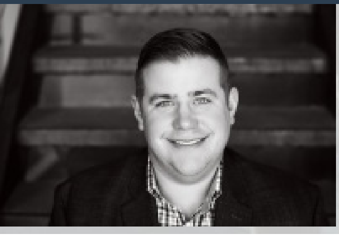

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If The Fed Didn't Hike, Why Did Mortgage Rates Hit Long Term Highs?

This week's main event was the scheduled policy announcement from the Fed. As was the case two meetings ago, the Fed opted to hold its policy rate unchanged, but almost every other interest rate in the US moved sharply higher.

This counterintuitive movement is fairly common when it comes to the 8 Fed meetings each year. Rates have fallen on several occasions when the Fed hiked throughout this rate hike cycle. There are several reasons this can happen. Some are complicated, but two of the simplest reasons are all we need this time around.

First off, the Fed only has 8 scheduled opportunities to update rates every year while the bond market has thousands of opportunities every day. Because of that, a Fed rate hike is often just a lagging development that the market has already priced in. The Fed actually tries to avoid surprising the market when it comes to hikes/cuts. Via speeches and press conferences, it effectively preps the market for potential changes.

The market can trade these expectations in a variety of ways. The most direct is via Fed Funds Futures, which give traders a way to bet on the level of the Fed Funds Rate on any given month well into the future. Traders haven't budged in their expectation of this week's meeting resulting in a 5.375% Fed Funds Rate for **months!**

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
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

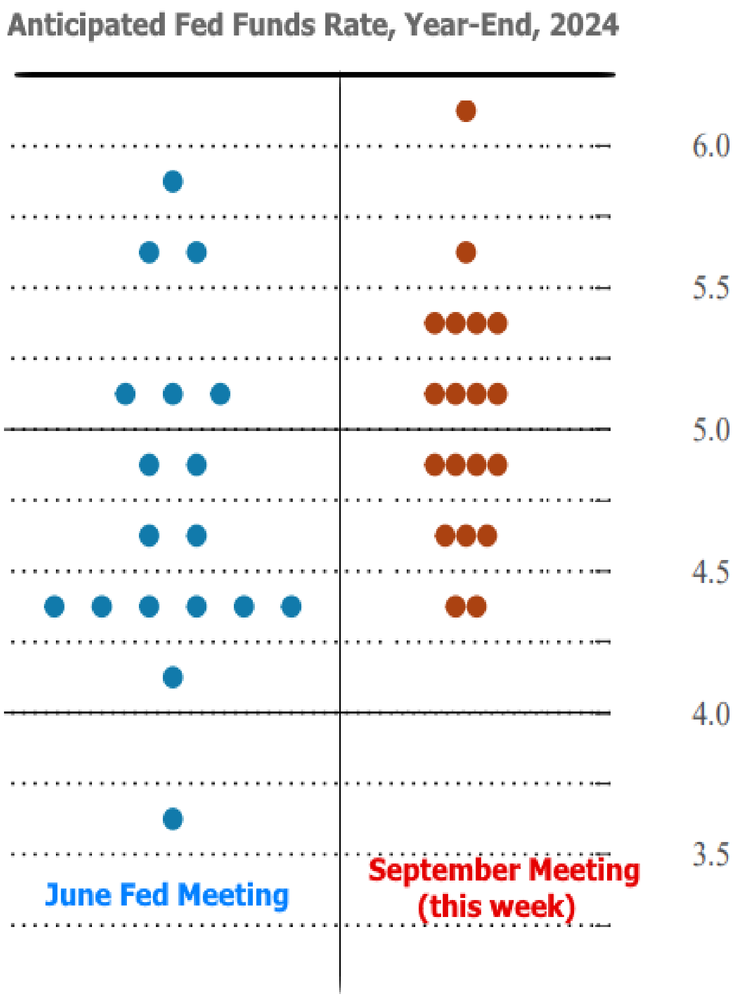
		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

In other words, when the Fed held rates steady this week, it wasn't a surprise to anyone and the market was already priced for it. We can thus rule out the rate decision as the catalyst for the mortgage rate volatility and look elsewhere. We won't need to look far.

On 4 out of the 8 Fed announcements per year, and at the exact same moment as the Fed Funds Rate decision, the Fed also releases a "summary of economic projections." Among these forecasts is a dot plot showing where each Fed member sees the Fed Funds Rate at the end of the next few years. These so-called "dots" have become a big deal for financial markets despite Fed Chair Powell's requests to avoid reading too much into them.

The market doesn't care about the dots due to some amazing track record of accuracy from the Fed. Rather, they simply offer a very detailed update as to how the Fed's decision-making process is evolving when it comes to future rate hikes/cuts. If the average Fed member expected rates to be almost 1% lower by the end of 2024 and now only sees them being 0.25% lower, that would tell the market a lot about the Fed's intention to keep rates higher for longer, all other things being equal.

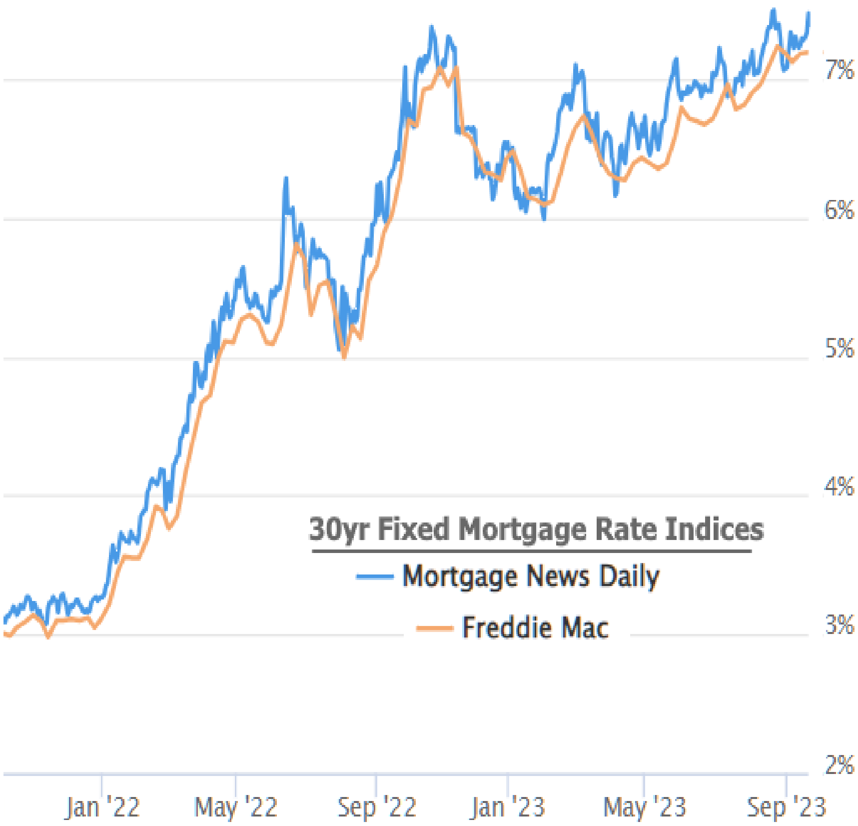
That is exactly what happened.



Markets expected the dots to rise, but not by this much. Neither stocks nor bonds (aka rates) were happy about it.

Traders had already been pricing in a "higher for longer" path for the Fed Funds rate based on recent economic data. In the bigger picture, this week's revelation didn't materially alter the trend in those expectations, but it did give them a noticeable bump. Here's how the market's outlook for the Fed Funds Rate in September 2024 has been evolving.

The "bump" just happened to hit when rates were already near long-term highs. The average 30yr fixed rate didn't technically break above the highest level seen last month, but it came within 0.01% based on the more timely data from Mortgage News Daily. We expect Freddie's weekly numbers will challenge multi-decade highs next week.



Why is all this happening? In a nutshell, the Fed Funds Rate is a blunt instrument tasked with fighting inflation. Inflation has been coming down, but it's still high and a bit of a rebound can't be ruled out due to things like higher fuel prices, auto worker strikes, and an adjustment in the way certain health care costs are calculated. In addition, the Fed is not yet seeing the type of downturn in economic data that would suggest impending disinflation.

That last point is a matter of debate as some critics say the Fed has already done enough and simply needs to give their policy more time to have an impact. The Fed admits that this economic cycle is different than past cycles and that there's no way to know with certainty when it's time for a friendly shift.

Regardless of who's right about the timing of a policy shift and whether enough has already been done, most can agree that it will be economic data that serves as the trigger for a change. Not just any economic data will do. The Fed and the market are both focused on several of the highest impact reports. Most of them will be released on the first week of October. If they take a turn for the worse, rates would likely recover. If they continue to surprise to the upside, so will rates, unfortunately.

Subscribe to my newsletter online at: http://housingnewsletters.com/michaelbaker

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 18				
10:00AM	Sep NAHB housing market indx	45	50	50
Tuesday, Sep 19				
8:30AM	Aug Housing starts number mm (ml)	1.283M	1.44M	1.452M
8:30AM	Aug Building permits: number (ml)	1.543M	1.443M	1.443M

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
Wednesday, Sep 20				
7:00AM	Sep/15 MBA Purchase Index	147		143.7
7:00AM	Sep/15 MBA Refi Index	415.4		367
2:00PM	Fed Interest Rate Decision	5.5%	5.5%	5.5%
2:00PM	FOMC Economic Projections			
2:30PM	Powell Press Conference			
Thursday, Sep 21				
8:30AM	Sep/16 Jobless Claims (k)	201K	225K	220K
8:30AM	Sep Philly Fed Business Index	-13.5	-0.7	12
8:30AM	Sep Philly Fed Prices Paid	25.7		20.8
10:00AM	Aug Exist. home sales % chg (%)	-0.7%		-2.2%
10:00AM	Aug Existing home sales (ml)	4.04M	4.1M	4.07M
Friday, Sep 22				
9:45AM	Sep S&P Global Services PMI	50.2	50.6	50.5
9:45AM	Sep S&P Global Manuf. PMI	48.9	48	47.9
Tuesday, Sep 26				
9:00AM	Jul FHFA Home Prices y/y (%)	4.6%		3.1%
9:00AM	Jul Case Shiller Home Prices-20 y/y (%)	0.1%	-0.3%	-1.2%
10:00AM	Aug New Home Sales (ml)	0.675M	0.7M	0.714M
Wednesday, Sep 27				
7:00AM	Sep/22 MBA Refi Index	411.7		415.4
7:00AM	Sep/22 MBA Purchase Index	144.8		147
8:30AM	Aug Durable goods (%)	0.2%	-0.5%	-5.2%
Thursday, Sep 28				
8:30AM	Sep/23 Jobless Claims (k)	204K	215K	201K
8:30AM	Q2 GDP sales Final (%)	2.1%	2.2%	4.2%
Friday, Sep 29				
8:30AM	Aug Core PCE Inflation (y/y) (%)	3.9%	3.9%	4.2%
8:30AM	Aug Core PCE (m/m) (%)	0.1%	0.2%	0.2%
8:30AM	Aug Wholesale inventories mm (%)	-0.1%		-0.2%
9:45AM	Sep Chicago PMI	44.1	47.6	48.7
10:00AM	Sep Consumer Sentiment (ip)	68.1	67.7	69.5

About Michael

If you are thinking about buying or refinancing a home in the Kansas City area, you've probably faced the dilemma of hiring the right Loan Officer to handle your mortgage. You may be concerned about working with someone that doesn't know the area, or who doesn't listen to you. Maybe you're worried about a loan officer who is more concerned with a commission than making sure you're properly taken care of.

Great news - I can help!

IF YOU ARE THINKING OF BUYING A HOME... I would love to share with you the mortgage loan products that are available to you, and also talk about what homes might be coming onto the market very soon. As a Kansas City resident who also went to college just down the street in Lawrence, I'm not just your loan officer but also your neighbor. I'd love to talk to you about my knowledge not only about the Kansas City market, and what neighborhoods would be perfect to you but also help you truly understand the landscape of the mortgage industry today, and introduce you to great Real Estate Agents that are ready to go to work for you and find you the perfect home. I'll help guide you through appraisals, inspections, title searches, and finally closing.

IF YOU ARE A REALTOR LOOKING FOR A REFERRAL PARTNER... I would love to sit down with you over a cup of coffee and show you ways to generate leads for your business and help you grow your clientele through some easy processes that NO other Real Estate Agents are doing. I am a growing Social Media guru that can show you my tips and tricks on how I've doubled my Twitter base in just a month!

If it sounds like I can help you, please contact me directly through Linked In, email me at mbaker@affinityhomeloan.com or call/text me at 913-735-5363. If you're not yet ready for a conversation, but you'd like to learn more about me and how I can help you or about the mortgage process in general, including great blog posts to send out to your clients, check out my website at http://www.michaelbakerhomeloans.com.

Michael Baker