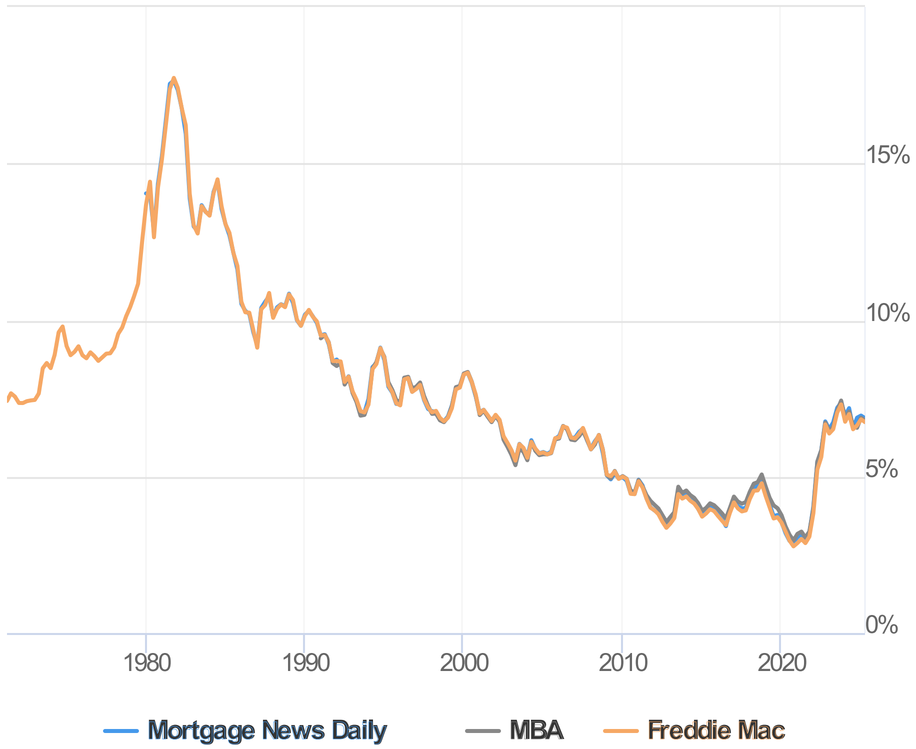
Mortgage Rates Surge to Highest Levels Since February

While no one can be sure exactly how things will pan out in the long run, the market is currently expressing extreme disapproval of the new tariff plans. While interest rates had previously benefited from some of the chaos in the stock market, that ship has sailed. Now, both sides of the market are losing ground (stocks lower, rates higher).

Today's rate increase wasn't nearly as big as yesterday's, but it's no less notable because it officially takes the average 30yr fixed rate to the highest level since late February. This is the biggest 2 day rate increase so far this year, but if you didn't know about the past 4 days, current levels wouldn't look too troubling.



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As for motivations, that's a fairly esoteric discussion compared to last week's simple conclusions about investors selling stocks and seeking safety in the bond market (something that pushes rates lower). After all, the opposite correlation is now in effect. Esoteric stuff follows:

Part of the issue is the varying levels of performance between longer and shorter term rates. For example, 10yr Treasury yields are up substantially, but 2 year Treasury yields are actually down a bit.

We can also consider that this week plays host to several big Treasury auctions and investors are hesitant to keep bonds at higher prices (same thing as lower yields/rates) until we get past the auctions.

There's also the matter of future Treasury issuance implications and future demand changes surrounding tariffs. Specifically, if trade decreases and if we're relying on tariffs for revenue, we would need to issue more Treasuries to make up for the revenue shortfall. Treasury issuance puts upward pressure on rates, all else equal.

As for demand (which helps rates move lower), one key source is foreign central banks of countries with strong trade relationships with the U.S. In not so many words, when those countries sell "stuff" to the U.S. they receive dollars, and those dollars ultimately get put to work in U.S. Treasuries for a variety of reasons. At the risk of stating the obvious, if trade relationships are damaged, it implies lower foreign demand for Treasuries and thus, higher rates.

These aren't the only considerations in play (yes, we could talk about inflation implications of tariffs), but they're some of the most important and also some of the most underappreciated by the masses.