MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

Mortgage Rates Fall Again Despite Higher Inflation Numbers

Interest rates are typically determined by bond market. Mortgage rates, for instance, are directly tied to mortgage-specific bonds know as mortgage-backed securities (MBS). MBS tend to move a lot like US Treasuries despite trends of slightly stronger or weaker performance and Treasuries are the quintessential bellwether for the US bond market.

All that to say, if it matters to the bond market, it's **going to have an impact** on mortgage rates.

One of the things that historically matters to bonds a great deal is **inflation**. Inflation is measured in a variety of ways but there are 2 big, official government reports each month that stand out. One of them, the Consumer Price Index, came out today. It showed year-over-year inflation at 7.0%--the highest in decades.

The post-covid surge in inflation has definitely already taken a toll on interest rates, and that has played out in several ways. Notably at the moment, it is **not** really playing out in terms of economic reports causing surprises that push rates higher in the short term. In other words, inflation hit 7.0% today and rates didn't care.

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One key reason for rates' nonchalant attitude is that the market **expected** the number to be exactly 7.0% today. The market also expects that number to come down once the data cycle catches up with the bigger jumps in inflation seen in the middle of 2021. If we were to see inflation jump by bigger-than-expected amounts in the coming months, rates would probably have a tougher time looking the other way. Even today, the bonds that underlie mortgage rates didn't make any significant gains, but lenders have been so conservative with loan pricing that they were able to offer solid improvements simply because bonds were sideways.

Compared to most last week, rates are still **significantly** higher, but many lenders are now back in line with last Friday's levels.