ECONOMIC REPORT

Why mortgage rates are actually going up after the Fed cut interest rates

‘We actually anticipated the possibility that rates would tick up after the Fed announcement,’ economist says

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The 30-year mortgage rate shot up the day after the Federal Reserve cut interest rates.

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Referenced Symbols

TMUBMUSD10Y 4.136%

Hours after the Federal Reserve cut its benchmark interest rate by 25 basis points on Wednesday, mortgage rates ticked up 9 basis points.

Why did that happen? And will mortgage rates continue to climb from here?

While this trend might seem counterintuitive, the jump in mortgage rates was relatively small and driven by how financial markets are assessing the central bank's next move, economists told MarketWatch.

The Fed's rate cut sent the stock market to fresh highs. F/m Investments' Alex Morris gives his take on where stocks could go from here.

And it wasn't unprecedented. In fact, MarketWatch wrote about this exact trend occurring last year, after the Fed's jumbo 50 basis-point rate cut in September 2024.

From the archives (September 2024): Mortgage rates went up right after the Fed cut interest rates. Here's why.

The Fed announced Wednesday that it would trim its key policy rate by a quarter of a percentage point, bringing it to the range of 4% to 4.25%. Around the time of the announcement, Mortgage News Daily, a website that posts daily updates on rates, crashed — possibly the result of people flocking to the site to see how mortgage rates reacted. The company told MarketWatch it was looking into why the site was down that afternoon.

Mortgage News Daily later reported that the 30-year rate went up by 9 basis points (0.09%) to 6.22% on Wednesday. On Thursday, it reported that the 30-year rate had gone up by 15 more basis points, to 6.37%.

In contrast, a report by Freddie Mac measuring weekly averages for the 30-year rate found that mortgage rates fell to the lowest level in 12 months on Thursday. That's because Freddie Mac's report gathered information prior to and after the Fed's decision was announced. The weekly report doesn't survey lenders, but is based on actual mortgage applications to lenders across the country that are sent to Freddie Mac.

Why did mortgage rates go up hours after the Fed cut rates?

"We actually anticipated the possibility that rates would tick up after the Fed announcement," Danielle Hale, chief economist at Realtor.com, told MarketWatch. "This has to do with the market's expectations for policy moving forward." (Realtor.com is operated by News Corp subsidiary Move Inc.; MarketWatch publisher Dow Jones is also a subsidiary of News Corp.)

Mortgage rates aren't tied to the Fed's interest-rate moves. Instead, they typically fall in advance of a Fed rate cut, as MarketWatch has reported, because bond investors are trying to anticipate where the central bank will go. Mortgage rates are priced off the 10-year Treasury note **TMUBMUSD10Y 4.136%** by adding a spread.

Hence, the 10-year Treasury yield is a better gauge of how mortgage rates will move — and the 10-year yield was trending higher Thursday.

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"Investors are focused on where policy and rates will go in the future — not just today — when they are investing for the longer term," Hale said.

What's more, "a 25 basis-point rate cut was widely expected, and a small minority of investors were even holding out hope that we would see a larger 50 basis-point cut at this meeting," she added.

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Where the 30-year mortgage rate goes from here was not immediately clear to the economists who spoke with MarketWatch. A mid-August forecast by housing-finance giant Fannie Mae expected the 30-year rate to average 6.5% in the fourth quarter of this year, and fall to 6.1% by the third quarter of next year.

The Fed also signaled this week that it would cut rates two more times this year. Investors are adjusting to the Fed's potential rate-cutting plans, Hale noted, so mortgage rates could stay in the current range for the time being.

The 10-year Treasury yield moving higher on Wednesday after the rate cut "suggests that investors may have realized that their expectations are a little ahead of the Fed's," she said, "and we may not see rates ease quite as fast as currently expected."

In other words, "buyers and sellers looking for their next home can expect continued volatility in mortgage rates over the next few weeks," George Ratiu, vice president of research at the National Apartment Association, told MarketWatch.

As rates remain relatively lower now than in months past, some may be wondering whether this is a good time to buy a home or refinance an existing mortgage.

People are still largely holding off on buying homes. Purchase activity, which refers to people applying for a mortgage to buy a house, has been relatively muted in recent weeks despite the big drops in mortgage rates.

But refinances have taken off, as MarketWatch reported previously.

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The most common reason people were refinancing was to lower their monthly mortgage payments, Michael Read, principal at Bridgeway Mortgage and Real Estate Services, told MarketWatch.

"Mortgage rates were in the high 6%, low 7% at different points over the past two years," he said, so refinancing at a rate in the low-6% range helps those homeowners save some money.

About the Author

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Aarthi Swaminathan is a MarketWatch personal finance reporter covering residential real estate. She is the winner of a silver award for Best Collection of Work by an Individual Covering Residential Real Estate from the National Association of Real Estate Editors.