

Mortgage Rates Slightly Higher To Start The Week. More Volatility Ahead

Mortgage rates are fresh off their best week since at least July and their best winning streak (in terms of consecutive days moving lower) in well over a year. The price of admission happened to be the highest rates in more than 20 years, so the recent improvements were really nothing more than a balancing act.

The past 2 trading days (Friday and today) have helped reinforce that message. In other words the underlying bond market (which dictates mortgage rates) was simply de-escalating from a more panicked state as opposed to embarking on a new trend toward lower rates.

Any new trend toward lower rates will depend upon inflation and economic data. To a lesser extent, Fed policy changes can shape trends, but ultimately, if Fed policy is well understood to be a function of inflation and the economy, then we're right back to watching the data.

The only time the Fed shapes trends in a more noticeable way is when their policy outlook is evolving or changing. Some market participants think the Fed is close to making a slight course correction that acknowledges economic headwinds. If this turns out to be the case, we could get some indication of that on Wednesday when the Fed releases the latest policy announcement.

To be sure, the Fed will still be hiking its policy rate by 0.75%. Markets know this and rates have already taken their lumps accordingly. What markets don't know is whether Fed Chair Powell is ready to discuss the potential changes in the rate hike trajectory in the next 2 meetings or even give any indication that the Fed feels like it's getting close to the ceiling for rates. If we know Powell, he'll be sure to say "it depends on the data."

Where does that leave rates between now and next week's critical release of the Consumer Price Index or CPI (the most important inflation report when it comes to impacting the bond market)? Well, it depends on the data... There are several important economic reports this week with Friday's jobs report being the biggest, but even that pales in comparison to CPI these days. Bottom line, we expect this week's Fed announcement and economic reports to create plenty of volatility. If the data is downbeat, the volatility could favor lower rates. Vice versa for upbeat data, but the biggest swings will have to wait for next Thursday's CPI report.



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