MORTGAGE RATE WATCH
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Mortgage Rates Surge Higher, But Not Because of Yesterday's Fed Rate Hike

The Fed hiked its policy rate yesterday and now today, mortgage rates jumped quite a bit higher. While there are already headlines drawing a connection between these two events, they are actually unrelated. As we discussed yesterday, the Fed's rate hike was already baked into yesterday's rate levels. Mortgage rates actually moved lower in the afternoon!

Today was a new day, and it brought another chance for rates to exhibit their "data dependent" nature. Fed Chair Powell reminded the market that rates would depend on data, but that dependency doesn't carry a directional connotation in and of itself. In other words, it didn't mean rates were destined to rise today. They just as easily could have fallen if the data had been weaker than expected.

But the data wasn't weaker, and rates didn't fall. All 4 of this morning's scheduled economic reports came out stronger than expected. In general, stronger econ data puts upward pressure on rates. That's especially true in recent weeks/months and today was no exception.

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The average mortgage lender was able to move back below 7% yesterday, but today's jump was more than enough to erase that progress. Lenders are now closer to 7.125%--a number very much at odds with the 6.81% reported this morning in Freddie Mac's weekly rate survey.

As always, keep in mind that Freddie's weekly rate number is a lagging indicator. It presents a 5 day average through Wednesday and doesn't report it until Thursday. That's no big deal with rates are generally flat, but it's a very big deal when there's a big swing in rates on Thursday itself (just like today!).

From here, data dependence continues. If the economy continues showing excess strength, traders will increasingly expect more hikes from the Fed (or at least a longer amount of time spent at the ceiling). Those expectations would translate to higher long-term rates such as those for mortgages). To make matters worse, if the data is weaker, the market will probably be relatively more skeptical at first, simply because the recent trend has been toward upside surprises. Traders would need to see some consistency in downbeat economic surprises before allowing data to exert too much downward pressure on rates.