



Economic & Market Commentary

During a recent client investment meeting the question was asked if we are in a housing bubble similar to 2008. With mortgage rates on the rise, rhetoric surrounding the bursting of the housing market has been on rise. There is no doubt that housing prices have been on fire since the onset of COVID, but the reasons for the meteoric rise in home prices this time around are different, and arguably more sound, than those that drove the financial crisis and Great Recession. Back then, loan underwriting standards were quite loose, exotic mortgage loan structures were widely available, toxic sub-prime lending was prominent, speculative home builders and investors were aplenty, and bank reserves were not properly capitalized. Fueling this mortgage loan circle of ultimate hell was the securitization (repackaging and selling) of mortgage loans (CDOs, CMOs, etc.) by Wall Street, investment banks, and credit rating agencies to institutional investors. The book, "The Big Short" by Michael Lewis, does a wonderful job explaining and detailing what led to the 2008 financial crisis. In response to the financial crisis, Congress passed the Dodd-Frank Act which ushered in the Consumer Financial Protection Bureau fundamentally changing the mortgage market. Now, underwriting standards are much more exacting, mortgage loan officers as well as home appraisers have to be licensed, and toxic securitization deals have basically disappeared. Additionally, regulators ushered in more stringent risk-based capital requirements and financial stress scenario testing for banks. Thus, bank reserves are much stronger now. Heading into COVID there was already a housing supply and demand imbalance. Supply was being crimped due to a lack of new homes being built, low inventory of existing homes, and a lack of skilled and unskilled labor. Demand remained robust due to a strong labor market and low mortgage rates. Once COVID hit, housing demand rocketed due to remote work while supply got crushed by lockdowns and restrictions. This combo sent home prices soaring, but it does look like headwinds are forming as rising mortgage rates and high home prices are starting to cool off housing sales. Existing and new home sales have been posting monthly and year-over-year declines for a bit now and inventories are starting to rise as well, albeit from historically low levels. Like sales, we expect home price growth rates to follow suit and begin to decelerate from elevated levels in the coming months. Yes, storm clouds are brewing for housing, but it is not going to be a tornado.

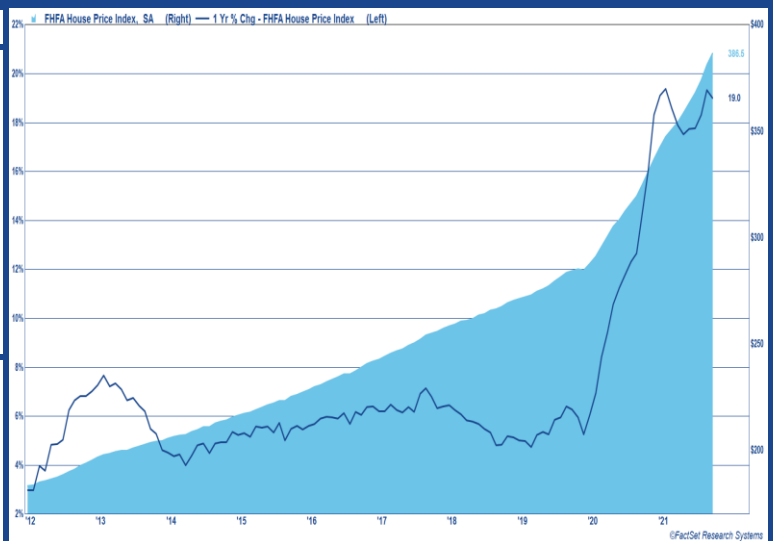
Index Total Returns - June 3, 2022

	1-Wk	YTD	1-Yr
Dow Jones	-0.83	-8.62	-3.01
S&P 400	-0.71	-10.74	-5.85
MSCI-Developed	-0.28	-11.70	-11.13
MSCI-Emerging	1.77	-13.11	-21.50
S&P 500	-1.15	-13.23	-0.60
Russell 2000	-0.22	-15.70	-16.44
NASDAQ	-0.96	-22.96	-11.16

Barclay's U.S. Bond Index

5-year Muni	0.37	-4.95	-4.79
Int. Gov. Credit	-0.69	-6.12	-6.39
Municipal	0.32	-7.30	-6.71
High Yield	-0.35	-8.37	-5.84
Aggregate	-0.88	-9.28	-8.35

U.S. Home Price Index



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	2.09	1.93	0.04
U.S. 2-Yr	2.69	2.46	0.16
U.S. 3-Yr	2.88	2.64	0.34
U.S. 5-Yr	2.95	2.72	0.84
U.S. 10-Yr	2.96	2.74	1.62
U.S. 30-Yr	3.11	2.97	2.30

S&P 500 Sector Total Returns - June 3, 2022

Sector	1-Wk	YTD	1-Yr
Energy	1.20	63.03	70.70
Utilities	-1.33	4.71	17.11
Materials	-0.82	-3.97	0.56
Consumer Staples	-1.64	-4.05	7.38
Health Care	-3.13	-7.51	8.33
Industrials	0.09	-9.32	-7.63
Financials	-2.05	-10.37	-7.56
Real Estate	-2.20	-14.85	1.23
Info Tech	-1.12	-19.73	2.25
Communication Services	-0.14	-24.76	-20.85
Consumer Discretionary	0.11	-25.19	-10.80

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	2.59	2.64	0.85
U.S. AA	2.75	2.80	0.91
U.S. A	3.16	3.21	1.16
U.S. Baa	3.61	3.66	1.56
U.S. Municipal	2.89	2.94	1.02
Michigan	3.05	3.10	1.07

Index Characteristics	P/E	P/E NTM	Dividend Yield
S&P 500 - Large Cap	17.38	17.14	1.46
S&P 400 - Mid Cap	12.66	15.66	1.36
S&P 600 - Small Cap	12.28	16.14	1.30