

Rates Rose Slightly In August - Fixed Income Update

Rates rose slightly in mid-August, following a weaker than expected auction for U.S. government bonds. The yield on the 10-year treasury rose from 0.55 in early August to 0.71 in mid-August, representing nearly a 30% jump within two weeks. The rapid rise in rates also lifted mortgage rates and other consumer lending rates, which had already fallen substantially since late March.

The Federal Reserve communicated an extended period of near zero short-term rates over the next five years as it expects inflation to be mild. The announcement sent longer term bond yields higher versus shorter term bond maturities.

Over \$1 trillion of mortgage bonds have been purchased by the Federal Reserve since March of this year. The ambitious buying spree is meant to help sustain the housing market as jobs and incomes have faltered during the pandemic. Lower mortgage rates are expected to remain in place encouraging homeowners to refinance and buyers to purchase.

Sources: Federal Reserve, U.S. Treasury

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