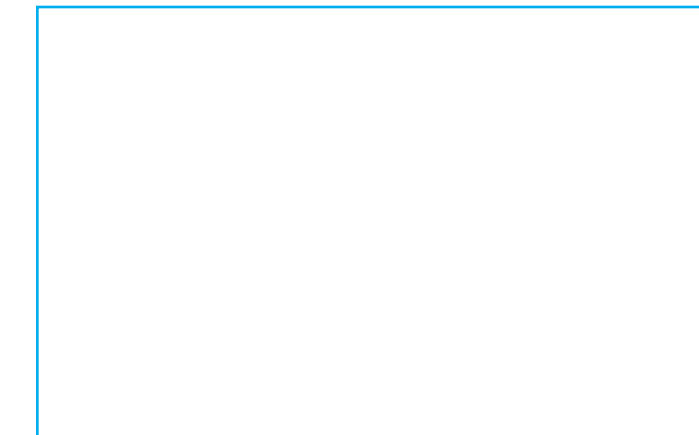




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Backed Securities, MBS, and Treasury Bonds (Treasuries), to sell off their balance sheet, as opposed to reinvesting proceeds (interest earned) from those assets back into MBS and Treasuries.

Since the Fed started QT in June 2022, they have reduced their balance sheet by over 1.5 Trillion, or roughly \$1 Trillion per year. One of the main reasons bond yields and mortgage rates have been moving higher is the massive issuance of Treasuries because of the debt the U.S. continues to pile on. The issuance is flooding the market with supply that must be absorbed. When there is more treasury bond supply than there is demand in the market, bond yields rise and impact mortgage rates since mortgage rates are based on bond yields.

Once the Fed starts to cut rates they will likely end QT, as they are not going to have one foot on the gas and one foot on the brake at the same time. That means the Fed will start re-investing the assets that mature and would fall off their balance sheet, and they would be a buyer again, absorbing a ton of the supply coming to market from the Treasury. This would be a big benefit to the bond market and mortgage rates because it would increase the demand for treasuries.

The main point to take from the current data and Fed actions is

that it appears we have peaked out on mortgage interest rates and we should see a drop in mortgage rates into the 6% APR range by the end of 2024 and possibly into the 5% APR range sometime in 2025. The drop in mortgage rates will naturally cause a mini-refinance run and an increase in home prices with more buyers coming back into the market. Reach out to me if you want to be prepared for the rate drop for mortgage refinancing or home purchasing.

If you are curious to see how you can use the current market conditions to your benefit, please reach out for a *free* consultation. Stay tuned here for future updates and feel free to reach out for a *free* consultation if you want to understand more about interest rates and mortgage products.

As always, your mortgage guy,
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Vic's Mortgage Report

"Home of REAL Mortgage Advice®"



Vic Joshi
straightdeal
MORTGAGE
Home of REAL Mortgage Advice®

My mission is to help buyers qualify for the best loan available for their circumstance. I spend a generous amount of time with each client to educate them about how the mortgage industry works, through free "Mortgage 101" consultations, so they can make good decisions and get the best loan possible. I've revamped my website to give clients the best resources to supplement my consultations.

When I'm not doing loans, I'm an avid scuba diver and certified Rescue Diver. Eventually, I'd like to become a dive instructor, so I can share the joys of this ocean sport with others.

I give back to the Monterey Bay Aquarium, Divers Alert Network (DAN), and the National Outdoor Leadership School (NOLS).

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Getting over the hump

Hi Friends,

At the conclusion of the November 1, 2023 Federal Reserve meeting, the Fed continued the pause in interest rate hikes to the Fed Funds rate. This was a follow-through on the pause from the September 20, 2023 meeting and it allowed mortgage rates to begin lowering off the 23-year high we hit in the middle of October of this year. Continuing improvements to the inflation readings are finally showing that the historic Fed Rate hikes from March 2022 through July 2023 are having the desired effect. Despite some tough talk from some of the Fed members regarding continued rate hikes this year and into 2024, the markets are predicting another pause at the December 12-13, 2023 meeting.

Eventually, once the Fed feels inflation is close enough to its 2% target, the Fed will start cutting the Fed Funds interest rate. This could start happening sooner than we were expecting just a few months ago. In addition to decreasing inflation that may cause the Fed to start cutting the Fed Funds rate, we are starting to see a slowing economy, reduced hiring, and increased initial jobless claims.

Former Fed Vice Chair, Roger Ferguson, thinks the Fed is done hiking and that the Fed will start cutting the Fed Funds rate in the second half of 2024. On average, the first cut comes 10 months after the last hike, which occurred in July 2023. History tells us that the first cut will come around May of 2024.

The markets are currently predicting no rate hikes on December 13th. After that,



the markets are looking for rate cuts in 2024: a 4% chance of a rate cut on January 31st, a 35% chance of a rate cut on March 20, a 69% chance of a rate cut on May 1, an 89% chance of a rate cut on June 12, a 96% chance of a rate cut on July 31, a 99% chance of a rate cut on September 18. Now the markets are looking for a minimum 1% drop in the Fed Funds in 2024.

It's also important to note that the Fed has been conducting Quantitative Tightening, QT, since June 2022. This is where they allow assets, such as Mortgage-

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