

## Ken Bouthillier

Team Lead | Sr. Morgage Advisor, Team Lendpro powered by Movement Mortgage 699692 15333 N Pima Rd Ste 305 Scottsdale, AZ 85260 Office: 480.463.4033 Mobile: 623.640.0100 ken@teamlendpro.com View My Website

# 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.

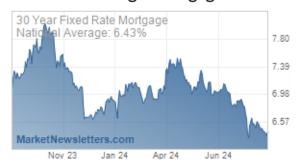
This trip began with all the best intentions. Softer inflation and cooler economic data led the Fed to expect an opportunity to cut rates several times in 2024. The Fed communicated as much in mid-December. Markets took things a step further with futures contracts pricing in 6 cuts by the end of the 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	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Rates as of: 8/30			

#### Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM EST

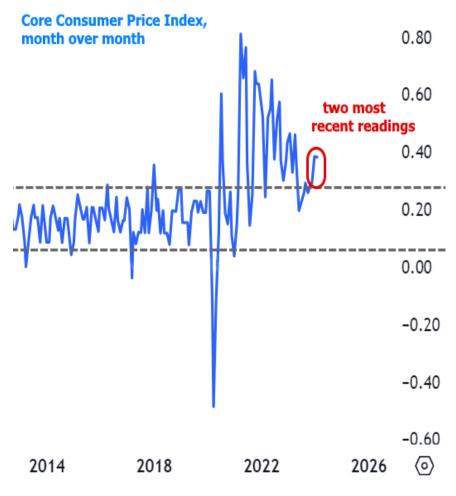
## **Recent Housing Data**

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
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%

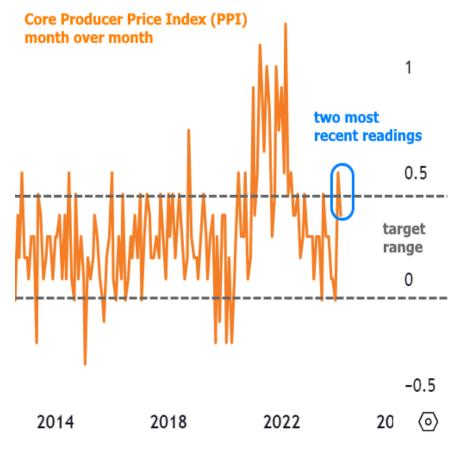
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The following chart shows the same thing, but now in more granular month-over-month terms. This allows us to better assess progress toward the 2% annual goal. It shows the past range that's been consistent with that annual goal, but more importantly,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



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.

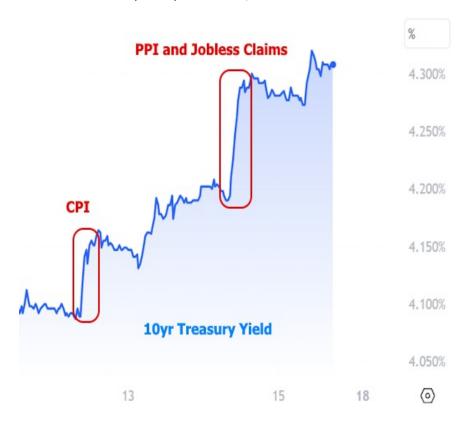


While PPI doesn't usually move markets as much as CPI, and while the results were arguably not as troubling, it actually caused a bigger jump in rates because it added insult to CPI's injury. It also happened to be flanked by upbeat labor market data. The following chart shows ongoing jobless claims,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

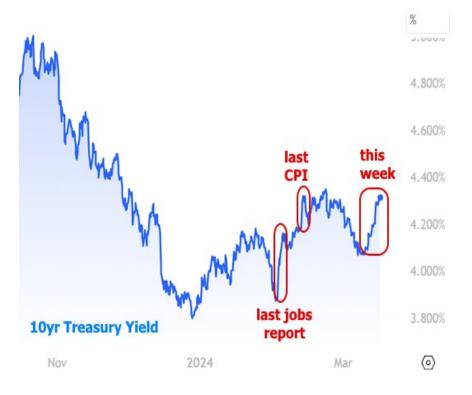


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On the road to lower rates, this week's economic reports are tantamount to the driver actually making good on the threat to "turn this car around!" Here's how rates reacted, as seen in terms of 10yr Treasury yields (highly correlated with mortgage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



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

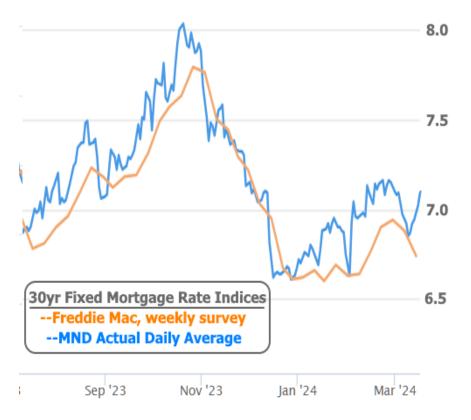


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The trajectory for mortgage rates is substantially similar as seen in the chart below, at least if you're looking at the blue line. The orange line shows Freddie Mac's weekly rate survey which was badly tricked by the timing of rate movement over the 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, N	1ar 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%
Wednesda	y, 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:**

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Date       Event       Actual       Forecast       Prior         Thursday, Mar 14       8:30AM       Feb Core Producer Prices MM (%)       0.3%       0.2%       0.3         8:30AM       Feb Core Producer Prices YY (%)       2%       1.9%       2         8:30AM       Mar/02 Continued Claims (ml)       1811K       1900K       190         8:30AM       Mar/09 Jobless Claims (k)       209K       218K       21         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       Feb Import prices mm (%)       0.3%       0.3%       0.3         9:15AM       Feb Industrial Production (%)       0.1%       0%       -0.5         10:00AM       Mar Consumer Sentiment (ip)       76.5       76.9       76         Monday, Mar 18       10:00AM       Mar NAHB housing market indx       51       48       1.485         Tuesday, Mar 19       8:30AM       Feb Housing starts number
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Wednesday, Mar 20
2:00PM Fed Interest Rate Decision 5.5% 5.5% 5.1
2:00PM FOMC Economic Projections
2:30PM Fed Press Conference
Thursday, Mar 21
8:30AM Mar Philly Fed Business Index 3.2 -2.3
8:30AM Mar/16 Jobless Claims (k) 210K 215K 20
9:45AM Mar S&P Global Manuf. PMI 52.5 51.7 52
9:45AM Mar S&P Global Composite PMI 52.2 52
9:45AM       Mar S&P Global Services PMI       51.7       52       52
10:00AM Feb Existing home sales (ml) 4.38M 3.94M

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Ken Bouthillier

