Rodney's Take

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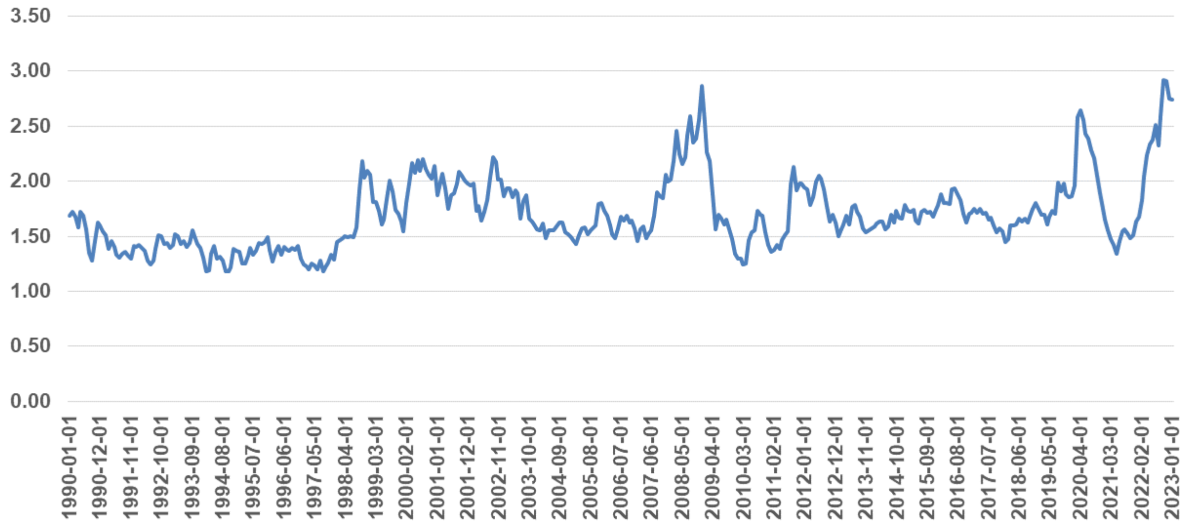
The Opinions Pushing Residential Real Estate

There are many sayings about opinions, especially about how most people aren't interested in the opinions of others. But sometimes, opinions matter, especially when they influence the markets.

We've all seen investor psychology push a "meme" stock up to dizzying heights, and there's no doubt that negative views have weighed on everything from cigarettes to energy companies, no matter how much cash they generate. But investor opinions (sentiments) also play out in the bond market and have real-world consequences. We're living with one today: stretched mortgage rates vs. 10-year Treasury bond yields. What makes this situation unique is how we got here and how quickly it might unwind.

Fixed 30-year mortgage rates and the 10-year Treasury yield move together, but they don't follow the exact same path. While mortgage rates are higher than Treasury yields, the difference between the two expands and contracts with the sentiments of fixed-income traders. The chart below shows the difference on a monthly basis from 1990 through January 2023.



While the differential was between 1% and 1.5% during the 1990s, it moved into a range of 1.50% to 2.00% in the 21st century, averaging around 1.7%. The spread between the two spiked three times, in 2008, 2020, and now, but today's gap isn't like the others. In 2008 and 2020, Treasury bond yields plummeted as investors piled into Treasuries as the safe haven. Mortgage rates didn't follow, so the spread widened. The difference today is all about higher rates, and it reflects how far mortgage rates have climbed since December 2021 compared with Treasuries. Mortgage rates have jumped almost 3%, while Treasury bond yields are about 2% higher, leading to the widest spread between the two in the last three decades. Over the past year, fixed-income investors expected rates to go higher, but what now?

The Fed is expected to push the terminal rate over 5% before summer, which might push up both Treasury yields and mortgage rates. But if investors think the Fed either is done or nearly done raising rates, then long bond yields would fall and mortgage rates would ease with them. Not only would rates decline, but it's likely that the spread between mortgage rates and Treasury yields would compress back to the long-term average, below 2%. This would

give home buyers a shot at mortgage rates below 6%, which could allow the residential real estate market to thaw. But that's just my opinion.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.