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Weekly Newsletter

Provided to you by

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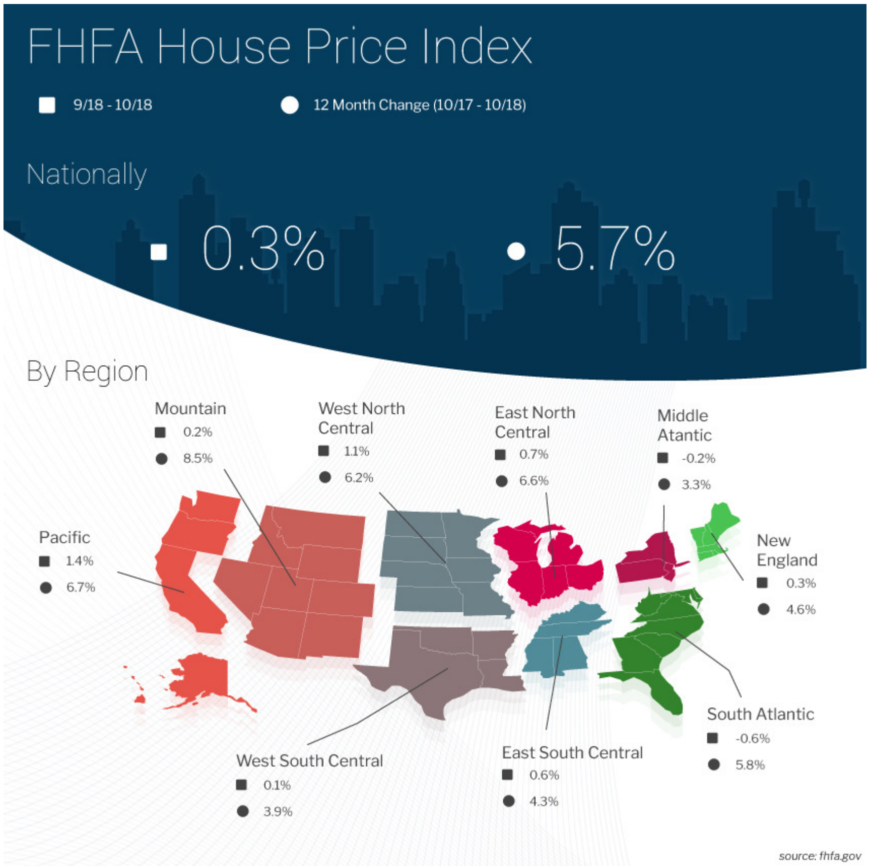
Weekly Review

Extreme stock market volatility permeated the Christmas holiday trading week prompting many investors to seek relative safety in US Treasuries. The flow of money into treasuries pushed the yield on the benchmark 10-year Treasury note down to its lowest level in almost nine months. The CBOE Volatility Index (VIX) soared to a new 10-month high during the abbreviated Christmas Eve trading session, although on thin volumes.

Wednesday, trading volumes increased creating wide price swings in the major stock indexes. The Dow oscillated by 1,186 points to record its first one-day 1,000-point gain in history and its largest percentage gain since 2009. This was likely due to end-of-year position rebalancing by large institutional investors and pension funds.

Other factors for the surge in the stock market included rumors of a resumption in U.S.-China trade negotiations and reports of corporate insiders purchasing their companies' stock reaching an eight-year high. Also, a report on holiday retail spending from MasterCard showing the largest sales increase in five years (+5.1%) helped to restore and invigorate investor confidence.

In Housing news, home prices continued higher in October, rising 0.3% from the previous month, according to the Federal Housing Finance Agency (FHFA) seasonally adjusted monthly House Price Index (HPI).



The previously reported 0.2% increase in September remained unchanged.

The FHFA monthly HPI is calculated using home sales price information from mortgages sold to, or guaranteed by, Fannie Mae and Freddie Mac.

From October 2017 to October 2018, house price were 5.7% higher.

For the nine census divisions, seasonally adjusted monthly price changes from September 2018 to October 2018 ranged from -0.6% in the South Atlantic division to +1.4% in the Pacific division.

The 12-month changes were all positive, ranging from +3.3% in the Middle Atlantic division to +8.5% in the Mountain division.

Friday, the National Association of Realtors (NAR) reported Pending Home Sales, which measures signed contracts on existing homes, declined 0.7% to a reading of 101.4 from 102.1 in November, a four-year low.

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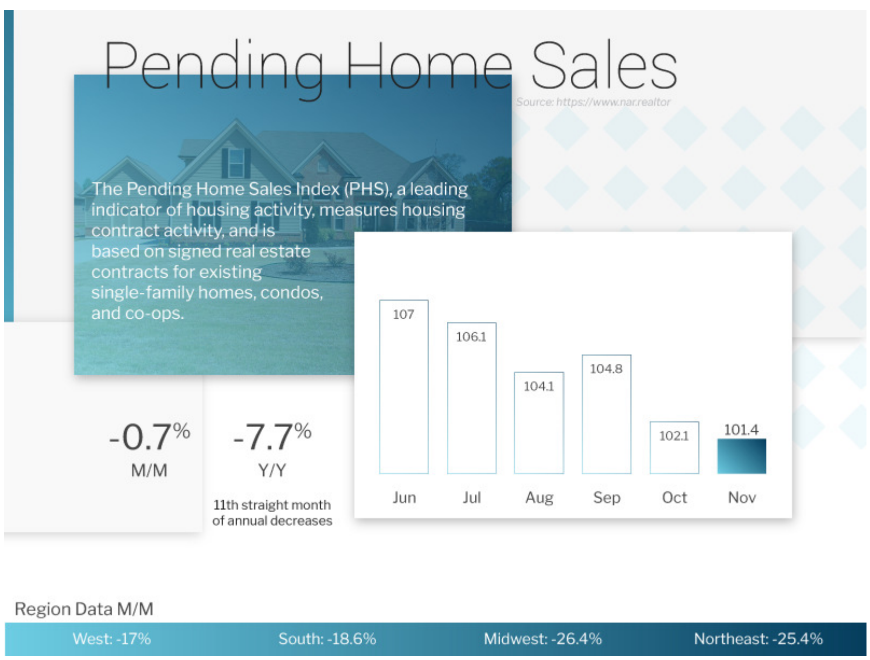

This was below the consensus forecast calling for a 1.5% increase. However, this report was written before a sharp decline in interest rates during the past month that have made mortgages more affordable.

Regionally, pending sales were higher in the West and up 2.7% in Northeast, but they fell 2.7% in the South and 2.3% in the Midwest. However, sales were lower in all regions when compared to the same time frame from a year ago.

Chief economist for NAR, Lawrence Yun, remarked “The latest decline in contract signings implies more short-term pullback in the housing sector and does not yet capture the impact of recent favorable conditions of mortgage rates.” Yun predicts solid growth potential for home sales in the long-term as “Home sales in 2018 look to close out the year with 5.3 million home sales, which would be similar to that experienced in the year 2000. But given the 17 million more jobs now compared to the turn of the century, the home sales are clearly underperforming today. That also means there is steady longer-term growth potential.” However, short-term, an “extended federal government shutdown could reduce sales by as many as 40,000 homes a month because federal flood insurance is temporarily unavailable.”

For the week, the FNMA 4.0% coupon bond gained 34.4 basis points to close at $101.797 while the 10-year Treasury yield decreased 7.0 basis points to end at 2.718%. The Dow Jones Industrial Average gained 617.03 points to close at 23,062.40. The NASDAQ Composite Index added 251.53 points to close at 6,584.52. The S&P 500 Index advanced 69.12 points to close at 2,485.74. Year to date on a total return basis, the Dow Jones Industrial Average has declined 6.70%, the NASDAQ Composite Index has dropped 4.62%, and the S&P 500 Index has lost 7.03%.

This past week, the national average 30-year mortgage rate dropped to 4.63% from 4.65%; the 15-year mortgage rate declined to 4.19% from 4.21%; the 5/1 ARM mortgage rate fell to 4.59% from 4.61% while the FHA 30-year rate dropped to 4.22% from 4.24%. Jumbo 30-year rates decreased to 4.39% from 4.41%.

Economic Calendar - for the Week of December 31, 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
Jan 02	07:00	MBA Mortgage Applications Index	12/29	NA	NA
Jan 03	08:15	ADP Employment Change	Dec	170,000	179,000
Jan 03	**08:30**	**Initial Jobless Claims**	**12/29**	**220,000**	**216,000**
Jan 03	08:30	Continuing Jobless Claims	12/29	NA	1,701K
Jan 03	10:00	Construction Spending	Nov	0.3%	-0.1%
Jan 03	**10:00**	**ISM Manufacturing Index**	**Dec**	**57.8**	**59.3**
Jan 04	**08:30**	**Nonfarm Payrolls**	**Dec**	**180,000**	**155,000**
Jan 04	**08:30**	**Nonfarm Private Payrolls**	**Dec**	**175,000**	**161,000**
Jan 04	**08:30**	**Average Hourly Earnings**	**Dec**	**0.3%**	**0.2%**
Jan 04	**08:30**	**Unemployment Rate**	**Dec**	**3.7%**	**3.7%**
Jan 04	08:30	Average Workweek	Dec	34.5	34.4
Jan 04	**11:00**	**EIA Crude Oil Inventories**	**12/29**	**NA**	**-0.05M**

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

The FNMA 30-year 4.0% coupon bond ($101.797, +34.4 bp) traded within a slightly narrower 59.4 basis point range between a weekly intraday high of $101.828 on Friday and a weekly intraday low of 101.234 on Wednesday before closing the week at $101.797 on Friday.

Mortgage bond prices dipped lower to test support last Wednesday before bouncing higher the remainder of the week to approach overhead resistance on Friday. Mortgage bonds remain “extremely overbought” and have amazingly been “overbought” since November 20 – an exceedingly long and unusual time period. This situation suggests bond prices will be susceptible to a sharp downward correction likely created by a sustained rebound in the stock market should such a rebound take place at the beginning of the New Year. There are many negative factors already priced into the stock market so any good news that comes along could initiate a rally in stocks that would pressure bond prices lower.

In the short-term, we could see bond prices getting trapped between resistance at the 61.8% Fibonacci retracement level ($101.856) and support at the 200-day moving average ($101.368). Should this happen, mortgage rates would remain relatively stable, fluctuating within a narrow range.