Rates Jump After Fed Announcement

Mortgage rates were already drifting **higher** in the first half of the week, but that was **nothing** compared to today. This afternoon's Fed Announcement was certainly on the radar as a potential source of volatility. Needless to say, it delivered.

But **how much** did it deliver, exactly, and **why?**

There's a fairly prevalent **misconception** that the Fed sets/changes mortgage rates directly. That's really only true when it comes to something like HELOCs (home equity lines of credit) and even then, the Fed is only changing its policy rate. HELOC lenders then set rates that use the Fed's rate as a baseline.

On a somewhat similar note, there's **another misconception** about changes in the Fed Funds Rate correlating with mortgage rate movement. While that **can** be true over long time horizons, we don't need to look too hard to find examples to the contrary. I'll submit today as a great example. The Fed kept its policy rate unchanged and further said they **weren't even close** to considering a rate hike. Nonetheless, the average mortgage lender jumped by about an eighth of a percent in 30yr fixed terms (that's a very big move for a single day).

For the mortgage market, the heart of the matter is the Fed's messaging and the associated implications about the **TIMING** of future policy changes. In today's announcement, Fed members greatly accelerated their outlook for future rate hikes (mostly in 2023). This implied a more active discussion about a **tapering** of the Fed's bond buying programs--something that matters a great deal to mortgage rates. In the press conference that followed the announcement, Fed Chair Powell confirmed the Fed had taken the next steps in discussing tapering. By then, however, the damage was already done (markets had long since assumed that to be the case).

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In the bigger picture, today stands as a mere token adjustment--especially in light of last week's surprisingly strong showing for the bond market. It remains to be seen whether today is merely the beginning of an ongoing trend toward higher rates. While we **could** certainly see such a trend for a few more days, sustained momentum in one direction or another is thought to be more elusive until the Fall, when the Fed (and everyone else) thinks we'll have enough information about the economy to make bigger decisions.