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Morning Briefing

On US Housing, Canada, & S&P 500 Earnings

Check out the accompanying [chart collection](#).

Executive Summary: The US housing market is haunted by poor affordability, Melissa reports; that's why sales have been moribund despite supportive household wealth and income statistics. Would-be buyers are spooked by affordability challenges, and would-be sellers are averse to trade their low-rate mortgages for much higher ones. It will take lower interest rates and/or lower home prices to jumpstart sales. ... Also: William discusses how Canadian policymakers are thinking about US tariffs. Tariff uncertainty has already stopped the central bank from easing, but prolonged uncertainty might be better than cutting a hasty deal. ... Also: Joe assesses the strength of Q2 from the results of the three-fourths of S&P 500 companies that have reported so far.

Weekly Webcast. If you missed Monday's live webcast, you can view a replay [here](#).

US Economy I: What's Wrong with the Housing Market. The supply of homes for sale has slowly been building, but demand for them has been diminishing. While household net worth and liabilities appear sound, housing affordability is breaking records in all the wrong ways. Younger and low-to-middle-income would-be buyers aren't buying, feeling unable to shoulder the financial commitment of homeownership, and new household formation is stalling.

Case in point: The Pending Existing Home Sales Index has gone flat, and the New Housing Market Index is trending downward ([Fig. 1](#)).

Something's got to give: Moving buyers back into the market will require either lower interest rates or lower prices or both. Lower interest rates would also nudge would-be existing home sellers wedded to their current low-rate mortgages to list their homes. For now, buyers are negotiating with their feet: More than usual are walking away from potential home purchases, and new home builders are responding by breaking less ground.

Even as fundamentals remain subdued for the sector, the S&P 500 Homebuilding stock

price index has surged 11.3% since July 21, far outperforming the S&P 500's 0.4% gain. D.R. Horton jumped 16.8%, and PulteGroup rose 9.9% on the backs of stronger-than-expected earnings momentum and potential interest-rate relief.

Consider the following:

(1) *A peek at wealth.* Total household net worth keeps climbing, reaching \$169.3 trillion in Q1, lifted by equity market gains and steady, if slowing, home price appreciation ([Fig. 2](#)). Real disposable income per household is also hovering near record highs, and mortgage plus HELOC (home equity line of credit) delinquencies remain relatively low, especially compared to other consumer loan types ([Fig. 3](#) and [Fig. 4](#)). Household balance sheets look healthy for now, but cracks could emerge if debt-service burdens climb any further. With such supportive underpinnings, why are housing sales so weak?

(2) *Affordability matters.* Despite strong household balance sheets, a growing number of households face excessive expenses. The number of cost-burdened households—those spending more than 30% of income on housing and utilities—continues to climb for both renters and homeowners.

Harvard University's *State of the Nation's Housing 2025* [report](#) shows that 20.3 million homeowner households (about 24% of owners) and 22.6 million renter households (roughly 50% of all renters) are now cost-burdened, a new high for renters. Meanwhile, the National Association of Realtors' affordability index for homeownership in May is hovering near record lows ([Fig. 5](#)).

"Affordability has reached a tipping point," said Daniel McCue, Senior Research Associate at Harvard. "We're now seeing middle-income households priced out of both ownership and rentals in metro areas that were once considered accessible."

(3) *Pricing out houses & mortgage rates.* It's no mystery why many would-be homebuyers feel boxed out. The rate of interest on a 30-year fixed-rate mortgage stands at 6.7% as of August 1, down slightly from its 2023 peak above 7.0% but still dramatically higher than pandemic-era rates ([Fig. 6](#)).

On top of that, the median price of existing single-family homes hit a record \$415,000 (12-month moving average) in June. Median single-family home prices have moderated somewhat since their 2023 surge but remain above historical norms, at a \$417,000 (12-mma) median price ([Fig. 7](#)).

(4) *Existing homes in stasis.* The existing home market is trapped in a stalemate of modestly rising inventory and constrained demand. Many potential sellers continue to sit on ultra-low mortgage rates that they're reluctant to give up for a new mortgage on a new property at a much higher interest rate.

Inventory has grown since its 2023 bottom. At about 1.4 million existing homes for sale, inventory is still below the pre-pandemic baseline of roughly 2 million units ([Fig. 8](#)). In June 2025, annualized existing home sales were 3.9 million units, down 2.7% m/m, scraping levels last seen in 2009 ([Fig. 9](#)).

(5) *Slowing new home sales.* The supply of new homes sitting on the market has ballooned, so the future pipeline of new homes is looking shaky. In June, the number of new homes for sale ticked up to 511,000 (saar), amounting to nearly a 10 months' supply—i.e., the ratio of new homes for sale to new homes sold was up from 9.7 months in May and 8.5 months in April ([Fig. 10](#) and [Fig. 11](#)).

Affordability troubles continue to bite: New home sales fell to 627,000 units in June, down 6.6% y/y, while buyer traffic in July remained well below pre-pandemic averages ([Fig. 12](#)).

Seeing the pullback in demand, builders are starting to hold back production. They're also stung by persistent labor shortages, rising input costs, and trade-related tariffs that squeeze margins and dent affordability. Total June housing starts came in at 1.32 million units (saar), down 0.5% y/y, with single-family starts down 10.0% compared to June 2024 and at a 12-month low ([Fig. 13](#)).

(6) *Gen Zers and young Millennials staying home.* In a deep affordability crunch, many would-be buyers—particularly younger cohorts—are deferring moves altogether or resigning themselves to renting. They're locked out of homeownership by a combination of tight credit standards and daunting down payments. The share of 25- to 34-year-olds living in their parents' home has ticked up again, to 30.2% at 2024's end, according to Census data ([Fig. 14](#)).

The related slowdown in household formation is another drag on housing market demand ([Fig. 15](#)).

(7) *Ray of hope?* A bipartisan housing bill—the ROAD to Housing Act—recently advanced unanimously in the Senate, pushes zoning reform and modular housing incentives to increase the supply of affordable housing. It's the first major legislation on housing in over a

decade. Bloomberg called it “a ray of hope.”

Canadian Conundrum I: A 35% Trump Tariff. Conducting monetary policy in 2025 isn’t for the faint of heart anywhere. But officials in Ottawa face a particularly difficult balancing act among Group of Seven (G7) economies—one becoming more precarious by the day.

Last Wednesday, Bank of Canada (BOC) policymakers led by Governor Tiff Macklem held the benchmark rate at 2.75% (Fig. 16). It was the third consecutive meeting at which the BOC left rates unchanged despite its belief that GDP contracted by 1.5% y/y in Q2 amid trade-war uncertainty, after posting a 2.3% gain during Q1 (Fig. 17).

Yet two days later, Ottawa learned that things were worse than feared. On Friday, US President Donald Trump hiked US tariffs on Canadian goods to 35% from 25%, higher than those on goods from China or any other G7 nation. Macklem’s tightrope walk now involves avoiding a recession, keeping inflation anchored around the BOC’s 2.0% target, and navigating domestic politics at a moment of maximum pressure from Trump World (Fig. 18).

Macklem claims that the economy is, against the odds, “showing some resilience.” Maintaining it, though, depends on the bigger balancing act that Canadian Prime Minister Mark Carney has to pull off in trade talks.

Let’s consider the state of limbo in which Canada finds itself:

(1) *Escalation dominance.* Part of Carney’s conundrum is Trump’s offbeat take on Canadian sovereignty, including calling Canada the 51st state and blaming it for the flow of illicit drugs like fentanyl into the US. Canada denies that, saying it’s responsible for only about 1% of the US’s fentanyl imports.

All this means that Carney must factor wounded Canadian pride into trade talks even as Trump harnesses Washington’s “escalation dominance.” Talk about a challenge!

(2) *Trump’s baseline.* Looked at one way, today’s uncertainty may be better for Canadian GDP than tomorrow’s, say, 15% tariff, if Carney can score the baseline rate that Trump granted the European Union and Japan. That’s because, with the proper paperwork, nearly 90% of goods are able to enter the US duty-free thanks to Trump 1.0’s United States-Mexico-Canada Agreement (USMCA).

(3) *Canada’s buffer.* In this way, Carney, a former central banker and Goldman Sachs alum,

is engaging in a bit of Trump 1.0-Trump 2.0 economic arbitrage. “That has given us a buffer, no question about it, that other countries don’t have right now,” Fen Hampson at Ottawa’s Carleton University, [told](#) the BBC.

Canadian Conundrum II: Quality Over Speed. This buffer is enabling Carney’s Liberal Party to hold out for a quality tariff deal that will serve Canada well, or as well as possible, versus just a fast one to get the uncertainty cleared away ASAP. Hampson agreed that Canada should prioritize “quality over speed” in trade talks. Indeed, Carney has repeated many times that just “any deal” won’t do.

In the attempt to home in on what a “quality” deal would look like, Macklem’s team at the BOC is busily gaming out where Canada’s [\\$2.14 trillion economy](#) might find itself 90 days from now. The BOC has three working scenarios: the good, the not too bad, and the ugly:

(1) *Good result.* The good outcome would be keeping the USMCA trade parameters in place, if Carney can convince Trump to agree. Though that notion is highly unlikely given Trump’s roughly [15% baseline](#), Carney might be able to pull it off with an assist from Detroit automakers that trade lots for Canada and Mexico.

(2) *Not-too-bad result.* This scenario has Carney slow-walking a final tariff agreement in the hopes that the US is too busy pivoting toward “grand bargain” negotiations with China—the real prize for Trump—to care much about Canada. The status quo would reign for longer, meaning that uncertainty reigns as well; but this result might allow for a stabilization of GDP at a [roughly 1% rate](#) in the second half of the year.

(3) *Ugly result.* The ugly trajectory would be for Trump World to escalate the trade war more generally. That would likely mean a “reciprocal” Canada tariff, on top of to the already-in-place 25% tariffs on Canadian-made vehicles and 50% levies on steel and aluminum. To avoid this worst-case scenario, Ottawa is ramping up [military spending](#), increasing border security, and scrapping a [digital tax](#) opposed by Trump World.

One ugly wildcard is what happens with China. Trump keeps granting Beijing extensions on the deadline to agree on a trade deal. If it becomes clear at the White House that an accord won’t happen, it’s unclear how Trump might respond and whether his response would affect tariffs on Canada and other nations.

(4) *Whichever the result, trade diversification needed.* Canada is looking inward at ways to reduce barriers that slow trade between its provinces. Many, too, are looking to the bigger

feat confronting Canada: diversifying the economy away from US dependence. This means prioritizing trade beyond North America by increasing links to Europe and to rapidly growing emerging economies, particularly in Asia.

Count Macklem among the many thinking along these lines: “Canada needs to think about its place in the global trading economy,” [he said last week](#). “We are very concentrated in our trade with the United States. The message is: The world is changing.”

Strategy: Q2 Is Looking Like Another Strong One. With 74% of the S&P 500 companies having reported June-quarter results through mid-day Tuesday, we can get a good handle on how strong the quarter was for these companies.

So far, their aggregate “blended” quarterly EPS—a mix of actual EPS for companies that have reported Q2 and consensus estimates for those that haven’t—is \$64.89 ([Fig. 19](#)). That’s up 2.9% q/q from \$63.07 in Q1 and just 0.2% below the record-high \$65.00 in Q4-2024 (see our [web pub](#) “S&P 500 Quarterly Metrics”).

The degree to which Q2 earnings beat analysts’ expectations improved q/q to a five-quarter high of 8.7% ([Fig. 20](#)). That earnings surprise (measured as the change in actual reported EPS from the consensus Q2 mean at the time of each company’s report) is up notably from Q1’s 7.1% beat, is the strongest since Q1-2024, and ranks 12th best among beats in the 154 earnings seasons since Q1-1987.

Also up: Q2’s blended EPS relative to analysts’ expectations at the end of June before reporting season began; at that point, their consensus estimates implied EPS of \$62.64 and a y/y growth forecast of just 3.7% ([Fig. 21](#)).

As for Q2’s y/y growth, it has dropped into the single digits after double-digit growth in three of the prior four quarters. With 26% of the companies left to report, the S&P 500’s blended y/y earnings growth rate for Q2 is 7.4%, marking the eighth straight quarter of positive y/y earnings growth for the S&P 500. That’s as long as the lengthiest string, the eight quarters through Q3-2022 ([Fig. 22](#)).

However, Q2’s y/y growth rate is down from Q1’s rate, and also from Q4-2024’s, when growth peaked at 12-quarter high of 13.7% y/y ([Fig. 23](#)). On a proforma same-company basis, S&P 500 blended earnings rose 11.2% y/y in Q2. That marked its eighth quarter of growth but second quarter of deceleration from a 12-quarter high of 17.1% in Q4-2024.

Here's Joe's analysis of how the S&P 500's 11 sectors, the Magnificent-7 stocks, and the remaining S&P 493 stocks appear to have fared by these metrics at this point in the June-quarter reporting season:

(1) *Few sectors outperform S&P 500's Q2 earnings growth.* Eight of the 11 S&P 500 sectors have been delivering rising earnings y/y in Q2, but just three beat the overall S&P 500's y/y growth. The eight is unchanged from Q1's earnings growth count but falls short of Q4's. (That quarter saw 10 sectors rising y/y, four growing faster than the overall index, and two posting record-high EPS—Communication Services and Information Technology.)

Just three sectors recorded positive and double-digit percentage y/y earnings growth in Q2, down from four in Q1 and way down from seven in Q4. Among Q2's laggards, Energy's earnings fell at a double-digit percentage rate for the sixth time in seven quarters, Materials' fell y/y after two gains, and Consumer Discretionary's was at a single-digit rate for the first time in 10 quarters. On a positive note, Information Technology's earnings growth was in double digits for a ninth straight quarter, and Communication Services' was for a fourth.

Here's how the sectors' y/y earnings growth has stacked up so far on a proforma basis: Communication Services (43.5%), Information Technology (22.5), Financials (12.8), S&P 500 (11.2), Consumer Discretionary (6.3), Health Care (4.6), Industrials (3.2), Real Estate (1.4), Consumer Staples (0.2), Utilities (-1.5), Materials (-2.6), and Energy (-21.0).

(2) *Magnificent-7.* Through Monday's close, six of the Magnificent-7, all but Nvidia, have reported June-quarter results. The "Magnificent-6's" aggregate Q2 earnings surprise was 11.8%, and its y/y earnings growth of 23.1% was nearly double the consensus' 10.1% forecast—all well above the S&P 500's measures ([Fig. 24](#)).

Only two of the six had double-digit percentage earnings surprises, but five had double-digit y/y earnings growth. Here are the Q2 earnings surprises and y/y earnings growth rates for the Magnificent-6: Amazon (26.4% earnings surprise, 33.3% y/y earnings growth), Meta (20.7, 38.4), Apple (9.5, 12.1), Microsoft (8.3, 14.2), Alphabet (5.7, 22.2), and Tesla (-6.7, -23.1).

(3) *Slower, but decent Q2 for S&P 493.* During Q1, the S&P 493 delivered double-digit percentage earnings growth then for a second straight quarter. While its y/y growth rate slowed in Q2 to 8.6% y/y from a 12-quarter high of 13.2% in Q4-2024, the group's total Q2 earnings is back at a record high for the first time since Q4. Its aggregate Q2 earnings results beat consensus forecasts by a healthy 7.6% but not as healthy as the Magnificent-

7's 11.7%.

Calendars

US: Wed: MBA Mortgage Applications. **Thurs:** Nonfarm Productivity & Unit Labor Costs 1.9% & 1.4%; Initial Claims 221k; Wholesale Inventories 0.2%; Consumer Inflation Expectations; Fed's Balance Sheet; Bostic. (Source: FX Street)

Global: Wed: Eurozone Retail Sales 0.3%*m/m*, 2.6%*y/y*; Germany Factory Orders 1.0%; Italy Industrial Output 0.1%. **Thurs:** Germany Industrial Production -0.6%*m/m*, -0.6%*y/y*; BoE Interest Rate Decision 4.00%; ECB Economic Bulletin; Japan Household Spending -3.0%*m/m*, 2.8%*y/y*; Bailey. (Source: FX Street)

US Economic Indicators

US Non-Manufacturing PMI ([link](#)): The US service sector unexpectedly flatlined in July, with *ISM's NM-PMI* slipping to 50.1 from 50.8 in June—below consensus estimates of 51.5. The *business activity/production index* fell 1.6 points (to 52.6 from 54.2) though remained in expansion territory in July—and has not been in contraction territory since May 2020. Meanwhile, the *new orders* (50.3 from 51.3) measure moved down close to the breakeven point of 50.0. The *inventories*' (51.8 from 52.7) measure showed a slowing in accumulation, moving down toward 50.0. The *supplier deliveries*' (51.0 from 50.3) gauge was 0.7ppt higher in July—the eighth successive month the index has been in expansion territory, indicating slower supplier delivery performance. (Supplier deliveries is the only ISM index that is inversed; a reading above 50.0 indicates slower deliveries, which is typical as the economy improves and customer demand increases). Employment (46.4 from 47.2) contracted for the second straight month in July and the fourth time in the last five months, contracting at a faster pace last month. On the *inflation* front, the price index (to 69.9 from 67.5) posted its highest level since October 2022 (70.7)—exceeding 60.0 for the eighth successive month.

Global Economic Indicators

Global Composite PMIs ([link](#)): “Global economic output expands at quickest pace so far in

2025 as service sector growth accelerates,” is the headline of July’s report. The Global C-PMI Output Index (to 52.4 from 51.7) accelerated for the third straight month—at its fastest pace year to date. There’s disparity between the manufacturing and service sectors, with the global service (53.4 from 51.8) measure posting the strongest growth since December (53.8), with all three sectors—business, consumer, and financial services increasing. Meanwhile, the manufacturing (49.7 from 50.4) sector was in contractionary territory for the third time in four months, with downturns seen across the business, consumer, and financial service sectors. Regionally, output growth was once again led by India, followed by the US. The report notes that overall rates of expansion remained mild (at best) in mainland, China, Japan, the Eurozone, and the UK, while activity contracted in Brazil and Russia. Growth in the US, China, Japan, Italy, and Spain was driven by robust service sector growth, while manufacturing activity was subdued. Levels of incoming new business was strong in the service sector, while manufacturing new orders contracted for the third time in four months. Meanwhile, total new export business rose in only four of the nations covered—Germany, India, Spain, and Russia. Business optimism dipped to a three-month low in July—to one of the weakest levels post-pandemic—with only financial services posting an improvement. Turning to pricing, global selling price inflation climbed to its highest level in over two years, led by rising charges for goods and services in the US—which was largely linked to tariffs. Global input costs rose for the sixty-second consecutive month in July, with solid rates of increase registered in both the manufacturing and service sectors, according to the report.

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