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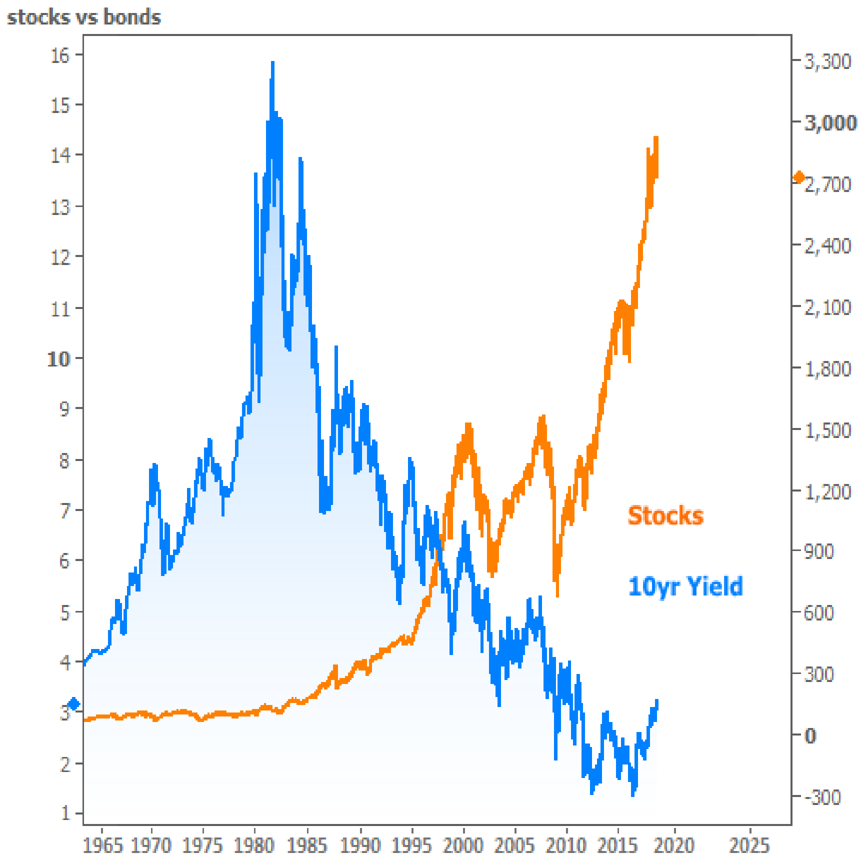
Interest Rates Don't Go Up In a Straight Line – Here's Why

If you've been anywhere close to the housing market over the past few years, you know mortgage rates have been rising. Last week brought one of the sharpest increases in years even as rates were already pushing long-term highs. Now, this week's massive stock sell-off dropped in to remind us that rates don't always rise in a straight line.

There's a **common misconception** that stocks and rates move in the same direction. Stronger economy, higher stock prices, more jobs, more inflation, higher rates! Right?! In reality, it's not quite that simple, and it's always helpful to revisit the following chart to see why.



Despite the chart above, stocks and rates actually **DO** spend quite a bit of time moving in the same direction. In fact, the only real misconception is that they're **ALWAYS** moving in the same direction. Sometimes, they're joined at the hip. Other times, they're clearly moving in **opposite** directions.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

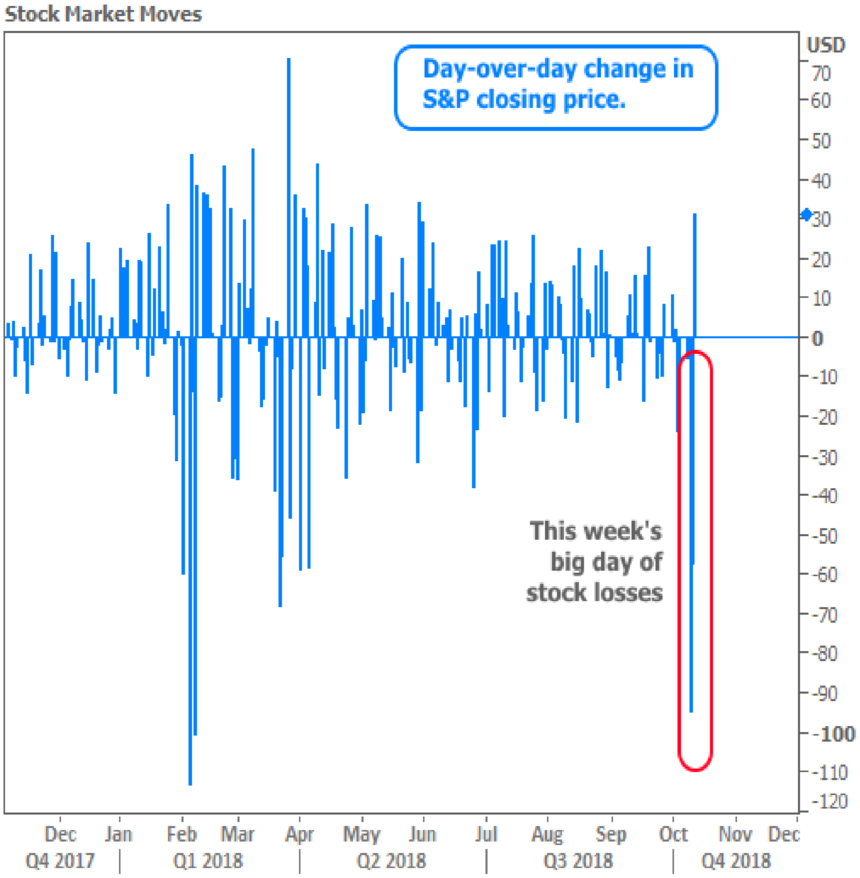
	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4049	+0.0069
30 YR Treasury	4.5659	+0.0019

Pricing as of: 7/1 4:55AM EST

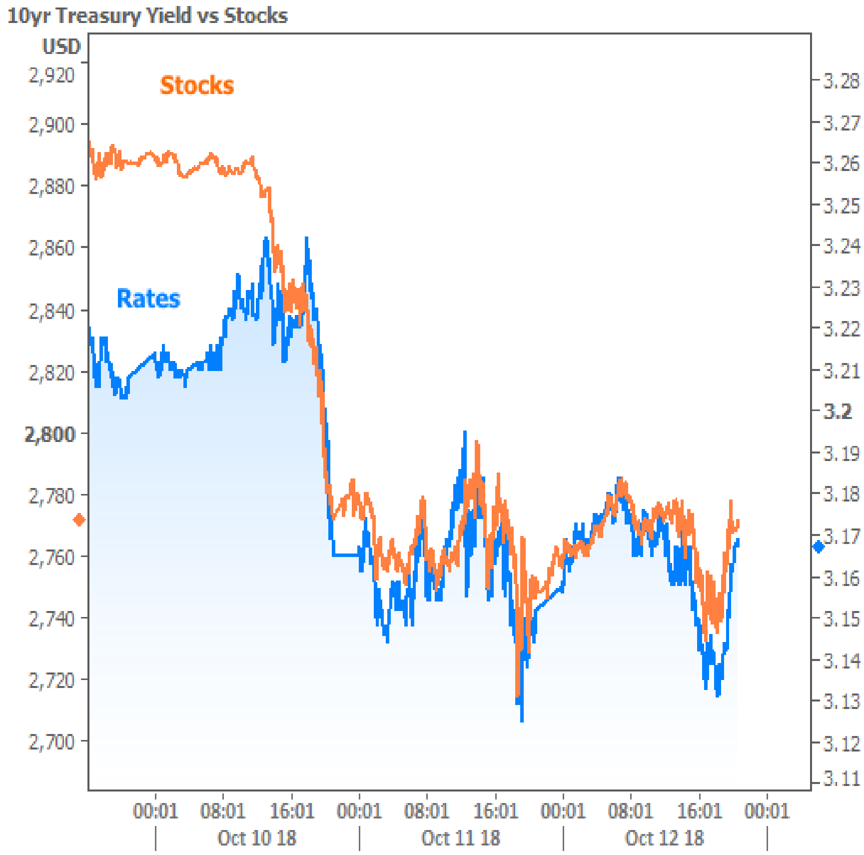
Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
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%

Fortunately for rates, the **biggest** stock market sell-offs are almost always helpful. And this week's was big! In fact, Wednesday's stock sell-off was the 3rd biggest since the Financial Crisis (the other two were in early 2018).



Rates were **reluctant** to follow stocks lower at first, but once things started to get really ugly for stocks, that changed. Rates were then relatively preoccupied with the prospect of additional weakness (which would have helped even more) or the risk of a big bounce (which would likely have caused rates to bounce as well).



The net effect was that mortgage rates fell back to their **lowest levels** since last Thursday by the end of the week. You may have seen news stories over the past two days talking about a "sharp move higher" in rates. This has to do with stale underlying data used by many media outlets to write their once-a-week mortgage rate article. The sharp move higher occurred LAST week, as we discussed at the time.

With that in mind, it's important to remember that we're **still in a rising rate environment**. There are big headwinds in place and they won't go away quickly or easily. Rates' reluctance to follow big stock losses is apparent in the following chart.

The **silver lining** is that financial markets are well aware of the challenges facing rates. And when traders are well aware of something, they trade accordingly. That means they've already pushed rates part of the way toward their expected destination, thus leaving more room for **pockets of recovery** along the way.

Much of the time, these pockets of recovery will take rates back down a ceiling they'd recently broken. In terms of 10yr Treasury yields (which tend to move proportionately with mortgage rates), 3.13% looks like just such a ceiling. A break below 3.13% would then suggest a move back toward 3.03%. And while none of that would look very impressive in the bigger picture, it could make a big difference for prospective buyers and borrowers in the coming weeks.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Oct 10				
7:00AM	w/e MBA Purchase Index			240.7
7:00AM	w/e Mortgage Refinance Index			945.9
8:30AM	Sep Producer Prices (%)		0.2	-0.1
8:30AM	Sep Core Producer Prices YY (%)		2.5	2.3
10:00AM	Aug Wholesale inventories mm (%)		0.8	0.8
Thursday, Oct 11				
8:30AM	Sep CPI mm, sa (%)		0.2	0.2
8:30AM	Sep Core CPI Year/Year (%)		2.3	2.2
Friday, Oct 12				
8:30AM	Sep Import prices mm (%)		0.2	-0.6
8:30AM	Sep Export prices mm (%)		0.2	-0.1
10:00AM	Oct Consumer Sentiment		100.5	100.1
10:00AM	Oct 1yr Inflation Outlook (%)			2.7
10:00AM	Oct 5yr Inflation Outlook (%)			2.5
Monday, Oct 15				

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Sep Retail Sales (%)	0.1	0.6	0.1
8:30AM	Oct NY Fed Manufacturing	21.10	19.00	19.00
10:00AM	Aug Business Inventories (%)	0.5	0.5	0.6
Tuesday, Oct 16				
9:15AM	Sep Industrial Production (%)	0.3	0.2	0.4
9:15AM	Sep Capacity Utilization (%)	78.1	78.2	78.1
10:00AM	Oct NAHB housing market indx	68	67	67
Wednesday, Oct 17				
8:30AM	Sep Building permits: number (ml)	1.241	1.278	1.249
8:30AM	Sep House starts mm: change (%)	-5.3		9.2
8:30AM	Sep Housing starts number mm (ml)	1.201	1.220	1.282
8:30AM	Sep Build permits: change mm (%)	-0.6		-4.1
Thursday, Oct 18				
8:30AM	Oct Philly Fed Business Index	22.2	20.0	22.9
Friday, Oct 19				
10:00AM	Sep Existing home sales (ml)	5.15	5.30	5.34
10:00AM	Sep Exist. home sales % chg (%)	-3.4	-0.7	0.0

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is “your rates sound too good to be true”. Well they’re not, and here is why…

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It’s simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It’s just a lie that the big box mortgage companies have been telling you for years. Don’t believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker