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Weekly Newsletter

Provided to you by

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Weekly Review

The stock market put in a “mixed” performance for the week despite companies representing about 14% of the S&P 500’s market cap reporting mostly favorable third quarter corporate earnings. However, continuing angst over the U.S. – China trade conflict coupled with a report showing slower economic growth in China dampened investor sentiment. China reported 6.5% year-over-year GDP growth and this was less than the previous quarter's growth rate of 6.7% and less than the consensus forecast of 6.6% growth.

Bond yields edged higher following “hawkish” comments contained within the Federal Reserve’s minutes from their late-September monetary policy meeting. The minutes, released last Wednesday, indicated a willingness among Fed policymakers to continue their steady pace of rate hikes. The minutes also revealed discussion of raising rates past the “neutral” zone and into the “restrictive” zone in an effort to slow the economy and lower the risk of rising inflation. As a result, the probability of a December rate hike remains high with the probability rising to 83.7% from 79.8% last week.

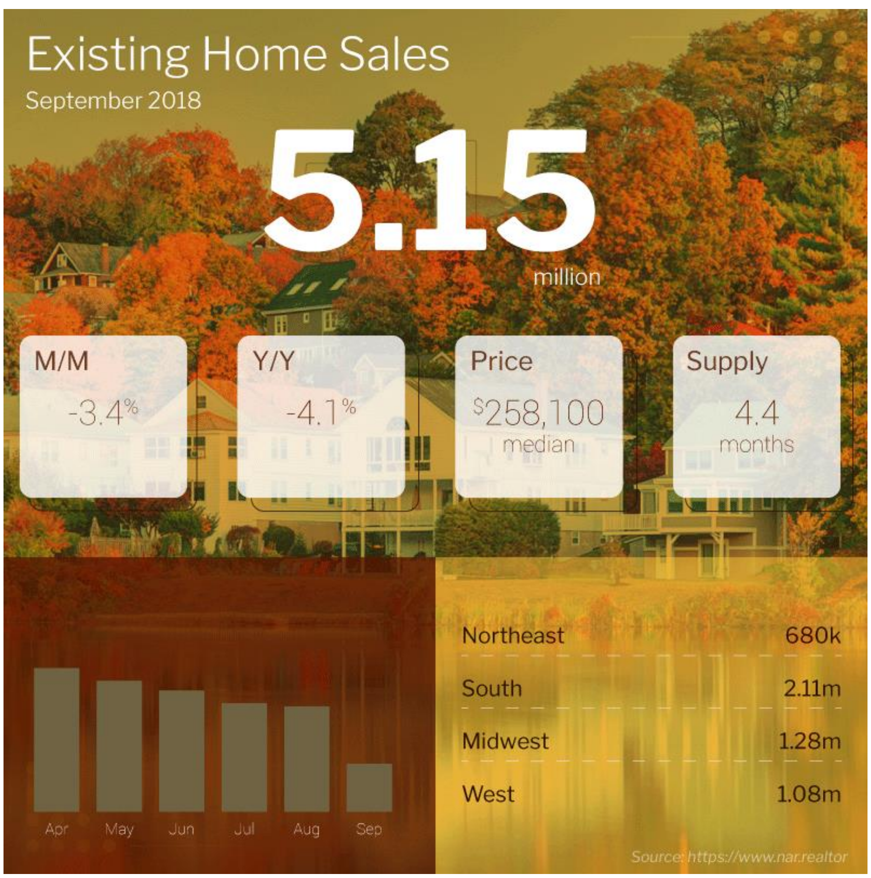
In housing, the Census Bureau released their latest Housing Starts and Building Permits data last Wednesday, showing Starts fell 5.3% in September to a seasonally adjusted annual rate of 1.201 million units. This was a little below the consensus forecast of 1.221 million units with single-family starts declining 0.9% to 871,000. Regionally, total starts were 29.0% higher in the Northeast with single-unit starts 6.7% lower. The Midwest saw total starts 14.0% lower with single-unit starts

10.2% higher. Total starts were 13.7% lower in the South with single-unit starts down 6.8%. The West had a 6.6% increase in total starts with single-unit starts rising 7.0%.

Meanwhile, Building Permits declined 0.6% to a seasonally adjusted annual rate of 1.241 million permits coming in below the consensus forecast of 1.273 million. The primary reason for this miss was a 9.3% drop in permits for buildings with five units or more.

Single-family permits climbed 2.9% to 851,000, matching last March's total for the third-lowest annual rate this year.

Regionally, total permits were 9.8% lower in the Northeast with single-unit permits rising 13.7%. Total permits in the Midwest were down 18.9% with single-unit permits 1.7% lower. The South saw a gain of 0.6% in total permits with single-unit permits 1.6% higher. Total permits out West increased 11.1% with single-unit permits gaining 5.8%. The data from this latest report suggests the supply of new homes is failing to keep pace with the demand for new homes at more favorable and affordable price points. Therefore, it is likely overall home sales activity will continue to be negatively impacted by affordability factors.



Friday, the National Association of Realtors (NAR) reported Existing Home Sales fell 3.4% month-over-month in September to a seasonally adjusted annual rate of 5.15 million. This was below the consensus forecast of 5.30 million and was the lowest sales level since November 2015. Also, total sales were 4.1% lower on a year-over-year basis.

Single-family home sales were 3.4% lower month-over-month at a seasonally adjusted annual rate of 4.58 million and were 4.0% below the year-ago sales level. Existing home inventory for sale at the end of September fell from 1.91 million to 1.88 million but was up 1.1% from a year ago. Unsold inventory currently stands at a 4.4-month supply versus 4.3 months in August and remains below the 6.0-month supply typically associated with a balanced market. The median existing home price for all housing types rose 4.2% to $258,100 – the 79th straight month of year-over-year gains. The median existing single-family home price was up 4.6% from a year ago to $260,500. First-time buyers accounted for 32% of sales in September, up from 31% in August and 29% a year ago. Coupled with the Housing Starts and Building Permits data, it appears a combination of high home prices, low inventory of affordable homes, rising mortgage rates, and the new tax law limiting incentives for homeownership are having an adverse impact on the housing sector this year.

Elsewhere, the latest data from the Mortgage Bankers Association's (MBA) weekly mortgage applications survey showed the number of mortgage applications decreased from the prior week. The MBA reported their overall seasonally adjusted Market Composite Index (application volume) fell 7.1% for the week ended October 12, 2018. The seasonally adjusted Purchase Index decreased 6.0% from the week prior while the Refinance Index decreased 9.0%.

Overall, the refinance portion of mortgage activity fell to 38.1% from 39.0% of total applications from the prior week. The adjustable-rate mortgage share of activity decreased to 7.1% from 7.3% 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 5.10% from 5.05% with points increasing to 0.55 from 0.51 for 80 percent loan-to-value ratio (LTV) loans.

For the week, the FNMA 4.0% coupon bond fell 23.4 basis points to close at $99.891 while the 10-year Treasury yield increased 2.7 basis points to end at 3.194%. The Dow Jones Industrial Average gained 104.35 points to close at 25,444.34. The NASDAQ Composite Index fell 47.86 points to close at 7,449.03. The S&P 500 Index added 0.65 of one point to close at 2,767.78. Year to date on a total return basis, the Dow Jones Industrial Average has gained 2.93%, the NASDAQ Composite Index has advanced 7.90%, and the S&P 500 Index has added 3.52%.

This past week, the national average 30-year mortgage rate rose to 4.99% from 4.94%; the 15-year mortgage rate increased to 4.47% from 4.42%; the 5/1 ARM mortgage rate climbed to 4.51% from 4.43% while the FHA 30-year rate remained unchanged at 4.50%. Jumbo 30-year rates rose to 4.42% from 4.40%.

Economic Calendar - for the Week of October 22, 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
Oct 24	07:00	MBA Mortgage Purchase Index	10/20	NA	-7.1%
Oct 24	09:00	FHFA Housing Price Index	Aug	0.3%	0.2%
Oct 24	**08:30**	**New Home Sales**	**Sept**	**625,000**	**629,000**
Oct 24	**10:30**	**Crude Oil Inventories**	**10/20**	**NA**	**+6.5M**
Oct 24	14:00	Federal Reserve's Beige Book	Sept	NA	NA
Oct 25	**08:30**	**Durable Goods Orders**	**Sept**	**-1.8%**	**4.5%**
Oct 25	**08:30**	**Durable Goods Orders excluding transportation**	**Sept**	**0.3%**	**0.1%**
Oct 25	**08:30**	**Initial Jobless Claims**	**10/20**	**211,000**	**210,000**
Oct 25	08:30	Continuing Jobless Claims	10/13	NA	1,640K
Oct 25	08:30	Advance International Trade in Goods	Sept	-$74.4B	-$75.8B
Oct 25	08:30	Advance Retail Inventories	Sept	NA	0.7%
Oct 25	08:30	Advance Wholesale Inventories	Sept	NA	0.8%
Oct 25	**10:00**	**Pending Home Sales**	**Sept**	**-0.2%**	**-1.8%**
Oct 26	**08:30**	**Advance 3rd Quarter GDP**	**Qtr. 3**	**3.3%**	**4.2%**
Oct 26	**08:30**	**Advance 3rd Quarter GDP Deflator**	**Qtr. 3**	**2.1%**	**3.0%**
Oct 26	10:00	Final Univ. of Michigan Consumer Sentiment Index	Oct	99.0	99.0

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

The FNMA 30-year 4.0% coupon bond ($99.891, -23.4 bp) traded within a narrower 45.3 basis point range between a weekly intraday high of 100.266 on Wednesday and a weekly intraday low of $99.813 on Friday before closing the week at $99.891 on Friday. After trading slightly higher from Monday through Tuesday, mortgage bonds traded lower toward support levels.

Mortgage bonds remain “oversold” while operating from a sell signal last Tuesday. While we could see bonds continue down to support levels and then make a bounce higher, the overall trend remains negative. If the third quarter earnings season just getting under way shows strong results, we could see the stock market begin to recover from recent weakness and move higher into the end of the year – a historically strong period for stocks. If this scenario plays out, it would put added pressure on bond prices pushing yields and mortgage rates a little higher.