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Rates Rising Quickly, But The Truly Scary Stuff is For Another Day And Another Reason

Mortgage rates went to bed last night knowing they were at risk of a volatile day today. **Georgia's senate race** has been in focus for 2 months now because it had the chance to change the balance of power in congress. With both seats flipping from red to blue, that's exactly what happened today.

While the election results have only been confirmed for about an hour, the bond market (which underlies interest rate movement) was already **bracing for impact** in the middle of the night. Specifically, bond yields (aka "rates") were already quite a bit higher by the time the election was finalized this afternoon. When the bond market deteriorates (aka, moves lower in price and higher in yield), mortgage rates are typically rising at a similar pace.

Does the mortgage market r**eally care that much** about politics? In a roundabout way, yes, very much! Neither mortgages nor the bond market care if a republican or democrat is in office, but they care quite a bit when one party has complete control (as is the case after today's GA senate results). This has to do with that party having an easier time spending money and incurring Treasury debt. More Treasuries mean lower prices for bonds and higher rates, all other things being equal. That's at the heart of today's rate spike.

So **what's the damage?** That really depends on your perspective. If you follow mortgage rate movement regularly, today was one of the biggest spikes since March with the average 30yr fixed quote rising by an eighth of a percent (.125) in many cases.

Of greater interest and importance is the long term damage. It's **too soon to know** if markets will treat this as a cue to continue a gradual drift back up toward higher rates. That's a drift that's been very much intact in the Treasury market, but almost undetectable in the mortgage market for a variety of reasons. Those "reasons" have acted like a cushion for mortgage rates--allowing them to remain low and move lower even as Treasury yields have drifted higher. But the cushion is getting thin enough that days like today can be felt on mortgage rate sheets.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.08	-0.36
10 YR Treasury	5.0583	+0.0723
30 YR Treasury	5.3894	+0.0337

Pricing as of: 11/12 10:43AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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While the Treasury issuance implications argue for additional upward pressure, they'd need to be joined by a brighter outlook for covid and the economy in order to translate to a truly unpleasant rate spike. The line in the sand between such a spike and a mere token consolidation is uncomfortably vague. Even in the meeting minutes released today, the Fed confirmed that it is not thinking in concrete, objective terms when it comes to the level of economic improvement required to prompt an adjustment to its policies.

All they know for now is that such an adjustment **isn't** imminent. That's a good thing, considering the Fed's largesse is a driving force behind low rates. As such, once they start talking about making that adjustment, **that's** when we're at risk of seeing the bigger changes in rates. Some say this isn't happening in 2021. The Fed itself isn't forecasting a rate hike until 2023-2024 at the very earliest. But it's not the Fed Funds Rate that matters. It's the asset purchases (which include the MBS that drive mortgage rates).

In 2013, then Fed Chair Bernanke dropped **excruciatingly clear hints** about the Fed's impending decision to taper the pace of its bond buying programs. That was in March. Dour economic data made markets forget about those comments in short order. Then on May 3rd, not only was that dour data SIGNIFICANTLY revised, but the new month of data was stellar. Suddenly, Bernanke's comments went from laughably premature to prophetically threatening. It was at that moment that the bond market began pricing-in what would soon become known as the "taper tantrum."

The terrifying ride wasn't over until September, officially, but a majority of the weakness was in the books by the end of June. Taken together, May and June were among the **worst 2 month blocks** in the decades for mortgage rates.

To be very clear, the flipping of control of the senate is **not** capable of causing movement like that. It's capable of causing a quick adjustment. Whether or not that adjustment gives way to broader negative momentum will be up to **other factors.** Again, the broad, negative momentum in rates is already intact according to Treasuries. The **terrifying stuff is reserved** for a day where covid is mostly defeated, a majority of Americans are back to work, inflation is pushing 2.5%+, and the Fed is clearly communicating it's time to taper the current crop of bond purchases.

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