

June 4, 2024

BIG NUMBER | -7.7%

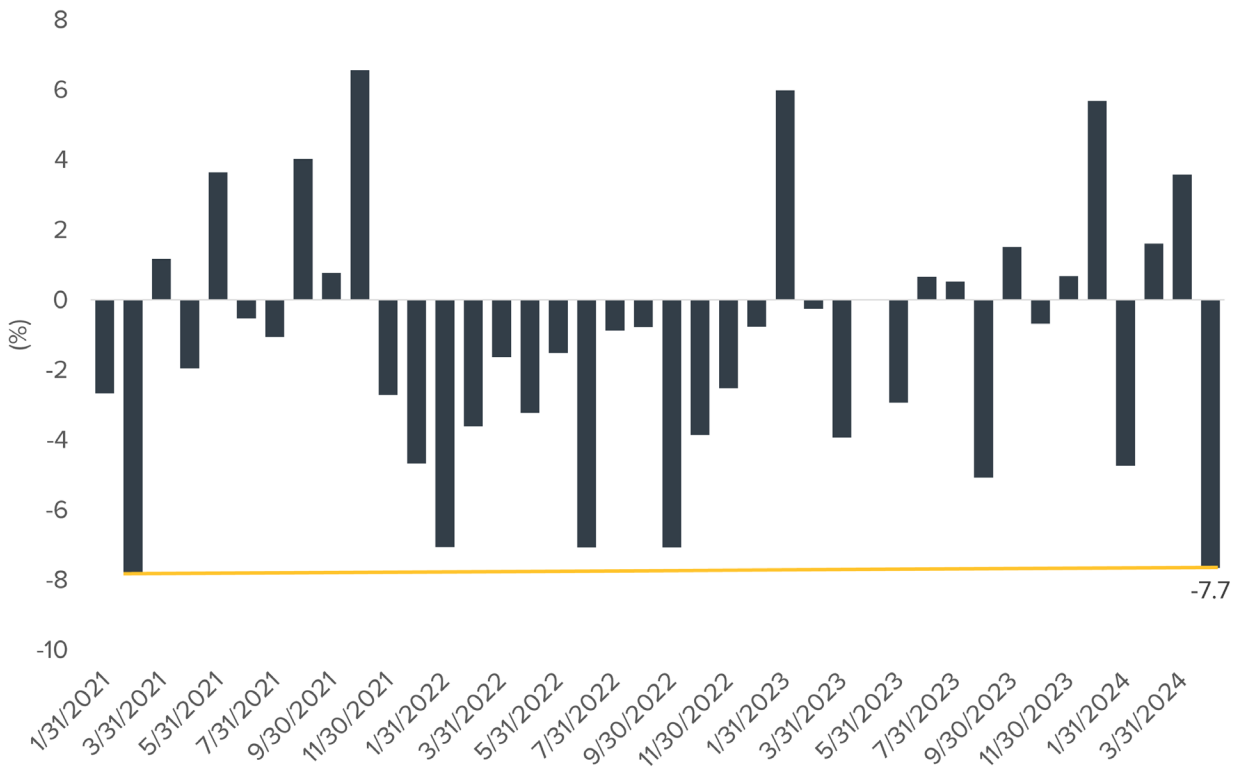
Is the Housing Market Cooling Off Fast?

Potential homebuyers are hitting the brakes. What could that mean for the future?

Would-be homebuyers are increasingly deciding to stay put—which could help further ease stubborn inflation pressures.

The chart below shows pending house sales plummeted 7.7% in April compared to March—the slowest pace since February 2021. Investors expected April sales to be flat, but rising mortgage rates fueled by historically high interest rates and volatility kept potential buyers at bay. April’s drop put the National Association of Realtors’ pending home sales index at its lowest since April 2020.

Month-over-Month Pending Home Sales



Source: Bloomberg, calculations by Horizon Investments as of 06/03/2024.

This poor showing could have important implications for inflation going forward for two reasons:

1. The cost of shelter represents more than one-third of the Consumer Price Index inflation barometer.
2. Pending sales data reflects signed real estate contracts for the biggest part of the residential housing market—existing single-family homes—so it's often seen as a leading indicator of actual future sales of existing housing stock.

The upshot: April's sharp decline could mean a drop in home sales over the next month or so, potentially helping bring down housing prices. In fact, Redfin reported last week that the share of home sellers cutting their asking prices in May hit 6.4%—the highest level since 2022.

Over the near term, we're keeping a close eye on mortgage rates and overall interest rate volatility—which remain at elevated levels—and the relationship between them. Today, for example, mortgage rates are nearly 290 basis points higher than the yield on the 10-year Treasury note, compared to an average spread between the two of around 170 basis points (from 2010 through 2019). If overall interest rate volatility falls closer to historic levels, it could help narrow that spread by pulling down mortgage rates, even if the 10-year Treasury yield remains stable.

US Pending Home Sales (USPHTMOM) Index tracks the transactions of home sale contracts not yet completed in the US. It is not possible to invest directly in an index. References to indices, or other measures of relative market performance over a specified period of time are provided for informational purposes only. Reference to an index does not imply that any account will achieve returns, volatility or other results similar to that index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Information obtained from third party sources is believed reliable but has not been vetted by the firm or its personnel.

This commentary is written by Horizon Investments' asset management team. Past performance is not indicative of future results. Nothing contained herein should be construed as an offer to sell or the solicitation of an offer to buy any security. This report does not attempt to examine all the facts and circumstances that may be relevant to any company, industry, or security mentioned herein. We are not soliciting any action based on this document. It is for the general information of clients of Horizon Investments, LLC ("Horizon"). This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any analysis, advice, or recommendation in this document, clients should consider whether the security in question is suitable for their particular circumstances and, if necessary, seek professional advice. Investors may realize losses on any investments. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. All investing involves the risk of loss.

The investments recommended by Horizon Investments are not guaranteed. There can be economic times when all investments are unfavorable and depreciate in value. Clients may lose money. This commentary is based on public information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. The opinions expressed herein are our opinions as of the date of this document. These opinions may not be reflected in all of our strategies. We do not intend to and will not endeavor to update the information discussed in this document. No part of this document may be (i) copied, photocopied, or duplicated in any form by any means or (ii) redistributed without Horizon's prior written consent. Forward-looking statements cannot be guaranteed. Other disclosure information is available at www.horizoninvestments.com.

*Horizon Investments and the Horizon H are registered trademarks of Horizon Investments, LLC
©2024 Horizon Investments, LLC.*