Mortgage Rates Only Moderately Lower After Tech Rout

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There are two distinct patterns of behavior when it comes to rates interacting with stocks. The first could be called the "conventional wisdom" pattern, which holds that investors move money between stocks and bonds, thus creating a correlation between stock prices and rates (as investors buy more bonds, rates move lower).

The second pattern is more commonly seen when there is some uncertainty about the near-term outlook for the Fed Funds Rate. In this pattern, both stocks and bonds benefit from a friendlier Federal Reserve, thus creating an inverse relationship between stock prices and rates.

Even though there is some uncertainty about the near-term Fed rate outlook and even though we have a Fed meeting coming up on Wednesday, today was all about conventional wisdom for interest rates. Tech stocks plummeted on news of a cheap, competent, Chinese AI competitor. While many details are still likely to be revealed and understood, the market wasted no time in unwinding quite a bit of the bullishness previously baked in to NVDA, et. al.

Whether investors were simply looking for places to park the proceeds from that stock selling or legitimately betting on economic fallout, bond buying ramped up in a major way. The average mortgage lender is now back in line with the lowest levels since late December, but just barely.

Should you view this as a bigger picture turning point in the rate narrative? That would be premature. Today's news was not economically negative, nor did it suggest a new rush of disinflationary momentum. Those are the sorts of things that would be needed to confirm a sea change for rates. As to whether this will result in another day or two of improvement regardless of big picture implications, that remains to be seen. History suggests there's just as much of a chance of a rebound in the other direction tomorrow.