

Brandon Ross

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The Dots Put an Exclamation Point on Record-Breaking Drop in Rates

We came into this week expecting the Fed's Dot Plot to set the tone, or at least to create a good amount of movement in rates, and that's exactly what happened.

The dot plot refers to a chart that appears 4 times a year in economic projections released by the Fed. Projections are not the same as predictions, but the dots still provide the market with valuable insight as to how the Fed will change short term interest rates if the economy evolves as expected.

Specifically, the Fed sees job growth generally moderating and inflation gradually falling toward target levels. The dots essentially say "if that stuff keeps happening in the same way it has been happening, here's where we expect the Fed Funds rate to be."

The last dot plot came out with the September Fed meeting. It showed the median rate staying about 0.50% higher than the previous dot plot in June. Rates didn't love that. With support from resilient economic data, the dots were a catalyst for a push up to the highest interest rates in decades by the end of October.

Heading into this week's dot plot, we knew things would look better for rates based on recent Fed speeches and more moderate economic data over the past 2 months, but we didn't know how much better. Here's exactly how things changed for the "end of 2024" time frame most scrutinized by market participants:

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| 30 Year Fixed National Aver | I Rate Mort | gage % | | |
|--------------------------------|-------------|-----------|--------|------|
| Tradional / troi | Age. 1407 | | | 7.85 |
| | -N A | | - | 7.50 |
| | M | | | 7.14 |
| In the | | | | 6.79 |
| | ttorn oom | wy | · | |
| MarketNewsle | Oct 23 | Dec 23 | Mar 24 | |

National Average Mortgage Rates

Mortgage News Daily

| Mortgage News L | Jany | | |
|-------------------|-------|-------|------|
| 30 Yr. Fixed | 7.09% | +0.07 | 0.00 |
| 15 Yr. Fixed | 6.56% | +0.03 | 0.00 |
| 30 Yr. FHA | 6.62% | +0.07 | 0.00 |
| 30 Yr. Jumbo | 7.35% | +0.04 | 0.00 |
| 5/1 ARM | 7.30% | +0.06 | 0.00 |
| Freddie Mac | | | |
| 30 Yr. Fixed | 7.02% | -0.42 | 0.00 |
| 15 Yr. Fixed | 6.28% | -0.48 | 0.00 |
| Rates as of: 5/17 | | | |
| | | | |

Market Data

| | Price / Yield | Change |
|--------------------------------|---------------|---------|
| MBS UMBS 6.0 | 100.40 | -0.15 |
| MBS GNMA 6.0 | 100.78 | +0.04 |
| 10 YR Treasury | 4.4223 | +0.0454 |
| 30 YR Treasury | 4.5610 | +0.0549 |
| Pricing as of: 5/17 5:59PM EST | | |

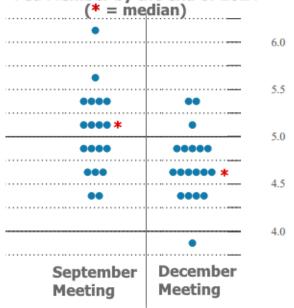
Recent Housing Data

| | | Value | Change |
|-------------------------|--------|-------|---------|
| Mortgage Apps | May 15 | 198.1 | +0.51% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |

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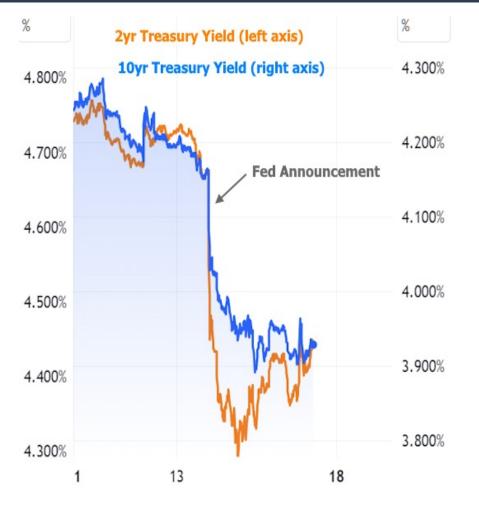
Fed Funds Rate Projections For Each Fed Member by the end of 2024



The median Fed member now sees the Fed Funds Rate at 4.625% by the end of 2024 as opposed to the 5.125% conveyed in September's dot plot. This was clearly better news than the market was expecting because here's what rates did when it came out:

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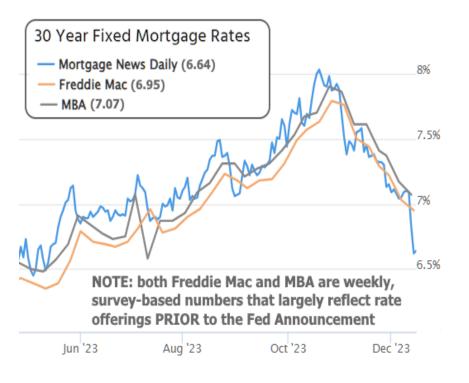


2yr Treasury yields have more in common with near-term Fed Funds Rate expectations while 10yr yields move more like mortgage rates. Speaking of mortgage rates, they had quite a week, although you'd only know it by looking at actual daily averages such as the Mortgage News Daily index as opposed to weekly surveys that don't yet reflect the huge drop in the 2nd half of the week.

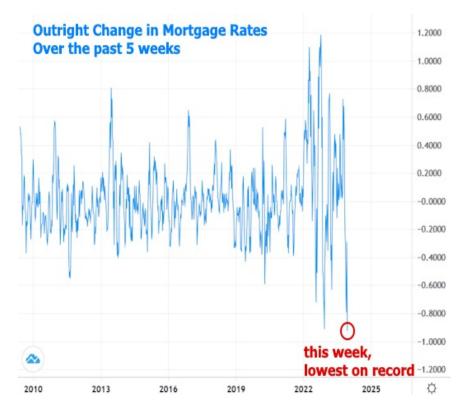
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While Freddie Mac's rate index fell by bigger amounts in the 1980s on a few occasions, this is the biggest 5 week drop on record for the MND index. The following chart shows the 5-week change in rates. In other words, the drop that began in November is the biggest we've seen in decades, even if only slightly bigger than the drop seen last year.



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In addition to the dot plot, Fed Chair Powell mentioned that the Fed had begun to discuss rate cuts. It's important to keep in mind that Powell has also been clear that the Fed could actually hike rates again if inflation were to pick back up. He's also been clear in saying that inflation would need to keep moving lower in order to make rate cuts a reality. As far as this week's Consumer Price Index (CPI) data was concerned, we're on the path, but still far from the destination.



We won't get CPI again until the new year. Moreover, we won't get much by way of other relevant economic data before then either. Combine that with the typical decline in trader participation in late December and it's not unfair to say the jury is pretty much out for the next few weeks. Rates may ebb and flow a bit, but the important decisions are on hold until bigticket data and more robust participation return after the holiday break.

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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|------------|------------------------|--------|----------|-------|
| Monday, D | Dec 11 | | | |
| 11:30AM | 3-Yr Note Auction (bl) | 50 | | |
| Tuesday, D | Dec 12 | | | |
| 8:30AM | Nov y/y CORE CPI (%) | 4% | 4% | 4% |
| 8:30AM | Nov m/m CORE CPI (%) | 0.3% | 0.3% | 0.2% |





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| 7:00AM Dec/08 MBA Refi Index 445.8 373.3 8:30AM Nov Core Producer Prices MM (%) 0% 0.2% 0.9 8:30AM Nov Core Producer Prices YY (%) 2% 2.4% 2.4% 2:00PM Fed Interest Rate Decision 5.5% 5.5% 5.5% 2:00PM Fed Press Conference Image: Solad M 5.5% 5.5% 8:30AM Nov Import prices mm (%) -0.4% -0.8% -0.8% 8:30AM Nov Industrial Sales (%) 0.03% -0.1% -0.1% 8:30AM Dec NY Fed Manufacturing -14.5 2 9. 9:15AM Nov Industrial Production (%) 0.2% 0.3% -0.6% 9:45AM Dec S&P Global Services PMI 51.3 50.6 50.4 10:00AM Dec NAHB housing market | Date | Event | Actual | Forecast | Prior |
|---|------------|-----------------------------------|--------|----------|--------|
| 7:00AM Dec/08 MBA Refi Index 445.8 373.3 8:30AM Nov Core Producer Prices MM (%) 0% 0.2% 0.9 8:30AM Nov Core Producer Prices YY (%) 2% 2.2% 2.49 2:00PM Fed Interest Rate Decision 5.5% 5.5% 5.5% 2:30PM Fed Press Conference 1 1 1 1 8:30AM Nov Import prices mm (%) -0.4% -0.8% -0.8% 8:30AM Dec/09 Jobless Claims (k) 202K 220K 220K 8:30AM Nov Retail Sales (%) 0.3% -0.1% -0.1% 9:15AM Nov Industrial Production (%) 0.2% 0.3% -0.6% 9:45AM Dec S&P Global Services PMI 51.3 50.6 50.4 10:00AM Dec NAHB housing market | Wednesda | ay, Dec 13 | | I | |
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| 9:45AM Dec S&P Global Services PMI 51.3 50.6 50.8 Monday, Dec 18 | 8:30AM | Dec NY Fed Manufacturing | -14.5 | 2 | 9.1 |
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| 10:00AMDec NAHB housing market indx373634Tuesday, Dec 198:30AMNov Housing starts number mm (ml)1.372NWednesday, Dec 207:00AMDec/15 MBA Refi Index17:00AMDec/15 MBA Refi Index148.710:00AMNov Existing home sales (ml)3.82M3.77M | 9:45AM | Dec S&P Global Services PMI | 51.3 | 50.6 | 50.8 |
| Tuesday, Dec 198:30AMNov Housing starts number mm (ml)1.372 MWednesday, Dec 207:00AMDec/15 MBA Refi Index17:00AMDec/15 MBA Purchase Index148.710:00AMNov Existing home sales (ml)3.82 M3.77 M | Monday, E | Dec 18 | 1 | | |
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| Wednesday, Dec 20Image: Constraint of the second secon | 8:30AM | Nov Housing starts number mm (ml) | | | 1.372M |
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| 10:00AM Nov Existing home sales (ml) 3.82M 3.77M 3.79N | 7:00AM | Dec/15 MBA Refi Index | | | |
| | 7:00AM | Dec/15 MBA Purchase Index | 148.7 | | 149.6 |
| Thursday, Dec 21 | 10:00AM | Nov Existing home sales (ml) | 3.82M | 3.77M | 3.79M |
| | Thursday, | Dec 21 | | I | |
| 8:30AM Dec Philly Fed Business Index -10.5 -3 -5.0 | 8:30AM | Dec Philly Fed Business Index | -10.5 | -3 | -5.9 |
| 8:30AM Q3 GDP (%) 4.9% 5.2% 2.19 | 8:30AM | Q3 GDP (%) | 4.9% | 5.2% | 2.1% |
| 8:30AM Dec/16 Jobless Claims (k) 205K 215K 202I | 8:30AM | Dec/16 Jobless Claims (k) | 205K | 215K | 202K |
| Friday, Dec 22 | Friday, De | c 22 | | | |
| 7:30AM Nov Building permits: number (ml) 1.467M 1.498N | 7:30AM | Nov Building permits: number (ml) | 1.467M | | 1.498M |
| | | | 0.1% | 0.2% | 0.2% |
| | | | 3.2% | 3.3% | 3.5% |
| 8:30AM Nov Durable goods (%) 5.4% 2.2% -5.49 | 8:30AM | Nov Durable goods (%) | 5.4% | 2.2% | -5.4% |
| 10:00AM Nov New Home Sales (ml) 0.59M 0.685M 0.679N | 10:00AM | Nov New Home Sales (ml) | 0.59M | 0.685M | 0.679M |
| 10:00AM Dec U Mich conditions 73.3 74 68.3 | 10:00AM | Dec U Mich conditions | 73.3 | 74 | 68.3 |
| 10:00AM Dec Consumer Sentiment (ip) 69.7 69.4 61.3 | 10:00AM | Dec Consumer Sentiment (ip) | 69.7 | 69.4 | 61.3 |
| 2:00PM Christmas Early Close | 2:00PM | Christmas Early Close | | | |
| Wednesday, Jan 10 | Wednesda | ay, Jan 10 | | | |
| 1:00PM 10-yr Note Auction (bl) 37 | 1:00PM | 10-yr Note Auction (bl) | 37 | | |

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| Date | Event | Actual | Forecast | Prior |
|-------------------|-------------------------|--------|----------|-------|
| Thursday, | Jan 11 | | | |
| 1:00PM | 30-Yr Bond Auction (bl) | 21 | | |
| Wednesday, Jan 17 | | | | |
| 1:00PM | 20-Yr Bond Auction (bl) | 13 | | |

Personalized service, educational approach

My name is Brandon Ross, and I'm a Mortgage Loan Originator with B HOME powered by Barrett Financial Group in Arizona. I'm here to help you achieve your real estate goals. As a mortgage broker, I can access numerous programs from the nation's top residential lenders. My promise is to remain valuable by delivering competitive rates at low costs, being available for you on your schedule, and most importantly, spending the time you need to make an informed and sound financial decision.

Brandon Ross



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