Fed Continues To Stabilize Interest Rates By Buying Bonds - Fixed Income Overview

The Federal Reserve signaled that it would continue its ambitious program of buying $120 billion of treasury and mortgage bonds each month. The bond buying is meant to provide economic stimulus and stabilize interest rates.

Bond analysts believe that the Fed is distorting bond yields and prices by its ambitious buying of Treasury and mortgage bonds in the markets. Some argue that bond yields as well as inflationary expectations may actually be higher without any of the Federal Reserve's supportive purchases of bonds. This is why markets are carefully monitoring Fed comments regarding continued bond purchases.

Mortgage rates and consumer loan rates rose in February as the yield on the 10-year Treasury bond reached 1.6% in trading during February. The rapid rise in yields has also affected other sectors of the bond market including municipals, corporate and mortgage backed securities.

Sources: Federal Reserve, U.S. Treasury