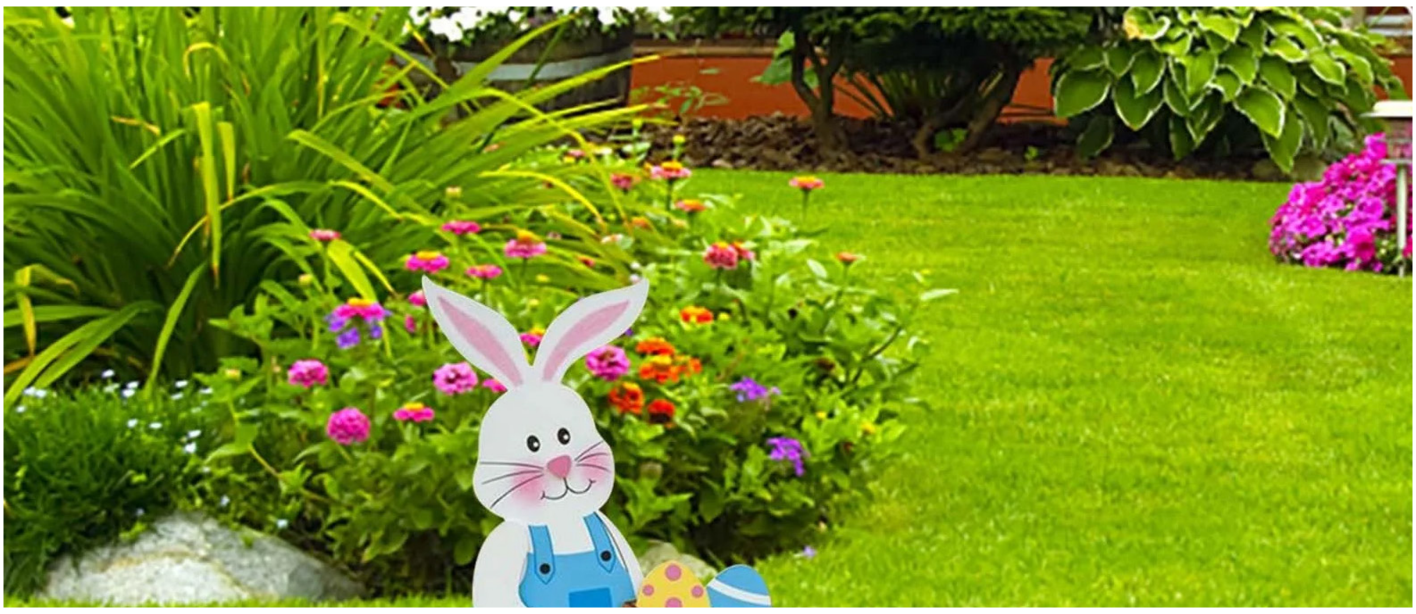
HCM Property Management Monthly Newsletter - April 2025



March and early April have signaled a growing concern around the conditions of the US economy. Small business optimism dropped below its long-term average, consumer sentiment fell for the fourth straight month, and initial jobless claims edged up. While inflation eased overall, employment uncertainties among consumers increased. With new global tariffs now in place, both businesses and consumers face an unknown economic road ahead.

Small business optimism declines as economic outlook dims: In March, the NFIB Small Business Optimism Index fell by 3.3 points to 97.4, dipping below its 51-year average of 98. Small business owners expressed growing concerns regarding taxes, with 18% citing them as their top concern, growing two points from February. Additionally, future business optimism fell 16 points from the previous month, recording the third consecutive monthly decline and the largest drop since December 2020. While fewer business owners raised prices in March, those who planned for future price hikes increased to the highest level since March 2024. The survey was conducted before the Trump administration announced sweeping global tariffs on April 2nd, so it is likely that we could see a continued decrease in optimism in the coming months.

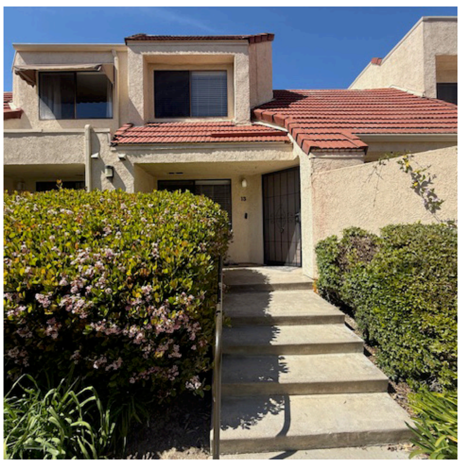
Inflation eases more than expected: The Consumer Price Index (CPI) fell at a seasonally adjusted rate of 0.1% in March, according to the Bureau of Labor Statistics. The dip was the first month-over-month inflation drop since May 2020, putting the 12-month inflation rate at 2.4%, down from 2.8% in February. Gas prices dropped significantly in March by 6.3%, which was a primary contributing factor that helped offset overall inflation. In contrast, consumers' grocery bills rose, with food prices increasing 0.4% from the prior month and 3.0% over the year. Core inflation, which excludes food and energy, edged up just 0.1% from February and 2.8% over the past 12 months and registered the smallest annual increase since March 2021. While prices for personal care, medical care, education, apparel, and new vehicles increased, notable declines were seen in airline fares, used vehicles, motor vehicle insurance, and recreation. Despite the encouraging numbers from the March CPI report, high inflation should be anticipated in the months ahead as global tariffs implemented earlier this month could begin to put upward pressures on prices of many consumer goods.

Initial jobless claims increase but remain at low levels for now: Initial applications for unemployment benefits rose by 4,000 to a seasonally adjusted 223,000 applications for the week ending April 5, the Department of Labor reported on Thursday. Despite the uptick in initial claims, continuing claims dropped by 43,000 to 1.85 million in the last week of March. While the labor market remains broadly healthy, the number of Americans filing for new employment claims may continue to increase as businesses adjust to the Trump administration's tariff policies. The decline in continuing claims, nevertheless, is a sign that indicates the job market is still hanging on and we are seeing some progress in people securing a job after a period of unemployment.

Tariff uncertainty in the housing market: President Trump dramatically shifted his stance from last week, reducing his country-specific tariffs to a universal rate of 10% for all trade partners excluding China. The White House has since confirmed that China now faces a tariff rate of 145%. While Trump has excluded lumber, aluminum, copper, and steel from reciprocal tariffs, there is still uncertainty about future tariffs on these materials that are sourced outside of the United States. This has created uncertainty within the residential housing market, as prices of construction materials could go up, further affecting the price of homes. Financial markets, meanwhile, remained volatile last week and the 10-year Treasury yield experienced its biggest week-over-week increase since 1981. The average 30-year fixed mortgage rate jumped back above 7% on Friday but began to trend down again as of early Monday. With trade wars remaining the focal point and recession fears continue to linger, rates could fluctuate further in coming weeks.

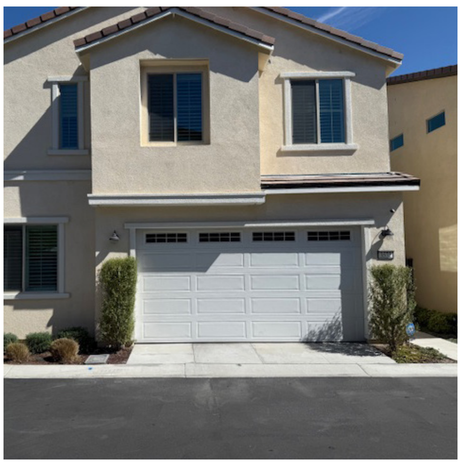
Consumer sentiment slips on recession fears: The University of Michigan reported on Friday that consumer sentiment declined for the fourth consecutive month in April, dropping 11% from March and marking a more than 30% fall since December 2024. Consumers have noted multiple warning signs of a recession such as personal finances, inflation, incomes, expectations for business conditions, and labor markets deteriorating. Consumer uncertainties regarding employment have increased for the fifth consecutive month, in contrast to the past several years when strong spending was supported by strong income and labor markets. Inflation expectations also increased rapidly to 6.7% from 5.0% in February, the highest reading since 1981. We can expect a continued drop in consumer sentiment in the coming months with tariffs looming and uncertain market conditions.

HCMPM Featured Listings



13 Martinique St #262
Laguna Niguel, CA 92677

Schedule Viewing



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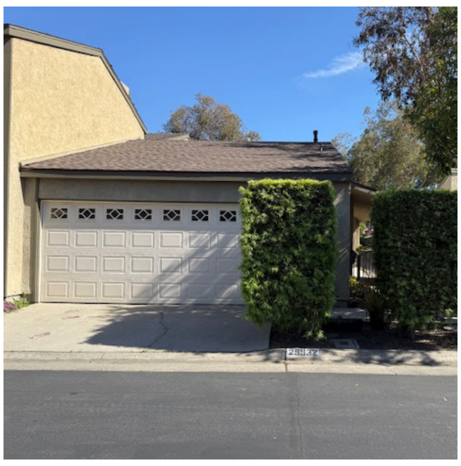
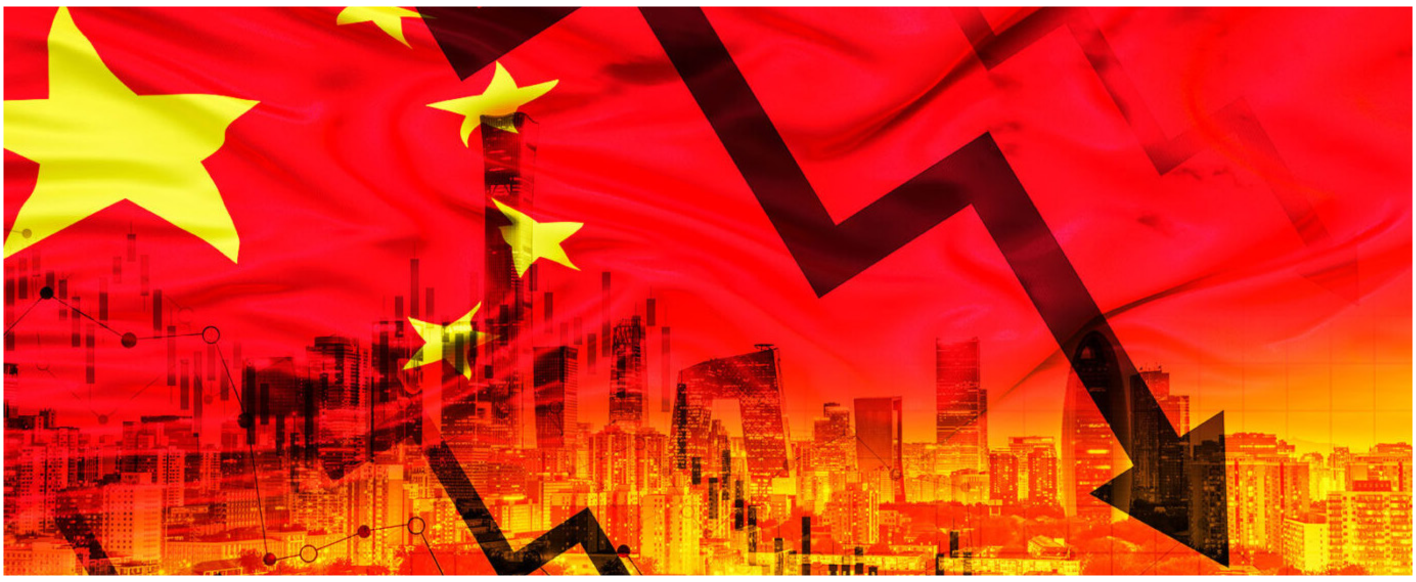
Rancho Mission Viejo, CA 92694

Schedule Viewing



25932 Minerva Ct
Mission Viejo, CA 92691

Schedule Viewing



China could rattle U.S. housing market, analysts warn

Mortgage rates are climbing sharply, driven by a sell-off in U.S. Treasury bonds, and analysts warn the situation could worsen if China escalates financial retaliation over U.S. trade policies, according to CNBC.

The increase in mortgage rates is loosely tied to the yield on the 10-year Treasury, which has surged as investors dump bonds. Speculation has also grown that foreign governments — especially China — could be selling U.S. Treasury bonds in response to President Donald Trump's aggressive tariff measures.

But a more significant risk may lie in China's holdings of agency mortgage-backed securities (MBS).

According to data cited by CNBC, foreign governments held $1.32 trillion of U.S. MBS as of January, representing 15% of all outstanding securities. China, along with Japan, Taiwan and Canada, ranks among the largest holders.

Eric Hagen, a mortgage and specialty finance analyst at BTIG, told CNBC that foreign selling is "on folks' radar screens" as a potential geopolitical pressure point.

"Most investors are concerned that mortgage spreads would widen in response to either China, Japan or Canada coming in with a retaliatory objective," he said.

China has already started reducing its MBS exposure. CNBC reports that the country's MBS holdings were down 8.7% year-over-year by the end of September, and down 20% by early December. Japan followed a similar trend, shifting from growth to contraction in its MBS positions in late 2023.

If China and Japan were to accelerate those sales and if other nations followed suit, mortgage rates would likely rise further, squeezing both the housing market and mortgage investors, CNBC said.

A widening of spreads — the difference between Treasury yields and MBS yields — would mean even higher mortgage rates.

Hagen also emphasized that uncertainty surrounding how much foreign entities might sell could rattle investors even more.

"The lack of visibility for how much they could sell and their appetite for selling, I think that that would scare investors," he said.

Why Aren't We Seeing Mortgage Rate Relief Yet?

If you've been watching the markets and wondering why mortgage rates remain stubbornly high—despite whispers of economic softening—you're not alone. It's mid-April and many expected mortgage rate relief by now. After all, inflation has cooled, and there's been talk of eventual interest rate cuts.

And yet here we are. The 30-year fixed mortgage rate continues to hover near 6.5% to 7%, remaining well above where many anticipated it would be by spring. It's tempting to point to President Trump's tariffs as the primary driver, but is that really the full story?

Even before yesterday's Treasury sell-off, upward pressure on 10-year yields was already building. The events of April 9 simply accelerated a trend that was already underway.

It turns out that part of the answer may lie in the intricate—and risky—world of hedge fund trading, specifically a strategy known as the basis trade. While this might sound like something pulled from an episode of Billions, it has very real consequences for real estate investors like you.

Let's break down what's happening and how you can navigate the uncertainty.

The Scene: Hedge Funds, Leverage, and the Basis Trade
Imagine a hedge fund borrows billions through the repo market—a short-term lending market backed by securities—to buy U.S. Treasury bonds. Simultaneously, they sell Treasury futures to lock in a small price differential. The idea? Pocket the difference between the cash bond and the futures contract.

But here's the catch: These trades are highly leveraged, often by a factor of 15 to 20. According to the Treasury Borrowing Advisory Committee (TBAC), as cited in ZeroHedge's April 8, 2025, article "Absolutely Spectacular Meltdown," "20x appears to be a good approximation of leverage typically used in these trades."

When markets are calm, this can generate modest gains. But when things shift? Losses are magnified. That's what happened in early April, when the 10-year U.S. Treasury yield, after dipping to a low of 3.89% on April 6, 2025, at 7:30 p.m., reversed course and spiked sharply higher, according to the Federal Reserve Bank of St. Louis (FRED Series DGS10).

Act One: Bond Dump Sparks Rate Surge

In just two days, the 10-year Treasury yield surged from 3.89% to 4.38%—a 49-basis-point swing. This rapid rise in yields triggered significant losses on these basis trades. Since bond prices move inversely to yields, leveraged hedge funds were suddenly underwater. To meet margin calls, many began liquidating large positions in Treasuries, creating further selling pressure.

That's where real estate investors start to feel the pain.

Mortgage rates are closely tied to the 10-year Treasury yield, typically with a spread of about 1.5 to 2 percentage points. With yields above 4.3%, mortgage rates remain elevated. Instead of dropping toward 5%—which many hoped would improve affordability and stimulate activity—we remain locked in at levels that continue to sideline potential buyers.

According to Altos Research's April 4, 2025, Weekly Market Report, the national median list price sits at $449,000, up 5% year over year. But homes are lingering on the market longer—averaging 111 days, a 4% increase from last year. Elevated mortgage rates are a key reason buyers are hesitant to pull the trigger.

Act Two: Sentiment Slips and Price Cuts Rise

The market doesn't like surprises—especially when headlines reference "Investors Fear Another Big Blowup of Basis Trade as Treasuries Lose Haven Status." As hedge funds rush to unload Treasuries and trading liquidity dries up, buyer confidence in the housing market can take a hit.

Per the same Altos report, inventory has grown to 691,171 active listings, a 39% increase year over year. Pending sales are up 23% YoY, totaling 72,191.

But the real signal of hesitation? Price cuts. Roughly 35% of listings have seen reductions—17% more than this time last year.

Uncertainty breeds caution. Buyers see volatility in financial markets and take a wait-and-see approach. For you as an investor, this could mean longer holding times, fewer offers, and increased competition among sellers. It's not a collapse—it's a cooling-off period, with some investors considering strategy adjustments.

Will the Fed Step In?

This isn't the first time a basis trade shakeout has disrupted the market. We saw similar episodes in 2019 and 2020, which prompted the Federal Reserve to intervene through emergency lending and market stabilization tools. The April 8 ZeroHedge article suggests the scale of the current situation—estimated at $1.8 trillion to $1.9 trillion in leveraged positions—could justify another round of support, possibly via the Standing Repo Facility or a variation of Operation Twist.

But until that happens, Treasury yields—and, by extension, mortgage rates—may remain elevated. For real estate investors, that means staying alert and data-driven.

What Can You Do as a Real Estate Investor?
In a market shaped by forces beyond the usual supply-and-demand dynamics, self-directed investors must stay informed and agile. Here are a few steps you can take.

Track key indicators daily
Keep an eye on the 10-year Treasury yield (FRED DGS10) and SOFR swap spreads (available via the New York Fed or trusted financial data providers). These offer real-time insights into rate movement and market liquidity.

Leverage real estate market data
Altos Research shows inventory is up, and price cuts are becoming more common. That could be an opportunity to find motivated sellers, negotiate better terms, and enter the market in a stronger position.

Explore tax-advantaged strategies like 1031 exchanges
If you're navigating today's market with appreciated property, you may consider a 1031 exchange to defer capital gains taxes and reallocate into income-producing real estate. Equity Trust Company, a leading self-directed IRA custodian, has resources to help you understand options for your broader investment goals.

Final Thoughts

Mortgage rates haven't come down because real-world hedge fund activity—particularly the unwinding of risky basis trades—is driving Treasury yields higher than economic conditions alone would suggest. What looked like a small drop to 3.89% on April 6 quickly reversed, due in large part to aggressive bond sales in a fragile market.

But as an investor, you're not powerless. By staying informed, you can continue building your portfolio—even amid volatility.

Here's to navigating wisely, investing intentionally, and staying ready for opportunity—no matter what Wall Street throws your way.

Irvine Market Report

monthly market report
February 2025

Irvine, California

Median Price
$2.14M
% Change from Last Year +3.8%

Home Sales
47
% Change from Last Year -27.7%

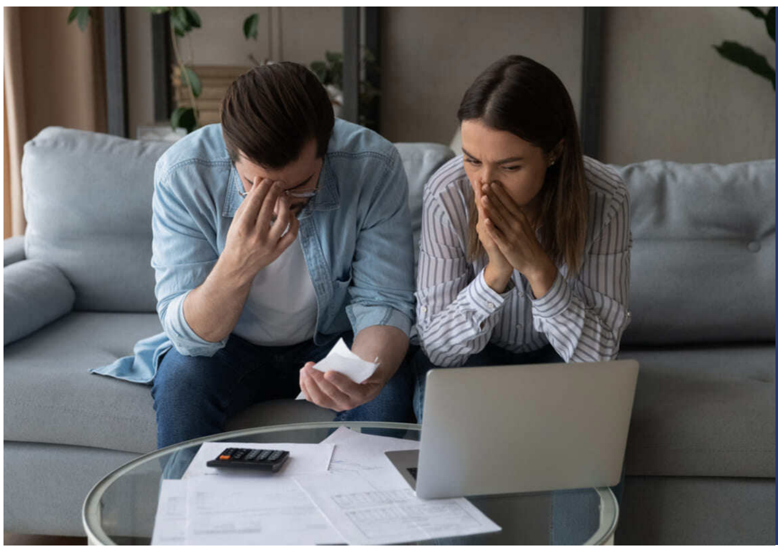
Active Listings
201
% Change from Last Year +136.5%

Market Competition

Median Days on Market: 21

Sales to List Price %: 98.2%

% of Active Listings with Reduced Prices: 26.9%



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