



Basis Points – August 25, 2022

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Above the Fold

Why Are Mortgage Rates Trending Lower?

It's safe to say that most Americans are aware that we're in a rising rate environment, but if you're "in the know," there are indicators that can give you an edge in understanding just how long rates will rise, how high mortgages might go, and where the smart money believes the economy is headed.

To help stave off inflation, the Federal Reserve is using one of its most powerful tools to cool borrowing by increasing the federal funds rate. This rate is actually the interest that commercial banks use when borrowing or lending excess reserves to each other overnight, but it obviously has a direct impact on rates charged to customers. When that rate rises, it typically affects other

rates such as the prime rate (the rate that a bank would charge its most creditworthy customers), credit card rates and mortgage loan rates. The prime rate is currently 5.50%, while the 30-year [average interest rate](#) (excluding fees), is right around 5.13%, down from its peak of 5.81% in late June. These declines might seem a bit strange since investors still see a 50% chance of a 75-basis-point rate hike in September (the other 50% are expecting a 50-basis-point increase), with more bumps likely to come after that.

So, if markets believe rates are surely going higher, why has the average mortgage rate been trending lower? The answer is a bit complex, but it has to do with just how aggressive the Fed will end up being and how healthy the economy will be in the relatively near future.

As it stands now, market participants believe the federal funds rate is likely to peak by summer 2023 and then begin a march back down, as many also believe the Fed will have to trigger a minor recession in order to really get inflation down. Put simply, the rate rise we are seeing now is expected to be very temporary, and mortgage lenders are under this same assumption. So, unless the economy changes trajectory and begins to boom, expect mortgage rates to remain stable this year and likely drop in 2023.

Three Things

Administration Doles Out More Stimulus for Student Loan Recipients

In a Tweet on Wednesday, the President has decided to cancel some or all student debt for millions. Roughly 43 million consumers will receive some form of debt relief and about 20 million will see their balances wiped away entirely. Those who still carry balances are also getting another “final” extension on payment moratoriums until the end of the year. The plan gives \$20,000 in debt relief to Pell Grant recipients and \$10,000 for non-Pell loans. Borrowers making less than \$125,000 are eligible, as are households earning \$250,000 or less.

Laid Off? This Labor Market Still Supports You

According to a recent Wall Street Journal report, the increasing number of layoffs are being balanced by a workplace able to absorb them. Initial claims for unemployment have been on the rise since April, but the unemployment rate has continued to decline. On the surface, this means that workers who find themselves jobless have been able to quickly find a new position. Job openings also remain relatively strong, which bodes well for those concerned about a meltdown in the labor market. Anecdotally, the Journal’s research found that a fair number of those surveyed were able to attain the same or better level of income in a new position.

Phone Carriers and Internet Providers Are Having an Identity Crisis

The good news is that their actions could benefit consumers. America's phone and cable providers like Comcast and Charter Communications (the owner of Spectrum and others) are vying for your wireless phone business, while traditional wireless carriers like T-Mobile are aggressively marketing to garner your home internet service. With not-so-great reputations for high costs, the cable operators like Comcast are currently losing the battle as newer, faster wireless networks (5G) are enabling Verizon Communications and T-Mobile to gain customers in the space. The competition should continue to drive down prices of both internet and TV, providing a much-needed respite in this period of rising prices elsewhere.

In the Know

Rising EV Prices Could Hinder Mass Adoption

Developed nations around the world are pushing consumers to electric vehicles (EVs) through legislation, tax breaks, marketing and other incentives. Aside from a lack of charging and grid infrastructure that's deficient in many areas, one major hurdle is a hard stop for most — price.

EVs experienced a 54.3% average increase in prices, while their petrol-powered cousin only experienced a 10.1% gain over the last year. There are many reasons for the hikes, from chip shortages to material prices and even inventories, as fuel prices rose to near-record highs. Until suppliers and manufacturers can stabilize prices, it may be wise for lawmakers to pump the brakes on EV legislation and incentives as even one of the most affordable EVs, the Nissan Leaf, saw its price increase 45% in 2022 over the previous model year.

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