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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 | 7.27% | 0.00 | 0.00 |
| 15YR Fixed | 6.92% | 0.00 | 0.00 |
| 30YR FHA | 6.91% | +0.01 | 0.00 |
| 30YR Jumbo | 7.52% | -0.03 | 0.00 |
| 7/6 SOFR | 6.70% | -0.08 | 0.00 |
| 30YR VA | 6.92% | +0.01 | 0.00 |

Rates as of: 11/2

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.92 | +0.06 |
| 10 YR Treasury | 4.9043 | -0.0005 |
| 30 YR Treasury | 5.2911 | +0.0016 |

Pricing as of: 11/3 8:41AM EST

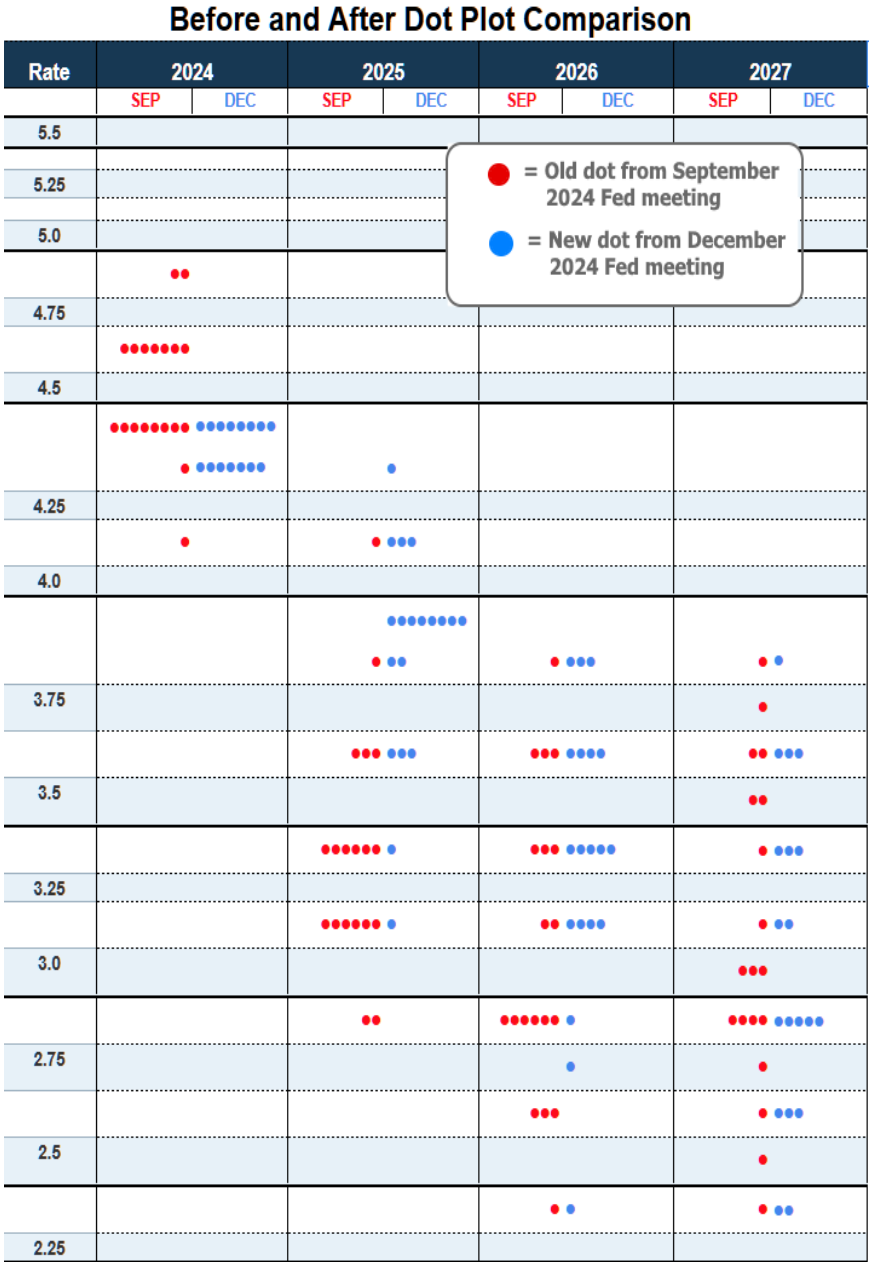
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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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.

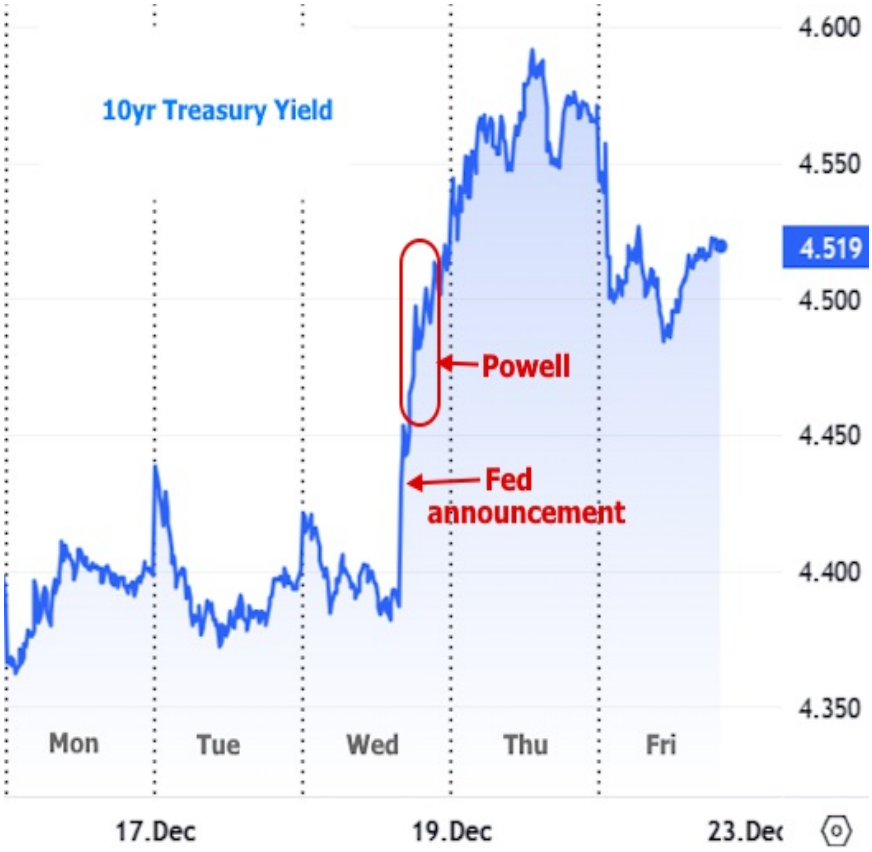
3. Fed Chair Powell reiterated the unfriendly messages for rates in the press conference that began 30 minutes after the announcement. Right out the gate, traders were rattled when Powell said this week's rate cut was a "close call, but the right call." Markets hadn't previously seen it as a close call. 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:

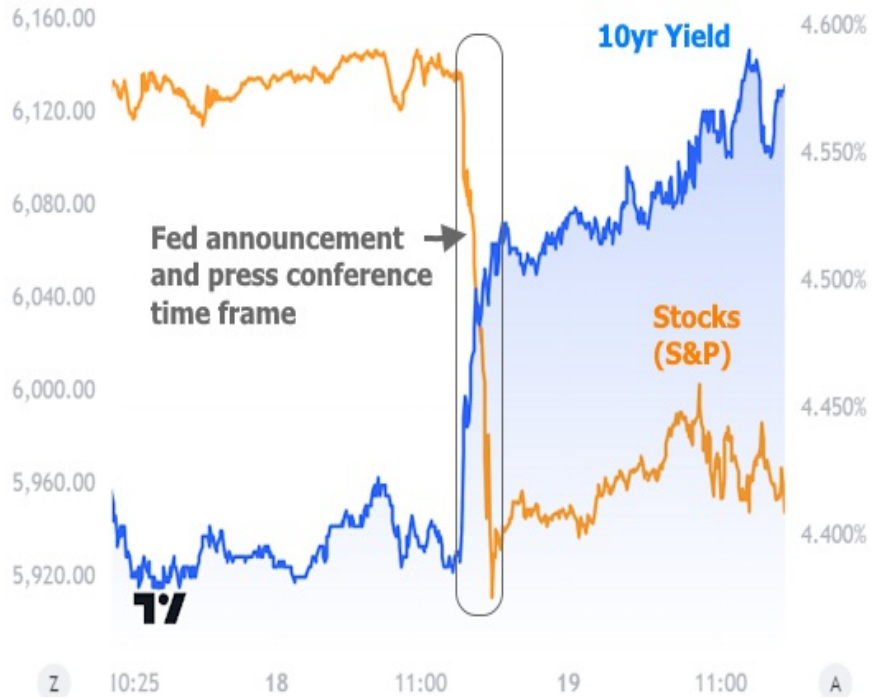
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Incidentally, the stock market didn't like the Fed's message any more than bonds.

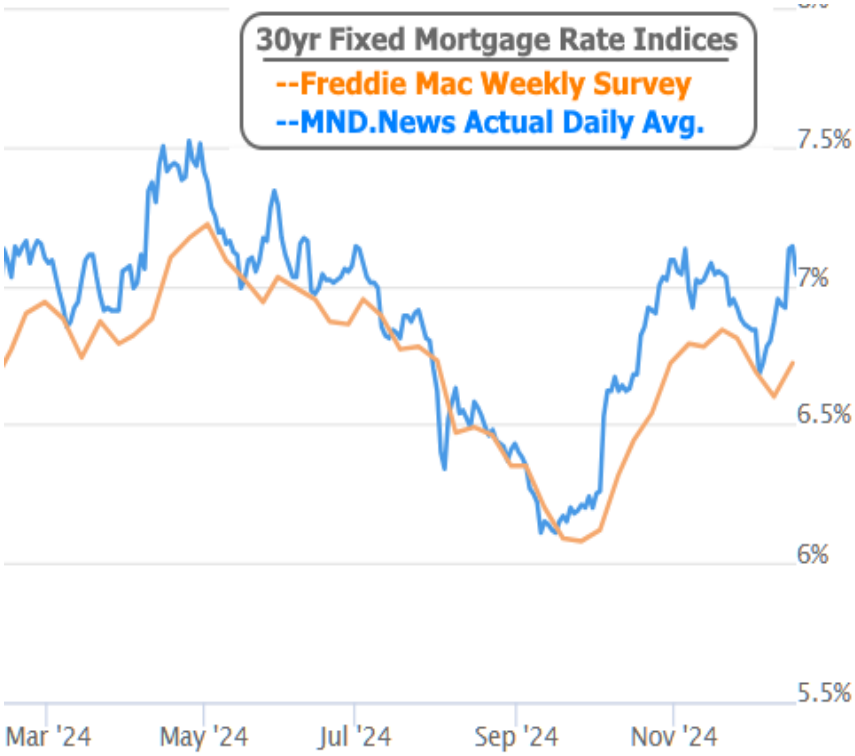



Mortgage rates were already heading higher last week and Wednesday's drama took them all the way back to the highs seen in early November. There was some reprieve on Friday, following a lower-than-expected reading in a key inflation report (PCE).

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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% |


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**Glenn Cameron** 

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