Markets in a Minute: Commodities & Housing

Why Commodities and Housing Are Impacting Your Portfolio and the Global Economy

As the S&P 500's bear market completes its ninth month, two areas of the economy have experienced rapid changes: commodity price spikes coupled with impending shortages and a housing boom that is quickly being extinguished. How serious are these risks to the global economy and markets? Let's discuss in this edition of Markets in a Minute.

While both are serious economic headwinds, there are important mitigating factors that distinguish this cycle from previous cycles.

From Commodity Price Spikes to Shortages

Countries and consumers around the globe are facing commodity shortages and rising prices. In the US, food prices have soared, up 11.4% this year which is the highest annual increase since the late 1970s. Across the Atlantic, Europe is confronting daunting energy shortages.

These challenges have prompted several alarming predictions, from a severe recession in Europe and further weakness in the euro. In 2021, the European Union (EU) imported around 155 billion cubic meters (bcm) of natural gas from Russia—which supplied 40% of Europe with natural gas, particularly Germany. With the virtual halt of Russian shipments through the Nord Stream 1 pipeline, some fear Europe could face energy rationing and blackouts.

As serious as these shortages are, there is hope:

- The 27-nation EU has approved a plan to reduce gas use by 15% by next March, roughly the amount experts say will need to make up for the loss of Russian gas. Doing so requires a combination of renewables, heating efficiency, pipeline diversification, biomethane, solar rooftops, and heat pumps, according to data from the EU Commission's REPowerEU.
- Europe has also managed to fill 85% of its storage for winter with the help of liquefied natural gas and diminished consumption.

(continued on next page)

Surprisingly, many commodity prices have already retreated from their recent highs.

- Wheat, for instance, soared in the early weeks after Russia invaded Ukraine and has since fallen to pre-invasion levels.
- Prices at the pump have also been falling steadily, as the current national average price of gasoline per gallon is now under $4.
- While higher energy prices certainly hurt American consumers, the US economy as a whole is much less reliant on foreign oil than we were decades ago.

Housing Boom to Bust

For the first time since 2008, mortgage rates have climbed over 6%. They've been rising throughout the year as the Federal Reserve has held firm on its commitment to raise rates to fight rapidly rising consumer prices. Last September, the average rate of a 30-year fixed-rate mortgage was only 2.86%.

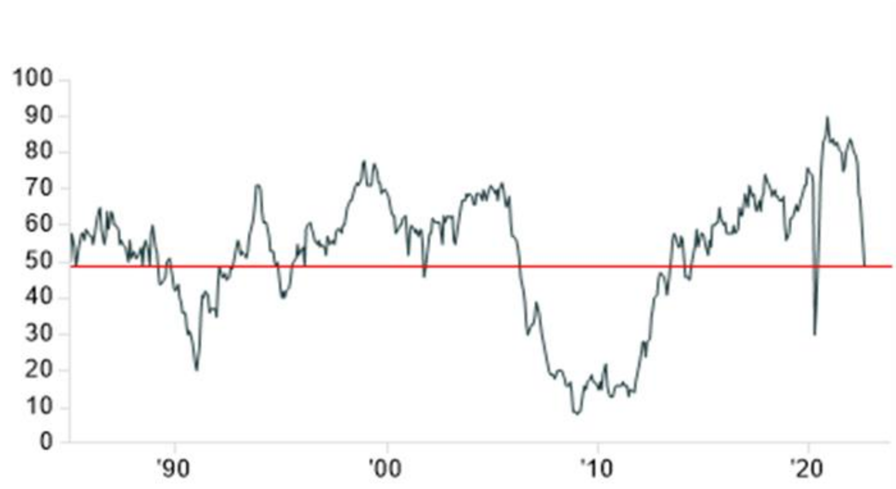
These higher rates have dramatically raised the costs of buying a home. Rising interest rates and materials costs have also impacted homebuilders—causing builders to lose confidence in their ability to sell newly constructed homes.

While home prices and building activity will surely slow because of higher interest rates, there are a few reasons for optimism:

- Despite the boom in housing prices, the US remains in the middle of a multiple-decade housing shortage as the number of available housing units has not kept up with population growth.
- In aggregate, the amount of money Americans spend on their mortgages remains near historic lows, thanks to previously low-interest rates and lower levels of consumer debt. As of the first quarter of 2022, mortgage debt service payments as a percentage of disposable income were just 3.9%, compared to the peak of 7.2% in 2007.

(continued on next page)

National Association of Home Builder/Wells Fargo Housing Market Index



Source: Kestra Investment Management, National Association of Home Builders, and FactSet. Data as of September 19, 2022.

What This Means for You

With both stocks and bonds in negative territory for the year, many financial headlines appear grim. But those headlines often gloss over key details that would make these headlines seem less bleak. And remember that there will never be a headline that provides the all-clear: "The trouble ended today. Tomorrow stocks and bonds will go up again!" In fact, markets usually bottom when the headlines are most grim.

So, what's an investor to do? It may sound trite, but a properly diversified portfolio built with your advisor who knows your financial hopes and dreams can help guide you through the turmoil.

Important Disclosures

The opinions expressed in this commentary are those of Kestra Chief Investment Officer Kara Murphy and/or Viaggio Wealth Partners and may not necessarily reflect those held by Kestra Advisor Services Holdings C, Inc., d/b/a Kestra Holdings, and its subsidiaries, including, but not limited to, Kestra Advisory Services, LLC, Kestra Private Wealth Services, LLC, Kestra Investment Services, LLC, Kestra Investment Management, LLC, Bluespring Wealth Partners, LLC, and Grove Point Financial, LLC. The material is for informational purposes only. It represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. It is not guaranteed by any entity for accuracy, does not purport to be complete and is not intended to be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was created to provide accurate and reliable information on the subjects covered but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation. Kestra Advisor Services Holdings C, Inc., d/b/a Kestra Holdings, and its subsidiaries, including, but not limited to, Kestra Advisory Services, LLC, Kestra Private Wealth Services, LLC, Kestra Investment Services, LLC, Kestra Investment Management, LLC, Bluespring Wealth Partners, LLC, and Grove Point Financial, LLC does not offer tax or legal advice. Viaggio Wealth Partners is not affiliated with Kestra Advisor Services Holdings C, Inc., d/b/a Kestra Holdings, and its subsidiaries, including, but not limited to, Kestra Advisory Services, LLC, Kestra Private Wealth Services, LLC, Kestra Investment Services, LLC, Kestra Investment Management, LLC, Bluespring Wealth Partners, LLC, and Grove Point Financial, LLC.