

Focus on Housing

The University of Michigan consumer sentiment index for February dropped to the lowest level since November 2023, mainly due to a plunge in the *current conditions* index. The survey itself is broad and its overall relevance is debatable, but a troubling rise in inflation expectations was the attention grabber this month. Short-term inflation expectations jumped from 3.3% to a 15-month high of 4.3%, while long-term expectations increased from 3.2% to 3.5%, *the highest 5-10 year outlook in three decades*. This is important because inflation expectations impact mortgage rates.

Earlier this week, January housing starts were down significantly, and existing home sales came in below forecast. Homebuilder confidence fell to five-month low in February as builders expressed concerns over tariff uncertainty and elevated lending rates. Freddie Mac reported an average 30-year rate of 6.85% this week, down from 6.90% a year ago, but *up 25 bps since mid-December*.

Fannie Mae's latest forecast showed 30-year mortgage rates down just 25 basis points in 2025 from its current level. However, this outlook assumes lower inflation, a meaningful reduction in the federal budget deficit and confidence in the U.S. financial system, *all of which are currently debatable outcomes*.

The housing wildcard yet to make front-page news is the increasingly possible (re)privatization of Fannie Mae and Freddie Mac. Fannie and Freddie have been under government conservatorship since 2008, but returning the two mortgage giants to the private sector has been a widely-expected goal of the Trump Administration. The problem is that privatization would likely increase borrowing costs and make home ownership even more challenging for most Americans. Moody's economist Mark Zandi believes without an explicit or implicit government guarantee, mortgage rates would be 60 to 90 basis points higher.

Market Indications as of 2:24 P.M. Central Time

| | |
|--------------|--|
| DOW | Down -734 to 43,443 (HIGH: 45,014) |
| NASDAQ | Down -410 to 19,552 (HIGH: 20,174) |
| S&P 500 | Down -105 to 6,013 (HIGH: 6,144) |
| 1-Yr T-bill | current yield 4.15%; opening yield 4.18% |
| 2-Yr T-note | current yield 4.19%; opening yield 4.27% |
| 3-Yr T-note | current yield 4.20%; opening yield 4.28% |
| 5-Yr T-note | current yield 4.26%; opening yield 4.35% |
| 10-Yr T-note | current yield 4.42%; opening yield 4.51% |
| 30-Yr T-bond | current yield 4.67%; opening yield 4.75% |

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

Fannie Mae's latest forecast showed 30-year mortgage rates down just 25 basis points in 2025 from its current level. However, this outlook assumes lower inflation, a meaningful reduction in the federal budget deficit and confidence in the U.S. financial system, all of which are currently debatable outcomes.

The paper/commentary was prepared by 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 the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. 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 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 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.