Mortgage Rates Erased a Majority of Recent Drop in Past 2 Days

Mortgage rates moved higher for the 2nd straight day this week. On both days, the pace has been brisk by historical standards. In terms of the average conventional 30yr fixed rate, each day has accounted for about an eighth of a percentage point. While movement of that magnitude has been common in 2022, we've seen entire months contained in a smaller range as late 2021.

One reason for the extra momentum is that rates enjoyed their best 3 weeks in years by the end of last week. From peak to trough, that improvement accounted for a drop of more than 3/8ths of a percent. Any time anything in the market has been doing one thing bigger/longer than normal, odds of a rebound increase. In fact, the 3-week rally was also partly attributable to a rebound effect after rates spiked at the fastest pace in decades in March and April.

But it's **not just momentum** that accounts for the swings. In fact, momentum arguably only adds some spice to what market fundamentals are cooking. Today's special happened to be data from Institute for Supply Management that showed the manufacturing sector was more resilient than expected in May, despite high input costs and rising rates. As a result, markets increased their bets on an unfriendly stance from the Federal Reserve.

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The Fed is already in the process of hiking its policy rate (the Fed Funds Rate) to at least 2.5% according to recent speeches, but there's some debate as to how quick it arrives at that level and whether there's much overrun by the time we get there. Numbers like those seen in today's ISM data lead traders to bet on a **faster** pace of hikes and/or a bit **more** overrun of the 2.5% baseline.

Despite the unpleasant momentum seen today, rates are **still** in territory that suggests the worst of the 2022 rate spike is **behind** us. It would take a resurgence of inflation for that to change. And while that **could** indeed happen, economic reports have yet to suggest it's more likely than not.