Mortgage Rates Catch a Break, But Will It Last?

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By now, it's **no mystery** that mortgage rates are significantly higher than they were last week. The bigger mystery had to do with what comes next. In some ways, the recent jump in rates could be viewed as a warning sign about more trouble ahead. At the very least, it proved that the market was willing to react to various inputs in logical ways. Last week's chief example was the strong jobs report which did more than anything to accelerate the move higher in rates.

Through a different lens, we could simply say the market was reacting to the inputs that were available at the time, and that it will continue to do so. That's a fairly vague assertion, so **let's clarify**.

The key inputs are interdependent to some extent. It's very easy to pin rate momentum on changes in bond buying policies from the **Federal Reserve.** But the Fed's decisions on that front will depend on a combination of **economic data, inflation expectations, and risks to the outlook**. In the current case, "risks" are almost exclusively a factor of covid, not to mention the fact that covid can also have a profound impact on economic data. Simply put, if cases calm down or if the school starts back up and there's **not** a big uptick in covid-related stats, the Fed is more likely to shift policy in a way that's bad for rates. Fed policy aside, if covid and economic data were improving, rates would be under upward pressure anyway.

Moving off the beaten path of the big, obvious market movers, there are things like "**supply**." Rates are based on bonds, and although bonds take many cues, the supply of new bonds is always a consideration. Higher supply = lower prices, all other things being equal, and when bond prices fall, rates rise.

With that in mind, this is a big week of supply in the bond market. Traders knew that last week and may have been getting defensive in advance (not an uncommon strategy). Now, as we work our way through the week's bond supply, traders may be letting their guard down again. Today specifically, an auction of 10yr Treasury notes met with very strong demand. Bonds improved and most **mortgage lenders** were able to offer improved rates compared to yesterday, or even earlier this morning (many lenders had mid-day price improvements).

Although it helped today, the reaction to auctions or other supply considerations typically only accounts for volatility in the **shorter**-term. Unless we're talking about a political regime change that implies significantly more Treasury issuance, supply tends not to be responsible for big picture trends. As such, we'll have to keep waiting for economic data, the Fed, and covid-related stats to paint a clearer picture.

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