

Happy Holidays!



We would like to wish all our investors and friends a very happy holiday season!

This month is an in-depth analysis of the rate environment in light of the December FOMC meeting/rate rally.

Let me know what you think! Can remove the Williams/Bostic part if you think it is at odds with the rest of the writeup. I think it is funny how the Fed tried to walk JPow's statements back a bit after seeing how positively the market reacted.

Economic Updates:

Last Wednesday, Federal Reserve Chairman Jerome Powell's address left the market with the clear sentiment that the Fed was going to significantly reduce interest rates next year. This echoes the stance taken by many market participants that inflation has been, for the most part, mitigated via monetary policy/QT and that the Fed should start to cut rates or risk straining the currently resilient job market. The resulting ~20 basis point rally in 10-year Treasury rates appeared like an early rate cut for fixed income traders. Which The Fed then had to hastily walk back by having NY and Atlanta Fed presidents Williams and Bostic comment that it is too early to project rate cuts and that there may still need to be more rate hikes before this cycle is over. Rates sold off shortly after Williams and Bostic's comments, but the 10 year still ended down on the day.

It appears that we have entered the phase where inflation has been mostly vanquished and barring any significant upheaval, the U.S. economy is on its way back to the Fed's long-term inflation and interest rate targets. The Fed just cannot admit this yet or markets may prematurely undo their hard tightening work.

Nevertheless, the Fed's forecast includes approximately 75 basis points cuts in 2024 with an additional 100 basis points of cuts for 2025. Bank of America's views are for a soft landing in 2024 with three rates cuts, the first of which coming in as early as June. They expect 30-year mortgage rates around 6.5% (over 7.5% now) by the end of 2025. Nomura called the December FOMC meeting "dovish, with a clear signal that the hiking cycle has ended, and the Fed is pivoting to rate cuts next year."





The predicted decrease in interest rates next year presents Imperial Fund with unique opportunities as we continue to build our portfolio of high credit quality, high interest rate mortgages and have already seen some of our portfolio trade at significant premiums. Imperial Fund has already received calls from MBS investors to purchase positions retained for the Fund's portfolio.

The future looks bright as we prepare for the first securitization of 2024 in January.

We are always available and can be reached at info@imperialfund.com for any questions

