Mortgage Rates Not Panicking Yet, But That Could Always Change

Mortgage rates are directly tied to the bond market. This isn't too much of a surprise considering pretty much anything with an interest rate can be traced back to the bond market. Mortgages are especially relevant though, considering they comprise a very large dollar amount of the debt that's bought and sold in the market every day.

In order to be bought and sold in financial markets, mortgages are grouped together based on shared characteristics, and those groups **effectively become bonds**. Those bonds then offer an alternative to other bonds like US Treasuries or investment grade corporate bonds.

In this arena, US **Treasuries are king**. They are the first to feel the effects of something that helps or hurts the overall bond market. Many other types of bonds take cues from Treasuries. Mortgage bonds are no exception. That means mortgage rates are typically moving in the same direction as Treasury yields (a yield is a "rate" anyway!). It's not a 1:1 relationship, but the direction is the same 99% of the time.

With all of the above in mind, it's notable that Treasuries suddenly find themselves **under extreme pressure** for a variety of reasons. Some of those reasons could be debated, but everyone can agree that yesterday's surprisingly strong economic data was a potential turning point. It raised doubts as to whether the bond market was being too gloomy about the economic recovery (yields/rates tend to go lower as the economy looks weaker).

Yesterday's data has direct implications for tomorrow's **significantly more important data** (the big jobs report). If it were to sing a similar tune, there's little doubt that Treasury yields would remain under pressure to move higher. But what about mortgage rates? Yes, they did move higher yesterday and today, but not nearly as much as Treasury yields. This has to do with inherent differences in how mortgage bonds move compared to Treasuries.

There's **opportunity and a warning** here. On the one hand, the fact that mortgage rates have yet to panic means it's still a great time to consider locking if you're in a position to do so. And this dovetails into the warning: just because mortgage rates haven't moved higher at the same pace doesn't mean they can't continue to move higher if that's where Treasuries say the broader bond market should be headed. In other words, mortgages can defy their marching orders for a bit, but not indefinitely.

Of course it **remains to be seen** what those marching orders will be. Things could turn out more balanced with tomorrow's data and bonds could calm down. Most bond traders are expecting the road to remain bumpy (and upwardly sloped) until and unless we see strong evidence to the contrary (i.e. a convincing move back toward lower rates/yields).

What does this all mean for the average prospective mortgage borrower? **Bottom line:** rates are still pretty close to all-time lows. There's no guarantee they're about to move significantly higher, but there's a higher risk of that than there was 2 days ago (and tomorrow morning's jobs report may go a long way in speaking to that risk).

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