This Homebuilder Index Is Still Well Below Its All-Time High

View from the Observation Deck

1. Investors are likely aware that most major U.S. equity indices have been setting numerous record highs over the past year of the current bull market. There are, however, niches of the market that have lagged the broader stock indices.

2. Today's post shows that while valuation levels of homebuilder stocks are up sharply from their bear market lows in 2009, on average, valuations still reflect a notable discount to their peak, set in July 2005 (see chart).

3. Bloomberg’s 2017 and 2018 estimated year-end price-to-earnings (P/E) ratios on the S&P Homebuilding Select Industry Index were 15.10 and 13.35, respectively, as of 9/20/17. Both are well below the index’s three-year average P/E of 17.34.

4. For comparative purposes, the 2017 and 2018 estimated year-end P/E ratios on the S&P 500 Index were 19.21 and 17.31, respectively, as of 9/20/17. Its three-year average P/E was 19.49.

5. Year-to-date through 9/20/17, the S&P Homebuilding Select Industry Index posted a total return of 14.21%, compared to a gain of 13.69% for the S&P 500 Index, according to Bloomberg.

6. The two recent major hurricanes that struck the U.S., Harvey (Texas) and Irma (Florida), did significant damage to residential properties. The Texas Department of Public Safety estimates that more than 185,000 homes were damaged by Harvey and 9,000 homes were destroyed, according to The Guardian.

7. Brian Wesbury, Chief Economist at First Trust Advisors L.P., believes that storm-related rebuilding plus the solid fundamentals of the housing market should push starts to new recovery highs by early next year.

8. In August, housing starts stood at a 1.180 million annual rate, according to the U.S. Census Bureau. Based on population growth and “scrappage,” housing starts should eventually rise to about 1.5 million units per year, according to Wesbury.

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 S&P 500 is a capitalization-weighted index comprised of 500 stocks (currently 505) used to measure large-cap U.S. stock market performance.

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