

US Housing Continues to Struggle

There's green on the screen today, with stocks higher and bonds catching a bid on yet another resolution toward ending the war in Iran. A disappointing round of housing data is also putting some downward pressure on yields. After the sharp move higher over the past several weeks, bonds are trying to find their footing as attention begins shifting toward next week's Fed meeting.

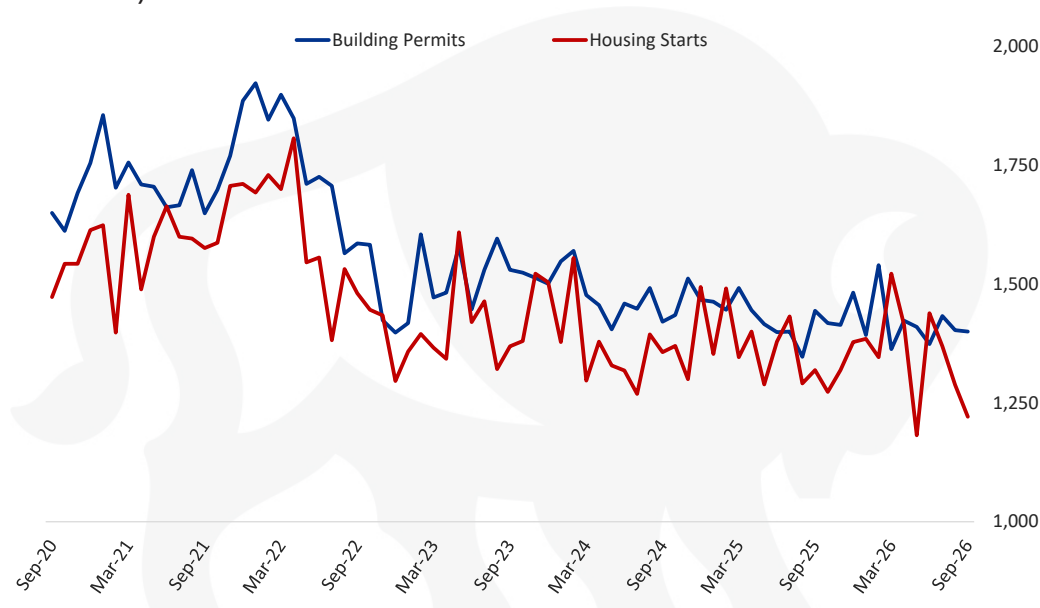
And while the economy continues to hold up, supported by consumer spending, strong business investment tied in part to the AI build-out, and improving productivity, one area where higher rates are clearly having an impact is, of course, the housing sector.

Housing starts fell 5.2% in September to a seasonally adjusted annual rate of 1.22 million units, a four-month low and about one-third below the peak levels seen back in 2022. Single-family construction declined 4.6% to an 859K pace, while multifamily construction fell 6.7% to 362K.

Building permits, which give us a look into future construction activity, offered little help. Permits slipped 0.2% to a 1.4 million annualized rate, while single-family permits fell 4.0% to 845K, their lowest level since early 2023.

The pullback is not a surprise. Rising rates have pushed the 30 year mortgage rate back toward 7.5%, the highest level in nearly three years and 100 basis points higher than earlier this summer. The rise in borrowing costs is putting more pressure on affordability and weighing on both buyers and builders.

US Housing Starts and Building Permits (Seasonally adjusted annual rate, thousands)



Source: U.S. Census Bureau

Please see disclosure starting on page 3.

Matt Harris, CFA
HilltopSecurities Asset Management
Senior Portfolio Advisor
Senior Vice President
512.340.1845
matt.harris@hilltopsecurities.com

Scott McIntyre, CFA
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

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Speaking of affordability, earlier this month existing home sales did manage to rise 1.5% in September to an annualized pace of 3.99 million, but activity remains depressed compared with the 6.5 million pace we saw when mortgage rates were near historic lows during the pandemic. Today, pending home sales fell 7.3% in September, pushing the index to 66.0, its lowest level since the series began in 2001. Because pending sales usually lead to closings by a month or two, the decline indicates continued weakness in home sales over the next few months.

Housing remains stuck between a rock and a hard place. The country needs additional supply, but high borrowing costs are making it difficult for buyers to afford homes and increasingly difficult for builders to justify new projects. Until rates ease, residential investment will likely remain a drag on GDP.

Looking to next week, the calendar is light as headlines will turn towards the October Fed meeting. After a rate hike in September for the first time since 2023, a hold is currently being priced in, with Fed funds futures showing only a 15% to 17% probability of another rate hike. Once the Fed is out of the way, attention will quickly shift toward the November midterm elections, where control of Congress will be at stake. With all 435 House seats and 35 Senate contests on the ballot, politics will become another source of market uncertainty as we head into next month.

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Market Indications as of 1:32 P.M. Central Time

DOW	Up 504 to 52,541 (HIGH: 54,349)
NASDAQ	Up 28 to 26,459 (HIGH: 27,600)
S&P 500	Up 33 to 7,7244 (HIGH: 7,819)
1-Yr T-bill	current yield 4.48%; opening yield 4.46%
2-Yr T-note	current yield 4.79%; opening yield 4.77%
3-Yr T-note	current yield 4.87%; opening yield 4.86%
5-Yr T-note	current yield 4.94%; opening yield 4.94%
10-Yr T-note	current yield 5.12%; opening yield 5.14%
30-Yr T-bond	current yield 5.43%; opening yield 5.47%

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