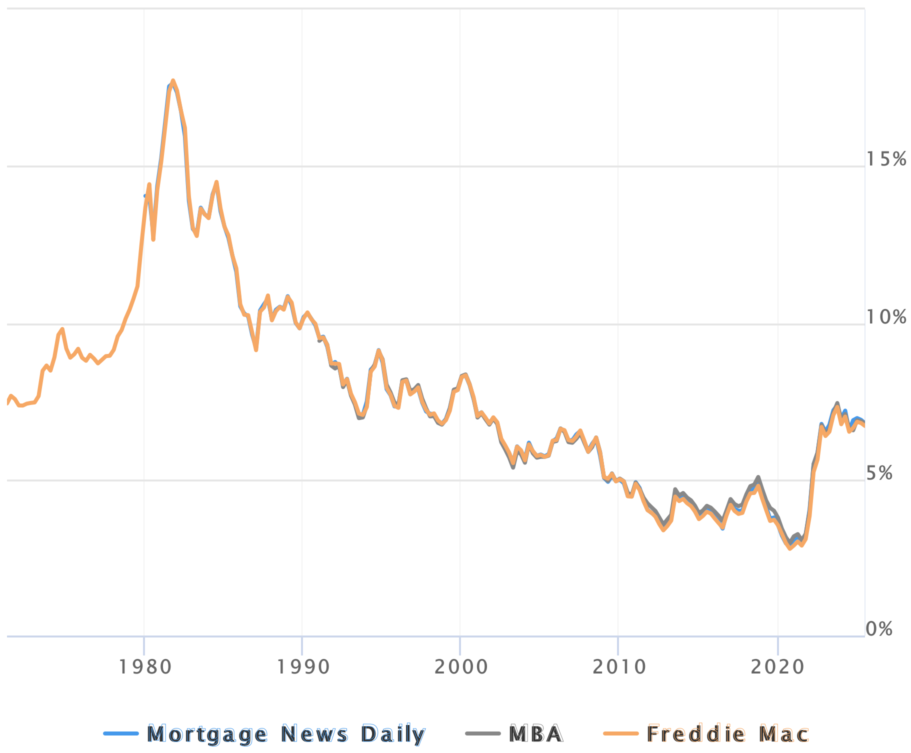
MND Rate Index Officially Hits 8.0%, Highest in 23 Years

Our rate index has rapidly grown in popularity and exposure in recent years because it is timely and because it accounts for upfront costs in a way that other single-number indices cannot. Because we began this effort in 2009, we can only technically say our index is the highest in 14 years, but there's no question that today's mortgage rates are the highest in 23 years.

That's actually rather unremarkable given the prevailing trend in rates. "8%" may be an interesting milestone for headlines, but it isn't much higher than yesterday's 7.92%--also the highest rate in 23 years.

The first break above the 23 year ceiling took place in late 2022 and it wasn't challenged again until August of 2023. Since then, however, we haven't made it more than a few weeks without hitting a new long-term high. The time since the Fed's September 20th announcement has been particularly bad with SEVEN new 23 year highs in less than a month.



While unfortunate, this is also rather unremarkable. This is a rising rate environment. Bonds/rates are increasingly capitulating to the notion of "higher for longer." It makes for a typical market pattern where the swings between highs and lows are smaller but more frequent. In that sense, today was just another day on the same old path.

But where is that path leading? Are rates headed to 10%? It's too soon to say or know. Certainly, we would never want to rule out the possibility of any interest rate that is only 2% away from current rates. On the other hand, if the Fed is correct in their assessment that no further rate hikes are needed to facilitate monetary policy, it would take increasingly surprising data/events to push rates higher at the prevailing pace.

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This isn't to say rates can't or won't go higher. Rather, the goal is to say that if the economy begins to soften as the Fed expects and if inflation remains roughly in line with the last few months, upward rate momentum should be dying down, all other things being equal. One big unknown is the stance of fiscal policy/spending where markets have increasingly expressed concern over Treasury issuance implications.

Treasury issuance matters because Treasuries set the tone for just about every other interest rate in the US. If issuance is higher than expected, the government has to pay higher rates to attract sufficient demand. Mortgage-backed securities tend to move in the same direction as Treasuries, so if 5, 7, 10yr yields are higher, mortgage rates will typically be higher as well. Every time the government announces a big spending initiative (or legislation that implies lower revenues), the bond market runs the risk of protesting by breaking another rate ceiling.