

Home Sales Surge While Evictions Loom

This morning, the Commerce Department announced new home sales had risen +13.8% in June to a 776k annualized pace, the best June performance in 13 years. Robust sales chipped away at housing supply as the available inventory of new homes continued to decline, slipping from a 5.5 month supply to 4.7. This rise in demand, in turn, boosted prices. The median price for a new home climbed +6.1% month-over-month to \$329,200, not quite a record high, but close. Although new home sales make up just 10% to 15% of total sales, the entire sector is heating up.

On Wednesday, existing home sales for June jumped +20.7%, following a -9.8% May drop. It was the first increase since February and the biggest single month percentage gain on record, although the 4.72 million annualized unit pace was still -11% below the same period in 2019. The median price for an existing home rose +3.5% year-over-year to \$295,300. Bloomberg noted this was the 100th straight month of annual gains. Much of the recent price pressure is related to lean inventories. As the virus asserted itself in March, housing starts and building permits had slumped. Both measures have since begun regaining ground. New starts had plunged -19% in March and -26.4% in April, before rebounding +8.2% in May and +17.3% in June. Home builder confidence surged in July, with the NAHB Market Index rising from 58 to 72. Although this is below the 75 reading in January, it is well above the woeful 30 measure in March.

Like many other economic indicators, home sales are reflecting the economic shutdown in March and April and subsequent reopening in May and June. Record low mortgage rates, which contributed to last month's sharp rise, have continued to drop. The average 30-year fixed rate mortgage for the week ending July 16th was 2.98%, the lowest level since Freddie Mac began tracking nearly 50 years ago. The housing sector seems to be evolving as Americans with jobs allowing them to work from home seek additional space and more favorable suburban locations. But while some have prospered during the pandemic, others are increasingly uncertain as more and more businesses close. Persistently high unemployment will eventually undermine future sales, especially at lower price points.

It's tough to reconcile the notion that home sales are "booming" at the same time so many people have missed mortgage and rent payments. Bloomberg reported this morning that one in three renters failed to make their full payment in July, and nearly 12 million renters could be served eviction notices in the next four months. CNBC reported this morning the number evicted could reach as high as 28 million. This suggests widespread damage to credit, which in turn hints that the June home surge is likely limited. Potential first-time buyers, the foundation of American housing, are taking a beating.

On a side note, first-time filings for unemployment benefits rose for the first time since March, suggesting the rebound is losing momentum as virus cases climb in many parts of the country. Total filings during the week ending July 18 were 1.42 million, up from 1.31 million the previous week. Since there's been significant system problems, the weekly data is questionable. Nevertheless, it was the 18th consecutive week that new filings topped the 1 million mark, with the total applications since March 20th now above 52 million. Most of these have subsequently returned to work, although the actual number of unemployed Americans at this point is unclear. Continuing claims for state benefits fell from 17.3 million to 16.2 million for the week ending July 11, but according to the U.S. Department of Labor the total number of people claiming benefits in all (state and

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

Like many other economic indicators, home sales are reflecting the economic shutdown in March and April and subsequent reopening in May and June.

It's tough to reconcile the notion that home sales are "booming" at the same time so many people have missed mortgage and rent payments.

federal) programs for the week ending July 4 was 31.8 million. This represents about 20% of the pre-pandemic total U.S. workers.

Potential first-time buyers, the foundation of American housing, are taking a beating.

Market Indications as of 10:50 A.M. Central Time

DOW	Down 137 to 26,515 (HIGH: 29,551)
NASDAQ	Down 69 to 10,391 (HIGH: 10,767)
S&P 500	Down 17 to 3,219 (HIGH: 3,386)
1-Yr T-bill	current yield 0.14%; opening yield 0.13%
2-Yr T-note	current yield 0.14%; opening yield 0.15%
5-Yr T-note	current yield 0.26%; opening yield 0.27%
10-Yr T-note	current yield 0.58%; opening yield 0.58%
30-Yr T-bond	current yield 1.24%; opening yield 1.23%

This paper/commentary was prepared by Hilltop Securities (HTS) and/or Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of this document and may differ from the views of other divisions/departments of HTS or HSAM. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management, LLC is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP.