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Have Rates Improved Too Quickly And Is The Fed Being Rational?

The astonishing pace of the recent drop in interest rates has raised some questions regarding sustainability and justification, but we can clear them up with a single chart.

The Federal Reserve doesn't ultimately dictate rate levels, but it has a huge impact on how rates move. The Fed has been credited with fueling the improvements of the past 2 months, but it's important to remember that credit couldn't be given without justification from economic data.

Inflation is the most important part of the Fed's "mandate" (a fancy word for job description). Before we get to the chart that explains it all, let's take a look at a chart that adds to the confusion. It's often repeated that Core year-over-year PCE is the Fed's preferred metric for tracking the 2% inflation target. Here's how it looks after the most recent update this week:

National Average Mortgage Rates



| | Rate | Change | Points |
|----------------------------|-------|--------|--------|
| Mortgage News Daily | | | |
| 30 Yr. Fixed | 6.86% | -0.05 | 0.00 |
| 15 Yr. Fixed | 6.31% | -0.02 | 0.00 |
| 30 Yr. FHA | 6.32% | -0.06 | 0.00 |
| 30 Yr. Jumbo | 7.04% | -0.03 | 0.00 |
| 5/1 ARM | 6.53% | -0.02 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.78% | -0.08 | 0.00 |
| 15 Yr. Fixed | 6.07% | -0.09 | 0.00 |

Rates as of: 7/26

Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.68 | +0.27 |
| MBS GNMA 5.5 | 99.98 | +0.13 |
| 10 YR Treasury | 4.1958 | -0.0474 |
| 30 YR Treasury | 4.4523 | -0.0305 |

Pricing as of: 7/26 5:59PM EST

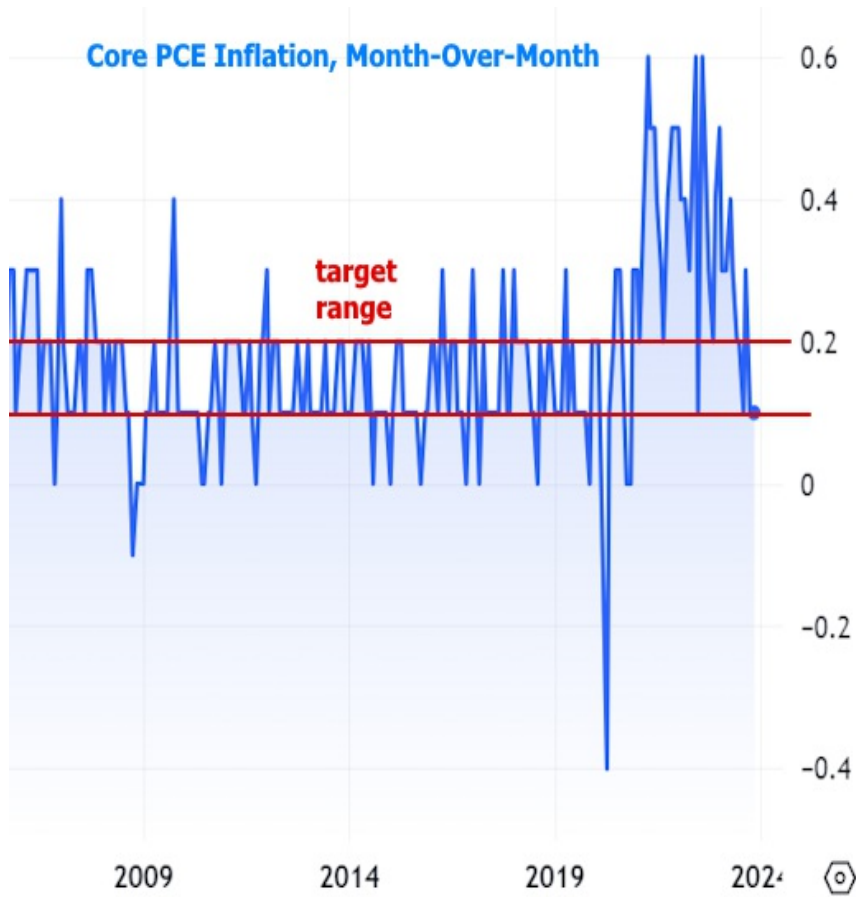
Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | Jul 10 | 206.1 | -0.19% |
| 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% |



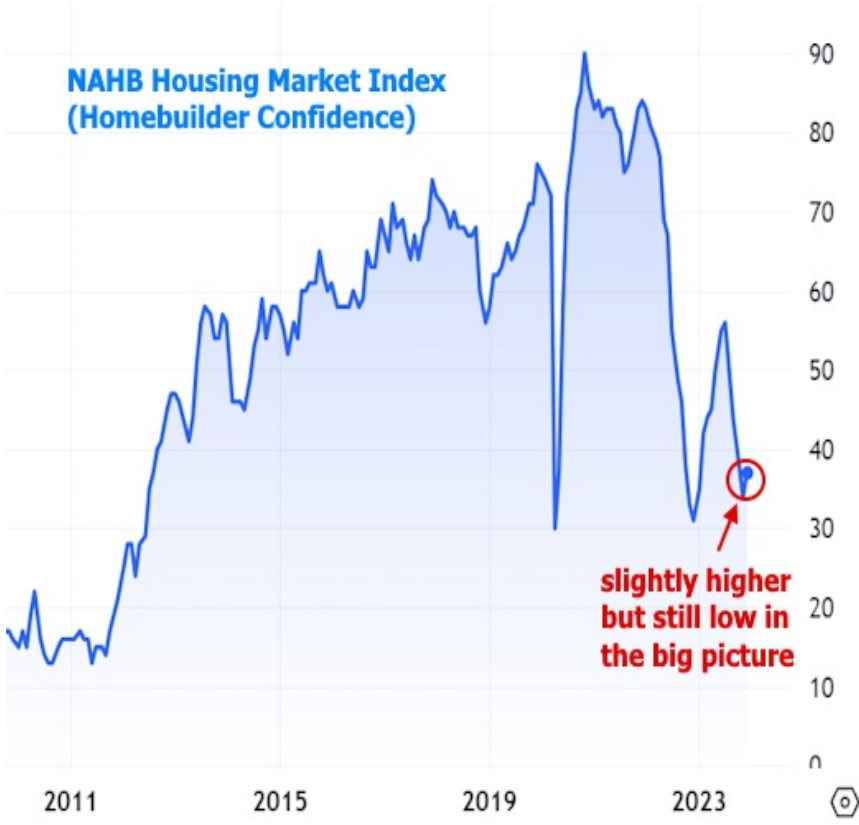
If this were the only way to view inflation, certainly the Fed would not yet be justified in cutting rates. To be fair, the Fed is not cutting rates. They are merely beginning to discuss what rate cut timing might look like if that line continues to fall as expected.

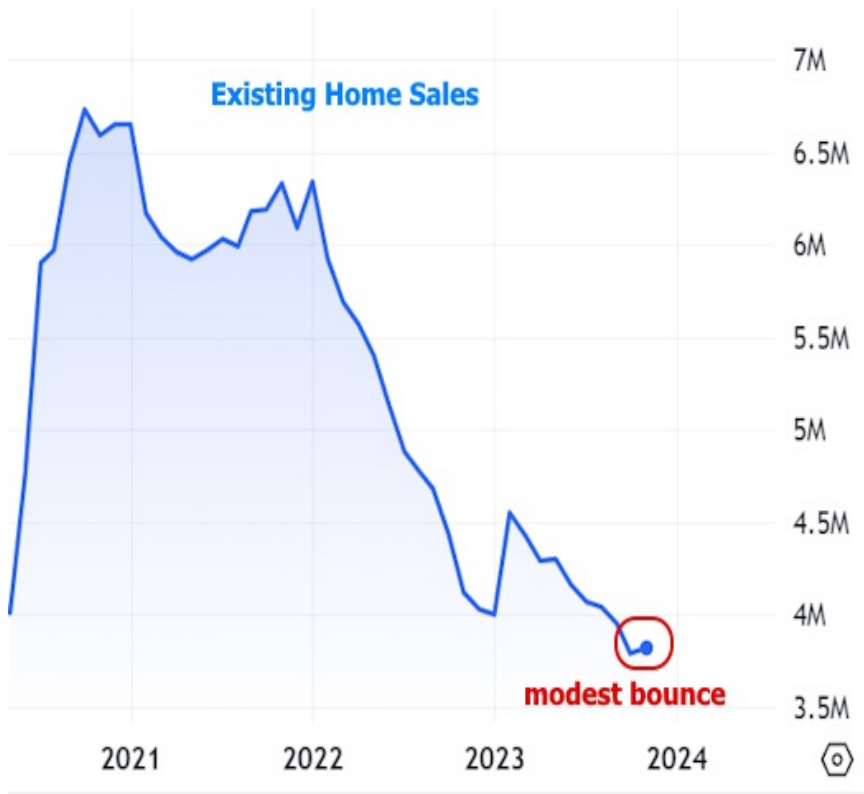
Still, some pundits say it's too soon. The counterpoint is that year-over-year inflation numbers include many past months with much higher inflation, and those months are no longer indicative of current price patterns. Fortunately, we have month-over-month charts as well, and they tell a different story.



Monthly inflation numbers are already back at target levels. In fact, even if we use the last 6 months of core PCE, the annualized inflation rate would be right in line with the 2.0% target. Point being: as long as inflation doesn't move quickly higher, the year-over-year numbers will fall to target levels as time passes.

Combine all of the above with the fact that the Fed wants to facilitate a soft landing for the economy and it's hard to argue against a mere conversation about rate cuts in 2024. To be sure, several sectors are looking like they might appreciate a more moderate interest rate environment. Several monthly reports came out this week that speak to that fact.





Will the housing market respond to lower rates? Weekly data from the Mortgage Bankers Association holds clues. Both purchase and refi applications are back to their highest levels in months.

MBA Purchase Index



MBA Refinance Index

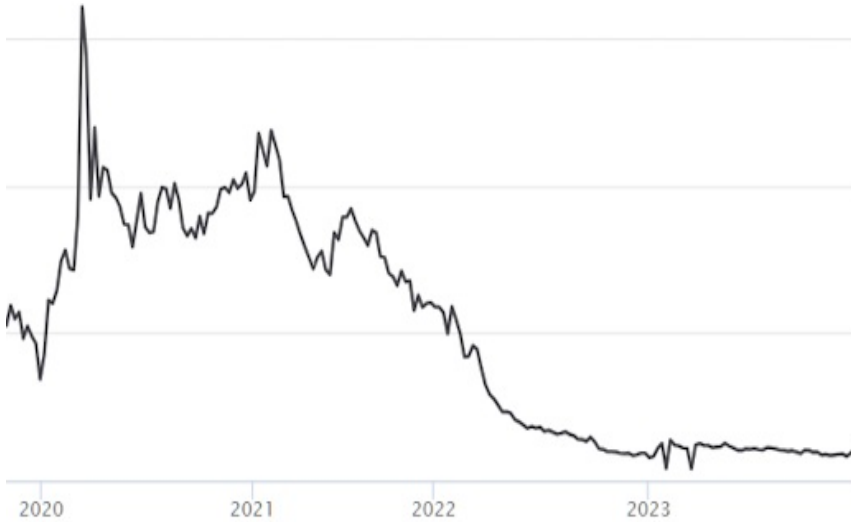


To get an idea of how much room we have for improvement, we can examine the exact same two metrics in a broader context.

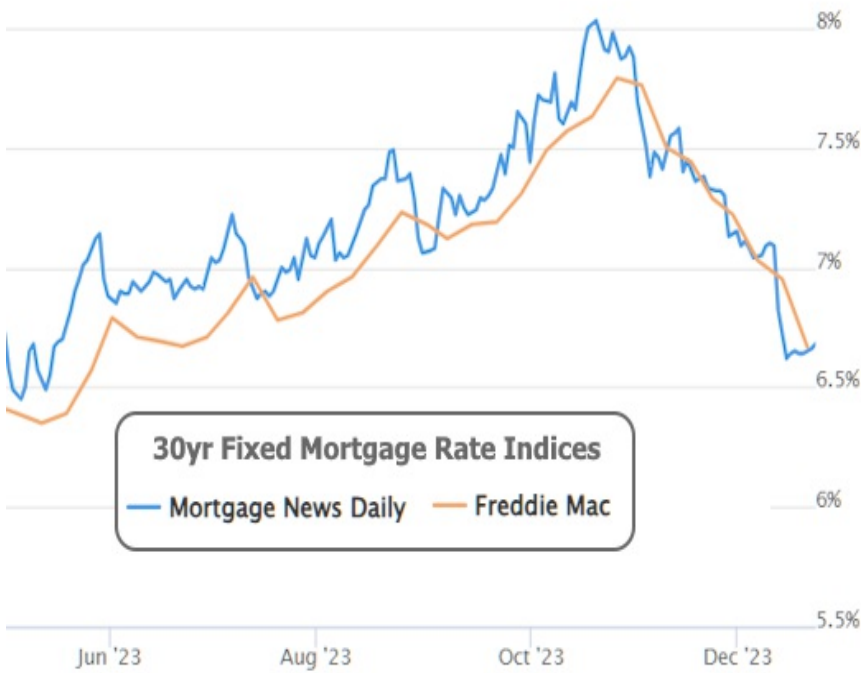
MBA Purchase Index



MBA Refinance Index



From a market movement standpoint, this week was very uneventful. Mortgage rates held a very narrow range that was right in line with the lowest levels in 7 months. Whereas the Mortgage News Daily Index may have seemed low earlier in the week, Freddie Mac's weekly rate index matched it almost perfectly when Thursday's update came out. As always, keep in mind that an index level represents perfection and most loan scenarios are imperfect.



Looking ahead, the bond market is closed on Monday for Christmas and it closes early next Friday for New Years Weekend (following Monday is also closed). Collectively, this represents a slow, weird time of year for bonds that can generally be disregarded as "noise." We won't have a clean signal until the end of the first week of January after the big jobs report comes out and after bond traders are all back in the office.

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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|--------------------------|---|--------|----------|--------|
| Monday, Dec 18 | | | | |
| 10:00AM | Dec NAHB housing market indx | 37 | 36 | 34 |
| Tuesday, Dec 19 | | | | |
| 8:30AM | Nov Building permits: number (ml) | 1.46M | 1.470M | 1.498M |
| 8:30AM | Nov Housing starts number mm (ml) | 1.56M | 1.36M | 1.372M |
| Wednesday, Dec 20 | | | | |
| 7:00AM | Dec/15 MBA Refi Index | | | |
| 7:00AM | Dec/15 MBA Purchase Index | 148.7 | | 149.6 |
| 10:00AM | Nov Existing home sales (ml) | 3.82M | 3.77M | 3.79M |
| Thursday, Dec 21 | | | | |
| 8:30AM | Dec Philly Fed Business Index | -10.5 | -3 | -5.9 |
| 8:30AM | Q3 GDP (%) | 4.9% | 5.2% | 2.1% |
| 8:30AM | Dec/16 Jobless Claims (k) | 205K | 215K | 202K |
| Friday, Dec 22 | | | | |
| 8:30AM | Nov Core PCE (m/m) (%) | 0.1% | 0.2% | 0.2% |
| 8:30AM | Nov Core PCE Inflation (y/y) (%) | 3.2% | 3.3% | 3.5% |
| 8:30AM | Nov Durable goods (%) | 5.4% | 2.2% | -5.4% |
| 10:00AM | Nov New Home Sales (ml) | 0.59M | 0.685M | 0.679M |
| 10:00AM | Dec Consumer Sentiment (ip) | 69.7 | 69.4 | 61.3 |
| Tuesday, Dec 26 | | | | |
| 9:00AM | Oct FHFA Home Price Index m/m (%) | 0.3% | | 0.6% |
| 9:00AM | Oct CaseShiller 20 mm nsa (%) | 0.1% | | 0.2% |
| 9:00AM | Oct FHFA Home Prices y/y (%) | 6.3% | | 6.1% |
| 9:00AM | Oct Case Shiller Home Prices-20 y/y (%) | 4.9% | 4.9% | 3.9% |
| 1:00PM | 2-Yr Note Auction (bl) | 57 | | |
| Wednesday, Dec 27 | | | | |
| 7:00AM | Dec/22 MBA Purchase Index | | | |
| 7:00AM | Dec/22 MBA Refi Index | | | |
| 1:00PM | 5-Yr Note Auction (bl) | 58 | | |
| Thursday, Dec 28 | | | | |
| 8:30AM | Dec/23 Jobless Claims (k) | 218K | 210K | 205K |
| 10:00AM | Nov Pending Home Sales (%) | 0% | 1% | -1.5% |
| 1:00PM | 7-Yr Note Auction (bl) | 40 | | |
| Friday, Dec 29 | | | | |
| 9:45AM | Dec Chicago PMI | 46.9 | 51 | 55.8 |

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

All Your Mortgage Needs, Professionally Delivered with a Personal Touch

Whether you're a first-time homebuyer hoping to navigate the process of buying a home so that it is a fun and anxiety-free process or a homeowner looking for refinance options that deliver more freedom and flexibility, I can help you analyze your current situation and find money saving options. With expertise in all areas of mortgage and financing, my hope is that once I become your mortgage partner, I'll stay your mortgage partner. With clients from A to Z, files never leave my hands or my desk. From start to finish, every step of the way, my goal is to keep the lines of communication open, provide complete and attentive service, and ensure the most seamless and satisfactory process possible.

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