Mortgage Rates Spike in Response to Fed

Mortgage rates quickly erased a week of progress this afternoon following the Fed announcement and press conference. Fed announcement day historically has several components: the announcement itself, the summary of economic projections (SEP), and the press conference.

Within the SEP, there is the dot plot showing each Fed member's assumptions about where the Fed Funds Rate will be in the future if the economy continues on the expected course. "The dots" only come out every other Fed meeting, but they have a habit of causing volatile market reactions. Today's was no exception.

The dots essentially show that the average Fed member now sees the Fed Funds rate at least 0.25% higher at the end of 2026 than they did back in March. This is responsible for the first big move in the bond market today.

Bonds lost more ground during new Fed Chair Kevin Warsh's press conference. The reasons for this could be debated. Some traders may have been expecting Warsh to push back against the dot plot with a more rate-friendly tone. Others may have been disheartened at the lack of any guidance about how the Fed is interpreting incoming economic data. In general, lower transparency regarding the Fed's reaction function arguably requires traders to price in a higher risk premium.

Because rates are based on bonds, and because bonds lost ground sharply, mortgage lenders ended up raising rates in the afternoon--some of them up to 3 times. When the dust settled, the average lender was back up to June 10th levels with top-tier 30yr fixed rates at 6.62%.

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