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Macro Roundup Article

Headline: Can Mortgage Rates Still Fall to 6%?

Article Link: https://www.home-economics.us/p/post-fomc-can-mortgage-rates-still

Author(s)	Aziz Sunderji
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Tweet: .@AzizSunderji expects 30-year mortgage rates to fall from the current 6.7% to under 6% by year-end, driven by a decline in prepayment risk as the Fed cuts rates.

Summary: The mortgage rate is simply the interest rate on US Treasury bonds plus a spread; each of these components is made up of sub-components. A rise in these sub-components drove mortgage rates from 3% in 2021 to near 8% at their recent peak. A lower term premium and lender fees have brought mortgage rates down from 7.8% to 6.75% today. Other factors—the Fed, inflation, and the mortgage bond OAS—have not played a part, and likely won't in the near future. So what will get us from the current level TO 6%? A decline in prepayment risk. Prepayment risk is overpriced—by 0.4%—into mortgage rates today. Falling uncertainty around interest rates and a steeper yield curve should bring the fair value of prepayment risk down another 0.3% by year-end. Altogether, there is room for a 70 bp rally in mortgage rates as the prepayment risk premium compresses. Over the remainder of this year, prepayment risk should decline enough to bring mortgage rates down to, if not below, 6%.

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Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Housing, Op-Ed/Blog Post

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