MORTGAGE RATE WATCH
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Mortgage Rates Start Lower, But Finish Higher

Mortgage rates ended last week very close to their lowest levels in more than 2 months after Fed Chair Powell essentially confirmed next week's rate hike would be smaller than the last. This wasn't necessarily new news based on speeches from many other members of the Fed, but markets were more willing to react to Powell himself.

Friday's stronger jobs report temporarily pushed rates back in the other direction. A strong labor market emboldens the Fed to be less friendly on rates without as much concern for collateral damage in the economy. Even then, traders pushed bonds back to better levels by the end of the day ("better levels" in bonds = lower rates, all other things being equal).

The new week is starting off on a weaker note, however. China eased some of its covid restrictions, which had previously supported risk-aversion in financial markets. One byproduct of general risk aversion is downward pressure on rates. The bigger story was a shift in the overall outlook on the upcoming Fed meeting.

Whereas last week was marked by optimism for the smaller rate hikes, Monday saw traders making adjustments to the longer-term rate hike outlook. In other words, the smaller rate hike next week is understood, but traders are worried about how many additional rate hikes the Fed will convey in its forecasts. These forecasts are only released 4 times a year, so it can add quite a bit of volatility to the market's reaction to the Fed on those 4 occasions. After all, a lot has changed since September 21st.

In addition to Fed anxiety, there was stronger economic data again this morning with a key report on the services sector coming in near the highest levels since earlier this year (a big reversal considering the previous month came in at the lowest levels in more than 2 years).

Strong economic data implies higher rates, all other things being equal. The bond market traded accordingly. By the end of the day, we'd lost enough ground that most mortgage lenders recalled their initial offerings and "re-priced" with higher rates/fees. The net effect was that Monday's rates ended up being close to Friday morning's after having been moderately lower to start the day.

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