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# If The Fed Didn't Cut Rates This Week, Why Did Rates Fall?

Interest rates improved fairly steadily throughout the week with the biggest drop seen after Wednesday's Fed announcement. The Fed didn't cut rates, nor was any rational person expecting them to at this meeting. So why did rates move lower?

First off, we have to specify the rates in question. The Fed only sets the Fed Funds Rate whereas mortgage rates (and most other rates) are determined by market forces. The Fed only meets to entertain the notion of changing the Fed Funds Rate 8 times a year whereas market movement causes other rates to change constantly.

Even when the Fed is holding steady, the market often reacts to one of several pieces of information on Fed day. This information can either speak to the Fed's rate outlook in the future, or it can impact bond market trading (which in turn impacts longer term rates, like mortgages). This week's Fed announcement did both of those things.

At every other Fed meeting, each member records their opinion of the appropriate Fed Funds Rate at the end of the next few years. The Fed refers to these as "projections" while the average onlooker views them as forecasts. That doesn't much matter. What the market is truly reacting to is the glimpse into the Fed's predispositions. They let us know what each Fed member would do if they had to decide today. From there, the market can estimate how the Fed's opinions would change as new data comes in.

That last point is important, because the data that has come in since December (the last time the Fed shared rate projections) led markets to expect higher rate projections in this week's update. While the average Fed member did move a bit higher in their projections, the median Fed member remained right in line with December's median. Translation: the projections didn't move up as much as the market feared.

This can all be visualized in the following chart. Each dot represents a Fed member's projection. Red dots are from December and blue dots are from this week. Note the gentle migration higher in the blue dots in 2025, and the gentle migration lower in the blue dots in 2027 and beyond (2026 was a bit of mixed bag).

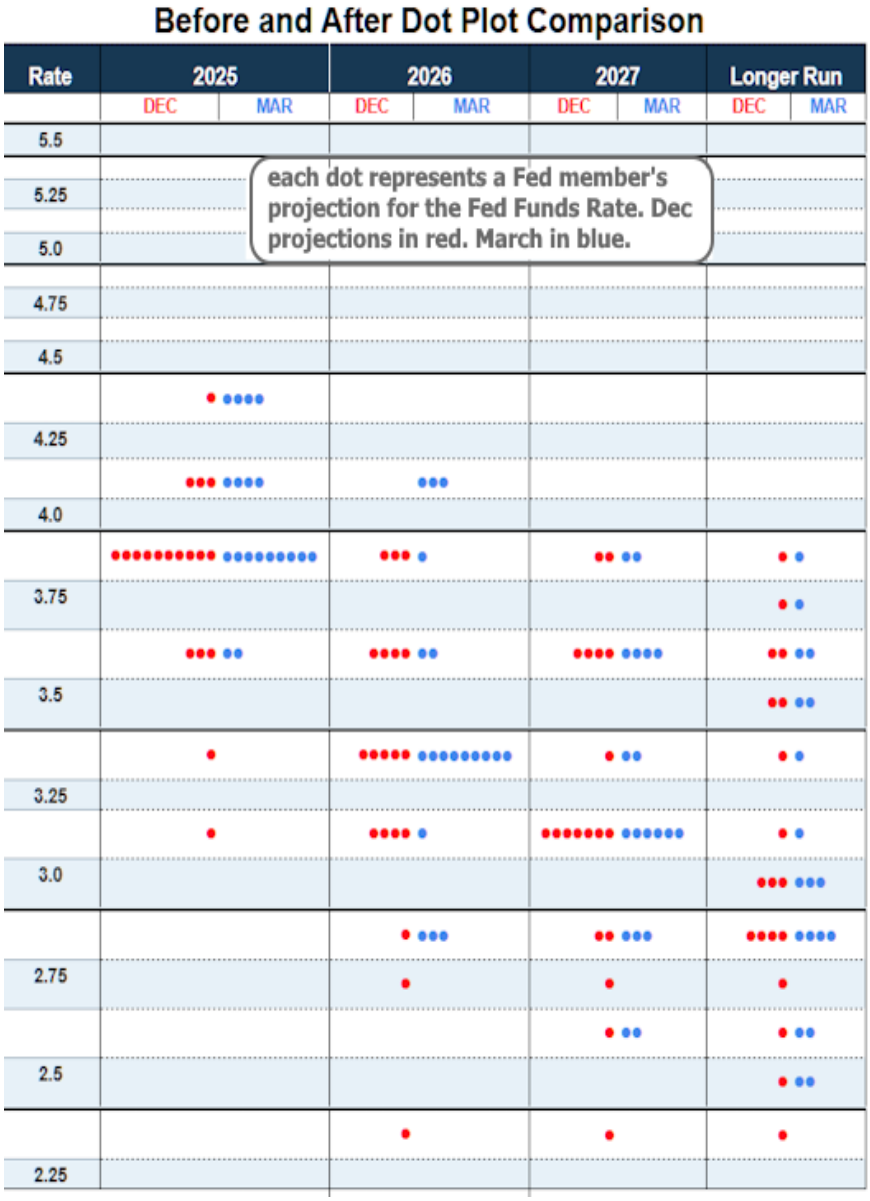
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 4 | 204.6 | +6.23% |
| 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 Fed also made a change to the way it's managing its bond portfolio. The net effect is that they'll be able to buy additional US Treasuries to replace the Treasuries that they're currently allowing to mature. This change was widely telegraphed and expected, but the timing was uncertain. Fed Chair Powell reiterated that the change was purely technical, and not intended to help rates move lower. Nonetheless, a small, short-term drop in rates was the byproduct of the way the market repositioned for the technical change.

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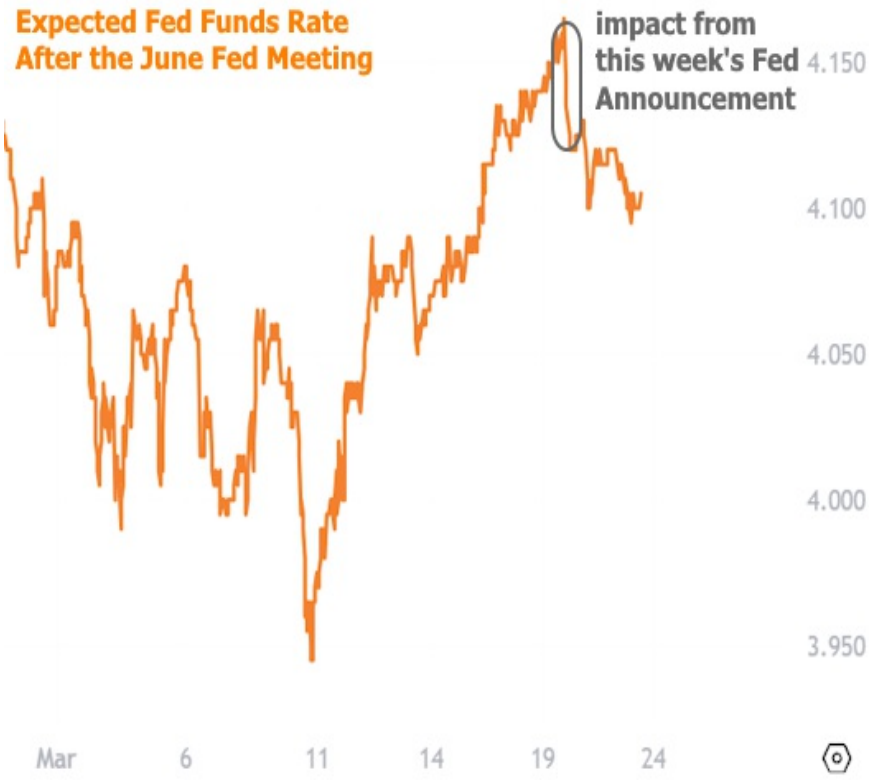



Had that move been all about the Fed's rate projections, we would have seen a much sharper move in Fed Funds Futures (contracts that allow traders to bet on where the Fed Funds Rate will be at certain points in the future). The following chart shows the market's view of the Fed Funds Rate after the June 2025 meeting. Translation: it didn't drop very much this week!

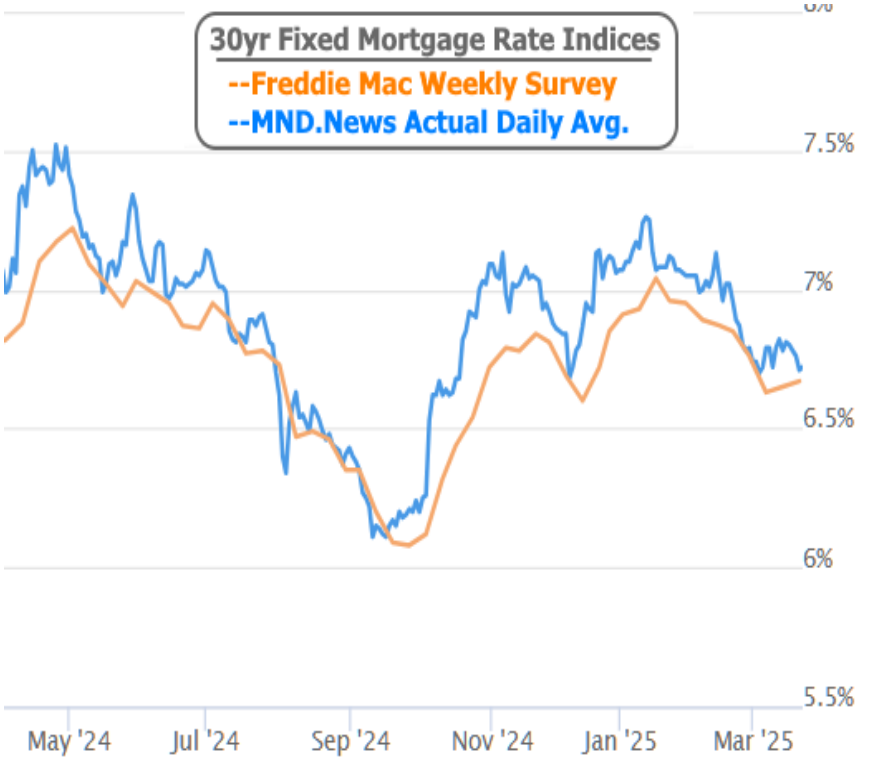
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Fortunately for mortgage rates, the reaction to the Fed was as mild as it was positive. That's a good thing considering the average lender is close to the lowest levels since October. The mortgage market can struggle to sustain overly quick rallies, not to mention the frustrations associate with the increased volatility that typically accompanies such episodes.




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If rates are to attempt breaking the late 2024 lows, they'd need some convincing from several of the major economic reports coming out in the next 2 weeks. The two most notable reports are next Friday's PCE Price Index (inflation report) and the big jobs report the following Friday. Apart from that, other data can certainly still have an impact if it falls far from forecasts and if multiple reports are sending the same message.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Mar 17** | | | | |
| 8:30AM | Feb Retail Sales (%) | 0.2% | 0.6% | -0.9% |
| 8:30AM | Mar NY Fed Manufacturing | -20 | -0.75 | 5.7 |
| 8:30AM | Feb Retail Sales Control Group MoM | 1% | 0.2% | -0.8% |
| 10:00AM | Jan Business Inventories (%) | 0.3% | 0.3% | -0.2% |
| **Tuesday, Mar 18** | | | | |
| 8:30AM | Feb Building Permits (ml) | 1.456M | 1.450M | 1.473M |
| 8:30AM | Feb Housing starts number mm (ml) | 1.501M | 1.38M | 1.366M |
| 8:30AM | Feb Import prices mm (%) | 0.4% | -0.1% | 0.3% |
| 9:15AM | Feb Industrial Production (%) | 0.7% | 0.2% | 0.5% |
| **Wednesday, Mar 19** | | | | |
| 7:00AM | Mar/14 MBA Refi Index | 794.4 | | 911.3 |
| 7:00AM | Mar/14 MBA Purchase Index | 154.7 | | 154.6 |
| 2:00PM | Fed Interest Rate Decision | 4.5% | 4.5% | 4.5% |
| 2:30PM | Fed Press Conference | | | |
| **Thursday, Mar 20** | | | | |
| 8:30AM | Mar/15 Jobless Claims (k) | 223K | 224K | 220K |
| 8:30AM | Mar Philly Fed Business Index | 12.5 | 8.5 | 18.1 |
| 10:00AM | Feb Existing home sales (ml) | 4.26M | 3.95M | 4.08M |
| **Monday, Mar 24** | | | | |
| 9:45AM | Mar S&P Global Services PMI | 54.3 | 50.8 | 51 |
| **Tuesday, Mar 25** | | | | |
| 9:00AM | Jan FHFA Home Prices y/y (%) | 4.8% | | 4.7% |
| 9:00AM | Jan Case Shiller Home Prices-20 y/y (%) | 4.7% | 4.8% | 4.5% |
| **Wednesday, Mar 26** | | | | |
| 8:30AM | Feb Durable goods (%) | 0.9% | -1% | 3.3% |
| **Thursday, Mar 27** | | | | |
| 8:30AM | Q4 GDP (%) | 2.4% | 2.3% | 3.1% |
| 8:30AM | Mar/22 Jobless Claims (k) | 224K | 225K | 223K |
| 10:00AM | Feb Pending Home Sales (%) | 2% | 1.5% | -4.6% |
| **Friday, Mar 28** | | | | |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 8:30AM | Feb Core PCE (m/m) (%) | 0.4% | 0.3% | 0.3% |
| 8:30AM | Feb Core PCE Inflation (y/y) (%) | 2.8% | 2.7% | 2.6% |
| 10:00AM | Mar Consumer Sentiment (ip) | 57.0 | 57.9 | 64.7 |

## Small But Mighty Locally Owned Mortgage Brokerage in Lahaina Maui Since 2003

**Tera Lyn Ha'aheoohonua Paleka** 

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