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# Why The Fed Rate Cut Didn't Help Mortgage Rates This Week

This week's newsletter will be intentionally short in hopes of it being easier to share, read, and digest. It will offer several strategies for understanding the paradoxical disconnect between the Fed Funds Rate and mortgage rates. For those interested in a deeper dive, the past 3 newsletters thoroughly covered it in detail:

Why Fed Day Matters Even Though Mortgage Rates Are Already Lower

Why You Might Regret Waiting For Better Rates After The Fed Cuts

Here's Exactly What a Fed Rate Cut Will Do For Mortgage Rates

**Strategy 1: Think of mortgage rates as broadly correlated with the Fed Funds Rate, but with the important ability to adjust for probable changes in the Fed Funds Rate well before the Fed actually cuts/hikes.**

Mortgages are based on bonds and bonds can move continually on any business day. Contrast that to the Fed Funds Rate which can only move once every 6 weeks. That means mortgage rates can react to all of the news and data that will eventually lead the Fed to cut rates, which is exactly why mortgage rates have been moving lower recently. Bottom line: the Fed was getting caught up to movement that already took place in the rest of the rate market. In fact, the rest of the rate market is already planning on several more cuts.

**Strategy 2: Understand that the Fed Funds Rate is like a 1 day loan whereas the average mortgage lasts a number of years.**

Loans with short and long time frames have different rates and can behave differently on any given day. Sometimes, longer term rates like mortgages can move in completely different directions from the shortest-term rates. This wasn't necessarily a major factor this week, but it's another reason for potential disconnects to be aware of.

**Strategy 3: Understand that financial markets were already well aware the Fed was going to cut.**

## 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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You may have heard the term "buy the rumor, sell the news." This refers to traders acting upon events that have a high likelihood of playing out as expected (i.e. "buying the rumor"), thus participating in a wave of momentum that makes those trades more and more profitable before ultimately exiting those trades (i.e. "selling the news") when the news finally happens.

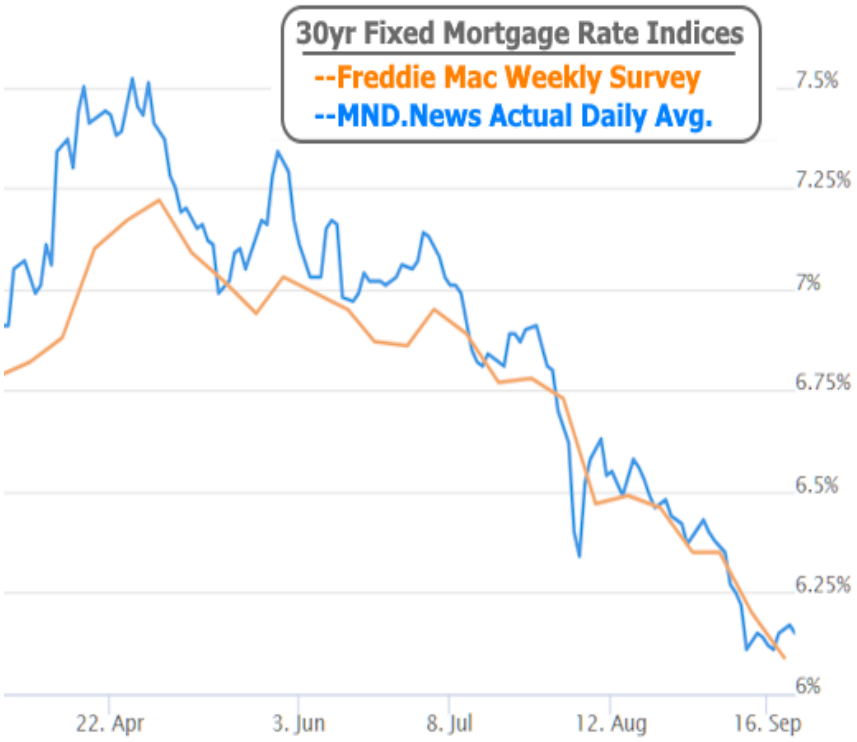
**Strategy 4: Consider the nuances in Fed day information.**

In addition to the Fed rate cut itself, which was widely assumed, there were other more important aspects of Fed day. These included the member's rate forecasts via the "dot plot" as well as Fed Chair Powell's press conference. The dot plot was actually somewhat beneficial for bonds/rates, but Powell's press conference took things back in the other direction.

**Last but not least...**

If you happened to see news headlines the day after the Fed announcement that suggested mortgage rates had, in fact, moved significantly lower, it was likely due to Freddie Mac's weekly mortgage rate survey--the one that uses a 5 day average through each Wednesday before being reported on Thursday. As such, Freddie's rate can be very stale compared to daily changes in rates.

It is true that we saw the lowest rates in a year and a half last Thursday and Friday. Some lenders were at the same levels again on the Tuesday before the Fed announcement, but the average moved higher after that.




Even so, rates remain very close to long-term lows with the average lender more than 1.5% below the long-term highs from late 2023. Incidentally, this remarkably similar to amount the Fed expects to cut rates in the coming years... almost as if the mortgage market can get in position for future Fed rate cuts well in advance?

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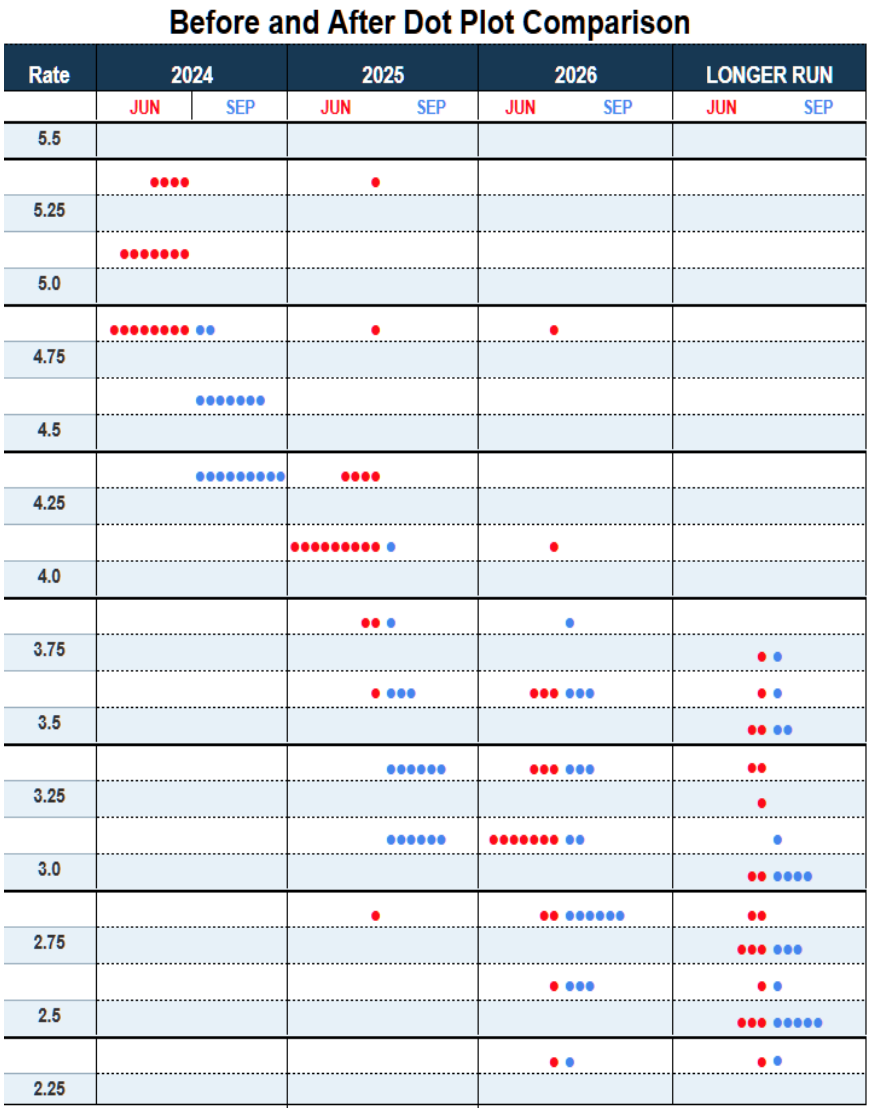
The chart below shows the dot plot from this week's Fed meeting compared to the next most recent dot plot released in June 2024. Blue dots are new. Red dots are old. Note the downward migration. Each dot is one Fed member's outlook:

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Sep 16** | | | | |
| 8:30AM | Sep NY Fed Manufacturing | 11.5 | -3.9 | -4.70 |
| **Tuesday, Sep 17** | | | | |
| 8:30AM | Aug Retail Sales (%) | 0.1% | -0.2% | 1% |
| 9:15AM | Aug Industrial Production (%) | 0.8% | 0.2% | -0.6% |
| 10:00AM | Sep NAHB housing market indx | 41 | 40 | 39 |
| **Wednesday, Sep 18** | | | | |
| 7:00AM | Sep/13 MBA Refi Index | 941.4 | | 757.8 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 7:00AM | Sep/13 MBA Purchase Index | 146.1 | | 138.6 |
| 8:30AM | Aug Housing starts number mm (ml) | 1.356M | 1.31M | 1.238M |
| 8:30AM | Aug Building permits: number (ml) | 1.475M | 1.41M | 1.406M |
| 2:00PM | FOMC Economic Projections | | | |
| 2:00PM | Fed Interest Rate Decision | 5% | 5.25% | 5.5% |
| 2:30PM | Fed Press Conference | | | |
| **Thursday, Sep 19** | | | | |
| 8:30AM | Sep/14 Jobless Claims (k) | 219K | 230K | 230K |
| 8:30AM | Sep Philly Fed Business Index | 1.7 | -1 | -7.0 |
| 8:30AM | Sep Philly Fed Prices Paid | 34.00 | | 24.00 |
| 10:00AM | Aug Existing home sales (ml) | 3.86M | 3.90M | 3.95M |
| **Monday, Sep 23** | | | | |
| 9:45AM | Sep S&P Global Services PMI | 55.4 | 55.3 | 55.7 |
| 9:45AM | Sep S&P Global Manuf. PMI | 47.0 | 48.5 | 47.9 |
| **Tuesday, Sep 24** | | | | |
| 9:00AM | Jul FHFA Home Prices y/y (%) | 4.5% | | 5.1% |
| 9:00AM | Jul Case Shiller Home Prices-20 y/y (%) | 5.9% | 5.8% | 6.5% |
| 10:00AM | Sep CB Consumer Confidence (%) | 98.7 | 103.8 | 103.3 |
| **Wednesday, Sep 25** | | | | |
| 10:00AM | Aug New Home Sales (ml) | 0.716M | 0.70M | 0.739M |
| **Thursday, Sep 26** | | | | |
| 8:30AM | Q2 Core PCE Prices QoQ Final | 2.8% | 2.8% | 3.7% |
| 8:30AM | Q2 GDP (%) | 3% | 3% | 1.4% |
| 8:30AM | Sep/21 Jobless Claims (k) | 218K | 225K | 219K |
| 9:20AM | Fed Chair Powell Speech | | | |
| **Friday, Sep 27** | | | | |
| 8:30AM | Aug Core PCE (m/m) (%) | 0.1% | 0.2% | 0.2% |
| 8:30AM | Aug Core PCE Inflation (y/y) (%) | 2.7% | 2.7% | 2.6% |
| 10:00AM | Sep Consumer Sentiment (ip) | 70.1 | 69.3 | 67.9 |

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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.

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