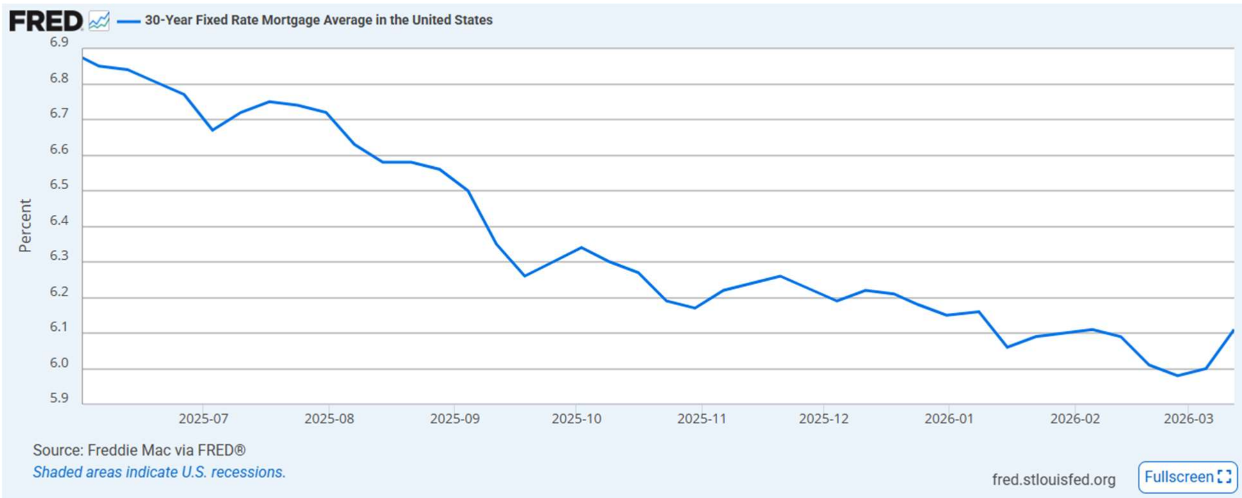
Why Rates Were Going Down… But Now They're Rising



As seen in the graph above, 30yr fixed mortgage rates fell consistently over the last 9 months. They even dropped briefly below 6% – a boon for the housing market, and something we hadn't seen since 2022!

Why? Inflation had been feeling less and less scary. No big inflationary spikes, tariffs didn't blow up prices in the way many feared, and the yields that investors demanded were drifting down as they settled in and got more comfortable.

Besides inflation, the economy looked to be cooling – which typically encourages the Fed to lower their target rate, and this in turn, gets investors comfortable with lower rates.

Then, someone dropped a proverbial bomb on the situation. Except it wasn't proverbial. It was an actual bomb. Many, many bombs. On Iran. Because:

1) Israel was going to, so we had to do it too (always foolproof plan to follow Israel)
2) We needed to free the Iranian people (did they get free?)
3) We wanted to change the regime (now there's a younger Khomeini in charge)
4) We needed to prevent future nuclear threats (I love bombing to prevent future bombing)
5) Protect international oil routes (was it like 'opposite day' or something?)

So, the reasoning behind the war is very cloudy. As a result, the duration, intensity, and outcome is also very cloudy. Who doesn't like cloudy things? Investors!

Specifically, here are investors' concerns:

1) Oil prices have risen and may pump up inflation
2) Economic fallout from the war is uncertain but could spread
3) Military spending will increase and may strain government's budget

It's still early days. I hope that objectives clarify quickly so we can re-establish normalcy and get back to falling mortgage rates.