

Rising Mortgage Rates Crimp Home Sales

Freddie Mac reported yesterday that the average rate on a 30-year fixed-rate mortgage rose above 7.00% for the first time since early December. The 22 basis point increase from 6.88% to 7.10% was the largest weekly gain in 10 months. Since the year began, the 30-year lending rate has risen by over half a percentage point. Although the current rate is still 70 bps below the October peak, the rise seems to be impacting the rate sensitive housing market.

Yesterday, the National Association of Realtors (NAR) reported existing home sales (which make up roughly 85% of all sales) fell -4.3% in March to a seasonally-adjusted annual rate of 4.19 million units, slightly below forecast. For the year, sales of previously-owned homes are down -3.7%. Slightly weaker sales nudged the number of available homes fractionally higher, although at a 3.2-month supply inventories of existing homes continue to be well below the five-month supply considered healthy.

Because supply is so tight, prices continue to rise *despite lower sales*. The median price for an existing home rose +4.9% year-over-year to \$393,500, *the highest for any March on record*.

Relief for the lean supply wasn't evident in the housing starts and building permits data released earlier this week. According to the NAR, starts fell -14.7% to a 1.32 million unit annual pace in March, while permits fell -4.3% to 1.46 mm. Both readings were well below forecast and the lowest since last summer on a seasonally adjusted basis.

With the May 1st FOMC meeting less than two weeks away, a number of Fed officials weighed in this week on inflation and policy expectations. This morning, Chicago Fed President Austan Goolsbee acknowledged that "progress on inflation has stalled," and that the committee will wait for more clarity before acting. Goolsbee reiterated that shelter costs remain the main problem, and if rents on new leases don't fall, it will be difficult for the Fed to achieve its +2.0% inflation goal.

Yesterday, Atlanta Fed President Raphael Bostic said he doesn't think it will be appropriate to cut the overnight funds target until late this year. Bostic believes inflation is currently too high, although he expects the Fed will ultimately achieve its +2.0% goal.

On Tuesday, Fed Chairman Powell, speaking on a panel in DC, strongly implied that the Fed was at least several months away from the first ease, saying: "Recent (inflation) data have clearly not given us greater confidence." Powell went on to say: "If higher inflation does persist, we can maintain the current rate level for as long as needed."

The May FOMC meeting is unlikely to add additional color or clarity beyond what we've heard from Fed officials this week. Policymakers will wait on the upcoming economic releases to provide direction. Because the data provided over the last several months has been stronger/hotter than expected, it will likely take several months of weaker/cooler data to convince the committee that easing is appropriate.

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
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

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Market Indications as of 11:02 A.M. Central Time

DOW	Up 177 to 37,952 (HIGH: 39,807)
NASDAQ	Down -195 to 15,407 (HIGH: 16,442)
S&P 500	Down -15 to 4,996 (HIGH: 5,254)
1-Yr T-bill	current yield 5.17%; opening yield 5.16%
2-Yr T-note	current yield 4.97%; opening yield 4.97%
3-Yr T-note	current yield 4.80%; opening yield 4.81%
5-Yr T-note	current yield 4.65%; opening yield 4.66%
10-Yr T-note	current yield 4.61%; opening yield 4.62%
30-Yr T-bond	current yield 4.70%; opening yield 4.73%

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