



Can Trump Actually Force Rates to Move Lower?

It turned out to be an intensely boring week for mortgage rates. The average lender stayed right in line with last week until moving slightly higher on Thursday and slightly lower on Friday.

This isn't too much of a surprise. Rates are driven by bonds and bonds are most easily influenced by major economic reports--something in extremely short supply this week.

Next week brings a more active calendar with several relatively important reports in addition to Wednesday's rate announcement from the Fed. While the Fed will not be cutting rates at this meeting, the post-meeting press conference can still serve as a source of inspiration for rates.

There are several other considerations for rates beyond economic data. Given that Trump said he would "demand that interest rates drop immediately" this week, it's worth asking whether a president has a direct say in the matter.

In short, no... not directly anyway. Indirectly, the government and a presidential administration can have a massive impact on rates, but that impact is almost exclusively a result of changes in the economy and the government's borrowing needs.

For instance, if fiscal policy increases economic growth, that would put upward pressure on rates, all other things being equal. If that growth came courtesy of lower taxes, the government may need to issue more Treasuries in order to fund government spending. Higher Treasury issuance would push rates higher as well. Conversely, if the government can cut spending more than enough to offset any decrease in tax revenue, Treasury issuance could eventually move lower and that would help rates.

It's important to understand that it takes a long time to see meaningful decreases in Treasury issuance for a variety of reasons. So this is not a vehicle for rate reduction in 2025.

Nonetheless, the market is willing to react to probable outcomes and policy changes. We saw this during Trump's first term with traders quickly bracing for the impact from the tax bill that became likely after Trump's victory (because both the House and Senate were under GOP control).

Traders were thinking about lower revenues (i.e. higher Treasury issuance) as well as potential jolt of economic growth. 2017 marked some doubt about the tax bill and other policy goals, but the passage of the tax bill reinvigorated the upward movement in rates in 2018. Rates ultimately erased all of that movement in 2019 as economic data cooled at home and abroad.

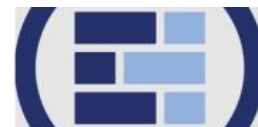


Paula Bonnafant
Mortgage Broker, Edge
Home Finance

paulabonnafantteam.com

M: (239) 689-1331

Corporate address:
Minnetonka MN 55345
NMLS 858645



Paula M Bonnafant
REALTOR®, Century 21
Selling Paradise

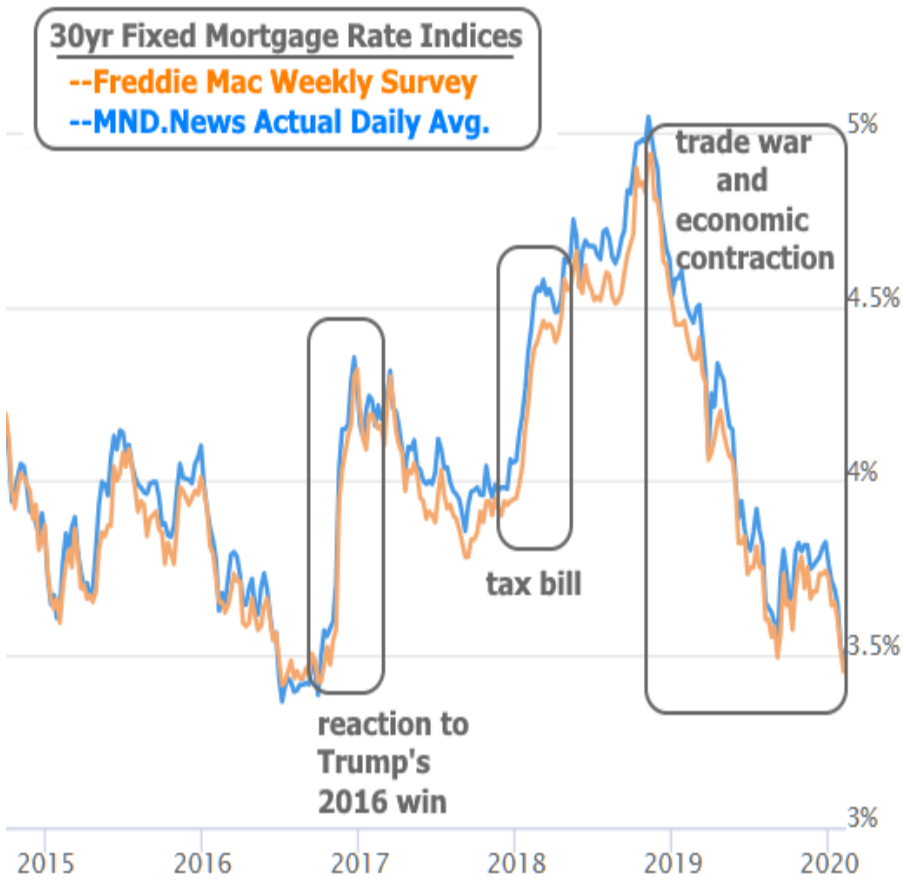
P: (239) 689-1331

M: (239) 689-1331

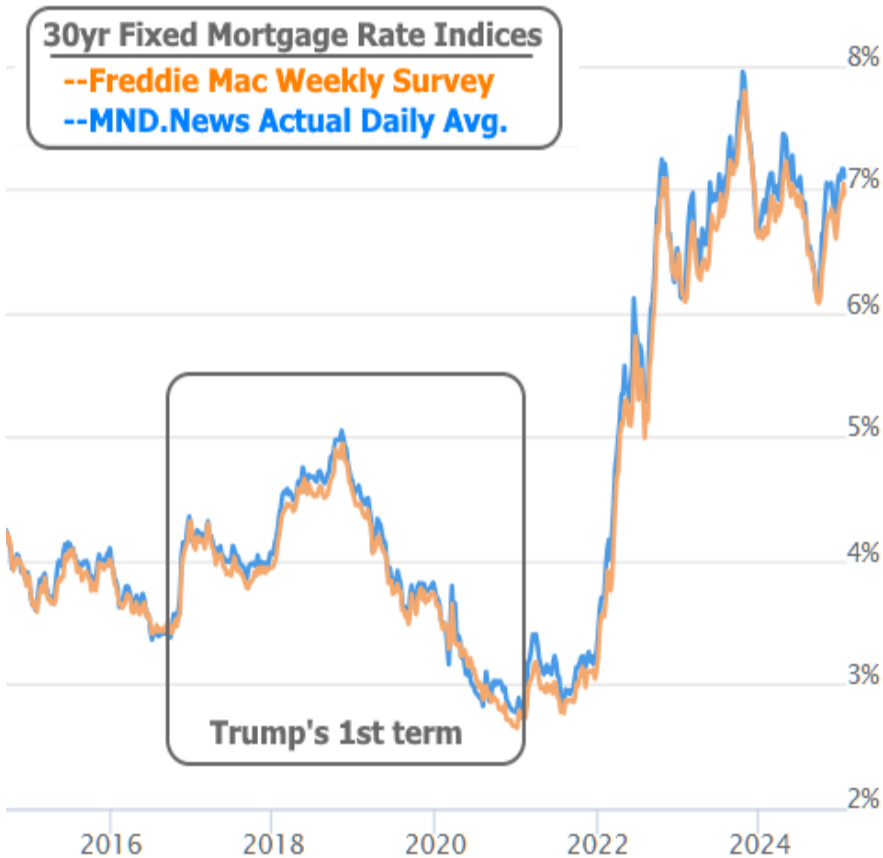
hello@paulashometeam.com

3409 Del Prado Blvd S
Cape Coral FL 33919
SL3239698
NMLS 858645





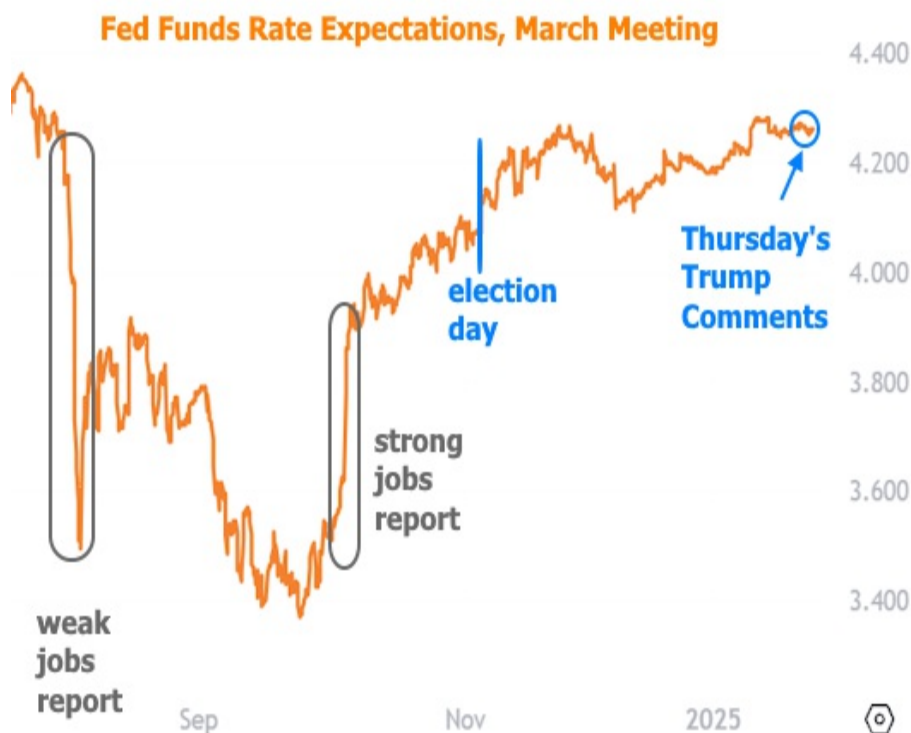
In hindsight, Trump's first term looks like child's play compared to the post-covid rate landscape.



This massive rate spike is a symptom of high inflation, strong economic growth, and persistently elevated Treasury issuance. Inflation has moved down significantly, but as we discussed last week, it needs to keep moving toward target levels if the Fed wants to keep cutting rates.



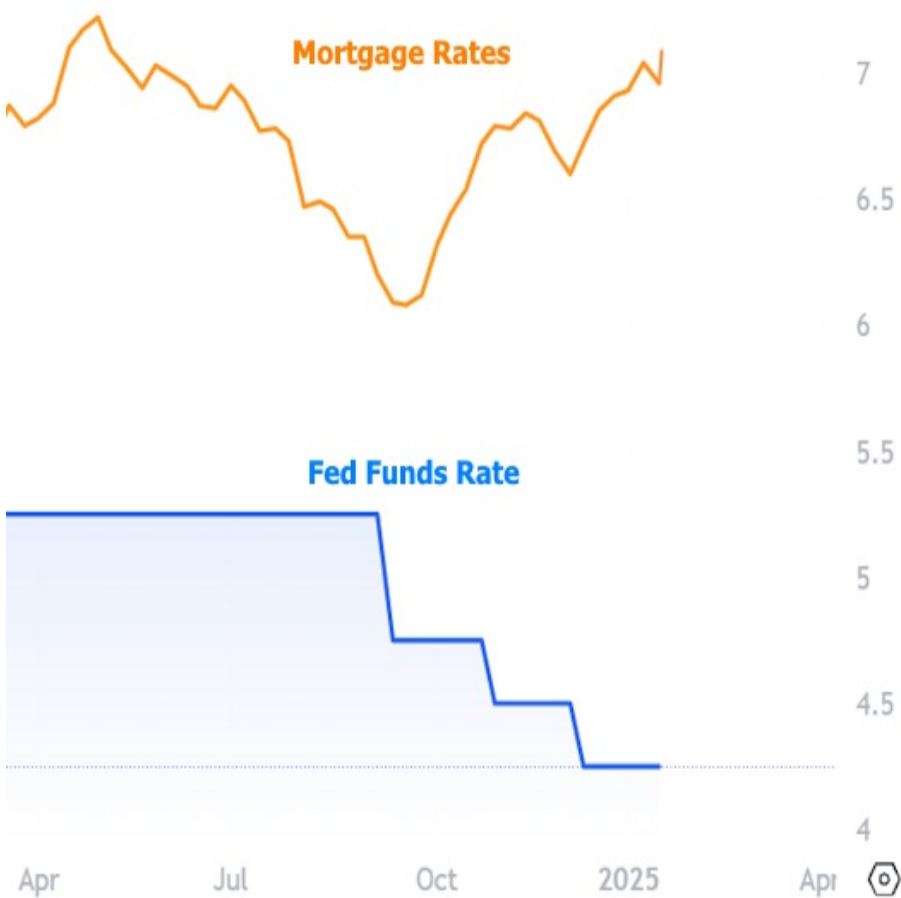
Without inflation playing ball, the Fed won't be able to cut rates much beyond current levels, no matter how much Trump demands it. The Fed is designed to be independent and ideally, uninfluenced by political pressure. Traders (the people who will ultimately determine exactly how interest rates move) agree, as can be seen in the following chart of Fed Funds Futures. The chart shows where the market sees the Fed Funds Rate after the March Fed announcement (the next meeting with even a remote chance of seeing a cut).



Simply put, the big ticket economic reports (like the jobs report) account for a substantial majority of the change in rate expectations. While it's harder to see in this chart, reports like the Consumer Price Index account for several of the smaller spikes over the past few months.

But for the sake of exhaustive analysis, let's imagine a scenario where the Fed has sacrificed its independence or is otherwise influenced by political pressure, thus cutting rates sooner than they otherwise would have, or by a greater amount overall.

First off, the Fed Funds Rate only applies to overnight transactions among large financial institutions. Longer term rates (like mortgages) would still be dictated by bonds that have a strong track record of delayed reactions to Fed rate cuts. Case in point, mortgage rates are up almost 1% despite the Fed having cut its rate by 0.75% since September.



Even if mortgage rates were tied to the Fed Funds Rate, there's an inherent problem with unjustified Fed rate cuts. The entire point of a high Fed Funds Rate is to increase the cost of credit in an attempt to cool inflationary pressures in the economy. Dropping the rate prematurely or excessively would risk sabotaging progress toward inflation goals. If inflation were to increase, the Fed would have to increase the Fed Funds Rate in response.

Bottom line: even if the Fed Funds Rate would help mortgage rates (the chart above shows us how that's been working out), the fallout from cheaper credit would likely result in rates moving even higher in the future. The best hope for rates continues to be ongoing moderation in inflation data, a stable economy, and lower Treasury issuance.