

### How The Election and The Fed Impacted Rates

Mortgage rates spent the entire month of October moving higher at a fairly quick pace. Some of that had to do with stronger economic data, but at least as much had to do with the bond market (bonds dictate rates) adjusting to election probabilities. As we've been advising in recent weeks, the consensus was that a Trump victory (or improved odds thereof) was associated with upward pressure on rates.

The bond market left no doubts on election night as Treasury yields spiked well before any news team was anywhere close to confirming a winner. Notably, various betting sites underwent similar shifts simultaneously. The following chart shows overnight movement in 10yr Treasury yields, which tend to move like mortgage rates over time.



It's impressive and telling that yields hit levels by 10:40pm ET that were right in line with where they would go on to end the following trading day. This was not a matter of financial markets guessing or speculating. It was a reflection of their efficiency and their constant quest to operate on the fastest possible timeline with the greatest possible precision.

Note: this doesn't mean we should always count on markets to predict the future. There are plenty of examples of similar scenarios where the market encounters a surprise and is forced to make a rapid correction. This time around, things just happened to unfold largely in line with expectations.

What about the "red sweep?"



**Stephen Heston**

Broker NMLS #1930964,  
Aspire Mortgage Solutions  
LLC NMLS #2481498

[www.aspiremortgagesolutions.com](http://www.aspiremortgagesolutions.com)

P: (509) 202-4424

102 W Main St. #3  
Pullman WA 99163

2481498  
1930964



One of the more dire expectations as far as interest rates are concerned was that both chambers of congress would end up with GOP majorities. Full control by either political party coincides with higher rates, all other things being equal. As of Friday evening, control of the House remains undetermined--a fact that has played a role in helping rates recover a bit after the election night spike.

The following chart shows a longer term view of Treasury yields with the early October jobs report reaction for context. Note the relatively linear move higher in rate throughout the month, culminating in the final surge on election night and a return to 4.30% afterward.



Even if the GOP wins full control, it would be by a narrow enough margin to create uncertainty about some of the policy-related headwinds that interest rates might contend with in the coming year.

### What's next for rates then?

Policy aside, rates will continue paying attention to economic data and inflation--a fact that was reinforced in Thursday's Fed announcement. As expected, the Fed cut its policy rate by 0.25%. There was essentially no reaction in longer term rates--at least not due to the Fed itself.

Longer term rates were already in the process of moving lower after the big surge on election night. In other words, it wasn't the Fed!



### What about mortgage rates specifically?

Mortgage rates may have moved lower on Fed day, but it had nothing to do with the Fed (see the chart above to understand how entrenched the bond market correction was by the time the Fed announcement came out).

Mortgage rates actually bounced back more than Treasuries. The simplest reason has to do with expectations of increased Treasury issuance in the future. Treasuries are used to fund government spending. More issuance means higher rates, all other things being equal. Specifically, if tax policy creates a revenue shortfall, the US government pays for it with Treasuries. While Treasuries are similar in movement to mortgage rates, the latter are based on mortgage backed securities (not something the government can issue to fund operations).

As has been and continues to be the case, it is good to remember that market response to the election can be different from the market movement that occurs during the ensuing administration for a variety of reasons. The 2016 election was the best recent example. Rates spiked in 2017 and 2018 only to fall back to pre-election levels by the end of 2019. Long story short, rates will be determined by the economy and actual changes in Treasury issuance. Fiscal policy will have a bearing--possibly a big one--but not the final say.

### Coming up next week...

The upcoming week brings several important economic reports with the two headliners being the Consumer Price Index (CPI) and the Retail Sales report. CPI is a key inflation metric and there's been some recent concern that inflation isn't going as quietly into the good night as some may have hoped. If this report shows monthly inflation metrics falling back in line with the friendlier numbers seen in the summer months, it could help rates continue to establish a ceiling after the recent surge.

Financial markets will be closed on Monday for the Veterans Day holiday.