Mortgage Rate Watch

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Mortgage Rates Surge After Powell Comments

Mortgage rates jumped quickly today after Q&A session with Federal Reserve Chair Jerome Powell. What did he say to cause such drama? Actually, it's more about what he didn't say. For some reason, market participants were expecting (or at least hoping) that Powell would say something to address the recent run-up in longer term rates. Some commentary went so far as to suggest the Fed would suddenly have a change of heart about a tweak to its bond buying program that it just went to some effort to distance itself from in recent months.

The tweak in question is most widely known as **"operation twist."** It consists of the Fed selling some of its shorter maturity bonds and replacing them with longer maturities. The net effect is downward pressure on longer-term rates like mortgages and 10yr Treasury yields.

But Powell didn't even broach the topic. In fairness, **no one should have expected** him to do so, and those who were championing the notion didn't really do anyone any favors considering the overwhelming evidence to the contrary (multiple Fed speakers have recently said that higher long-term rates are part of process the economy is going through, and that while they'd considered the aforementioned bond buying tweak, they'd unanimously decided that it was unnecessary for a variety of reasons).

In short, Powell didn't really say anything new that would be responsible for a big rate spike. We're left to conclude that a portion of the trading community simply expected him to throw a bone to the longer-maturity rate space. After **not** getting what they were after, those traders quickly adjusted back in the other direction. **Bottom line**: we would have seen today's rates sooner or later. Rates entered the day lower than they would have been absent the anticipation over Powell, thus making for a more abrupt transition when everyone got on the same page.

Finally, to some extent, we may be seeing some anxiety over **tomorrow's big jobs report**. Powell spoke about the employment situation improving significantly in the coming months. If tomorrow's report suggests the same, it would be a pretty big double whammy for rates--big enough for the market to brace for that potential impact today.

In nuts and bolts terms, the average lender is almost an **eighth of a percent higher** in rate on conventional 30yr fixed loans versus yesterday's best levels.

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8%
6%
4%
2%
0%
2016
2018
2020
2022
2024
30 Yr. Fixed
15 Yr. Fixed
30 Yr. FHA
30 Yr. Jumbo
5/1 Yr. ARM