MORTGAGE RATE WATCH
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Mortgage Rates Modestly Higher Ahead of Fed Announcement

The FOMC (Federal Reserve's Open Market Committee) is what most people are referring to when they say "the Fed." This is the group that meets 8 times a year to decide the ideal level of the Fed Funds Rate. The Fed Funds Rate sets an anchor point for the shortest-term borrowing. Notably, the Fed doesn't directly set mortgage rates, but even when the Fed makes no changes to the Fed Funds Rate, there can be large, indirect effects on mortgages and just about every other type of interest rate.

With that in mind, the Fed is indeed not expected to raise the Fed Funds Rate when it announces the results of its 2-day meeting tomorrow afternoon, but there are many other ways it can have an impact on broader rate momentum. One of the most reliable sources of market volatility on Fed days has been the "dot plot."

At the same time as the official rate announcement, the Fed also releases economic forecasts which include each Fed member's expectation for Fed Funds Rate levels at various points in the future. These levels are represented as dots on a chart, hence the "dot plot" (or simply "dots") nomenclature.

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Some market watchers think the dots will show the Fed expecting to hold the Fed Funds Rate "higher for longer." That's the sort of thing that could result in upward pressure on mortgage rates despite the absence of an official Fed rate hike. On the other hand, "higher for longer" is a fear that has arguably already been traded by financial markets to a large extent.

In other words, markets are bracing for the impact of potentially bad new from the Fed. That was evident in today's trading with bonds losing ground for no other obvious reasons. Fortunately, the impact was minimal for mortgage rates. Even tomorrow, the Fed's stance can only hurt us so much. Ultimately, their stance would change if the the underlying economic data softened).

Bottom line: rate volatility is a bigger risk tomorrow afternoon.