THE INSIDE EDGE

February 2019

The market commentary material provided is from a third party vendor, MBSQuoteline, and is not necessarily the opinion of the employees or staff of SunTrust Mortgage. This information is intended for educational purposes only and should not be construed as investment and/or mortgage advice. Additionally, the material is deemed to be accurate and reliable, but there is no guarantee it is without error.

Fed Shift and Postponed Data

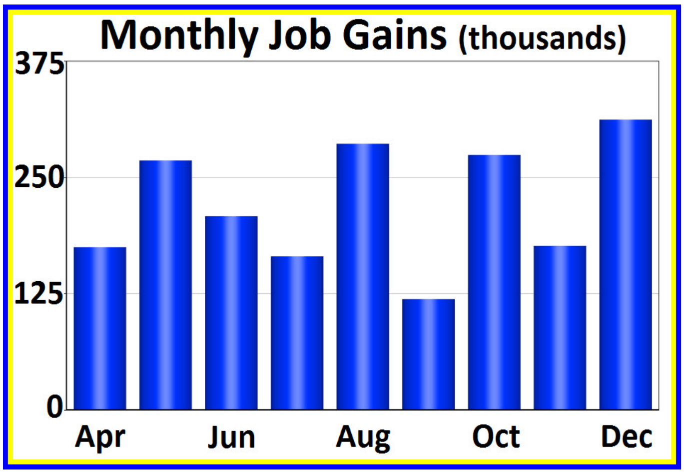
The big story in January was a shift toward a more dovish tone from the Fed, which was favorable for mortgage rates. As for the U.S. economic data, the reports which were postponed due to the government shutdown overshadowed the ones which were released on schedule. Mortgage rates ended the month lower.

As anticipated, the Fed made no change to the federal funds rate at its meeting on January 30, but investors were pleased by the unexpectedly dovish (meaning in favor of looser monetary policy) tone of its statement. First, the Fed removed the language from the statement that “further gradual increases” in the federal funds rate likely would be appropriate. At their last meeting in December, officials clearly believed that more rate hikes would be called for, but at this meeting the Fed said that "the case for raising rates has weakened." These comments caused investors to significantly reduce their outlook for rate hikes in 2019. In addition, the Fed will reconsider the size of the reduction in its enormous bond portfolio, meaning that it may sell fewer Treasuries and mortgage-backed securities (MBS) than expected. A smaller supply of MBS would increase their value, which would be good for mortgage rates.

Unlike the Fed meeting, the European Central Bank (ECB) meeting on January 24 produced no real surprises and caused a much smaller reaction in U.S. markets. The ECB held its benchmark interest rates steady and said that it will not raise rates at least through the summer of 2019. According to the ECB, risks to economic growth changed from being evenly balanced to favoring the downside. The reasons given included financial market volatility, geopolitical uncertainties, protectionist trade policies, and "vulnerabilities in emerging markets."

In the U.S., the government shutdown which began on December 22 and ended on January 25 caused delays in the release of a wide range of economic reports produced by government agencies. The lack of several key pieces of economic data in areas such as retail sales, housing starts, and gross domestic product made it more challenging for investors and Fed officials to gauge the pace of economic growth. The estimated effect of reduced spending by out of work government employees also must be factored in, and economists have put forth a wide range of estimates about the impact of the shutdown on the U.S. economy.

The key monthly labor market report showed continued solid job gains and wage growth. Against a consensus forecast of 180,000, the economy added a whopping 312,000 jobs in December. In addition, upward revisions added 58,000 jobs to the results for prior months. The unemployment rate unexpectedly increased from 3.7% to 3.9%, but this was mostly due to additional workers entering the labor force, which is viewed as a sign of strength. Average hourly earnings, an indicator of wage growth, also surpassed expectations. They were 3.2% higher than a year ago, up from 3.1% last month, and matching the highest annual rate of increase since April 2009.



The housing market data released in January indicated that sales activity tapered off near the end of 2018. In December, sales of previously owned (existing) homes unexpectedly fell 6% from November and were 10% lower than a year ago. Overall, 2018 was the weakest year for home sales since 2015, as the effects of rising mortgage rates, high home prices, stock market volatility, and the government shutdown were felt late in the year. It remains to be seen if December's weakness was mostly due to temporary factors or was an indication of what's ahead in 2019.

This month, investors will be filling in gaps as the missing data delayed by the government shutdown is released. They will be closely watching the reports on the labor market, retail sales, inflation, and housing. In addition, trade talks between the U.S. and China could influence mortgage rates. The next Fed meeting will take place on March 20.

Mortgage Rates (monthly change) -0.15%
Dow (monthly change) +1,600

Brought to you courtesy of MBSQuoteline

The information contained herein is intended as informational material for the sole and exclusive use of the business entities to which it was distributed and is subject to change without written notice.

Equal Housing Lender. SunTrust Bank - NMLS #93471. SunTrust Mortgage is a tradename of SunTrust Bank and loans are made by SunTrust Bank. ©2019. SunTrust Banks, Inc. SUNTRUST MORTGAGE and the SunTrust Mortgage logo are trademarks of SunTrust Banks, Inc. All rights reserved.

Inside_Edge_eNewsletter_Feb19