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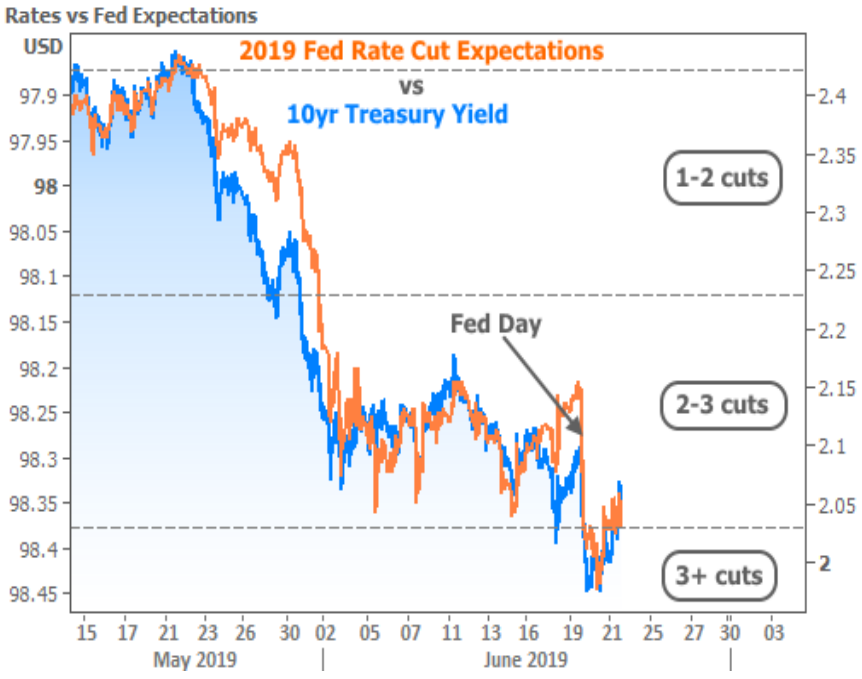
Fed Confirms Market's Hopes, But There's a Catch

This week's policy announcement from the Federal Reserve (aka "The Fed") was hotly anticipated. In the past month and a half, traders have rapidly upped their bets on **multiple** Fed rate **cuts** in 2019 as trade tensions flared. Softer economic data only added fuel to the fire.

In other words, markets think they see a reason for a **big shift in Fed policy** and this was the Fed's first official policy announcement since the most recent bout of drama began.

Why is the Fed's take so important? Simply put, Fed policy is a critical component underlying global market movement. It's not that the Fed can dictate long-term market trends, but they can definitely accelerate or delay existing trends, and create a ton of volatility in the process.

This is more true in the interest rate world than anywhere else. In fact, Market expectations for Fed rate changes tend to trace day to day movements in actual interest rates. This can be seen in the following chart of 10yr Treasury Yields and Fed Funds Futures (where speculators bet on changes in the Fed Funds Rate).



National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 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%

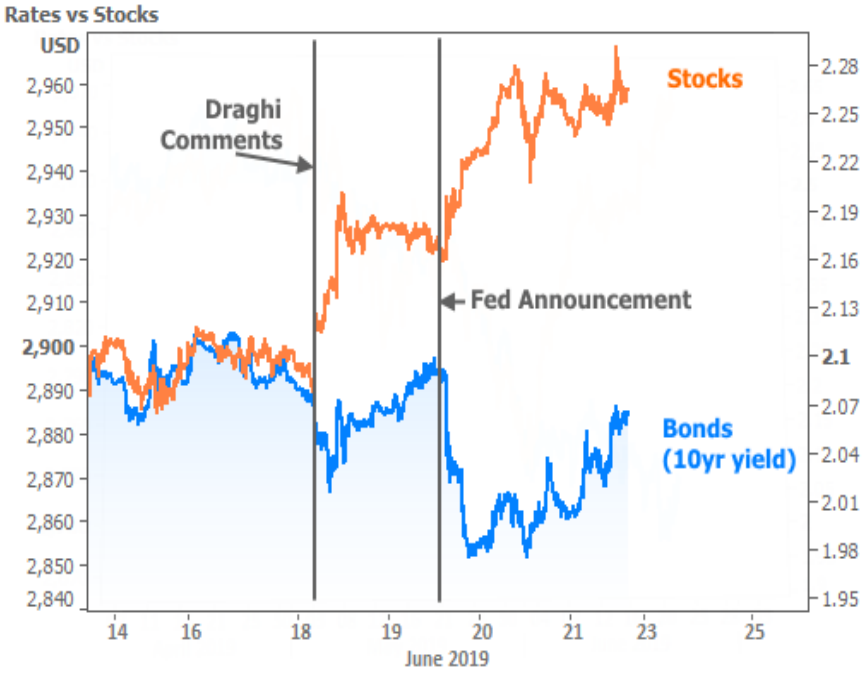
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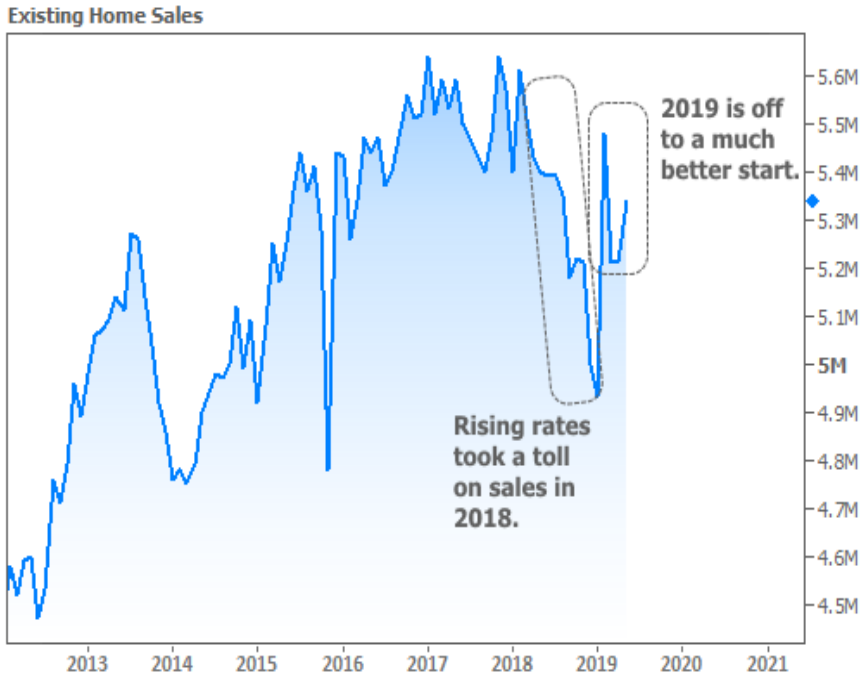
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The chart shows rates falling on Fed day only to bounce back to pre-Fed levels by the end of the week. This tells us **the Fed did a pretty good job** of confirming rate cut suspicions **without** sending markets into a panic.

This is true for stocks as well as bonds. Both sides of the market enjoy the promise of easier monetary policy from central banks in the event any economic weakness takes root. The European Central Bank (ECB) proved that concept **a day before the Fed** as ECB President Draghi said that additional stimulus and rate cuts were likely. In both cases, the market reaction is obvious.



The **housing market** also has an obvious appreciation for lower rates, but with a **far slower reaction time**. While we can see the broader decline in rates having a positive impact on home sales so far in 2019, we can only speculate as to additional gains that may follow if the average 30yr fixed rate continues to operate below 4%.

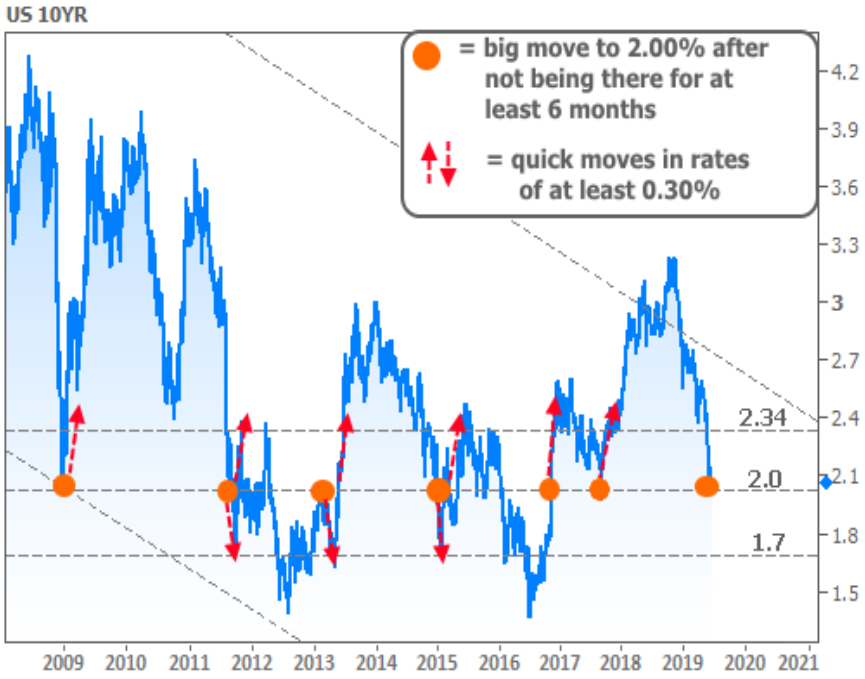


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So what's "the catch" mentioned in the title? If there's one key takeaway from this week's Fed announcement and the broader decline in rates in 2019, it's that **we should expect additional volatility ahead**. In the past, when 10yr Treasury yields (the best benchmark for momentum in longer-term rates like mortgages) make big moves down to 2.0%, we tend to see the next .30% follow quite quickly (often in both directions).



Bottom line: by confirming the market's hopes for potential rate cuts, the Fed is also confirming a high stakes game. The major economic reports in the first week of July will be especially important as they'll have a chance to justify or cast doubt on the massive shift in rate cut expectations. Volatility would only be compounded by the fact that markets are closed on Thursday for Independence Day. There's no way to know ahead of time which way rates would move, only that they could move quickly.

Until then, enjoy the fact that rates are now back inside the decades-long bull market that was apparently defeated in 2018 (same diagonal lines from the chart above):

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 17				
10:00AM	Jun NAHB housing market indx	64	67	66
Tuesday, Jun 18				
8:30AM	May Building permits: number (ml)	1.294	1.296	1.290
8:30AM	May Housing starts number mm (ml)	1.269	1.239	1.235
8:30AM	May Build permits: change mm (%)	0.3		0.2
8:30AM	May House starts mm: change (%)	-0.9		5.7
Wednesday, Jun 19				
7:00AM	w/e MBA Purchase Index	268.6		278.4
7:00AM	w/e Mortgage Refinance Index	1888.8		1956.5
2:00PM	N/A FOMC rate decision (%)	2.250 - 2.500	2.375	2.375
2:31PM	Powell Press Conference			
Thursday, Jun 20				
8:30AM	Jun Philly Fed Business Index	0.3	11.0	16.6
8:30AM	w/e Jobless Claims (k)	216	218	222
10:00AM	May Leading index chg mm (%)	0.0	0.1	-0.1
Friday, Jun 21				
10:00AM	May Existing home sales (ml)	5.34	5.25	5.19
10:00AM	May Exist. home sales % chg (%)	2.5	1.2	-0.4

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Tuesday, Jun 25				
9:00AM	Apr CaseShiller 20 yy (%)	2.5	2.6	2.7
9:00AM	Apr Monthly Home Price yy (%)	5.2		4.9
10:00AM	May New home sales-units mm (ml)	0.626	0.680	0.673
10:00AM	May New home sales chg mm (%)	-7.8	1.9	-6.9
10:00AM	Jun Consumer confidence	121.5	131.1	134.1
1:00PM	2-Yr Note Auction (bl)	40		
Wednesday, Jun 26				
7:00AM	w/e Mortgage Refinance Index	1949.5		1888.8
7:00AM	w/e MBA Purchase Index	266.3		268.6
8:30AM	May Durable goods (%)	-1.3	-0.1	-2.1
8:30AM	May Nondefense ex-air (%)	0.4	0.1	-1.0
1:00PM	5-Yr Note Auction (bl)	41		
Thursday, Jun 27				
8:30AM	Q1 GDP Final (%)	3.1	3.1	3.1
8:30AM	w/e Jobless Claims (k)	227	220	216
10:00AM	May Pending Sales Index	105.4		104.3
10:00AM	May Pending Home Sales (%)	1.1	1.0	-1.5
1:00PM	7-Yr Note Auction (bl)	32		
Friday, Jun 28				
8:30AM	May Core PCE Inflation (y/y) (%)	1.6	1.6	1.6
9:45AM	Jun Chicago PMI	49.7	53.1	54.2
10:00AM	Jun Consumer Inflation Expectations (1yr) (%)	2.7		2.6
10:00AM	Jun Consumer Sentiment (ip)	98.2	98.0	97.9
10:00AM	Jun Consumer Inflation Expectations (5yr) (%)	2.3		2.2

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Who is Mid Valley Financial?

Since 1985, Mid Valley Financial has been a trusted partner for complex real estate financing solutions. We specialize in handling unique and challenging loan scenarios, including those with non-traditional income or asset documentation. Our expertise in hard money and private money lending offers quick funding and flexible terms for real estate investors, business owners, and agricultural operators. Whether you need funds for purchasing, renovating, or refinancing properties, our experienced team is here to help.

Beyond hard money lending, we offer a comprehensive suite of competitively priced home loan options, including conventional, FHA, VA, and jumbo loans. So whether you are a first-time homebuyer, looking to secure the family estate or vacation property, or have unique financial circumstances, our experienced team can help you find the best solution.

Our commitment to exceptional customer service and innovative financing solutions has made us one of the leading direct lenders and mortgage brokers in the California real estate market. With a proven track record of success and a focus on building long-term relationships, we're here to help you achieve your financial goals.

Mid Valley Financial MVF

EQUAL HOUSING LENDER

EQUAL HOUSING OPPORTUNITY

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