



**MEDIA CONTACT:**

Emily Willms  
ewillms@themilwaukeecompany.com  
414.238.3232

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## **Negative Interest Rates Unlikely In U.S. But Investors Should Still Consider The Unexpected**

Interest rates will likely stay positive for the foreseeable future, perhaps just barely, but the possibility of negative rates can't be dismissed entirely and so investors should consider the unexpected, says Andrew Willms, president and chief executive officer of The Milwaukee Company, a wealth management firm in Thiensville, Wisconsin.

"Federal Reserve Chairman Jerome Powell recently said that the central bank is not considering cutting rates below zero," Willms notes. "Although that could change, for now it's likely that the Fed's target rate – the Federal funds rate – will hold steady at the current 0-to-1/4 percent range."

If the Fed decides at some point to reduce rates further into below-zero territory, the effects will reverberate throughout the financial system. For example, taking out a loan at a negative rate implies that the lender pays the borrower and so the more you borrow, the more you earn.

"It's debatable if U.S. banks would actually pay borrowers to take out, say, a mortgage at a negative rate, but in theory that's the idea," Willms says.

Savers, by contrast, would suffer since negative rates imply that you'd be charged for bank deposits. "In some countries in Europe, this upside-down financial world already exists," he observes. For example, some banks in Germany impose fees on deposits above a certain amount. Meantime, at least one Danish bank last year announced that it would pay borrowers 1/2 percent to take out a ten-year loan.

"The prospect of a negative-rate mortgage is appealing, but don't hold your breath for the U.S.," Willms quips. For technical reasons, it's unlikely that prospective home buyers would be able to secure a 30-year mortgage that's an income-generating transaction, he predicts.

Consider, for instance, recent history in the financial markets. Although the 10-year Treasury yield (a key variable that influences mortgage rates) has fallen this year, the national average for a 30-year mortgage rate has barely changed.

For much of the past decade since the end of the Great Recession in 2009 the U.S. average 30-year mortgage has maintained a roughly 1.5-to-2.0 percentage premium over the 10-year Treasury yield. But

as the benchmark 10-year rate resumed its decline this year, mortgage rates remained sticky and so the spread surged to 2.6 percentage points in recent weeks.

“That’s a sign that even if negative rates come to America, free financing probably won’t follow,” says Willms.

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#### **About The Milwaukee Company**

The Milwaukee Company (TMC) is a wealth management firm based in Thiensville, Wisconsin. TMC offers investment-related services to individuals, trusts, investment entities, and charitable organizations. The company also provides insights and advice on how to reduce income taxes on investment portfolios, as well as plans to successfully transfer wealth to family members and charitable organizations. For additional information, visit: [themilwaukeecompany.com](http://themilwaukeecompany.com)