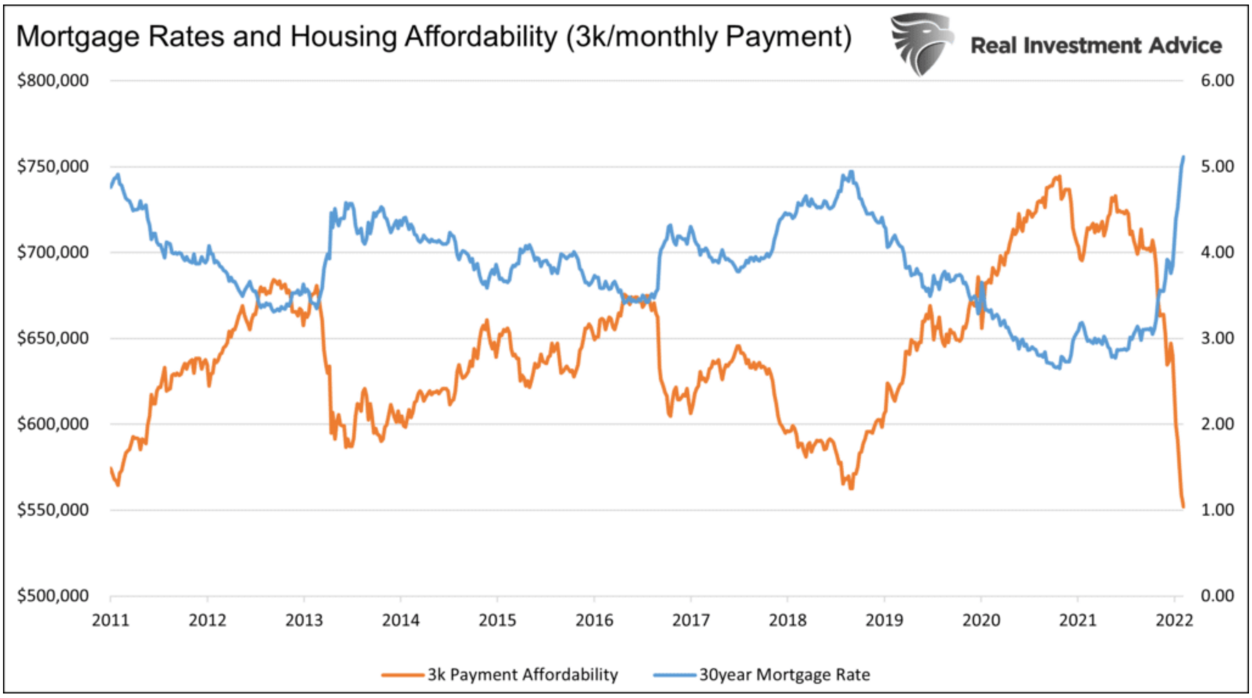
Home Mortgage Rates Weigh On Home Prices

The Freddie Mac 30-year fixed mortgage rate rose to 5.11% this week. The last time home mortgage rates for conforming loans were above 5% was in 2011. While the housing market is still robust, higher mortgage rates will take some froth out of the market in the months ahead. To wit, Redfin recently reported: "*Redfin's Homebuyer Demand Index fell for the first time since June, and the share of home sellers dropping their asking price was the highest in five months*."

To highlight the effect higher home mortgage rates have on affordability, we share the graph below. Since 2022, mortgage rates have been up a full 2%. As we show with the orange line, a potential buyer able to spend $3,000 a month on a mortgage can now afford a $552,000 home. When mortgage rates were lower at the start of the year, they could a $711,000 home.



What To Watch Today

Economy

- 9:45 a.m. ET: **S&P Global U.S. Manufacturing PMI**, April preliminary (58.0 expected, 58.8 in March)
- 9:45 a.m. ET: **S&P Global U.S. Services PMI**, April preliminary (58.0 expected, 58.0 in March)
- 9:45 a.m. ET: **S&P Global U.S. Composite PMI**, April preliminary (57.9 in March)

Earnings

Pre-market

- **Verizon**?(VZ) to report adjusted earnings of $1.35 on revenue of $33.59 billion
- **American Express**?(AXP) to report adjusted earnings of $2.39 on revenue of $11.63 billion
- **Schlumberger**?(SLB) to report adjusted earnings of $0.33 on revenue of $5.94 billion
- **Kimberly-Clark**?(KMB) to report adjusted earnings of $1.24 on revenue of $4.91 billion

Post-market

- *No notable reports are scheduled for release*

Market Trading Update

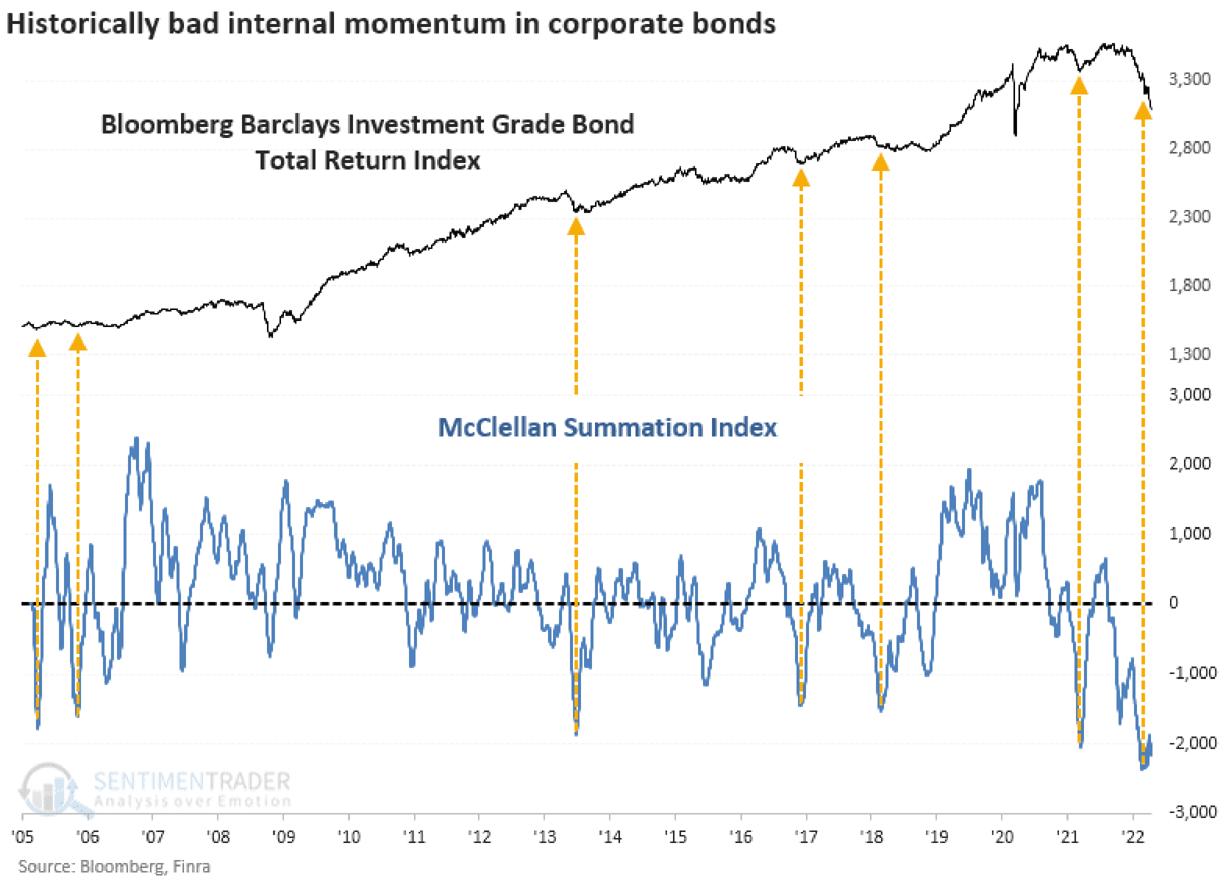
What started out as a positive day yesterday, turned sour as Jerome Powell started making a more hawkish case for 50-bps rate hikes starting in May. While the comments were much in line with what the markets expected, it was still enough to send stocks back below the 50-dma yesterday, and into oversold territory once again. This morning is another spat of earnings so we will see if the market can regain its footing. A break lower will suggest a retracement to the March lows.

Bonds Looking Like A Bargain

> *"The biggest story in markets is the complete and utter devastation in the bond market. A market like this, a primary source of leverage, doesn't make moves like this without wiping out some major players. It just hasn't been reported yet.*

The selling in investment-grade bonds is particularly severe. While often assumed to be one of the safest parts of the bond market, it has been anything but. Over the past 50 sessions, only about 40% of bonds have increased in price on an average day. We've never seen anything like this in at least 17 years.

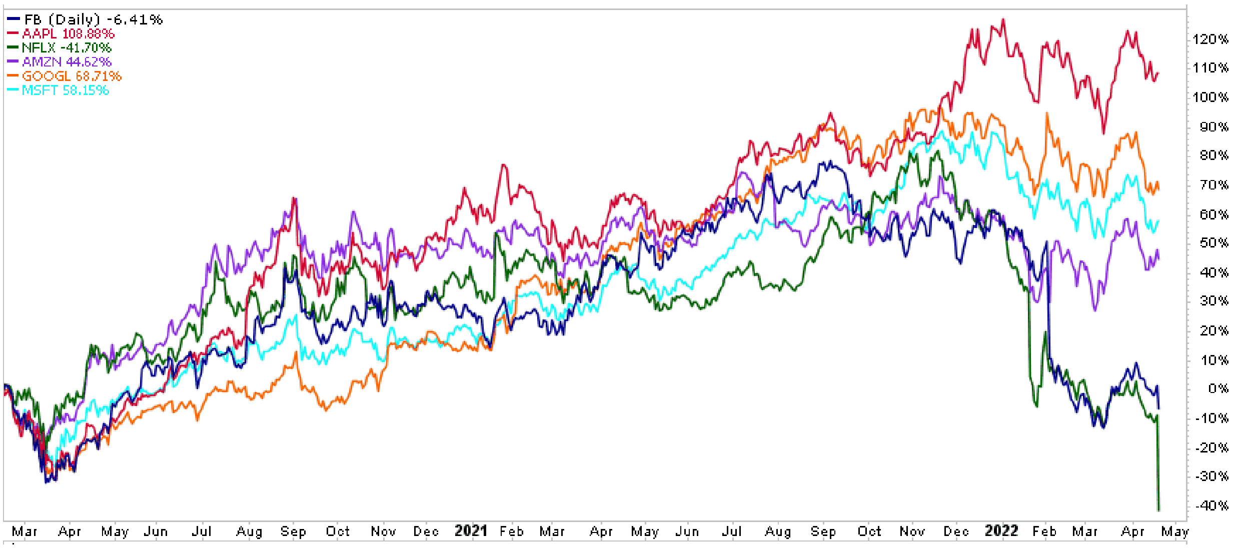
The incessant selling pressure has pushed the McClellan Summation Index for this market to a record low.' - Sentiment Trader



The Market's Generals Are Fading

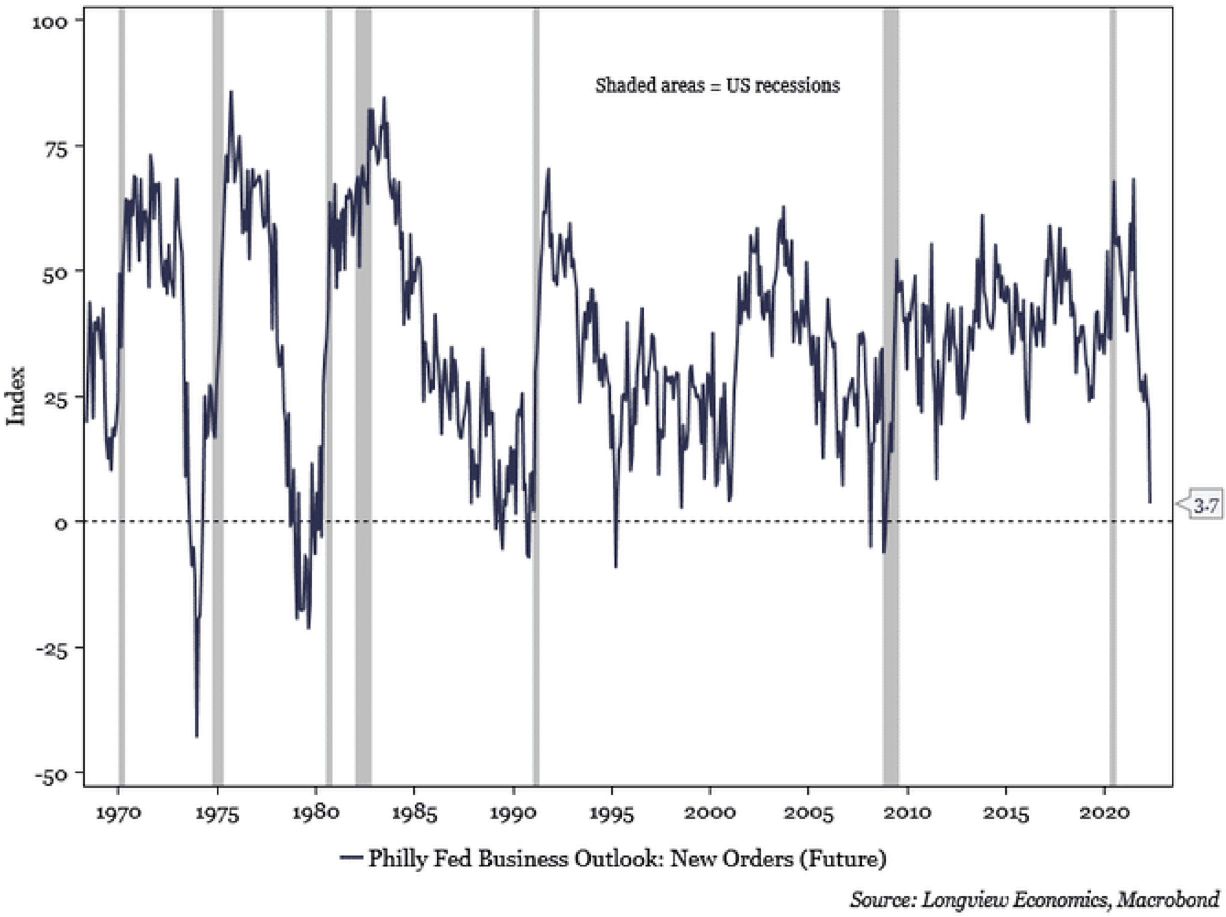
The graph below shows the post-pandemic performance of the market's ?generals,? aka the FAANGM stocks. Facebook, Apple, Amazon, Netflix, Google, and Microsoft led markets high through much of 2020 and much of 2021, thus earning the moniker generals. Recently, some of the generals have been showing weakness. Meta (Facebook) and Netflix have fallen sharply in recent months and are now lower in price since the pandemic started. Will the remaining four generals begin to show weakness as well? Given their weighting in the S&P 500 and NASDAQ, weakness for the remaining four generals might bode poorly for the broader stock indexes. Upcoming earnings announcements may help answer that question. Apple, the five-star general, leads the pack regarding post-pandemic returns. They report earnings on 4/28. Amazon will report its earnings that day as well. Google and Microsoft report earnings on the 26th.

Given Netflix's sharp decline because of earnings, we are on guard. Inflation, sharply slowing growth in China, and the Russian invasion are all wild cards that can easily lead to surprises in Q1 earnings and forward outlooks. In our equity model, we made some trades to reduce exposure to specific companies which we feel have the potential for surprises.



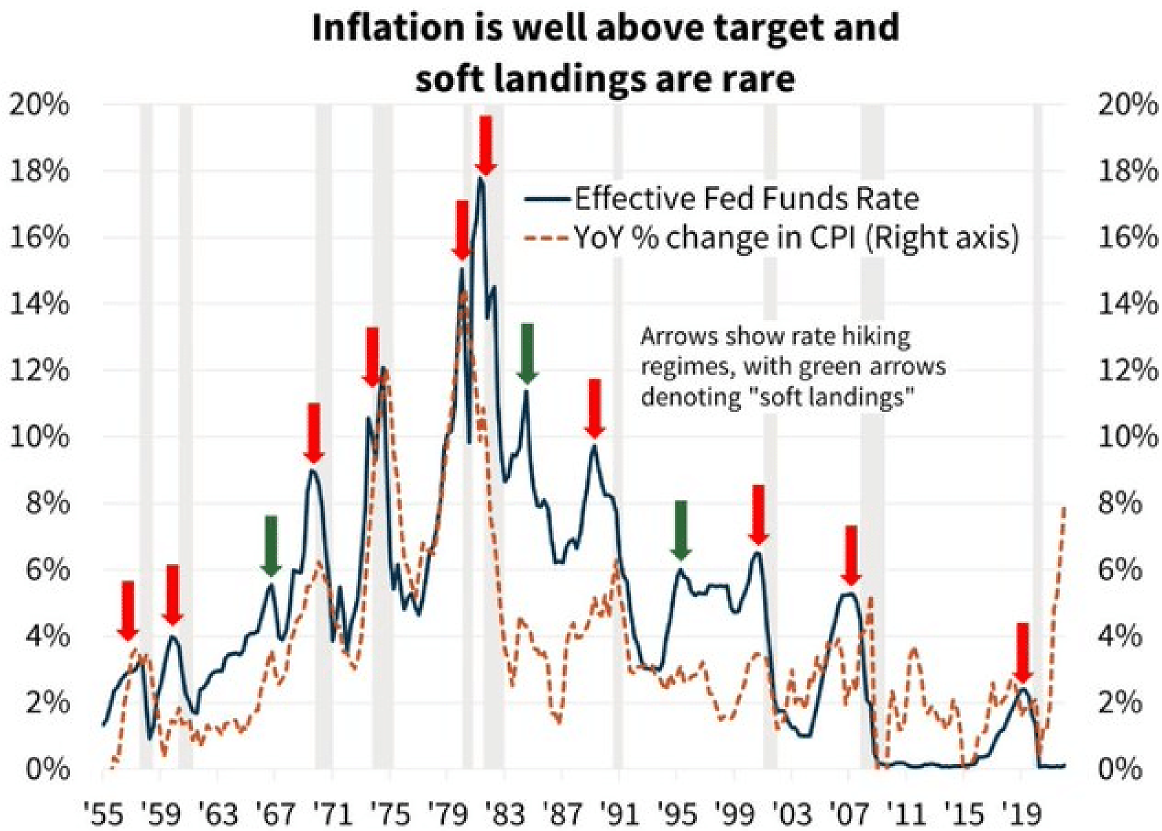
Philly Fed Expectations Are Concerning

The [Philadelphia Federal Reserve Manufacturing Index]() was solid at 17.6, but it moderately declined from last month's 27.4. While the broad index remains in a solid economic contractionary state, the expectations data is more concerning. Per the report- "*The diffusion index for future general activity decreased 15 points to 8.2, the lowest reading since December of 2008*." The Longview Economics graph below, for instance, shows the outlook for new orders is quickly approaching zero. This index has a good track record for predicting recessions. Consumer and manufacturer outlooks are poor in large part because of inflation. To that end, the prices paid index rose to its highest level since 1979.



EconomicSoft Landings

The Fed and financial media have been increasingly using the term "soft landing" to describe what they believe will be a slowing pace of economic activity yet not recessionary. Thursday morning, for instance, Jerome Powell said that a soft landing is the Fed's goal. While we all root that the economy can reverse the disruptions and aberrations of the last two years gently without a recession, the reality is that soft landings engineered by the Fed are rare. As we show below, the Fed has been in rate hiking cycles 13 times since 1955. Ten of the thirteen ended in recession. The three green arrows highlight the three times Fed rate hikes did not coincide with a recession.



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