MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

If You're Struggling to Understand This Week's Mortgage Rate Spike, This is For You

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We received some anonymous feedback regarding recent rate commentary that serves as a good reminder that not everyone may be picking up what we're putting down, or worse yet, picking up things that we never put down in the first place.

We spend a lot of time talking about how the bond market prices in the impact of Fed rate cuts on the occasions where those rate cuts are expected with a high probability--as was the case with yesterday's cut. Specifically, Tuesday's rate commentary said:

> "The market is already well aware that the Fed is cutting rates tomorrow and those expectations are already 100% reflected in the mortgage rates that are available today."

The hiking/cutting of the Fed Funds rate is the only variable under consideration in that comment. The following paragraph said:

> "If rates rise or fall tomorrow, it would be due to other components of the Fed announcement, such as the Fed's quarterly rate outlook survey (officially, the dot plot in the Summary of Economic Projections, released concurrently with the rate announcement at every other Fed meeting) or the press conference with Fed Chair Powell that begins 30 minutes after the rate announcement."

This brings us to the point because, indeed, it was definitely all that "other stuff" that caused rates to surge higher yesterday. Those who want to dig into that in detail can read the full coverage here.

The goal of all of our coverage on mortgage rates vs the Fed Funds Rate is to remind prospective borrowers and even some mortgage professionals that the two don't move in lock step. This is most urgent at moments where people are potentially mistakenly waiting for a Fed rate cut to deliver lower mortgage rates when that dependency is not only never a guarantee, but frequently the other way around (i.e. there are many examples of mortgage rates rising immediately after a Fed rate cut).

For a very thorough review of that phenomenon (and another warning about what happened yesterday), see my latest weekly newsletter from last Friday: The Fed Will Cut Next Week, But They're Not Cutting Mortgage Rates.

In contrast to the Fed Funds Rate, it's impossible to predict how the market will react to changes in the Fed's verbiage or the Fed's dot plot without actually seeing what those changes are. In yesterday's case, the shift in the 2025 dot plot was definitely bigger than anticipated and Powell's commentary was more hawkish than expected.

These things may share the stage with the notion of "the Fed Funds Rate," but unlike the Fed Funds Rate, these things are actually very capable of surprising the market and causing a reaction in rates on Fed day. This will never NOT be the case. The only thing that will change is the range of potential outcomes. That range will never be comfortably small except during times where inflation and growth are stable, and when the Fed Funds Rate has been flat at the same level for months if not years.

As for today, rates didn't change much from yesterday. The average lender is still near 7.125% for a top tier conventional 30yr fixed rate and the broad rate indices/surveys won't reflect that move until next week (and even then, not all of it).

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