

Thawing in Housing?

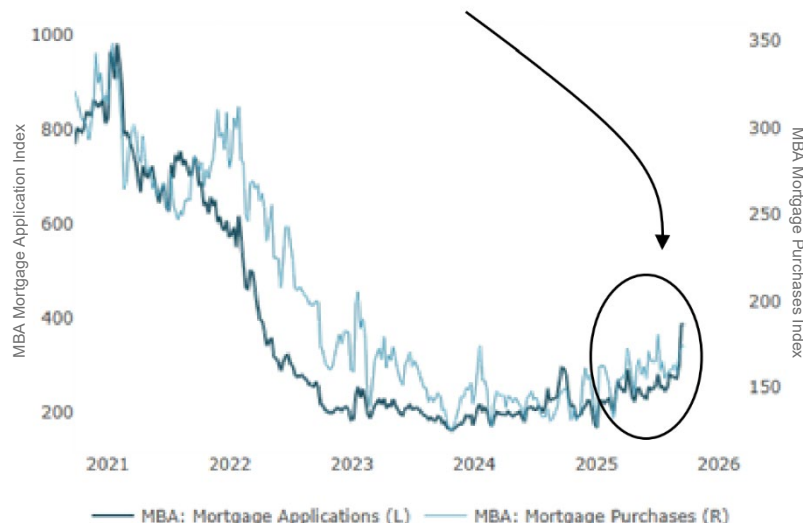
The Lead | October 2025

Mortgage Rates Have Fallen to the Lowest Levels in Years



ILM3NAVG Index (Bankrate.com U.S. Home Mortgage 30-Year Fixed National Average) mortgage rates. Daily rates from 09.22.2024-09.22.2025. Data is as of 09.24.2025. Source: Piper Sandler Companies (PSC) Macro

Uptick in Mortgage Applications



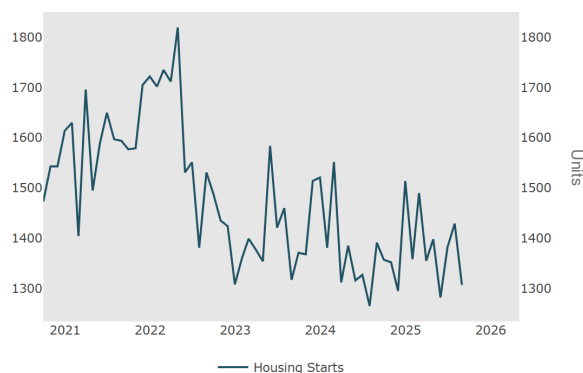
Data as of 10.01.2025. Source: PSC Macro

Where I'm located in the Commonwealth of Virginia, there appears to be a bounce in the step of University of Virginia alumni as their football team is entering the Associated Press Top 25 for the first time since 2019. It took a savvy fan to identify the potential for their favorite team to garner this impressive distinction. In a similar vein, our investment team has discussed what areas of the market appear to be overlooked and may have the ability to distinguish themselves. As with football teams that transition to greater recognition due to performance on the field, potential investments that may currently have low expectations and corresponding valuations have the potential to distinguish themselves in the market.

As active managers, we seek to combine our investment process that seeks out value opportunities with the potential for improving earnings growth through strengthening fundamentals. An area that has slowed dramatically, been in an "Ice Age" of sorts, has been the U.S. housing industry, where the increase in mortgage rates and challenged affordability has greatly lowered activity.

We find it interesting how this "Ice Age" in housing may be thawing, as seen in the charts above. Mortgage rates have started to decline modestly with the resumption in the Federal Reserve Funds' rate cuts this past month, leading to the uptick in mortgage applications. Although home buying demand may be percolating, builders appear to be cautious as noted by housing starts at close to historic lows.

Housing Starts



Source: PSC Macro

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Charts are for illustrative purposes only.



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There was a Sharp Spike in New Home Sales (August)

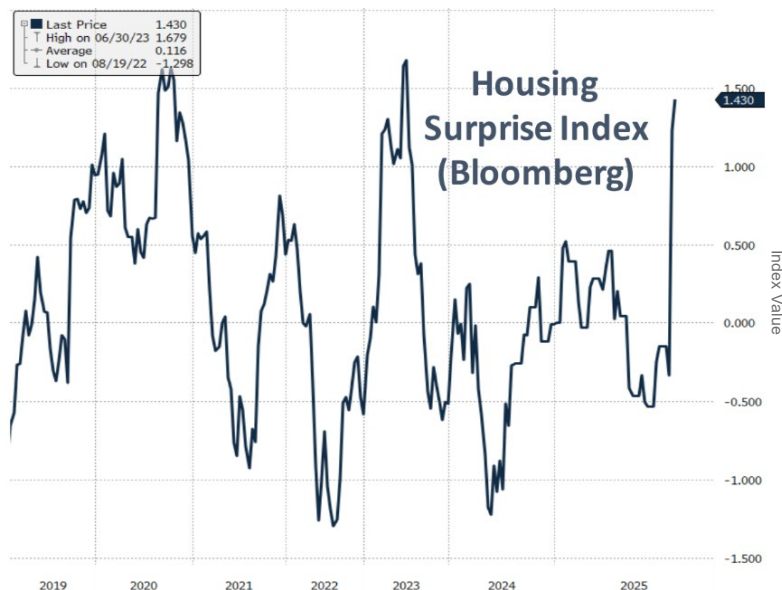


NHSLTOT Index (U.S. New One Family Houses Sold Annual Total Seasonally Adjusted Annual Rate (SAAR)) mortgage rates monthly from 09.28.2010-09.24.2025. Data is as of 09.24.2025.

Source: PSC Macro.

While there have been fits and starts in terms of housing starts over the past several years, the industry has arguably been undersupplied since 2008. According to national home builder Toll Brothers, from 2008 to 2024 in the U.S., average annual housing starts averaged 1.1 million per year versus 1.4 million or more from 1970 to 2007. With first time buyers, notably millennials entering prime household formation years, limited new construction may have left the

Housing Surprise Index at 27-Month Highs



ECSUHOUS Index (Bloomberg ECO U.S. Housing and Real Estate Market Surprise Index) 5bg Housing Surprise Weekly 10.20.2011-09.29.2025. Data is as of 09.29.2025. Source: PSC Macro.

nation in a structural supply and demand imbalance. Could lower rates improve affordability and new home sales? Lower rates may also encourage greater investment from current owners to invest in repairing and remodeling their homes. Housing may be an area of emerging thematic optionality for investors.

As always, thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is Co-Portfolio Manager of the Equity Income strategy. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation and served as President of CFA Society Virginia from 2012-2013.



Important Information

Disclosures

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The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The ILM3NAVG Index measures index performance for Bankrate.com U.S. Home Mortgage 30-Year Fixed National Avg (ILM3NAVG) including value, chart, profile & other market data.

The NHSLTOT Index (U.S. New One Family Houses Sold Annual Total SAAR) refers to a key economic indicator of new home sales released by the Census Bureau and HUD.

The ECSUHOUS Index refers to economic data and performance within the U.S. housing market and tracks how closely recent economic data releases align with economists' consensus forecasts.

Technical Terms: **Federal Funds (fed funds)** are excess reserves that commercial banks deposit at regional Federal Reserve banks which can then be lent to other commercial banks. **Seasonally Adjusted Annual Rate (SAAR)** is a statistical adjustment made to data like home sales or permits to account for predictable, recurring seasonal patterns throughout the year. (Technical definitions are sourced from Corporate Finance Institute and Investopedia.)

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Since we began publishing The Lead in 2015, our primary purpose has been to communicate our investment philosophy and process as an investment advisor in the context of changing markets. In creating portfolios that differ from our benchmarks by focusing on characteristics that have a long term history of attractive relative returns according to Ned Davis Research, the portfolios are different from the benchmarks and as a result there can be periods where results differ including below benchmark performance. Since strategies are oriented toward the long term characteristics, if those characteristics are out of favor over a period of time, the given strategy's performance could be challenged in terms of relative performance. While Sterling believes active professional investment management that employs a consistent process with a long term orientation and aligned with client interests offers benefits, management fees to support the active approach can be higher than certain alternatives. When hiring an investment manager we believe it is important to monitor the investment risks taken including sector concentrations, portfolio turnover, and the impacts of dividend policy changes.