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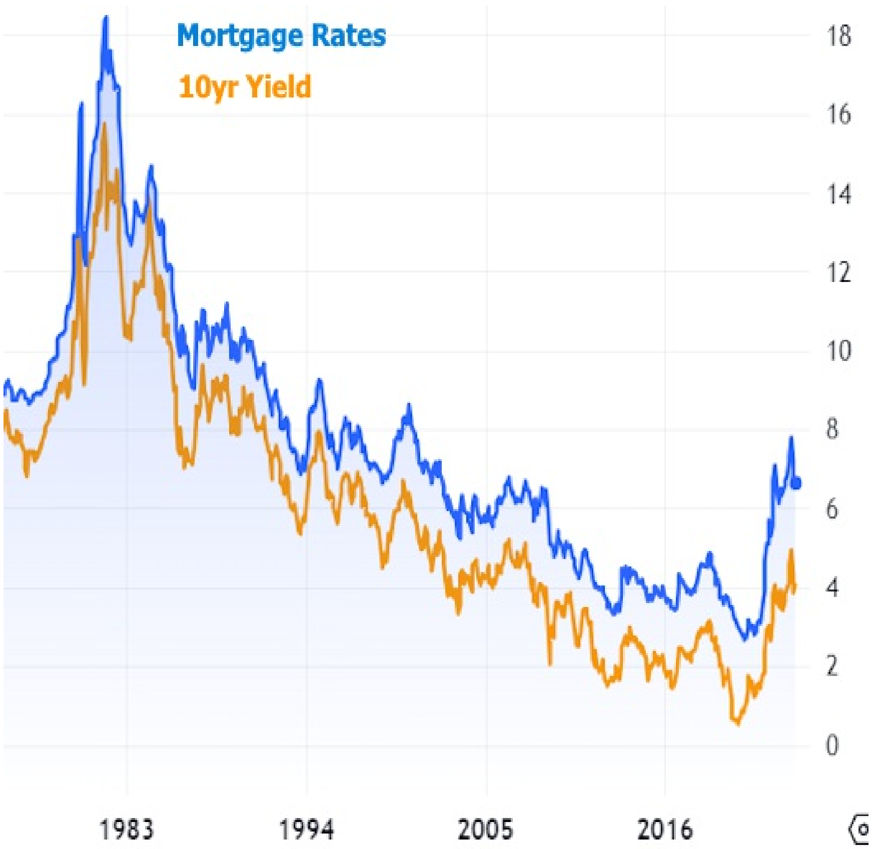
# Let's Talk About The Spread Between Mortgage Rates And The 10yr Treasury

Seemingly overnight, there is widespread media attention on the spread between mortgage rates and the 10yr Treasury yield. There shouldn't be.

**Why are we talking about the 10yr Treasury yield if we're focused on mortgages and housing?**

Simply put, the 10yr Treasury note is the most dominant benchmark (touchstone, bellwether, yard stick, etc) for all longer term interest rates in the US. 10yr Treasury yields and mortgages move with a high degree of correlation in the big picture. Case in point:




**Looks like mortgages are a bit higher, but otherwise move in lock step with the 10yr, so what's the big deal?**

## National Average Mortgage Rates


| | Rate | Change | Points |
|---|---|---|---|
| **Mortgage News Daily** | | | |
| 30 Yr. Fixed | 6.86% | -0.05 | 0.00 |
| 15 Yr. Fixed | 6.31% | -0.02 | 0.00 |
| 30 Yr. FHA | 6.32% | -0.06 | 0.00 |
| 30 Yr. Jumbo | 7.04% | -0.03 | 0.00 |
| 5/1 ARM | 6.53% | -0.02 | 0.00 |
| **Freddie Mac** | | | |
| 30 Yr. Fixed | 6.78% | -0.08 | 0.00 |
| 15 Yr. Fixed | 6.07% | -0.09 | 0.00 |

Rates as of: 7/26

## Market Data

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 5.5 | 99.68 | +0.27 |
| MBS GNMA 5.5 | 99.98 | +0.13 |
| 10 YR Treasury | 4.1958 | -0.0474 |
| 30 YR Treasury | 4.4523 | -0.0305 |

Pricing as of: 7/26 5:59PM EST

## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Jul 10 | 206.1 | -0.19% |
| Building Permits | Mar | 1.46M | -3.95% |
| Housing Starts | Mar | 1.32M | -13.15% |
| New Home Sales | Mar | 693K | +4.68% |
| Pending Home Sales | Feb | 75.6 | +1.75% |
| Existing Home Sales | Feb | 3.97M | -0.75% |
| Builder Confidence | Mar | 51 | +6.25% |

Both rates are very high relative to the past decade. Rates are extremely important to the mortgage industry and high rates lead experts and laypersons alike to search for signs of impending relief. Some prominent voices have recently suggested relief could come in the form of the blue line moving down a bit closer to the orange line.

**How far apart are they really? Would this make a difference?**

Yes, in fact, there's a lot of room between the two if you consider the numbers in the chart above. At the widest recent gap, mortgage rates were more than 3% higher than the 10yr. There are past examples of the spread being closer to 1%. That means, in theory, if the spread could move back to those historically tight levels, a 7% mortgage rate could be closer to 5%.

**Sounds great! What's the catch?**

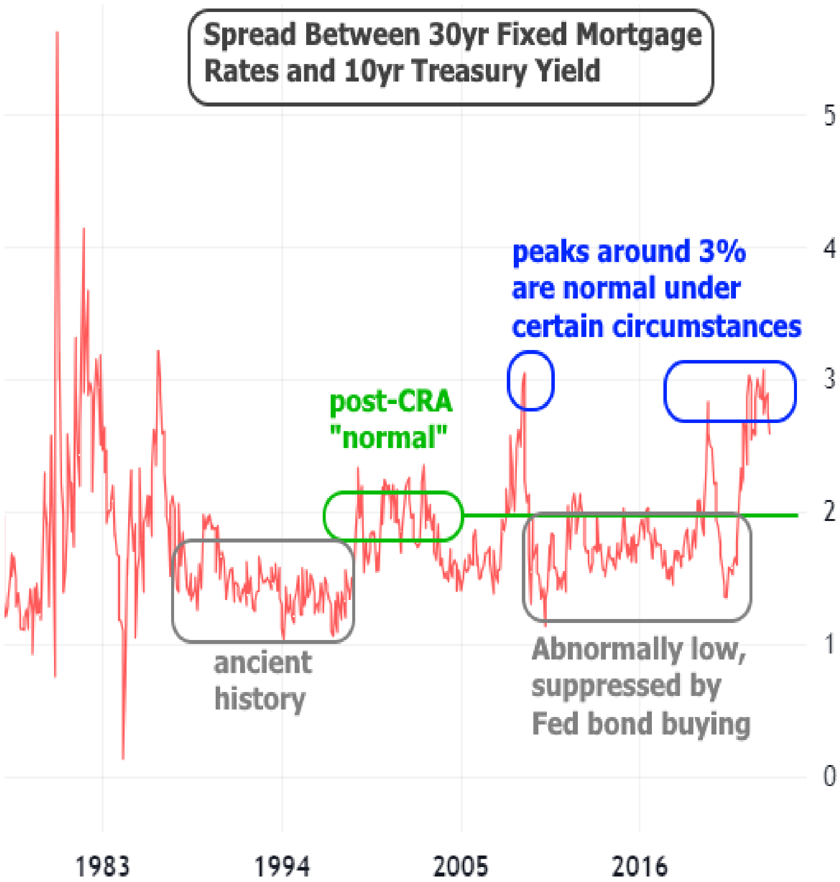
First off, the spread isn't wide for new or mysterious reasons. There are two big ones.

1. The end of Fed bond buying (with a specific comment on not buying mortgage-backed bonds in the future)
2. The presence of a historically rapid spike to the highest rates in a long time.

Each of those two factors is singlehandedly capable of causing a spike in the spread, but together, they created the widest spreads since the 80s, thus helping increase the buzz.

In other words, spreads are wide and they should be! Beyond this fact, it's also a mistake to use spread levels too far in the past as a baseline for "normal." There are key differences between now and then. As of the mid 90s, the passage of the Community Reinvestment Act (CRA) changed the landscape of investor risk in the mortgage market. The shift is easy to see in the following chart (post-CRA "normal").

Before that, the end of the Savings and Loan crisis and innovation in the market for mortgage-backed securities (MBS) created a boom for mortgage risk sentiment. This contributed to the "ancient history" timeframe that arguably marked the lowest natural spread levels we'll ever see.




**You just said lowest "natural" spread levels.  What's up with that?**

In that context, the word "natural" is another way of saying "not distorted to abnormally low levels by the Fed's bond buying."

**What's up with the Fed's bond buying?**

This is a big topic for another time.  The short version is that the Fed had been buying mortgage backed securities after the financial crisis in 2008 and it had a hard time finding the right time to stop.  Fed bond buying results in lower rates/yields.  Fed MBS buying pushes mortgage rates down such that they can keep pace with Treasury yields (the Fed also bought Treasuries).

Unfortunately, the Fed opted to wind down its bon buying (including reinvestments of existing holdings) right as generationally high inflation was causing interest rates to move higher.

If there's one thing mortgage investors don't like, it's extreme volatility in the presence of a rapid rate spike.  Considering this happened at the same time as the Fed's quantitative tightening (fancy words for "no more bond buying"), it's impressive that the spread between mortgage rates and Treasuries didn't get any wider!

**OK, we know they're wide, but how about making them not so wide?  What can be done?  Can it happen?  How about the Fed starts buying again?**

This is the other frustrating part of the spread conversation: there's not some magic solution that will instantly shrink the gap. The Fed will almost certainly NOT be buying MBS again. They've been there, done that, and gotten the T-shirt. Comments from multiple Fed officials indicate a preference to return the Fed's bond portfolio to Treasuries only. In other words, even if an economic emergency leads the Fed to buy bonds again in the future, they'll likely only buy Treasuries unless things are so bad that the mortgage market poses a systemic risk to the global economy, as it did in 2008.

**If the Fed won't save us, who will?**

Hey... did you happen to notice that mortgage rates have fallen more than a full percentage point in a few short months with absolutely no epic, targeted intervention in the mortgage market? Not only that, but the spread between mortgages and Treasuries got a bit smaller over the same time.

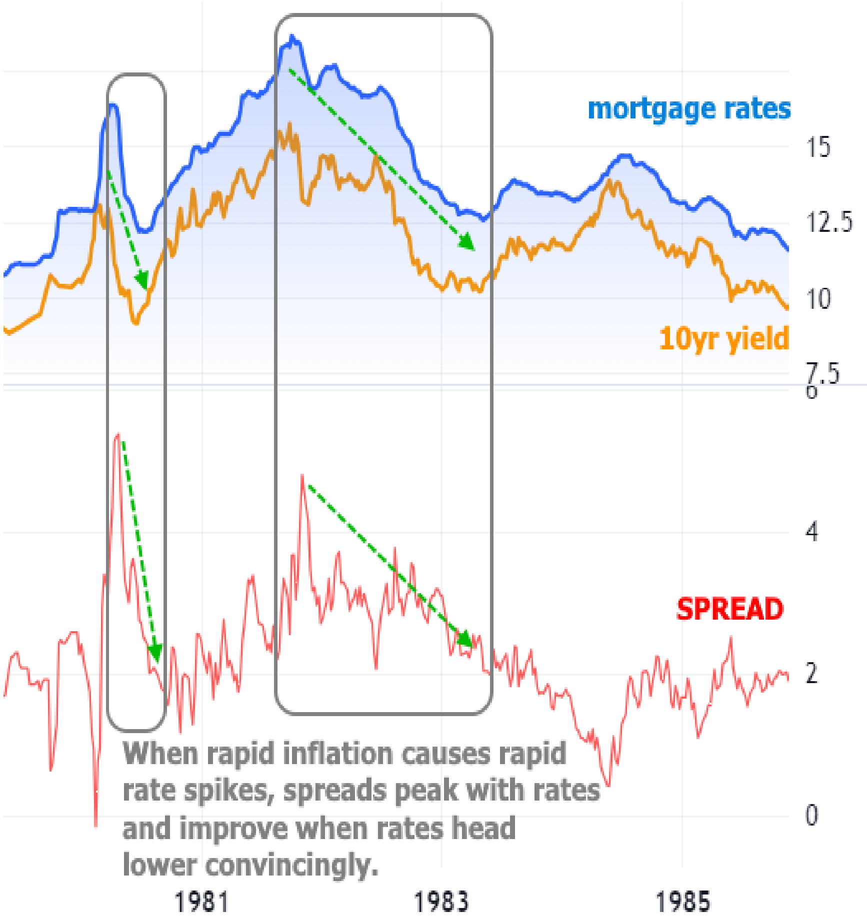
**Wait... are you saying we don't need a magic pill? Things will work themselves out?**

In not so many words, yes. You just have to accept and understand that 2024 is not the same as the late 80s and early 90s. Spreads near 1% are almost certainly not in the cards given the current layout of the secondary mortgage market. But spreads at or just under 2% are entirely reasonable.

**Sounds great in theory, but I want some reassurance that such things are possible.**

Consider this: the early 80s is the only time frame in remotely recent economic memory that is similar to the past few years in terms of inflation and interest rates. Let's take a look at how mortgage vs Treasury spreads moved during those years.

In both of the inflation/rate peaks, spreads peaked simultaneously and began to fall when rates fell/stabilized. The same thing can, and probably will happen this time around if rates continue to moderate.



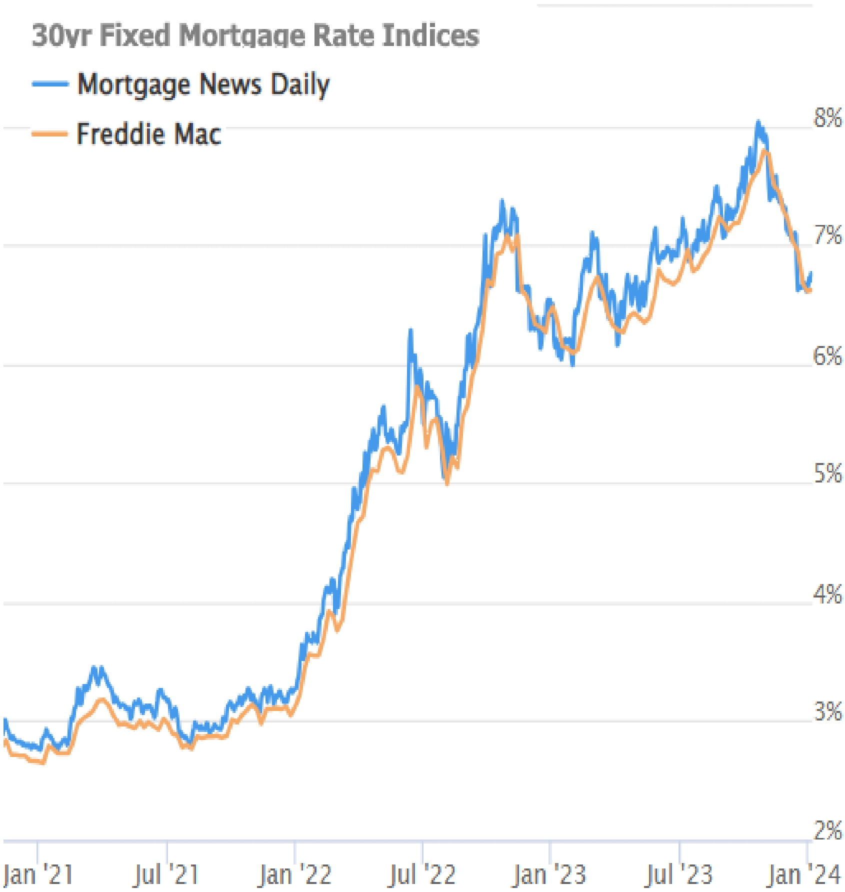

One last thought on this topic, or rather, a question for those who've been so concerned with spreads recently: If the spread only manages to get back to 2% (something we've just shown to be exceedingly possible without any official intervention) and 10yr yields simultaneously fall to 2% for economic/inflation-related reasons, would you still care about the spread? As you consider your answer, keep in mind that the historically elevated spread of 2% would equate to 4% mortgage rates in that scenario.

**I'm satisfied! What happened this week?**

Well, we just took a lot of space to talk about spreads, so here's a lightning round on this week in the mortgage market. Traders returned after holiday absences and the balance of sentiment was toward slightly higher rates. It wasn't a big deal in the bigger picture and the market remains very interested in economic data. This chart shows a few of the week's key data points and developments against the backdrop of 10yr Treasuries.


The next chart shows why you probably won't care too much about the apparent volatility in the chart above:


The impact on mortgage rates was also minimal.




To whatever extent this week's economic data was worth the market's attention, next week is just as important thanks to only one report: the consumer price index (CPI), which will be released on Thursday morning.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Jan 02** | | | | |
| 10:00AM | Nov Construction spending (%) | 0.4% | 0.6% | 0.6% |
| **Wednesday, Jan 03** | | | | |
| 7:00AM | Dec/29 MBA Purchase Index | 140.7 | | 148.7 |
| 7:00AM | Dec/29 MBA Refi Index | 358.2 | | 437.6 |
| 10:00AM | Nov USA JOLTS Job Openings | 8.79M | 8.85M | 8.733M |
| 10:00AM | Dec ISM Manufacturing PMI | 47.4 | 47.1 | 46.7 |
| 2:00PM | FOMC Minutes | | | |
| **Thursday, Jan 04** | | | | |
| 7:30AM | Dec Challenger layoffs (k) | 34.817K | | 45.51K |
| 8:15AM | Dec ADP jobs (k) | 164K | 115K | 103K |
| 8:30AM | Dec/30 Jobless Claims (k) | 202K | 216K | 218K |

## Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 9:45AM | Dec S&P Global Services PMI | 51.4 | 51.3 | 50.8 |
| **Friday, Jan 05** | | | | |
| 8:30AM | Dec Non Farm Payrolls | 216K | 170K | 199K |
| 8:30AM | Dec Unemployment rate mm (%) | 3.7% | 3.8% | 3.7% |
| 10:00AM | Dec ISM N-Mfg PMI | 50.6 | 52.6 | 52.7 |
| **Wednesday, Jan 10** | | | | |
| 7:00AM | Jan/05 MBA Refi Index | 425.4 | | 358.2 |
| 7:00AM | Jan/05 MBA Purchase Index | 148.6 | | 140.7 |
| 1:00PM | 10-yr Note Auction (bl) | 37 | | |
| **Thursday, Jan 11** | | | | |
| 8:30AM | Dec y/y CORE CPI (%) | 3.9% | 3.8% | 4% |
| 8:30AM | Dec m/m CORE CPI (%) | 0.3% | 0.3% | 0.3% |
| 8:30AM | Jan/06 Jobless Claims (k) | 202K | 210K | 202K |
| 1:00PM | 30-Year Bond Auction | 4.229% | | 4.344% |
| **Friday, Jan 12** | | | | |
| 8:30AM | Dec Core Producer Prices MM (%) | 0% | 0.2% | 0% |
| 8:30AM | Dec Core Producer Prices YY (%) | 1.8% | 1.9% | 2% |

## The Solution to Aspire

From the Founders:

Aspire Mortgage Solutions was founded in 2023 with the main focus of Aspiring people. The vast majority of the business world is driven by making as much money as possible. However, we at Aspire Mortgage Solutions believe that there is much more to life than profit. This passion is why we are committed to being the best possible solution, and we will accomplish this by putting your dreams and goals first. We want to come alongside you and use our expertise in products and mortgage solutions to make sure that you are equipped with the best tools to help you achieve your financial goals. No matter what story you are writing, whether it's your first house, dream house, or building wealth, we want to be the experts that help you aspire to reach your dreams.

- Steve & Zach

**Stephen Heston**