

Mortgage Rates Moving Higher After Inflation Data

After bottoming out at 2 month lows late last week, mortgage rates have been heading higher. At first, the move was relatively gradual, but the pace increased today after a key report on inflation came out much stronger than expected. **Why do rates care about inflation?** Here's a quick **explainer** for those who need it:

Mortgage rates are primarily determined by trading in the bond market. After all, bonds are essentially loans where the bond buyer is the lender/investor who fronts a lump sum and earns interest over time. Because those investors are realizing value based on payments over time, if inflation robs those future dollars of purchasing power, then the investor/lender's decision to buy that bond is less profitable. If investors have reason to believe inflation will increase (or immediate evidence that it IS increasing), they don't want to pay as much for any given bond as they may have a few days/hours/minutes before.

Bottom line: inflation erodes the value of bonds, thus forcing investors to compensate by demanding higher rates of return. That scenario played out immediately in the bond market today with 10yr Treasury yields spiking abruptly in the wake of the inflation report. Mortgage-backed securities tanked in similar fashion. But the average mortgage lender didn't raise rates quite as fast as the market movement suggested. There are a few reasons for that, but timing is the biggest factor.

Yesterday's mortgage rates were higher than Monday's and they arguably **didn't need to be**. By the end of the day, mortgage bonds were actually in STRONGER shape. The timing of the market movement was such that lenders were better served to wait and see how the bond market opened up this morning. When it vaulted into weaker territory, lenders had less ground to cover as they were already in a slightly more conservative stance than they needed to be on Tuesday afternoon.

Any way you slice it, the average lender is **easily** back up into the **low 3's** now after flirting with "high 2's" in some cases (conforming, conventional 30yr fixed with a flawless scenario).



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