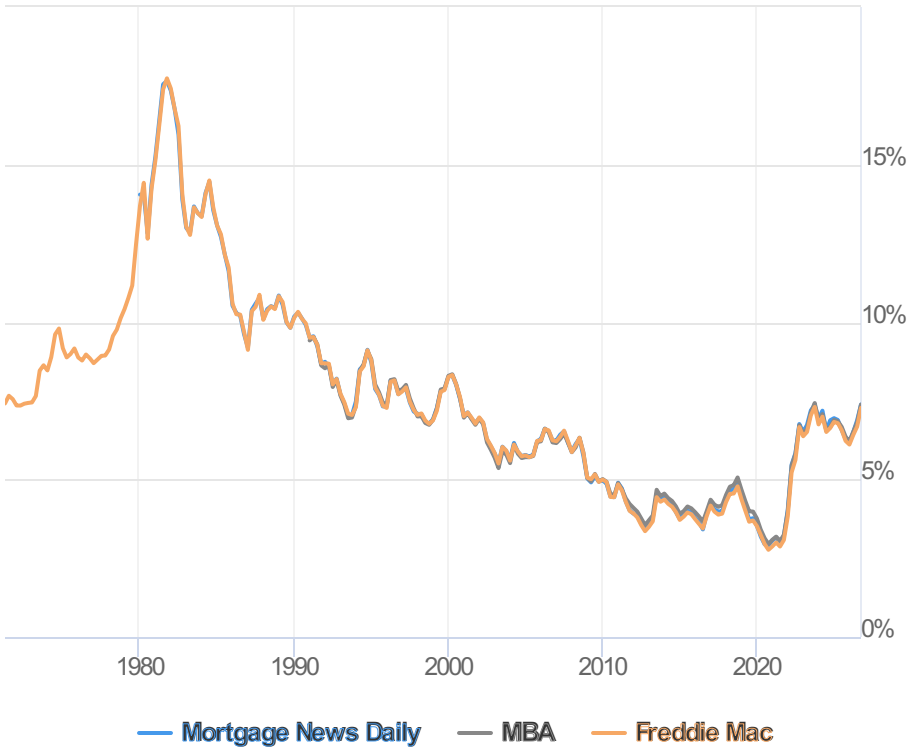
MORTGAGE RATE WATCH

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Another Big Improvement to Another 3 Week Low

Mortgage rates dropped again today, and at a much faster pace than yesterday's decline. Top tier 30yr fixed rates are now down to 7.33% for the average lender, a drop of more than 0.25% from the long-term highs seen just last week. There are a lot of moving parts behind the scenes so let's focus on what we can know or at least reasonably conclude.





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Is this the big shift in rates we've been waiting for? The kind that sometimes follows sustained spikes to long-term highs?

While there's a chance the past 5 days COULD serve as the early indication of a broader rate recovery, it's far too soon to bank on it. The key reason is that much of the paradoxical strength of the past 2 days has been fueled by contagion concerns in the tech space.

What does the tech space have to do with rates? Is it more important than inflation and economic growth?

First off, the tech space and economic growth have a ton of overlap right now. If there's an ongoing pull-back in investor sentiment surrounding AI/tech stocks, and additional concern over certain companies (like Coreweave) having a contagion-like impact on other companies, all of that carries implications for economic data in the future. The other consideration is AI-related corporate debt. This has been a big driver of upward pressure in rates at times. If investor sentiment is souring on AI-related debt, it decreases the expectations for excess issuance of that debt which, in turn, helps more mainstream rates like Treasuries and mortgages.

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As for inflation, yes, it matters quite a bit even though it's not the only game in town. Yesterday's inflation data certainly had a bad effect on rates (it pushed them higher). But the other factors pushed rates lower to a slightly greater extent.

What about rates/yields simply being high enough that investors finally want to buy bonds?

As we know, rates are driven by bonds. The higher yields go, the greater the potential enticement for investors. In 2023, when 10yr Treasuries hit 5.00%, many investors bought bonds because that sounded like an attractive rate of return to lock in. In 2026, there's been some conversation about 10yr yields above 5.2% filling a similar role.

We've POSSIBLY seen some evidence of that buying demand in the past week, but we can't really conclude much because the AI contagion trade dominated the past 2 days and those were the two biggest days of paradoxical buying demand for rates. In other words, the timing was exquisite. If an investor was on the fence about viewing 5.2%+ as a good entry point, the AI contagion trade made it a no-brainer.

What's the bottom line?

The past few days have been great for rates... no question. The question is how great they would have been if the tech sector was still chugging along like it was on October 6th. It's possible we could have seen some investor demand for higher yields but it's highly unlikely that we'd be talking about a potential big-picture shift in rates.

The bottom line is that anyone's level of excitement about an ongoing rate rally should be tempered by the risk that AI-related fears dissipate and economic data remains relatively resilient. Conversely, if you clairvoyantly know that this is just beginning for a deeper AI capex correction and that economic data will progressively weaken, then you're free to hang onto more excitement than the rest of us non-clairvoyant types.

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