

Rates Drop to Another Long-Term Low After Fed Announcement

The Fed didn't cut rates today and rates then moved quickly lower. Naturally, there's more to the story than that, but the paradox is a good reminder that the market reacts in real time to things that won't happen for months.

Specifically, the Fed's next meeting isn't until September, but a good amount of today's rate drop can be tied to expectations for future rate cuts. In fact, it's really the meetings beyond September that mattered more today (Sept itself was already seen as a near certainty).

What drove the shift in sentiment? It's not necessarily the case that sentiment shifted in a major way. Investors may simply have been cautious about the Fed pushing back on the exuberant certainty surrounding the rate cut outlook for the rest of the year.

Fed Chair Powell absolutely knew the market was pricing in a 100% chance of a rate cut in September and while he certainly stopped well short of saying it was flat-out "likely," he did nothing to push back on those expectations.

There were other market movers in play in the afternoon as well. These included geopolitical headlines and the typical elevated trading activity associated with the final day of any given month. That month-end trading environment has often resulted in volatility with no other justification beyond the calendar.

Either way, it was one of the stronger days of the year for bonds, thus allowing mortgage lenders to drop rates by a larger than normal amount. Not every lender will be reflecting the improvement until and unless the market maintains the gains through tomorrow morning.



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