

What Happened Last week to Affect Mortgage Rates?

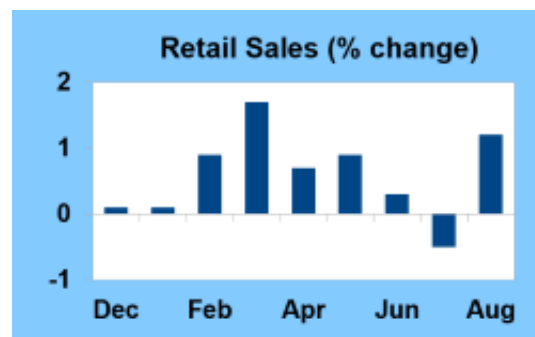
Fed Hike

Mortgage rates had another bumpy week as oil prices fluctuated, and investors digested the latest news from the Federal Reserve and the economy. Despite a Fed rate hike and stronger than expected consumer spending, mortgage rates finished the week almost where they started, remaining near their highest levels in more than a year.

Mortgage markets have been especially volatile lately, and much of last week's action centered around the highly anticipated Fed meeting on Wednesday. In a unanimous vote, all twelve Fed officials agreed to raise the federal funds rate for the first time since July 2023 by 25 basis points. The meeting statement was similar to the prior one. The Fed's outlook for future rate hikes was less clear. The projections from officials varied widely, although the most likely scenario pointed to one more 0.25% increase. Comments from Chair Warsh following the meeting increased investor confidence that the Fed remains focused on bringing down stubbornly high inflation.

So, why didn't mortgage rates jump after the rate hike? The key is that the federal funds rate and mortgage rates are two different things. The federal funds rate is a very short-term rate used for overnight lending between banks. Mortgage rates, on the other hand, are longer-term rates influenced by many factors, including the outlook for inflation and the overall economy. Because the rate hike last week was widely anticipated by investors, it had already been priced into financial markets. Generally, only unexpected events such as an economic report which significantly deviates from the consensus forecast or an unforeseen Fed policy change causes a major move in mortgage rates.

Following an unexpected decline of 0.6% in July, retail sales surged 1.2% in August, exceeding the consensus forecast and the strongest monthly reading since March. Consumer spending was a solid 6% higher than a year ago, despite higher gas prices and economic uncertainty. Much of that spending continues to come from higher-income households, supported by continued strength in the stock market.



Bottom Line: Expect more volatility in mortgage rates as investors weigh comments from Fed officials, upcoming economic reports, and changing oil prices tied to the conflict in the Middle East. For homebuyers and homeowners watching rates, inflation data will be especially important in the weeks ahead.

Looking ahead, attention will remain fixed on the conflict in the Middle East and oil prices. Investors also will monitor comments from Fed officials about future monetary policy. It will be a very light week for economic reports. New Home Sales will be released on Thursday and Durable Orders on Friday.

Calendar

Thu	9/24	New Home Sales
Fri	9/25	Durable Orders
Fri	9/25	Sentiment

Weekly Change

10yr Treasury	flat	0.00
Dow	fell	900
NASDAQ	rose	100

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**Alan Feigenbaum**

Loan Officer NMLS 1539757

o 972.996.1973 | m 972.489.2846

alanf@vipmtginc.com

alanf.vipmtginc.com

17304 Preston Road, Suite 800

Dallas, TX 75252

Scan to
Visit my Website



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