



Banks Finally Hike Fixed Mortgage Rates: Will This Trend Continue?

Description

Well, the egg has finally cracked: after nearly two years of historically low rates, Canada's biggest banks are starting to hike up fixed mortgage rates.

It happened first with TD Bank. Within a single day, the bank's five-year fixed interest rate climbed from a steady 1.99% to 2.29%. CIBC quickly followed suit, raising their 5-year fixed from 2.24% to 2.36%.

Since then, we've seen a number of banks raise the interest rates on their fixed mortgages, including Equitable Bank, HSBC, and First National. Naturally, a rate hike has many Canadian homebuyers concerned: Is this a one-time thing, or will this trend continue?

Let's take a closer look at what's happening in the Canadian mortgage market.

The main catalyst: Bond yields

First off, the rise in fixed mortgage rates shouldn't come as a surprise. In fact, several weeks ago we saw the five-year government of Canada bond yield trend upward, hitting a 20-month high at 1.09% (since then it's risen a bit higher and is now sitting at 1.11%).

Why does that matter? Well, for one, banks use the five-year bond yield market to decide how much their fixed mortgage rates will be. If the bond yields go up, you can bet that fixed mortgage rates aren't far behind.

And that's exactly what we saw. At the end of September, with increased pressure from the U.S., along with crazy high inflation rates, the Bank of Canada put the bond yield in high gear. This came almost a week after banks had lowered their fixed mortgage rates yet again. Despite this, banks responded by raising their fixed rates by a few percentiles.

On top of increased bond yields, inflation continues to plague the prices of Canadian goods. Everything from timber to gas has seen substantial increases in prices, and those, too, play a role (albeit smaller than bond yields) in how banks set their fixed mortgage rates.

Will this trend stay?

All of this is to say that the upward trend that we're seeing in fixed mortgage rates isn't abnormal. In fact, I'm willing to bet this will be a trend that we see more in the weeks and months to come.

Bond yields have not gone down. In fact, they've continued to go up. And with inflation still a problem, it seems like the days of historic low interest are just about over.

What do higher fixed mortgage rates mean for you?

Well, first off, I wouldn't hit the panic button just yet. Even though mortgage rates have gone up slightly, they haven't hit all-time highs. If you were on the brink of taking out a fixed-rate mortgage before the rate hikes, you still have time to lock into a lower rate, as not all banks have raised their mortgage rates. Some mortgage lenders will even let you lock into a lower rate now before more changes bring rates up.

Second, even if you're not ready, there's still a sliver of hope. Canada is still going through a post-pandemic recovery, meaning anything could happen. We may see bond yields go down, with fixed-rate mortgages going down with them. I wouldn't count on mortgage rates staying low for a long period, but keep your eyes on the mortgage market, as rates can change in the blink of an eye.

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