

Mortgage Rates Reflecting Market Concerns

Mortgage rates moved modestly lower today, bringing the average lender **very close to all-time lows**. The caveat continues to be that day-to-day rate changes have been small ever since hitting the confirmed all-time lows on June 11th. Realistically, if you locked in a rate any time in the past 4 weeks, you did very well. The same is true today, and it will continue to be true as long as the broader financial market remains concerned about the resurgence in covid-19 cases in several states.

Mortgage rates are primarily driven by the bond market. They share many similarities with US Treasuries. When investors are feeling cautious or seeking to prevent the loss of capital, the bond market offers a safe haven. When demand for bonds increases, bond prices rise and bond yields fall. "Yield" is another word for "rate." In other words, the more investors want to buy bonds, the more we see **downward** pressure on rates, all other things being equal.

It's **worth keeping in mind** that the story of the bond market's coronavirus response is best told by Treasuries. For instance, US 10yr Treasury yields are well off their previous lows from March and April. While they're also far lower than they ever were before coronavirus, they've generally been pointing toward sideways-to-slightly-higher rates. Mortgage rates have been able to move lower in the past 2 months because they didn't move down as quickly as Treasuries initially. Otherwise, mortgage rates would likely be sideways to slightly higher as well.

It's **even more important** to know that mortgage rates have almost completely run out of extra room to close the gap with the broader bond market. In other words, if bond yields (per Treasuries) continue moving gently higher, mortgage rates are increasingly likely to follow. That's a big "if" considering the current indecision in the market. If the coronavirus situation worsens, there's a chance rates go even lower. Either way, it's that coronavirus situation that is calling the shots as far as rates are concerned.



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