MORTGAGE MARKET IN REVIEW

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HOMETOWN AMERICA INCORPORATED

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Market Comment

Mortgage bond prices finished the week higher which put downward pressure on rates. Rates improved gradually throughout the week. Tariffs dominated headlines and sent stock prices plummeting lower. Flight to safety buying of US Treasuries and MBSs was the primary reason for the downward pressure on rates. The data was mixed but was heavily overshadowed by fear and uncertainty. ISM Index was 49 vs 49.5. Construction spending rose 0.7% vs 0.3%. ADP employment came in at 155K vs 105K. Factory orders rose 0.6% vs 0.5%. Weekly jobless claims 219K vs 225K. The trade deficit $122.7B vs $123.5B. Unemployment came in at 4.2% vs 4.1%. However, payrolls rose 228K vs 135K. Mortgage interest rates finished the week better by approximately 1/2 to 5/8 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Consumer Credit	Monday, April 7, 3:00 pm, et	$15.2B	Low importance. A significant increase may lead to lower mortgage interest rates.
Treasury Auctions Begin	Tuesday, April 8, 1:15 pm, et	None	Important. 3Y Tuesday, 10Y Wednesday, 30Y Thursday. Strong demand may lead to lower mortgage rates.
Fed Minutes	Wednesday, April 9, 2:00 pm, et	None	Important. Details of the last Fed meeting will be thoroughly analyzed.
Weekly Jobless Claims	Thursday, April 10, 8:30 am, et	225K	Important. An indication of employment. Higher claims may result in lower rates.
Consumer Price Index	Thursday, April 10, 8:30 am, et	Up 0.1%, Core up 0.3%	Important. A measure of inflation at the consumer level. Lower than expected increases may lead to lower rates.

Producer Price Index	Friday, April 11, 8:30 am, et	Up 0.2%, Core up 0.3%	Important. An indication of inflationary pressures at the producer level. Lower figures may lead to lower rates.
U of Michigan Consumer Sentiment	Friday, April 11, 10:00 am, et	54.5	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Mortgage Rates

It is very important to remember that US Treasuries and mortgage-backed securities MBSs, the bonds that dictate mortgage interest rates, are different. A US Treasury is backed by the US Federal Government while MBSs essentially are backed by property and borrowers. While both are debt instruments, they possess very different risk characteristics. A look back to the 2008 financial crisis shows how defaults on mortgages can snowball into chaos. Investors demand higher rates to lend money for mortgages because of this additional risk and others such as prepayment.

This risk is why we recently saw the 10Y Treasury yield hit lows while mortgages only saw slight improvements. It is true that MBSs and US Treasuries generally trade in the same direction. However, this isn't a certainty, and they often diverge significantly in terms of magnitude of change. The 10Y Treasury yield moved around the 3.98% range last week while the average mortgage interest rate was 6.64%. The basic concept is that the flight to safety buying of US debt instruments favors treasuries as the safer investment over MBS's.

Continued stock weakness could result in additional downward pressure on rates overall. However, financial markets remain uncertain, things change rapidly from day to day, and additional volatility is expected. With that in mind, caution is key when making float/lock decisions.