



FMLS Market Intel Report: What's Next for Mortgage Rates?

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Executive Summary

Expectations for interest rates have shifted sharply as the Federal Reserve approaches its September meeting. A stronger-than-expected August employment report, persistent inflation and a notably hawkish message from Federal Reserve Chair Kevin Warsh have increased the probability of another increase in the federal funds rate before year-end.

For housing, however, a Fed rate hike would not automatically translate into an equal, immediate increase in mortgage rates. The mortgage market has already moved considerably. The average 30-year fixed mortgage rate rose from 5.98% at the end of February to 6.71% in early September, closely tracking a 75-basis-point increase in the 10-year Treasury yield.

The key distinction is timing. Bond investors do not wait for the Federal Open Market Committee to act; they continuously price their expectations for inflation, monetary policy, economic growth and risk into Treasury yields and mortgage-backed securities. Much of the anticipated Fed tightening may therefore already be reflected in current mortgage rates.

That does not mean relief is imminent. Renewed conflict involving Iran, record diesel prices, persistent inflation and extraordinary global demand for capital are placing upward pressure on long-term borrowing costs. Major housing and mortgage forecasters expect little movement in mortgage rates through the end of 2026. For buyers, sellers and real estate professionals, waiting for a substantial near-term rate decline may be less productive than making decisions based on current conditions.

A More Hawkish Federal Reserve

Federal Reserve Chair Kevin Warsh used his first keynote address at the Jackson Hole Economic Policy Symposium to emphasize that the inflation fight is not over. Although inflation measures improved modestly during the summer, his remarks made clear that policymakers still need

convincing evidence that underlying inflation is moving toward the Fed's 2% objective at an adequate pace.

Markets interpreted the speech as deliberately hawkish. Following the remarks and subsequent economic data, traders raised the probability of a rate increase by year-end to 89.1%. The mid-September meeting remains a possibility, but a quarter-point increase at the end of October appears more likely if the next inflation reports do not show meaningful improvement.

The Labor Market Remains Resilient

The August employment report strengthened the case for additional monetary tightening. Employers added 162,000 jobs—approximately three times the expected gain—and revisions to the previous two months added a net 55,000 jobs.

Growth was broad enough to demonstrate continued economic momentum. Most major industries added jobs, while leisure and hospitality and local government accounted for 62% of the monthly gain. Unemployment held steady, and labor-force participation edged higher.

For the Fed, a healthy labor market provides room to remain focused on inflation. Strong job creation supports household income and consumer spending, helping keep economic growth positive. At the same time, continued resilience reduces the urgency to lower rates and may give policymakers greater confidence that the economy can absorb another increase.

Why Mortgage Rates Have Already Risen

It is tempting to assume that a Fed rate hike will directly push mortgage rates higher. In practice, the relationship is less immediate. The Federal Reserve controls a short-term policy rate, while 30-year mortgage rates are tied more closely to conditions in the bond market—particularly the yield on the 10-year Treasury and pricing for mortgage-backed securities.

Approximately two-thirds of outstanding mortgage notes are securitized. Since 1971, the average spread between the 30-year mortgage rate and the 10-year Treasury yield has been about 1.76 percentage points, although the spread has more recently been closer to 2 percentage points.

Mortgage rates have therefore been rising even though the Fed has not yet acted. The 10-year Treasury yield increased by 75 basis points from February through early September. Over roughly the same period, the average 30-year fixed mortgage rate climbed 73 basis points, from 5.98% to 6.71%.

These parallel moves illustrate how quickly the market incorporates expectations. Bond traders evaluate what the Fed is likely to do, but they also weigh future inflation, economic strength, geopolitical instability, government borrowing and demand for capital. By the time the Fed announces a widely anticipated decision, much of its expected impact may already be embedded in long-term rates.

Inflation, Geopolitical Risk and Capital Demand

Several forces are keeping pressure on long-term interest rates. Renewed conflict involving Iran has returned war-driven inflation to the forefront of investor concerns. Energy costs are an especially visible channel: diesel prices recently reached an all-time high of \$5.85 per gallon. Higher fuel and transportation costs can spread through supply chains and make progress on inflation more difficult.

The supply and demand for capital also matter. U.S. government debt recently surpassed \$40 trillion, while public and private borrowers around the world continue to compete for financing. When the supply of debt is high and risks are elevated, investors generally demand higher yields. That dynamic can keep Treasury and mortgage rates elevated even if short-term policy eventually becomes less restrictive.

Housing Market Outlook

The practical takeaway is clear: a meaningful decline in mortgage rates between now and year-end should not be treated as the base-case expectation. Forecasts from Fannie Mae, Freddie Mac, the Mortgage Bankers Association, Wells Fargo and other major institutions indicate little movement in the 30-year fixed rate through the remainder of 2026.

There is a potential wild card. A durable end to the conflict involving Iran—or even a credible ceasefire—could calm energy markets, reduce inflation expectations and bring Treasury and mortgage rates lower. Without such a development, however, the combination of persistent inflation, resilient employment, heavy borrowing and geopolitical uncertainty points to continued rate pressure.

For consumers, this outlook reinforces the importance of evaluating a home purchase or sale based on personal needs, affordability and local market conditions rather than trying to time a large rate decline. Buyers may benefit from comparing loan products, understanding potential refinancing opportunities and negotiating around price or concessions. Sellers should recognize that affordability remains a central constraint and price their properties for current financing conditions.

For real estate professionals, the environment calls for clear, evidence-based guidance. Mortgage rates may move from week to week, but current forecasts do not support waiting for a dramatic improvement before the end of the year. Market conditions will also vary by location, price point and property type, making timely local data especially important.

Conclusion

The economy continues to show resilience, but that strength comes with an interest-rate tradeoff. Robust August job growth and inflation above the Federal Reserve's target have increased the likelihood of another policy-rate increase. At the same time, the mortgage market has already adjusted substantially as investors respond to those expectations and to broader economic risks.

The most likely near-term outcome is not a sudden surge or decline in mortgage rates, but continued elevation with limited movement through year-end. FMLS members can monitor the latest housing trends through Market Intel on the FMLS website, where market statistics are updated weekly and local-market resources provide a more detailed view of conditions across the region.