Mortgage Rates Jump Abruptly Higher After The Fed's Rate Cut

Tim Pillsbury
Branch Manager - Mortgage specialist, AmRes Corporation
www.nolalender.com
P: (985) 777-2837
2065 1st Street
Slidell Louisiana 70458
NMLS #101822

If anyone needed any further convincing that a Fed rate cut is no guarantee of lower mortgage rates, today is a great piece of evidence. Perhaps "great" is the wrong word. There was nothing great about the mortgage rate movement following today's Fed rate cut.

The average lender is at least 0.20% higher than earlier this morning. Lenders are still in the process of adjusting their rate sheets, so the total damage could vary slightly by the time we're able to run the full numbers. Either way, the top tier conventional 30yr fixed rate will easily be back over 7% for the average lender.

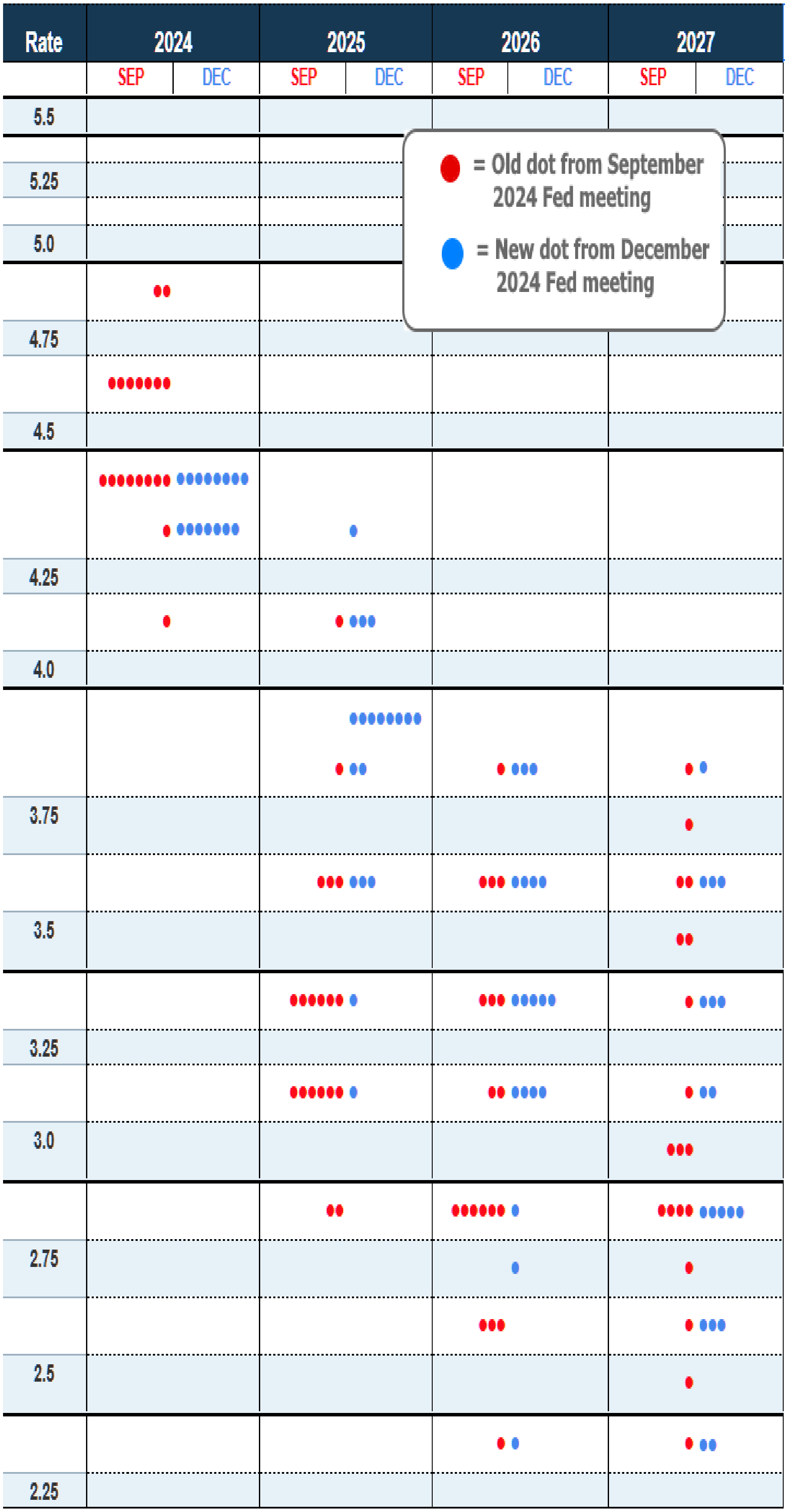
What gives?

First off, the mortgage rate spike has nothing to do with the Fed's rate cut. That cut was only a small part of the information released by the Fed today. It was also the most predictable part. When something is predictable in financial markets, it can be traded, and that trading means that longer term rates (like mortgages) can move into position well in advance of Fed cuts/hikes.

Moreover, mortgage rates care more about the Fed's rate cut/hike outlook than they do about one individual cut/hike. That's where things started going wrong today. The Fed communicates its outlook 4 times a year via the summary of economic projections and the infamous "dot plot" (a chart with each Fed member's view on the appropriate Fed Funds Rate at various points in the future).

Today's dot plot showed the median Fed member sees much higher rates by the end of next year compared to the last dot plot 3 months ago. The following chart shows the new dots in blue and old dots in red. The year to focus on is 2025. Note the migration upward from the low 3 to high 3 percent range.

Before and After Dot Plot Comparison



In addition to the dots, Fed Chair Powell conveyed a more conservative approach to cutting rates going forward during his press conference. The bond market (bonds dictate rate movement) didn't like any of it. Yields/rates jumped at 2pm ET when the dot plot was released and continued higher during Powell's presser starting at 2:30pm.

By 4pm, 10yr Treasury yields had risen more than 0.10%--a very big move for a single day. 5yr Treasuries, which are currently even more similar to the bonds that dictate mortgage rates, were up more than 0.13%.

Almost every lender "repriced" to higher rates at least once today. Any lender still showing the same rates from this morning will likely be much higher tomorrow morning.