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Financial Market Weekly

26 June 2017

Economic Commentary

Housing data was at the forefront last week, with readings out on existing and new home sales as well as a release from the FHFA on home prices. In May, sales of existing homes increased 1.1 percent on a month over month basis, to an annual rate of 5.62 million compared to 5.56 million in April. Compared to the same period a year ago, sales were higher by 2.7 percent. By region, sales activity advanced sharply, up 6.8 percent in the Northeast while sales in the Midwest declined by 5.9 percent.

Generally, housing inventories have been on the decline; however, more recently, the trend has reversed course. May was the fifth consecutive month where the stock for housing increased. On a month over month basis, inventories advanced 2.1 percent to 1.96 million. The average 30-year fixed rate mortgage has been anchored below the 4 percent mark for the past month which may drive future demand. In addition, higher readings on consumer confidence and the stable labor market should continue to be a tailwind for the housing market.

Rates Commentary

After the Fed hiked rates earlier this month, the shorter end of the curve remains largely unchanged. On the longer end, yields have been steadily sliding back to levels before the election in November. The move on the longer end coincides largely with a recent deceleration in inflation and weaker than expected economic data. Compared to two weeks ago, the yield on the 2-year Treasury is lower by 1 basis point, trading at 1.34 percent as of this morning. By comparison, the 10-year Treasury is lower by 7 basis points to 2.14 percent, over the same time period. As a result, the spread between the 2- and 10-year yields have narrowed to 80bps, its lowest since September 2016.

Outlook

With yields on longer dated treasuries generally trending downwards over recent weeks, markets seem to be weighing a lower likelihood of additional rate hikes later this year. While the Fed earlier this month aggressively punched through its second quarter point hike in 2017, it may be challenged to do the same at future meetings. With commodity prices, particularly oil, trending back towards its year-to-date lows made in February, headline inflation will continue to push below the Fed's 2 percent goal. At some point, the Fed will need to fully acknowledge the recent persistent decline in prices.

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Interest Rate Swap

Rate Market (vs. 2 weeks ago)
2y Swap: 1.54% (-1 bp)
5y Swap: 1.82% (-3 bps)
7y Swap: 1.95% (-5 bps)
10y Swap: 2.11% (-5 bps)
30y Swap: 2.38% (-5 bps)

Source: Bloomberg, FRED