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Last Week in Review ▶

"DARLING, I DON'T KNOW WHY I GO TO EXTREMES...TOO HIGH OR TOO LOW, THERE AIN'T NO IN-BETWEENS..." *Billy Joel* The financial markets endured another week of extreme bipolar behavior, with enormous intra-day mood swings that normally wouldn't be seen over the course of several weeks. **While Bonds and home loan rates wildly rocketed higher and plummeted lower on a daily basis throughout the week, fixed home loan rates ended up improved by about .25% for the week overall.** And last week...the action started unusually early, stemming from some almost unprecedented weekend actions by the Fed.

Last Sunday night, the news broke that the Fed had not only decided to make a move to lower the Discount Rate by .25%, just two days ahead of when their normally scheduled announcement would arrive, but also that they had helped facilitate the bailout of investment giant Bear Stearns. The 85-year-old company had its stock purchased by JPM Chase at \$2 per share, for \$236 Million...yep, that's Million with an M. Bear Stearns was trading near \$90 at the end of February, with a 52-week high near \$160. Bear Stearns was the number one buyer of sub-prime home loans, with a huge appetite for this type of paper - and they bought sub-prime transactions with both fists, a strategy that certainly came back to haunt them.

Adding to the manic-depressive mix was a huge news day on Tuesday, starting with earnings and outlook from two other major financial players - Goldman Sachs and Lehman Brothers - who reported much more positive results than had been anticipated. Particularly on the heels of the Bear Stearns situation, this was very welcome news to a jittery Stock market. New construction numbers came out mixed, along with a hotter than expected read on wholesale inflation via the Producer Price Index...and as if it all weren't enough already, the Fed released their official decision to cut the Fed Funds Rate by .75%. Many people expected a deeper cut, but they likely kept the cut to only .75% because of continuing fears of inflation.

But wait...there's still more. On Wednesday, investment banker Morgan Stanley also came out with a great earnings report, which again was seen as good news by the Stock market, but pulled money out of Bonds. But then...along came big news from the Office of Federal Housing Enterprise Oversight (OFHEO), who announced that they lifted special capital restrictions that had been put in place for both Fannie Mae and Freddie Mac. This will allow these firms to pump \$200 Billion into the mortgage market by way of buying Mortgage Bonds. The anticipated increase in demand was very good news for Bonds and home loan rates, which immediately improved on the news.

WHEW! ALL THE CRAZY MARKET ACTION HAS YOU WORN OUT? TAKE A BREATHER AND THINK ABOUT SOMETHING NOT SO STRESSFUL...BUYING A VEHICLE. OK, SO MOST WOULDN'T CONSIDER THAT A STRESS-FREE EVENT, BUT GET SOME GREAT TIPS ON BUYING VS LEASING IN THIS WEEK'S MORTGAGE MARKET VIEW!

Forecast for the Week ▶

So after all that...what lies in wait as the markets reopen following the holiday weekend? Yet another action

packed economic calendar. We'll get a look at the housing market via the latest numbers on both New and Existing Homes Sales, but the report voted most likely to influence the markets will be Friday's Personal Income and Spending report with its imbedded data on Core Personal Consumption Expenditures (PCE)...which just happens to be the Federal Reserve's favorite measure of consumer inflation.

Particularly on the heels of the most recent rate cut, this report will take special significance. The Fed would like to see a core inflation rate below 2.0%, but with Bernanke and crew preferring to fight a looming recession with their continuing series of rate cuts, rather than targeting inflation with rate hikes, this will be a tough target to reach for the foreseeable future.

Since inflation is the enemy of fixed return investments like Bonds, a jump higher in the Core PCE on Friday could cause Bond prices to worsen quickly, and home loan rates pop higher.

Chart: Fannie Mae 5.5% Mortgage Bond (Friday Mar 21, 2008)



The Mortgage Market View... ▶

Buying versus Leasing: Two Sides of the Same Coin

Despite claims to the contrary, there really is no one-size-fits-all answer to the question of whether to buy or lease a car. In either scenario, a portion of every payment is lost to depreciation, even with the best interest rate attached. With this in mind, consider your own lifestyle needs and priorities at the time of each transaction.

Benefits of Leasing:

- Lease payments are generally between 30%-60% lower than car loan payments.
- It's as if you have a guaranteed buyer of your vehicle at a specified price when the lease is up. If the vehicle is worth more, you can sell it on the market and pocket the gain, if it is worth less than the lease buyout value, you just hand over the keys.
- Little or no down payment is required for a lease, freeing up cash for investments with a better return.

Benefits of Buying:

- With the purchase of a car, significant trade-in or re-sale value can accumulate.
- There are no surprise fees or charges after the fact, for wear and tear or overuse.
- Once your loan is paid off, you will have something tangible to show for the money you have spent over the years.

The Week's Economic Indicator Calendar ▶

Remember, as a general rule, weaker than expected economic data is good for rates, while positive data causes rates to rise.

Economic Calendar for the Week of March 24 – March 28

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Mon. 24	March 10:00	Existing Home Sales	Feb	4.86M	5.03M	4.89M	Moderate
Tue. 25	March 10:00	Consumer Confidence	Mar	75.0		75.0	Moderate
Wed. 26	March 08:30	Durable Goods Orders	Feb	1.0%		-5.3%	Moderate
Wed. 26	March 10:00	New Home Sales	Feb	580K		588K	Moderate
Wed. 26	March 10:30	Crude Inventories	3/22	NA		133K	Moderate
Thu. 27	March 08:30	Jobless Claims (Initial)	3/22	360K		378K	Moderate
Thu. 27	March 08:30	Chain Deflator	Q4	2.7%		2.7%	Moderate
Thu. 27	March 08:30	Gross Domestic Product (GDP)	Q4	0.6%		0.6%	Moderate
Fri. March 28	08:30	Personal Income	Feb	0.3%		0.3%	Moderate
Fri. March 28	08:30	Personal Spending	Feb	0.2%		0.4%	Moderate
Fri. March 28	08:30	Personal Consumption Expenditures and Core PCE	Feb	0.2%		0.3%	HIGH
Fri. March 28	08:30	Personal Consumption Expenditures and Core PCE	YOY	2.0%		2.2%	HIGH
Fri. March 28	10:00	Consumer Sentiment Index (UoM)	Mar	71.0		70.5	Moderate

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