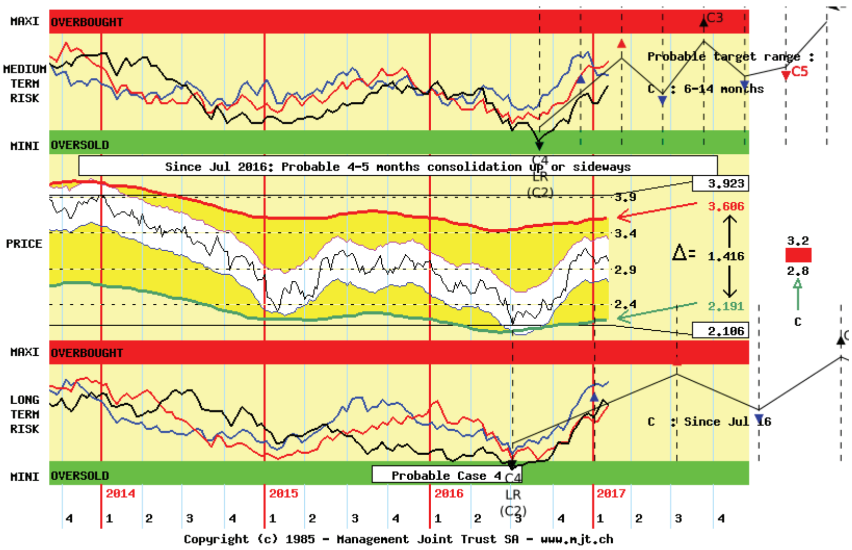
Housing and Real Estate may make a temporary comeback

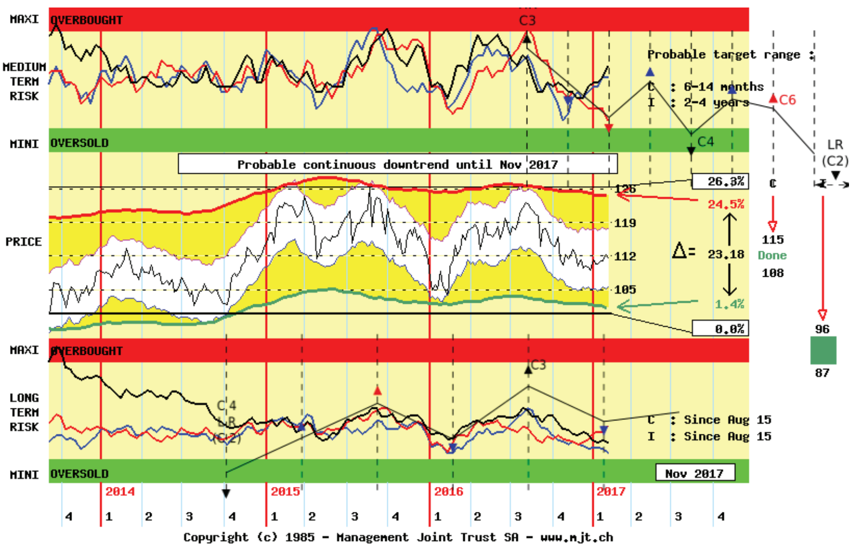
For both these sectors, Interest rates are like a time bomb, as the cycle matures and rates move up, they usually start to underperform. Shorter term, over the next couple of months, even a mild consolidation in interest rates could offer temporary relief.

US 30 Year Treasury Yields
(Weekly graph or the perspective over the next 2 to 4 quarters)



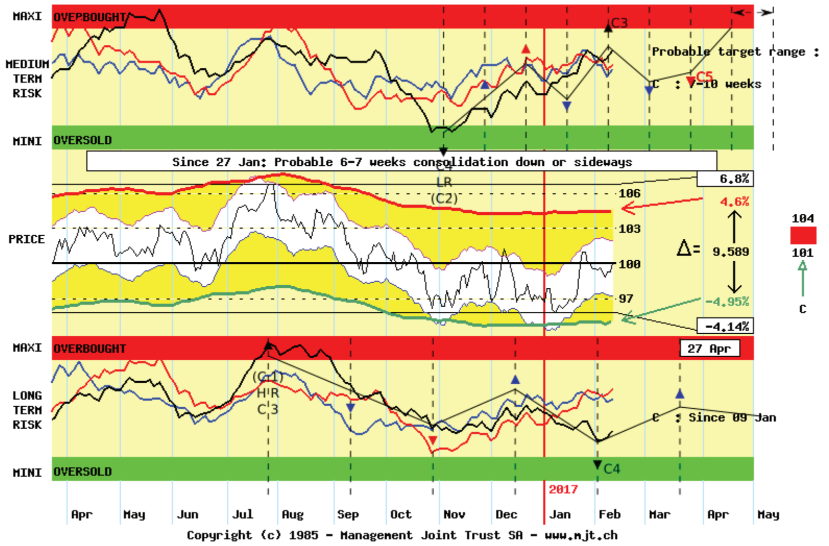
US 30 year yields have reached our corrective targets up (right-hand scale). Typically, such levels would imply some resistance and possibly several months of consolidation. Following that, both our model projections (upper and lower rectangles) would suggest that from mid Q2 2017, long term rates resume their uptrend. Possible targets we can calculate using our historic volatility measure (delta = 1.416) could reach above 4% towards late 2017/ early 2018.

S&P Household Durables sector vs the S&P500 Index
(Weekly graph or the perspective over the next 2 to 4 quarters)



(Weekly graph or the perspective over the next 2 to 4 quarters): Housing and Homebuilders are part of the Consumer Discretionary sector and the Household Durables sub-sector. They are typically early cycle performers. As with other Consumer Discretionary, Household Durables performed strongly between mid 2014 and mid 2015. In our view, that's when our current business cycle may have started to turn up. More recently, in H2 2016, Household Durables corrected down with rising interest rates. On both our oscillator series (upper and lower rectangles), however, they may have reached an intermediate bottom. We would now expect them to follow a mild correction up towards mid Q2 2017, on a relative basis. After that, the downtrend vs the S&P500 Index should resume until late 2017 at least.

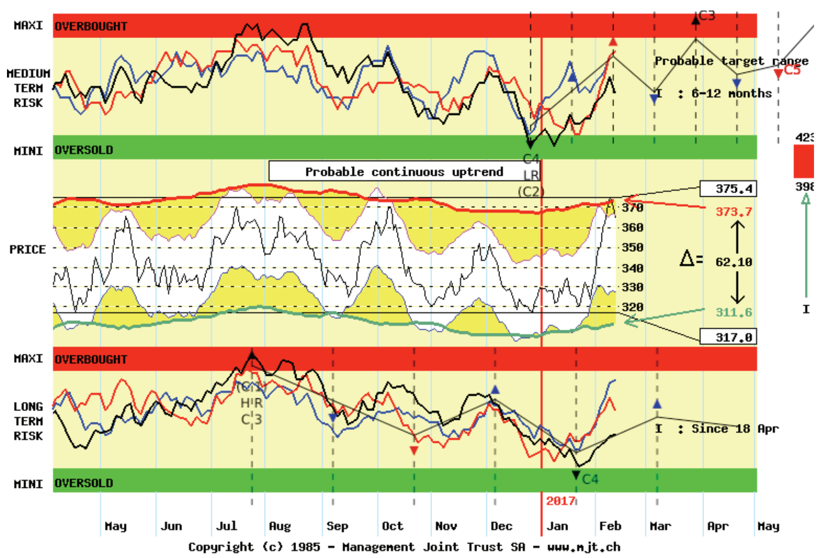
The PHLX Housing Sector Index vs the S&P500 Index: (Daily graph or the perspective of the next 2 to 3 months)



Looking more specifically at Housing since July 2016, the sector has followed a sequence down vs the S&P500 . It has now reached a Case 4 bottom situation on our long term oscillators (lower rectangle). Such situations usually result in 2 to 3 months of consolidation up. As shown on our medium term oscillators (upper rectangle), the uptrend could extend into late April / early May.

3M Lumber Futures – (Daily graph or the perspective over the next 2 to 3 months)

As a further confirmation, we look at Lumber, which is often considered a leading indicator to the Housing sector. The Daily graph is very similar to the Housing one above with the same sequence coming through our longer term oscillator series (lower rectangle). The sequence on our medium term oscillators (upper rectangle) may extend even further into mid year.

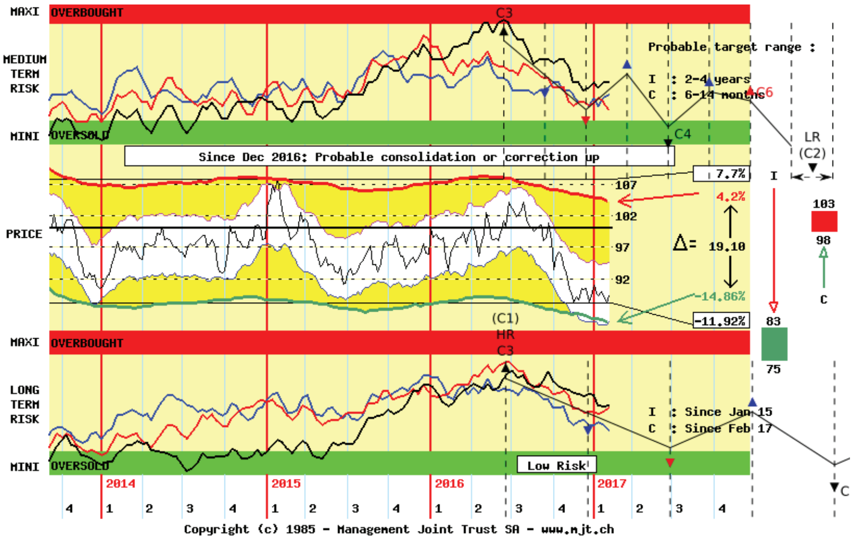


Concluding remarks:

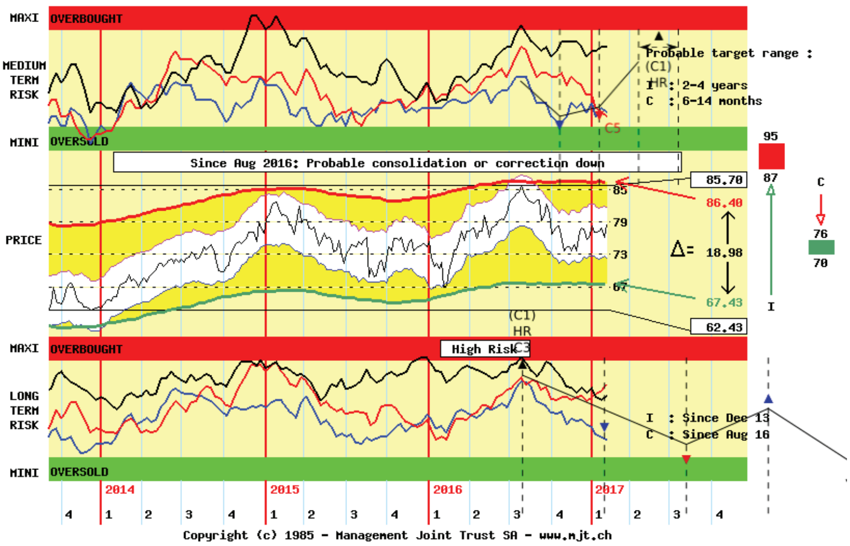
As mentioned above in this document, we expect that over the next few months, cyclicals could retrace some of their 2016 gains. At the same time Defensives still look quite weak. Early cycle movers such as Consumer Discretionary and Housing may offer a temporary alternative and outperform on a relative basis (weaker, yet similar to the case around Growth and Technology).

IYR – iShares US Real Estate ETF vs the S&P500 Index
(Weekly graph or the perspective over the next 2 to 4 quarters)

On a relative basis, Real Estate is clearly a defensive sector. It is also strongly and negatively influenced by the rising trend in interest rates. On our medium term oscillators (upper rectangle), it could consolidate up a bit towards the end of Q1 2017, before moving lower again on our long term oscillators towards mid 2017 and then 2018 (lower rectangle).



IYR – iShares US real estate ETF
(Weekly graph or the perpective over the next 2 to 4 quarters)



On an absolute basis, the rebound may last a while longer, possibly into mid Q2 2017 on our medium term oscillators (upper rectangle). It is interesting to note that during the sell-off to November 2016, the support of our corrective targets down has held (76 – 70, right hand scale). Theoretically, although unlikely given the High Risk situation which materialized last July, new highs cannot be excluded as shown by our 'I' Impulsive targets up.

Concluding remark:

Although quite weak on a relative basis, Real Estate may surprise in absolute terms during Q2 2017, a situation that could provide a timely exit opportunity.