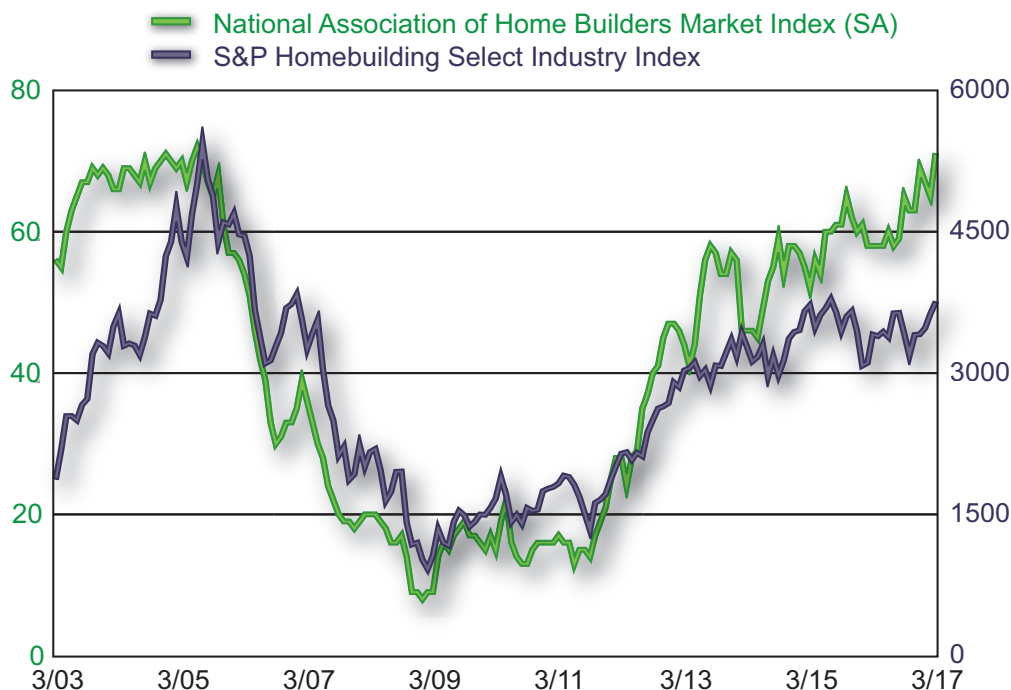


The Rebound in Homebuilder Sentiment has Outpaced the Rebound in Homebuilder Stocks

**National Association of Home Builders Market Index (SA)
vs. S&P Homebuilding Select Industry Index**



Source: Bloomberg. Monthly data points from March 2003 to March 2017.
Past performance is no guarantee of future results.

View from the Observation Deck

1. Today's post shows that the homebuilding industry has essentially recovered from its downturn with respect to homebuilder sentiment, but valuation levels of homebuilder stocks still reflect a deep discount to their peak in 2005.
2. The National Association of Home Builders Market Index (SA) measures builder sentiment. An index reading above 50 indicates that sentiment is positive.
3. As of 3/31/17, the index level stood at 71. It has been above 50 for 33 consecutive months. Since 3/31/03, the highest reading has been 72, which was posted in June 2005.
4. The S&P Homebuilding Select Industry Index, which includes builders and companies that sell building and other home-related products, stood 32.31% below its all-time high (7/20/05) at the close of March 2017.
5. In Q1'17, the S&P Homebuilding Select Industry Index posted a total return of 10.26%, a nice start to the year when you compare it to 2016's full-year total return of 0.12%, according to Bloomberg.
6. Bloomberg's 2017 and 2018 estimated price-to-earnings (P/E) ratios on the S&P Homebuilding Select Industry Index were 14.85 and 13.31, respectively, as of 4/26/17. Both are well below the index's three-year average P/E of 17.64 as of 4/26/17.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P Homebuilding Select Industry Index provides investors with an equity benchmark for U.S. traded Homebuilding-related securities. The National Association of Home Builders Market Index (SA) tracks sentiment among participants in the housing industry. A reading above 50 indicates that builders are positive on the climate.