

# Dutta's Monetary Thoughts

Too late for TACO to help housing

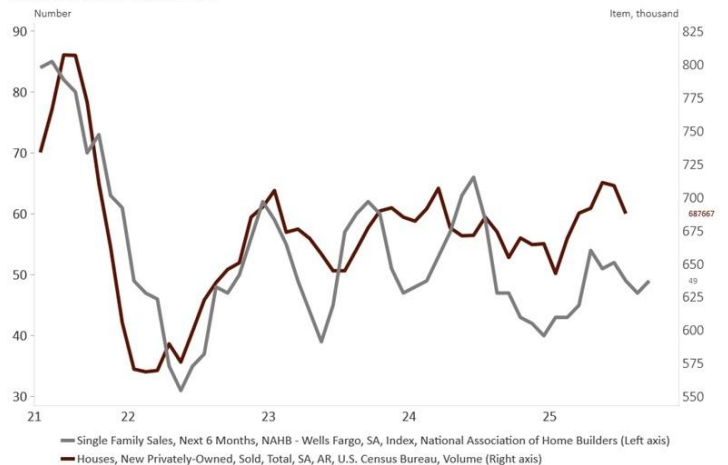
Neil Dutta

## Bumbling builders

New housing market conditions were deteriorating ahead of the recent financial market shock. Recent developments – the 30Y fixed rate mortgage has climbed to 6.53 percent – have only made matters worse heading into the spring selling season.

Let's review recent data. In January, new home sales declined sharply, falling to 587,000 units SAAR, the lowest since October 2022. New home sales declined in all four regions of the country though declines were especially pronounced in the Northeast and Midwest, where rough weather conditions were likely partly to blame. Of course, both November and December were unseasonably warm and likely lifted new home sales. If I take an average of the last three months, new home sales are off marginally.

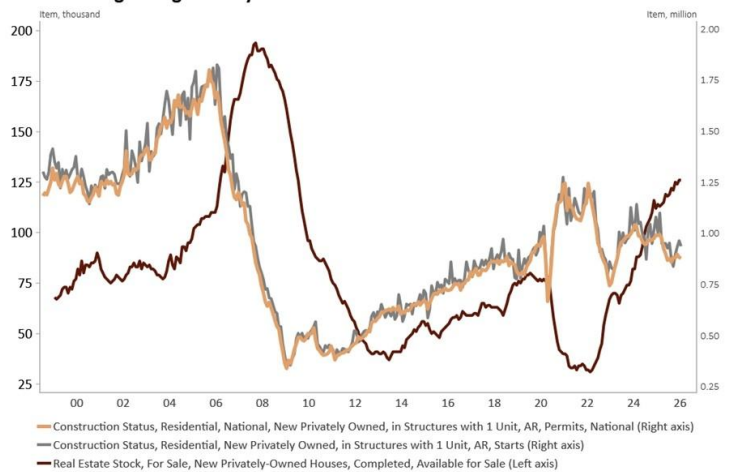
Builder sentiment is soft



Source: Renaissance Macro Research, Macrobond

While sales are not doing much, there are a couple of important developments I am monitoring. First, slack continues to build in the single-family market. Unsold completed new homes for sale remain at their highest level since July 2009. Second, there is nothing in the pipeline for future construction; new homes sold but not started haven't been this low since the depths of the financial crisis. Third, new home sales have softened even as new home prices have eased, and homebuilder profit margins have declined. Note that new home prices do not include affordability adjustments like rate buydowns and other sales incentives. Builders are giving up quite a bit to make a sale.

Slack building in single-family market



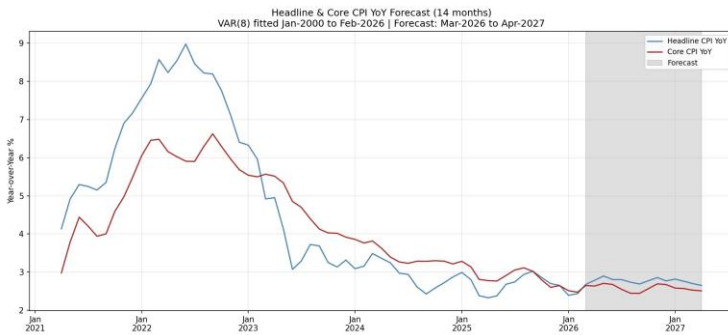
Source: Renaissance Macro Research, Macrobond

Thus, I think it's increasingly likely that builders continue to revise down their residential construction plans, weighing on housing-related employment.

**Escalate to deescalate: Hawkish now, cuts later**

Treasury bond yields are too high relative to the economic outlook. The Fed will be hawkish in the face of a negative supply shock, but it will not be that hawkish. The bark will be worse than the bite. According to the FedWatch Tool from the CME Group, the market is presently priced for a 12.4 percent chance of a rate hike in April. I'd fade that. The Fed is not hiking this spring though they will talk up the upside risk to inflation.

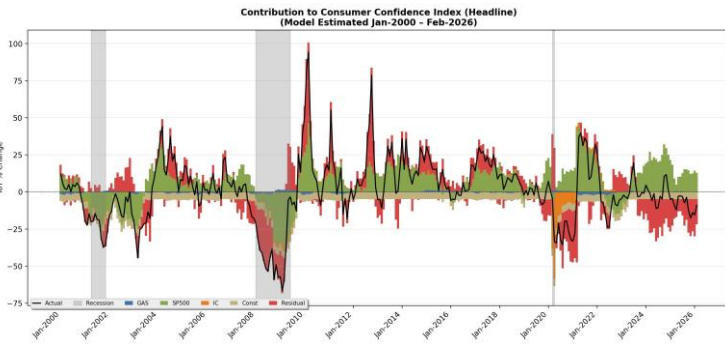
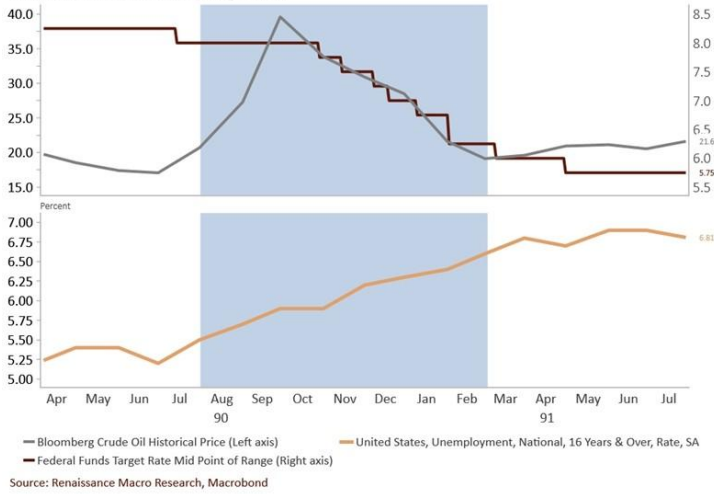
How big is the inflation risk from oil? Research by [Känzig](#) on the macroeconomic effects of OPEC supply news finds that a persistent 10 percent increase in oil prices — sustained for at least a year — raises headline U.S. inflation by about half a percentage point. Oil prices are up roughly 40–50 percent since the Iran conflict began, which, if sustained at current levels, would imply an increase in headline inflation on the order of 2 percentage points. That sounds alarming, but the operative word is "sustained."



Our own VAR model, which uses the historical comovement of headline CPI, core CPI, and Brent crude to project inflation forward (conditioning on the latest daily Brent price of ~\$118/bbl), suggests headline CPI settling into a 2.7–2.9% YoY range over the next year, peaking near 2.9% around May before drifting back toward 2.7% by early 2027. Core CPI tracks a slightly lower path in the 2.4–2.7% range. In short, even with elevated oil prices baked in, neither the academic evidence nor the statistical model points to a sustained re-acceleration — headline gets bumped but core barely moves.

This is not like 2022, when Russia invaded the Ukraine, in several important ways. First, labor market conditions were much stronger than they are now. Momentum was solid with strong employment growth, and the unemployment rate was well below most estimates of NAIRU. Today, payroll growth is weak, turnover is nonexistent and unemployment has been trending higher in recent years. Second, pandemic era excess saving was being drawn down then by both households and state and local governments, which were flush. Today, state and local governments have been curbing spending and household excess savings have been drawn down. Third, policy rates were incredibly low back then and had only

**The Fed did not look through here**



one way to go. It's a tougher call now because rates are not pinned to the floor now.

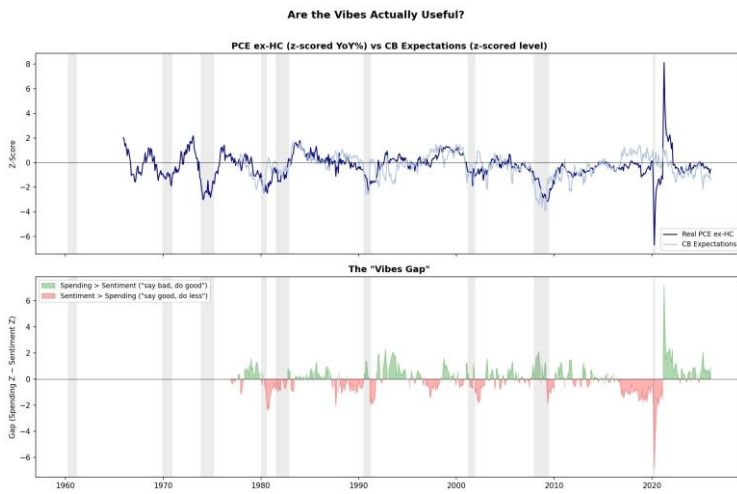
If you are looking for a useful analog, look at the Gulf War I. In roughly the year before Operation Desert Shield, the US economy was losing some steam, but the jobless rate was moving sideways. The Fed generally had been easing too. Then oil prices doubled; before the invasion in July 1990, oil was just under \$20 per barrel. By mid-October, prices peaked near \$40. During this period, unemployment was steadily climbing; however, the Fed did not resume easing until after oil prices began declining.

Bottom-line: I can see why the Fed talks hawkish, but falls short of raising rates. I continue to see the Fed's next move as more likely to be a cut than a hike.

**Consumers are gloomier than the fundamentals warrant**

We ran a simple exercise regressing the Conference Board CCI (year-over-year change) on three macro drivers — retail gasoline prices, the S&P 500, and initial jobless claims (all year-over-year) — over the 2000–2026 sample. Historically, this three-variable model tracks sentiment well through the dot-com bust, the GFC, and the COVID whipsaw. But since January 2024 something has broken: the model says consumers should feel considerably better than they actually do, with the residual averaging about –18 points, more than a full standard deviation below the 2000–2023 norm.

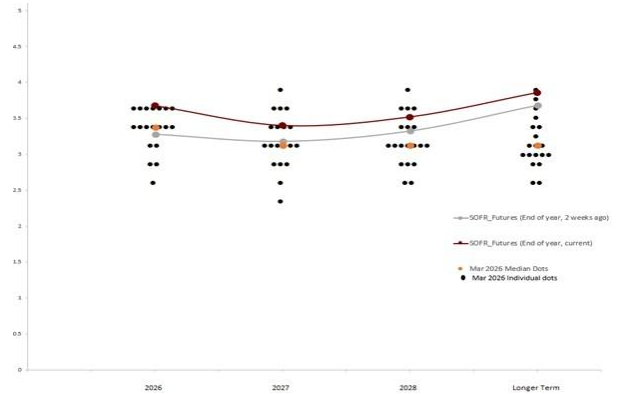
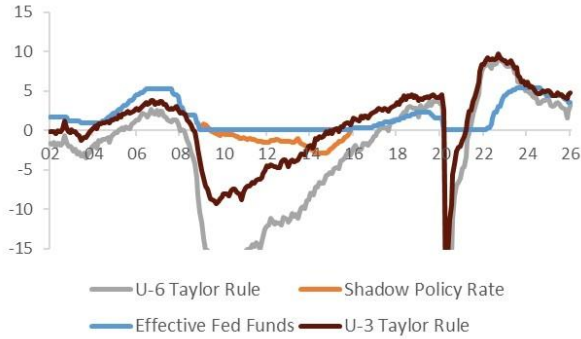
As of the February survey, gas prices were still subdued, claims were running at rock-bottom levels, and equities were up double digits year-over-year — the model said consumers should feel roughly flat, yet actual confidence was running –9% YoY. None of the usual macro drivers explained the gloom. Since then, the picture has gotten worse on the margin: gas prices have surged nearly a dollar nationally, and the S&P 500 has slipped about 6 percent from its February high. Claims, at 205k, remain remarkably low. In other words, the one channel that should now register in the model — energy prices — is only just beginning to bite, while the pre-existing pessimism was already well entrenched before any of this



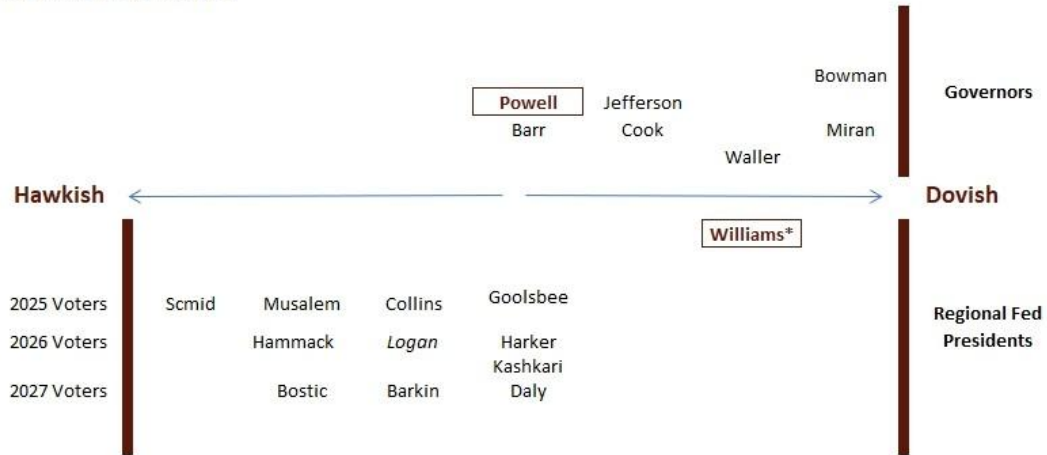
hit. Whatever is weighing on sentiment — politics, cumulative sticker shock, housing affordability — it's not showing up in the traditional macro channels.

The natural follow-up question is whether this pessimism matters for spending. We replicated the Kansas City Fed's recent [study](#) — "Forecasting with Feelings" — and extended it with our own analysis. The KC Fed finding holds: adding sentiment to a baseline model of real PCE growth does not meaningfully improve forecasts. What is more interesting is the vibes gap — real spending growth has consistently exceeded what depressed sentiment levels would imply since mid-2021. In 2025, that gap actually widened, suggesting the disconnect between what consumers say and what they do is intensifying rather than resolving. However, not all sentiment measures are created equal. **Expectations-based measures (Conference Board Expectations, UMich Expectations) do lead spending with statistical significance, while present-situation measures mostly reflect it. Right now, both are telling different stories about where the consumer is headed. So, for the time being, the signal is somewhat ambiguous.**

**Monetary metrics**



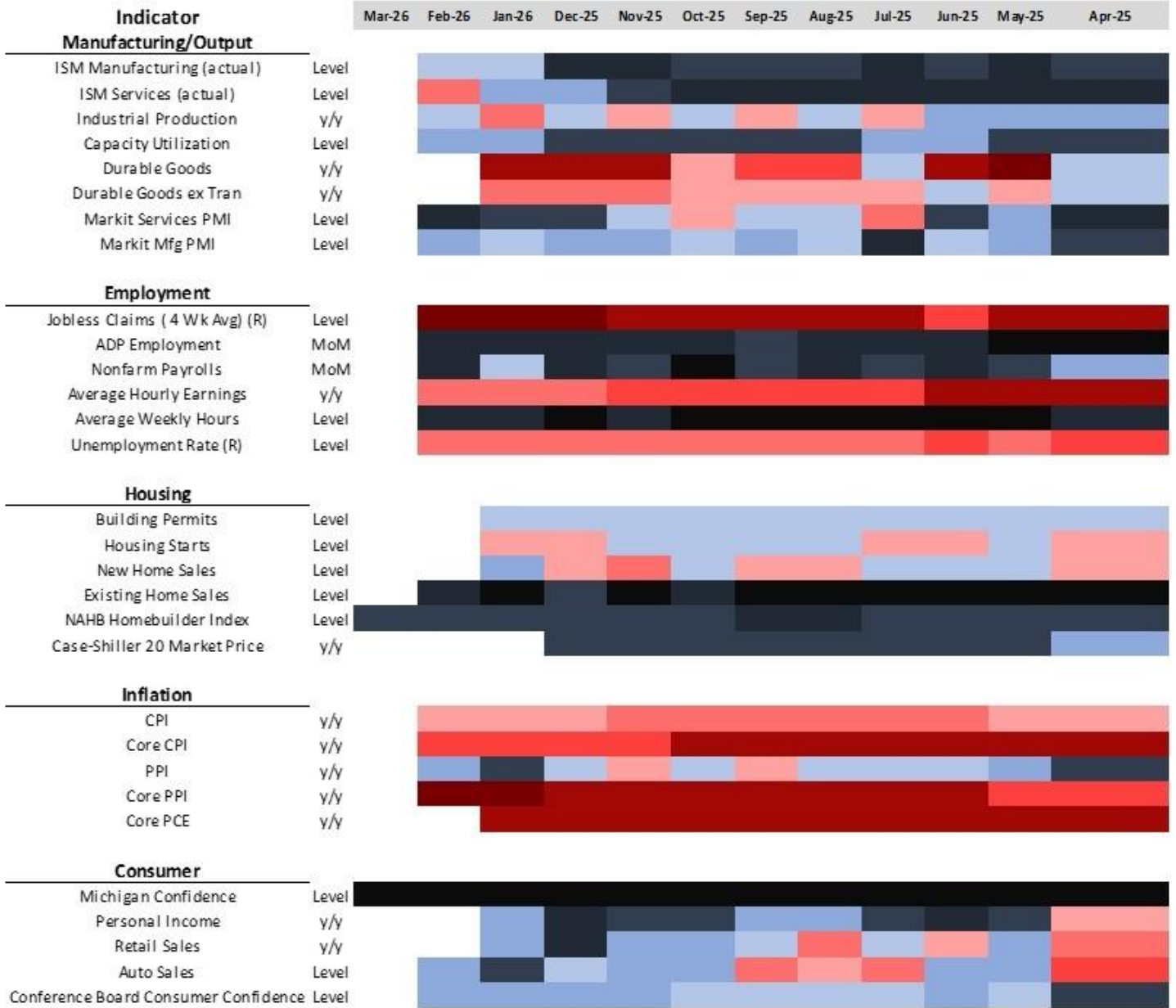
**Hawks and Doves**



\*Federal Reserve Bank of NY President always votes  
Boxed individuals represent FOMC core

FOMC Forecasts	Median					Central Tendency				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
<b>Change in real GDP</b>	1.7	2.3	2.0	1.9	1.8	1.6-1.8	2.1-2.5	1.9-2.3	1.8-2.1	1.8-2.0
September projection	1.6	1.8	1.9	1.8	1.8	1.4-1.7	1.7-2.1	1.8-2.0	1.7-2.0	1.7-2.0
<b>Unemployment rate</b>	4.5	4.4	4.2	4.2	4.2	4.5-4.6	4.3-4.4	4.2-4.3	4.0-4.3	4.0-4.3
September projection	4.5	4.4	4.3	4.2	4.2	4.4-4.5	4.4-4.5	4.2-4.4	4.0-4.3	4.0-4.3
<b>PCE inflation</b>	2.9	2.4	2.1	2.0	2.0	2.8-2.9	2.3-2.5	2.0-2.2	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9-3.0	2.4-2.7	2.0-2.2	2.0	2.0
<b>Core PCE inflation</b>	3.0	2.5	2.1	2.0		2.9-3.0	2.4-2.6	2.0-2.2	2.0	
September projection	3.1	2.6	2.1	2.0		3.0-3.2	2.5-2.7	2.0-2.2	2.0	
<b>Projected policy path</b>										
<b>Fed funds rate</b>										
September projection	3.6	3.4	3.1	3.1	3.0	3.6-3.9	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5
	3.6	3.4	3.1	3.1	3.0	3.6-4.1	2.9-3.6	2.9-3.6	2.8-3.6	2.8-3.5

**High frequency data heat-map**



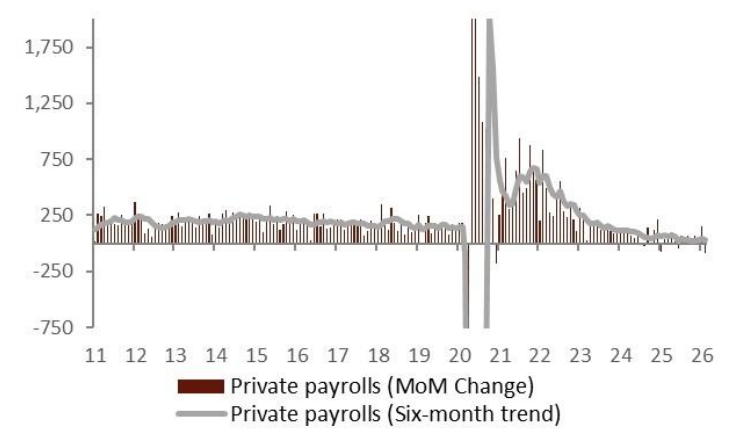
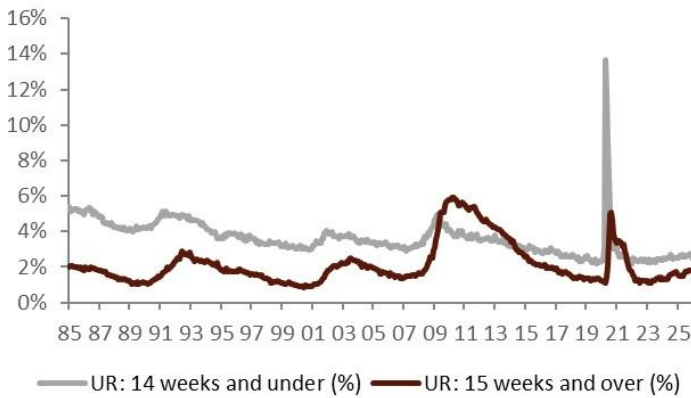
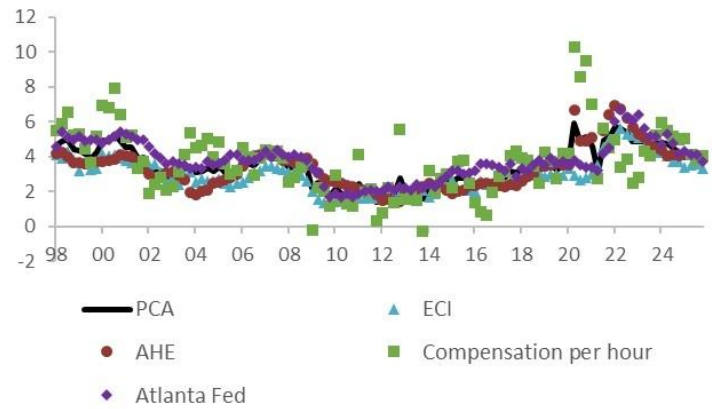
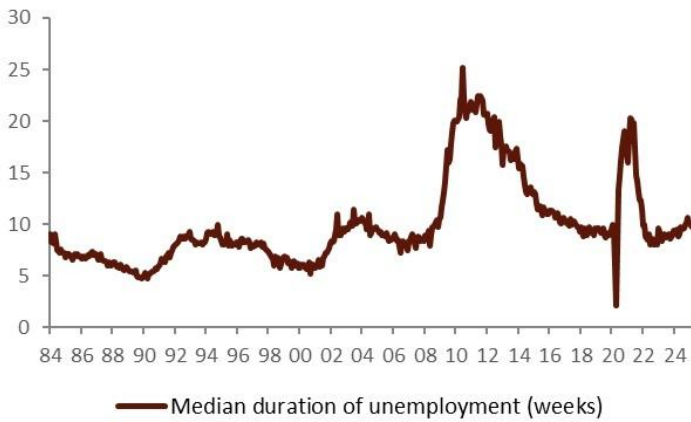
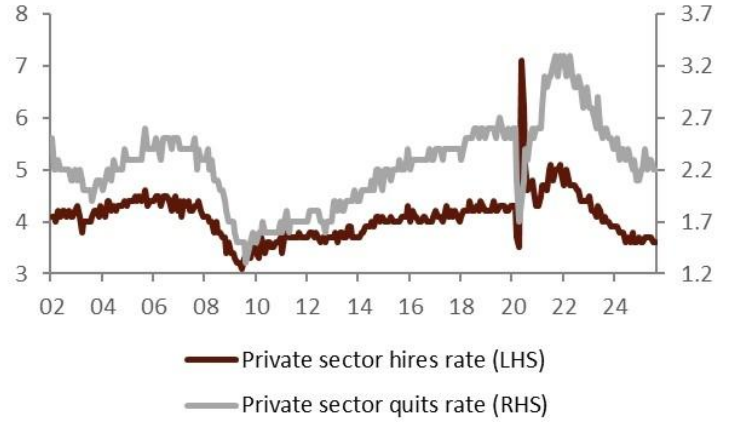
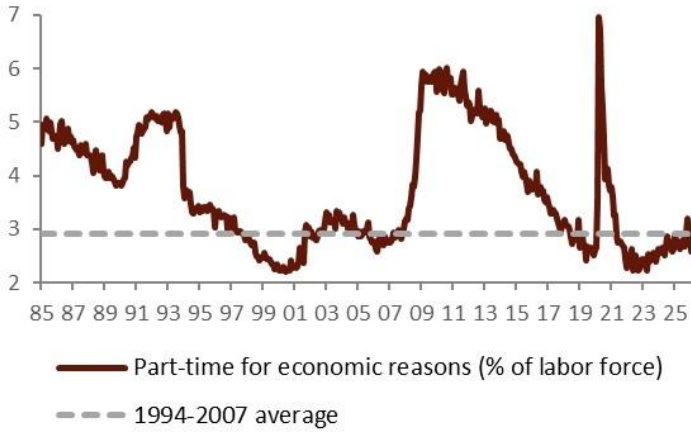
**Notes**

**R - Reverse Formatting**

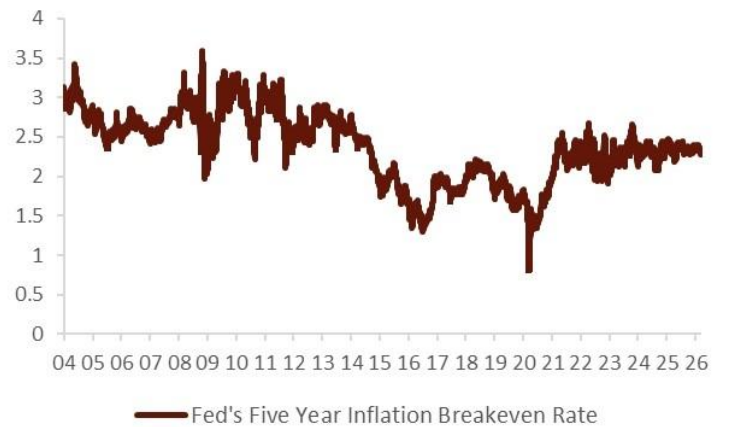
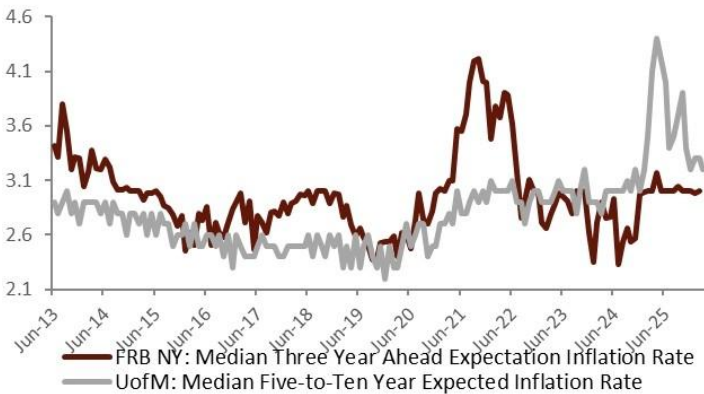
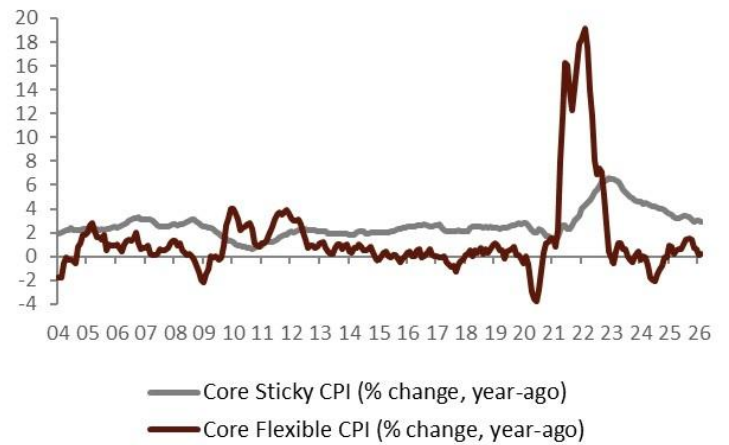
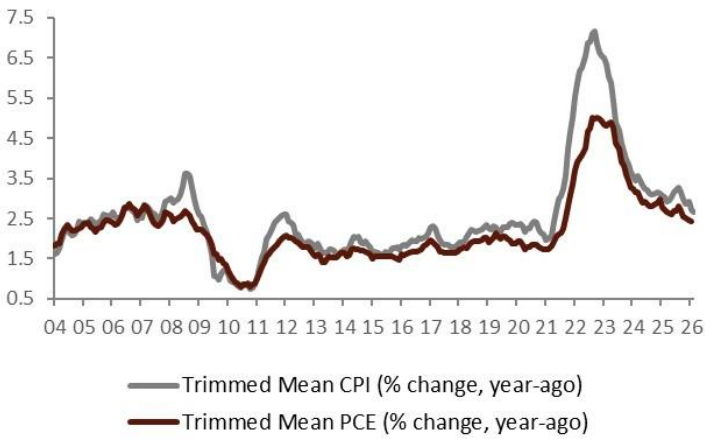
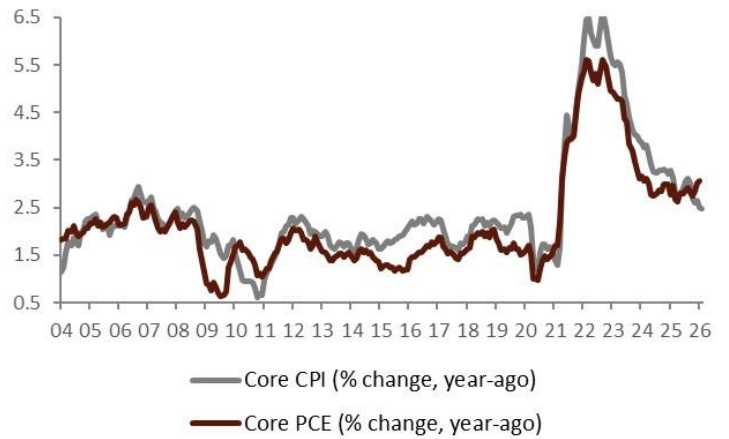
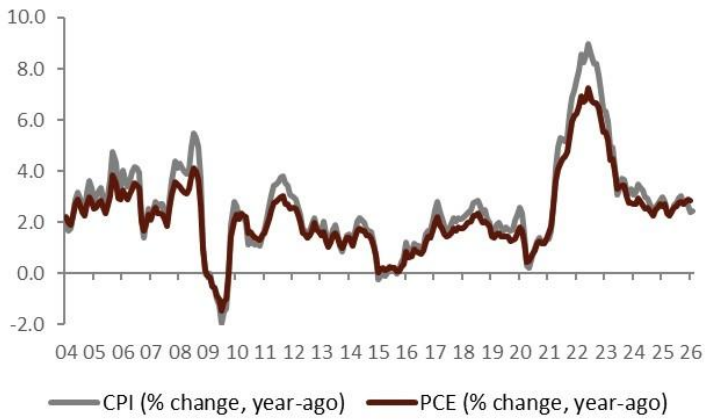
Deciles are based on expanding window since 2001



**Labor market indicators**

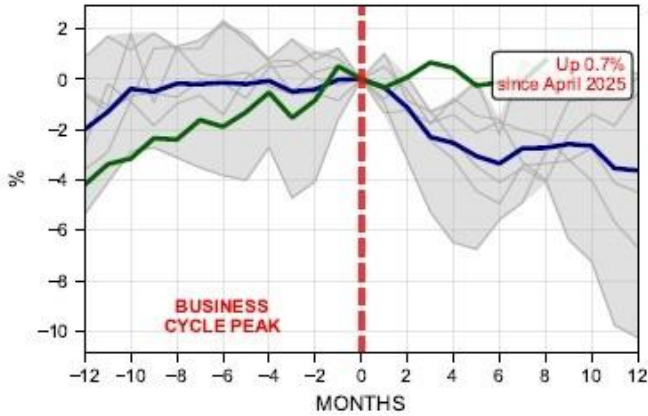


**Inflation indicators**

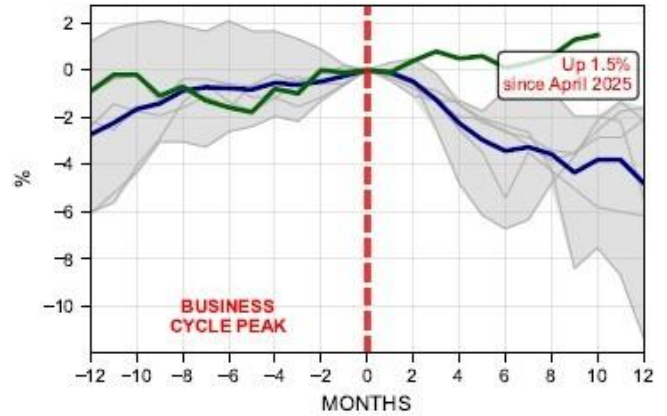


## NBER RECESSION INDICATORS DASHBOARD

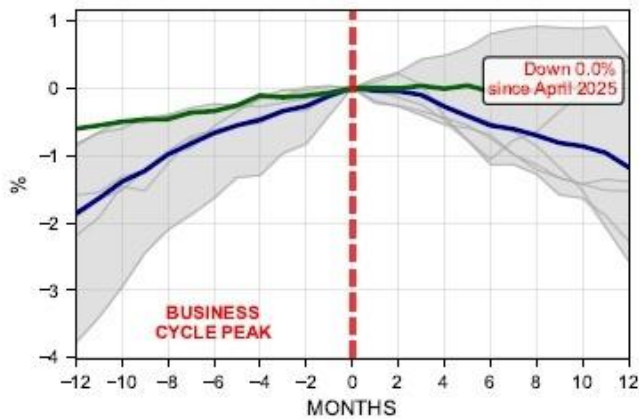
**REAL SALES: MANUFACTURING AND TRADE INDUSTRIES**



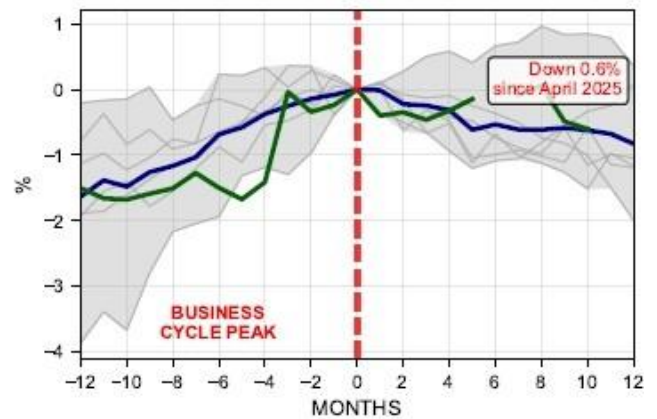
**INDUSTRIAL PRODUCTION**



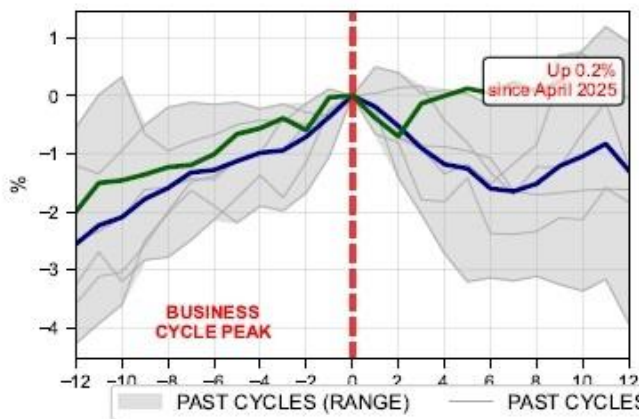
**US NONFARM PAYROLLS**



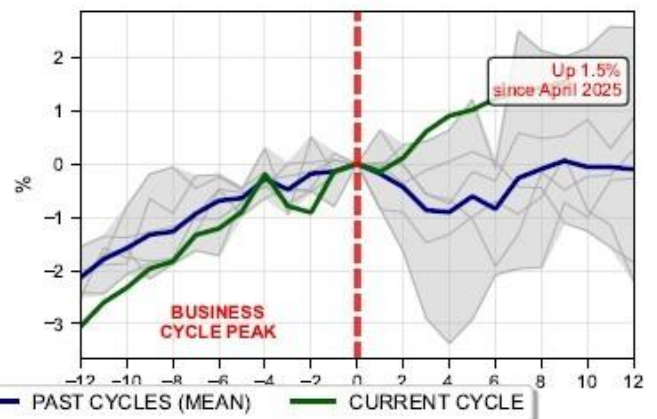
**CIVILIAN EMPLOYMENT**



**REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS**



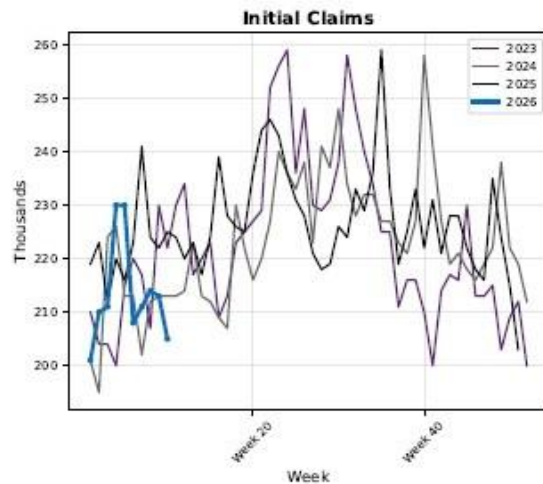
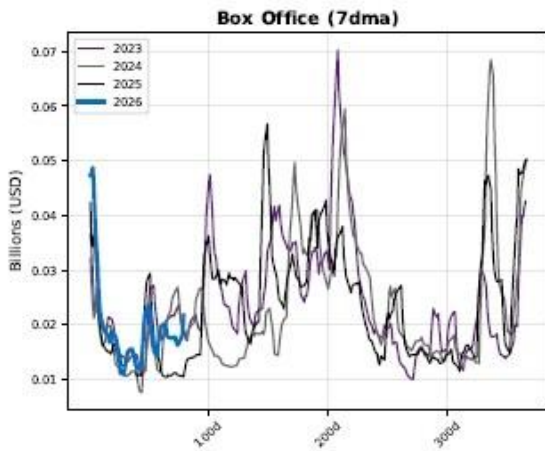
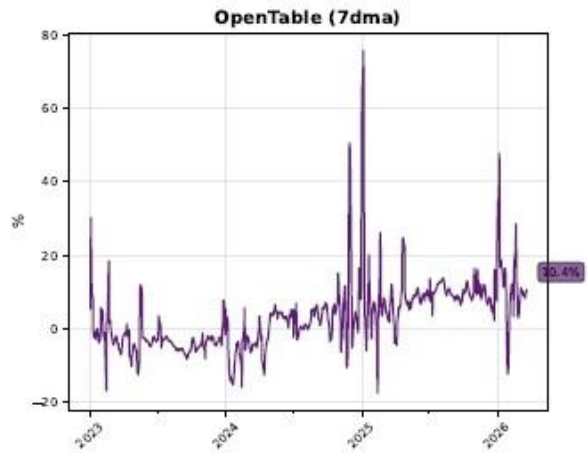
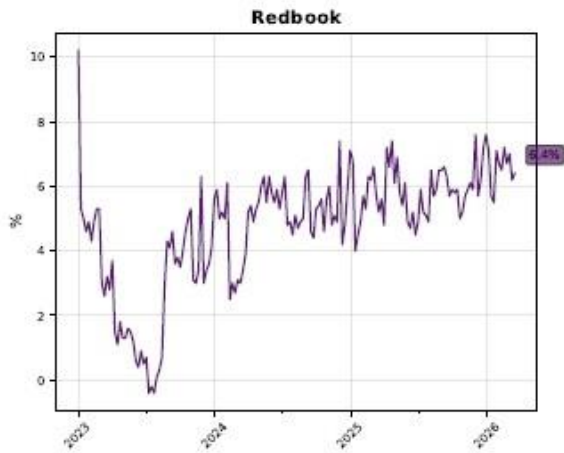
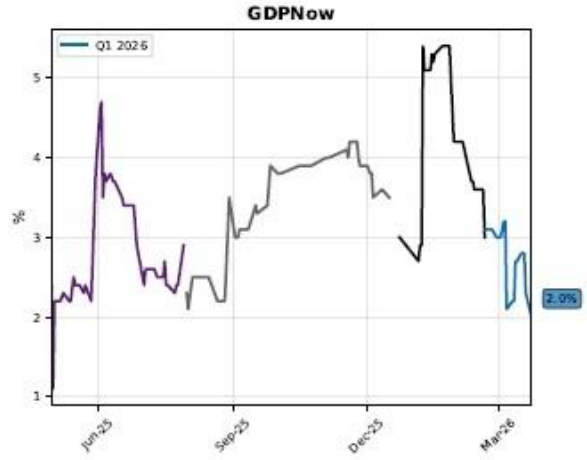
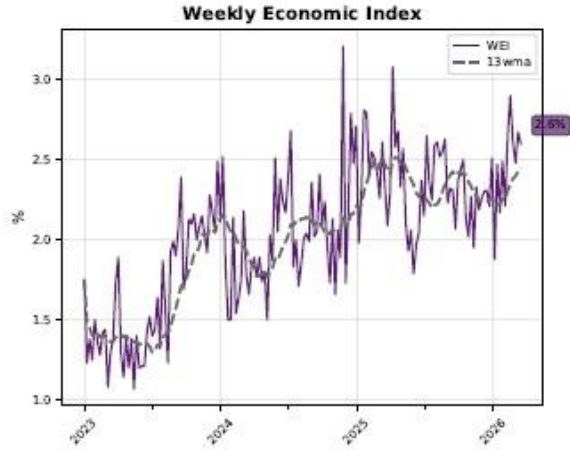
**REAL PCE**



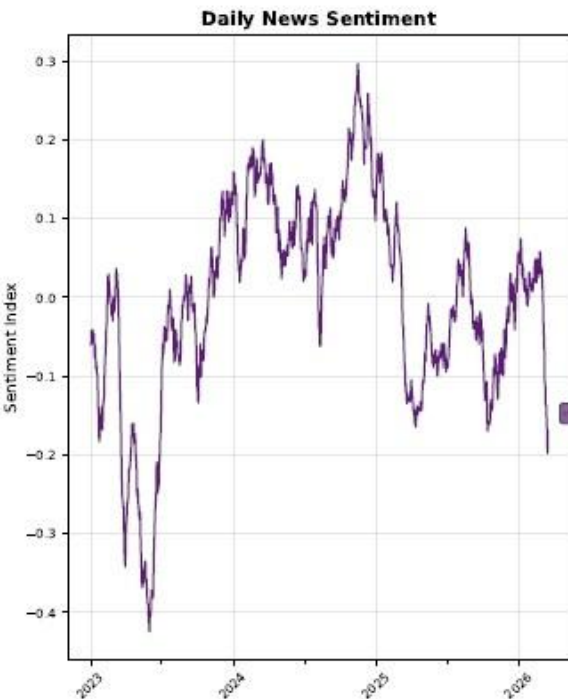
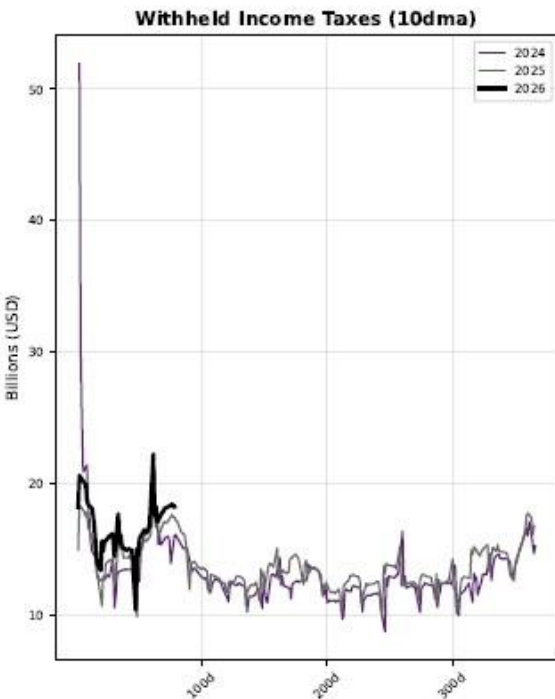
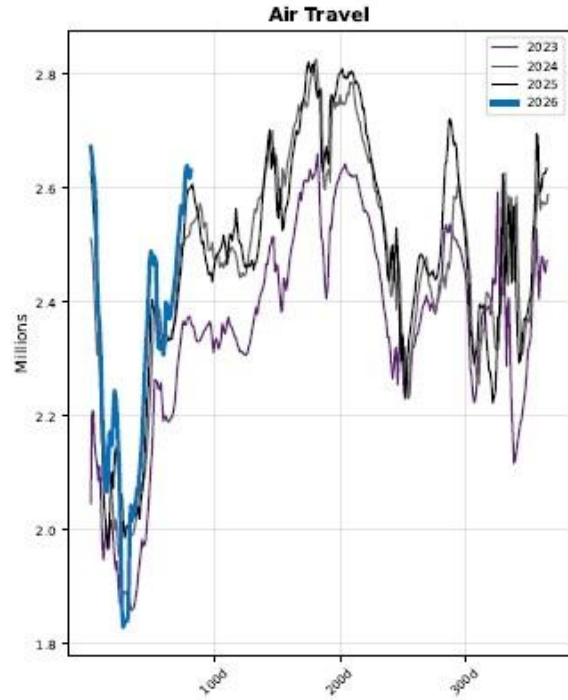
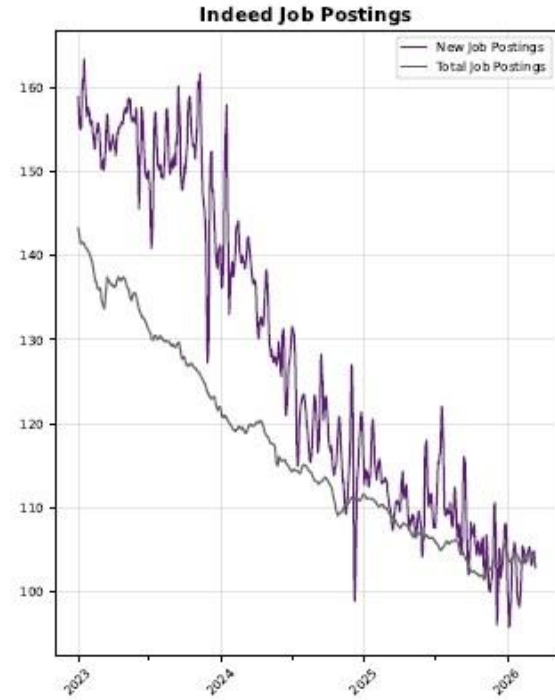
PAST CYCLES (RANGE)  
  PAST CYCLES (MEAN)  
  CURRENT CYCLE

Past 7 cycles excluding Covid-19 period

### High Frequency Economic Dashboard



## High Frequency Economic Dashboard



**DISCLAIMER:** This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive.

Copyright © RenMac 2026. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac. No portion of this material, including data, analysis, or commentary, may be input into, uploaded to, or otherwise used in connection with any artificial intelligence (AI) system, machine learning model, large language model (LLM), chatbot, or automated content generation platform, including but

not limited to ChatGPT, Claude, Gemini, or similar tools, without the prior express written consent of Renaissance Macro Research, LLC. Any such use is strictly prohibited and constitutes a violation of copyright and confidentiality protections.