Does the President Control Mortgage Rates?

The president has been pushing for lower mortgage rates. But how does this all work? If he forces the Fed to lower rates do mortgage rates fall? No. And it could have bad consequences. Let's dive into it.

To kick us off, let's define:

Fiscal Policy = Management of government taxing & spending. The **government** does this.

Monetary Policy = Management of short-term interest rates. The **Fed** does this.

Mortgage Rates = Set by supply & demand for long term debt. **Investors** set these.

One of the reasons the USA has the greatest financial system in the world is because our **monetary policy** is not set by politicians. Politicians are incentivized to make short term decision because they want to be elected NOW. If there are long-term consequences, they don't care. For instance, the USA is running a **7% fiscal deficit** this year and neither party has shown any interest in a balanced budget.

The Fed, on the other hand, is appointed based on experience and has long tenures. That insulates them from short-sighted politicians. Investors like that. The Fed doesn't get everything right, but it seeks the best long-term result. For example, in 2021, the Fed deemed the spike in inflation to be transitory. In 2022, they realized they were wrong and raised the federal funds target rates sharply. This caused pain – but it was necessary and they ultimately pulled off the 'soft landing' where they tamed inflation back to 2-3% without a recession. A politician would never have pulled that off.

The Fed's independence is now threatened due to the president firing a governor and pressuring rate decreases. In the short term, many safeguards protect the Fed's independence and investors are not alarmed. They are, however, watchful. This can be seen in the fact that inflation is contained, the economy is strong, and the Fed is likely to lower short term rates significantly over the next year. Yet despite all those positive signs, investors are anticipated to hold 30-year mortgage rates relatively steady.

In the long term, the Fed's independence matters to all of us. If it is controlled by politics, we must assume that **monetary policy** will be manipulated for short term political gain – just as **fiscal policy** is.

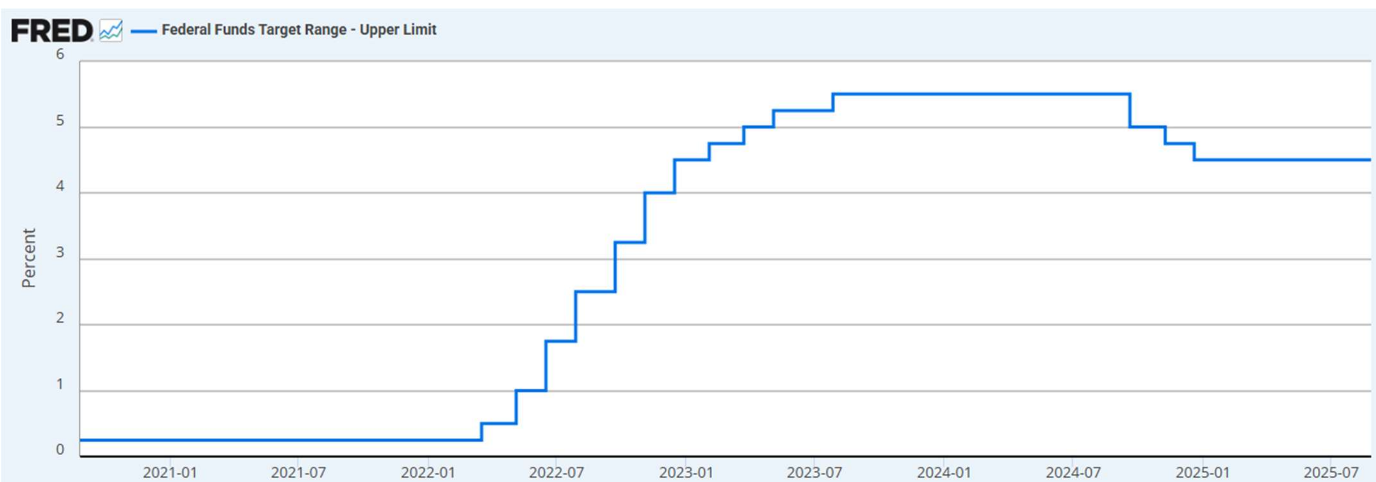
The result of that is no mystery. It has played out in dozens of other countries. Bad decisions compound and blame is assigned to foreign agents, investors, immigrants, landlords, grocery stores. The government imposes controls on capital, exchange rates, rent, food. All of it is nonsense and it eventually gets so bad that, if there is still a democracy left (like in **Argentina**) then they vote in a radical new president that hopefully imposes austerity and corrects course. If there is no democracy left (like in **Venezuela**) then they just have an exodus of people who want a decent life, because it is no longer possible in their own country.

I don't predict we will end up like Argentina or Venezuela! But I've always had a long-term perspective and the Fed's independence is an important thing to watch. I predict rates should be flat or decline a bit in the next year or so. But in the long term, if the Fed continues to be politicized, I don't see why investors would accept 3 or 4% interest rates. If anything, investors could demand rates of 8, 9, 10% or higher.

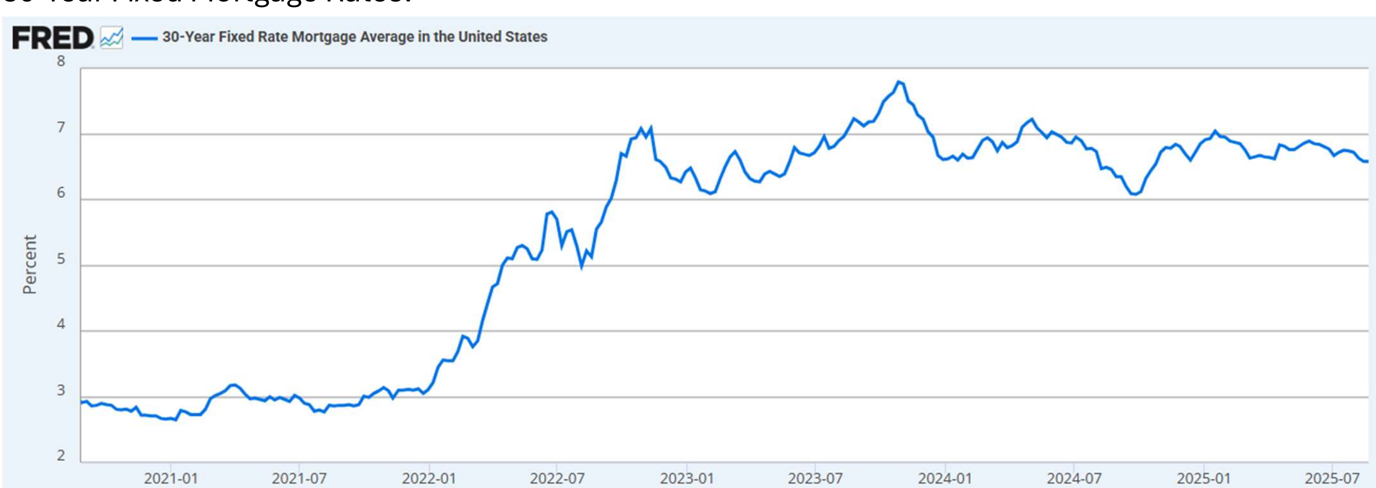
So, a 6.5% mortgage rate on a 30-year fixed might look amazingly good in a few years!

Some charts:

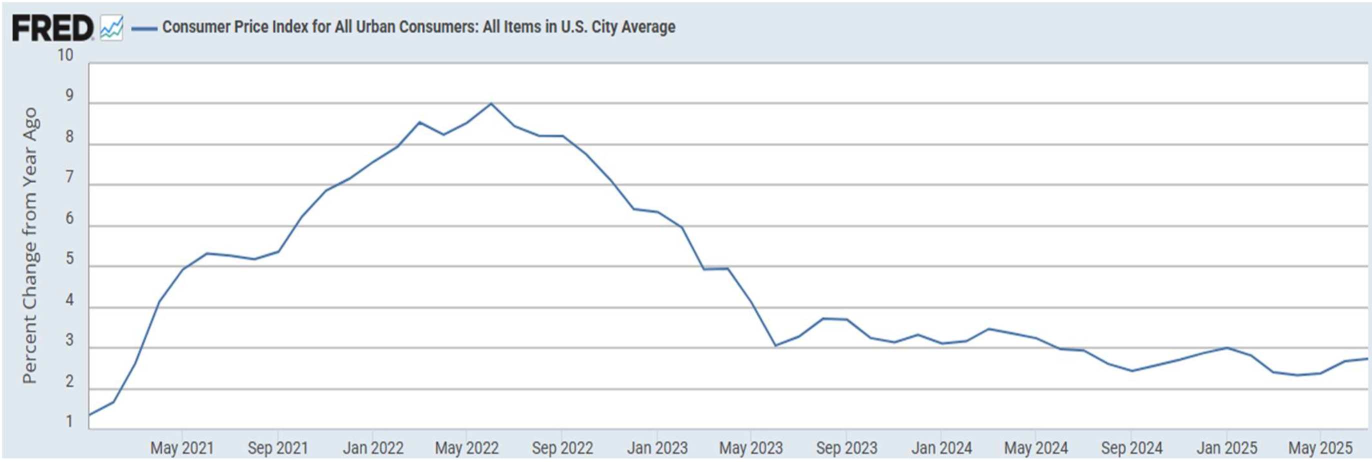
Fed's Target Rate:



30-Year Fixed Mortgage Rates:



Inflation:


FRED
Consumer Price Index for All Urban Consumers: All Items in U.S. City Average
Percent Change from Year Ago
10
9
8
7
6
5
4
3
2
1
May 2021
Sep 2021
Jan 2022
May 2022
Sep 2022
Jan 2023
May 2023
Sep 2023
Jan 2024
May 2024
Sep 2024
Jan 2025
May 2025