

# The Federal Reserve Cuts Rates—And Rates Go Up

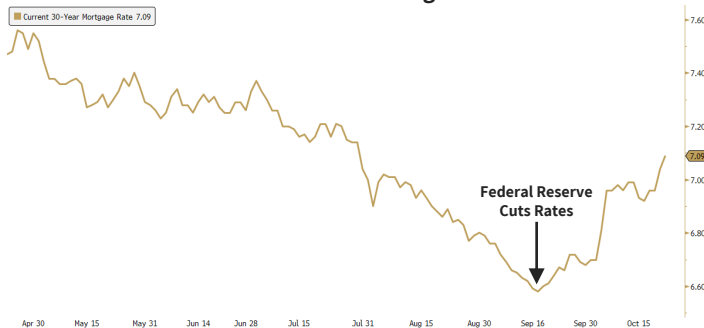
For much of 2024, many homeowners held hopes to refinance their 7-8% mortgages into lower-interest loans as interest rates fell. Those hopes likely grew later in the summer as the Federal Reserve’s intention to lower its target interest rate became even more evident. Unfortunately for these homeowners, mortgage rates have not fallen since the Fed’s cut its target rate by 0.50% last month. Rather, longer-term interest rates, including 30-year mortgage rates, have risen.

A logical explanation exists to explain this apparent paradox. 30-year mortgages are priced in accord with long-term bond yields (such as the 10-Yr Treasury yield) rather than short-term bond yield such as the federal funds target rate. In the month leading up to the Federal Reserve’s cut the 10-Yr Treasury yield fell 0.26%; in the month following, the 10-Yr Treasury yield rose 0.47%. The primary explanation for this is straightforward: markets are forward-looking, and bond investors purchased 10-year Treasury bonds prior to September 18<sup>th</sup> in anticipation of the Fed’s forthcoming rate cuts. Since that cut, strong economic data have lowered expectations for future rate cuts and helped send longer-term bond yields higher.

While frustrating for those hoping for lower mortgage rates, it is logical that 30-year mortgages reached their 12-month low on September 17<sup>th</sup>—the day before the Fed’s rate cut.

## CHART OF THE WEEK

**U.S. Home Mortgage 30-Year Fixed Rate National Average**



Source: All data from Bloomberg, as of October 22, 2024. 30-year fixed rate mortgage information from Bankrate and Bloomberg.

Index Returns (%)							Index Characteristics				
Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	5851	0.63	1.60	24.03	40.51	10.45	24.7	16.8	3.1	1.7	1.3
Russell 1000 Growth	3872	1.27	2.43	27.57	46.47	10.76	33.3	19.8	5.7	2.0	0.6
Russell 1000 Value	1883	-0.25	0.79	17.60	32.57	7.32	19.2	14.9	1.9	1.4	2.0
FTSE High Dividend Yield*	459	-0.15	1.50	19.09	32.65	9.58	14.8	14.2	1.6	1.6	3.9
S&P Small and Mid Cap	17461	-0.98	-0.02	12.23	32.43	4.54	19.1	19.0	1.3	1.2	1.6
MSCI EAFE	2373	-1.56	-3.83	9.21	24.96	3.85	14.9	14.7	1.5	1.1	3.0
MSCI EM	1142	-0.64	-2.41	14.31	26.94	-1.12	13.9	12.6	1.5	1.3	2.5

\* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income						Levels					
Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago	
U.S. Aggregate	4.62	-0.97	-2.09	2.26	11.40	-1.90	DXY	104.47	103.59	101.33	93.64
U.S. Int. Gov/Credit	4.32	-0.46	-1.25	3.37	8.81	-0.01	\$ per €	1.08	1.09	1.10	1.16
U.S. Corporates	5.06	-1.24	-2.07	3.14	14.51	-1.68	\$ per £	1.30	1.30	1.27	1.38
High Yield	7.27	-0.16	-0.43	7.54	17.42	3.04	¥ per \$	152.96	149.64	141.04	113.50
Municipals (1-10)	3.10	-0.29	-0.63	1.23	7.11	0.41					

Levels (%)						Levels					
Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
2-yr Treasury	4.03	3.94	3.64	4.25	5.12	0.46	Oil (WTI)	70.33	69.82	70.30	62.11
10-yr Treasury	4.21	4.01	3.78	3.88	4.83	1.63	Gasoline	3.16	3.20	3.12	3.38
30-yr Treasury	4.50	4.30	4.12	4.03	4.94	2.07	Natural Gas	2.27	2.37	2.51	5.28
3-mo. LIBOR	4.85	4.85	4.85	5.59	5.64	0.12	Gold	2752	2674	2063	1793
6-mo. CD rate	4.57	4.52	4.41	5.28	5.76	0.27	Copper	9173	9419	8464	9857
Prime Rate	8.00	8.00	8.00	8.50	8.50	3.25	Wheat	567	585	628	756
30-yr fixed mortgage	7.09	6.92	6.68	6.99	8.04	3.19	BBG Index	238.58	235.22	226.43	221.57

Returns as of October 22, 2024

## LAST WEEK IN REVIEW

- **Retail Sales (Sept.):** Headline sales increased at 0.4% MoM, beating expectations. Control group sales (excluding autos, gas, and building materials) increased 0.7 MoM, also beating expectations. Upward revisions to prior month figures added to the report’s strength.
- **Housing Permits Starts & Permits (Sept.):** Starts decreased by 0.5% from the previous month. Permits decreased 3% from the previous month.

## THIS WEEK

- **Federal Reserve Beige Book:** 10/23
- **Durable Goods (Sept.):** 10/25
- **U. of Mich. Sentiment (Oct.):** 10/25

## S & P SECTOR RETURNS

