

THE HOUSING ECONOMY: AFTER THE BOOM

THE MONTHLY RESEARCH CONFERENCE CALL

MODERATOR:

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Director of Research

Wednesday, June 2, 2021

11:00 a.m. ET

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■ **The Housing Economy: After the Boom**

- Jim Kelleher, CFA, Director of Research
- Senior Analyst Chris Graja, CFA
- Senior Analyst Kevin Heal
- Securities Analyst Angus Kelleher-Ferguson
- Argus President John Eade

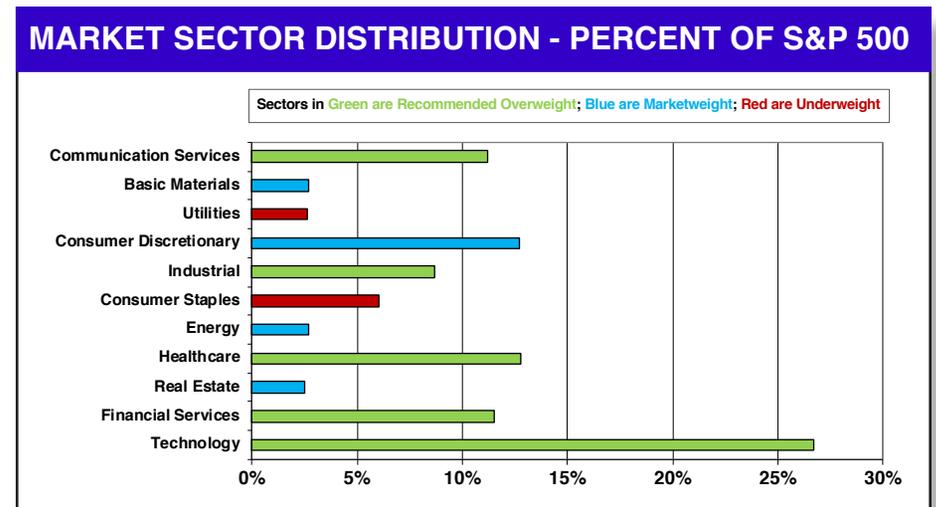
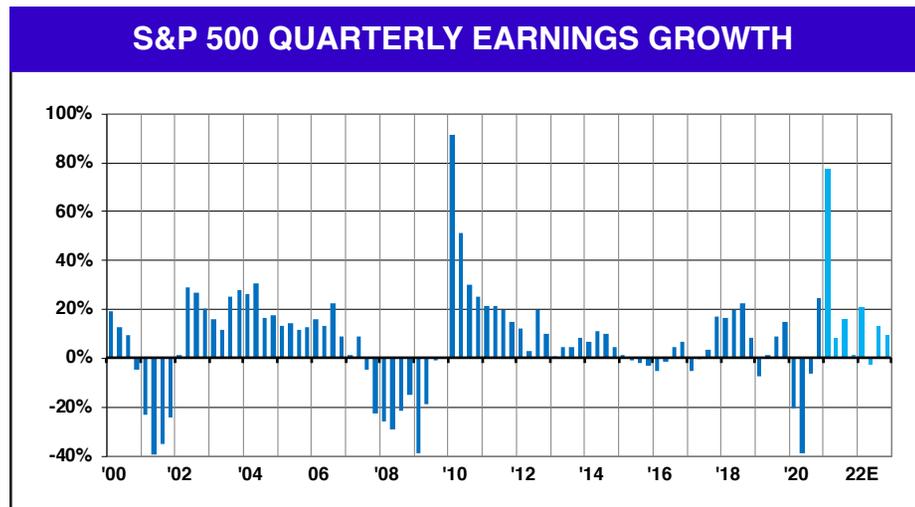
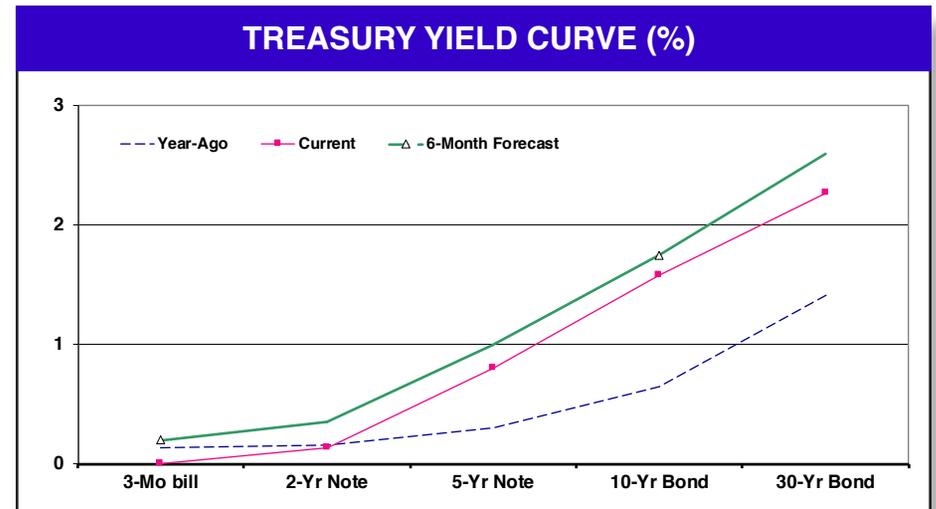
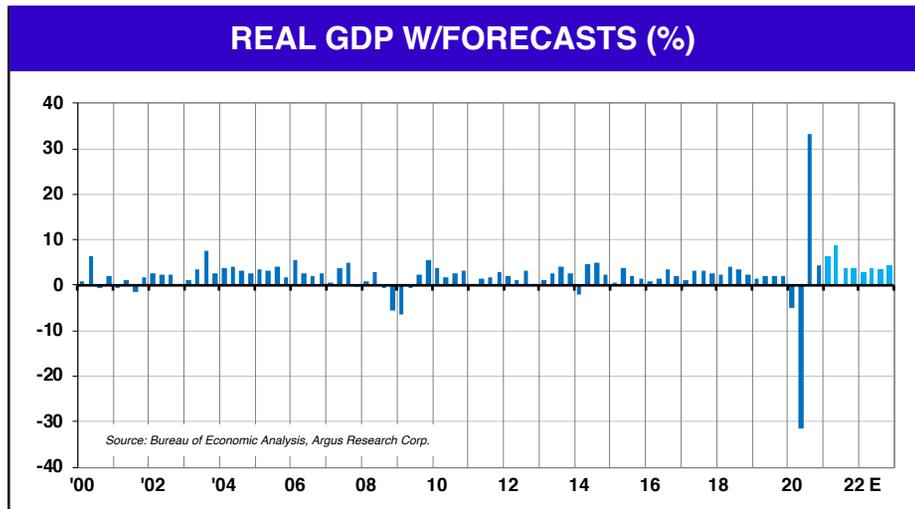
■ **Argus Quick Notes**

- Activist Stocks
- Companies Raising Guidance
- Increased Target Prices
- Innovative Companies
- Find these on the homepage of our website

■ **Argus Dividend Growth Portfolio**

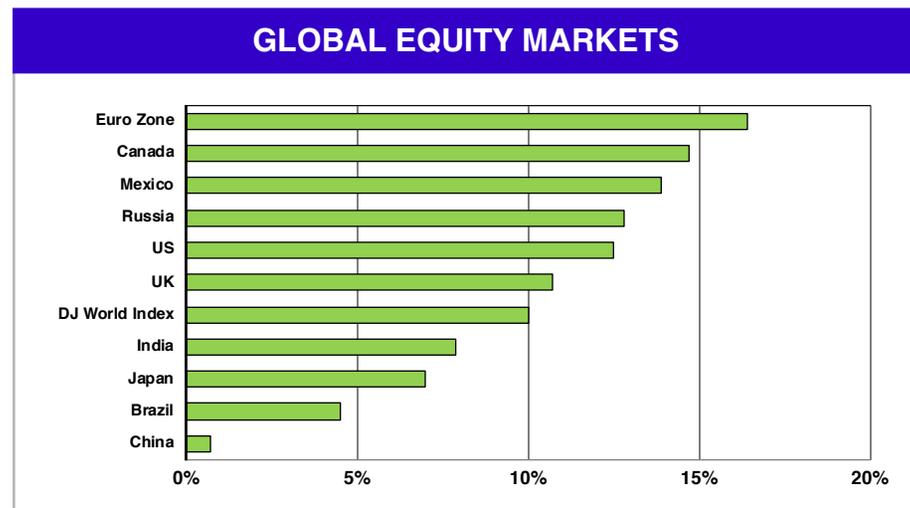
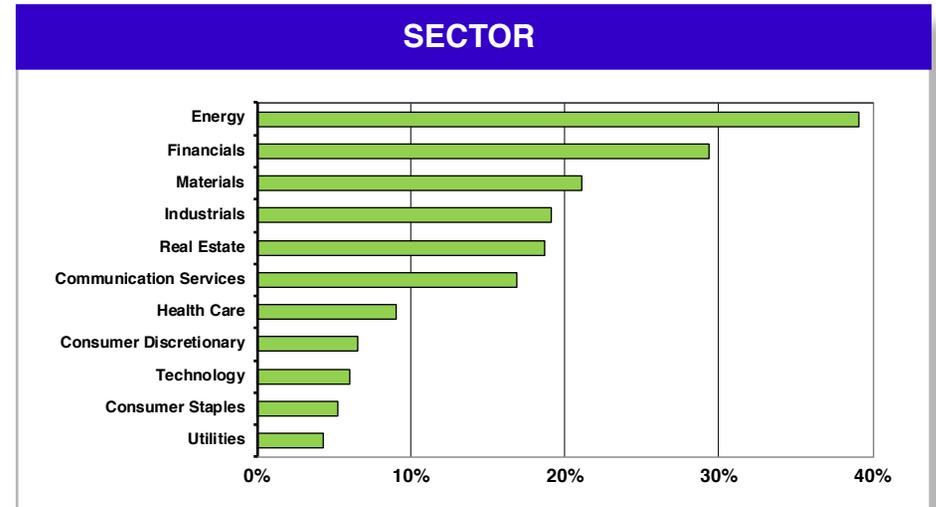
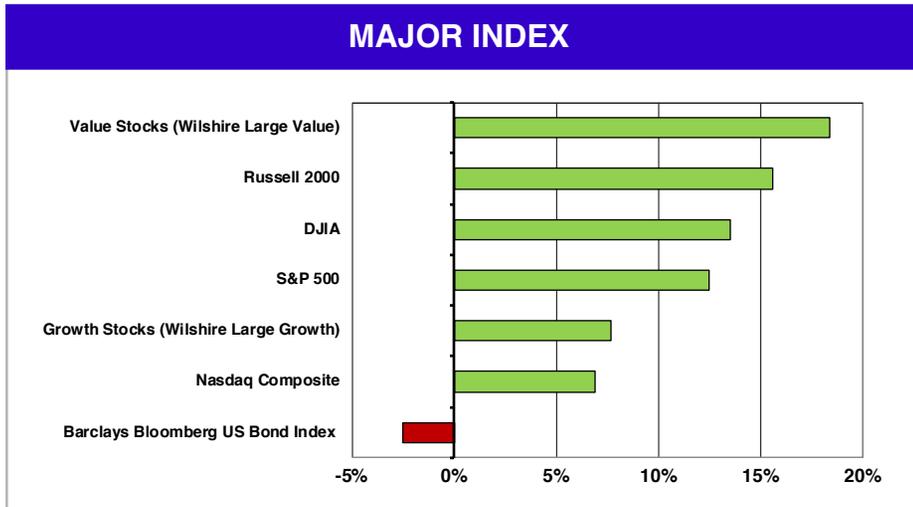
- Dividend Income is an important element of total return
- 40% of total return in up markets, 80%-plus in down markets
- Dividend growth a sign of strong cash flow generation
- Find it under Portfolio Strategy, Theme Portfolios

MACRO FORECASTS



MARKET PERFORMANCE

DATA AS APRIL 30, 2021



- **Rising home prices are straining affordability, particularly for first-time buyers.**
- **Lumber and materials inflation could hurt affordability or builders' margins.**
- **Vaccines and reopening of the economy may shift spending away from “home.”**
- **Economic recovery and a rising deficit could raise benchmark Treasury rates.**
- **Mortgage rates could also move higher to the detriment of home prices.**
- **Rents will adjust to provide a more compelling option to buying for some households.**
- **Some people are already finding that they miss the convenience and amenities of cities.**

- **Tight supply of new and existing homes from years of underproduction.**
- **Millennials are purchasing their first homes and embracing home improvement.**
- **Mortgage rates remain very low by historical standards.**
- **Rising home prices support improvement spending on an aging base of U.S. homes.**
- **Even after COVID more people will be working from home and modifying their space.**
- **“Investing in Nesting” – An appreciation of elbow room, gardens, and multi-generation living.**
- **Innovation is making it easier for Boomers to “Age in Place.”**

■ Home Depot (HD)

- \$365 target price.

■ Lowe's (LOW)

- \$240 target price.

■ Masco (MAS)

- \$74 target price.

■ Lennar (LEN)

- \$115 target price.

■ D.R. Horton (DHI)

- \$110 target price.

■ Toll Brothers (TOL)

- \$75 target price.

■ Williams-Sonoma (WSM)

- \$210 target price.

MORTGAGE RATES

- Mortgage rates remain around 3%, peaking at 3.65% at the onset of the pandemic and reaching a low of 2.70% in 4Q 2020.
- Spread between the U.S. Treasury 10 year and 30 year fixed mortgages is usually around 175 basis points. Had peaked in March 2020 at approximately 300 basis points and now currently stands at 135 basis points, the tightest spread in recent history.
- Treasury and mortgage rates being kept artificially lower by additional FED purchases. FED adds \$80 billion in USTs and \$40 billion in MBS each month in addition to replacing maturing securities and mortgage prepayments.



- **Technology Innovations have allowed mortgage originators to process loans with greater efficiency, saving consumers time and money.**
- **Higher rates will slow down refinancing but demand for new originations is expected to remain strong through 2022.**
- **Will see continued margin compression with continued FED buying and competitive pressures for market share.**
- **Volumes are expected to remain healthy through 2022.**
- **Jumbo loans are more readily available as eventual securities buyers are more comfortable with the more stringent underwriting standards.**
- **If the curve continues to steepen may see more ARM product available.**
- **If rates remain stable or head higher will benefit those with mortgage servicing platforms.**

Mortgage REIT

■ **Annaly Capital Management (NLY)**

- Uses leverage to purchase agency backed securities
- Dividend yield 9.6%.
- \$10 target price.

Mortgage Originator

■ **United Wholesale (UWMC)**

- Initiated coverage last week. Largest wholesale mortgage lender
- Dividend yield 4.7%.
- \$10 target price.

Mortgage Technology

■ **Intercontinental Exchange (ICE)**

- Purchased Ellie Mae in August 2020.
- Provides the back end processing for almost all U.S. mortgages.
- \$133 target price.

■ **Weyerhaeuser Co. (WY: BUY)**

- **Weyerhaeuser is the leading timberlands REIT.**
- **Business lines span the three Ls: Land, Logs, and Lumber.**
- **The Lumber business line has been a beneficiary of high lumber prices.**
- **Price target is \$51.**

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