

U.S. Housing and MBS Market

POTUS' Call for \$200B in (GSE?) MBS Purchases – Potential Market Impact

What happened?

President Trump wrote a social media post late Thursday afternoon that he had asked his representatives (presumably the GSEs given FHFA Director Pulte's comments on the follow) to purchase \$200B in Agency MBS with the goal of lowering mortgage rates. This was roughly twice what most market participants were penciling in for 2026. The MBS basis tightened roughly 9bp after the announcement in late trading.

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How much more can the basis tighten?

We think a full \$200B in additional GSE purchases could easily tighten the basis another 10 to 15 basis points near term, but an overshoot would not be surprising. As of the end of November 2025, Fannie Mae and Freddie Mac each had roughly \$100B in headroom under their \$225B portfolio caps. Today's action opens the door for further actions such as FHFA and Treasury increasing the GSE portfolio caps to allow for purchases beyond the President's current ask. Furthermore, after the appointment of a new Fed Chair in June, reinvestment of Fed's MBS paydowns is a realistic possibility. Beyond that outright MBS purchases cannot be ruled out if mortgage rates do not decline sufficiently.

At what point does the market take the other side?

Events such as Thursday's announcement almost always lead to outcomes that overshoot simple quantification. Case in point are prior emergency purchases by the Treasury during the GFC and subsequent episodes of QE by the Fed. It is usually money managers that sell into this "non-economic" demand at some point. Given that we do not know the full extent of the government's commitment to buy MBS to lower mortgage rates and the resulting supply of mortgages, we believe money managers are likely to wait and see before turning sellers. In fact, they may even add to their existing overweights as a trade.

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What MBS would the GSEs buy and how would they hedge their purchases?

GSE purchases would mainly be in near par coupons, but some relative value trades across the coupon stack are possible. Newly issued mortgages would appear to be the closest fit.

Historically the GSEs have bought MBS on an OAS basis: Meaning they buy MBS, sell rate instruments across the curve, and buy volatility in the form of interest rate options. This type of activity would tighten OAS, but its impact on mortgage rates would be limited to the amount of nominal spread tightening that results, which could be more modest. It remains to be seen whether the administration seeks to direct the GSE purchases to result in a duration takeout. Such buying would have more of a direct impact on mortgage rates, but also leave the GSEs exposed to risk if rates increase.

What are other potential MBS market implications?

Within the coupon stack 5s and 4.5s are likely to be the first order beneficiaries with lower coupons incrementally benefiting from their inherent basis exposure and the potential for faster prepayments. Higher coupons are likely to underperform due to possible market concerns about increased prepayments and potential down in coupon RV trading by market participants. Call protection specified pools and related structures should benefit from the increased potential for lower rates. 15-year current coupon MBS is likely to underperform their 30-year counterparts given a relatively less purchase/affordability oriented borrower in the former sector.

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Similarly, G2/FN swaps could underperform due to a combination of a mortgage rate rally and absence of directed Ginnie buying in contrast to GSEs potentially concentrating on conventional MBS. That said, in theory the GSEs are authorized to hold Ginnie MBS in portfolio and could choose to buy Ginnies, especially given the more purchase/affordability focused borrower base in that sector.

What are broader fixed-income market implications?

In the short run MBS is likely to outperform competing fixed income assets. MBS REITs should benefit from book values increasing due to spread tightening on their levered mortgage exposure, which in turn could allow them to raise more capital for additional MBS purchases. Non-Agency RMBS spreads could get dragged somewhat tighter with their Agency benchmarks.

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