Financial Markets This Week

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

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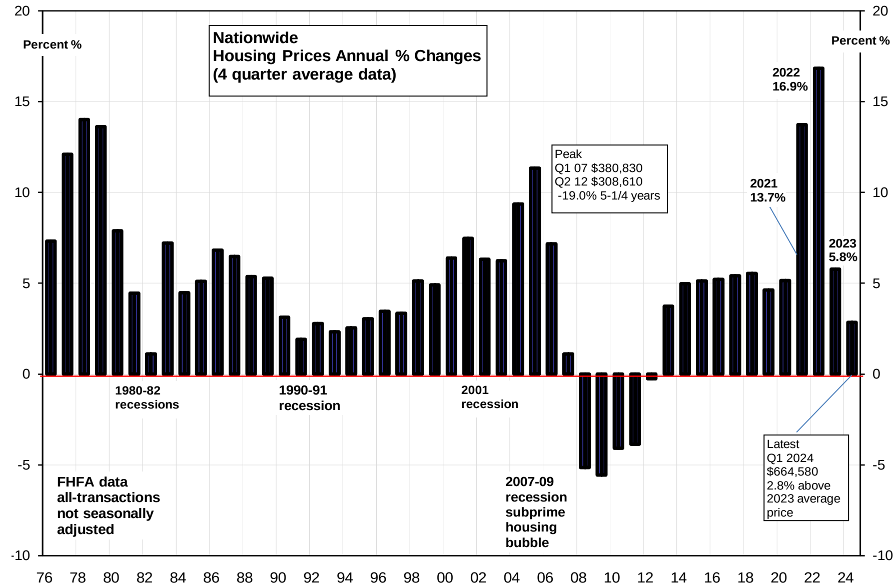
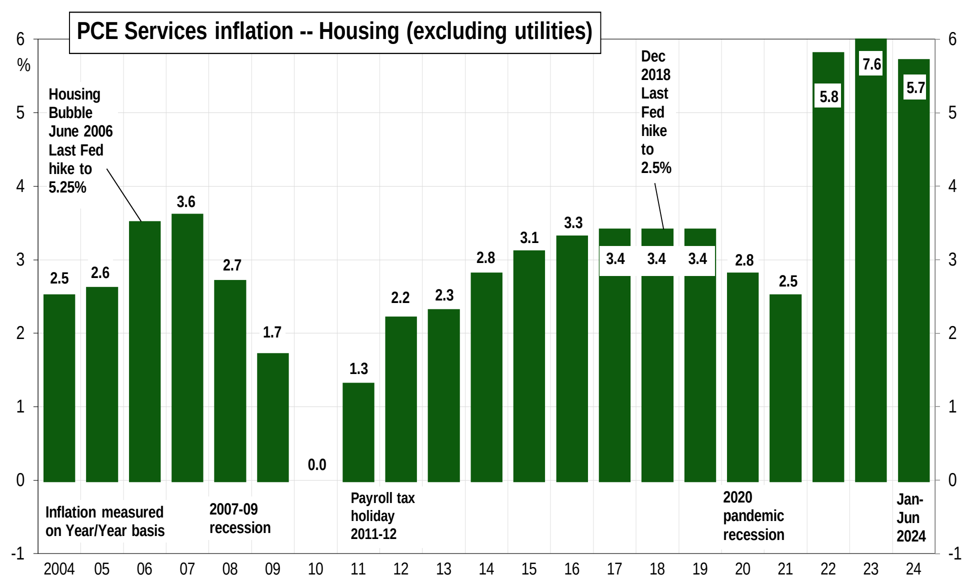
HOUSING BUBBLE NATIONWIDE

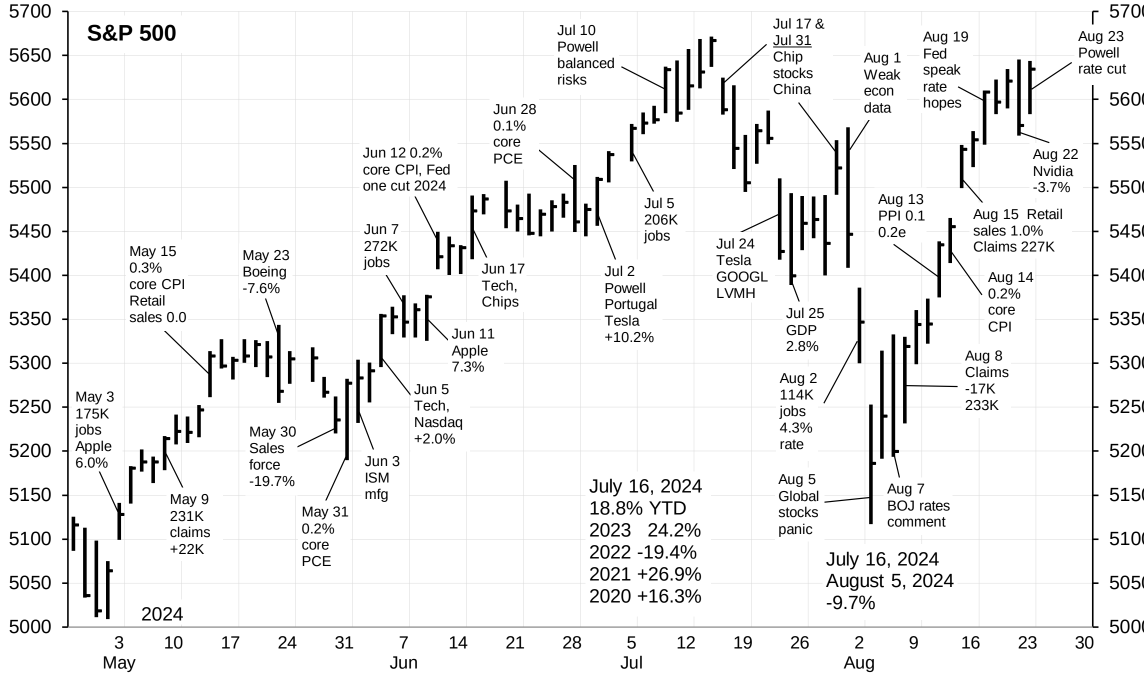
After the unprecedented, huge price jumps in 2021 and 2022, the housing price bubble is still filling up with air after increasing 5.8% in 2023, and increasing 2.3% further in Q1 2024 relative to the average "price" of the 2023 FHFA nationwide housing index. The new Fed focus on downside risks to employment is interesting, but the only thing we really wanted to hear from Chair Powell at Jackson Hole was what about the housing price bubble. Like will Fed interest rate cuts pump more air into it. My kids will never be able to afford a home of their own as it is, the way home prices keep going up faster than incomes. Powell took time again to explain why he missed the inflation outbreak ("along with thousands of others"), but no housing bubble.



This week a Fed official said Housing inflation in the PCE index concerned him, whether it keeps them from meeting their 2.0% inflation target. That should be the least of their worries: one price sticking out like a sore thumb (okay a big one, housing 16% of core PCE inflation). When the housing bubble burst in the 2007-09 recession, the 19% drop in prices pushed PCE services inflation for housing to zero in 2010. Anyway the Fed rate cuts are coming, we will find out what it does to home valuations. FHFA home price data for Q2 2024 is released Tuesday, August 27 at 9am ET. Buckle up.



INTEREST RATES



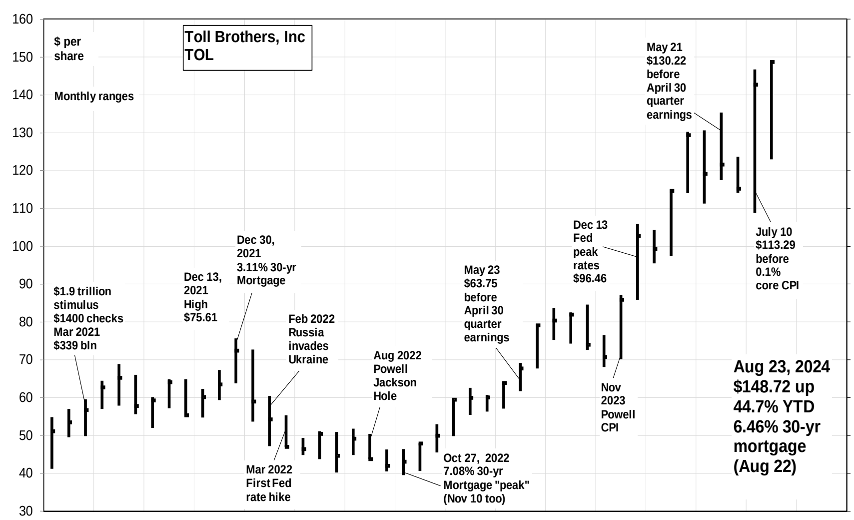
At 10am ET Friday, the S&P 500 was up over 0.6% on the day at 5,706 before Powell's remarks, and while the financial world was shocked to hear rate cuts in his speech, it took a lot of back and forth before stocks closed 1.1% higher. Bond yields fell 5 bps to 3.80% on Friday; a level where investors probably do not know what to do next, if the Fed forecasts are only 3% for the Fed funds rate at the end of 2026. If there's a recession, if nonfarm payroll jobs actually decline, then Fed rates tumble faster or even lower than 3% as Powell is certainly a nervous nellie when it comes to Americans losing or not having a job (that's why inflation got started in the first place, the Fed not lifting interest rates until long after recession end in April 2020.) The market has no complaints about Powell's rate cut comments, an abrupt shift, with some grumbling he still saw balanced risks at the July 31 meeting.

Toll Brothers, Inc. (TOL) Housing stocks see a turn in rates outlook after Powell

Toll Brothers jumped 5.6% Wednesday after earnings reported Tuesday afternoon. The company raised its full year outlook. July 11 was the big move for all housing stocks for some reason after core CPI rose just 0.1%; TOL up 7.2% CPI Day. Stock did not seem to mind Powell's rate cuts speech at Jackson Hole either, rising 5.3% Friday to new record high.

Quarter	Home Sales $bln		Home	30-yr	Home
end	Revenue	Units	Starts	mortgage	Sales
10.31.21	2.950	3,341	1,106,000	3.14	683,000
1.31.22	1.690	1,929	1,191,000	3.55	798,000
4.30.22	2.190	2,407	1,201,000	5.10	636,000
7.31.22	2.260	2,414	906,000	5.30	519,000
10.31.22	3.580	3,765	872,000	7.08	577,000
1.31.23	1.750	1,826	834,000	6.13	639,000
4.30.23	2.490	2,492	876,000	6.43	687,000
7.31.23	2.670	2,524	999,000	6.81	700,000
10.31.23	2.950	2,755	975,000	7.79	673,000
1.31.24	1.930	1,927	1,011,000	6.69	664,000
4.30.24	2.650	2,641	1,037,000	7.17	736,000
7.31.24	2.720	2,814	851,000	6.78	739,000

Last month of quarter, 1 unit housing starts, new home sales

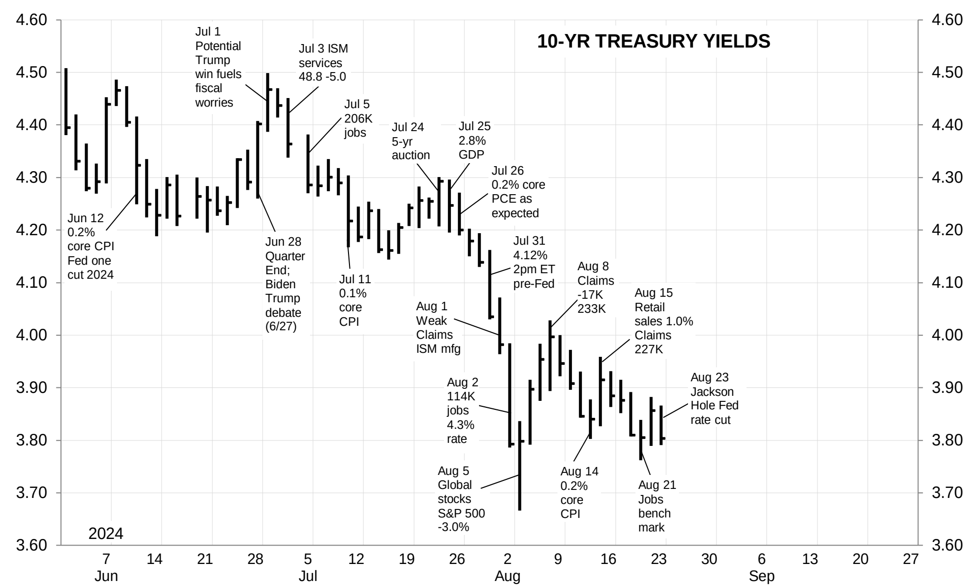


FEDERAL RESERVE POLICY

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	21-Aug	14-Aug	7-Aug	31-Jul	3/11/20*	3/11/20
Factors adding reserves						to Aug 21
U.S. Treasury securities	4398.736	4413.685	4413.650	4413.615	2523.031	1875.705
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2314.079	2318.124	2318.190	2318.190	1371.846	942.233
Repurchase agreements	0.001	0.000	0.010	0.005	242.375	-242.374
Primary credit (Discount Window)	2.061	2.410	2.232	6.925	0.011	2.050
Bank Term Funding Program	99.488	100.452	100.858	102.066		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.566	2.589	2.615	2.698		
Main Street Lending Program	10.635	10.905	10.891	10.879		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.151	0.151	0.149	0.155	0.058	0.093
Federal Reserve Total Assets	7191.1	7228.9	7226.5	7228.9	4360.0	2831.083
~~3-month Libor %~~ SOFR %	5.31	5.33	5.33	5.38	1.15	4.160
Factors draining reserves						
Currency in circulation	2347.140	2348.932	2350.210	2348.663	1818.957	528.183
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	734.727	788.823	785.233	854.001	372.337	362.390
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	321.329	328.472	286.660	413.200	1.325	320.004
Federal Reserve Liabilities	3832.031	3889.965	3853.572	4050.212	2580.036	1251.995
Reserve Balances (Net Liquidity)	3359.078	3338.916	3372.916	3178.700	1779.990	1579.088
Treasuries within 15 days	50.292	74.521	79.828	84.041	21.427	28.865
Treasuries 16 to 90 days	202.574	168.923	166.965	135.154	221.961	-19.387
Treasuries 91 days to 1 year	536.076	538.661	535.307	562.900	378.403	157.673
Treasuries over 1-yr to 5 years	1492.585	1527.128	1472.812	1472.796	915.101	577.484
Treasuries over 5-yrs to 10 years	591.550	583.558	637.854	637.850	327.906	263.644
Treasuries over 10-years	1525.659	1520.894	1520.884	1520.874	658.232	867.427
Note: QT starts June 1, 2022	Change	8/21/2024	6/1/2022			
U.S. Treasury securities	-1372.043	4398.736	5770.779			
Mortgage-backed securities (MBS)	-393.367	2314.079	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

The Fed meets September 17-18, 2024 to consider its monetary policy. The [FOMC July 30-31 meeting minutes] released 2pm ET Wednesday, August 21 stole some of the Fed Chair's thunder ahead of Jackson Hole. Several participants said they would have been happy to cut rates on July 31, if asked, given the progress made on inflation and the increases in the unemployment rate. [From the 3.4% cycle low "best of best economic times" in April 2023, unemployment had increased to 4.1% in June 2024 as far as the Fed meeting participants knew on July 31 at their meeting. Wonder what they think now with the 4.3% unemployment report for July reported on Friday, August 2. Well, we don't need to wonder after Friday's amazingly frank [Jackson Hole remarks] from Powell that the time had come to adjust policy. And the reason was downside risks to employment. His remarks tried to sort of technically explain away the rise in the unemployment rate the last year, but his shift of concern from inflation to the labor market risks remains obvious. The market is still discounting 100 bps of rate cuts this year, but as long as payroll employment does not flat out decline, it seems no recession is coming and they can cut rates in a measured, predictable fashion. How about going with a rate cut every quarter like Powell did with the rate hikes early in his first term as Fed Chair? That would be September, December, March, and June. We are not sure that the neutral rate is way down there at 3%, there is a housing price bubble after all, but let's see the September meeting forecasts: 100 bps of rate cuts in 2025 and in 2026 probably stay the same.

Fed Policy-key variables	2024	2025	2026	Long Term
Fed funds	5.1	4.1	3.1	2.8
PCE inflation	2.6	2.3	2.0	2.0
Core inflation	2.8	2.3	2.0	
Unemployed	4.0	4.2	4.1	4.2
GDP	2.1	2.0	2.0	1.8
June 2024 median Fed forecasts				



October Fed funds futures say 15.5 bps to go before a 50 bps rate cut is discounted on September 18. Over 100 bps discounted for the next three meetings. 25 bps in September then December seems enough.

Fed funds futures call Fed policy		
Current target: August 23 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.500	Aug 2024	Intermeeting
5.155	Oct 2024	Sep 18
4.440	Jan 2025	Add Nov 7, Dec 18*
Last trade, not settlement price		
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate		

Next up: July PCE inflation report Friday, August 30															
Monthly							2024	2023							2023
% Changes	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Core CPI inflation	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4
Core PCE inflation	0.1e	0.2	0.1	0.3	0.3	0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3
Core PCE YOY	2.6e	2.6	2.6	2.8	2.8	2.8	2.9	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7
Core CPI YOY	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3

OTHER ECONOMIC NEWS

Benchmark jobs adjustment ouch or owie (Wednesday)

Breaking economy news. We want to know, the whole world does, how fast was jobs creation over the last year and whether a truer accounting based on unemployment tax records shows the labor market is slowing down to the stall speed or not. There sure are a lot of data and file links in the BLS County Employment and Wages Summary released at 10am ET today. National employment increased 1.3% to 153.6 million in March 2024 from year earlier levels. Funny, not seasonally adjusted payroll employment increased 1.9% to $157.2 million in March 2024 from a year ago, an increase in numbers of 2.957 million. Not as many jobs out there apparently.

We are not sure whether the employment data are accurate enough to be able to go over the results with such a fine tooth comb (latest 114K increase in payroll jobs in July) given the US population of nearly 337 million, and judge whether the economy is border-line recessionary or not. Fed Governor Bowman's remarks on Tuesday seemingly got out ahead of today's benchmark revision saying jobs growth, those monthly changes in nonfarm payroll employment, were possibly 110 thousand less each month over March 2023 to December 2023 than we, the markets, Fed officials, had expected. Okay then, before today, average monthly payroll employment recorded a gain of 233K from March to December 2023, and 110K lower would mean a, yikes, 123K average gain. Now it is even worse, but not inconsistent with the Household (telephone) Survey of employment.

This has been a ticking time bomb for markets as we have known for several months that the BLS Household Survey of employment found significantly fewer Americans working than the payroll employment survey measure of firms. The Household Survey of employment only rose 615 thousand in the year ending March 2024, less than a quarter of the 2.9 million increase in nonfarm payroll employment. The markets are shaking in their boots today, but the million dollar question is, what is the state of the labor market since March this year? Payroll employment increases have slowed, but the jobs count has not fallen yet, and until payroll employment falls, the increases in the unemployment rate this year cannot really be considered a recession.

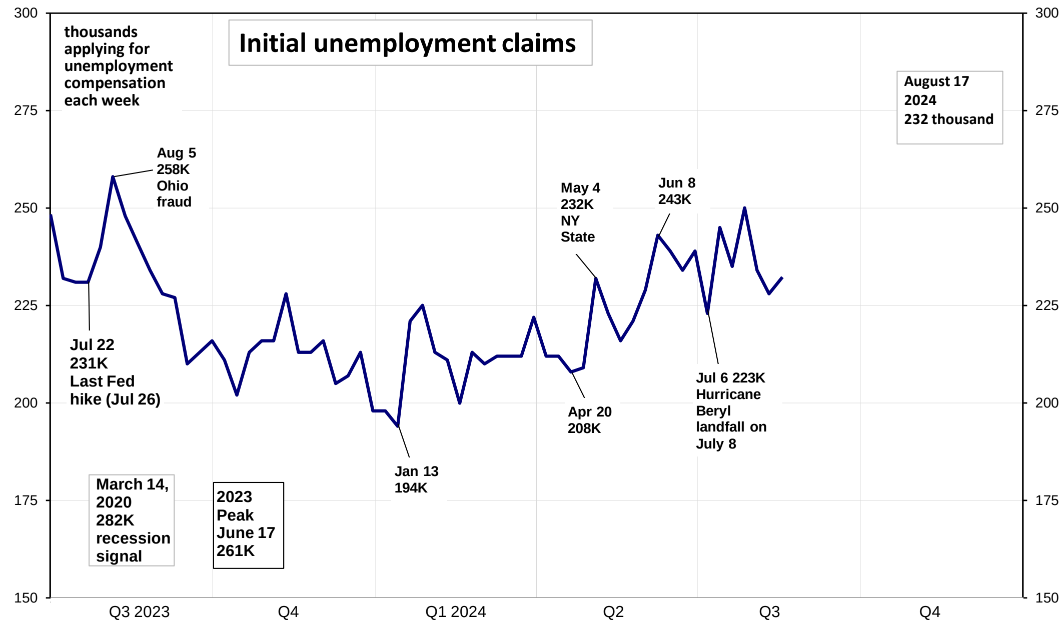
Net, net, it turns out the economy was not as strong, the labor market was not on a solid footing like we had thought, because the latest defacto annual benchmark revision estimates from the Bureau of Labor Statistics say that in March 2024 there were about a million fewer nonfarm payroll employment jobs than we knew. Doesn't sound good, and despite the caveats, it probably is not, and the faltering momentum in jobs creation makes a Fed rate cut in September almost a done deal, all to be signed, sealed and delivered by Fed Chair Powell in Jackson Hole on Friday.

It is important for markets to remember that these are not job losses, it is just that the job count was never that high and the economy apparently did not need those phantom 'lost" workers because robust real consumer expenditures powered very strong GDP growth in the second half of last year. The benchmark revision is just a statistical thing that does not help Fed officials vote for a 50 bps or 25 bps rate cut at their meeting in September.

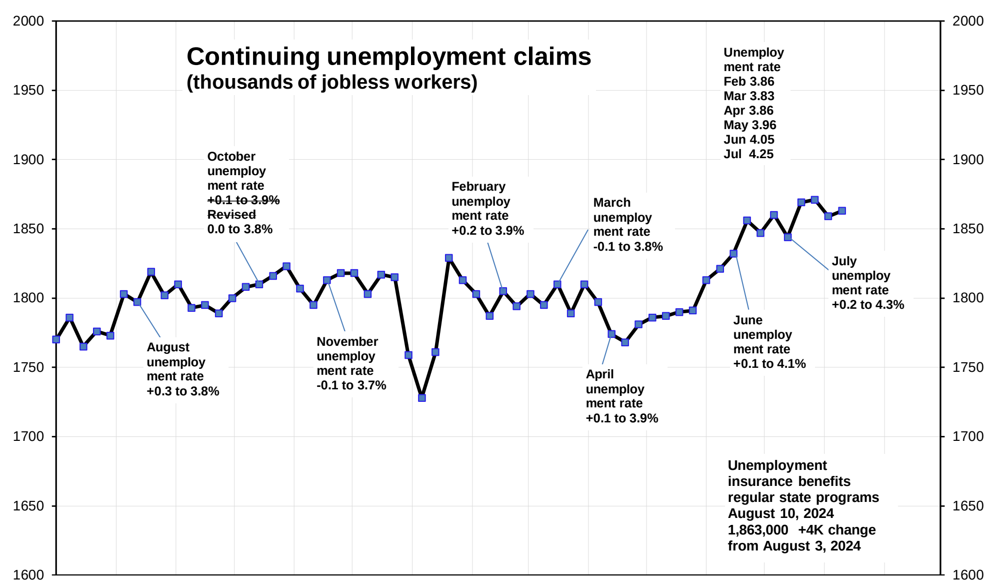
*** A half hour after BLS put out the County Employment and Wages Summary at 10am ET, it released the CES Preliminary Benchmark revision indeed down 818K jobs, 0.5% lower than Mar 2023 154.253 million.

Jobless claims up (Thursday)

Breaking economy news. Weekly jobless claims rose back by 4K to 232K in the August 17 week and August 10 was revised up 1K to 228K. Still somewhat elevated. This is a quiet time of year, the final weeks of summer before schools are back. The seasonal factor pushes claims higher to compensate as not seasonally adjusted claims fell 9,270 to 191,576 in the August 17 week. Most states were down but California (+1,355) and Florida (+1,987) bucked the trend. In California at least, one of the biggest providers of job losses to the nationwide count, the California labor market has not worsened, that is its unemployment rate has gone no higher than it was in February this year.

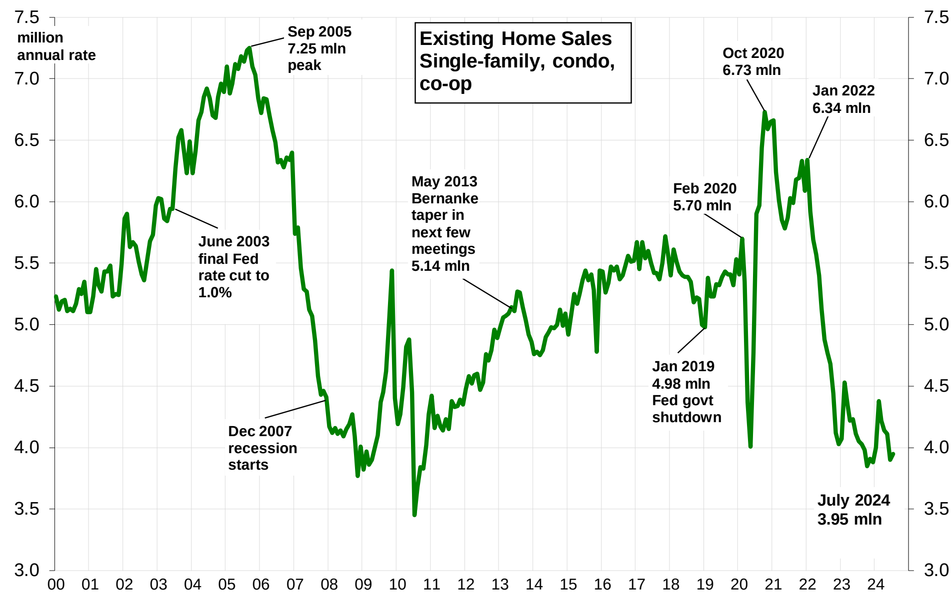


Net, net, first-time applications for unemployment benefits are still elevated and are still a threat to the soft-landing scenario Wall Street is betting on where inflation comes down but the Fed's restrictive monetary policy and the highest interest rates in decades don't bring the economy crashing down with it. We cannot rule in a recession and cannot rule one out so Fed officials are right to shift the balance of risks from inflation to the economy and unemployment. The economy is not out of the woods in terms of the jobless crisis with elevated unemployment nationwide, but at least we can say the Fed's worries about the health of the economy are not intensifying. There is certainly no need for Fed Chair Powell to hint at the need for a larger 50 bps rate cut at Jackson Hole as the labor market is not undergoing serious erosion and completely falling apart. Stay tuned. Up early tomorrow for the Fed Chair's big speech. Unemployment claims bounced higher this week so the Fed cannot afford to look the other way.

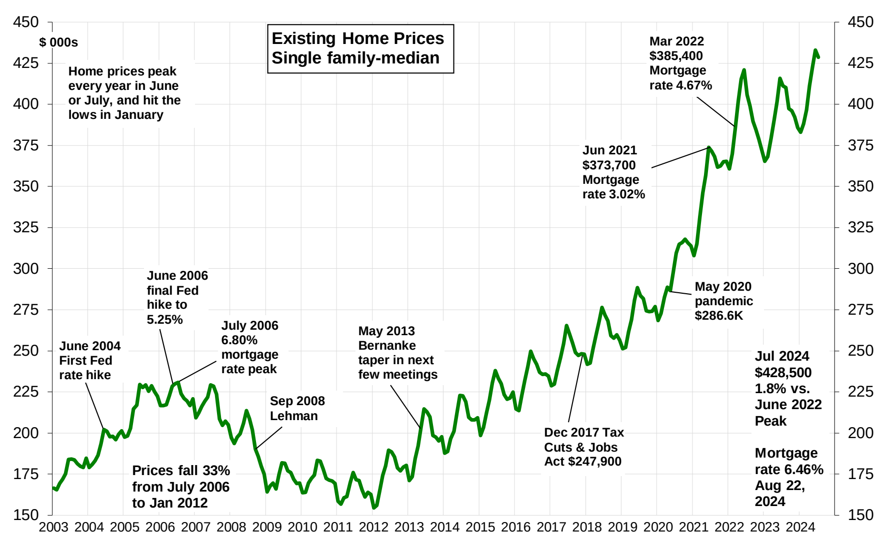


Existing home sales (Thursday)

Breaking economy news. A feeble bounce for existing home sales of 1.3% in July to 3.95 million at an annual rate after falling 5.1% in June. June weakness was mostly from the South and in percentage terms from the Midwest. Hurricane Beryl in Texas (South) did not make landfall until July 6, so perhaps a rebound in the South was held back. Anyway, the bounce for nationwide existing home sales is not much as perhaps the decline in mortgage rates has not kicked in or the help from lower mortgage rates has not arrived yet. Mortgage rates were above 6-3/4% for most of July and now down at 6.46% in the August 22 week. Sometimes it appears bond yields and mortgage rates might not fall much further without the market seeing the red of recession and starting to believe the Federal Reserve will push rates back to zero again as they did in the opening days of the pandemic in early 2020.

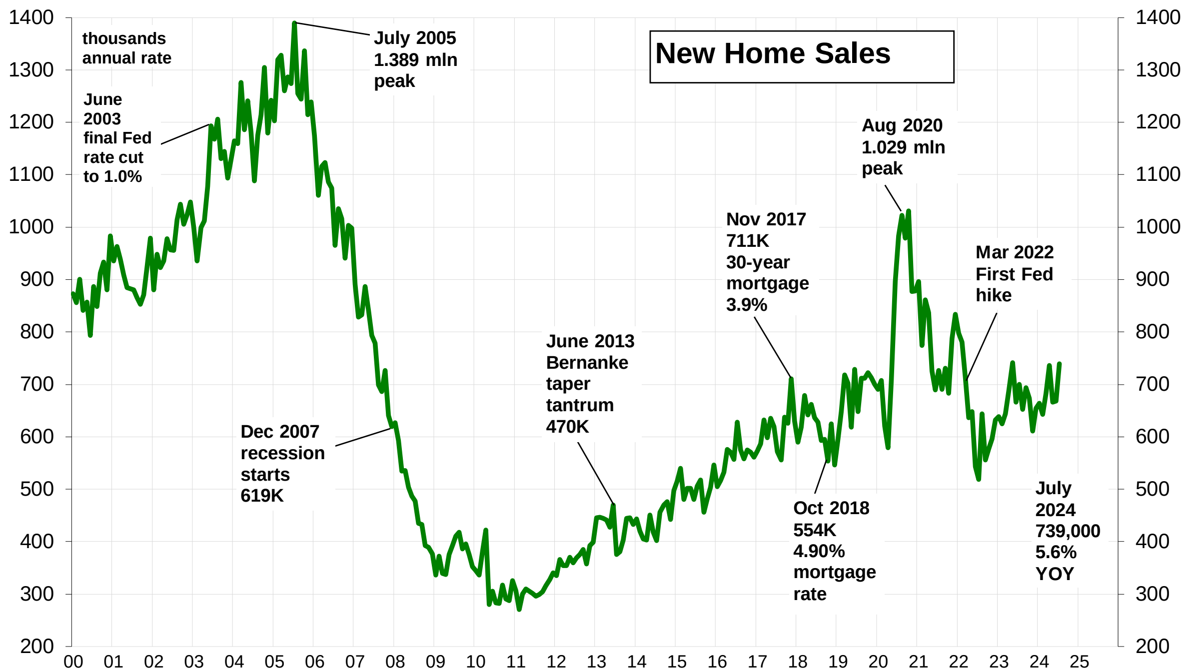


Net, net, not a heckova lotta pep in the sales turnover of existing homes in July which is often one of the strongest selling seasons of the year. Sales of homes generate down market sales of many household goods and furnishings and appliances, so the economy cannot be said to be firing on all cylinders when home sales activity is depressed. Mortgage rates have just come down recently so it may take some time for would-be home buyers to dip their toes back in the water. Housing affordability is on everyone's mind, and it does look like single-family home prices have peaked in June like they have every year looking back to 2021; however the July price level of $428,500 is still 4.2% higher than it was a year earlier. There is no reason to expect the housing price bubble is over simply because prices ease off a little seasonally after the summer selling season. Stay tuned. Story developing. The housing affordability crisis continues as it should until someone can figure out how to add to the supply of the nation's housing stock.



Home buyers are back (Friday)

Breaking economy news. Home buyers are seeing the winds of change for monetary policy and falling interest rates as well, by jumping the gun on Fed Chair Powell at Jackson Hole today, and sending July new home sales to the highs of the year. New home sales in July jumped 10.6% to 739 thousand in July. Hurricane Beryl had an impact on homebuilding in Texas, but new home sales actually rose 2.9% in the South in July. The standout is sales in the West which surged 33.8% all in the one month of July. Home prices keep going up, there's no reason to hesitate, and it looks like home buyers threw in the towel and rushed out to purchase at the first sign of a turn in mortgage rates. Whether it is the turn in the interest rate cycle or just trying to buy before home prices go even higher, buyers of new homes are back and that is likely to encourage builders to start new projects in the months ahead. The turn in the housing market is here, at least for sales. Bet on it.



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