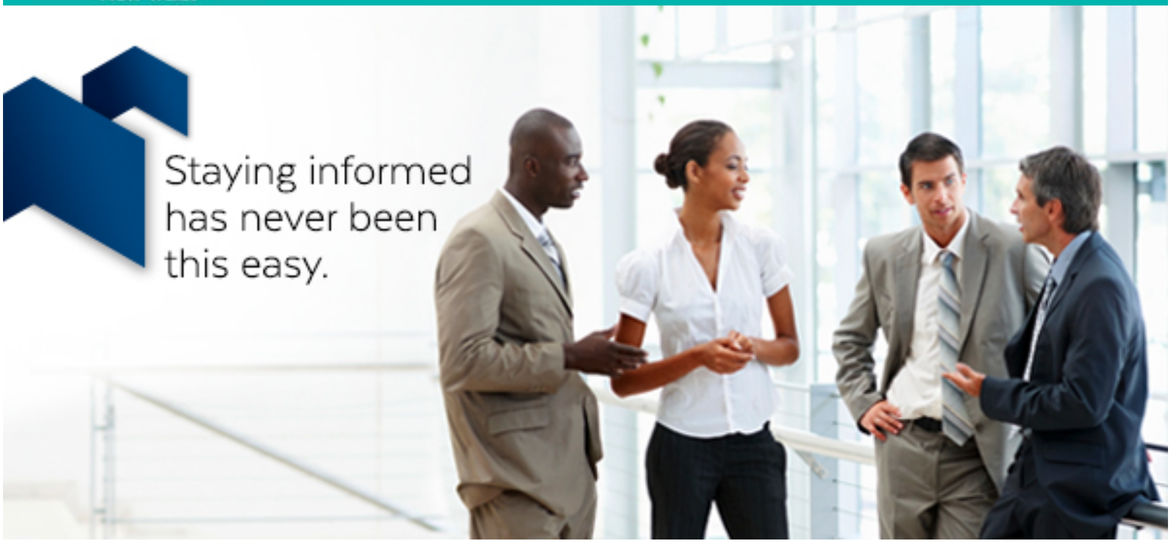
THE INSIDE EDGE

March 2020



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Coronavirus Spreads

The coronavirus was far and away the main issue for financial markets in February. The spread of the disease has slowed global economic activity, and mortgage rates ended the month at their lowest levels in years.

The reason that the coronavirus has been positive for mortgage rates is pretty straightforward. People have scaled back a wide range of activities such as going to work and traveling, which has slowed global economic activity and reduced the outlook for future inflation. Since no one knows how much more the disease will spread, it is still extremely difficult to forecast the extent of its economic impact. In response to the uncertainty, investors have continued to reduce the level of risk in their portfolios, which has been favorable for relatively safer assets such as mortgage-backed securities (MBS).

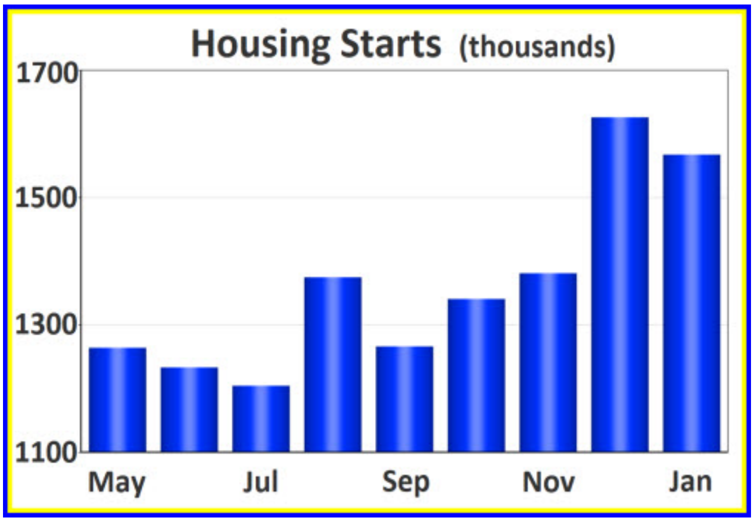
Investors have been speculating that the Fed will provide additional stimulus to help offset the effects of the coronavirus. On this subject, Chair Powell said that the Fed is closely monitoring the situation and would "use our tools and act as appropriate to support the economy." Investors have priced in a 50 basis point rate cut at the next meeting on March 18.

The most recent data on the US economy has shown few signs of a slowdown so far. Against a consensus forecast of 160,000, the economy added an impressive 225,000 jobs in January. The unemployment rate unexpectedly increased from 3.5% to 3.6%, but this was due to additional workers entering the labor force which is a sign of strength. Average hourly earnings were 3.1% higher than a year ago, up from an annual rate of 3.0% last month. Consumer spending also continued to improve at a healthy rate in January.

Helped by the substantial decline in mortgage rates, sales of previously owned (existing) homes in January were 10% higher than a year ago. Sales activity again was held back by a lack of inventory in many regions, as the number of homes for sale was at just a 3.1-month supply nationally and was 11% lower than a year ago. Inventory is now near the lowest levels since tracking began in 1982.

Sales of new homes in January rose far more than expected to the highest level since 2007. Since new home sales measure contracts signed, while existing home sales are based on closings, new home sales are viewed as the more current indicator of housing market activity.

Regarding inventory, there was some encouraging news suggesting that we may soon see an increase in the supply of homes. Housing starts over the past two months were significantly stronger than during the rest of 2019. In addition, building permits, a leading indicator of future construction, increased in January to the highest level since March 2007.



This month, investors will continue to be focused on the coronavirus. The next Fed meeting will take place on March 18 and investors expect a 50 basis rate cut to help offset the effects of the coronavirus. The biggest economic release will be the Employment report on March 6. Investors also will be watching the reports on retail sales, inflation, manufacturing, and housing. In addition, news about the election or the ongoing trade talks between the US and China could influence mortgage rates.

Mortgage Rates (monthly change) -0.25%
Dow (monthly change) -2,800

Economic_Forecast_Mar20