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Lowest Rates in 2 Months. Was it The Fed or Econ Data?

It ended up being another good week for rates with another Friday drop to the lowest levels in 2 months. Momentum shifted for the better after Wednesday's Fed Minutes but accelerated quickly after Friday's release of the S&P Services PMI--a broad index tracking business activity in the services sector.

Weaker economic data tends to promote bond buying which, in turn, pushes rates lower. The S&P data was one of the week's only important reports, so it was no surprise to see an obvious reaction in rates when it came out at the weakest levels since 2023.

But the Fed is the Fed! And although this week's "minutes" release was simply a more detailed account of a meeting that happened 3 weeks ago, there was some new information that didn't come up in the Fed's official statement or press conference.

In a nutshell, the Fed is considering a policy change that would restart the normal process of reinvesting proceeds from its bond market holdings back into the bond market. The Fed is currently not reinvesting those proceeds as a part of process of normalizing the size of its overall asset portfolio. The change would be functionally equivalent to additional buying demand in the bond market, something that's good for rates.

So which event contributed more to this week's rate drop?

That's impossible to say for a few reasons. First off, it's not a complete list. Treasury Secretary Scott Bessent helped rates on Thursday morning by saying he wasn't in a hurry to change the mix of newly issued Treasury debt. This is a key consideration for rates like mortgages and longer-term Treasuries due to fear that issuance would begin to favor those longer time frames--something that would put upward pressure on those rates, all other things being equal.

Then on Friday, in addition to the sharply weaker S&P PMI data, there was heavy selling in the stock market in the afternoon. Stocks and rates (represented below by the 10yr Treasury yield) don't always move in concert. In fact, when stocks are reacting to Fed policy, they often move the opposite direction from rates. But when stocks are selling for their own reasons and when that sell-off is large, investors often seek safer havens in the bond market, thus pushing rates lower.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.58	+0.48
10 YR Treasury	4.9333	-0.1103
30 YR Treasury	5.3183	-0.0879

Pricing as of: 11/20 4:03PM 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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Clearly, Friday looks like the bigger deal for rates and if we bring trading volume into the conversation, the PMI data looks like the bigger deal.

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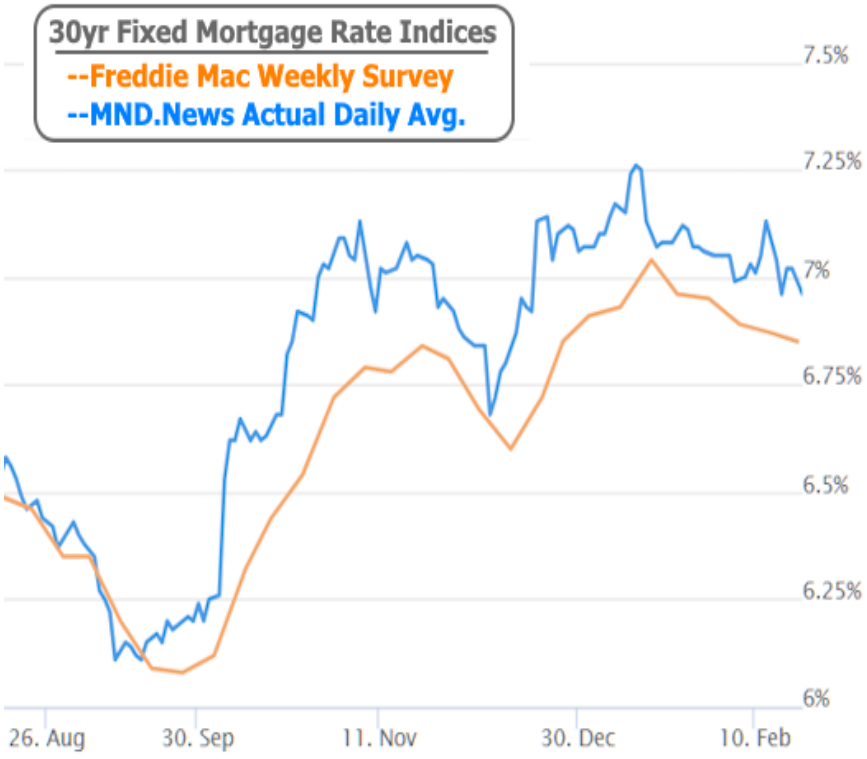
Even so, it's worth considering that the S&P data comes out at a time of day where European markets are still trading, thus making it easier to achieve higher volumes compared to--say--2pm Eastern Time when the Fed Minutes were released. We could further consider that the Fed comments were also known at the time of the S&P data, so they could be compounding the implications in the minds of bond traders.

Ultimately, assigning credit doesn't matter too much in this case because both clearly were more than insignificant. Looked at another way, this week's rally wasn't big enough, in the bigger picture, to merit too much analysis. Rates may be at the lowest levels since December 18th, but they're not even halfway back to the early December lows, let alone the summertime lows near 6%.

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In order to make significant progress back toward those lows, we'd need a friendly combination of lower inflation, weaker economic data, and a stable outlook for Treasury issuance. Next week brings one of the three key inflation reports: the PCE Price Index on Friday. Markets adjusted their outlook for PCE after last week's inflation reports, so much of the rate-friendly reaction has already been priced-in. That's not to say lower inflation wouldn't help, but perhaps just not as much as higher inflation would hurt.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Feb 18				
8:30AM	Feb NY Fed Manufacturing	5.70	-1	-12.60
10:00AM	Feb NAHB housing market indx	42	47	47
Wednesday, Feb 19				
7:00AM	Feb/14 MBA Refi Index	593.6		640.6
7:00AM	Feb/14 MBA Purchase Index	144.0		153.1
8:30AM	Jan Housing starts number mm (ml)	1.366M	1.4M	1.499M
8:30AM	Jan Build permits: change mm (%)	0.1%		-0.7%
2:00PM	FOMC Minutes			
Thursday, Feb 20				
8:30AM	Feb/15 Jobless Claims (k)	219K	215K	213K
8:30AM	Feb Philly Fed Prices Paid	40.50		31.90

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Feb Philly Fed Business Index	18.1	20	44.3
Friday, Feb 21				
9:45AM	Feb S&P Global Services PMI	49.7	53	52.9
9:45AM	Feb S&P Global Manuf. PMI	51.6	51.5	51.2
10:00AM	Feb Consumer Sentiment (ip)	64.7	67.8	71.1
10:00AM	Jan Existing home sales (ml)	4.08M	4.12M	4.24M
Tuesday, Feb 25				
9:00AM	Dec FHFA Home Prices y/y (%)	4.7%		4.2%
9:00AM	Dec Case Shiller Home Prices-20 y/y (%)	4.5%	4.4%	4.3%
10:00AM	Feb CB Consumer Confidence (%)	98.3	102.5	104.1
Wednesday, Feb 26				
10:00AM	Jan New Home Sales (ml)	0.657M	0.68M	0.698M
Thursday, Feb 27				
8:30AM	Q4 GDP (%)	2.3%	2.3%	3.1%
8:30AM	Feb/22 Jobless Claims (k)	242K	221K	219K
10:00AM	Jan Pending Home Sales (%)	-4.6%	-1.3%	-5.5%
Friday, Feb 28				
8:30AM	Jan Core PCE Inflation (y/y) (%)	2.6%	2.6%	2.8%
8:30AM	Jan Core PCE (m/m) (%)	0.3%	0.3%	0.2%
9:45AM	Feb Chicago PMI	45.5	40.6	39.5

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