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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




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.27% | 0.00 | 0.00 |
| 15YR Fixed | 6.92% | 0.00 | 0.00 |
| 30YR FHA | 6.91% | +0.01 | 0.00 |
| 30YR Jumbo | 7.52% | -0.03 | 0.00 |
| 7/6 SOFR | 6.70% | -0.08 | 0.00 |
| 30YR VA | 6.92% | +0.01 | 0.00 |

Rates as of: 11/2

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.81 | -0.06 |
| 10 YR Treasury | 4.9326 | +0.0278 |
| 30 YR Treasury | 5.3055 | +0.0160 |

Pricing as of: 11/3 9:37AM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 21 | 195 | +3.39% |
| 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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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.

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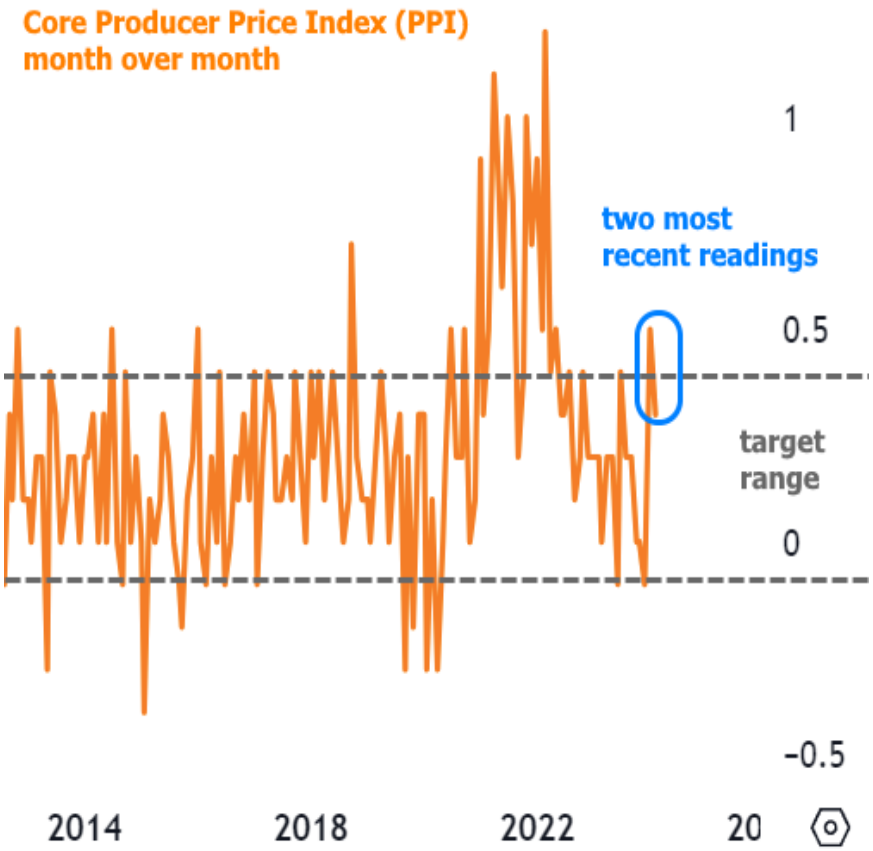



The news wasn't quite as bad from the week's other key inflation report, but it certainly didn't help. The Producer Price Index (PPI), which measures wholesale inflation, has also now seen the highest two consecutive months since inflation first began to calm down in 2022.

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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:

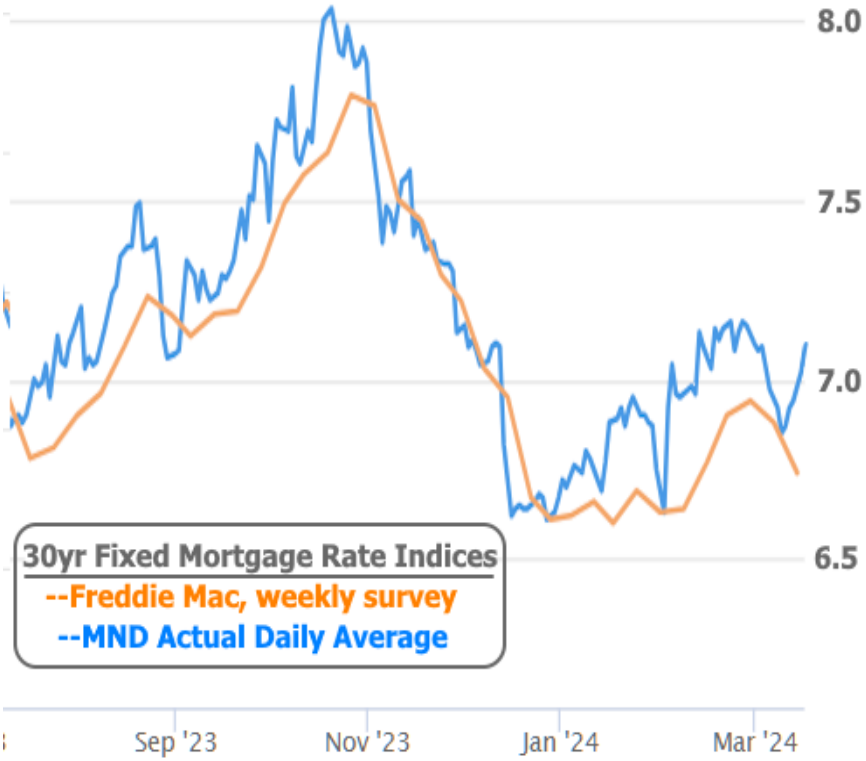



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The trajectory for mortgage rates is substantially similar as seen in the chart below, at least if you're looking at the blue line. The orange line shows Freddie Mac's weekly rate survey which was badly tricked by the timing of rate movement over the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

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| 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 |

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# Welcome to Elite Mortgage!

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Our Unique Boutique Mortgage Experience combines elite licensed mortgage professionals, incomparable service, a full array of mortgage products with the most competitive rates in the industry. At Elite Mortgage you're a client, not a number!

We know that each customer has specific needs, so we strive to meet those specific needs with a wide array of products, investment tools, mortgages and best of all quality service and individual attention.

Today's technology is providing a more productive environment to work in. For example, through our website, you can submit a complete on-line, secure loan application or pre-qualify for a home loan. You may also evaluate your different financing options by using our interactive calculators and going over various mortgage scenarios.

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