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If The Fed Didn't Cut Rates This Week, Why Did Rates Fall?

Interest rates improved fairly steadily throughout the week with the biggest drop seen after Wednesday's Fed announcement. The Fed didn't cut rates, nor was any rational person expecting them to at this meeting. So why did rates move lower?

First off, we have to specify the rates in question. The Fed only sets the Fed Funds Rate whereas mortgage rates (and most other rates) are determined by market forces. The Fed only meets to entertain the notion of changing the Fed Funds Rate 8 times a year whereas market movement causes other rates to change constantly.

Even when the Fed is holding steady, the market often reacts to one of several pieces of information on Fed day. This information can either speak to the Fed's rate outlook in the future, or it can impact bond market trading (which in turn impacts longer term rates, like mortgages). This week's Fed announcement did both of those things.

At every other Fed meeting, each member records their opinion of the appropriate Fed Funds Rate at the end of the next few years. The Fed refers to these as "projections" while the average onlooker views them as forecasts. That doesn't much matter. What the market is truly reacting to is the glimpse into the Fed's predispositions. They let us know what each Fed member would do if they had to decide today. From there, the market can estimate how the Fed's opinions would change as new data comes in.

That last point is important, because the data that has come in since December (the last time the Fed shared rate projections) led markets to expect higher rate projections in this week's update. While the average Fed member did move a bit higher in their projections, the median Fed member remained right in line with December's median. Translation: the projections didn't move up as much as the market feared.

This can all be visualized in the following chart. Each dot represents a Fed member's projection. Red dots are from December and blue dots are from this week. Note the gentle migration higher in the blue dots in 2025, and the gentle migration lower in the blue dots in 2027 and beyond (2026 was a bit of mixed bag).

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.73	+0.03
10 YR Treasury	5.1260	-0.0082
30 YR Treasury	5.4714	-0.0044

Pricing as of: 11/16 7:12PM EST

Recent Housing Data

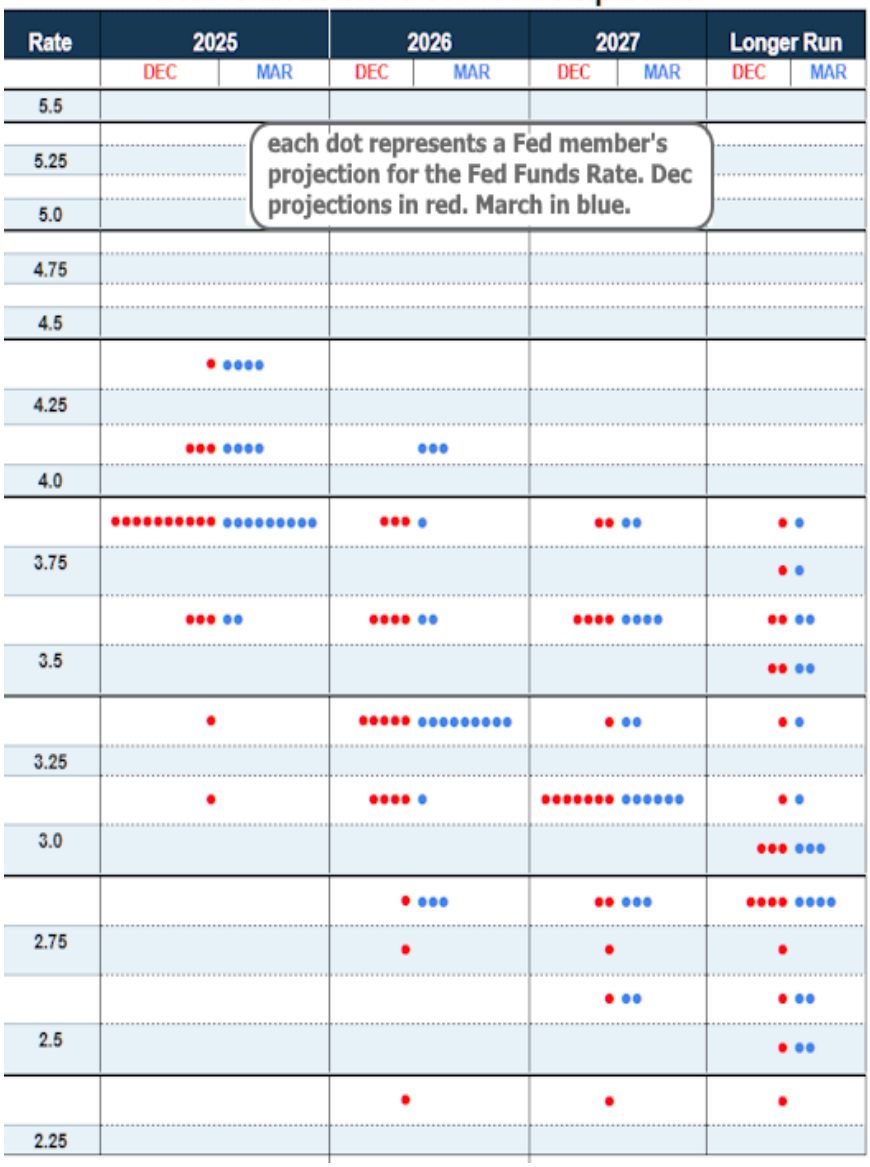
		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Before and After Dot Plot Comparison



The Fed also made a change to the way it's managing its bond portfolio. The net effect is that they'll be able to buy additional US Treasuries to replace the Treasuries that they're currently allowing to mature. This change was widely telegraphed and expected, but the timing was uncertain. Fed Chair Powell reiterated that the change was purely technical, and not intended to help rates move lower. Nonetheless, a small, short-term drop in rates was the byproduct of the way the market repositioned for the technical change.

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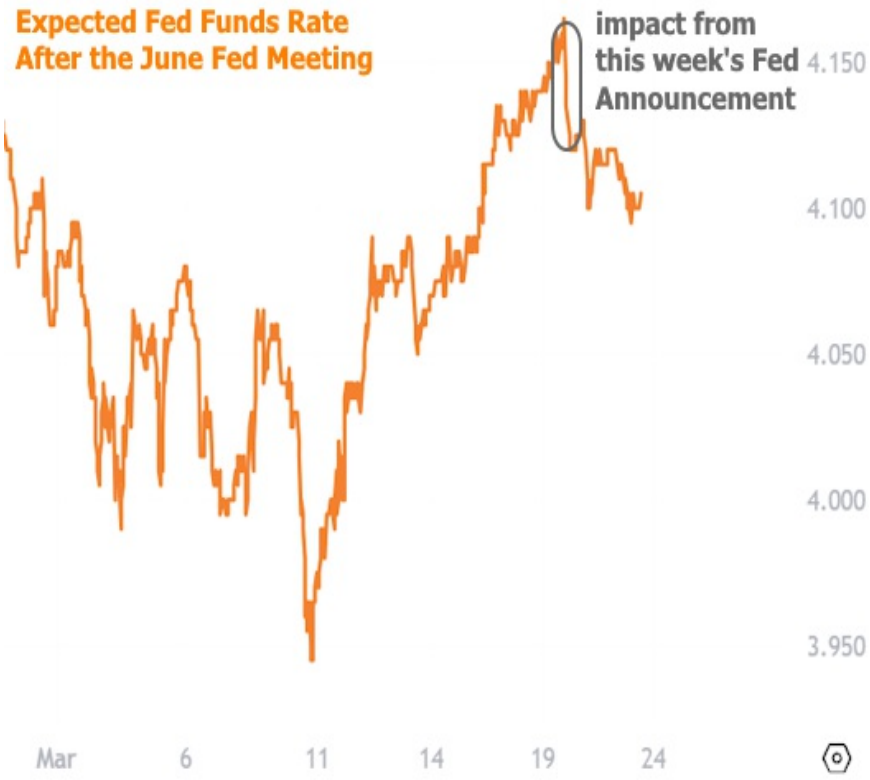


Had that move been all about the Fed's rate projections, we would have seen a much sharper move in Fed Funds Futures (contracts that allow traders to bet on where the Fed Funds Rate will be at certain points in the future). The following chart shows the market's view of the Fed Funds Rate after the June 2025 meeting. Translation: it didn't drop very much this week!

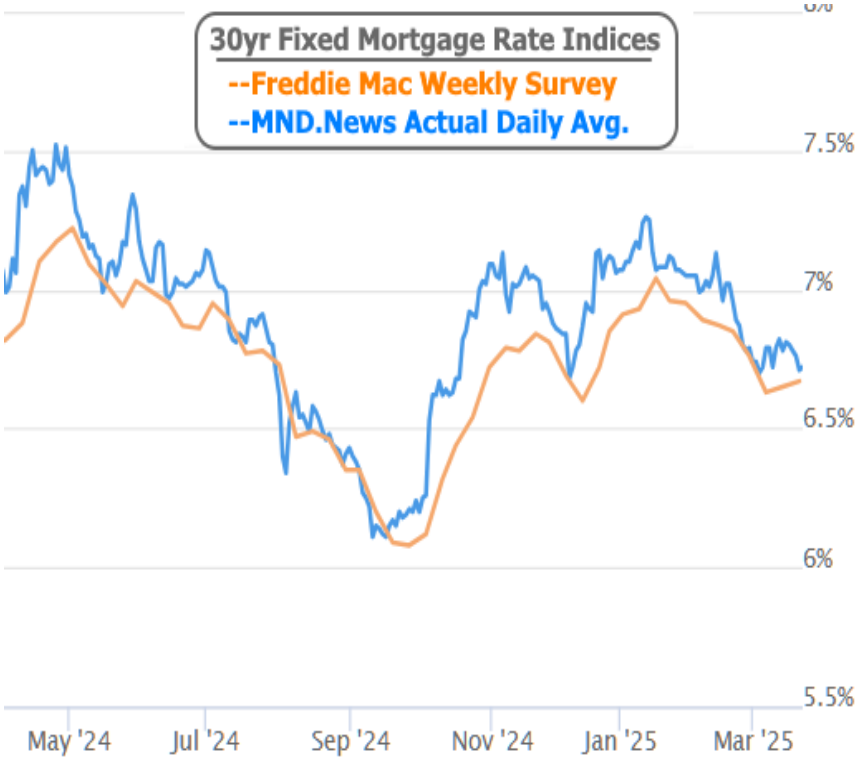
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Fortunately for mortgage rates, the reaction to the Fed was as mild as it was positive. That's a good thing considering the average lender is close to the lowest levels since October. The mortgage market can struggle to sustain overly quick rallies, not to mention the frustrations associate with the increased volatility that typically accompanies such episodes.



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US Housing Market Weekly

March 21, 2025

If rates are to attempt breaking the late 2024 lows, they'd need some convincing from several of the major economic reports coming out in the next 2 weeks. The two most notable reports are next Friday's PCE Price Index (inflation report) and the big jobs report the following Friday. Apart from that, other data can certainly still have an impact if it falls far from forecasts and if multiple reports are sending the same message.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Mar 17				
8:30AM	Feb Retail Sales (%)	0.2%	0.6%	-0.9%
8:30AM	Mar NY Fed Manufacturing	-20	-0.75	5.7
8:30AM	Feb Retail Sales Control Group MoM	1%	0.2%	-0.8%
10:00AM	Jan Business Inventories (%)	0.3%	0.3%	-0.2%
Tuesday, Mar 18				
8:30AM	Feb Building Permits (ml)	1.456M	1.450M	1.473M
8:30AM	Feb Housing starts number mm (ml)	1.501M	1.38M	1.366M
8:30AM	Feb Import prices mm (%)	0.4%	-0.1%	0.3%
9:15AM	Feb Industrial Production (%)	0.7%	0.2%	0.5%
Wednesday, Mar 19				
7:00AM	Mar/14 MBA Refi Index	794.4		911.3
7:00AM	Mar/14 MBA Purchase Index	154.7		154.6
2:00PM	Fed Interest Rate Decision	4.5%	4.5%	4.5%
2:30PM	Fed Press Conference			
Thursday, Mar 20				
8:30AM	Mar/15 Jobless Claims (k)	223K	224K	220K
8:30AM	Mar Philly Fed Business Index	12.5	8.5	18.1
10:00AM	Feb Existing home sales (ml)	4.26M	3.95M	4.08M
Monday, Mar 24				
9:45AM	Mar S&P Global Services PMI	54.3	50.8	51
Tuesday, Mar 25				
9:00AM	Jan FHFA Home Prices y/y (%)	4.8%		4.7%
9:00AM	Jan Case Shiller Home Prices-20 y/y (%)	4.7%	4.8%	4.5%
Wednesday, Mar 26				
8:30AM	Feb Durable goods (%)	0.9%	-1%	3.3%
Thursday, Mar 27				
8:30AM	Q4 GDP (%)	2.4%	2.3%	3.1%
8:30AM	Mar/22 Jobless Claims (k)	224K	225K	223K
10:00AM	Feb Pending Home Sales (%)	2%	1.5%	-4.6%
Friday, Mar 28				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	Feb Core PCE (m/m) (%)	0.4%	0.3%	0.3%
8:30AM	Feb Core PCE Inflation (y/y) (%)	2.8%	2.7%	2.6%
10:00AM	Mar Consumer Sentiment (ip)	57.0	57.9	64.7

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood 

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