

# What Have We Learned about the Balance Sheet's Role in Monetary Policy?

Comments on *“Monetary Policy and the Mortgage Market”* by Drechsler, Savov, Schnabl and Supera

*Kristin Forbes*

*MIT-Sloan School of Management, NBER & CEPR*



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# Paper Synopsis

Figure 6: Mortgage Financing by Entity

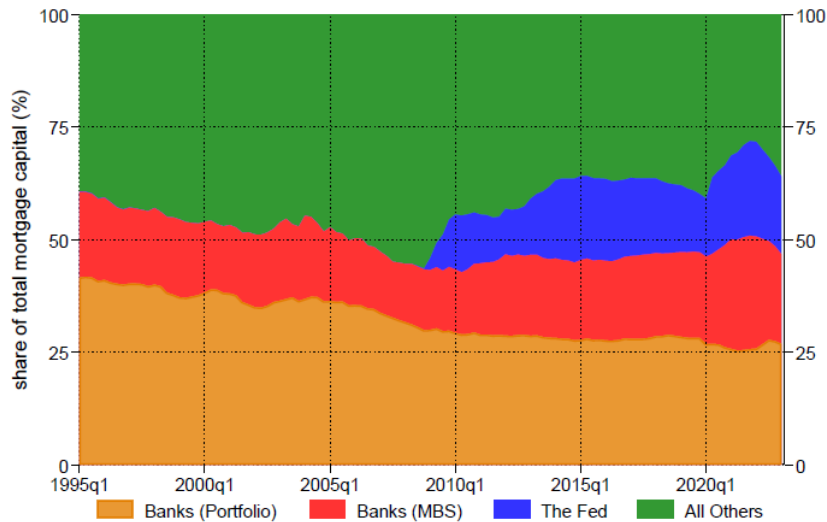
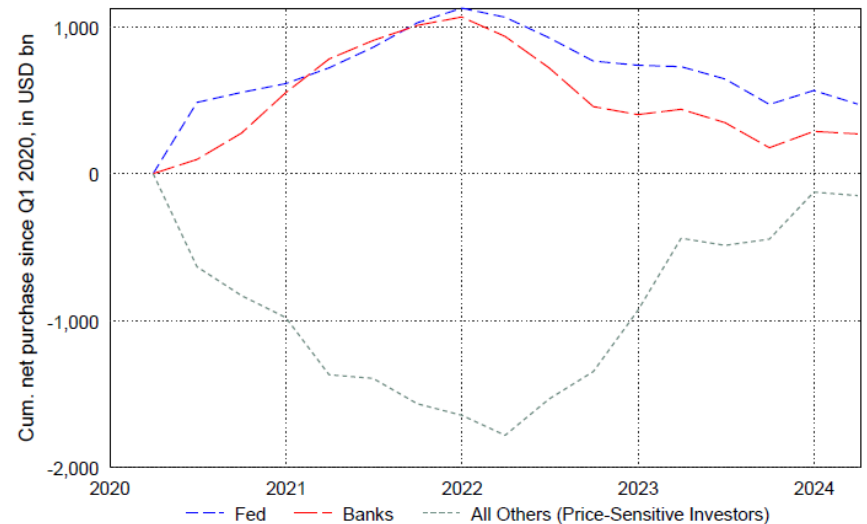


Figure 14: Cumulative Net Purchase of MBS, by Entity



Source: Drechsler, Savov, Schabl and Supera (2024).

# Effects of Balance Sheet Policies on MBS: *Previous Evidence Limited and Mixed*

<i>QE Episodes</i>	Episode	30y MBS yields	10y UST yields
Krishnamurthy & Jorgenson (2012)	QE1	-107	-107
Gagnon, Raskin, Remache & Sack (2011)	QE1	-113	-91
Krishnamurthy & Jorgenson (2012)	QE2	-8	-30
Casalena (2024)	Pandemic QE	-34	-4
<i>QT Episodes</i>			
Smith & Valcarcel (2022)	Taper 1+ QT1	+46/+48	+29
Casalena (2024)	Taper 1	+7	+7
Casalena (2024)	QT1	+1	0
Casalena (2024)	Taper 2	+2	+2
Casalena (2024)	QT2	+5	+5

**Notes:** All results are for the US only. QE1 are QE announcements in 2008-early 2010. QE2 are QE announcements from late 2010. Pandemic QE is the QE that starts in 2020. QT1 and Taper 1 are announcements before 2020. QT2 and Taper 2 are after 2020.



# Impact of US Post-Pandemic QT

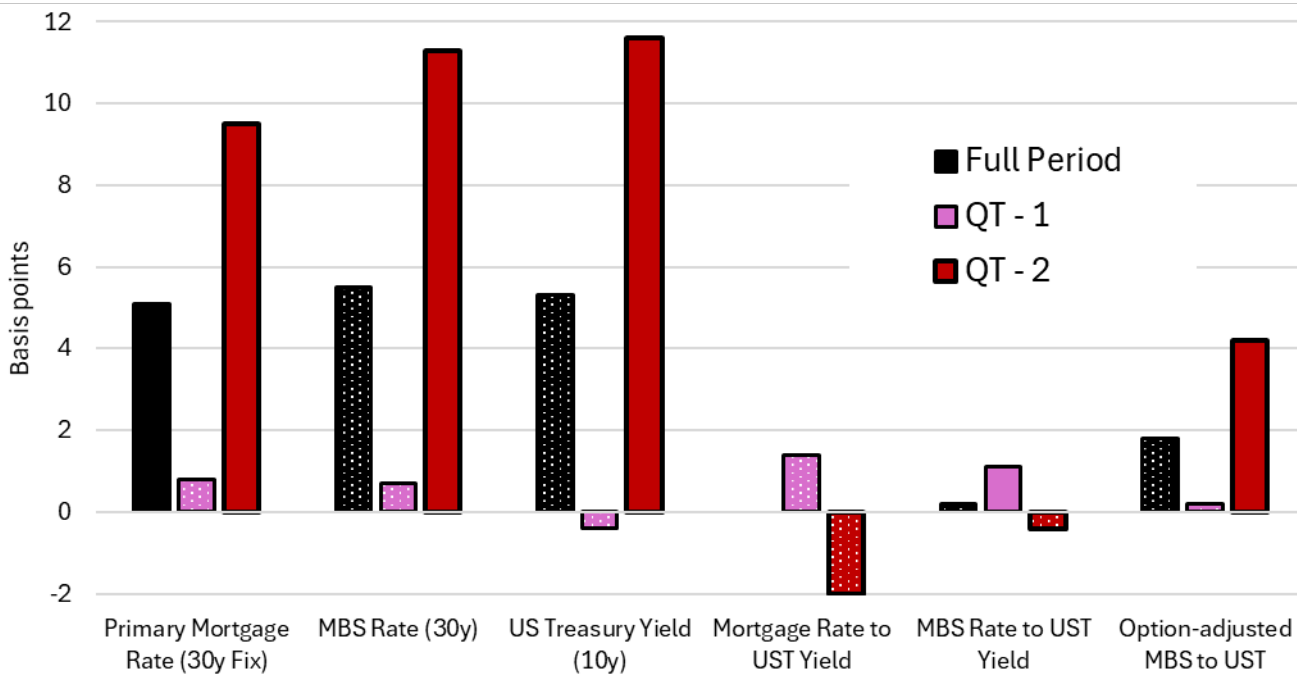
## Effects of “Main Announcements”

	Yields/Rates			Spreads		
	Primary Mortgage Rate (30y Fix)	MBS Rate (30y)	US Treasury Yield (10y)	Mortgage Rate to UST Yield	MBS Rate to UST Yield	Option- adjusted MBS to UST
<i>QT Dummy</i>	0.095*** (0.037)	0.113** (0.053)	0.116*** (0.033)	-0.020 (0.016)	-0.004 (0.023)	0.042* (0.024)
<i>Interest Rate Surprise</i>	-0.154*** (0.043)	-0.852*** (0.064)	-0.719*** (0.045)	0.565*** (0.023)	-0.133*** (0.028)	-0.669*** (0.028)
<i>Economic Data Surprise</i>	1.922*** (0.504)	2.888*** (0.742)	1.917*** (0.524)	-0.059 (0.314)	0.971*** (0.325)	0.849*** (0.326)
<b>Observations</b>	<b>358</b>	<b>360</b>	<b>360</b>	<b>357</b>	<b>360</b>	<b>360</b>
<b>R2</b>	<b>0.063</b>	<b>0.063</b>	<b>0.067</b>	<b>0.023</b>	<b>0.026</b>	<b>0.046</b>

**Source:** Results based on data and methodology from Du, Forbes and Luzzetti (2024).

**Notes:** Estimated impact of QT announcements after 2020 on the rate, yield or spread listed at the top over two days. \*\*\*, \*\*, and \* denote significance at the 1%, 5% and 10% levels, respectively. The QT dummies are the dates of “Main Announcements” indicating the start or acceleration of QT as listed in Du et al. (2024). This does not include announcements related to slowing/ending QT.

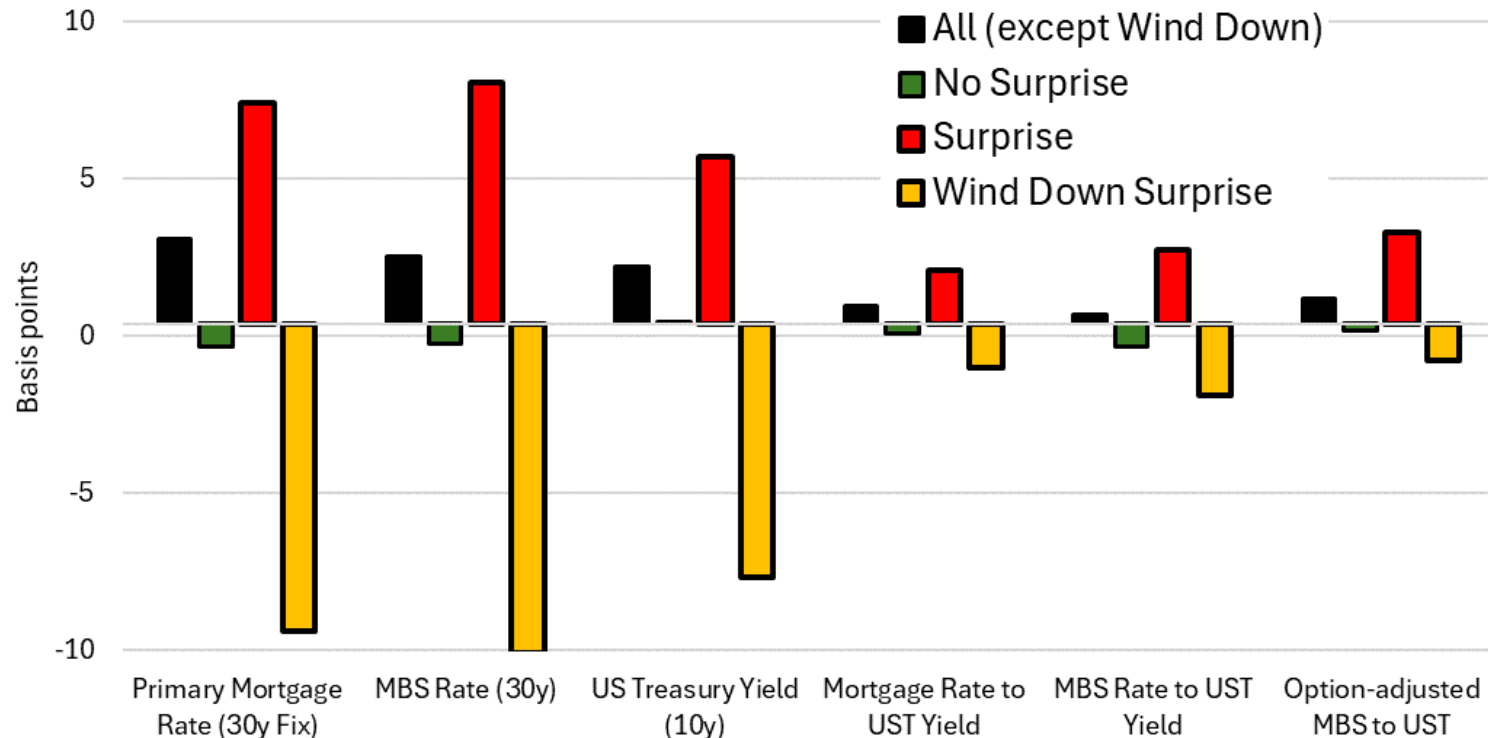
# Stronger Effects During QT-2 than QT-1



**Source:** Results based on data and methodology from Du, Forbes and Luzzetti (2024).

**Notes:** Shows impact of QT announcements on the rate, yield or spread listed at the bottom over two days. Estimates that are not significant at the 10% threshold have white dots in the coloring. QT - 1 is before 2020 and QT - 2 is after 2020.

# Larger Effects on QT “Surprise” Dates

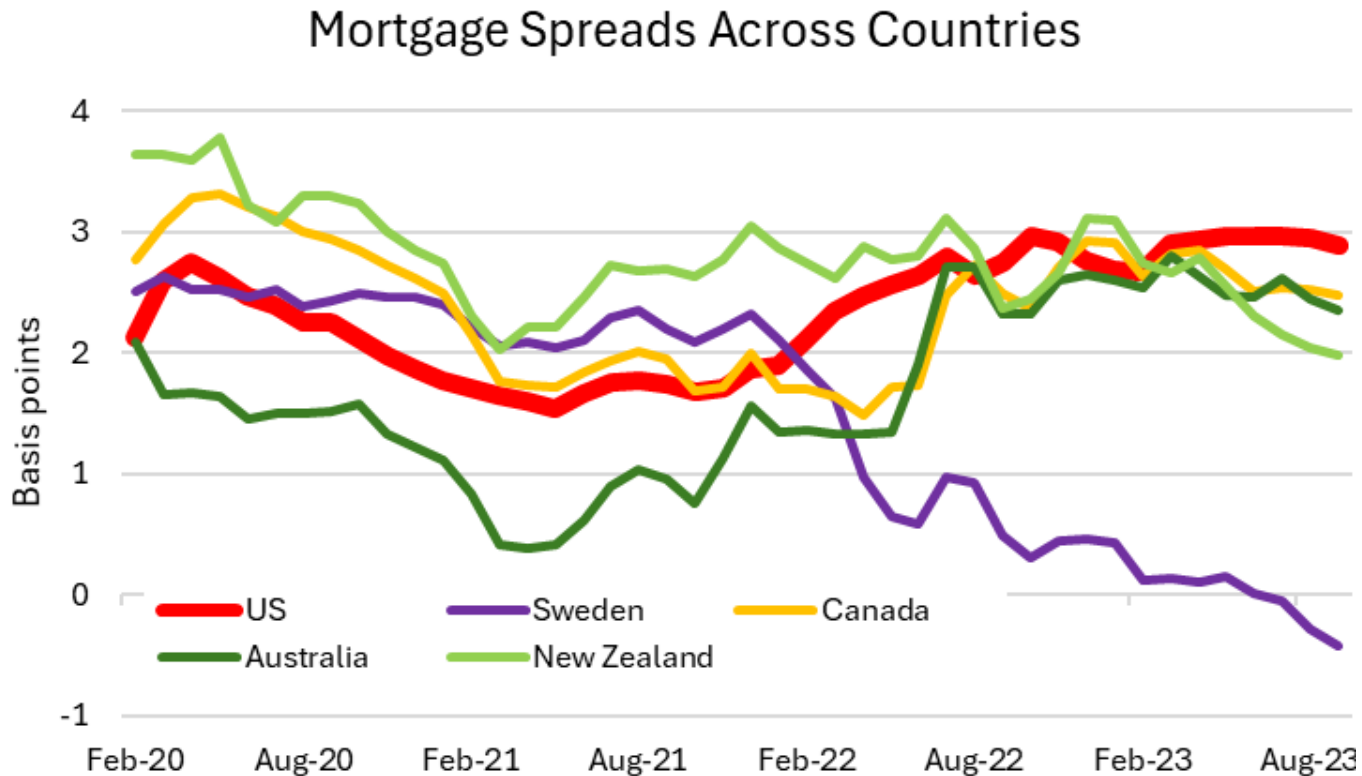


**Source:** Results based on data and methodology from Du, Forbes and Luzzetti (2024).

**Notes:** Shows impact of QT announcements on the rate, yield or spread listed at the bottom over two days. The black is the average across all US QT events (excluding “Wind Downs”); the green is the average effect of the subset of these that are not a surprise and the red is the average of the subset that is a surprise. The yellow is the effect on the one “Wind Down” announcement, that QT would be ended sooner than expected on March 20, 2019. Classification of events as a surprise is from Du et al. (2024).



# Insights from Cross-Country Evidence?



**Notes:** Mortgage spreads calculated as difference between a mortgage yield and the yield on 10-year government bonds. Mortgage yields are from Bloomberg based on the longest maturity, fixed rate mortgage available at a monthly or daily frequency (or the closest available). The definition of these mortgage rates varies meaningfully across countries based on data availability.



# Key Questions for Policy

**For the US: *Should QE/QT include MBS/ABS or generally only include Treasuries?***

**For other countries: *Should mortgage/housing related securities be a central part of any future balance sheet programs?***

