

## Mortgage Rates Near Long-Term Lows Despite Taper Talk

"Taper talk" refers to comments, speeches, or official policy communications from the Federal Reserve (aka "the Fed") that speak to the timing and nature of a reduction in the Fed's bond buying activities. Wow! What a boring and potentially confusing sentence! **Let's try again...**

**The Fed buys bonds**--US Treasuries and mortgage backed bonds (which, in turn, serve as the foundation for mortgage rate pricing). This helps rates move or remain low. When markets think the Fed is going to stop buying bonds, rates are at risk of moving higher.

The current bond buying efforts began as a response to the pandemic. They helped stabilize the financial system and they provided "accommodation" (a boost to overall economic activity intended to support the Fed's goals on inflation and job growth). As the pandemic grew more manageable and especially as the economy has come back online, the Fed has increasingly discussed winding down (or "tapering") the bond buying programs.

The **same thing happened in 2013**, only the market was much more **surprised** by the taper talk. This time around, the market knew tapering would be a natural milestone in the post-pandemic economic recovery. Even so, the timing matters quite a bit when we're talking about \$120 bln per month in guaranteed bond market demand.

At the risk of stating the obvious, if the market **believes** the Fed will taper sooner or in bigger increments, it would put upward pressure on rates, all other things being equal. Conversely, if the market sees the Fed taking things slow, rates can remain low or even head lower.

The latter is essentially this week in a nutshell. While the Fed did indeed add some **vague hints at tapering** in the policy statement, and while Powell wasn't shy about acknowledging the ongoing tapering conversation, markets were already expecting this. In the same breath as that acknowledgement, Powell also clarified the economy is still "a ways away" from the level of progress required to actually pull the trigger on tapering. Whereas some economists thought we'd see such a trigger pulled as early as September, Powell gave the impression that the discussion would carry on for at least 2 more Fed meetings. That puts an announcement off until November at the earliest--possibly later--with tapering probably not commencing until early 2022.

In addition to that slower decision-making process, Powell also addressed mortgage back securities (MBS) **specifically**. He acknowledged that several committee members wanted to taper MBS before Treasuries, but that they were the minority. At worst, it sounds like the Fed might consider tapering MBS and Treasuries at different paces--still a victory compared to an "MBS first" scenario.

All of the above has allowed the bond market and, thus, mortgage rates to remain at the strongest recent levels. For the average lender that means top tier conventional 30yr fixed rates in the high 2's.



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