

## US Homebuilders: Positioning for the rate cut cycle

**Bottom line: US homebuilders are entering a potentially favourable phase of the cycle. With the Fed poised to cut rates, political momentum building for housing support, and structural supply constraints favouring new builds, the sector offers a compelling blend of cyclical upside and strategic positioning. While risks remain – particularly around macro conditions and policy execution – the balance of probabilities suggests outperformance potential into early 2026.**

### Performance snapshot

Year-to-date, US homebuilder equities have performed broadly in line with the S&P 500, but have underperformed over the past 12 months (exhibit 1). This relative lag reflects the drag from elevated mortgage rates, affordability constraints, and investor rotation into AI-driven technology names. However, the setup for the next six months is more constructive:

- ▷ Rates are poised to fall: Market-implied pricing suggests 50–75 bps of Fed cuts by year-end.
- ▷ Housing policy is moving up the political agenda: The Trump administration has signalled multiple pro-builder initiatives.
- ▷ Relative positioning is light: Many investors remain underweight the sector after a year of underperformance.

### The rate transmission channel

The most direct channel from Fed policy to homebuilder performance is the pass-through from Fed funds cuts to mortgage rates. Historically, a 50-75 bps reduction in the Fed funds rate has translated into a 30–60 bps decline in the average 30Y fixed mortgage rate within a quarter (exhibit 2). This relationship is driven by:

- ▷ Lower Treasury yields feeding into mortgage-backed securities pricing.
- ▷ Reduced funding costs for banks and mortgage originators.
- ▷ Improved secondary market liquidity for mortgage paper.

With the current average 30Y fixed mortgage rate hovering around 6.7%, even a modest decline could unlock pent-up demand from buyers side-lined by affordability constraints. Given that the median existing home price has risen over 50% since 2019, affordability relief via lower rates is critical to stimulating transaction volumes.

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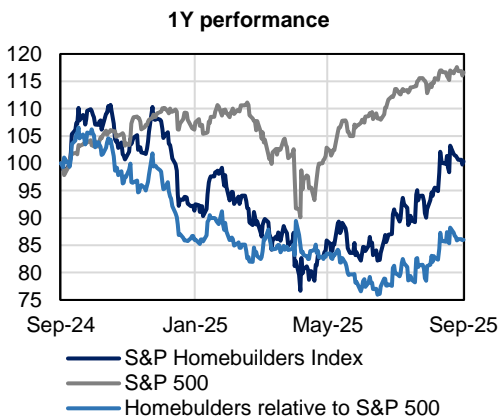
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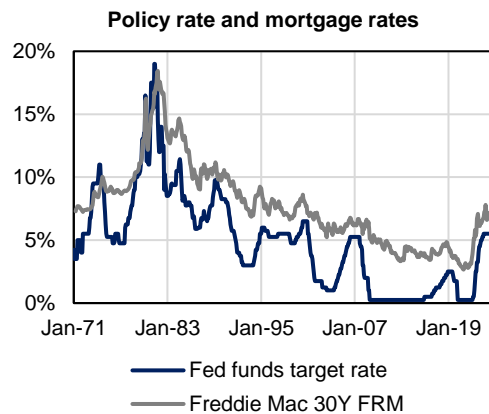
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**Exhibit 1: Homebuilders equities have underperformed the benchmark over the past year**



**Exhibit 2: Mortgage rates in the US have been historically closely tied to the policy rate**



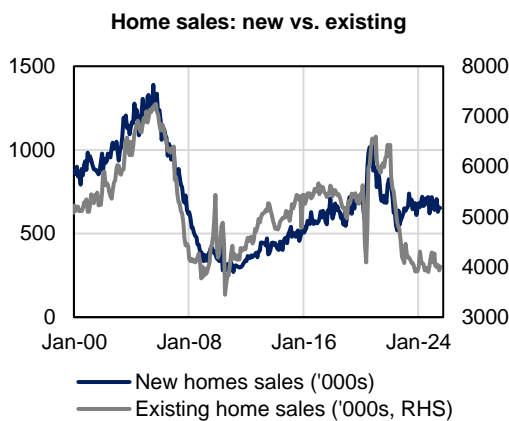
## New-build advantage

One of the sector's enduring strengths is the relative scarcity of resale supply (exhibit 3). Existing home inventory remains 20–30% below prior troughs, as homeowners with sub-4% mortgages are reluctant to sell. This "lock-in effect" has created a structural advantage for new builds:

- ▷ Market share gains: Builders are capturing a larger share of total home sales.
- ▷ Pricing power: Even with incentives, new home prices remain competitive relative to the limited resale stock.
- ▷ Faster absorption: New builds can be tailored to current buyer preferences, including energy efficiency and flexible layouts.

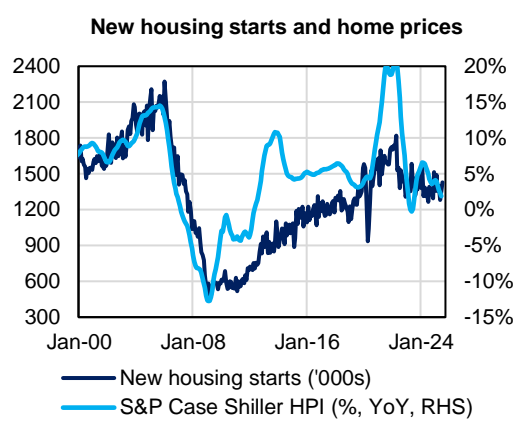
Recent price cuts and incentives — such as mortgage rate buy downs — should be viewed as strategic tools to sustain volumes, not as signs of distress. According to the National Association of Home Builders (NAHB), 60% of builders are offering incentives, and 31% have reduced base prices by an average of 5%. This, to us, reflects operational agility rather than desperation.

**Exhibit 3: Existing home sales plummeted to multi-decade lows due to the lock-in effect**



Source: US Census Bureau, National Association of Realtors, LSEG Workspace, and ADCB Asset Management

**Exhibit 4: New housing starts have been contained too – helping home price growth stay positive**



Source: US Census Bureau, S&P Case Shiller, LSEG Workspace, and ADCB Asset Management

## Operational discipline

Builders are exercising tight control over inventory and starts (exhibit 4), avoiding the overbuilding mistakes of past cycles. Earlier this year, speculative homes for sale hit their highest since 2008, but still within manageable levels given demand potential. Land acquisition is being paced carefully, and balance sheets remain healthier than in pre-2008 periods.

## Policy tailwinds

Industry confidence is being supported by regulatory relief under the Trump administration. Several potential measures could materially improve sector economics:

- ▷ Standardizing local building and zoning codes: Could accelerate project approvals, reduce compliance costs, and boost volumes. Particularly impactful in high-demand metros with restrictive zoning.
- ▷ Tariff exemptions for housing materials & reduced closing costs: Tariffs on construction materials currently add an estimated USD10,900 to the cost of a new home, according to NAHB. Exemptions could lower input costs, improve margins, and lift sentiment.
- ▷ National housing emergency declaration: Floated by Treasury Secretary Bessent, this could unlock federal resources, streamline permitting, and signal strong political commitment to housing affordability.

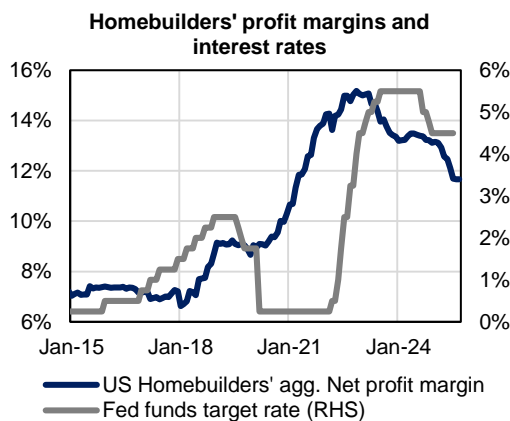
## Interest rate sensitivity of profits

Homebuilders' profitability is highly sensitive to policy interest rates (exhibit 5) due to their financing structures:

- ▷ Revolving credit facilities for working capital.
- ▷ Land acquisition loans for securing development sites.
- ▷ Project-specific financing for large-scale builds.

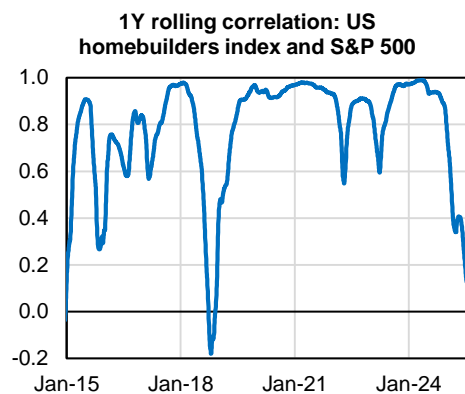
Rate cuts directly reduce interest expense, lowering the cost per unit built. This savings can offset part of the cost of sales incentives, helping to protect EBIT margins even in competitive markets.

**Exhibit 5: Any reduction in interest rates should help profitability of the homebuilder sector**



Source: Federal Reserve, Datastream, LSEG Workspace, and ADCB Asset Management

**Exhibit 6: Low correlation with the benchmark helps the sector mitigate any tech-driven weakness**



Source: S&P, LSEG Workspace, and ADCB Asset Management

## Correlation benefits

Over the past three years, homebuilder equities have exhibited a 0.70 correlation to the US market cap-weighted equity benchmarks and even lower over the past year (exhibit 6). This is meaningfully lower than many cyclical sectors, offering diversification benefits. In a scenario where tech-led equities correct, homebuilders could provide a partial shield, especially if rate cuts are the catalyst for rotation.

## Risks

The key downside risk is a stagflationary macro environment — high inflation combined with weak growth — which could:

- ▷ Limit the Fed's ability to cut rates.
- ▷ Keep mortgage rates elevated despite policy easing.
- ▷ Erode consumer confidence and housing demand.

Other risks include:

- ▷ Tariff escalation on construction materials.
- ▷ Labor shortages in construction trades.
- ▷ Regulatory delays at the state and local level.

## Summary and Implementation

We see a tactical opportunity to increase exposure to US homebuilders over the next six months, driven by:

- ▷ Monetary easing: Direct pass-through to mortgage rates and builder financing costs.
- ▷ Structural supply constraints: Favoring new builds over resale.
- ▷ Policy support: Potential regulatory and fiscal measures to boost housing.
- ▷ Diversification benefits: Lower correlation to the broader equity market.

For multi-asset portfolios, we recommend a 2ppt active allocation to US homebuilders equities in balanced multi-asset portfolios. For ahoc satellite portfolio positions seeking tactical ideas, we recommend initiating a trade on US homebuilders equities with a target return of 20% and a stop loss of 10%. For details on this implementation and other ideas, see [Tactical Asset Allocation: Steady outlook, nimble moves, September 2, 2025](#).

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