Stewart Agency Financial Advisory Services

Economic Summary, 1Q24

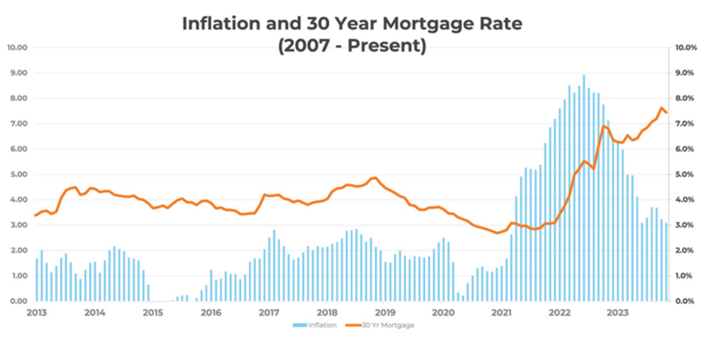
The theme for the past many months regarding the economic outlook has been one of uncertainty. Many forecasters predicted a recession at the outset of 2023 while others threw up their hands as consumer spending held strong despite elevated inflation and higher interest rates. As we head into 2024, the uncertainty has somewhat diminished and the US economy appears to have started on strong footing, both buoyed by the late 2023 'pause' in the Federal Reserve interest rate hikes. However, while the Federal Reserve intent remains clear __ reduce inflation to a target of 2% __ their path and timing to do so remains elusive, despite the market pricing in an optimistic four interest rate cuts in 2024.

The Fed Funds rate hikes and related increase in the 30 yr. mortgage rate continue to create real estate market challenges. The annual inflation rate for the United States is now **at 3.1% (as of February 13th report) which decreased 0.3% from prior month's 3.4%**, which was a welcome sign. However, the Federal Reserve meeting minutes from February reiterated that inflation is "still too high," and maintained their bias of a target range for the fed funds rate of 5.25% to 5.5% and underscored the continued goal of returning inflation to 2%. While the market maintains an optimistic view, a more cautious spectator might conclude that assuming the Fed is going to introduce rate hikes in early 2024 would be premature.

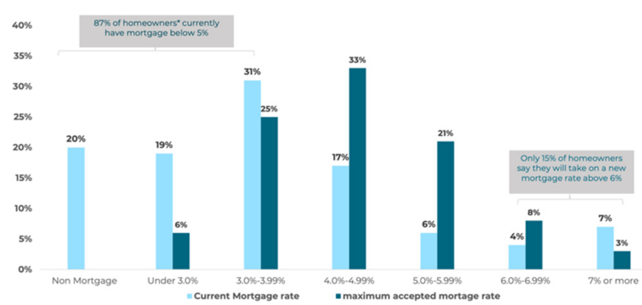
Interest rate hikes "paused"; market shifts focus to timing of rate cuts …

CPI for All Urban Consumers – US City Average

12-Month Change Seasonally Adjusted



Homeowners' Highest Acceptable mortgage Rate Willing to Take on for New Home Purchase



The current related **30 yr. mortgage rate sits at 6.90%** as of February 22nd, which was certainly a helpful drop from a high of 7.79% in October of 2023, one which spurred modest sales activity. However, one must not forget that due to the low interest rate environment of the past ten years, 87% of homeowners currently have mortgages below 5%, and sales in this higher rate environment will be more likely related to 'core life events' (e.g., job relocation, retirement, or divorce) rather than more normal purchase initiators. To espouse the more cautious view of the Fed Funds rate cut timing, the median single-family home price continues to increase and was $387,000 in December '23, up 4.0% from December 2022 pressured by historically low existing home inventory levels of 3.7 months which is further challenged by new home developers leveraging a rate lock-in strategy. While rate cuts may loosen housing inventory, they could conversely hamper home prices reductions.

Lastly, because the outlook on mortgage rates is also dependent on sufficient market liquidity and an appropriate level of mortgage buyers, for mortgage rates to fall, the spread between the 10 yr. treasury note and the 30 yr. mortgage rate needs to tighten. Currently the 10 yr. is at 4.30 or a 2.60 spread to mortgages which is typically 1.50 - 1.70.

From a macroeconomic perspective, leading and lagging indicators suggest the economy remains strong, which of course have various implications to the housing market. As mentioned, the CPP has continued to decrease since June '23 and is currently 3.1%. Unemployment is at a historic low of 3.7% compared to a historical average of 5.8% although we have seen job growth slow, the 3-month average job gain in 4Q23 was the lowest since 3Q19. These are the two mandates of the Fed __ inflation and Unemployment __ with historical targets of 2% and 5%, respectively. And, while we are not at those targets yet, we are close. Real GDP increased at an annual rate of 3.3% in the 4Q of 2023 compared to a 4.9% in 3Q23 which does indicate a slowing down of the economy. For the full year, the GDP increased 2.5% in 2023 compared with an increase of 1.9 percent in 2022. The S&P index rallied 11.2% during the fourth quarter, including a 4.4% rise in December, for a gain this year of 24.2%.

CPP	Unemployment	GDP	S&P	Amazon
↑ 0.3% (Jan)	3.7% (Jan)	↑ 3.3% (4Q23)	↑ 4.4% (Dec)	↑ 13% (4Q23 NA segment exl. AWS)
↑ 3.1% (over past 12 mos.)		↑ 2.5% (2023)	↑ 24.2% (2023)	

Considering this backdrop, the conservative view might assume the Fed will wait until inflation drops below 3% to consider initiating any interest rate cuts. As a result, those cuts might not materialize until early to mid-third quarter of 2024, although March CPI results will be an important decision driver. Moreover, the Fed could implement more limited rate cuts at quarter points, rather than take aggressive action.

Fannie Mae and MBA residential real estate forecasts appear commiserate with the conservative view suggesting a 4.1% average increase over 2023. From a home price perspective, the average forecast is a 2.3% uptick next year which is at least coming down from the 4% of 2023. On a quarterly basis for 2024, the market recovery isn't expected until mid-year with both MBA and Fannie Mae suggesting a positive YoY increase in 3Q which assumes both some interest rate relief and lower prior year comparable as the market began to deteriorate in the second half 2024.

A presumed drop in interest rates is encouraging positive forecasts in 2024 with 3Q24 the 'turnaround' quarter.

Existing Home Sales Forecast

February 2024

Sales -- Thousands *Annual*

	2022	2023	2024	2025	2026
Fannie Mae	5,030	4,090	4,262	4,777	
MBA	5,099	4,099	4,311	4,845	4,993
Average	5,065	4,095	4,287	4,811	4,993
Percent Change - Year-Over-Year					
Fannie Mae	-17.9%	-18.7%	4.2%	12.1%	-100.0%
MBA	-16.8%	-19.6%	5.2%	12.4%	3.1%
Average	-17.3%	-19.2%	4.7%	12.2%	3.8%

Existing Home Median Price Forecast

February 2024

Median Price -- *$ Thousands*

	2022	2023	2024	2025	2026
Fannie Mae	$ 378.8	$ 405.7	$ 418.7	$ 419.9	
MBA	$ 384.0	$ 388.1	$ 390.5	$ 393.5	$ 393.6
Average	$ 381.4	$ 396.9	$ 404.6	$ 406.7	
Percent Change - Year-Over-Year					
Fannie Mae	9.1%	7.1%	3.2%	0.3%	
MBA	10.4%	1.1%	0.6%	0.8%	0.0%
Average	9.8%	4.1%	1.9%	0.5%	

Existing Home Sales Forecast

February 2024

Sales -- Thousands *Seasonally Adjusted Annualized Rate*

	2024			
	Q1	**Q2**	**Q3**	**Q4**
Fannie Mae	4,044	4,201	4,338	4,465
MBA	3,974	4,237	4,424	4,609
Average	4,009	4,219	4,381	4,537
Percent Change - *Year-Over-Year*				
Fannie Mae	-6.5%	-1.2%	7.9%	17.6%
MBA	-8.2%	-0.3%	10.0%	21.4%
Average	-7.3%	-0.7%	9.0%	19.5%

Both Fannie Mae and MBA see interest rates coming down slightly over the next four quarters. And, while Fannie Mae sees a dip below 6.0% in the fourth quarter, MBA does not hold the same view resulting in an average 30-Year Conventional Mortgage Fixed-Rate of 6.29%.

However, residential interest rates still likely not to drop below 6% in 2024, but should come down enough to spur the market ...

Residential Interest Rate Forecast February 2024

30-Year Fixed-Rate Conventional Mortgages

Fannie Mae

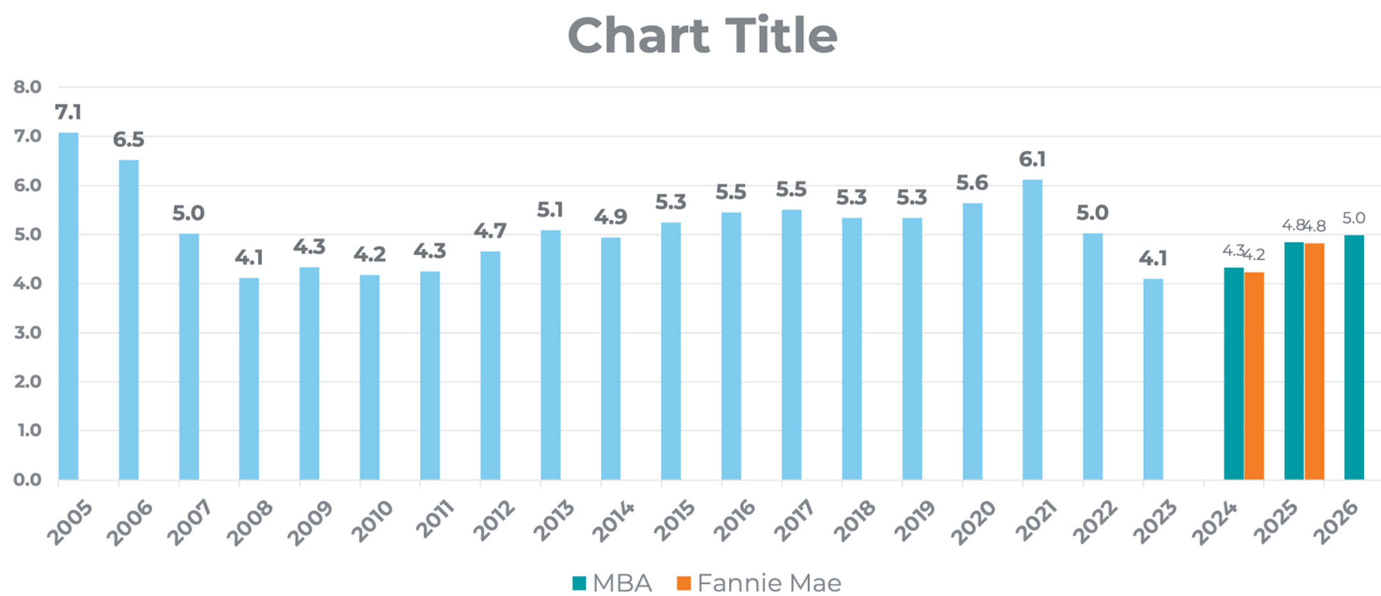
	Q1	Q2	Q3	Q4
2022	3.8%	5.2%	5.6%	6.7%
2023	6.4%	6.5%	7.0%	7.3%
2024	6.5%	6.3%	6.1%	5.9%
2025	5.8%	5.7%	5.7%	5.7%

MBA

	Q1	Q2	Q3	Q4
2022	3.9%	5.3%	5.7%	6.6%
2023	6.4%	6.5%	7.0%	7.3%
2024	6.9%	6.6%	6.3%	6.1%
2025	5.9%	5.8%	5.7%	5.5%

Taking a broader picture of the market, both Fannie Mae and MBA are considering 2024 and 2025 as transitional years into a more normal $5 million existing home sales market although not reaching the market until 2026. However, one must heed the quarters of 2024 to understand if that $5 million mark will come sooner or later than suggested. The market may recover more quickly than expected, or it may not.

US existing home sales expected trend to a more normal $5 million sales levels



Stewart View

The market should loosen a bit as we finish up the first quarter of 2024 with rates coming down slightly and 'core life events' spurring the market; however, the market may remain relatively stable at a slower pace with the assumption the Fed takes more of a 'wait and see' approach rather than earlier implementation of rate cuts. But, taking out the uncertainty of continued rate hikes should help the market. Year-over-year comparisons will remain challenged given the lower rates and better market in earlier 2023, a gap that should begin closing later in 2Q24.