MORTGAGE RATE WATCH

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Mortgage Rates Rise After Fed's Updated Rate Forecast

The Fed did not hike its policy rate today, but it did release updated forecasts that showed the average Fed member expects rates to be half a percent higher at the end of 2024 and 2025 compared to their forecasts released in June.

The market was expecting a higher average forecast, but not that high. The result was broad bond market weakness. While that weakness was concentrated in the shortest-term bonds, longer-term rates (like those for mortgages) also took a hit.

The inspiration for that weakness should not be confused with the Fed announcement itself or the press conference with Fed Chair Powell afterward. As always, there are many comments that can be singled out as having an impact, but the only truly new and surprising news was in the updated forecasts.

Notably, these forecasts can be wildly inaccurate. The Fed knows this. The market knows it. But the market is only relying on the forecasts to measure the Fed's attitude toward its rate-setting policy--not to accurately predict actual rate levels. Bottom line: the Fed continues choosing to talk tough on the rate outlook and the market has no choice but to comply. This will only change when the economic data looks gloomy enough to soften the Fed's stance.

In context, today's mortgage rate increase wasn't extreme. In fact, the day began in slightly better territory and only went higher after lenders changed rates in the afternoon. Versus yesterday afternoon, the change is minimal in the bigger picture. We're still not back to the long term highs seen at the end of August.

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