Market Commentary Blog

# Cash Flow *and Carey*

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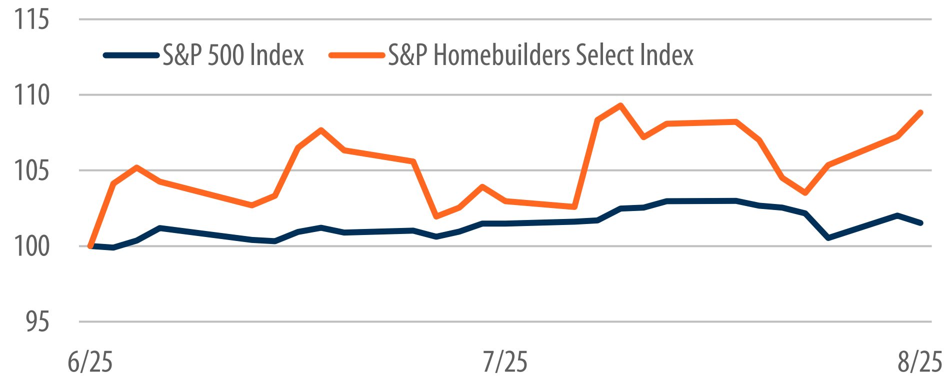
## Homebuilder-Related Stocks

### Price Returns 6/30/25 – 8/5/25




Source: Bloomberg. S&P Dow Jones Indices. Daily price returns, normalized to a factor of 100.

**Past performance is no guarantee of future results.**

### View from the Observation Deck

For today's post we thought it would be constructive to revisit an area of the market that we haven't touched on in some time: homebuilders. Data from the U.S. Census Bureau revealed that housing starts increased by 4.6% to an annual rate of 1.321 million in June 2025, beating the consensus expected annual rate of 1.300 million. New building permits increased as well, rising to an annual rate of 1.397 million (compared to estimates of 1.387 million). Even so, homebuilder sentiment remains negative, with more builders saying current conditions are poor versus good.

**The S&P Homebuilders Select Index (Homebuilders Index) increased by 8.83% on a total return basis since the start of the third quarter (thru 8/5). For comparison, the S&P 500 Index increased by 1.61% (total return) over the same time frame.**

Recent returns enjoyed by the Homebuilders Index mask persistent headwinds within the space. Single-family starts were down 10.0% year-over-year in June while completions plunged 14.7%, according to Brian Wesbury, Chief Economist at First Trust Portfolios, L.P. A backlog of completed homes adds further stress to the subsector. Inventory of completed single-family homes currently stands at 119,000, its highest level since 2009.

**Investors increasingly expect U.S. interest rates to decline in the coming months.**

Last week, the Federal Reserve ("Fed") decided to keep interest rates steady for the time being. The vote was not unanimous, however, with two committee members offering dissenting opinions regarding the decision. Many investors have taken this as a signal that rate cuts could return in September. As of 8/5/25, the federal funds rate futures market implied a 90.2% chance of an interest rate reduction at the Fed's next meeting on 9/17/25, up from 39.8% just days prior on 7/31.

**Interest rate policy can substantially impact homebuilder values.**

As many investors are aware, lower interest rates generally lead to increased affordability for home buyers. The weekly national average for a 30-year fixed-rate mortgage stood at 6.75% on 7/30/25, according to Bankrate's latest lender survey, reflecting the metric's lowest level in four weeks. Despite the decline, Bankrate noted that elevated interest rates have contributed meaningfully to a disappointing spring homebuying season, with home sales remaining unusually low at less than 4 million per year.

### Takeaway

The Homebuilders Index has enjoyed a strong start to the third quarter, increasing by 8.83% (total return) from 6/30 through 8/5. We believe expectations regarding near-term interest rate policy may explain, in part, the subsector's recent performance. That said, mortgage rates and prices remain elevated, pressuring would-be buyers. Data from the Federal Reserve Bank of St. Louis revealed that the median sales price of a U.S. home stood at $410,800 in Q2'25, up from $313,000 in Q1'19 (pre-pandemic). Shoppers are increasingly waiting on the sidelines, pushing completed single-family home inventory to near-term highs and resulting in lower-than-expected spring and summer sales. While nothing is certain, investors appear increasingly confident that interest rates will fall through year's end. Stay tuned!