# HOUSING NEWSLETTER

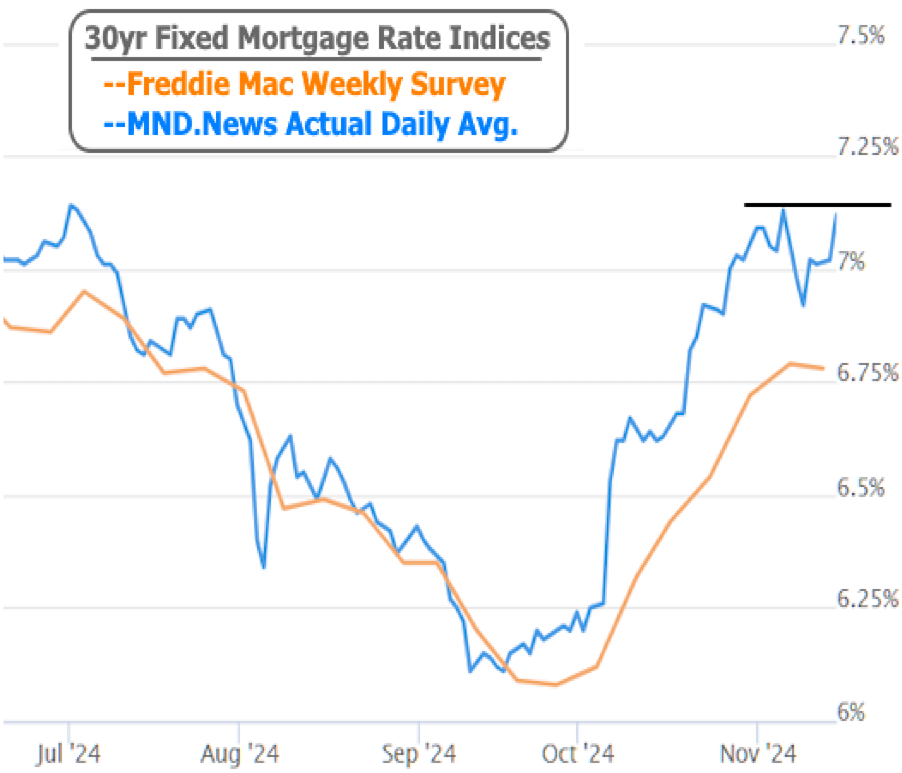
The Week's Most Important Housing News


## Are Rates Done Freaking Out Yet?

Mortgage rates bounced hard off the long term lows back in September and had jumped almost a full percent by last week. In addition to the elevated levels, there's been plenty of volatility. Nonetheless, rates managed to avoid breaking last week's ceiling--even if only just. Does that mean it's time for hope?

Hope is always a fine thing to have, but it's not a strategy when it comes to mortgage rates. Even if we consider that rates are based on financial markets, caution still makes sense. Some market analysis might suggest this week's ground-holding in rates is indeed a sign of a potential longer-term ceiling, but other analysis suggests an ongoing uptrend. Neither is right or wrong considering the future can never be accurately predicted when it comes to rates.

The mortgage rate chart shows the "lower high" in terms of daily rates.




Because mortgage rates don't change more than a few times a day, we have to look at bonds to track intraday changes. Using the 10yr Treasury yield as a benchmark, we can see the persistent uptrend in yields. Treasury yields tend to move in the same direction as mortgage rates with almost perfect correlation.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If we want to hold out hope for rates to move lower, it would help to be able to pin those hopes to objective developments. On that note, all we have are economic reports and inflation. Simply put, inflation would need to move lower and the economy would need to weaken in order to make a case for meaningfully lower rates. None of this week's data supports that case.

That said, this week's data wasn't overly troubling either. The Consumer Price Index (CPI) came in right in line with forecasts earlier this week. Unfortunately, those forecasts weren't low enough for annual inflation to hit its target. We wouldn't have expected an annual target to be hit any time soon, but the fact is that monthly inflation needs to average 0.17-ish in order to hit a 2.0% target, and monthly inflation came in at 0.3% at the core level for the third month in a row.



The annual chart of inflation makes it seem like progress is stalling, whereas it might be easier to imagine the continuation of a trend toward target levels in the monthly chart. In fact, neither assessment is right or wrong and we're increasingly see the Federal Reserve acknowledge that.

Multiple Fed officials gave speeches and/or participated in Q&A events this week and the tone was markedly different than it was the last time they were out in force.  Here are a few highlights, paraphrased:

**Fed's Kashkari**

- Confident in path of inflation but don't want to declare victory
- May take a year or two to achieve 2% goal
- If inflation surprises to the upside, that could affect rate cut plans

**Fed's Schmid**

- Remains to be seen how much more the Fed will cut and where rates may settle

**Fed's Logan**

- Seeing signs that the Fed may not need to cut rates as low as previously thought in order for inflation and job growth to be in balance.

**Fed's Musalem**

- There's some sense of higher inflation risk and some sense the Fed may not cut rates as much
- Data since the last meeting suggests economy may be stronger than expected

**Fed's Powell**

- Economy sending signals that we don't need to be in a hurry to cut rates
- Expects inflation to continue toward 2%, but it's a bumpy path

This isn't necessarily surprising from the Fed, but it's definitely a change from where their collective heads were at in September.  At that time, we'd just seen a few significantly weaker employment reports and inflation data that was more indicative of gradual improvement.  Since then, those weak employment numbers have been revised higher and inflation has ticked up.

The Fed along with the rest of the financial market is waiting to see if the data will show a big of a resurgence of growth and inflation.  If that happens, rates could easily continue to move higher.  If data softens again, rates have room to recover to lower levels.  Either way, the data will be the determining factor--especially the jobs report in early December.