Relentless Surge in Mortgage Rates

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It's with no great pleasure (none of any kind, for that matter) that we find ourselves in a position to report, yet again, that mortgage rates have sailed decisively to another new multi-decade high. Today's installment is fairly unpleasant given that the average lender actually began the day in slightly stronger territory only to be forced to increase rates at least once over the course of the day.

As is the case any time rates start lower and are revised higher, the culprit is the underlying bond market. Specifically, bonds started the day in stronger territory but ended up weakening significantly between 10am and 2pm ET.

Underlying reasons for that weakness are a matter of debate and confusion. Some point to comments from Fed speakers or a delayed reaction to economic data, but there are good reasons to be skeptical of both explanations. One of the only things that can't be disproven right now is the sense that the entire bond market has acquiesced to the notion of interest rates being "higher for longer" and simply can't reach the "higher" destination all in one go.

In other words, the market believes the Fed and it sees the value in being cautious ahead of next week's important economic data. Traders have apparently decided it's less painful to err on the side of higher rates and be forced to buy more bonds in the future (buying = lower rates, all other things being equal) than to be caught on the wrong side of the "higher for longer" trade yet again.

Today's mortgage rate adjustment is more painful than normal due to a phenomenon in the mortgage-backed securities market. It's fairly complicated to understand, but this part is simple: if the bond market were to improve in the future by the same amount it deteriorated today, rates would be back in line with yesterday's levels.

Today's levels aren't great. The average lender moved up from 7.50% yesterday to 7.65% by this afternoon. That's for a top tier 30yr fixed scenario. Anyone with a less-than-perfect scenario is seeing even higher rates--many of then closer to 8.0%.