

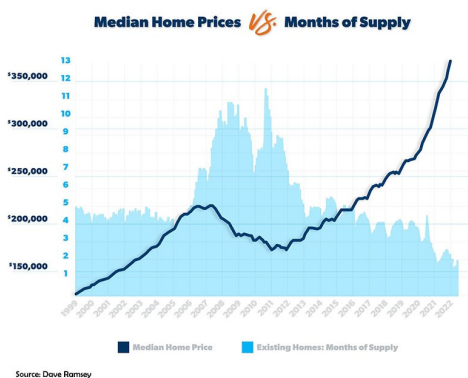


Keeping It Real in Real Estate

Results have not been good for investors in the first half of 2022. While the double digit negative returns for stocks and bonds has been historically bad, there is potentially one asset on your balance sheet still holding up in this bear market — your home. This has a lot of pundits asking if there is also a bubble in the housing market, and if so, when is it going to pop?

The first question is whether or not there is a bubble in the residential housing market. Obviously all real estate is local, but on a national level a case can be made that home appreciation has gotten a bit out of control over the last 2 years. In 2021 home prices in the south increased an astounding 20%, and through the first quarter of this year prices are still up in most places across the country.

The primary driver of this growth has been a lack of home inventory. In a typical “healthy” real estate market there is around a 4 to 5 month supply of houses on the market at any given point to satisfy purchasers. Over the last year, that supply has dropped to 1 to 2 months nationally, and in hotter markets like the Raleigh area it almost feels like that supply has been more like 1 to 2 days. Houses going for over the asking price used to be very rare, but over the last year it became the rule instead of the exception. COVID lockdowns and low interest rates created a real estate market that was debatably hotter than what we saw prior to the 2007 bubble.



There is one major difference, however, between this real estate boom and the one that preceded it 15 years ago. Between 2000-2010, inflation averaged 2.4% in the United States. Housing prices were drastically outpacing inflation, and that increase was inevitably unsustainable. Over the last two years we have seen significantly higher inflation, and in some items like gasoline and food we have seen prices double. To some extent you

can make the case that home prices are simply keeping up with the price of everything else.

If there is a bubble in real estate, are we about to see it pop like we saw in 2007? Our expectations are that prices are more likely to simply plateau at current levels rather than crater across the board. The reason for this plateau is the dramatic increase we saw in mortgage rates over the past 6 months. Towards the end of 2021 the 30 year mortgage rate was around 3%, and it has now doubled to being over 6%. While this is major sticker shock for anyone looking to buy a home, rates are just now getting back to the averages we saw between 2000-2010.



For starter homes under \$300k, we expect the market to stay quite healthy going forward. This has been the sector of the market that has been tightest with very little inventory. Additionally, investors have been also gobbling up this section of the market place in all-cash deals, so mortgage rates won't affect that all cash buyer.

As you climb up the valuation ladder in housing, there is a lot of potential for those markets to stagnate over the coming months. Homeowners with 3% mortgages are going to be hesitant to move to a more expensive home with a rate twice as high as they currently have. This could lead to similar behavior seen a decade ago where homeowners were staying in their homes several years longer on average than usual due to their valuations being underwater.

Thankfully, better regulations at the banks has led to dramatically higher credit scores for those that took out mortgages the past two years. On average, credit scores have been around 100 points higher during this real estate boom versus the prior one. Thus, it's much more unlikely that prices crater from here due to the onslaught of foreclosures that tanked the economy back in 2008.

-Ryan Glover, CFP®

2022 Market Update

S&P 500	-20.6%
DOW	-15.3%
NASDAQ	-29.5%
RUSS 2000	-23.4%
MSCI World	-18.1%
BONDS	-10.4%
GOLD	+0.1%

Mortgage Rates

15-Year	5.3%
30-Year	6.4%

Did You Know?

* The median home value in Wake County, NC increased 25% from \$328k in 2020 to \$411k in 2021.

* This was the worst first half of the year for the stock market since 1970, when the S&P 500 lost 21%. The markets rose 26.5% in the second half of that year.

* Keep an eye out for a couple of client appreciation events in Greensboro and Raleigh coming in September & October. More details and information will be coming in the next few weeks.

There's No "I" in Team

Inflation is the topic *du jour* these days—and for good reason. With the price of just about everything seemingly up double digits in the last year, it's hard to escape the daily frustration as goods and services take a bigger bite out of our pocketbooks. With stocks and bonds both significantly underwater for the first half of the year, how do you counteract the deflation in your portfolio while at the same time taming rampant inflation? Unfortunately, there seems to be no panacea in the public markets, but there is one lesser known option available privately through the US Treasury.

Series I Savings Bonds issued by the government are long-term bonds that have both a fixed rate and a variable interest rate. The base fixed rate is determined at the purchase date for the life of the bond and is typically very low. The variable rate mirrors the most recent reading on the consumer price index (CPI). By combining the two rates with a floor of 0%, you get the total interest rate. For the last decade, this has meant some pretty paltry yields, but starting in late 2021, the variable portion of the Series I Bonds has moved up materially. As of this May, newly issued Series I Bonds yield an annualized 9.62% for at least the next six months until they reset according to their semi-annual adjustment in November. Should inflation continue to run rampant for a prolonged period of time, Series I bonds should continue to provide at least purchasing power parity for dollars invested in them. As a bonus, similar to Series EE savings bonds (fixed rate only) that many of you may have seen or used in the past to save for a child's education, Series I Bonds can be used for that same limited purpose and receive the interest tax free.

However, there are several caveats that make these less desirable than the look on the surface. First, these are not available like normal securities through the public markets and your brokerage account. You must set up an account at www.treasurydirect.gov to purchase Series I Bonds which gives a DMV like customer experience. Second, you can only purchase up to \$10,000 per person per year. Third, these are technically 30 year maturity bonds, and you don't receive any interest until you sell them. You can sell them any time after the first 12 months, but if you do so before the 5 year mark, you forfeit the last 3 months of interest. Finally, even though inflation is historically high right now, it potentially won't last forever. In fact, if the economy goes into a recession, it wouldn't be unusual to see deflation, such as in 2009 following the financial crisis.

Over the last 20 years, the average annualized interest rate for Series I Bonds would have been 3.44%, which falls short of both the long-term expected returns of the aggregate bond index (3-5%) and the stock market (8-10%).

While Series I Bonds might be a nice addition to your investment team, don't expect them to be a long-term solution to the pains of higher prices. -Walter Hinson, CFP®

Date	Fixed Rate	Inflation rate for six months	Annualized Rate
1-May-22	0.00%	4.81%	9.62%
1-Nov-21	0.00%	3.56%	7.12%
1-May-21	0.00%	1.77%	3.54%
1-Nov-20	0.00%	0.84%	1.68%
1-May-20	0.00%	0.53%	1.06%
1-Nov-19	0.20%	1.01%	2.42%
1-May-19	0.50%	0.70%	2.40%
1-Nov-18	0.50%	1.16%	3.32%
1-May-18	0.30%	1.11%	2.82%
1-Nov-17	0.10%	1.24%	2.68%
1-May-17	0.00%	0.98%	1.96%
1-Nov-16	0.00%	1.38%	2.76%
1-May-16	0.10%	0.08%	0.36%
1-Nov-15	0.10%	0.77%	1.74%
1-May-15	0.00%	-0.80%	0.00%
1-Nov-14	0.00%	0.74%	1.48%
1-May-14	0.10%	0.92%	2.04%
1-Nov-13	0.20%	0.59%	1.58%
1-May-13	0.00%	0.59%	1.18%
1-Nov-12	0.00%	0.88%	1.76%
1-May-12	0.00%	1.10%	2.20%
1-Nov-11	0.00%	1.53%	3.06%
1-May-11	0.00%	2.30%	4.60%
1-Nov-10	0.00%	0.37%	0.74%
1-May-10	0.20%	0.77%	1.94%
1-Nov-09	0.30%	1.53%	3.66%
1-May-09	0.10%	-2.78%	0.00%
1-Nov-08	0.70%	2.46%	6.32%
1-May-08	0.00%	2.42%	4.84%
1-Nov-07	1.20%	1.53%	5.46%
1-May-07	1.30%	1.21%	5.02%
1-Nov-06	1.40%	1.55%	5.90%
1-May-06	1.40%	0.50%	3.80%
1-Nov-05	1.00%	2.85%	7.70%
1-May-05	1.20%	1.79%	5.98%
1-Nov-04	1.00%	1.33%	4.66%
1-May-04	1.00%	1.19%	4.38%
1-Nov-03	1.10%	0.54%	3.28%
1-May-03	1.10%	1.77%	5.74%
1-Nov-02	1.60%	1.23%	5.66%
1-May-02	2.00%	0.28%	4.56%
	0.46%	1.18%	3.44%

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2022 ADV Part 2 Changes— None