



JAG Fixed Income Thematic Insights: Q1 2026

Total reading time = 3 minutes

Why Your Mortgage Rate Isn't Just About the Fed

Bond markets have been, by their own standards, relatively quiet of late — a welcome reminder that uneventful, in fixed income, is usually the point. We thought this moment was as good as any to step slightly outside our usual lane. JAG invests primarily in corporate bonds and Treasuries, not mortgages. But the forces that move mortgage rates are the same forces we navigate every day: Treasury yields, credit spreads, and the expectations embedded in each. This topic sits closer to home than it might appear.

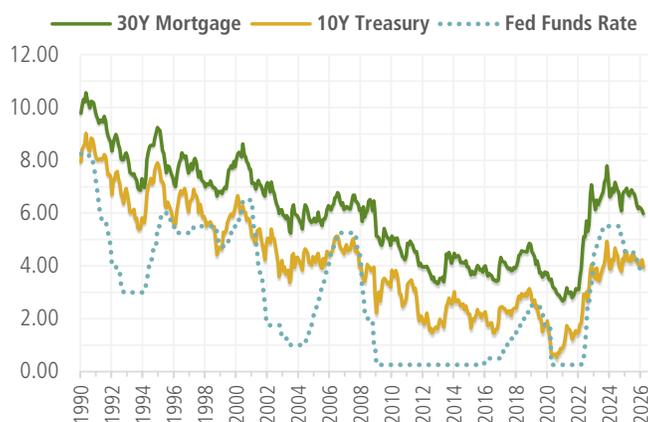
It also happens to be one of the most familiar yet misunderstood corners of fixed income. A question we hear often: *why aren't mortgage rates lower if the Fed has been cutting?*

The 10-Year, Not the Fed Funds Rate

The Federal Reserve controls the overnight lending rate. That rate anchors the front end of the yield curve and cascades to savings accounts, money market funds, and short-term CDs.

A 30-year mortgage is an entirely different animal. The investors who ultimately fund these loans, primarily via mortgage-backed securities (MBS), are committing capital for decades, not days. Their reference point is the 10-year US Treasury yield, which has long served as the de facto benchmark for 30-year mortgage pricing. The 30-year Treasury bond might seem like a more intuitive match, but because mortgages amortize and borrowers prepay, the effective duration of a mortgage portfolio sits closer to the 10-year.

Exhibit 1: 30-Year Fixed Mortgage Rate vs. 10-Year Treasury Yield vs. Fed Funds Rate



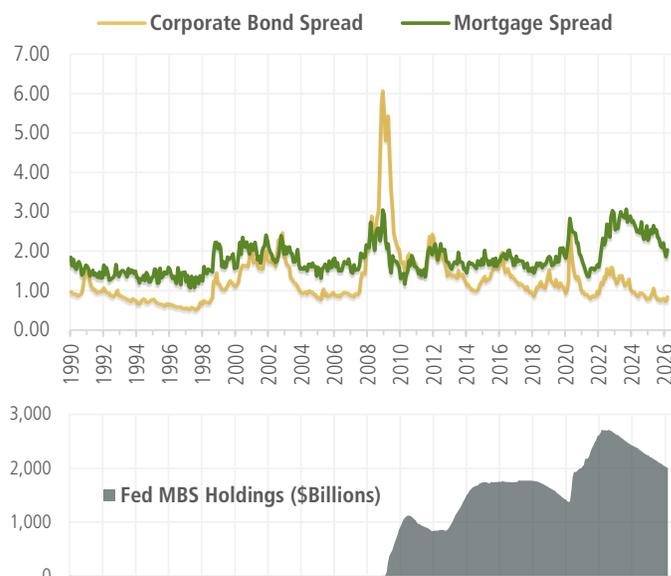
Source: Bloomberg Finance LP, JAG Capital Management

The Spread on Top

Even the 10-year Treasury does not tell the whole story. Mortgage rates carry an additional spread above that benchmark, compensation to lenders and investors for risks unique to the mortgage market. Those risks include the possibility that homeowners refinance when rates fall (prepayment risk), general credit considerations, and the liquidity characteristics of mortgage-backed securities. The components differ from those we analyze as corporate bond investors, but the framework is consistent: higher risk demands higher spread, and risk appetite is fluid.

At times, both spreads move together, as periods of broad market stress tend to widen risk premiums across asset classes simultaneously. But Exhibit 2 reveals that a gap emerged in 2022 and has persisted. Mortgage rates were pushed higher during this period by both a rising 10-year yield and an unusually wide spread. The Federal Reserve, through quantitative easing, had been a significant buyer of mortgage-backed securities for much of the prior decade — a tailwind for mortgage spreads that reversed when the Fed began shrinking its balance sheet in 2022. Some normalization in mortgage spreads, if and when it occurs, could provide modest relief on mortgage rates.

Exhibit 2: Mortgage Spread vs. Corporate Bonds and Fed MBS Holdings

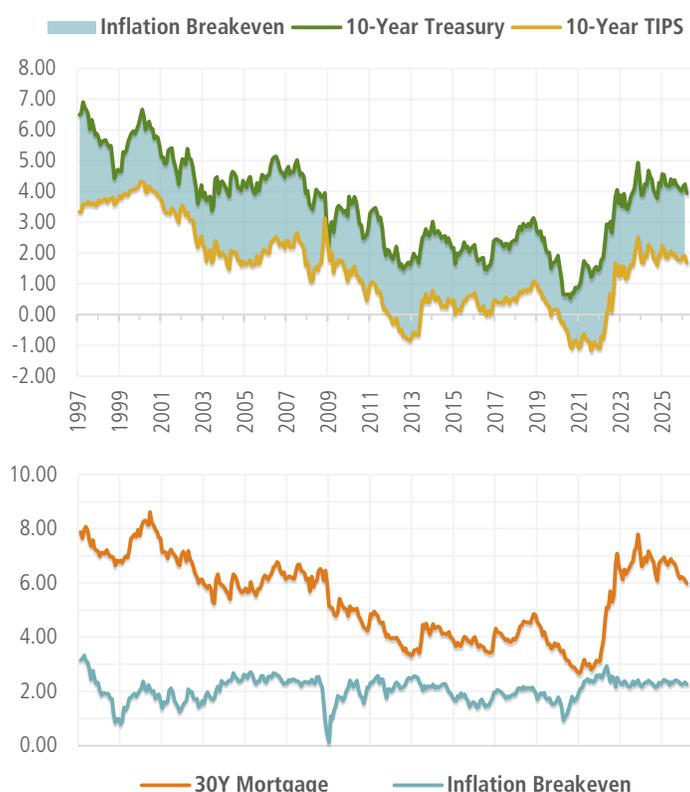


Source: Bloomberg Finance LP, JAG Capital Management

What Moves the 10-Year?

If the 10-year is the anchor, what moves the anchor? Primarily inflation expectations. When the market believes inflation will persist, long-term yields rise. When it expects inflation to moderate durably, yields can fall, sometimes before the actual data confirms it.

Exhibit 3: Inflation Expectations and Mortgage Rates



Source: Bloomberg Finance LP, JAG Capital Management

Elevated inflation uncertainty feeds directly into rate volatility, and rate volatility makes prepayment behavior significantly harder to model. Mortgage investors demand additional spread compensation as a result. The relative calm in rates of late, if sustained, removes at least one of the factors that has kept mortgage spreads stubbornly elevated since 2022.

What Would It Take?

Mortgage rates breaking durably below 6% would likely require some combination of a sustained decline in inflation expectations, a meaningful compression of the mortgage spread back toward historical norms, or an economic slowdown significant enough to drive a genuine flight to Treasuries.

Exhibit 4: 30-Year Fixed Mortgage Rate — 1971 to Present



Source: Bloomberg Finance LP, JAG Capital Management

None of this makes the current rate environment comfortable for prospective homebuyers. But understanding the mechanics — Treasury yields, inflation expectations, and the spread layered on top — reframes the question from “why hasn’t the Fed fixed this?” to a more precise and answerable one: what would need to change in each of those components?

As bond investors, we ask a version of that question every day. The instruments are different; the framework is the same.

— JAG’s Fixed Income Research Team

Disclosures

This report was prepared by the staff of JAG Capital Management, LLC, an SEC-registered investment adviser. The information herein was obtained from various sources including but not limited to FactSet, Bloomberg, Reuters, Standard & Poor's, ChatGPT, and the United States Bureau of Labor Statistics, and believed to be reliable; however, we do not guarantee its accuracy or completeness. The information in this report is given as of the date indicated. We assume no obligation to update this information, or to advise on further developments relating to securities discussed in this report. The opinions expressed are those of the adviser listed above as of the date of this report and are subject to change without notice. The opinions of individual representatives may not be those of the Firm. Additional information is available upon request.

The information contained in this document is prepared and circulated for general information only. It does not address specific investment objectives, or the financial situation and the particular needs of any recipient. Investors should not attempt to make investment decisions solely based on the information contained in this communication as it does not offer enough information to make such decisions and may not be suitable for your personal financial circumstances. You should consult with your financial professional prior to making such decisions. For institutional investors: JAG Capital Management, LLC, has a reasonable basis to believe that you are capable of evaluating investment risks independently, both in general and with regard to particular transactions or strategies. For institutions who disagree with this statement, please contact us immediately. **Past performance should not be considered indicative of future performance. Any investment contains risk including the risk of total loss.**

This document does not constitute an offer, or an invitation to make an offer, to buy or sell any securities discussed herein. J.A. Glynn & Co., JAG Capital Management, LLC, and its affiliates, directors, officers, employees, employee benefit programs and discretionary client accounts may have a position in any securities listed herein.

A Veteran Owned Business (VOB) is a business owned, (51% ownership or greater) by a Veteran who has met the definition of a veteran. The following represents the criteria that the National Veteran Business Development Council (NVBDC) uses in determining ownership:

Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm in St. Louis.



1610 Des Peres Road, Suite 120
St. Louis, MO 63131

