MORTGAGE MARKET IN REVIEW

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HOMETOWN AMERICA INCORPORATED

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Market Comment

Mortgage bond prices finished the week lower which put upward pressure on rates. We started on a negative note Monday and Tuesday, languished mid-week, and saw some negative MBS sentiment to end the week. The recent US Department of Justice subpoena of Fed Chair Powell caused market instability and Powell's response which noted the "political" nature of the conflict dominated newswires. The data was mixed. New home sales were 738K vs 720K. The ADP employment weekly change was 11.75K vs 11K. CPI rose 0.3% as expected. The core rose 0.2% vs 0.3%. Retail sales rose 0.6% vs 0.4%. PPI was up 0.2% as expected. The Core was unchanged vs up 0.2%. Weekly jobless claims were 198K vs 215K. Mortgage interest rates finished the week worse by approximately 3/8 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
ADP Employment Weekly	Tuesday, Jan. 20, 8:30 am, et	12K	Important. An indication of employment. Weakness may bring lower rates.
Construction Spending	Wednesday, Jan. 21, 10:00 am, et	Down 0.1%	Low importance. An indication of economic strength. Significant weakness may lead to lower rates.
20-year Treasury Bond Auction	Wednesday, Jan. 21, 1:15 pm, et	None	Important. Bonds will be auctioned. Strong demand may lead to lower mortgage rates.
Q3 GDP	Thursday, Jan. 22, 8:30 am, et	Up 4.3%	Very important. The aggregate measure of US economic production. Weakness may lead to lower rates.

Personal Income and Outlays	Thursday, Jan. 22, 8:30 am, et	Up 0.4%, Up 0.5%	Important. A measure of consumers' ability to spend. Weakness may lead to lower mortgage rates.
PCE Core Inflation	Thursday, Jan. 22, 8:30 am, et	Up 0.2%	Important. A measure of price increases for all domestic personal consumption. Weaker figure may help rates improve.
U of Michigan Consumer Sentiment	Friday, Jan. 23, 10:00 am, et	54	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Fed Dissent

Kansas City Fed President Jeff Schmid spoke to the Economic Club of Kansas City last week and his remarks ramped up economic fear and uncertainty, especially on the inflation front. He warned, "Last year introduced a fair amount of uncertainty into the economic outlook, uncertainty that I don't think has been resolved, including the effect of higher tariffs on prices and output as well as the potential outcomes of the tremendous surge in artificial intelligence investment on financial markets, productivity and employment." Schmid was one of the dissenters of the most recent Fed rate cut. He explained his vote by stating, "My preference at both meetings, as reflected in my vote, was to leave the policy rate unchanged. My reasoning was based on three factors. First, inflation remains too high. Second, I believe that cutting rates could disproportionately harm the inflation side of our mandate without providing much benefit to the employment side. And third, I don't think that monetary policy is currently very restrictive." Schmid's primary concern is "Inflation has been above the Fed's 2 percent objective for over four years. I don't think we have room to be complacent."

Inflation, real or perceived, erodes the value of fixed income investments such as mortgage-backed securities. This causes prices to fall and rates to rise. We saw some of that last week. A cautious approach to float/lock decisions is prudent in this environment as even Fed officials are divided on what the future holds.