FROM FED CUTS TO MORTGAGE RATES: The Future of the U.S. Housing Market

Why Are Mortgage Rates Spiking?

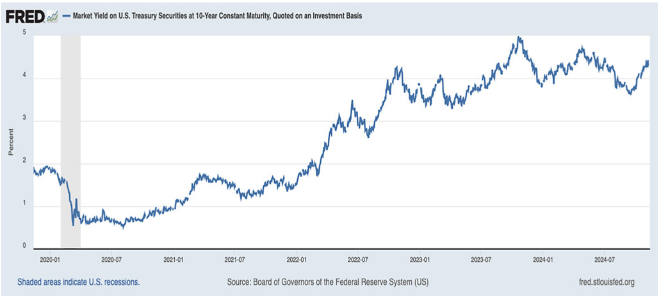
The Federal Open Market Committee (FOMC) unanimously voted to lower the benchmark overnight borrowing rate by a quarter percentage point, or 25 basis points, following their November 6-7, 2024, meeting. This marks the second consecutive interest rate cut since September 2024, effectively bringing interest rates down to a target range of 4.50%-4.75%.

> Despite positive progress by the FOMC to tame inflation and support the strength of the U.S. economy and labor market, mortgage rates have continued to trend upwards.

Since the FOMC's initial interest rate cut, mortgage rates have increased for six consecutive weeks, bringing the 30-Year Fixed Rate Mortgage to a weekly average of 6.79% as of November 7, 2024. Contrary to popular belief, the federal funds rate directly affects only interbank lending fees, while mortgage rates typically align with U.S. Treasury Bond yields—especially the 10-Year Treasury bond. This means the persistence in mortgage rates is largely due to their close connection to bond yields rather than to the federal funds rate itself.

The Bond Market Connection

The 10-Year Treasury Bond yield rose from 3.60% on September 16, 2024—just prior to the FOMC's initial rate cut—to 4.44% on November 13, 2024, following the FOMC's second rate cut. In the days following, 10-Year Treasury Yields reacted positively to a mostly subdued inflation report and began to descend. October's inflation report indicated a modest increase in the Consumer Price Index (CPI) from 2.4% in September to 2.6%, primarily driven by shelter costs. The 84-basis-point increase in the 10-Year Treasury yield from September to November, however, is not necessarily a macroeconomic red flag. Instead, it reflects growing market confidence and economic resilience, as investors shift away from the safety of government bonds, encouraged by signs that the U.S. economy has likely averted a recession. This rise in bond yields and borrowing rates highlights underlying economic strength, further supporting stability in the housing market. Notably, mortgage rates are still a full percentage point lower than the high of 7.79% experienced in October of last year. Additionally, economic forecasts, like that of John Burns Research and Consulting, suggest rates could approach an annual average of 6.6% by year-end and could potentially fall further to 5.9% next year.



Source: fred.stlouisfed.org

Market Confidence Amid Rising Yields

While lower mortgage rates are crucial to the health of the U.S. housing market—enhancing consumer purchasing power and improving housing affordability—it is equally important to consider both direct and indirect factors that influence the market's overall dynamics. Factors such as inflation and employment are economic components the FOMC prioritizes when dictating the pace of interest rate adjustments and when approaching monetary policy.

> Fed officials are now in a position to ease their monetary policy and enable further progress on inflation, which will allow for the indirect easing of mortgage rates in the near future.

The FOMC dot plot, a Fed tool which summarizes interest projections of each member, shows the overnight benchmark borrowing rate falling to sub-3% by 2026. Similarly, the FOMC's preferred measure of inflation, the Core Personal Consumption Expenditure Price index (Core PCE), is projected to reach the Fed's target rate of 2% by 2026—invoking optimism for the future stability of the U.S. economy and housing market.

Real Estate as a Wealth-Building Tool

Even amid fluctuating mortgage rates and affordability constraints, the goal for many remains the same: **homeownership**. The truth remains that homeownership has consistently been one of the most effective wealth-building strategies.

> In the U.S., home equity has doubled over the past seven years, reaching an all-time high of $32 trillion in Q1 2024 and further increasing by $1.3 trillion in Q2 2024.

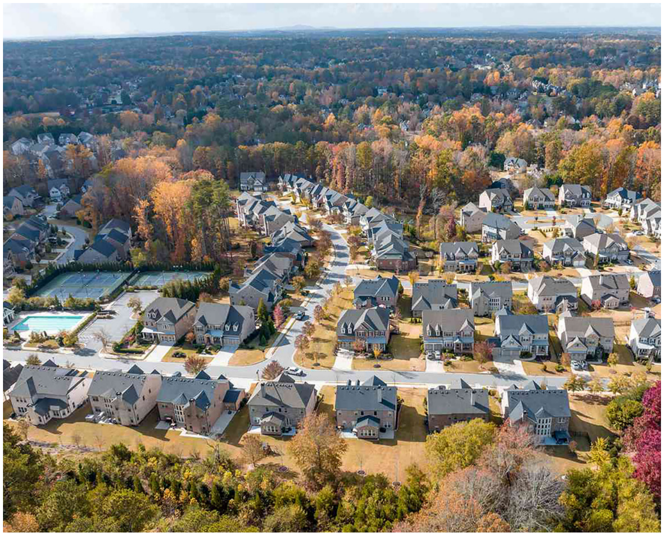
Homebuilders, optimistic about favorable market conditions in 2025, are actively supporting aspiring homeowners, offering them opportunities to benefit from the steady growth of home equity. In the month of October, homebuilder sentiment, as measured by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI), increased for the second consecutive month to 43 points. The latest HMI survey also revealed that the share of builders cutting home prices remained consistent at 32%. The average price reduction offered by builders also returned to the long-term average of 6% after falling to 5% in September. Incentive usage increased slightly, from 61% in September to 62% in October. As economist Lawrence Yun notes, many Americans who purchased homes at historically higher rates—7%, 10%, or even 16%—have successfully built wealth over time, often refinancing at lower rates when conditions improved. This reinforces real estate's long-term value, with homeownership providing a steady path to financial security despite temporary market shifts.

Optimistic Outlook for the Future of the Housing Market

Despite moderating economic volatility, the U.S. housing market continues to see momentum, with single-family homebuilding surging to a 5-month high and new single-family home sales increasing to the highest level in nearly 1.5 years in September. And for many economists, one thing is clear:

> in the long run, the most effective way to strengthen the U.S. housing market and combat the housing affordability crisis brought on by severe underbuilding in the past two decades is to increase the housing supply—specifically introducing new home inventory.

Currently, the U.S. needs to build nearly 2 million new housing units per year through 2033 to meet demand and address the existing shortage. This task will depend on the continued strength of the new home sector, as existing home inventory remains constrained.



Our Perspective

Walton Global remains confident in the resilience of the U.S. housing market and firm in our role as a key land provider to the nation's largest public homebuilders. We believe the economy will continue to stabilize as President-Elect Donald Trump prepares to take office, and with that, we will continue to see sustained demand for new residential construction. Walton is well positioned to capitalize on current and future market shifts, working hand in hand with top national homebuilders to contribute to the ongoing recovery of the U.S. housing market in 2025 and beyond – **looking forward without distractions.**

Sources: U.S. Census Bureau | Bureau of Economic Analysis | Board of Governors of the Federal Reserve System | Freddie Mac | FRED St. Louis | John Burns Research and Consulting | National Association of Realtors | National Association of Home Builders | U.S. Bureau of Labor Statistics | REUTERS | CNBC | Bloomberg

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