Is The Worst Over For the Early 2022 Mortgage Rate Spike?

By: Matthew Graham | Tue, Jan 11 2022, 4:39 PM

2022 has gotten off to a **bad** start for the bond market and consequently, mortgage rates. The pace has been on the aggressive side with the average lender seeing an increase of more than a quarter of a point in a week and 3/8ths of a point in 2 weeks. The most prevalent 30yr fixed quotes are now in the 3.625% range, up from 3.25% at the end of December.

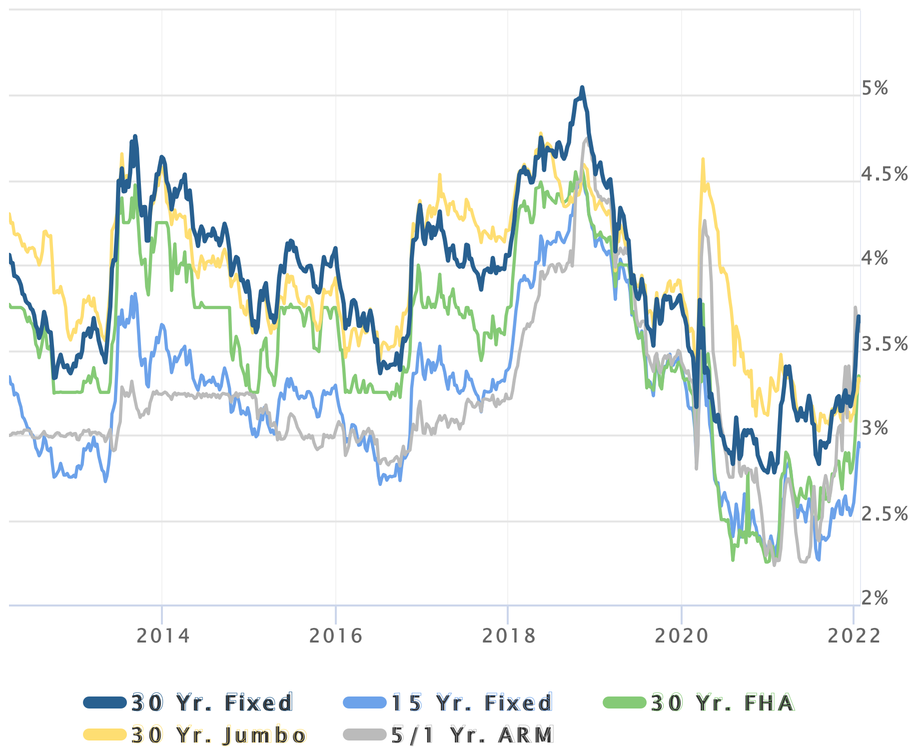
We've seen rates move higher, faster, but **very rarely**. When this type of momentum is underway, we batten down the proverbial hatches and wait for some evidence that the sky is clearing. This will usually take the form of smaller losses and eventually a **push back** in the other direction. The first two days of this week have potentially filled that role.

Yesterday was a bit more equivocal. Rates hit their highest levels since the start of the pandemic early in the day, but the bond market **stabilized** by the end of the day. Today was slightly more **encouraging**. Bonds still lost ground in the morning, but less than yesterday. They **improved steadily** from the mid-morning hours following congressional testimony from Fed Chair Powell.

In the bigger picture, today's friendly bounce in the bond market **isn't** anything special, but it provided a nice contrast to the AM weakness. It also gave us our best example of a corrective bounce since the rate spike began in earnest last week. By the afternoon, almost every lender issued a positive reprice, offering lower rates compared to this morning's initial offerings. For context, that leaves the average lender still noticeably higher than Friday, but slightly better than yesterday afternoon.

The big question is whether the worst is now over for this abrupt move toward higher rates. The answer is a definitive "maybe!" It might even be "probably." Unfortunately, that doesn't mean rates can't go higher, simply that the pace may be moderating from here. Realistically, if it were possible to know what the near-term future held for rates with any meaningful accuracy, traders would already be trading accordingly. Thus the market is always doing its best to adjust to expected future movement.

We've seen similar rate spikes in the past that have cooled off for a few days before resuming. We've seen other examples where those few days are just the beginning of broader stability. It's **still far too soon** to decide which version we're dealing with right now.



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