

2026-4-12

HOUSING

April mortgage outlook: It's not good



A House For Sale sign is displayed in front of a home in Evanston, Ill., on March 25. NAM Y. HUH — THE ASSOCIATED PRESS

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March was a tough month on many fronts, and that includes mortgage rates. At the end of February, we saw the lowest 30-year averages since September 2022. A mere four weeks later, average rates are about 40 basis points higher — that's almost half a percentage point (a basis point is one one-hundredth of a percentage point).

Mortgage rates have been rising pretty relentlessly, and from where we stand now, it looks like April will see rates continuing to move higher.

Why mortgage rates are rising

It may feel easy to connect the Iran conflict to, say, higher gas prices, but the path to higher mortgage rates feels less clear. Here's why the war's driving up rates.

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Iran borders the Strait of Hormuz, a key shipping thoroughfare that's usually busy with tankers transporting oil, petroleum products, fertilizer and more. The bulk of these goods are bound for Asia, but in an interconnected world, choking off supplies to one region can push up prices across the globe.

To explain it super simply: Imagine an open-air market that's always bustling with shoppers who all want to buy fruit. If one of the biggest fruit stands closes but the market's still attracting the same number of shoppers, the remaining stands may have trouble keeping fruit in stock. Those fruit stands might start raising prices since now there's higher demand for their products.

In a nutshell, that's why the war in Iran is stoking inflation fears: A prolonged conflict could drive up prices across a range of commodities on a global level. You can guess how the stock market's been taking it (not well), but the bond market's taken a beating, too.

Mortgage rates track the yield on the 10-year Treasury note, because mortgages and 10Y T-notes are investments that behave similarly. ("Yield" means the interest the bond pays.) Because mortgage rates move when bond yields move, the bond market plays a massive role in setting mortgage rates. Note

During times of economic uncertainty, the conventional wisdom is that investors will turn to good ol' reliable bonds, with their fixed rates of return. But here's the thing: In an inflationary environment, bonds lose their luster since those fixed returns don't go as far. That can push bond prices down and yields up, because that preset interest rate is now relative to a lower price. (Higher yields can also potentially attract investors, since that interest income can offset inflation risk.)

All that's to say over the course of the Iran conflict, inflation fears have caused bond yields to rise, and mortgage rates have risen right along with them.

Could rates drop?

Even if we could wave a magic wand and completely resolve the war in Iran, it's unlikely that mortgage rates (or anything else, really) would snap right back to normal. To be honest, given time, where rates are now could end up looking like a good place for mortgage borrowers to be. Again, the outlook for inflation is especially poor, and that could put even more upward pressure on mortgage rates.

The Federal Reserve doesn't set mortgage rates, Note but when it looks like the Fed's in a rate-hiking mood, mortgage rates tend to move higher. A contingent of the Fed's governors has already been expressing concern about inflation, but serious acceleration could cause even the most rate-cut-hungry bankers to come around to the idea of raising the federal funds rate to combat rising prices.

As the Iran conflict stretches longer and longer, economists and market analysts have been raising the odds of the U.S. entering a recession this year. That kind of significant economic downturn would likely bring us lower mortgage rates, as markets' risk calculations would change and the Fed would be more open to cutting rates to support a struggling economy.

But a full-on recession would be a pretty high price to pay for a cheaper mortgage.

How borrowers can cope

What we've seen over the past two months is a perfect example of why timing the market simply isn't possible. Folks who looked at February's mortgage rates and thought they'd wait for rates to go even lower may be in for a long wait. It can be a tough pill to swallow, but if you're otherwise ready to buy, don't get too stuck on mortgage rates. Holding off on a home purchase for a more favorable interest rate environment is costing you time you could have spent enjoying your new home, not to mention building home equity.

If you're a homeowner biding your time until you can refinance, use this wait to bolster your financial backing so that when lower rates come along, you'll be a strong candidate. That means basic financial hygiene like paying down debt, keeping credit utilization in check, and paying bills on time. Having all your financial paperwork organized and ready to go doesn't hurt either.

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