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Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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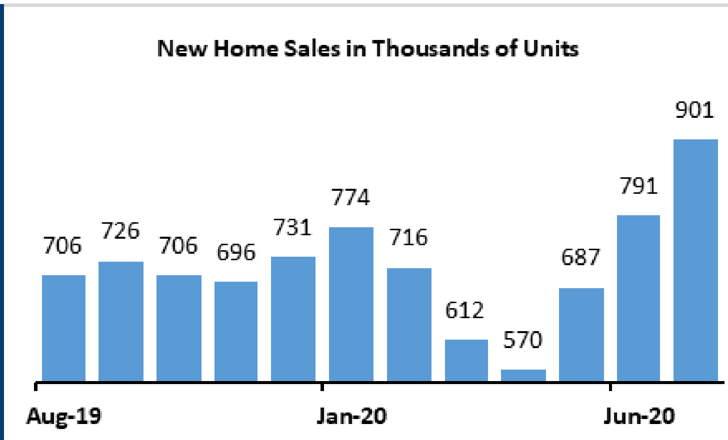
The chart to the right indicates that we may be experiencing a housing boom that can last for several years. If this forecast is correct, expect to see rising prices, increasing single family and apartment construction and a major contribution to overall economic growth.



The Almost Perfect Real Estate Storm

The real estate crash of 2008 damaged the housing industry for years. A measure of that damage was the shortfall in new housing relative to the estimated needs of a growing population. According to First Trust Advisors, "the fundamentals of the housing market suggest an underlying norm of 1.5 million housing starts per year. This is based on a combination of population growth (more people mean more housing) and scrappage (homes don't last forever, either because of voluntary knockdowns, fires, floods, hurricanes. tornadoes, etc.). All of this suggests to us that home builders still need to make up for lost time, until the long-term average is closer to 1.5 million per year, which could mean reaching, and then averaging, a pace of something like 1.8 million starts for the next several years." Even with an increase in supply, other factors will pressure demand higher benefiting both builders and homeowners.

Current record low interest rates of under 3% for a 30-year conventional mortgage is attractive not only to existing homeowners who want to refinance but to new homeowners who may not have been able to afford the mortgage payment at higher rates. When interest rates begin to rise buyers will accelerate their home purchases to take advantage of still low rates. Couple this interest rate climb with increased prices in new and existing homes and the rush to own could accelerate leading to mushrooming prices.

Other factors influencing the real estate market are the coronavirus in densely populated areas and the riots in cities across the country. These once-in-a-lifetime events are causing an exodus from the city to the country. For people who can afford it, they are buying second homes with the prospect of never returning to an urban environment. Here are just a few recent statistics supporting a booming housing industry.

- New single-family home sales increased 13.9% in July to a 901,000 annual rate.
- Sales are up 36.3% from a year ago.
- The months' supply of new homes fell to 4.0 months in July from 4.6 months in June.
- Prices on homes financed with conventional mortgages, are up 5.7% in one year.

"One of the funny things about the stock market is that every time one person buys, another sells, and both think they are astute."

William Feather

Market Commentary

Fears of a rebound in the cases of coronavirus have not interrupted the stock market rally that has taken the S&P 500 and the NASDAQ indices to new highs. The Dow Jones Industrial Average is within striking distance of a new high as the rally is broadening out and economic data confirm that the recovery is well underway. Fiscal and monetary policies are supportive as another round of spending by the federal government and a relaxation of inflation warning signals have encouraged markets to believe that the Fed remains accommodative. Events such as the violent rioting that has been taking place in numerous U.S. cities and fears over the election have done virtually nothing to stop the stock market advance.

The NASDAQ Composite is up 31.2% YTD through Friday 8/28/20. Just 5 stocks drove approximately 40% of the return of this cap-weighted index.

(source: NASDAQ