intraday low of $101.781 on Monday and Friday before closing the week at $101.813 on Friday. Mortgage bonds continued to trade within a narrow range between resistance and support levels ending the week between the 25-day and 50-day moving averages which serve as short-term support levels. Trading has been in a consolidating, "sideways" direction for several consecutive weeks now and it appears this "sideways" pattern could continue this coming week. Unless an unforeseen market-moving "catalyst" such as a major geopolitical or economic event comes along to shake up the financial markets this coming week, bond prices are likely to continue trading in a tight trading range resulting in relatively stable mortgage rates.