MORTGAGE RATE WATCH
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A Refreshingly Boring Week For Mortgage Rates

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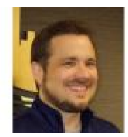

Starting in early October, mortgage rates experienced significant volatility, meaning the average day over day change was much bigger than normal. While the term "volatility" technically allows for larger-than-normal moves in either direction, there was a clear winner in this case with rates moving almost a full percent higher.

Rates take direct cues from the bond market which, in turn, takes cues from several sources. These include economic data, inflation, geopolitical events, fiscal policy, and monetary policy. This particular episode was frustrating for fans of low rates because things seemed to be getting worse with and without the typical motivations. In a nutshell, there was no winning, and all we could do was wait for the smoke to clear.

Some semblance of reprieve began to take shape last week, but the underlying bond market remained jumpy. Volatility finally died down this week. The average 30yr fixed rate held inside a narrow 0.05% range and ended at the exact same levels seen last Friday. Just as notable: these are also the same levels that served as the mid-point during the more volatile time frame surrounding the election. In other words, rates arguably hit some sort of ceiling as early as October 28th and have simply been honing in on the middle ground.

This is the best victory that we could have hoped for in the near term. Rates are afraid of stronger economic data, more persistent inflation, and an overabundance of government debt (something that puts constant upward pressure on rates behind the scenes). In order to see a big drop to lower levels, we'd need to see the most closely watched economic reports come in much weaker and for inflation to drop to below-target levels in month-over-month terms (likely for a few months in a row).