



Mid Valley Financial

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On The Road To Rate Cuts, Markets Asking "Are We There Yet?" (Spoiler Alert: No)

Back in late 2023, we got in the car with the Federal Reserve with the promise of a trip to our favorite place: the land of lower interest rates. In 2024, we keep asking "are we there yet?" The more we ask, the farther we seem to be from the destination.

This trip began with all the best intentions. Softer inflation and cooler economic data led the Fed to expect an opportunity to cut rates several times in 2024. The Fed communicated as much in mid-December. Markets took things a step further with futures contracts pricing in 6 cuts by the end of the year. "6 rate cuts" was a refrain that echoed throughout the mortgage and housing industries. Suddenly, too many people were risking disappointment by not understanding the HIGHLY conditional logic behind the 6 cut mantra.

It wasn't necessarily a mistake for the market to get so far ahead of the Fed's official outlook. After all, the Fed has a history of cutting rates MUCH faster than its projections suggest. But the decision would ultimately be dependent on continued progress on inflation, and more economic cooling.

With the release of this week's inflation data, we now have two consecutive months that raise serious objections to the notion that the Fed will be able to cut any time soon.

This is a chart of the core Consumer Price Index (CPI) in year over year terms. This is the inflation metric that the Fed wants to see at 2% and they've been clear in saying they can cut rates if they're confident that we'll get there. It shows clear, substantial progress toward that goal:

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.40	0.00
MBS GNMA 5.5	99.78	+0.01
10 YR Treasury	4.2540	+0.0161
30 YR Treasury	4.4739	+0.0271

Pricing as of: 7/22 4:52PM EST

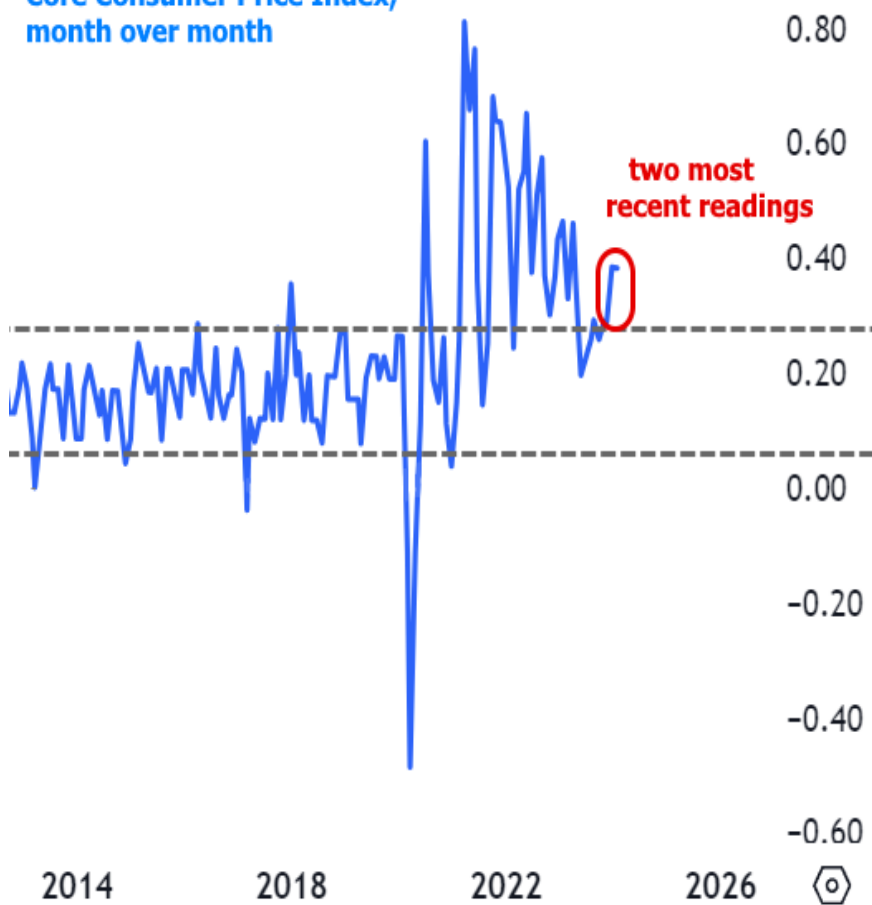
Recent Housing Data

		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%



The following chart shows the same thing, but now in more granular month-over-month terms. This allows us to better assess progress toward the 2% annual goal. It shows the past range that's been consistent with that annual goal, but more importantly, it shows inflation moving up and out of that range last month. This week's report maintained the same "too high" level.

Core Consumer Price Index,
month over month



The news wasn't quite as bad from the week's other key inflation report, but it certainly didn't help. The Producer Price Index (PPI), which measures wholesale inflation, has also now seen the highest two consecutive months since inflation first began to calm down in 2022.

**Core Producer Price Index (PPI)
month over month**



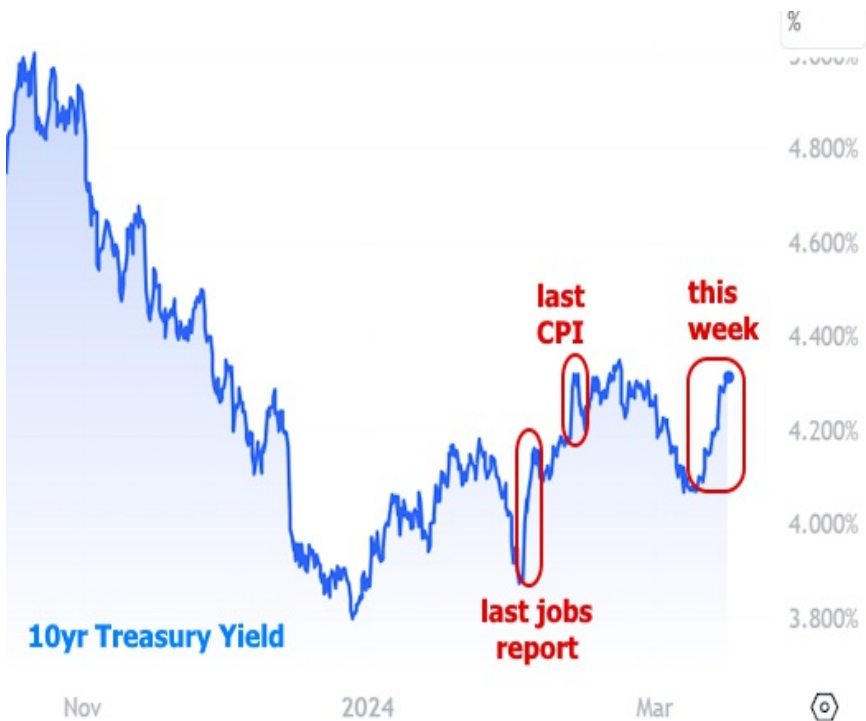
While PPI doesn't usually move markets as much as CPI, and while the results were arguably not as troubling, it actually caused a bigger jump in rates because it added insult to CPI's injury. It also happened to be flanked by upbeat labor market data. The following chart shows ongoing jobless claims, which had recently crested 1.9 million for only the second time since hitting long term lows.



On the road to lower rates, this week's economic reports are tantamount to the driver actually making good on the threat to "turn this car around!" Here's how rates reacted, as seen in terms of 10yr Treasury yields (highly correlated with mortgage rates in terms of day to day movement).



And here's the context going back to the initial rate rally in November and December:



The trajectory for mortgage rates is substantially similar as seen in the chart below, at least if you're looking at the blue line. The orange line shows Freddie Mac's weekly rate survey which was badly tricked by the timing of rate movement over the past two weeks in conjunction with its laggy methodology. Specifically, it's a 5 day average ending on Wednesday. As such, if the previous week sees decent improvement on Thursday and Friday, and the new week doesn't see most of its deterioration until Thursday and Friday, the most recent mark will move down instead of up. This is exactly what happened during this cycle.



Looking ahead, next week's obvious focus is Wednesday's Fed Announcement. To be sure, there is no chance of a rate cut at this meeting. Instead, markets will focus intently on the Fed's updated rate projections. These only come out 4 times a year, so this will be the first update since December 13th and it will provide valuable insight as to how the past 2 months of higher inflation readings have affected the Fed's rate outlook.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Mar 12				
8:30AM	Feb m/m Headline CPI (%)	0.4%	0.4%	0.3%
8:30AM	Feb y/y CORE CPI (%)	3.8%	3.7%	3.9%
8:30AM	Feb m/m CORE CPI (%)	0.4%	0.3%	0.4%
Wednesday, Mar 13				
7:00AM	Mar/08 MBA Refi Index	480.3		428.1
7:00AM	Mar/08 MBA Purchase Index	147.7		141.1

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
Thursday, Mar 14				
8:30AM	Feb Core Producer Prices MM (%)	0.3%	0.2%	0.5%
8:30AM	Feb Core Producer Prices YY (%)	2%	1.9%	2%
8:30AM	Mar/02 Continued Claims (ml)	1811K	1900K	1906K
8:30AM	Mar/09 Jobless Claims (k)	209K	218K	217K
8:30AM	Feb Producer Prices (%)	0.6%	0.3%	0.3%
8:30AM	Feb Retail Sales (%)	0.6%	0.8%	-0.8%
10:00AM	Jan Business Inventories (%)	0%	0.2%	0.4%
Friday, Mar 15				
8:30AM	Mar NY Fed Manufacturing	-20.9	-7	-2.4
8:30AM	Feb Import prices mm (%)	0.3%	0.3%	0.8%
9:15AM	Feb Industrial Production (%)	0.1%	0%	-0.1%
10:00AM	Mar Consumer Sentiment (ip)	76.5	76.9	76.9
Monday, Mar 18				
10:00AM	Mar NAHB housing market indx	51	48	48
Tuesday, Mar 19				
8:30AM	Feb Building permits: number (ml)	1.518M	1.495M	1.489M
8:30AM	Feb Housing starts number mm (ml)	1.521M	1.425M	1.331M
Wednesday, Mar 20				
2:00PM	Fed Interest Rate Decision	5.5%	5.5%	5.5%
2:00PM	FOMC Economic Projections			
2:30PM	Fed Press Conference			
Thursday, Mar 21				
8:30AM	Mar Philly Fed Business Index	3.2	-2.3	5.2
8:30AM	Mar/16 Jobless Claims (k)	210K	215K	209K
9:45AM	Mar S&P Global Manuf. PMI	52.5	51.7	52.2
9:45AM	Mar S&P Global Composite PMI	52.2		52.5
9:45AM	Mar S&P Global Services PMI	51.7	52	52.3
10:00AM	Feb Existing home sales (ml)	4.38M	3.94M	4M

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

****Why Choose Us:****

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

****Our Approach:****

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

****Unlocking Possibilities:****

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

****Your Journey with Us:****

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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