# On My Radar with Barry Habib

**Steve Blumenthal:** Hey Barry it's great to see you. Thanks for taking the time to spend with us today. Much appreciated.

**Barry Habib:** It's always such a pleasure to be with you and I enjoy every one of the podcasts that you do. I read on my radar every week. You always have amazing insights, so it's an honor to be with you again my friend.

**Steve Blumenthal:** You are awfully nice. Hope your Christmas was great and moving into the new year with some fun celebration coming ahead for you.

**Barry Habib:** Thank you. I'm looking forward to 2024. You know the industry that we predominantly serve as Mortgage and Real Estate. We're involved in all aspects of the market. But I almost feel like it's like to watched Squid Games, right? I'm telling people, congratulations. You've made it to the next round. If you survived 2023 in mortgage and real estate, it's kind of like you went through squid games but now, congratulations because you made it to the next round. So, that's a blessing that you have.

Steve, it's interesting. Quite a few people, nearly half of people in the mortgage industry did not renew their license. So, unfortunately, we wish them good but you could see how difficult it was and a similar story on the real estate end. A lot of people got in when it was hot and now that real estate values have remained very strong, it's the amount of transactions. That's people get confused with that. So, those amount of transactions significantly diminished.

**Steve Blumenthal:** Right.

**Barry Habib:** So, while many people didn't make it, we wish them well. Those that survived, it's a good thing but now, your competition's even more fierce. So, you really have to be on top of your game.

**Steve Blumenthal:** Wow. So, let's go back and look at 2023, your calls on inflation spot on the performance for the real estate market pretty much spot on, let's talk a little bit about that. And I want to go through thinking in terms of inflation for 2024, your thoughts around that. Talk about the mortgage market the real estate market direction of interest rates and let's cover the gamut.

**Barry Habib:** Yeah, let's do that here. there's another one that we did say, we had 3 forecast that would we kind of put our hat on there and the one that we'd missed badly was on mortgage rates. Now I did think that mortgage rates would get into the 5, I thought would be lower mortgage rates during the summer. I was completely missed that one. There were reasons for that. The reasons for that were because in just around the time we thought they'd be coming down as you recall in June that debt deal that was put together. We had $2 trillion dollars of paper that was issued and the Fed became less accommodative than we thought they would be by continuing to increase interest rates at a time that inflation was coming down significantly.

You and I did a podcast together. We said that, I forecasted to you and I think you were kind enough to put it on our radar that we thought that while inflation at the time was 7% since CPI should be 3% in June. And wouldn't you know it happened to just fall exactly 3% in the June reading. So, we got that one right but based upon that, I said, mortgage rates usually follow inflation so they should be coming down. Well, that didn't exactly play out but now that things have settled, we've absorbed some of that debt and the Fed has become less restrictive and leaning now towards more accommodative as far as their dialogue goes.

We are now starting to see what we anticipated happening. It'll all be it four months later that it started to occur but that trend is actually materializing now. We thought it'd be in June kind of in October's when it started, but I do think the good news it'll continue. I've got some charts Steve if you'd like me to share.

**Steve Blumenthal:** Oh, pull them up.

**Barry Habib:** Alright. So, I'm going to go fast here. So, we're going to do this like rapid fire here. So, I think 2024 comes down to supply and demand a lot of these things as it does typically with marketplace. So, let's talk first about inflation. We did say that 3% in June and it was at seven when we made the call but sure enough exactly 3% in June of 2023, but where is it going more importantly? Well, core CPI is at 4%. Core PCE is at 3.2% and the Fed wants this core PCE target to be at 2%. That's what they would like it to be. A 44% of CPI, 21% of CPE core is housing. It's the shelter component. Shelter is comprised not of home values, not of home prices but of rent, actual rents, and owners' equivalent rent.

So, you people look at the apartment list rent. The problem with that one is while it's great data, it's only on new rents. That's actually negative year over year, you have to go with the blended rent which incorporates renewals. So, we're looking here at Core Logics Blended Rent and year over year, it's 2.5% but the way the Fed looks at it, it's really wonky, Steve and it's almost clandestine the way. They do it they go and they look back 6-month chunks, but they pick up most of this data in January and February which means it gets reported in February and March for the past 6 months. So, I anticipate when we get to February and March data, we will see a catch up there. But for now, what we're looking at in the readings from CPI and PCE is they're coming in respectively PC 6.7%, CPI 6.5% year over year.

So, as you can see there's a lag here. If you took this and kind of average back a little over a year, that's where this would be. So, the real time number you have to kind of average the last year to get what the Fed looks at in its inflation calculations. Now hopefully that's smart. What's that buddy?

**Steve Blumenthal:** There's 6 months behind.

**Barry Habib:** Almost 6 months maybe a little bit more because then you take into consideration when did you sign the lease could be something that there is a big lack. I think Steve that you can then take this and almost do the math and say okay so take these numbers. Subtract the 2.5%. You got 4% or 4.2%. Multiply it by the amount of waiting and you could see what the actual numerical lag effect is. So, a real-time number, a real-time number for inflation would be 2.2% on CPI 4 or 2.3%. Now, that's a lot closer to the Fed's target and one of the key statements from the last Fed meeting where during the press conference, Drone Powell clearly said this. And it was wonderful to hear him say, "We will not wait for the 2% target to be hit before we start cutting rates."

So, I thought that was very wise of him. They were pressed for; he was pressed for a number and I think he wisely declined to give an actual number of when they would start cutting interest rates based on what they see in core PCE. But as you could see we are certainly going to be headed lower and one thing that the Fed in a, I think was two press conferences ago. That he said that they look very closely at the 6-month trend. So, they the last 6 months, total those months over month readings up, double it to give you an annualized year over year reading. He looks at that closely that currently that number and it's getting so little press. But it's so important nobody looks at this Steve but the Fed said they do so that's why I think we should 1.85%. So, if you look at the last 6 months for PCE is it's really if you take the last 6 months it's 0.975. so, you double that you get point 1.85%. So, we're below 2% on a 6-month annualized reading.

Okay, so what can we anticipate? Well, we know shelter weighs so heavily, right? So, let's look forward now. Let's all try and forecast. So, let's look at what was inflation in December of 2022 for shelter for that month and now it will be replaced by the December reading for 2023. We get that release on January 11th. So that's the way this looks at. This is what's being replaced on December the reading will replace it for 2023 we get that January 11th. And as you could see look at where it was almost 0.8%, 0.79% we've been trending in here so we should see a nice bump. Same thing for when we get the release for January which comes out February 13th of 2024 and March of 2024. We get the February release; it will replace the February 2023.

All these are up, there readings so I think we make a lot ahead way on core PCE and core CPI. I think we will get friendly bond numbers on January 11th, February 13th, and March 12th; I think you'll see good readings in the bond market for inflation. The stock market should like it. It should mean that the Fed will likely be looking at the reason to cut and let's remember the next Fed meeting after this is March 20th that's why the odds are so high of a Fed rate cut because this all makes sense that we'll get lower inflation. Now you can see after that Steve this will not be as much of a tailwind for us. It'll probably more neutral. So, the bulk of the ground that we're going to make up will happen early in the year. So, as we see the rest of the year it's not as friendly but it's not bad.

Alright. So, the Fed wants to get to 2% for PC. Let's do math. Steve how do we get there? The current year over year is 3.16%. So, as we look at that 3.16% PCE reading, here's we think in our forecast. We think December, January, and February numbers the December 2023 comes out at the end of January we think that they'll be 1/10th, 1/10th, 1/10th because of that very favorable chart I just showed you here which shows you that will make up a lot of ground. So, as we take a peek, looking forward what's going to be replaced these numbers in CPR will be replaced. So, now if you take 3.16 minus the difference here, so we're going to gain 0.29%. The PCE reading should be at 2.87.

The Fed will see that at their January 31st meeting might be too early to cut. But March 20th, they're going to see these readings here come in by 2.5% on inflation by May 1st will be at the Fed's target. That's why the chances are so high. And you could see it looks like we're heading to under 2% year over year PCE. So that's why the Fed is thinking we've got to become less aggressive, more accommodative, and we have start thinking about this. So, let's think about what's in the mind of the Fed. Well, right now the market's handicapping and 90% chance of a cut March 20th. And for all the reasons I just showed you, so we're not the only ones thinking about this. Certainly, some very smart quants are looking at this. But I think Steve when you look at, okay 90% chance of March 20th, I think what we just looked at is why we're getting a 90% chance of March 20th. These are the reasons. And it looks like 90% that will get at least 50 basis points by May and 75 basis points by June 91% chance of that. So good.

So, what's the Fed telling us? Here's their dot plot. There's 19 Fed members. They anonymously put a dot plot here for each one. So, this is where they think. You got two of them. Hello Michelle Bowman. Hello Michelle Bowman. that's where she is right there. The governor who had no business experience except working at Mommy and Daddy's bank in Kansas. So, she's not in Kansas anymore though. Unfortunately, she's at the Fed. So, she really doesn't understand this because she's a lawyer. But what we see here is we have a lot of Fed Members who probably do see this here and you could see that they were looking at 75 basis points. But I think it's got to be more than that.

However, look at what we can expect here. If you're a bond market fan, look at what the Fed's telling us that you've got some good times ahead. Hey, if you're a mortgage in real estate, right? You survived and now you should get tailwinds going forward because the trend from the Fed is down. Here's an important thing about the Fed. They try and forecast unemployment. So, 3 Fed members think it'll be between 3.8 and 3.9. 9 Fed members between 4 and 4.1. Now, we know the unemployment rate currently is 3.7 but Steve, I think it will go up. If it gets to 4.2%, what happens? 12 of the 19 Fed members are going to say, oh my gosh, I wasn't seeing that in my bingo card. So now, let's rethink this. I got to get more aggressive. That's why I'm thinking you're going to get more Fed rate cuts. Because Fed members, 12 of the 19 will be surprised. In my opinion, they'll have to get more aggressive. We'll have to see more Fed rate cuts.

So, here's Janet Yellen's Piggy Bank the reverse repo market. So, listen Steve banks have to buy some of these treasuries. So, Janet's pedaling these treasuries, we're in a lot of debt, please buy them. Banks say, no I'm not going to buy them and that's why yields went up. So, why did banks not buy them? Steve, think about this logically. If I'm going to invest in a treasury but the Fed looks like they're going to continue to hike and rates are going to continue to go up, why would I lock in to a rate that I know in the coming months will be less than what I could get if I were waiting? So, what did they do? They parked money at the Fed because essentially, they were able to keep up with the Fed hikes.

So that's why we saw this move up you could see from nothing. In 2021 it started to increase, increase, increase and we went to $2.5 trillion dollars. Now when it peaked it was because the mantra from the Fed became a little bit less negative. Bill Ackman timed this beautifully. He almost cut off his shorts. That didn't sound He stopped his short position in long treasuries. This was great for Yellen and the Treasury to fund debt but banks then said, hey, we now are seeing a peak here will start buying treasuries and they take took money out of this piggy bank, because it was just parked here and they started buying treasuries. But look at the precipitous drop. This piggy bank has gone from 2.5-to-800 billion dollars.

What happens is this gets less and less and less. I spoke to Lacey about this and Lacey says, Barry, I think you need at least 200, 300 billion for banks to perform their facilities that they have to. So, he thinks we're close to over the next few months this running out. This is where Janet Yellen has to turn around as Jerome Powell says, hey, *Jerome, you got to ease up on the quantitative tightening now*. And that's the real key to what we're getting to, is the quantitative tightening is the key. I don't know whether Jerome Powell will do it or not. I think he's going to have a lot of both politically as an election year, political pressures mount. And from the treasury saying help us monetize this debt.

So, if he stops QT that's where it all the fund begins for us. Let's look at the Fed's balance sheet. You could see it ballooned up to 8.5 trillion. Now this is outright holdings of treasuries and agencies. It's come down by 1.4 trillion to 7.1 trillion. So, the key is when will the Fed stop pumping this offloading from their balance sheet. When will they stop doing that? Because Steve that has a huge bearing on the paper that's available out there. It all comes down to as I started the supply and demand. So, the average range in 2014 to 2018 was about 4.2 trillion on the balance sheet. While it's a lot less it's all relative. If we look at what our what our average GDP was it averaged about 22% of GDP.

Pre-COIVID, it was around the same amount. But I wanted to show you this. Notice how it went up but because GDP went up you could see the percentage came down, so the Fed was comfortable with this. But when the balance sheet peaked at 33% because you got eight and a half trillion on $25 trillion dollar economy the Fed said, *I can't do that.* So, here's where we are today it's come down to about 25%. Our GDP's gone up, the amount on the balance sheets come down. So, let's try and do some math here. We know what they're offloading and we can kind of guess where GDP will grow to, and you could start to see why that March 20th meeting now has a lot of significance. Because the Fed might start cutting here but they might say, *well, it's a 24%, 25% of GDP the balance sheet it's at $6. 9 trillion*. Maybe the Fed might say, we'll cut but will keep offload offloading the balance sheet.

Now that might be something like somebody driving a car one foot on the gas, one foot on the break which seems counterintuitive but eventually they'll have to slow down or stop QT. I think that they will taper it. The key is when. Notice here as we get into the July 31st Fed meeting, we now start to get into a range where the Fed might say, *I'm kind of comfortable about this. I won't stop QT but maybe I'll start to taper it and more gently get into a comfort zone for the Fed.* So, I think the July 31st meeting will be very meaningful. The March 20th meeting, I think is the first cut but if they start to taper the balance sheet here, this has huge significance for rates and for the marketplace, because look at what has to be funded. We got a $2 trillion dollar deficit. We've got new agencies which are deemed in the same asset class as treasuries. That has to be absorbed. And this is just purchases on mortgages.

The balance sheet runoff adds to this so the markets got to eat $4.2 trillion, but if the Fed just tapers a little and that allows banks to start buying. You now start reducing the supply from 4.2 trillion to 3.3 trillion. That means things will be bought with both hands. More money could go into the stock market. This is just a good overall market indicator. Remember in 2023, we had to have 4.5 trillion of this type of paper absorbed which really caused rates to rise but now just that the idea of this is causing rates to decline. So, I think rates drop a little bit more. And then we can go into different areas of this too Steve but I just wanted to stop there.

**Steve Blumenthal:** Wow. That's fantastic. I've not seen it put together that Concisely that was really great stuff. Thank you for that. Alright, so let's before you go into jobs let's talk about where you, so we know where you think inflation is going still lower. We know we're talking about the Fed three rate cuts ideally. And then at the same time...

**Barry Habib:** I think we'll have more than three. I think we'll have five, six this year.

**Steve Blumenthal:** And do you see a reset in the equation as part of…?

**Barry Habib:** They moved the goal post on recession Steve, so it's hard to say. It seems to me that we will, I don't think we're out of the woods on recession. It's hard to forecast. That's another one I did get wrong. I thought we get a recession in 2023, we didn't get one in 2023.

**Steve Blumenthal:** Oh, we got a lot more liquidity than we thought we're going to get.

**Barry Habib:** We got so much more liquidity and I think that's certainly what did it something that people don't talk about that employee retention credit. That pumped so much money in and there was as you said a lot of liquidity. So, that kind of kept things going for a while. To me, whether we get a recession or not I think the key will be the unemployment rate, if that unemployment rate reaches somewhere in the neighborhood of 4.1%, 4%, which I think it will. That will trigger something called the Sam Rule. Which tells us from the cycle low the cycle low is in April of 2023 at 3.4%. You get a half a percent or so average for about 3 months above that. So, you average 3.9% for about a 3-month period. And you're pretty much whether they call it a recession or not. And remember we won't know we were in a recession until months and months later till the National Bureau of Economic Research tells us we were.

So, it's almost insignificant when they say we will be at that time. It'll be old news. We may be out of it, but I think the key will be watch the job numbers. We get to 4.1%, 4.2%. A lot of things change. It'll feel more like a recessionary feeling. Rates will drop as if we're in a recession. The response from the Fed will be as if we're in a recession. So, I think that holds the key more than the actual call which will be yesterday's news.

**Steve Blumenthal:** I think you're so spot on. Mortgage rates.

**Barry Habib:** Mortgage rates. I got it wrong last year, but I think we will be right this year. They already started to come down. I think there will get into low sixes, high fives because finally, we will have the Fed stop being a headwind, the excessive debt and paper that has to be absorbed that will start working in our favor and I do think that we will see it. Look, rates did start to come down 4 months after we thought they would but I think that we will continue not in a straight line to see a trend. Important up for the 10-year treasury now would be 3.75, that's an important floor there. We get underneath that we could start to see last year we tested about 3.40. A couple of times I think we should get down to that 3.40 level, but I would not be surprised to see us get in the range of 3% especially if the Fed the key for me is supply and demand and it's the QT that if the Fed starts to take it back.

**Steve Blumenthal:** It gets down to 3% the 10-year treasury is probably down around 3.15, 3.5%. Mortgages, you're saying maybe mid 5% range would be a good target.

**Barry Habib:** It is.

**Steve Blumenthal:** And then that's got to be very bullish for housing.

**Barry Habib:** It should be. What we see now is we see people that let's say you have a 3% rate to go certainly to 8% is a bridge too far from most people. But people get it wrong on affordability. Just don't understand. I have a slide that kind of helps to explain affordability. So, Steve I'd like to just try and bring that up quickly if I may and I'm going to go through just, I'm going to skip some of these things. This is what I talked about. You are actually in a recession when you get a half a percent above and recession leads to this is lower mortgage rates.

So, we think it gets lower. This is what had happened. It was all the debt and the fixed downgrade that hurt us. We think the treasury 3 to 4, and a quarter should be the range for the year. I think it more closer to getting that three. 5.5-to-7, 7 the high but under six should unlock move up buyers.

So, let's talk about that. So, we think we we've been spot on this year for we think next year about 5% you should pencil in. Inventory is the key. The supply and demand again.

**Steve Blumenthal:** Yeah.

**Barry Habib:** The blue lines are households being formed. Builders putting up homes in gold. Too little homes being put up. Too many people to have to need housing. So, it'll put pressure upwards.

**Steve Blumenthal:** Let me have your phrase for a second. So, household being formed. This is the demographics between kind of 31, 33, 34 years old.

**Barry Habib:** Exactly right. These are just people that are forming at that household that are moving out of at and getting their own place. So yeah. Steve, I've been showing this for years. You know that at the Maulden Conferences have been showing it and it has been very reliable when we tickle it, and this is why most people got it wrong on housing. Everybody thought oh rates are going to go up. Housing's going to crash and so many people, but fortunately and this is an area I will take credit. We have been spot-on housing. It's because we understand the fact that you need to look at demographics. You need to look at previous birth rates. It's all supply and demand when it comes to housing and you need to look at what the future holds for builders putting housing. And when you put that all together, we try and do it simply here, it spells more appreciation ahead for home prices even in the face of higher rates. And it's been so ridiculous.

I've heard this incredibly insane argument getting traction. Well, when rates come down more people put their homes on the market so home prices will decline. That's the stupidest freaking thing you've ever. Where do you think these people going to move to a tent, that if they sell their home, they got to buy another home or live someplace else. That's the demand on housing and on top of that, did you know that for every 1% drop-in rates, a million more people are qualified to buy? Certainly not all of them will buy. I'm sorry. Did I say million? I meant 5 million more people. 5 million more people are qualified to buy. They will not all buy, but they will be qualified to buy so that's going to put more upside pressure. So, as rates decline, there will be more upside pressure on home values.

Take a look at what we see here. The media says this here and this is really crazy. The median income needs to be 115,000 to 400,000 home price of 420,000. That's based on a 30-year fixed rate of 7.5. Now, we know rates have come down. So, this income level has come down already, right? But this is the story that's being pushed out there in the media to get clickbait and try and scare people. But you don't get the median income. The median income in the US is $75,000 currently, right? But if you remove those earning under 20,000. God bless you, you're 16 years old working at Wendy's. You're not a home buyer. You shouldn't be included in this equation. So, then you just bump up the median income to $100,000. If you remove the households earning under 40, 000 which most of them likely are not yet in the home buying process. God willing, they will be but not yet, then the median income is a $120,000.

So, the affordability myth that's out there it's bullshit. It's just bullshit. Yes. Has it become less affordable? Yes. But mortgage rates are already declined in heading lower. But here's why. And this is the media doesn't understand this because math is hard to do, right? But let's try and break it simple. Take a monthly mortgage payment of principal and interest of a $1,000 a month. That's a $240,000 mortgage at two point eight seven five. Let's say somebody got that. Their monthly income needed to be $4,000 a month to qualify for that. Roughly, that's about the ratio. I know people say it's different but that's if you include taxes and insurance. I'm just trying to make the numbers simple here that make sense. These are the averages according to Fanny and Freddie. Fanny made, Freddie Mac.

So, let's just say you had some shock. Your rate went up to 6 & 3 quarters. Now, prices went up too. So, now, you'd have to look at a $280,000 mortgage to count for the increase in value and the increase rate to 6 and 5.8s. That'll be $1,800 a month instead of $1,000. That's an $800 a month increase. That's an 80% increase. People think your income needs to go up 80%. It doesn't. An $800 a month increase needs a 20% increase in income to offset it. Incomes have already risen 13% since 2021 that Does not count the increase for this year. So, we will likely see this become very very narrow. I think by the end of 2024 affordability not an issue Steve. So, these are all important aspects.

**Steve Blumenthal:** That's fantastic. That's fantastic Barry. What a great perspective and you're diving into the data really as deep as anybody that I've seen dive into data. That's really fantastic.

**Barry Habib:** Try and apply math to, try and apply math and logic.

**Steve Blumenthal:** And just logic, because a lot of the quant models out there don't pull that out of it. So, that's excellent. Alright, so overall somebody looking to buy a house, not bad, right? There this is still affordable still make sense. The general housing market you called for kind of a 6.8%, 7% appreciation in 2023. What's your outlook for 2024?

**Barry Habib:** I think 5% you should pencil. And now listen Steve that that's not to say it's an easy home buying market, okay? I'm not insensitive and I'm not blind here, eyes wide open. We know that inventory's tight. We know it's not easy. We know it's expensive and we know for some people, it is less affordable, certainly. I get that, but if you can buy a home, if you can, it's better than the alternative of renting because your rent will go up every year. You can essentially fix that payment and so it may be hard in the beginning but it gets easier. You also are going to build equity. 5%, I mean, just do simple math. If you at a home that's $1$100,000 home, but I know you're not going to buy it, but I want to use the math.

If you put 10% down, you have to finance the rest but that's going to be close to renting. So, the monthly payment either you're going to pay it in rent or you're going to pay it in mortgage. The 10% down on $100,000 home that's $10,000, so that's your investment. If you took that investment instead of the value goes up 5% that home went up $5,000, 5,000 profit on a $10,000 investment. 50% rate of return, plus your building equity, because advertising your loan. So, this is why if you can buy a home and it's crazy to be how the media poop-poos home value is going up. They're like, *oh, that's terrible. Home values keep appreciating. We need more help. We need home prices coming*. Really?

Do you know 2/3rds of people own homes? The 2/3rdsof people, would you be happier if your home value is coming down? Really? That would be, why don't they do that for the stock market? They cheer stock prices going up but they don't say, we need stock prices to come down to make it more affordable. The logic, it's crazy. Home values going up is good thing. It creates wealth. It's healthy and that's why people need to get on that bandwagon as soon as you possibly can. Because its keep going.

**Steve Blumenthal:** What haven't I asked you that you'd like to relay that's in any other topic?

**Barry Habib:** Well, gosh, there's so much to talk about and there's so much that I'm interested in and there's so many things that you bring up and the things that you write about that are of incredible, incredible interest to me. I try and stay in my lane, Steve. I try and follow these things that I follow. I'll reiterate that I am optimistic about housing. I think rates come down. I think the Fed will be a tailwind. Watch the balance sheet. People do not talk about it but that is going to be a big trigger. That's really going to be the key.

Look, it all comes down to supply and demand. It's reason why I got it wrong on rates last year is because the supply paper coming to the market. I did not foresee it because we didn't know the deal that was going to be cut between the Biden administration and like Kevin McCarthy. We had $2 trillion dollars of paper that flooded the market.

**Steve Blumenthal:** Right.

**Barry Habib:** Got it wrong. Didn't see it coming. So even though inflation was cooperative rates did not respond until that got absorbed.

**Steve Blumenthal:** And that ceiling remains unlimited until…

**Barry Habib:** 2025.

**Steve Blumenthal:** 2025. There you go. Barry, thanks a million. Really appreciate you.

**Barry Habib:** Oh, it's a privilege to be with you, my dear friend. Thanks for all you do.