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Mortgage Rates Fall Moderately After Fed Rate Hike

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As we discussed yesterday, it was entirely possible that today would bring a rate hike from the Fed that coincided with mortgage rates moving LOWER. This can be confusing due to the mistaken belief that the Fed Funds Rate has an immediate and direct effect on the mortgage market.

The Fed Funds Rate is a target that pertains to overnight lending between the biggest banks. The rest of the interest rate world radiates outward from there with different levels for different time frames. A mortgage tends to last 5-10 years, and the outlook over that time frame can often differ substantially from the outlook over the next 24 hours.

More importantly, the market is free to trade based on its expectations for Fed rate hikes. If the Fed is seen hiking with 100% certainty (as was the case today), other interest rates have already adjusted and the Fed Funds Rate itself will be the last thing to change. Indeed, Fed Funds Futures (the financial contracts which allow markets to bet on Fed Funds Rate levels) had today's hike almost fully priced in by the end of May and those expectations didn't change much at all since then.

(note: the big drop in March coincided with the Silicon Valley Bank failure and the onset of the mini banking crisis)

All of the above means the bond market was free to react to the content of Fed Chair Powell's press conference as opposed to the rate hike itself. The reaction wasn't huge, by any means, but it was rate-friendly in today's case with the average lender falling back below 7% for a top tier conventional 30yr fixed.

For now, we'd look at this more like a correction to the defensiveness seen over the past few days as opposed to proof positive of a friendly momentum shift. Bigger improvements will take validation from economic data or other major market events.