A TRANSFORMATIONAL MORTGAGE SOLUTIONS PUBLICATION

TMSPOTLIGHT WITH LES PARKER

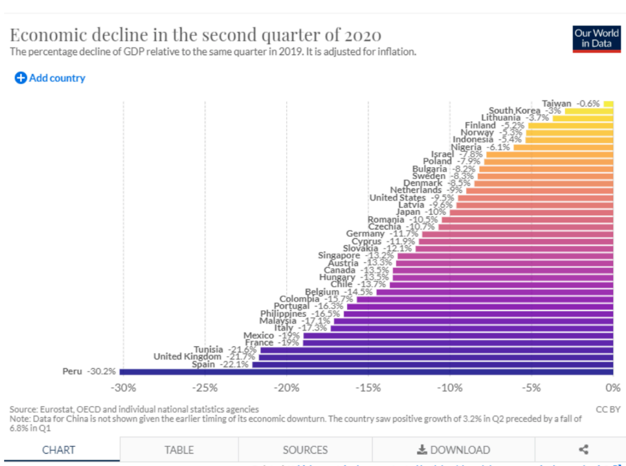
FOLLOW DAILY NEWSLETTER

"Life is like riding a bicycle. To keep your balance, you must keep moving." Albert Einstein.

To stop the pandemic, global public health officials decided to protect Life by stopping it. COVID-19 accelerated upward and downward social and economic trends. Public dissatisfaction grew with governments and non-governmental power structures. Ironically, the G-4 central banks, Big Business, and Big Tech used the deliberate stopping of Life to direct the Great Repricing to the most vulnerable units while strengthening their power and cash with cheap credit.

Review of Forecast Results

The US Ten-Year Treasury Note Yield ended 2020 at 0.91%, and its range traded to 158 bps, which was close to our expected range of 150 bps, but the yield was 85 bps lower due to COVID-19 and government responses. A flash depression occurred around the world.



https://www.visualcapitalist.com/the-88-trillion-world-economy-in-one-chart/

Last year when TMSpotlight released its outlook, COVID-19, known then only as Coronavirus, was not a pandemic:

If the Coronavirus becomes a pandemic, then expect a global recession and low rates. If the world turns to more government control over healthcare, technology, and wealth/income redistribution, then the private debt will get

Chart of the Day

Chart 1 shows last year's corporate downgrades were concentrated in the lower ratings categories. Chart 2 shows the composition of the US investment-grade bond index.

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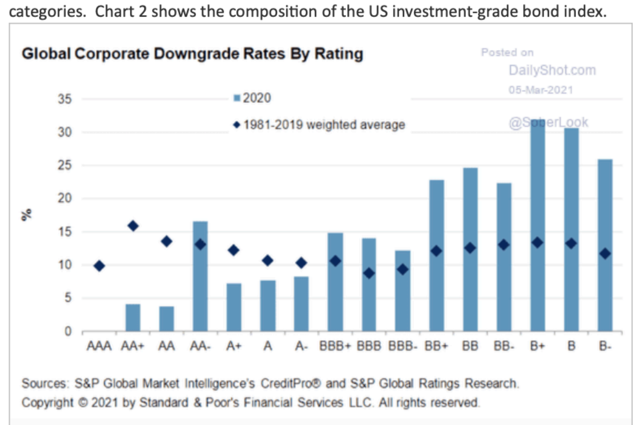
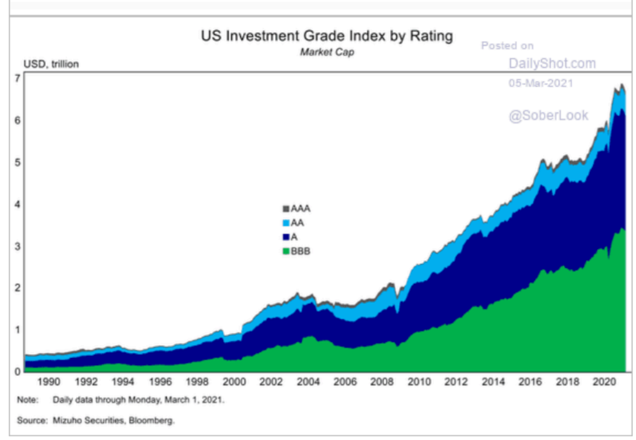




Les Parker selects graphs with permission from The Daily Shot, The Wall Street Journal, Dow Jones & Company, Inc.

The Daily Shot - Everything you need to know about the trends moving to today's markets revealed by 30+ charts and concise analysis.

restructured, and government debt will increase significantly. Look for credit spreads, including mortgage credit, to widen significantly due to increases in unemployment. The recession will become a depression. 2/28/2020 TMSpotlight Annual Outlook

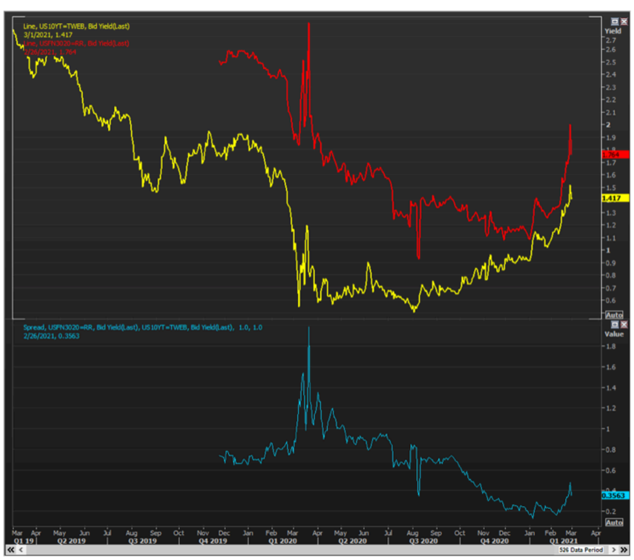
We missed mortgages outperforming Treasuries significantly. We did not expect the Fed to intervene as aggressively as it did. With a former mortgage banker in charge of Treasury, Steve Mnuchin, we should not have missed it.

Mortgage yield range performed as expected but off 53 bps on the high and low. Mortgage production flourished from high refinance activity due to record low mortgage rates.

	Year	Expected Range	Actual Range	Yearend
30 yr Mortgage	2020	4.25 to 3.20% 105 bps	3.72 to 2.67% 105 bps	2.67%
10 yr T-Note	2020	2.75 to 1.25% 150 bps	1.90 to 0.32% 158 bps	0.91%

Last year we used the FN 3.5 compared to the Ten Year Treasury Note Yield, while this year, we used the FN 2%. The spread changed with the pandemic. The Ten Year Treasury Note Yield's chart compared to the Fannie Mae 2% Thirty-Year MBS Yield chart over the Last Two Years. The mortgage industry owes its year of abundance to the Federal Reserve.

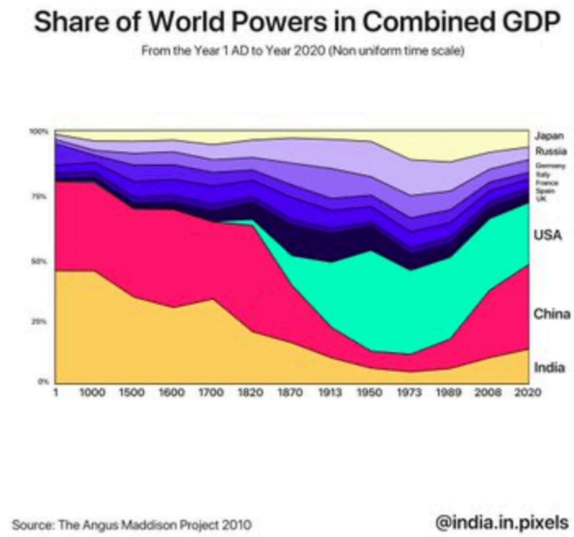
It took three Fed interventions in April to settle down the MBS market. The new environment exposed the lack of foreign interest in MBS due to the rapid prepayments. Refinancing costs the industry long-term stability. The "S" curve looks more like a step function. A duration of 2 can become a duration of 6 within 60 basis points. Talk about extension risk. What about premium pricing stacked 1 to 2/3 points? When does fear of a return of 1.5% coupons usher in compression below Â½ point?

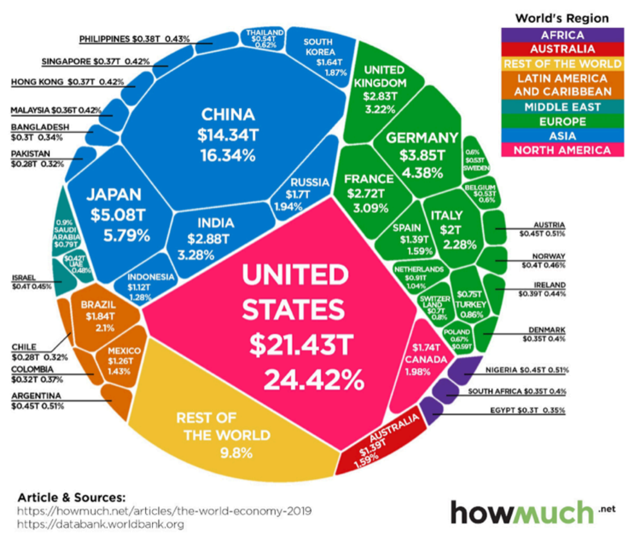


Charts of the Millenium

Chart 1 is an Update from 2017.

Chart 2 is a pre-pandemic view of the economic world in 2019.





YELLOW = Ten Year Treasury Note Yield
RED = Fannie Mae 3.5 Coupon MBS Yield
BLUE = The Spread between the two
Refinitive's Eikon - Find out more about Thomson Reuters Eikon for Mortgages

Implied volatility in financial futures moved to historical highs from historic lows and back to modestly low volatility. From January 2012 to December 2019, 10 Year Treasury Note Yield traded between 3.26 (2018) to 1.32 (2016) for a 194 bps range. In 2020 the yield dropped below 2012, 2016, and 2019 low yields. Employment exceeded historical definitions of full employment in 2019 over to see historic jumps in unemployment. The Dollar clipped its 2016 high at 103.96 before closing out 2020 below 90, primarily due to the US political change in the US benefitting China. The price action in 2020 placed a lid on the ICE Dollar Futures at 96.

Below is a summary of our expected range and the actual ranges from 2011 to 2019 for the 10 Year Treasury Note Yield. *2013 & 2014 hit the anticipated outside low yield.

Year	Expected Range	Actual Range
2011	3.80 to 1.80% 200 bps	3.77 to 1.72% 195 bps
2012	2.50 to 1.50% 100 bps	2.39 to 1.38% 101 bps
2013	3.00 to 1.6%* 140 bps	2.99 to 1.61% 138 bps
2014	3.20 to 1.9%* 130 bps	3.04 to 1.87% 117 bps
2015	2.90 to 1.35% 155 bps	2.50 to 1.64% 86 bps
2016	2.80 to 1.40% 140 bps	2.64 to 1.32% 132 bps
2017	3.20 to 1.90% 130 bps	2.63 to 2.02% 61 bps
2018	3.10 to 1.90% 120 bps	3.26 to 2.42% 84 bps
2019	3.30 to 1.90% 140 bps	2.80 to 1.43% 137 bps
2020	2.75 to 1.25% 150 bps	1.90 to 0.32% 158 bps

Interest Rate Outlook

Amazingly, many market participants expect the US Ten-Year Note yield to stay low through 2021 with low volatility. They believe:

- The Federal Reserve and other major central banks keep buying long-term securities, so their matrix (virtual reality) lives.

- Debt and COVID-19 constrain growth, particularly for Advanced Economies.

Do not let ideology drive a fair assessment of the global picture. Regardless of the rhetoric in DC, inflation lives near term due to loose monetary policy, fiscal stimulus, pent-up demand to consume, bottlenecks from COVID-19 restrictions, and an uneven economic recovery. As consumers worldwide find freedom like Floridians in the USA, a "demand shock" looks likely. The market is not ignoring it, but it thinks the Fed is. Who will be proven right in 2021, the investors or the Fed? If history repeats, then Investors are right.

Final Note on Risks Ahead (Similar to 2020)

Watch out for debt defaults from those unable to shake off their troubles. Expect Emerging Markets to thrive as the Advanced Economies struggle to return to pre-Covid GDP. Ignore the vast improvements from year over year gains, given the flash depression last year.

Mortgage bankers living high on refinances will see their world crash without quality, technology, and sound financial management. Expect lenders to flourish that scale customer service (originations and servicing) to satisfaction levels that rival the best customer service in any industry.

Companies that scale underwriting will reap great riches and market share. There are two ways to scale underwriting. The "trust the Artificial Intelligence" approach with no transparency versus an open and honest way proves quality throughout the process. The open and honest way uses AI as a tool, not a god.

If Big Techs get their way and push aside equal opportunity for equal outcomes and governments abandon their demands for proof, then only a few sizable lenders will exist. If lenders build scalable underwriting with transparency and provide equal opportunity, then competition will strive. Look for community financial institutions to pick-up modest market share. Expect fewer lenders over the next few years. Go big, go small, or go home.

Are you wondering about how to sell, buy, contract, or expand? Let's talk: Les@TMS-Advisors.com

The Fed Reserve expects a demand shock from bottlenecks but insists inflation will fade until the markets expect higher prices. It estimates the economic drag remains for a few more years, including significant impairment of employment and commercial activity. So, Jay Powell and company want markets to remain calm while inflation runs hot.

Will the G-4 central banks, the Fed, BOE, BOJ, and ECB, keep volatility tame while pushing the Dollar to one of the reserve currencies from the top reserve currency? If they can, then the devaluation of the Dollar makes everything more expensive while depreciating US assets.

10 Year Treasury Note Yield

Year	Expected Range	Outside Range
2021	2.35 to 0.75% 160 bps	2.55 to 0.55% 200 bps

Primary Mortgage Market Survey by Freddie Mac of 30-year conventional rates

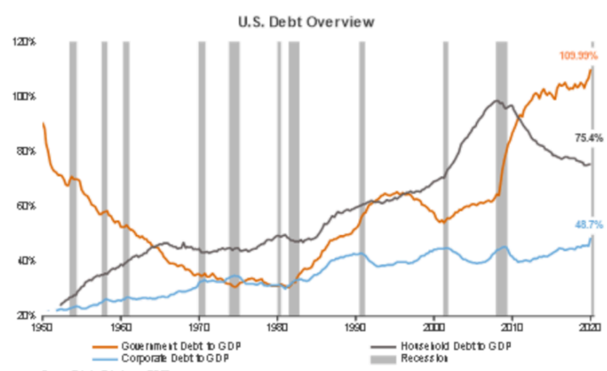
Year	Expected Range	Outside Range
2021	3.75 to 2.65% 110 bps	3.90 to 2.60% 130 bps

Expect the fiscal and monetary shot in the arm to strengthen the markets' concern over inflation until it does not. Central bankers' actions distort market behavior when it forces a search for yield outside of liquid fixed income. Inflation fears will melt away with angst over higher taxes, higher debt, low productivity, drag from constricting fossil fuels, and G-4 failure to devalue all currencies. When it happens, then rates will fall.

So, look for a volatile 2021 and 2022 where the 10 yr yield rises to 1.65, falls to 0.75, and rises again to 2.35%.

Europe's political situation remains precarious. Its call to dethrone the Dollar leads to a more assertive China. The economic slowdown of the global governments' responses to the pandemic exposes the fractures from the 2007/2008 financial crisis and the inadequate fixes.

The use of leverage by households, corporations, and governments poses the risk of financial instability. Look at the Chart of the Year for insight into the size of the corporate problem. Below are the numbers from early 2020. They are more prominent now.



Oil remains trapped. Expect the lead Light Crude Oil Futures Contract to stay below $82/77. Another visit to the low 40s offers no surprise.

The purchase market looks stable for originations at 1.6

trillion. The refinance market is the wild card. Will it put in a repeat performance with 2.5 trillion? Economists at FG, FN, and MBA expect drops of 35% or more.

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