Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

Jim Armstrong Jurrien Timmer Mike Mariani

JIM ARMSTRONG: Hey there. Thank you for joining us for *Market Sense*. I'm Jim Armstrong with Fidelity filling in for Heather this week.

After a, let's call it, a bumpy month on Wall Street, stocks seem to be seeing a little bit of a boost this week on the news that the White House might be narrowing its approach to tariffs, which are slash were set to take effect on April 2. It seems like, although the plans are still uncertain, the markets clearly seem to be watching this development, as are we, as is Fidelity's Director of Global Macro, Jurrien Timmer.

He joins us this week to help us make sense as investors of everything happening at the national and global level. So we'll be asking him a lot of questions about that in just a moment. But it's also springtime, time to start thinking, perhaps, about the spring housing market and the mortgage rate forecast for the coming year.

We know that for a lot of us, our homes are, certainly, our biggest asset. So we asked Mike Mariani to come back on *Market Sense* today. He's the Vice President of Lending Solutions here at Fidelity, and he's previously worked in the industry for banks and mortgage companies as well. So we're anxious to hear some of his insights as well.

Mike and Jurrien, thanks for being with us today.

MIKE MARIANI: Thanks for having me. Great to be back.

JURRIEN TIMMER: Nice to see you both. Welcome back, Mike.

JIM: Jurrien, let's start with you. It is Tuesday, the 25th of March, and, as I mentioned just a second ago, it's uncertainty over US trade policy that really seems to be dragging on the markets. Would love your take on whether or not this volatility that we're experiencing now has a chance to go away, frankly, if and when early April comes and the administration gives us some more concrete news about its approach to tariffs.

JURRIEN: Yeah. So the markets, of course, don't like uncertainty. It's an old cliche, but, like most cliches, it tends to be rooted in some truth. And just to kind of dial back for a moment—we had, of course, a decisive election outcome, a whole new sort of economic regime, if you will.

Markets initially priced sort of the glass half full scenario, right? Less regulation, lower taxes, animal spirits coming back to the economy. And the markets, of course, cheered that because, generally, the administration was considered to be pro-growth. And I think the market was sort of kind of keeping its fingers crossed that the tariff stuff, OK, we don't know what that's going to be, but maybe it's the means to an end rather than the end, and that it's just all part of the art of the deal, et cetera.

So I think the market sort of just tacked in terms of pricing in a very good outcome. And, of course, now, like often happens, it's more of a two-way street. And between the government spending cuts we've seen in Washington and elsewhere, and now the persistent kind of threat of tariffs and whether that becomes a trade war or not, I think has the market repricing itself to allow for the possibility that maybe this is not going to be such a smooth ride, and maybe there might even be a recession.

Because if you apply spending cuts and tariffs, maybe that is a scenario that is possible. I don't know that it's likely. But that part of the scenario was not priced in a few months ago, and the markets had to kind of walk back their

very optimistic outlook and at least allow for the possibility. And so with that comes a correction. The S&P was down 10% from high to low as of last week Thursday. It's bounced since then. Interestingly, both small caps and the really big caps, like the Magnificent Seven, were both down 20% while the S&P was down 10%.

And so it's been kind of a choppy, messy churn. And while that's been happening, European stocks are up 10%. Emerging market stocks are up 5% this year. Bonds have been relatively well behaved. So there are places for investors to hide while this churn has been happening. And my guess is that it will probably continue for another few weeks or months.

JIM: So many variables in the equation, so thanks for walking us through that. I wanted to ask you about another variable—interest rates. We know last week the Fed met and decided, as was largely expected, that they would hold interest rates steady. Plenty of investors were a little disappointed about that. They were hoping to see interest rates come down faster.

But, Jurrien, sometimes more exciting or more interesting than the news itself about whether or not a rate cut was decided on are the things we hear about afterwards when we can get a look at the meeting minutes and the notes, or we hear the press conference afterwards—what else did you see that might give you an indication of what might be coming in terms of potential rate cuts later in the year?

JURRIEN: Yeah. So the Fed had its two-day March meeting last week. And as you said, the Fed basically did nothing, and that's exactly what the market expected the Fed to do or to not do. Even the dot plot, which usually attracts some interest, barely changed.

And the markets and the Fed are pretty much on the same page here, that one or two more rate cuts are possible this year, and maybe one or two more next year, depending on how quickly inflation returns to the Fed's target of 2%. It's currently at around 2.5% to 3%, and it's been kind of stubborn at that level. And, of course, it will depend also on the economy, what happens to the employment side of the economy.

So far, the economy remains in decent shape. And so there really is not a clear and present danger that the Fed has to react to by cutting rates. And inflation, even though it hasn't come down all the way to the Fed's target, it's also not going up. So that's also not a reason for the Fed, maybe, to hike rates again.

But there's a larger story here, and that is that the attention has really shifted from what the Fed does with short rates, and that really is the only rate that the Fed directly controls, to what happens to long rates. And, of course, that's a very apt conversation that we're going to have today about the housing market.

But much more emphasis, even by the White House. In the first term of President Trump back in 2017, the emphasis was about the Dow Jones and the S&P. Now, it's about the 10-year treasury yield, because we are running large deficits in this country and around the world.

So long rates matter more than short rates. And I think as fiscal policy kind of dominates monetary policy, and I think that is sort of the larger change here that's happening behind the scenes.

JIM: That's great. Thank you for beginning the transition from what you were talking about to our other topic for the day, which is the housing market. We'll make that transition from interest rates to mortgage rates.

It's spring home-buying season, and we want to talk a lot about what's to come there. Before we dive into this topic, though, I do want to make the important note that Fidelity is not a bank. Fidelity is not a mortgage lender. And *Market Sense* is an investing show.

But, of course, we recognize that a big part of anyone's personal investment is their home, right? It's a big, big part of your financial picture. And so that's why we wanted to take time to talk about it today. So, Mike, we'll bring you into the conversation now and just ask you to help bring us all up to speed about what's happening with mortgage rates as we sit here today.

MIKE: Right. We were up a little higher this past week, and the average 30-year fixed mortgage rate is right around 6.7%. We've been in this period of relatively high mortgage rates since 2022, which really followed inflation hitting 9% and then the Fed raising the benchmark Fed funds rate by 5%.

Their goal was to slow economic growth, lower the overall demand for goods, and, ultimately, try to reduce inflation. So the Fed's actions did help drive down inflation. And last year, we saw these price increases continue to trend lower, which gave potential home-buyers hope that interest rates may come down this year and improve affordability.

What played out last year was that inflation did have this good stretch where we saw it decrease to 2.4%. And the Fed did start to lower rates in September. At the same time, though, inflation reversed direction and picked back up a little bit, trending above the Fed's target rate of 2%.

Now, the Fed tends to view their decisions over the medium term horizon, and they try not to react to these short term trends. So they continued their expected path and lowered rates by 1% through the end of last year. While the Fed funds rate has influence over the overall rate environment, it does not directly impact longer term rates, which include mortgages.

These long term rates tend to be more influenced by economic growth and inflation. And that was what we saw driving rates higher in the last few months of 2024 as growth and inflation expectations started to trend a little bit higher there. And this was really the dynamic we saw play out in the second half of last year.

So mortgage rates, after hitting a low of 6.18% in September, followed inflation higher, and then at the beginning of this year in January were closer to 7%. And this happened even though the Fed was lowering rates at the same time.

JIM: OK. And so using that context as background, I'm going to give you probably the hardest question I have for you now. What's to come? What do you see happening in the housing market and with rates for the rest of 2025?

MIKE: Rates are still above the average we've seen going back before 2022 and then in the few years since. Going back into the 2010s, we had this period of low inflation, which kept interest rates close to an average of 4%. Then, at the onset of the pandemic, the Fed lowered benchmark rates to zero and they started a new round of quantitative easing, which included purchases of mortgage bonds. And this helped to drive mortgage rates to historical lows.

In that period, mortgage rates averaged right around 3%, which provided a great opportunity for many homeowners to lock in refinance rates at or even below that 3% level. Since that time, rates have steadily increased and have averaged 6.3% and actually peaked closer to 8% in the later half of 2023. Right now, we're down from those highs, but still well above long term averages at the 6.7% rate.

I do like to think of these changes in the context of what it means from an affordability standpoint for potential home-buyers. In this second chart here on the right, we're looking at what a $2,000 monthly payment could get you for a home price. And then you can see the direct impact of rates moving higher or lower for a home-buyer.

On average, a home-buyer would have lost $200,000 in home affordability at that payment over this time. But what makes this especially difficult is that the average home increased in value by 52% over the last five years. For a buyer, I do think about three main components that can affect their home purchase.

You have interest rates, home prices, and income growth. And then what we're seeing from these charts are really that two of these three, mortgage rates and home prices, have grown exponentially, which, overall, has really eroded the affordability for a buyer.

JIM: Yeah, I think you really hit the nail on the head there. You've got two big groups of people impacted by what you're describing—potential first time home-buyers who feel a bit boxed out by prices and by rates, and then you have all those folks who locked in really great rates. Maybe they don't love where they live right now, but they super duper love the rate they have.

So the market's kind of frozen right now. Would this spring or could this spring bring some thawing to that? Is it going to be a buyer's market or a seller's market? What are you seeing happening soon?

MIKE: Well, we're definitely seeing that rising cost and the tight housing supply are changing when people buy their first homes. Over the past decade, the median age for purchasing a first home has climbed from 30 years old, on average, all the way up to 38. So this is really been delaying a major milestone in many people's lives.

The housing supply is made up of two big groups. You have existing homes, which are being resold from current owners, and then newly constructed homes from builders. There has been a lot of attention on the limited housing supply issues over the past few years, and some of this is driven by the homeowners who are holding onto those low interest rates they secured in the refinances in 2020 and 2021, which has slowed that turnover of existing homes and reduced what would be a natural flow of homes coming into the housing market. Without new construction, demand continues to outpace this limited supply, and that's really what we've seen to keep housing prices elevated over the past few years. On a positive note, though, the housing inventory has been improving nationwide this year, and we've seen some markets even returning to or surpassing that pre-2020 level of supply. Builders have responded to these tight supply conditions by ramping up construction to meet the demand.

And last year, we had the highest level of new home sales over the past three years. Still, these new homes only represent 14% of total sales nationally. And then it gets very varied depending on how you look at it geographically.

In very large markets like Florida and Texas, where new construction has grown more rapidly, this additional supply has caused year-over-year declines in home prices for markets and actually extended the time houses spent on the market. But if we contrast that with markets like the Northeast and then parts of the Midwest, which relies more heavily on existing home sales and has experienced slower growth in new construction, in these markets, we're still continuing to see that overall price appreciation.

JIM: Jurrien, would love to get your sense of what you see, the future of longer term rates being. Anything on the horizon that you think would impact them? I know there's not a direct line, as Mike was just explaining, between those and mortgage rates, but given that everything's relatively interconnected, anything you see on the horizon to bring those longer term rates down?

JURRIEN: Well, so bonds are kind of at a fork in the road here, right? Bond yields were heading higher because of all the fiscal spending. Remember, we're running a deficits of about 6% or 7% of GDP, which you would normally see in really bad recessions, certainly not in ongoing expansions.

And so imagine if we did get a recession, how much spending there would be then, you know? So the bond market for the last couple of years, starting in 2022, following the pandemic, started to reprice in that new reality of sort of fiscal dominance, if you will. But now, we have an administration who is very clearly focused on keeping yields lower.

And, as I mentioned earlier in the show, the emphasis has shifted from short term rates to long term rates. And, of course, mortgage rates are often more tied to the long end, of course. And so it's hard to gauge whether that track towards, let's say, 5% yields continues or whether the administration is so intent now on cutting spending and creating some form of austerity or efficiency that yields can stay at these levels.

The 10-year treasury is at about 4.3%. I don't know how much room there is for them to go down a lot, but 4.3% is not super high. It's much higher than it was, of course, in 2020 when yields were 1%. But, really, it was those levels that were the outlier. 4%, 4.5% with a real yield of about 1%, 1.5% is relatively normal. So those 3% mortgages that Mike was talking about, those are more the exception to the rule than what we're seeing today.

JIM: And so, given that—thank you for that, Jurrien—and given that as backdrop, Mike, sometimes you just have to buy or sell a house, right? You have to downsize. You have to upsize.

You're having kids. You've gotten a new job. You need to move to a new city, relocate. Even if conditions aren't favorable, sometimes you just have to do it. What advice do you have for someone who might be in that situation right now?

MIKE: Yeah. For anyone thinking about buying a home, it can be as much a personal decision as it is a financial decision, especially in today's market. Like you mentioned, Jim, many people are moving because of a life event—that growing family or moving for a new job opportunity. So buying a new home may not be something they can just put off any longer.

For these buyers, I think it's important to be prepared and understand the current market reality and what you can afford. Starting with a simple housing calculator is a good way to understand what you may qualify for, and then from there, what you may feel comfortable paying for a home and what the related payment would be. I think talking to a lender or even multiple lenders and getting a pre-approval is also just a great way to firm up what a lender would qualify you for.

JIM: And kind of a follow-up question for that, Mike—I know at least some of the people watching right now are in retirement or nearing retirement. And many of them might be in that great situation where, perhaps, they've paid off their mortgage. They own their home outright.

So they've got a lot of equity, but not necessarily much or any cash on hand. And they're thinking about moving or downsizing. How should they approach a situation like that?

MIKE: For someone that may be retired, they may still want to explore getting a new mortgage for a home purchase. Lenders will generally look at all sources of income, including pension, social security, retirement distributions, or investment income. So there are options available if permanent financing is a route that someone wants to consider.

At today's rates, many people do want to be that cash buyer and potentially use the equity or proceeds from an existing property that has appreciated to buy that next place. A traditional route is to try to buy and then sell concurrently, ideally lining those two closing dates up so the proceeds from the sold house could be used to buy the new house. But in today's market, timing that may just not be realistic.

One area many clients look into as an option is using a securities-based line of credit or margin loan to serve as a bridge loan. For situations where a person is buying first, this can allow for keeping non-retirement funds invested and avoiding any potential capital gain implications from selling those assets while still setting them up as a cash buyer. For a scenario where they are selling an existing home after the new closing, they can then use those funds from the sale to pay down or pay off the line of credit or margin balance if they choose.

Or, separately, a buyer using this strategy may look to finance some of that balance into a traditional mortgage set up after the home has been purchased. In this case, it's important to discuss the approach with the lender before just to make sure they can support that transaction and to be aware of any additional rate or timing considerations to think of.

JIM: Thank you for that, Mike. I want to sneak in a question for you, Jurrien, about this idea of real estate in general as an investment. We talk a lot about REITs, real estate investment trusts or people becoming landlords flipping properties. In your mind, what kind of role do you think real estate could or should play in somebody's portfolio?

JURRIEN: Well, certainly I think it's worth taking a holistic look at all of your assets, right? So for most of us who are fortunate enough to own a home, that, obviously, is usually the primary asset. And it's a real asset, right?

So it's something that appreciates with inflation. So it is a store of value, if you will. But if it's additional real estate as an investment, right—so if it's a REIT, a real estate investment trust, that becomes an income generating vehicle as is a vacation home that you're renting out. And, again, I would see that as part of the entire portfolio.

So you got your stocks, your bonds, you got your primary home, which is more for consumption, and then if you have additional real estate that produces income, I would take an entire portfolio approach and look at all your assets. How much liquidity do you have? How much risk there is if there's a downturn? And think of it in those terms.

JIM: And thank you for that. As we're wrapping up, I want to absolutely get your Timmer's Take on—I can't imagine what you would pick, where your attention is focused over the next seven days. But what will have your attention in the coming week?

JURRIEN: Well, the big deadline, of course, that everyone is focused on is April 2 when the tariffs, again, go into effect. And I think there's a lot of tariff fatigue on Wall Street because there have been so many headlines that I think just reaching that next milestone, and, again, finding out how much of it is real, how much of it is a negotiation, I think, is the next step.

Because we have the Fed out of the way. We don't have earnings season until mid-April. So it's sort of all tariffs all the time right now.

JIM: All right. We're here for it. Jurrien and Mike, thanks again for your time. For everybody watching, thank you for your time. Head over to Fidelity.com/home if you're interested. We have a ton of great educational articles there, really for potential buyers as well as sellers, and you'll also find a link to the Fidelity Mortgage Referral Program through Leader Bank.

But also, before we go, we do have some important information for *Market Sense* viewers. Incidents of fraud are really rising year after year across the whole financial system. So we feel like it's really important to help folks learn the best ways to safeguard their information and their money.

So one note today—we want to remind viewers you should never, never trust an unexpected call or an unexpected text from a person claiming to represent your financial institution, to represent the IRS, or to represent technical support. Never give out a security code or type it into your phone unless you yourself were the one who initiated the call, for example, to Fidelity or to another financial institution. So be on the lookout for those scams as they are, unfortunately, on the rise.

On behalf of Jurrien and Mike, want to thank you again for taking time out of your day to be here. And we hope to see you back here next week, Tuesday at 2 o'clock Eastern. See you then.

[1]National Association of Realtors, November 2024: www.nar.realtor/newsroom/first-time-home-buyers-shrink-to-historic-low-of-24-as-buyer-age-hits-record-high

[2]U.S. Bureau of the Census: www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/sales/nationwide-sales-and-inventory.pdf?rev=2a0e5741e9ea48c1b6e91a9b03677a5c&hash=D0A99213F8688CE67BB701E648D05ED8

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