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# Can Trump Actually Force Rates to Move Lower?

It turned out to be an intensely boring week for mortgage rates. The average lender stayed right in line with last week until moving slightly higher on Thursday and slightly lower on Friday.

This isn't too much of a surprise. Rates are driven by bonds and bonds are most easily influenced by major economic reports--something in extremely short supply this week.

Next week brings a more active calendar with several relatively important reports in addition to Wednesday's rate announcement from the Fed. While the Fed will not be cutting rates at this meeting, the post-meeting press conference can still serve as a source of inspiration for rates.

There are several other considerations for rates beyond economic data. Given that Trump said he would "demand that interest rates drop immediately" this week, it's worth asking whether a president has a direct say in the matter.

In short, no... not directly anyway. Indirectly, the government and a presidential administration can have a massive impact on rates, but that impact is almost exclusively a result of changes in the economy and the government's borrowing needs.

For instance, if fiscal policy increases economic growth, that would put upward pressure on rates, all other things being equal. If that growth came courtesy of lower taxes, the government may need to issue more Treasuries in order to fund government spending. Higher Treasury issuance would push rates higher as well. Conversely, if the government can cut spending more than enough to offset any decrease in tax revenue, Treasury issuance could eventually move lower and that would help rates.

It's important to understand that it takes a long time to see meaningful decreases in Treasury issuance for a variety of reasons. So this is not a vehicle for rate reduction in 2025.

Nonetheless, the market is willing to react to probable outcomes and policy changes. We saw this during Trump's first term with traders quickly bracing for the impact from the tax bill that became likely after Trump's victory (because both the House and Senate were under GOP control).

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.50% | -0.01 | 0.00 |
| 15YR Fixed | 7.04% | 0.00 | 0.00 |
| 30YR FHA | 7.07% | -0.01 | 0.00 |
| 30YR Jumbo | 7.52% | 0.00 | 0.00 |
| 7/6 SOFR | 7.12% | 0.00 | 0.00 |
| 30YR VA | 7.08% | -0.02 | 0.00 |

Rates as of: 11/17

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 98.87 | +0.17 |
| 10 YR Treasury | 5.0936 | -0.0406 |
| 30 YR Treasury | 5.4532 | -0.0226 |

Pricing as of: 11/17 2:44PM EST

## Recent Housing Data

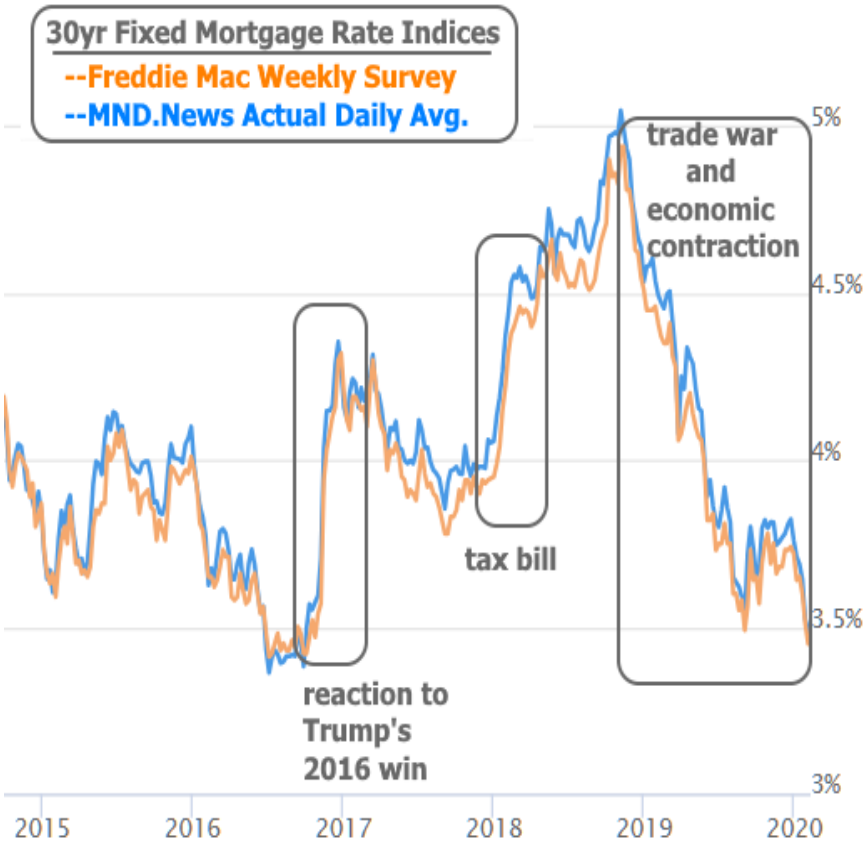
| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 4 | 204.6 | +6.23% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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Traders were thinking about lower revenues (i.e. higher Treasury issuance) as well as potential jolt of economic growth. 2017 marked some doubt about the tax bill and other policy goals, but the passage of the tax bill reinvigorated the upward movement in rates in 2018. Rates ultimately erased all of that movement in 2019 as economic data cooled at home and abroad.

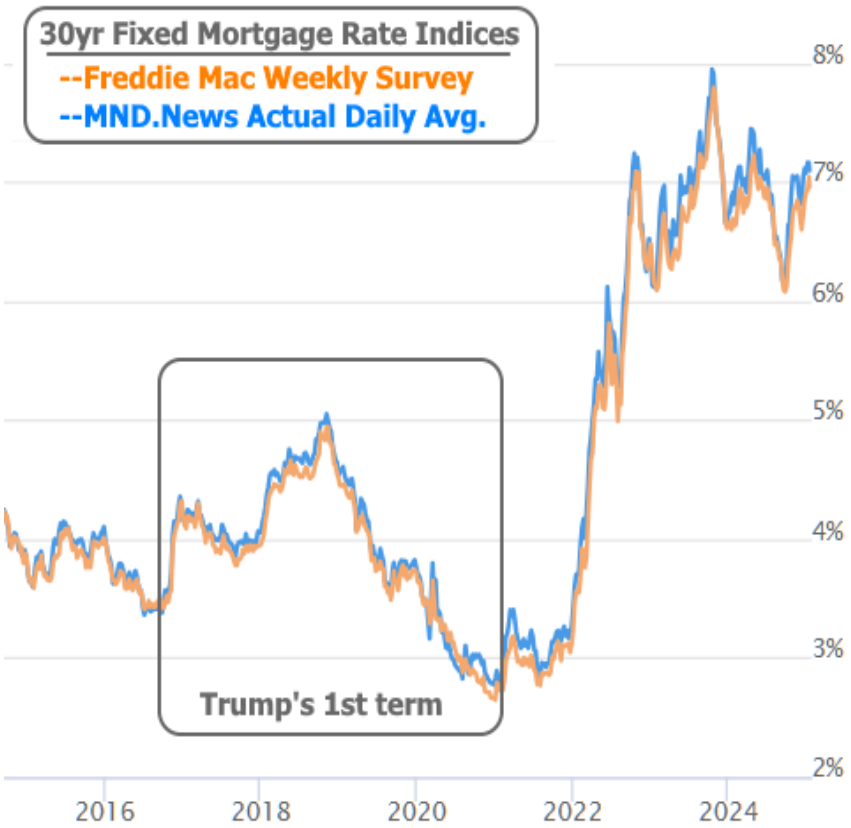



In hindsight, Trump's first term looks like child's play compared to the post-covid rate landscape.

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This massive rate spike is a symptom of high inflation, strong economic growth, and persistently elevated Treasury issuance. Inflation has moved down significantly, but as we discussed last week, it needs to keep moving toward target levels if the Fed wants to keep cutting rates.

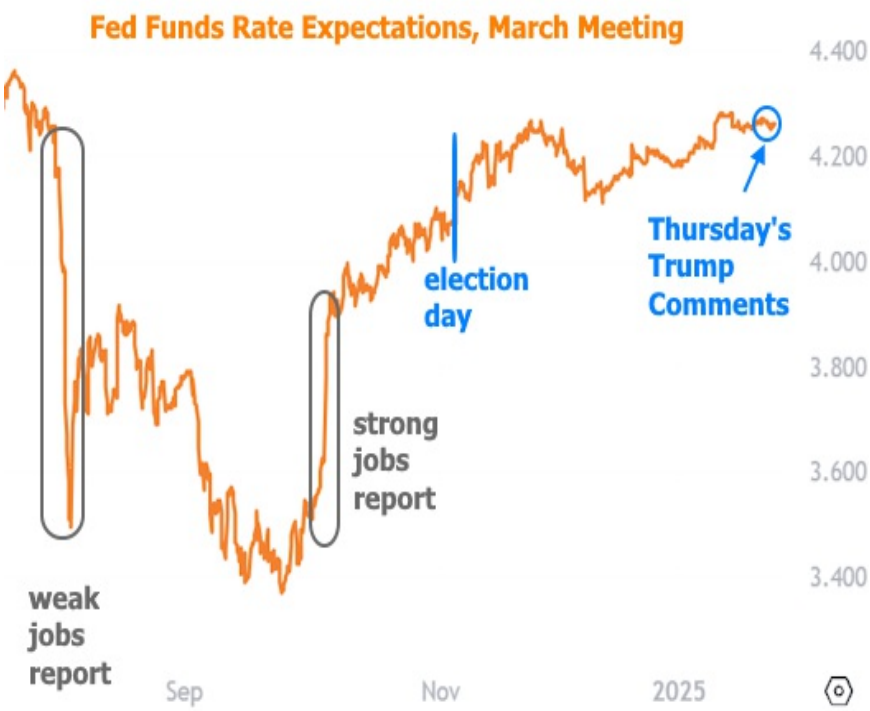
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Without inflation playing ball, the Fed won't be able to cut rates much beyond current levels, no matter how much Trump demands it. The Fed is designed to be independent and ideally, uninfluenced by political pressure. Traders (the people who will ultimately determine exactly how interest rates move) agree, as can be seen in the following chart of Fed Funds Futures. The chart shows where the market sees the Fed Funds Rate after the March Fed announcement (the next meeting with even a remote chance of seeing a cut).




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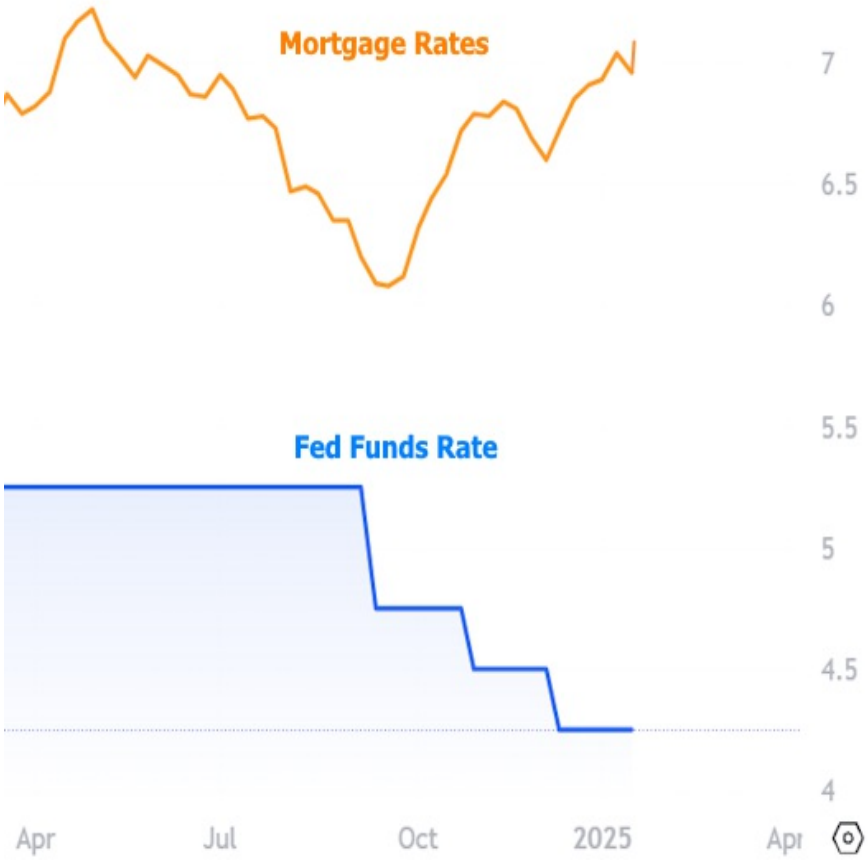
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Simply put, the big ticket economic reports (like the jobs report) account for a substantial majority of the change in rate expectations. While it's harder to see in this chart, reports like the Consumer Price Index account for several of the smaller spikes over the past few months.

But for the sake of exhaustive analysis, let's imagine a scenario where the Fed has sacrificed its independence or is otherwise influenced by political pressure, thus cutting rates sooner than they otherwise would have, or by a greater amount overall.

First off, the Fed Funds Rate only applies to overnight transactions among large financial institutions. Longer term rates (like mortgages) would still be dictated by bonds that have a strong track record of delayed reactions to Fed rate cuts. Case in point, mortgage rates are up almost 1% despite the Fed having cut its rate by 0.75% since September.




Even if mortgage rates were tied to the Fed Funds Rate, there's an inherent problem with unjustified Fed rate cuts. The entire point of a high Fed Funds Rate is to increase the cost of credit in an attempt to cool inflationary pressures in the economy. Dropping the rate prematurely or excessively would risk sabotaging progress toward inflation goals. If inflation were to increase, the Fed would have to increase the Fed Funds Rate in response.

Bottom line: even if the Fed Funds Rate would help mortgage rates (the chart above shows us how that's been working out), the fallout from cheaper credit would likely result in rates moving even higher in the future. The best hope for rates continues to be ongoing moderation in inflation data, a stable economy, and lower Treasury issuance.

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## Recent Economic Data

**Event Importance:**

No Stars = Insignificant

☆ Low

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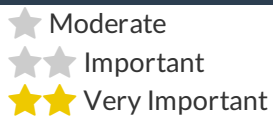
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# US Housing Market Weekly

January 24, 2025

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Wednesday, Jan 22** | | | | |
| 7:00AM | Jan/17 MBA Refi Index | 558.8 | | 575.6 |
| 7:00AM | Jan/17 MBA Purchase Index | 163.0 | | 162.0 |
| **Thursday, Jan 23** | | | | |
| 8:30AM | Jan/18 Jobless Claims (k) | 223K | 220K | 217K |
| **Friday, Jan 24** | | | | |
| 9:45AM | Jan S&P Global Services PMI | 52.8 | 56.5 | 56.8 |
| 10:00AM | Jan Consumer Sentiment (ip) | 71.1 | 73.2 | 74.0 |
| 10:00AM | Dec Existing home sales (ml) | 4.24M | 4.19M | 4.15M |
| **Monday, Jan 27** | | | | |
| 10:00AM | Dec New Home Sales (ml) | 0.698M | 0.67M | 0.664M |
| **Tuesday, Jan 28** | | | | |
| 8:30AM | Dec Durable goods (%) | -2.2% | 0.6% | -1.1% |
| 9:00AM | Nov FHFA Home Prices y/y (%) | 4.2% | | 4.5% |
| 9:00AM | Nov Case Shiller Home Prices-20 y/y (%) | 4.3% | 4.3% | 4.2% |
| 10:00AM | Jan CB Consumer Confidence (%) | 104.1 | 105.6 | 104.7 |
| **Wednesday, Jan 29** | | | | |
| 8:30AM | Dec Wholesale inventories mm (%) | -0.5% | 0.2% | -0.2% |
| 2:00PM | Fed Interest Rate Decision | 4.5% | 4.5% | 4.5% |
| 2:30PM | Fed Press Conference | | | |
| **Thursday, Jan 30** | | | | |
| 8:30AM | Q4 GDP (%) | 2.3% | 2.6% | 3.1% |
| 8:30AM | Jan/25 Jobless Claims (k) | 207K | 220K | 223K |
| 10:00AM | Dec Pending Home Sales (%) | -5.5% | 0% | 2.2% |
| **Friday, Jan 31** | | | | |
| 8:30AM | Dec Core PCE (m/m) (%) | 0.2% | 0.2% | 0.1% |
| 8:30AM | Dec Core PCE Inflation (y/y) (%) | 2.8% | 2.8% | 2.8% |
| 8:30AM | Q4 Employment costs (%) | 0.9% | 0.9% | 0.8% |
| 9:45AM | Jan Chicago PMI | 39.5 | 40 | 36.9 |




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## We're here to help with all home mortgage needs.

With over 20 years of mortgage industry experience, Scott Kepler has helped thousands of families to purchase or refinance their homes. As a Mortgage Lender, Scott and his team are able to give families access to a variety of home loan options; after all, no two situations are the same.

Give Scott and his team a call today for a Free Mortgage Check-Up or Purchase Home Loan Pre-Qualification.

Offering financing for:
First Time Home Buyer
Conventional (Fannie Mae/Freddie Mac)
FHA
VA
USDA
Jumbo
Reverse
Renovation
Self Employed
Home Equity Loans/Lines of Credit
Credit Challenged / Alt-A
Investor or Second Home
Hard Money
Small Commercial

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