Stewart Agency Financial Advisory Services

Economic Summary, 2Q25

The great existential philosophers Calvin and his tiger Hobbes of the eponymously named comic series once said,

Calvin: "I thrive on uncertainty. Predictability is boring."

Hobbes: "You thrive on sugar and eat cereal for dinner three nights in a row."

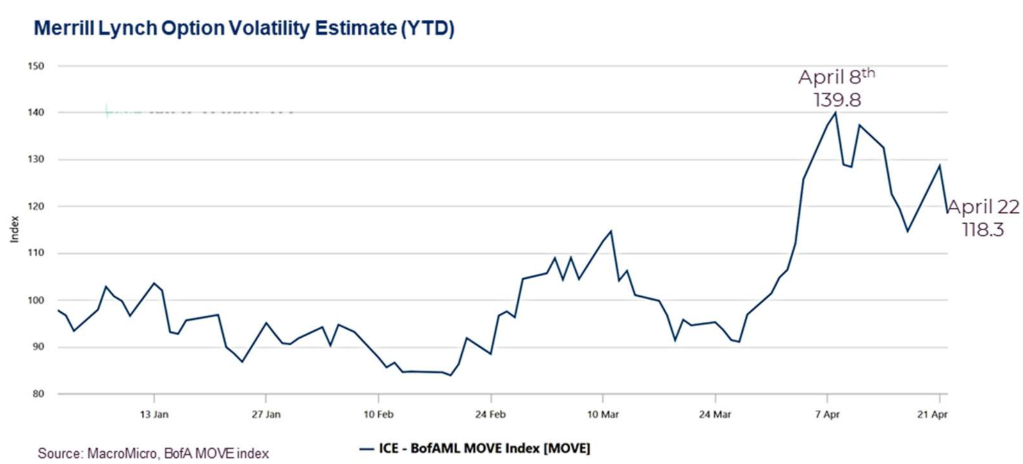
Calvin: "That's called consistency."[i]

I think Wall Street would prefer consistency to uncertainty, but the latter is the environment in which we find ourselves. The last 12 weeks (and three in April) of macroeconomic development have been dynamic to say the least. Tariffs have been announced, implemented, pulled back, paused, and adjusted – all with a dizzying effect on the 10-year United States Treasury rate (not to mention the equities market). There has been a pop in the 10-year treasury rate each time a new tariff announcement is made, followed by a drop as markets hear of possible reversals or fear recession. The Federal Reserve's Beige book, which summarizes current economic conditions across the 12 Federal Reserve districts eight times a year, mentions "uncertainty" 80 times. That's a lot.

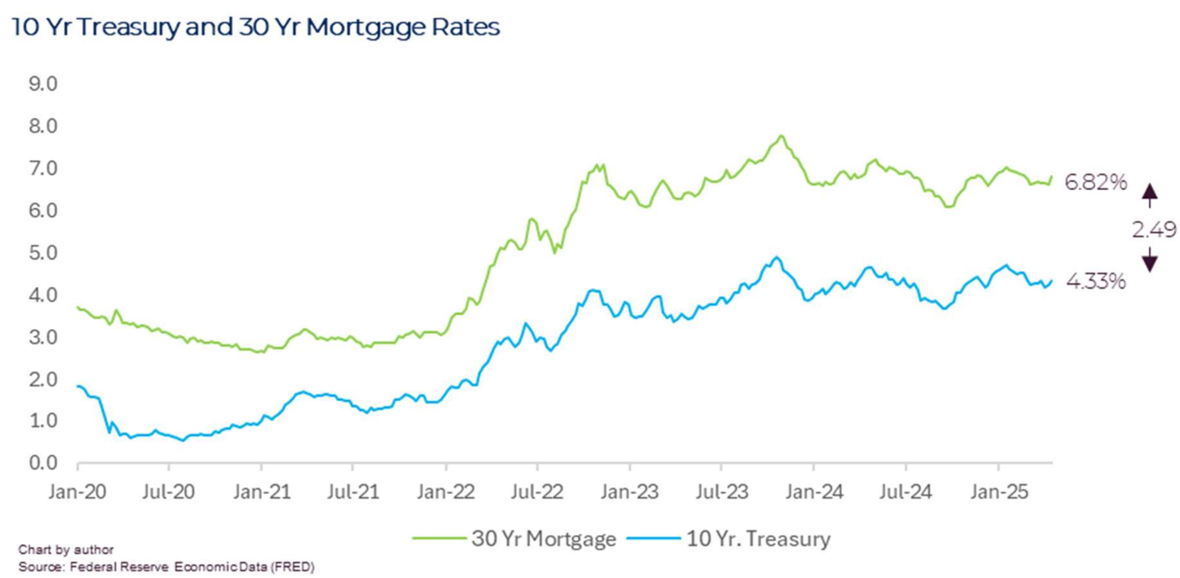
The current tariff war may prove to be a temporary 'Shakespearean sideshow' or a new longer-term approach to global trade. Either way, in the short term, it is disruptive – and interest rate risk is palpable.

The Bank of America MOVE Index — a gauge of Treasury market volatility (or said differently, a proxy for how uncertain banks are about future interest rates) — is now extremely elevated. Historically, a range of 50–70 is considered normal. As of April 16th 2025, the index stood at 132.5, reflecting how erratic policy signals have deeply unsettled rate expectations.

Interest Rate Uncertainty Remains Elevated; Banks Continue to Build in a Buffer



This surge in volatility has direct implications for our title businesses. Increased bond market volatility widens the spread between mortgage and Treasury rates; (remember, the 30-yeaer mortgage rate is tied to the 10-year Treasury rate) as investors demand higher compensation for prepayment and extension risks. This widening spread can lead to higher mortgage rates, potentially dampening homebuyer demand and affecting title agency volumes. As of April 24th2025, the 30-year rate stands at 6.81%, which puts the spread at 2.49. In addition, the continued lack of MBS buyers keep spreads wide (for further reading, see Stewart's MBS white paper, "Trying to Unwind in a Dry Market"). Domestic banks were only small net buyers of agency MBS in Q1; and with elevated interest rate uncertainty, bank demand will continue to be subdued.[ii]



Although higher than we would like, on a weekly average basis, the 30-year mortgage rate has remained relatively elevated and consistent at an average of 6.8% year-to-date, from January through April 24th, which is in fact only 0.6 percent higher than last year's year-to-date average for the same period. Given the uncertainty in the market which, in turn, is one factor keeping the spread high, we may be wise to temper our expectations of a declining 30-year mortgage rate in 2025.

What we're seeing now may well be what we're stuck with. With the first quarter now behind us, hopes for clarity and certainty from a macroeconomic and policy standpoint remain wanting. As a result, those of us in the title business might find ourselves back where we started at the beginning of the quarter: facing elevated rates, where any downward movement in rates triggers quick pops in activity, a pattern that may well define 2025.

It would be remiss of me to not point out that the scale and scope of the April 2nd tariff announcement and the rapid implementation through April 9th were more sweeping than expected and more than the market could bear. With fears of recession (and even depression) due to the twin threats of higher inflation and slower growth, the equities market dropped 12 percent before the reciprocal tariffs were officially paused.

At the same time, initially there was a flight to safety: the 10-year Treasury rate dropped to nearly 4.0%; however, by Friday there had been an unusual bond market selloff which sparked greater concern. The 10-year yield surged from 4.0% to 4.5% in just one week—a dramatic move by any bond market standard.

While both markets have recovered somewhat, a sense lingers that some degree of reputational damage may have been done to the perceived trustworthiness of U.S. policy, and by extension, its currency. More than likely, this is a brief stumble and an anomalous week; the U.S. continues to be the deepest, most stable market worldwide. But the possible reputational damage appears to be on the global radar, nonetheless.

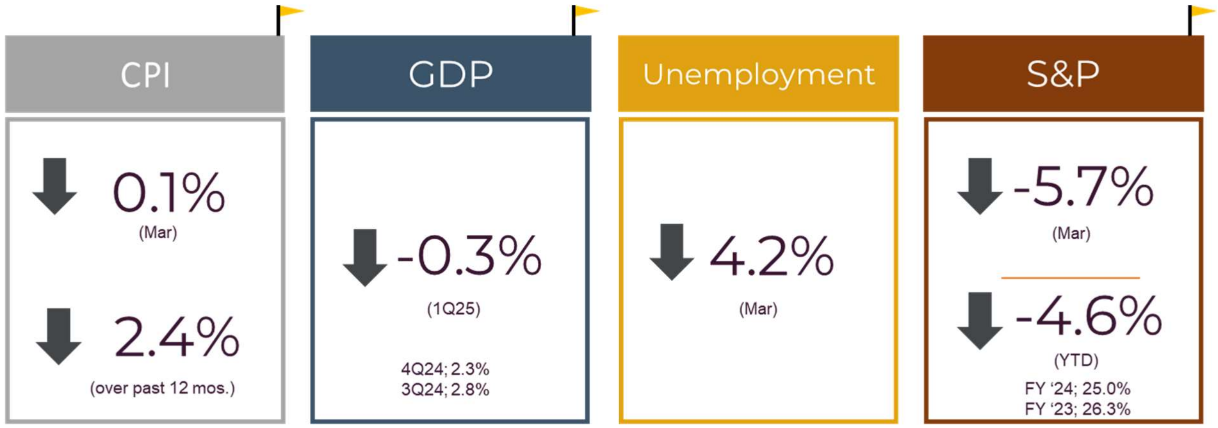
As for the data, the annual inflation rate for the U. S. is now **2.4% (as of the April 10th report)**, a welcome decrease of 0.1% after rising 0.2% in February, moving us back towards the target 2% territory. However, in his recent remarks, Fed Chairman Jerome Powell indicated the Fed remains in wait-and-see mode to understand how tariffs and other economic policies of the administration play out, with concern inflation will pick up once again.

As mentioned, the **30-year mortgage stands at 6.81%** as of Freddie Mac's April 24th release (MBA's weekly report was 7.09%). The rate had dropped somewhat since the beginning of January, from a weekly average of 6.93% to 6.62%; however, since April 2nd 2025, the volatility in the market has returned to heighted levels. The **10-year Treasury rate** is **4.41%** as of April 22nd 2025. The rate continues to remain high based on a five-year historical average of 2.63%, (although, the 10-year Treasury rate's historical average since 1962 is 5.85%), **creating a ~2.4% spread** to mortgage rates, a spread that is typically 1.5% to 1.7%.

In addition to interest rate uncertainty, the national debt level at 121% as of 1Q 2025 is elevating the 10-year Treasury rate, particularly in light of potential tax cuts with undefined revenue-generating countermeasures. Remember, the 10-year Treasury rate reflects inflation risk and future growth, both of which are impacted by tariffs and potentially increasing national debt.

March inventory levels remained low but improved at a 4.2-month supply from last month's 3.8 months but better than last year's March level of 3.5 months. However, single-family home sales have hit a new, historic low, to a seasonally adjusted annual rate of **4.02 million in March, down 5.9 percent from 4.27 million in February and down 2.4 percent from 2024.** The median existing single-family home price continues to increase, to **$403,700 in March 2025**, up 2.7% from March 2023 (and a 1.7% increase from February 2025).

From a macroeconomic perspective, there are a few 'yellow flags' on the horizon. GDP growth shrank 0.3% in 1Q 2025 compared to the 4Q 2024 annual growth rate increase of 2.4%. Unemployment increased in March to 4.2% from the prior month's 4.1%, which, although an increase, is still a labor market in solid condition, described by Powell as near maximum employment[iii]. However, the Fed will likely continue to monitor unemployment levels in hopes of not being caught between rising inflation (from price increases, not consumer spending) and a rising unemployment rate as the economy potentially slows.[iv] The financial markets are expecting two quarter-point rate cuts by the end of the year, starting in June, which, true to form, may be overly optimistic, unless the unemployment level creates greater concern than potential inflation. The S&P has declined (4.6%) year-to-date after posting two years of strong returns; 25% in 2024 and 28.3% in 2023.



Arrow represents trend from prior period/report

With this economic backdrop, it appears the economy has decent fundamentals but is faltering given broader global market concerns. Powell said, "Despite heightened uncertainty and downside risks, the U.S. economy is still in a solid position [but] the data in hand so far suggest that growth has slowed in the first quarter from last year's solid pace."[v] The question whether the Fed will pause a moment and monitor the data for a possible uptick in inflation or continue with rate cuts has been answered. It is clearly in a 'wait and see' mode with all eyes on the impact of tariffs and on how long it takes for the impact to pass through to consumer prices.

We might expect the Q2 2025 to materialize like the first, with a continued back-and-forth on tariff policy and negotiations, creating a level of uncertainty and elevated 30-year mortgage rate with periodic dips (hopefully below 6.5%), resulting in short pops in title volume.

Fannie Mae and MBA continue to see the 30-year mortgage interest rates above 6 percent in 2025 with slight relief at the back end of the year, while MBA suggests a 7% rate in 2Q25.

Residential Interest Rates Continue to Hover around 6.5% and Are Likely to Remain There Through 2025

Residential Interest Rate Forecast April 2025

30-Year Fixed-Rate Conventional Mortgages

Fannie Mae

	Q1	Q2	Q3	Q4
2024	6.7%	7.0%	6.5%	6.7%
2025	6.8%	6.5%	6.3%	6.2%
2026	6.1%	6.1%	6.0%	6.0%

MBA

	Q1	Q2	Q3	Q4
2024	6.7%	7.0%	6.5%	6.6%
2025	6.8%	7.0%	6.8%	6.7%
2026	6.6%	6.6%	6.5%	6.4%

As for sales volume, Fannie Mae and MBA residential real estate forecasts for 2025 have come down from their fall forecast of 9.0% but remain a slight improvement from 2024 with an average 3.8% year-over-year growth. If the 10-year Treasury rate moves downward and approaches the low 4% range in the second and third quarters, we could see lower 30-year mortgage rates and regain some year-over-year growth greater than 3.8% percent, especially if the ReFi market gets relief. How the next 90 days play out from a macroeconomic and policy standpoint will be important.

From a home price perspective, the average forecast increase is 2.8%, down from 2024's 5.0% at $425,000. The National Association of Realtors forecast is also a 2.7% year-over-year increase with a March Existing Home Price of $403,700. And, with continued low inventory and significant pent-up demand, when interest rates do come down, even for short period, and buyers jump back into the market, pressure on home prices might only increase. Home affordability continues to be a concern.

As Uncertainty Around Interest Rates Remain, 2025 YoY Performance Forecasts Are Somewhat Muted and May Look Similar to the Heightened Levels of 2024.

Existing Home Sales Forecast

April 2025

Sales -- Thousands *Annual*

	2024	2025	2026
Fannie Mae	4,060	4,186	4,471
MBA	4,076	4,259	4,457
Average	4,068	4,223	4,464
Percent Change - *Year-Over-Year*			
Fannie Mae	-0.7%	3.1%	6.8%
MBA	-1.0%	4.5%	4.6%
Average	-0.9%	3.8%	5.7%

Median Price Forecast

April 2025

Median Price -- *$ Thousands*

	2024	2025	2026
Fannie Mae	$ 420.8	$ 438.1	$ 446.8
MBA	$ 406.0	$ 412.0	$ 415.0
Average	$ 413.4	$ 425.0	$ 430.9
Percent Change - *Year-Over-Year*			
Fannie Mae	5.3%	4.1%	2.0%
MBA	4.6%	1.5%	0.7%
Average	5.0%	2.8%	1.4%

Sales Forecast by Quarter

Existing Home Sales Forecast

April 2025

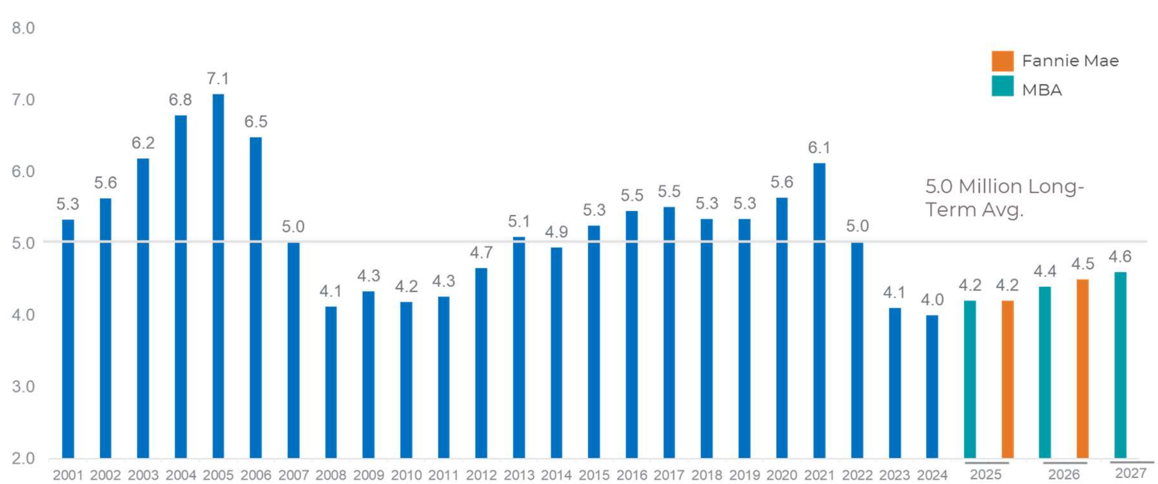
Sales -- Thousands *Seasonally Adjusted Annualized*

	2025			
	Q1	Q2	Q3	Q4
Fannie Mae	4,186	4,150	4,144	4,265
MBA	4,178	4,160	4,287	4,409
Average	4,182	4,155	4,216	4,337
Percent Change - *Year-Over-Year*				
Fannie Mae	1.0%	3.2%	5.3%	2.5%
MBA	-0.5%	2.7%	10.2%	5.9%
Average	0.3%	2.9%	7.7%	4.2%

On the positive side, related to the "lock-in effect", the percentage of homeowners with mortgage rates below 3 percent has come down slightly, from 21 percent to 20 percent and home sales below the $750,000 price range have picked up. These are all good signs and signs that there is pent-up demand and the lock-in effect is loosening somewhat.

Considering the broader picture, 2025 may resemble 2024: relatively flat, and still serving as a bridge toward a more normalized housing market, with 5 million existing home sales slipping further into the distance. As of March, existing home sales predictions came to 4.2 million in 2025, 4.4 million in 2026, and 4.6M in 2027.

U.S. Existing Home Sales Slowly Trending to a More Normal 5 million Sales Level.



 Source: Fannie Mae and MBA Mortgage Finance Forecasts

Summary View

We entered the first quarter expecting uncertainty —but also expecting it would be tempered by greater clarity around tariff policy and its impact on the economy. That clarity, however, has yet to materialize. As a result, the broader market continues to operate under a heightened level of uncertainty. This uncertainty, combined with a persistent lack of demand for mortgage-backed securities, is keeping the 30-year mortgage rate elevated.

While the 10-year Treasury yield may soften slightly if tariffs dampen growth, the 30-year mortgage rate may not follow suit. A rate in the range of 6.5% —and the corresponding transaction volumes— may be the most realistic expectation. For comparison, the average 30-year mortgage rate in Q2 2024 was 7.0%, with April at 6.99%, May at 7.06%, and June at 6.92%, suggesting that even modest downward movement could reflect year-over-year improvement—*if* rates ease from their current levels.

That said, as we've reported before, life goes on, events unfold, buyers adapt and any downward shift in rates tends to unleash sharp, short-lived bursts of market activity —perhaps the defining rhythm of 2025. What remains clear is that demand hasn't disappeared—it's simply waiting, ready to move the moment the opportunity presents itself.

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[i] Paraphrased from cartoonist Bill Watterson

[ii] Goldman Sachs, Mortgage Trader, "Demand Uncertainty", April 17, 2025

iii Reuters, "Powell says Fed remains in wait-and-see mode; markets processing policy shifts". April 16, 2025.

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