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Once Again, Mortgage Rates Shoot Higher After a Fed Rate Cut

"If anything on Fed day ends up having an impact on mortgage rates, it would have to be changes in the Fed's rate outlook and/or comments from Fed Chair Powell during the press conference that follows the rate announcement." That's how we closed out last week's newsletter, and there were certainly some changes!

The gist was that mortgage rates often correlate very poorly with changes in the Fed Funds Rate in the short term. This has resulted in several examples of mortgage rates moving higher on the same day/week as a Fed rate cut. Longer term rates (like mortgages and most US Treasuries) are more interested in the outlook for the Fed Funds Rate in the coming years as well as the general shift in stance from the Fed.

Wednesday's Fed announcement highlighted such shifts in several ways:

1. The verbiage of the Fed's policy statement was updated in only one place. Instead of saying "In considering additional adjustments" to the Fed Funds Rate, the Fed expanded that sentence to say "In considering the extent and timing of additional adjustments." That may seem like a small detail, but to the market participants that determine interest rate volatility, it was a clear sign that the Fed may not continue cutting rates at the next meeting in late January. Fed Chair Powell later confirmed this takeaway in the press conference.

2. The most notable shift was seen in the infamous "dot plot," which is a chart in the Fed's quarterly economic projections showing where each Fed member thinks the Fed Funds Rate should be at the end of the next few years. The so-called "dots" ended up moving higher than the market was expecting. The following chart shows how the dots changed from the last installment in September.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.26%	-0.06	0.00
15YR Fixed	6.82%	-0.05	0.00
30YR FHA	6.95%	0.00	0.00
30YR Jumbo	7.40%	-0.02	0.00
7/6 SOFR	6.60%	-0.10	0.00
30YR VA	6.96%	-0.01	0.00

Rates as of: 11/25

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.88	+0.29
10 YR Treasury	4.8590	-0.0677
30 YR Treasury	5.2479	-0.0735

Pricing as of: 11/25 5:59PM EST

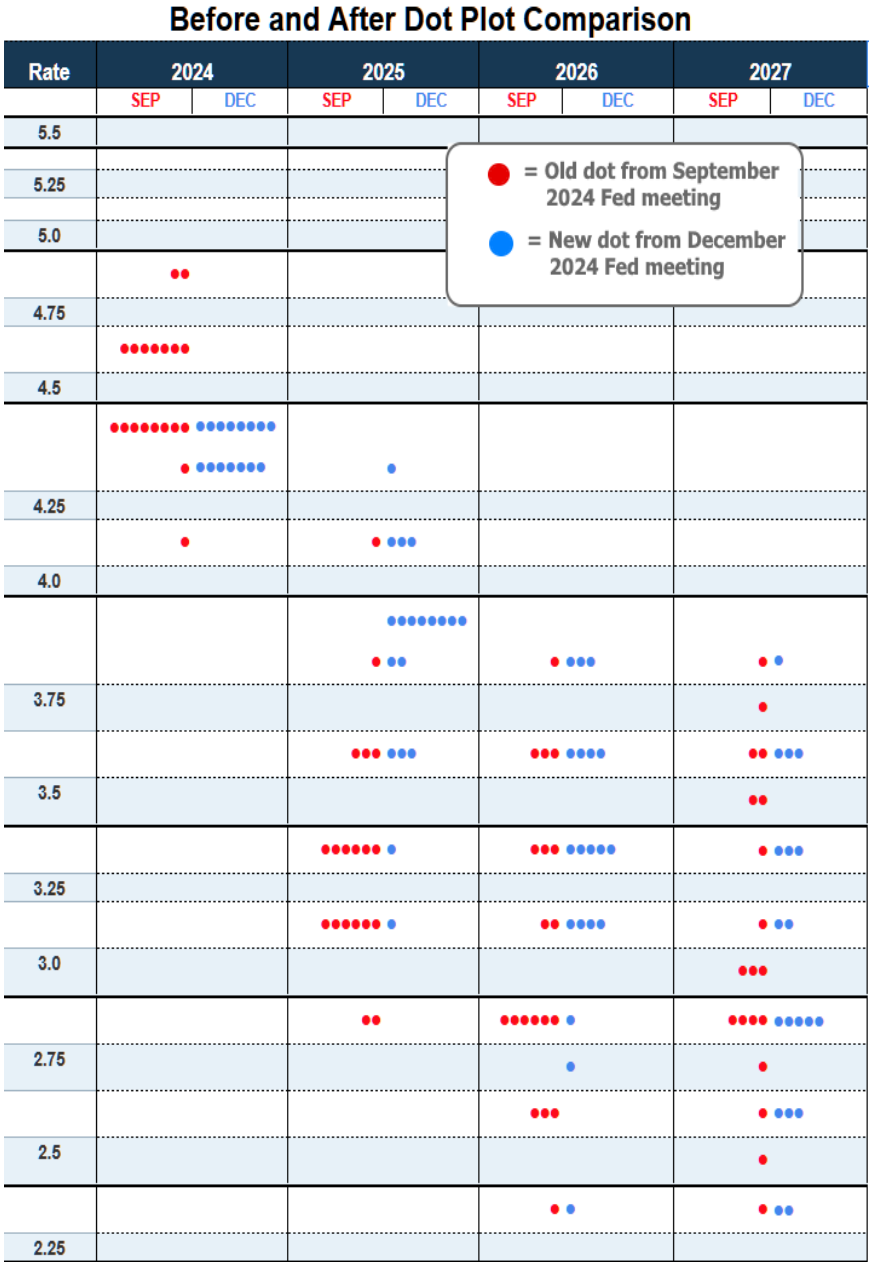
Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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The critical column is 2025. The red dots show that, in September, most Fed members thought rates would be 3.25% by the end of next year. The blue dots show that, as of this week, most Fed members think rates will be 3.875 by the end of next year." There was also quite a bit of upward migration in the 2026 dots, but that wasn't as big of an issue for markets.

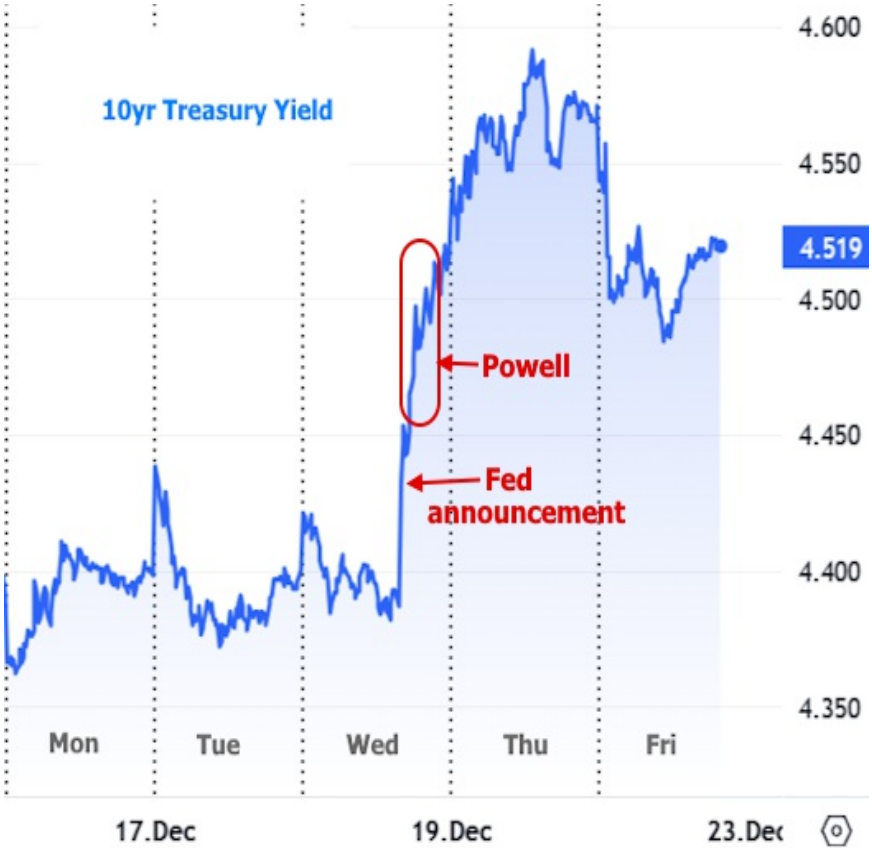
3. Fed Chair Powell reiterated the unfriendly messages for rates in the press conference that began 30 minutes after the announcement. Right out the gate, traders were rattled when Powell said this week's rate cut was a "close call, but the right call." Markets hadn't previously seen it as a close call. He went on to say that the Fed's rate-setting stance had entered a new phase that would be marked by an increased focus on inflation and increased caution in considering additional rate cuts.

Bottom line, while the Fed did cut its policy rate by 0.25%, the market had long since accounted for that. Instead, traders were reacting to the list of factors above. Here's how the reaction looked in terms of 10yr Treasury yields:

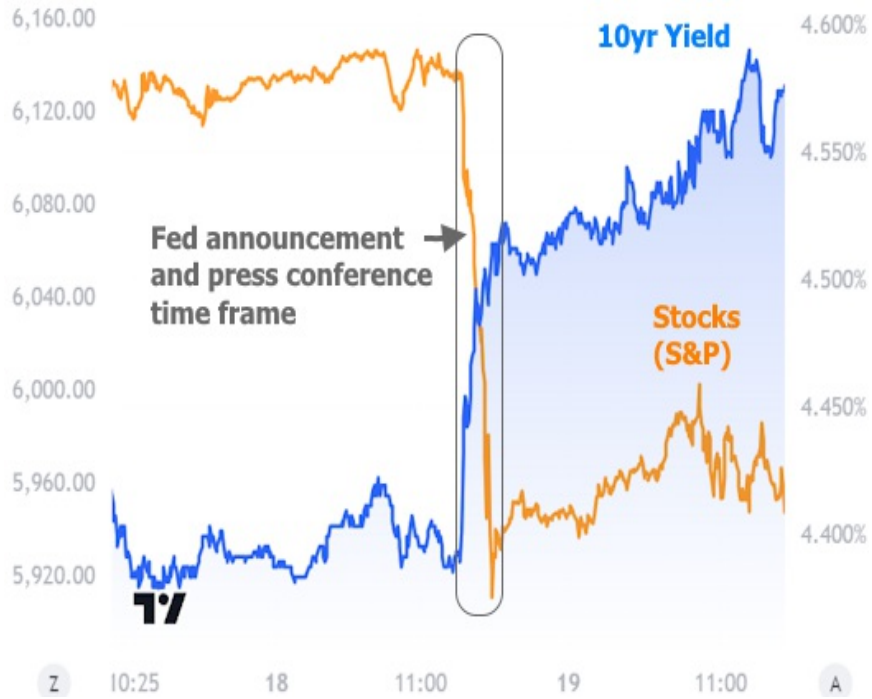
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Incidentally, the stock market didn't like the Fed's message any more than bonds.

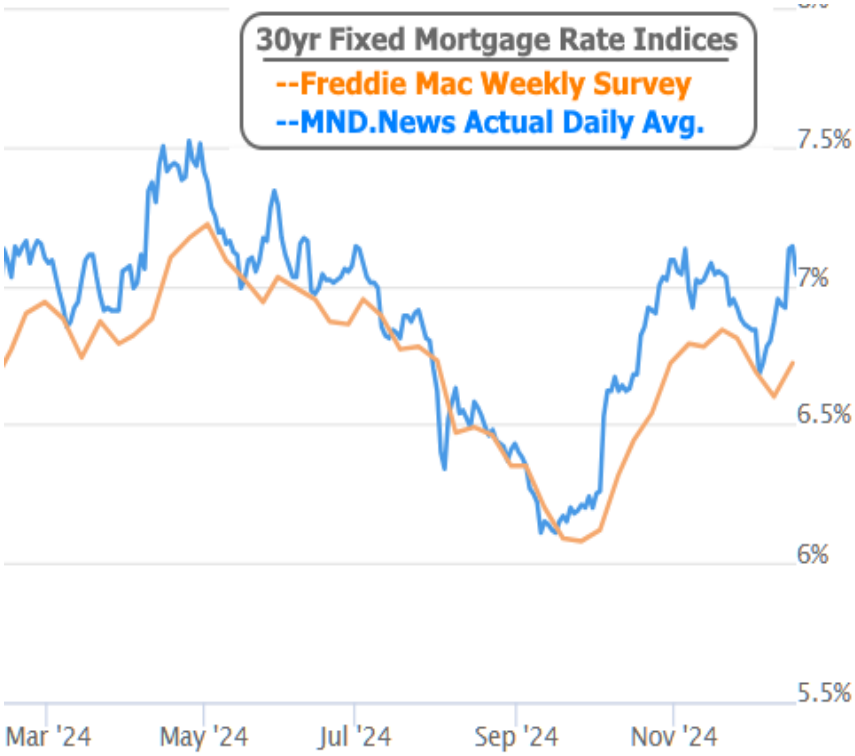


Mortgage rates were already heading higher last week and Wednesday's drama took them all the way back to the highs seen in early November. There was some reprieve on Friday, following a lower-than-expected reading in a key inflation report (PCE).

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At this point, markets will be waiting for the jobs data and the next major inflation report (CPI) in early January before making any big decisions on the next big move for rates. This doesn't preclude volatility on a smaller scale. It simply means, in the absence of an unforeseen shock, we'd need to see hotter inflation and economic data in order for rates to move back up toward 2024's highs and cooler data to move below last week's lows.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Dec 16				
9:45AM	Dec S&P Global Services PMI	58.5	55.7	56.1
Tuesday, Dec 17				
8:30AM	Nov Retail Sales (%)	0.7%	0.5%	0.4%
8:30AM	Nov Retail Sales (ex-autos) (%)	0.2%	0.4%	0.1%
Wednesday, Dec 18				
7:00AM	Dec/13 MBA Refi Index	617.5		634.0
7:00AM	Dec/13 MBA Purchase Index	157.1		154.9
8:30AM	Nov Housing starts number mm (ml)	1.289M	1.34M	1.311M
8:30AM	Nov Building permits: number (ml)	1.505M	1.43M	1.419M
2:00PM	Fed Interest Rate Decision	4.5%	4.5%	4.75%
2:00PM	FOMC Economic Projections			
2:31PM	Powell Press Conference			

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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Date	Event	Actual	Forecast	Prior
Thursday, Dec 19				
8:30AM	Q3 GDP (%)	3.1%	2.8%	3%
8:30AM	Dec/14 Jobless Claims (k)	220K	230K	242K
8:30AM	Dec Philly Fed Business Index	-16.4	3	-5.5
10:00AM	Nov Existing home sales (ml)	4.15M	4.07M	3.96M
Friday, Dec 20				
8:30AM	Nov Core PCE Inflation (y/y) (%)	2.8%	2.9%	2.8%
8:30AM	Nov Core PCE (m/m) (%)	0.1%	0.2%	0.3%
10:00AM	Dec Consumer Sentiment (ip)	74.0	74.0	71.8
Monday, Dec 23				
9:30AM	Nov Durable goods (%)	-1.1%	-0.4%	0.2%
10:00AM	Nov New Home Sales (ml)	0.664M	0.65M	0.61M
10:00AM	Dec CB Consumer Confidence (%)	104.7	113	111.7
Wednesday, Dec 25				
12:00AM	Christmas Day			
Thursday, Dec 26				
8:30AM	Dec/21 Jobless Claims (k)	219K	224K	220K
Tuesday, Dec 31				
9:00AM	Oct Case Shiller Home Prices-20 y/y (%)	4.2%	4.1%	4.6%

Speed, Ease & Expertise

In my 8th year of mortgage lending I am still looking for ways to improve my business for clients and referral partners. Even though our industry is ever-changing, my goals have stayed consistent. For clients, I want to make the process of purchasing their home an enjoyable one for them. I do this by being highly available by phone, email or in person from morning to night and having the fastest response time in the industry. I want my clients to be well educated on their loan options so they feel confident about their mortgage before and after purchasing their home. I want referral partners to know they can trust in me to handle everything on the loan side of things so they can focus their time on what they do best, Real Estate. I have excellent systems in place for communication to keep everyone involved in the purchase updated. I feel grateful to be in this industry, and take a great amount of pride in people counting on me for their biggest purchase of their lives!

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