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Mortgage Rates Move Higher After Fed Rate Hike, But Not Because of It

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The Federal Reserve hiked rates by 0.75% today and 30yr fixed mortgage rates moved moderately higher. Interestingly enough, those two things are fairly unrelated.

The Fed Funds Rate (the thing the Fed "hikes" when you hear about the Fed hiking rates) applies to overnight loans among large financial institutions. It's important, to be sure, but it only changes 8 times a year whereas securities in the bond market change every second of the day.

There are all kinds of bonds. US Treasuries are the quintessential example. The yield on a 10yr US Treasury is the most popular benchmark for longer-term interest rates in the world. There are bonds that underlie the mortgage market as well (MBS or mortgage-backed-securities). They tend to move a lot like US Treasuries. There are even bonds that traders use to bet on the future level of the Fed Funds Rate.

With that in mind, the bond market has LONG since assumed the Fed would hike 0.75% today and when the 0.75% hike actually happened, it didn't have any impact on the rest of the bond market. In fact, Treasuries and MBS actually IMPROVED at first.

The improvements were due to a change in the verbiage of the Fed's policy statement. Traders were hoping to get some indication that the Fed was getting close to having a discussion about slowing the pace of rate hikes. While it was very carefully worded, today's announcement arguably provided such a hint. Unfortunately, that wasn't the last thing the Fed had to say today.

In addition to the statement itself, there's also a press conference held by Fed Chair Powell. While he confirmed that the Fed would be discussing the pace of rate hikes the next time the Fed meets (in December), he said a lot more to remind markets about how persistent inflation has been, and why that means the Fed's rate hike outlook will likely be even higher in December than it was in September (the last time they released rate forecasts).

Both stocks and bonds sold off on that news (when bonds sell, it implies higher rates, all other things being equal). Most mortgage lenders issued mid-day rate increases. The change wasn't extreme in the context of other recent moves, but it was nonetheless not what anyone was hoping to see after the coast looked to be clear after the initial policy announcement.

Today's volatility aside, the more important events for bonds/rates are yet to come. The Fed, after all, is only responding to changes in economic data when deciding on its rate hike pace. If Friday's jobs report shows higher unemployment or of next week's CPI data shows lower inflation, rates could easily find their footing and move lower. Unfortunately, the data can cut both ways (i.e. if it's stronger than expected, rates would likely move higher).