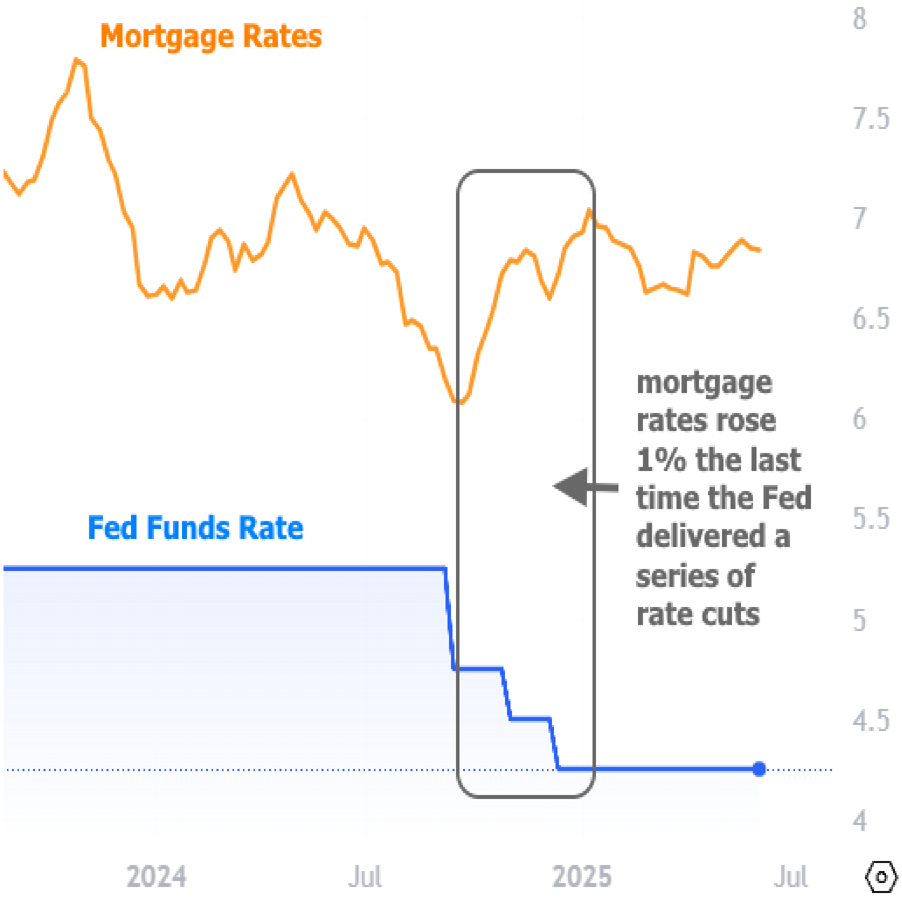
# Fed Holds Steady; Mortgage Rates Fall

This week ended up being underwhelming in terms of interest rate movement despite the much-anticipated Fed announcement on Wednesday.

Anticipation aside, there was zero chance of a rate cut at this week's meeting. While that has some voices in the mortgage/housing space up in arms, our pre-Fed thesis bears repeating.




This doesn't necessarily mean that mortgage rates would have risen in response to a Fed rate cut this time around. Rather, it's a reminder that the Fed doesn't set mortgage rates and that the Fed Funds Rate won't necessarily correlate with mortgage rates except in the biggest of pictures (and even then, only because both rates correlate with the broader economy and inflation).

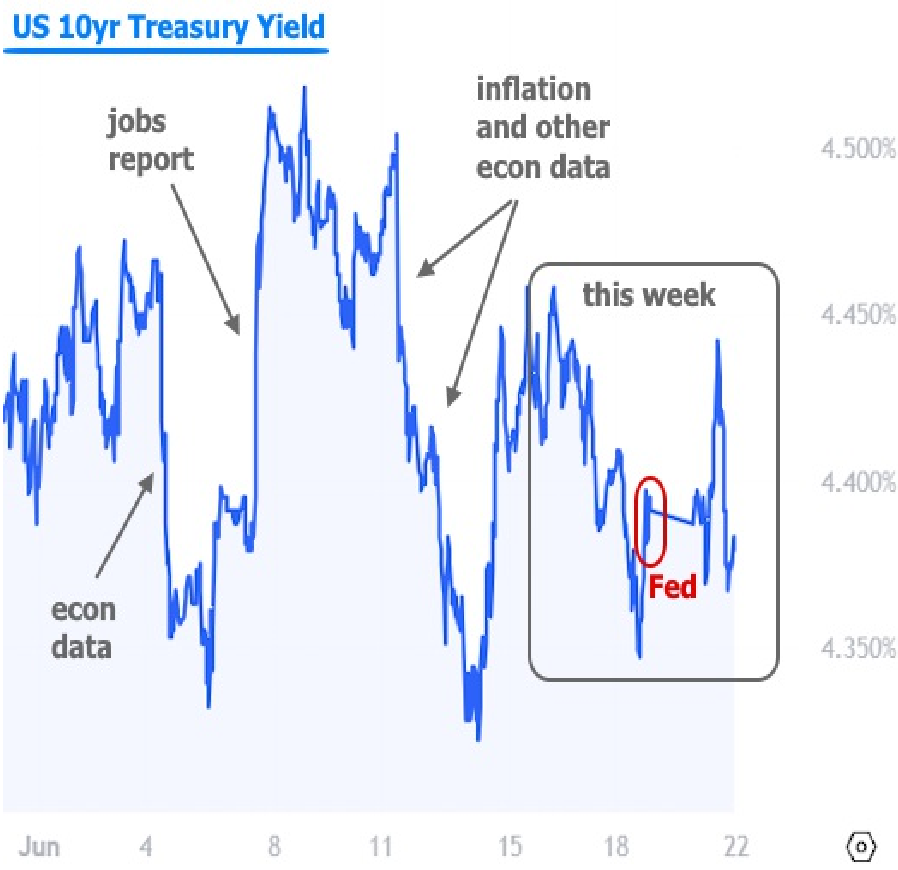
This week's Fed announcement was nonetheless still potentially interesting due to other things the Fed may have said. First up was the dot plot--a chart that shows individual Fed members' projection for the Fed Funds Rate in the future. The dots showed a division among Fed members with some seeing more cuts than last time, but slightly more seeing higher rates.

The divergence is due to differing interpretations of the tariff implementation. Some see a higher likelihood of a negative economic impact (which would lead them to foresee lower rates) while others are more concerned with the potential inflationary impact (which would lead others to keep rates where they are).

Either way, the party line has been fairly clear and unified: the Fed feels like it can wait to decide on cutting until it has more time to assess which outcome is winning.

Andrew Andreasen
Broker, AndrewLoans
https://www.andrewloans.com
M: (760) 559-2423
7949 3rd Ave
Hesperia CA 92345
NMLS 237132

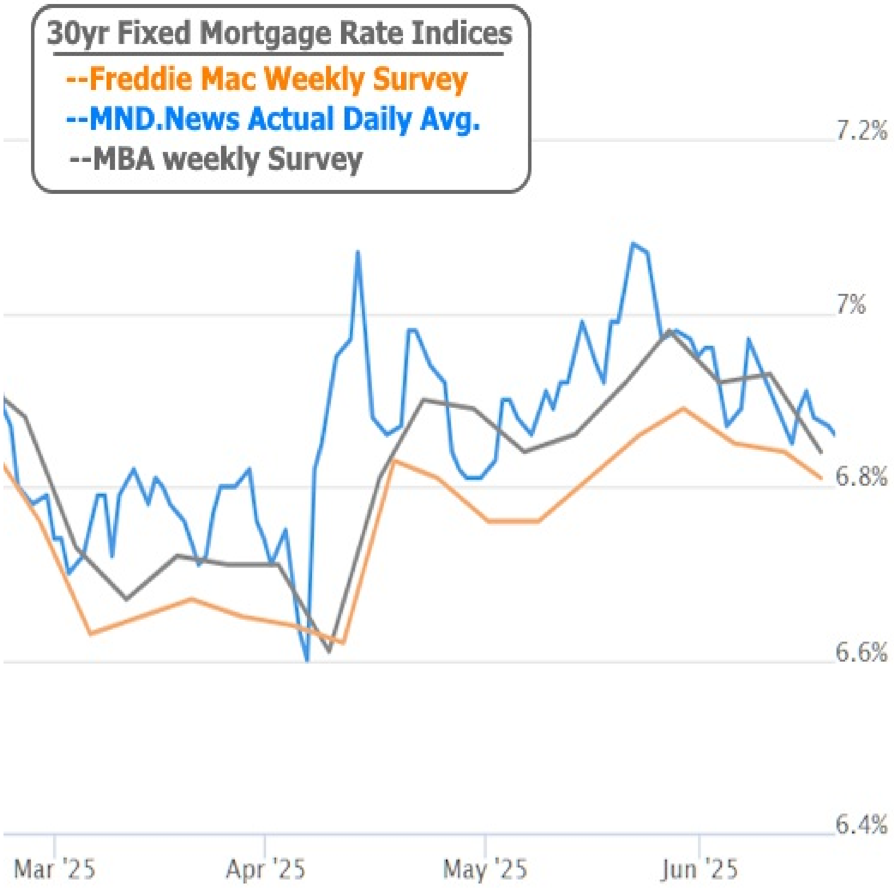
None of this was very exciting for rates this week.  Recent economic reports have had a far bigger impact, as seen in the following chart of 10yr Treasury yields (a common benchmark for longer term interest rates, like mortgages).




It wasn't just longer term rates.  Even if we drill down to specific Fed Funds Rate expectations, we saw far more movement in response to a few comments from Fed speakers on Friday than we did to Wednesday's Fed announcement itself.

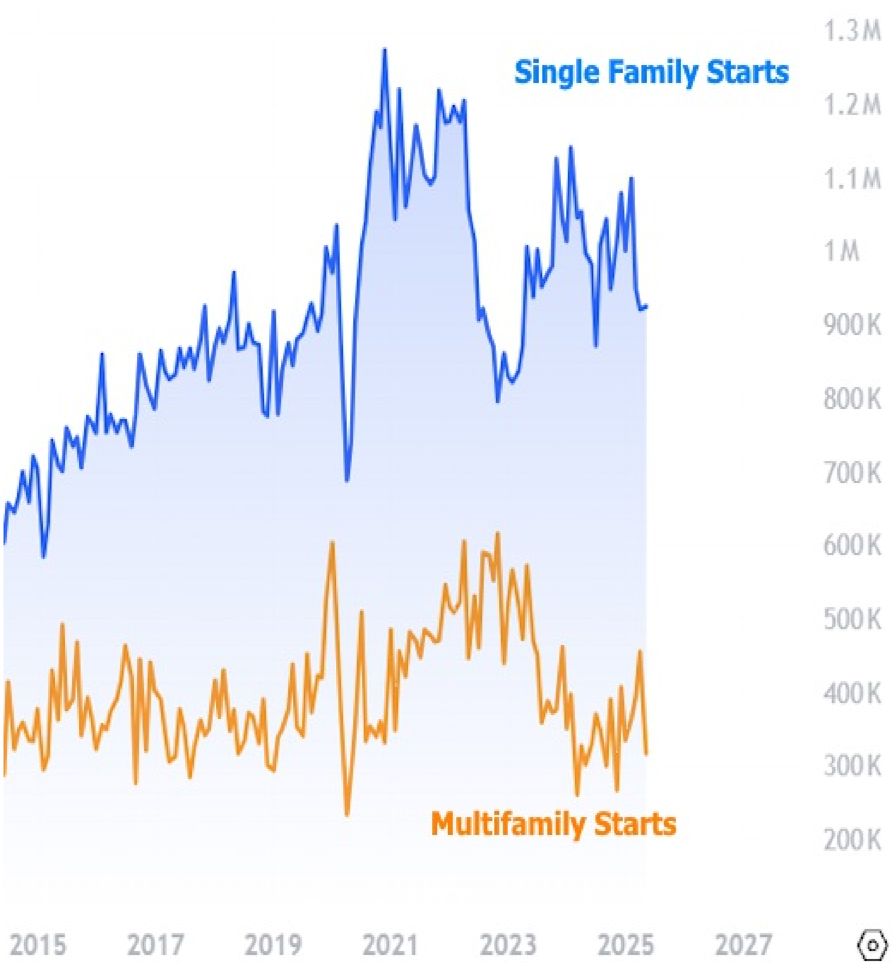

Friday's comments represented the more dovish concerns of some Fed members. Specifically, Fed's Waller said there was room to look through the inflationary impact of tariffs and bring rates down a bit. He'd rather start cutting slowly now in order to preempt undue economic stress, and then reassess any unforeseen tariff impacts before cutting further.

All of the above coincided with mortgage rates enjoying an ongoing but exceedingly gentle decline after hitting multi-month highs on May 21st.




In housing related news this week, construction metrics languished with housing starts and builder sentiment near recent lows.


On a positive note, a closer examination shows a slight uptick in housing starts for single family homes. In other words, the multifamily sector drove the decline.



Next week brings more housing data with updated home price indexes on  Tuesday, new home sales on Wednesday, and Pending Home Sales on Thursday. There will be a slew of additional Fed speakers including Powell's semi annual congressional testimony as well as a relatively important inflation report (PCE) on Friday.