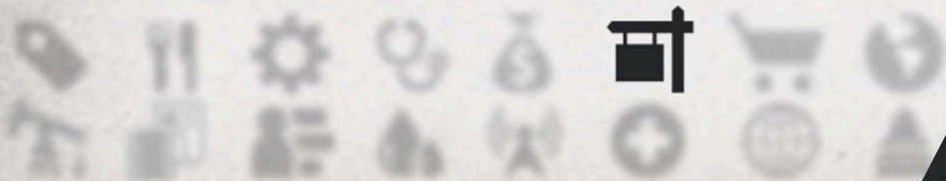


SECTOR SPOTLIGHT

HOUSING



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HOUSING INTRODUCTION

HEDGEYE HOUSING COMPENDIUM

					TRADE/TREND/TAIL			Rate of Change		
					Short Term	Intmed Term	Long Term	Short Term	Intmed Term	Long Term
Most Recent Data										
		Period	Latest Data	Last Price	Prior Period	3M Ago	12M Avg	MoM Chg	3M Chg	vs 12M Avg
Home Prices	Case-Shiller 20 City HPI YoY NSA	Dec-16	Better	5.6%	5.2%	4.9%	5.3%	0.4%	0.6%	0.3%
	Case-Shiller 20 City HPI MoM SA	Dec-16	Better	0.9%	0.9%	0.6%	0.5%	0.0%	0.4%	0.5%
	Corelogic HPI - NSA YoY % Chg	Dec-16	Better	7.2%	6.5%	5.3%	5.6%	0.7%	1.9%	1.6%
	Corelogic (Ex-Dist.) HPI - NSA YoY % Chg	Dec-16	Better	6.3%	5.6%	4.6%	4.8%	0.7%	1.7%	1.5%
	FHFA HPI - NSA YoY % Chg	Dec-16	Better	6.0%	6.0%	6.2%	6.0%	0.1%	-0.2%	0.1%
Supply & Demand: Existing	MBA Purchase Apps Index (Mo. Ave)	Feb-17	Worse	224.6	236.0	218.7	225.9	-4.9%	2.7%	-0.6%
	NAR: Pending Home Sales (Index)	Jan-17	Worse	106.4	109.5	110.0	109.6	-2.8%	-3.3%	-2.9%
	NAR: Existing Home Sales (SAAR)	Jan-17	Better	5.69	5.49	5.57	5.46	3.6%	2.2%	4.3%
	NAR: Existing Home Inv. (millions units)	Jan-17	Worse	1.69	1.65	2.01	1.95	2.4%	-15.9%	-13.4%
	NAR: Existing Home Inv: Months Supply	Jan-17	Better	3.56	3.61	4.33	4.30	-1.2%	-17.7%	-17.0%
Supply & Demand: New Homes	NAHB: HMI	Feb-17	Worse	65	67	63	62	-2.0	2.0	0.1
	Census: Total Starts	Jan-17	Better	1246	1226	1340	1175	1.6%	-7.0%	6.0%
	Census: SF Starts	Jan-17	Better	823	795	863	786	3.5%	-4.6%	4.7%
	Census: Total Permits	Jan-17	Better	1285	1210	1260	1180	6.2%	2.0%	8.9%
	Census: SF Permits	Jan-17	Worse	808	817	774	751	-1.1%	4.4%	7.6%
	Resi Construction Spending (in Billions)	Nov-16	Better	470	465	463	457	1.0%	1.5%	2.7%
	Census: New Home Sales	Jan-17	Better	555	535	563	560	3.7%	-1.4%	-0.9%
	Census: New Home Inventory (000)	Dec-16	Worse	259	253	246	242	2.4%	5.3%	6.9%
Miscellaneous	Interest Rates (30 Year FRM)	Jan-17	Better	4.31%	4.36%	3.72%	3.90%	0.0%	0.6%	0.4%
	NAR: Affordability Index (Composite)	Dec-16	Worse	162.8	166.8	166.6	165.9	-2.4%	-2.3%	-1.9%
	ITB Price (EOP)	Jan-17	Better	28.19	28.02	26.72	26.96	0.6%	5.5%	4.5%
	XHB Price (EOP)	Jan-17	Worse	34.51	34.60	32.82	33.48	-0.3%	5.1%	3.1%

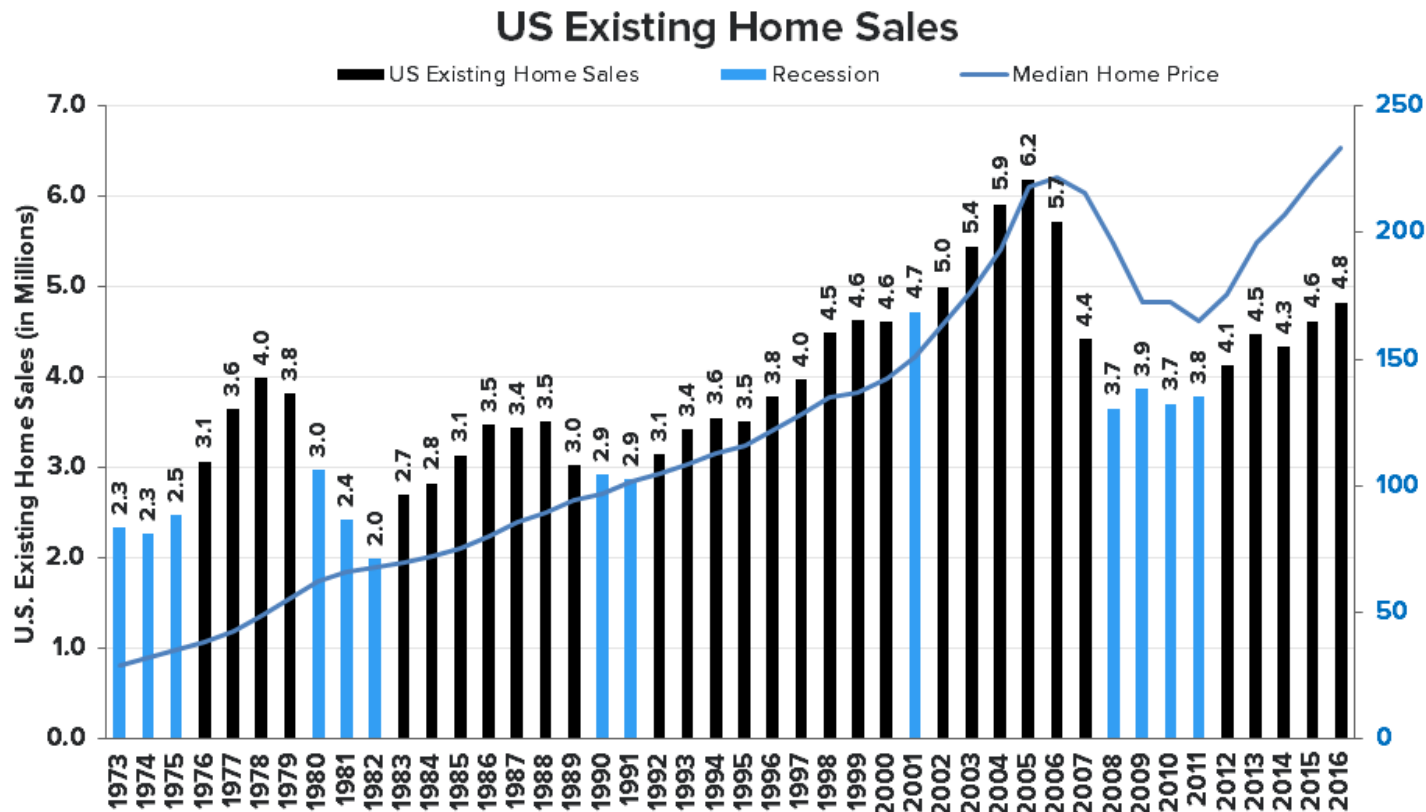
Source: Hedgeye Risk Management, S&P, Corelogic, FHFA, MBA, NAR, NAHB, Census Dept., Factset, Bloomberg

HEDGEYE

HOUSING – THE PICTURE



THE BIG PICTURE – LONGER TERM SETUP



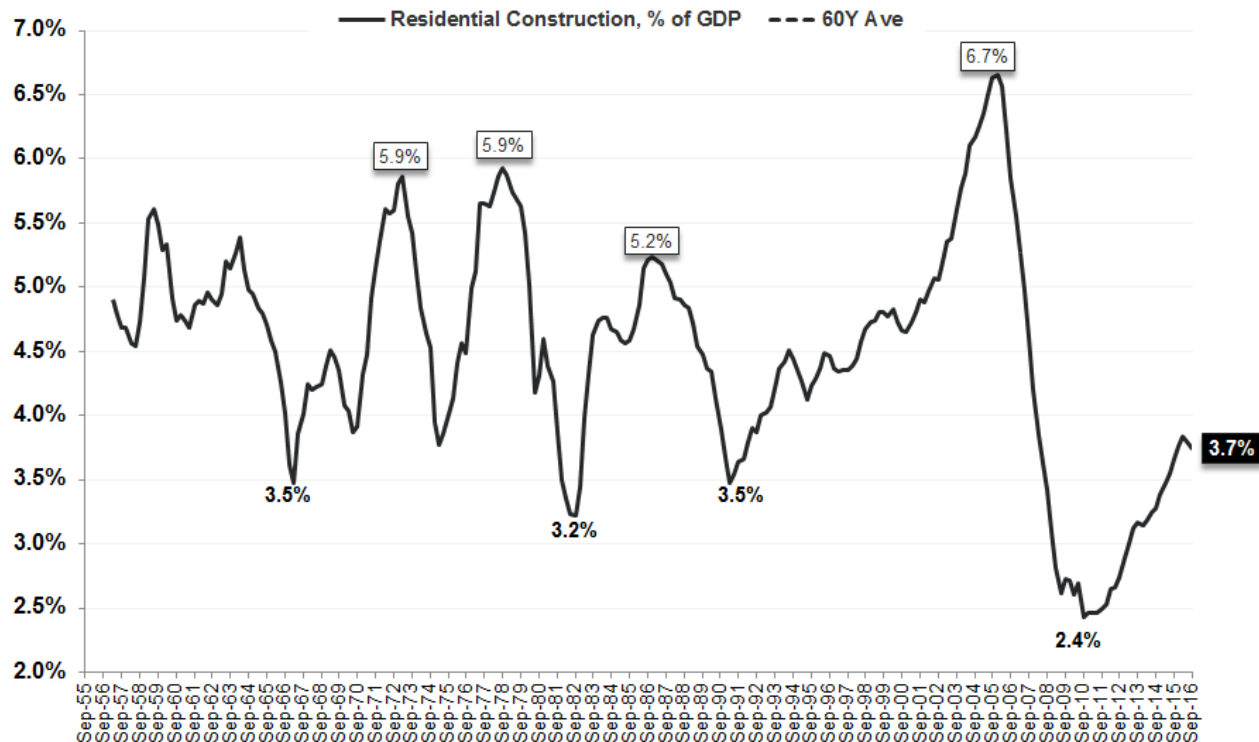
Source: Bloomberg, Freddie Mac, NAR, Hedgeye

© Hedgeye Risk Management

Existing Home sales have risen by ~1mn off the cycle lows, but remain slightly below prior cycle highs.

THE BIG PICTURE – LONGER TERM SETUP

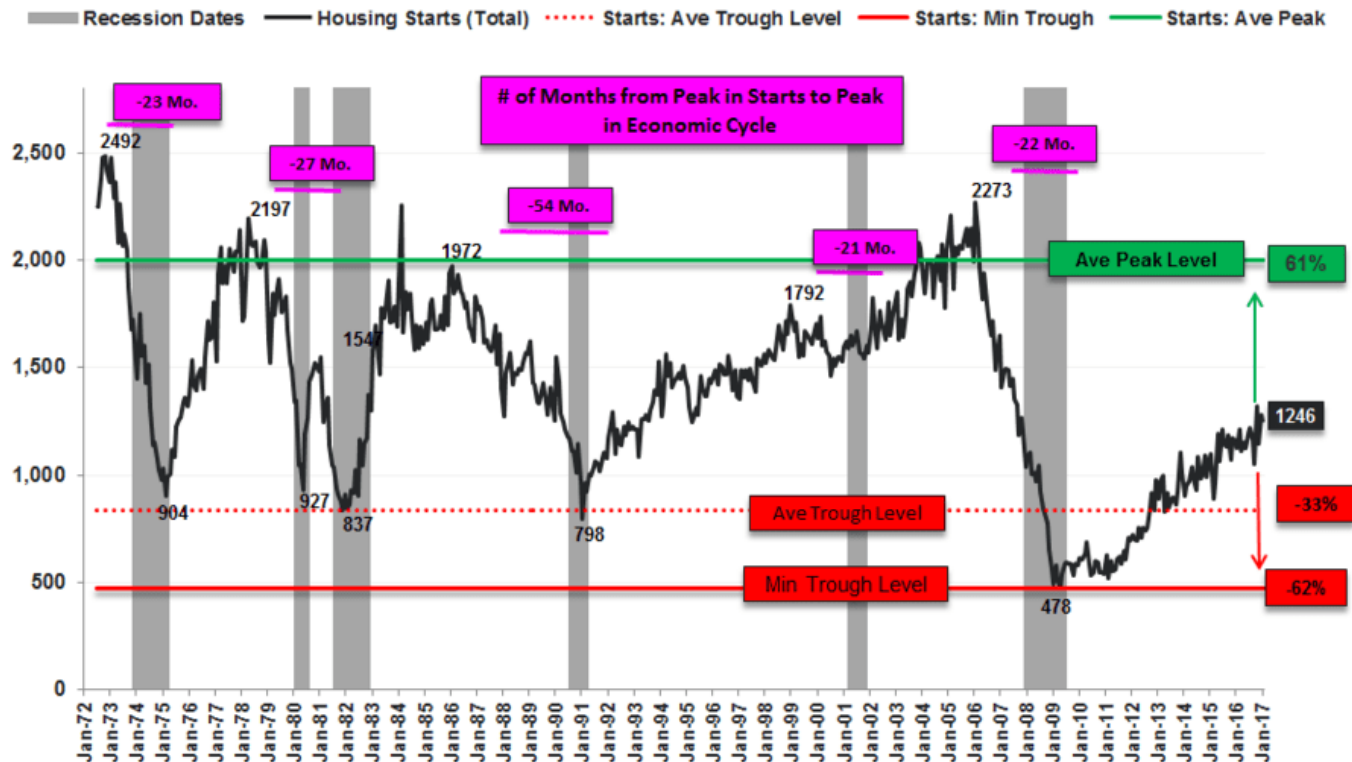
RESIDENTIAL CONSTRUCTION, % OF GDP
NOMINAL DOLLARS



After 5 years of Housing recovery, resi construction remains just 3.7% of GDP – a level more consistent with cycle trough levels observed across the last 65 years.

THE BIG PICTURE – LONGER TERM SETUP

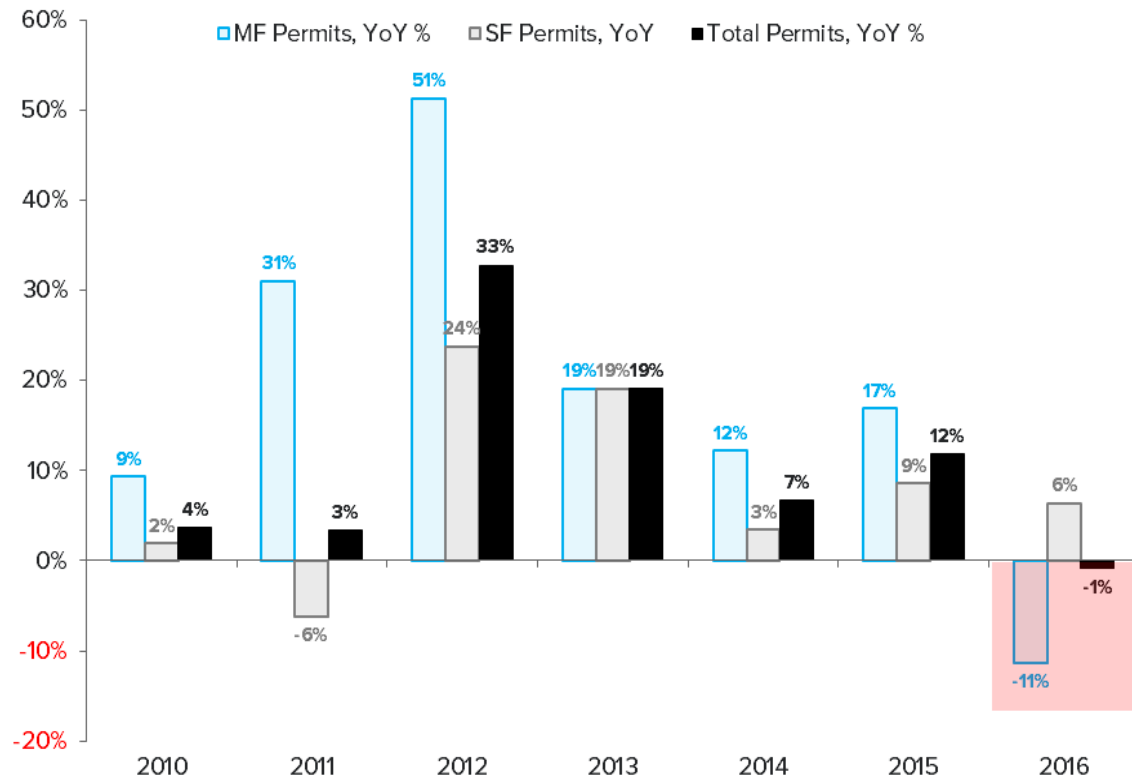
HOUSING STARTS



DATA SOURCE: BLOOMBERG, NBER, CENSUS BUREAU, HRM

THE BIG PICTURE – LONGER TERM SETUP

HOUSING PERMITS



Source: Bloomberg, Census Bureau, Hedgeye

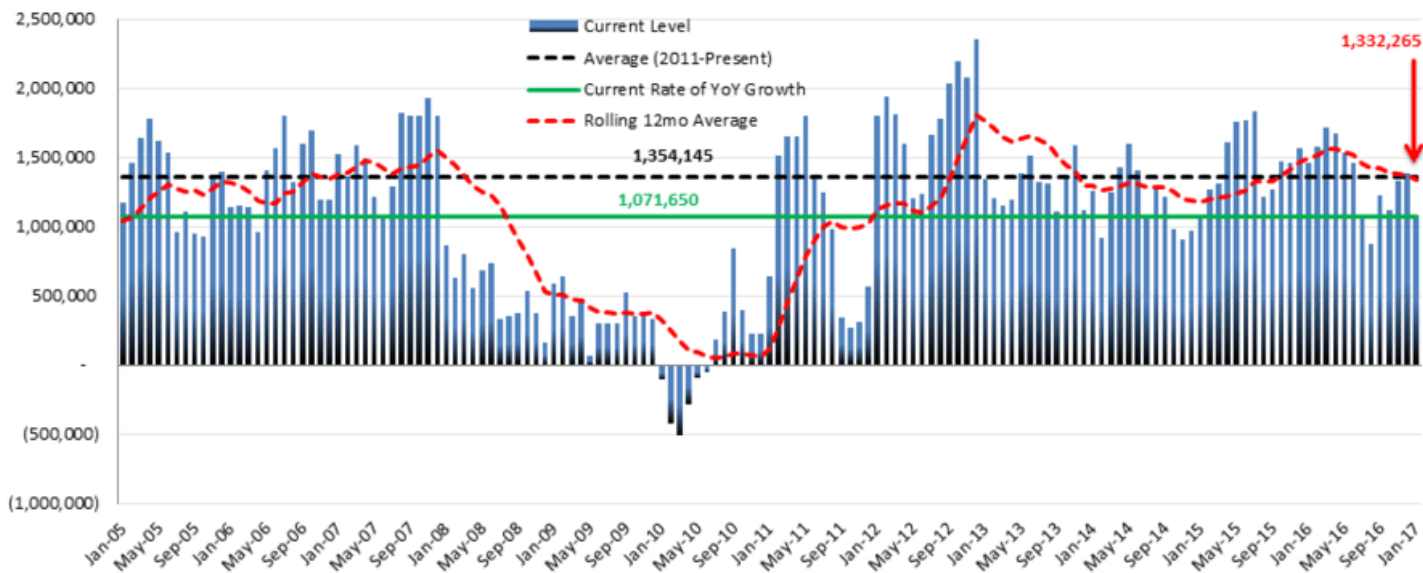
© Hedgeye Risk Management

The trend in Permit activity is similar to that prevailing in Starts with the net of rising SF activity and falling MF activity equating to zero growth in the headline.

With Permit growth running at a negative spread to Starts growth YTD near-term upside in Starts appears constrained.

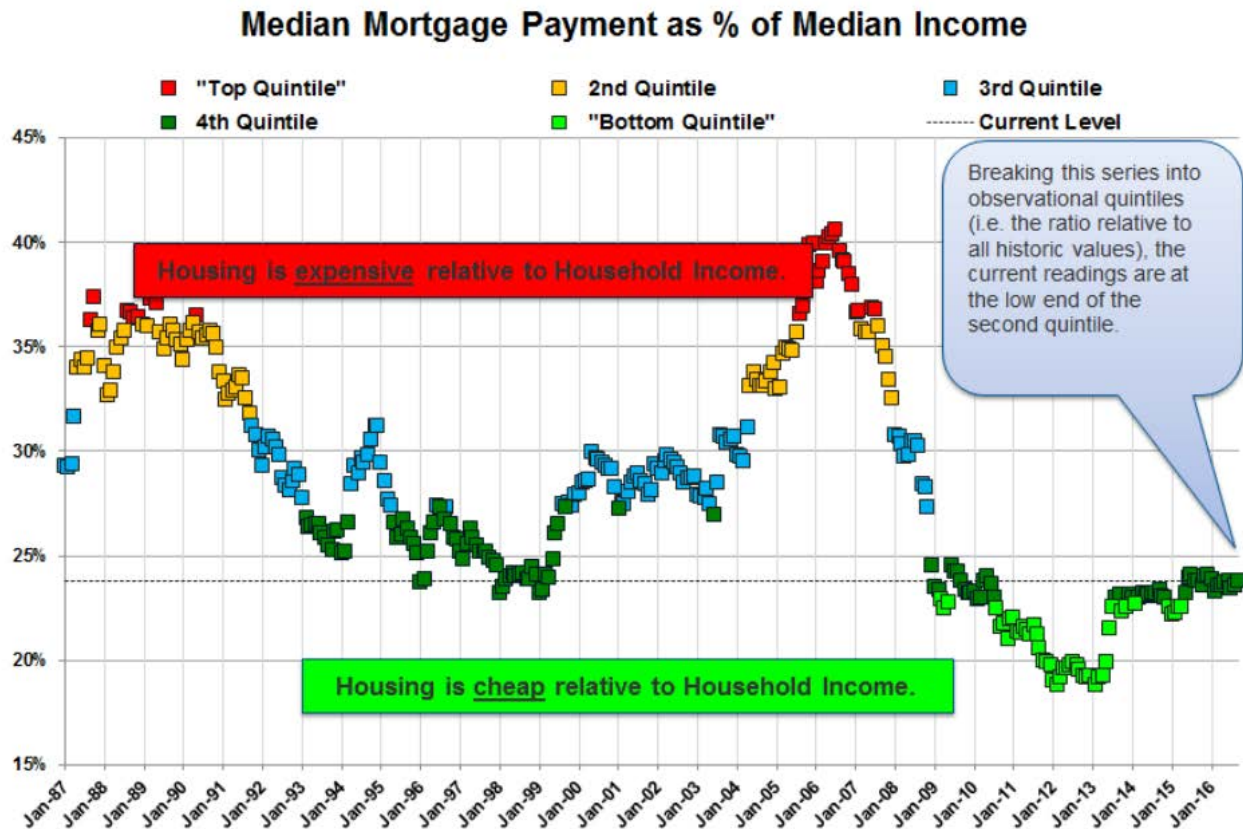
THE BIG PICTURE – LONGER TERM SETUP

YEAR-OVER-YEAR GROWTH IN US HOUSEHOLDS BY MONTH
(2005-PRESENT)



Household formation remains solid, though it has cooled off in the most recent month.

THE BIG PICTURE – LONGER TERM SETUP



DATA SOURCE: CENSUS BUREAU, CASE SHILLER, FREDDIE MAC

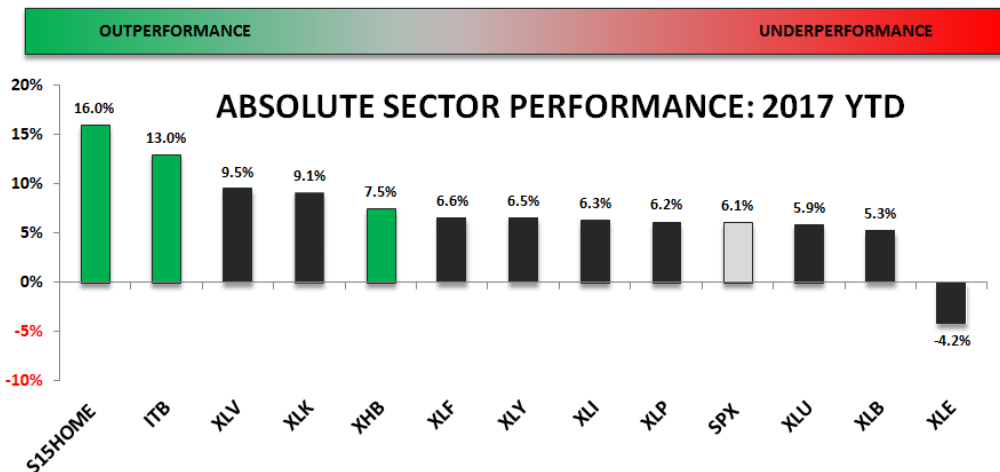
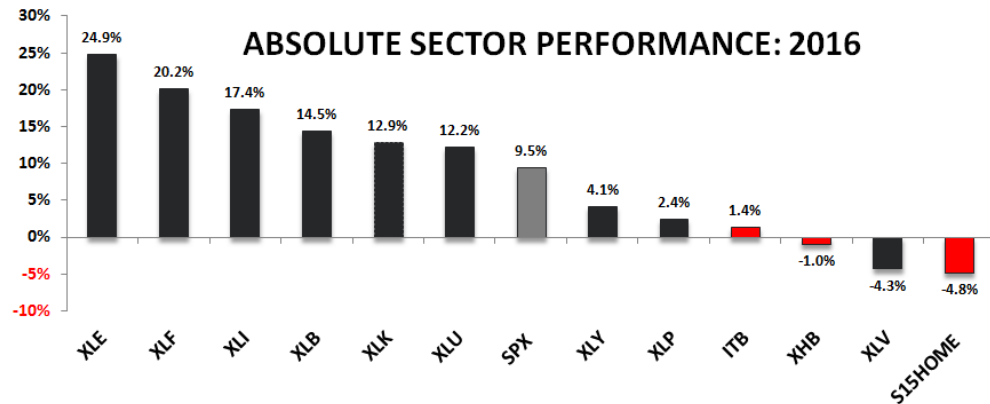
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Affordability remains compelling in the longer-term setup.

HOUSING - ZOOMING IN



PERFORMANCE

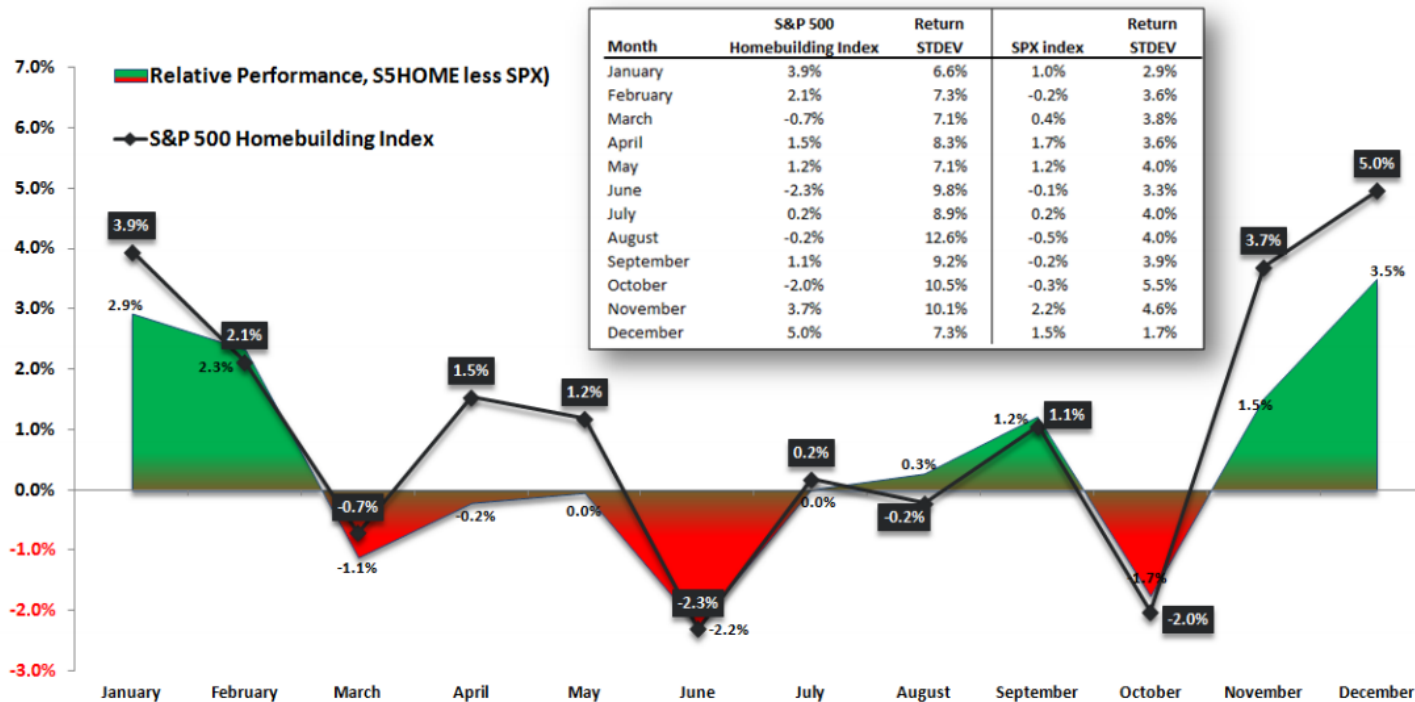


Housing has been among the best performing subsectors since the start of the year, following a 2016 in which it was among the worst.

MAGNIFYING – THE INTERMEDIATE TERM

HOMEBUILDER SEASONALITY

Ave Performance by Month, 1996-2014

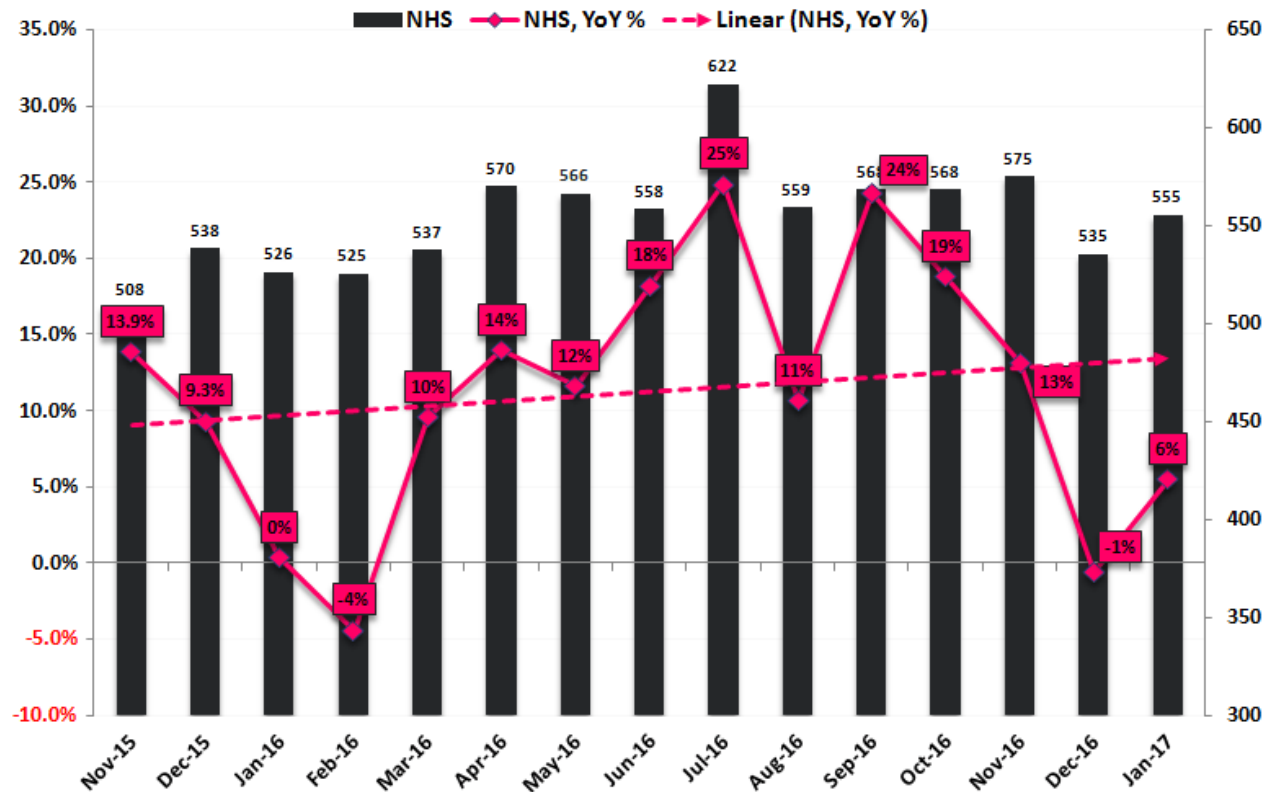


*Performance calculated using average monthly price; sample period = 1996-2014

Seasonality is a powerful factor in housing investing.

MAGNIFYING – THE INTERMEDIATE TERM

New Homes Sales



DATA SOURCE: BLOOMBERG, CENSUS BUREAU

New Home sales have slowed sharply in recent months.

MAGNIFYING – THE INTERMEDIATE TERM



DATA SOURCE: BLOOMBERG, NATIONAL ASSOCIATION OF REALTORS

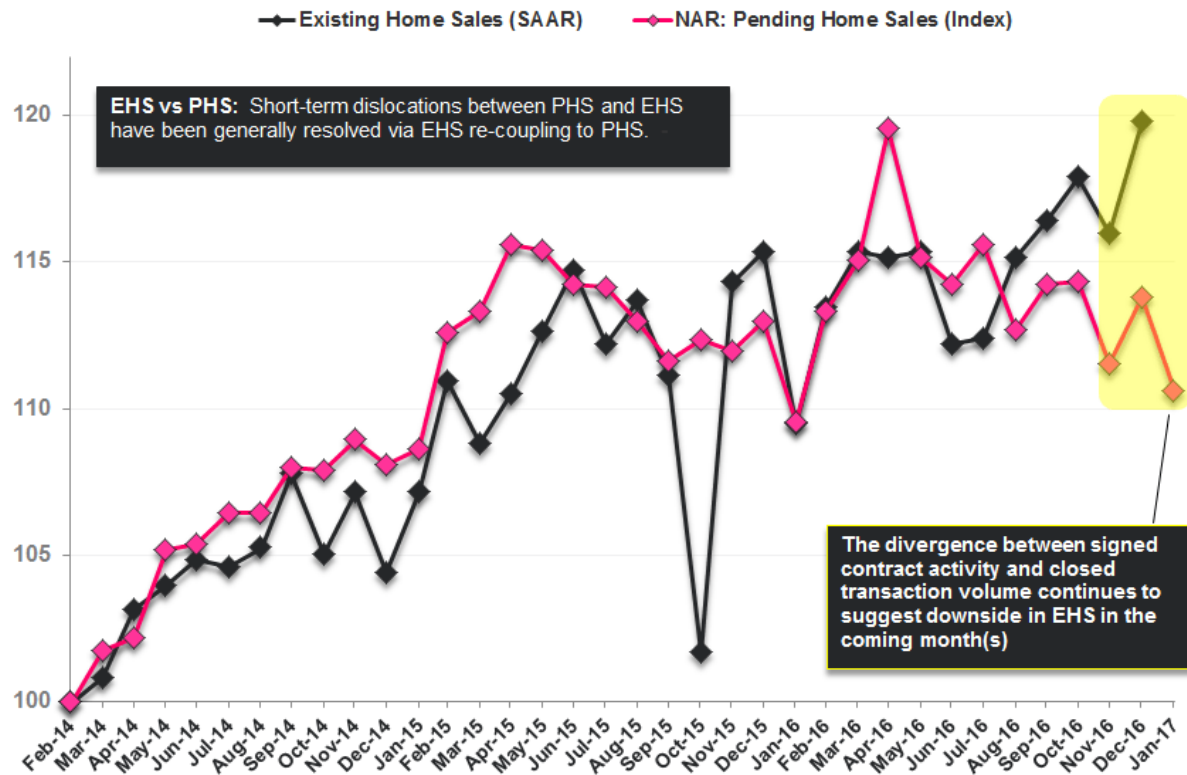
Pending Home Sales have done basically nothing over the last 6-months.

Signed contract activity has been +2% or less since May with 4 of those months printing zero or negative growth.

MAGNIFYING – THE INTERMEDIATE TERM

EXISTING HOME SALES (1-MO LAG) VS PENDING HOME SALES, SAAR

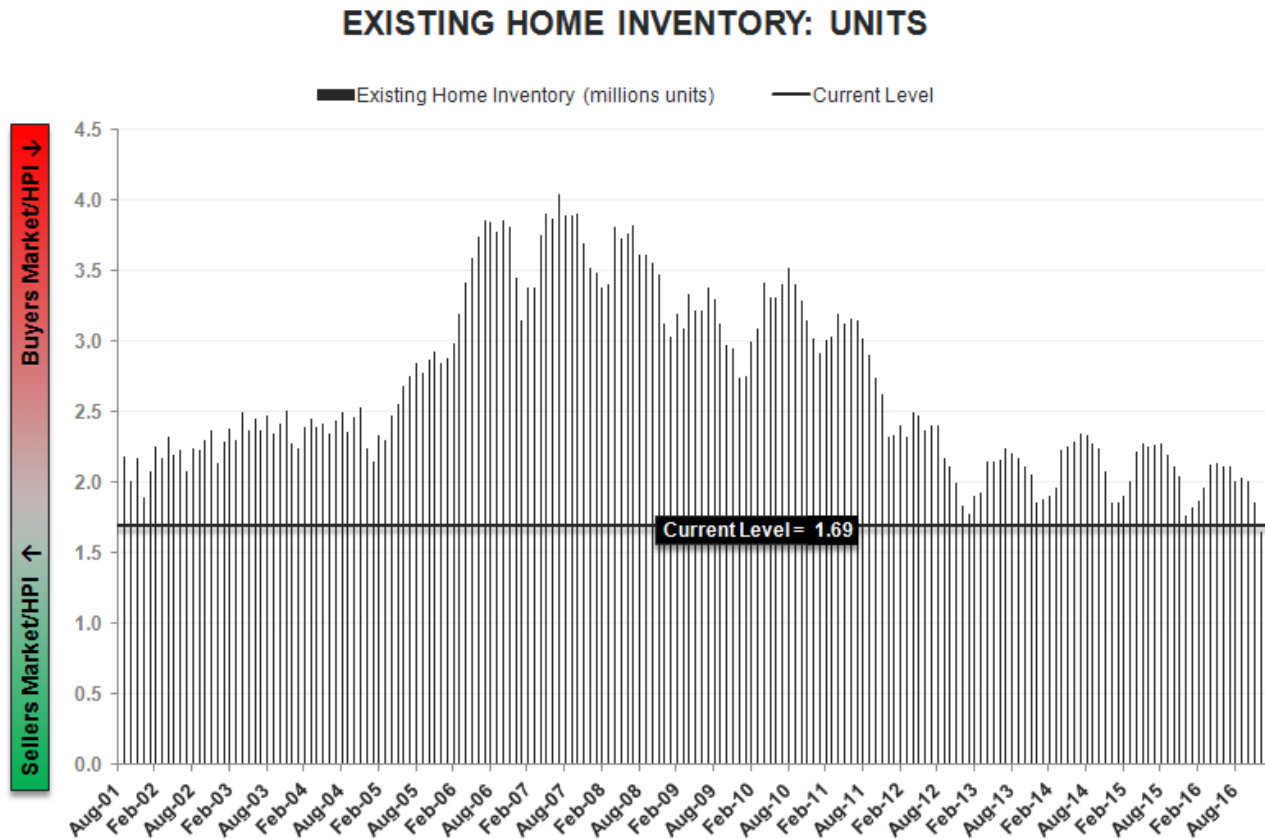
GAIN SINCE FEBRUARY 2014 TROUGH



Gravity appears inevitable for Existing Home sales based on the recent trends in signed contract activity.

DATA SOURCE: NAR, BLOOMBERG, HEDGEYE

MAGNIFYING – THE INTERMEDIATE TERM

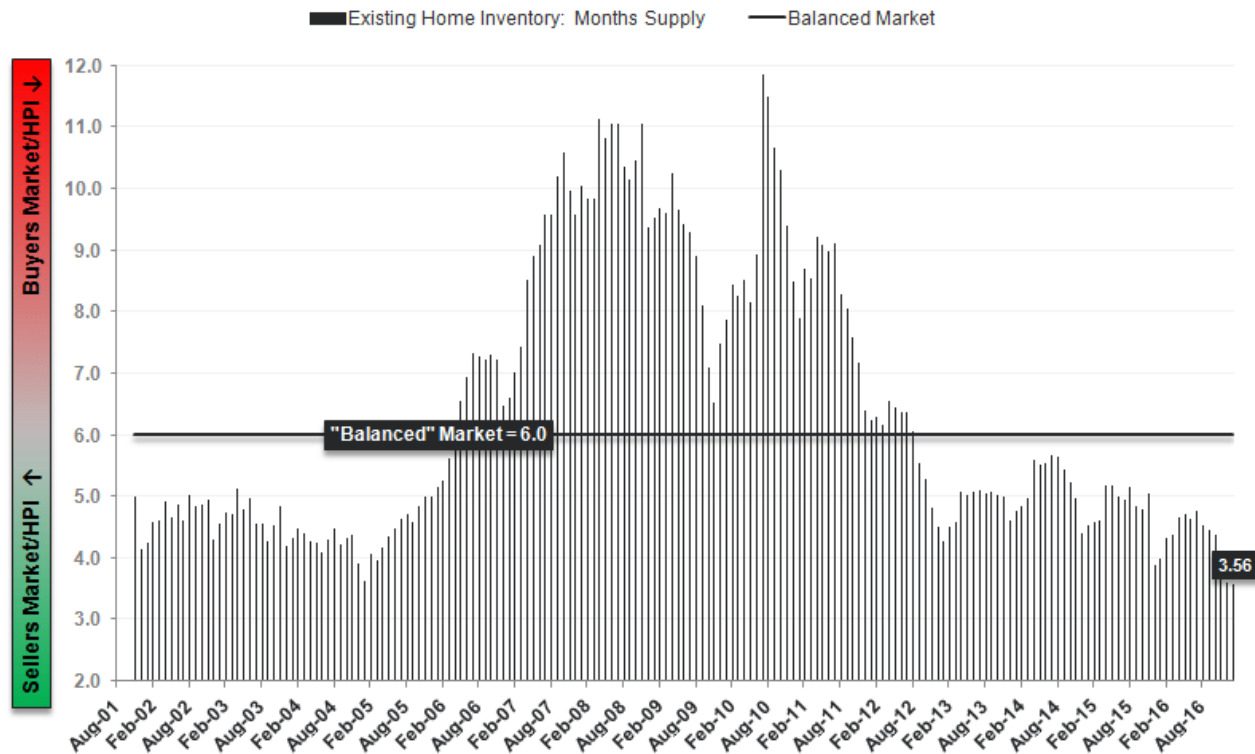


DATA SOURCE: NAR, BLOOMBERG

Supply is the culprit for weakening volume data with units supply at all time lows.

MAGNIFYING – THE INTERMEDIATE TERM

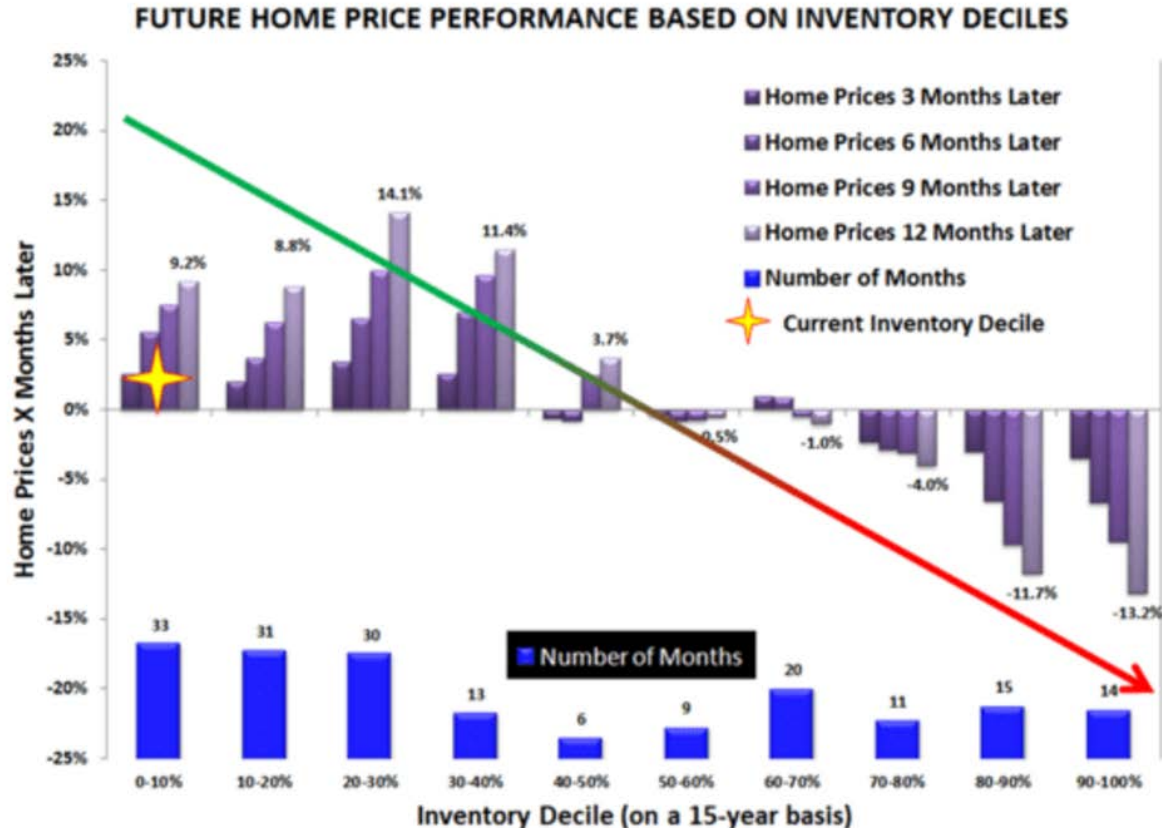
EXISTING HOME INVENTORY: MONTHS SUPPLY



DATA SOURCE: NAR, BLOOMBERG

Similarly, months supply is now at the lowest levels on record.

MAGNIFYING – THE INTERMEDIATE TERM



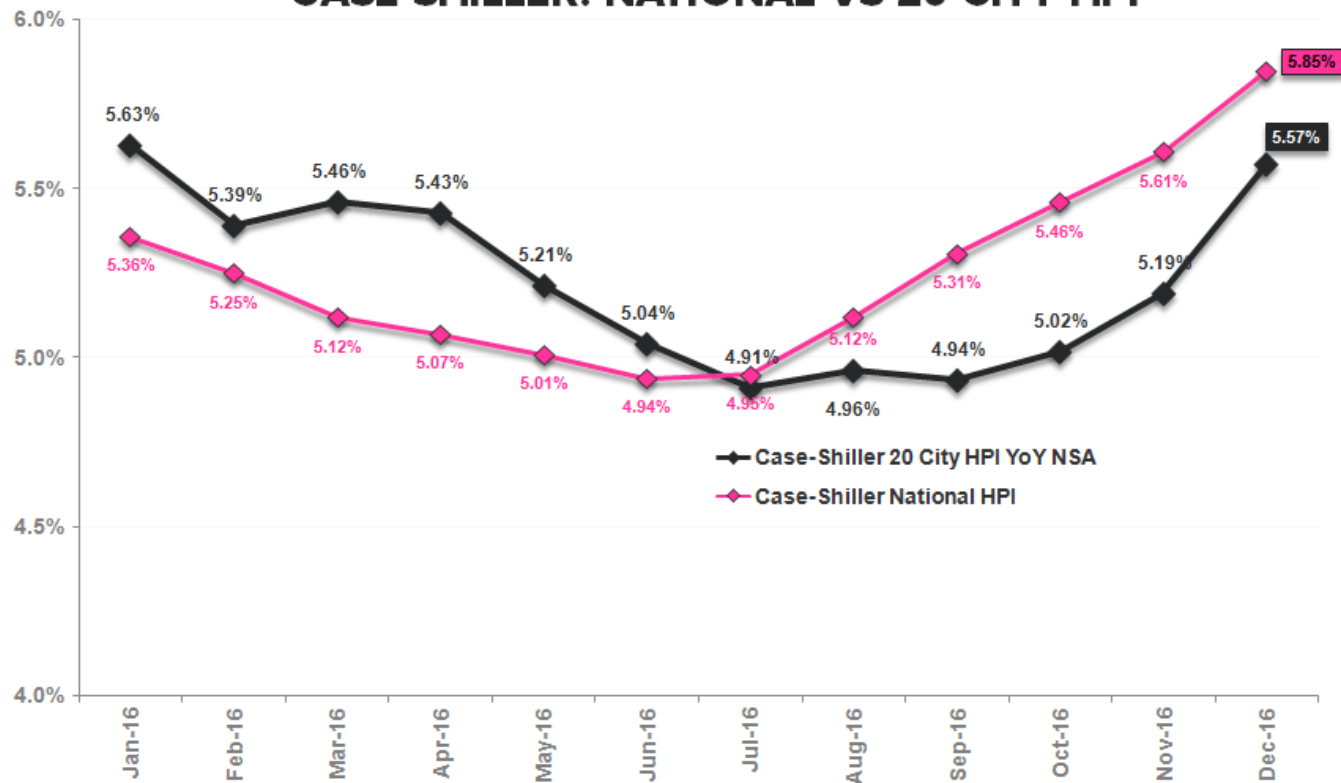
DATA SOURCE: NAR, CASE SHILLER, HEDGEYE

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Historically, when supply has been this tight, HPI has run at/near double digits.

MAGNIFYING – THE INTERMEDIATE TERM

CASE-SHILLER: NATIONAL VS 20-CITY HPI

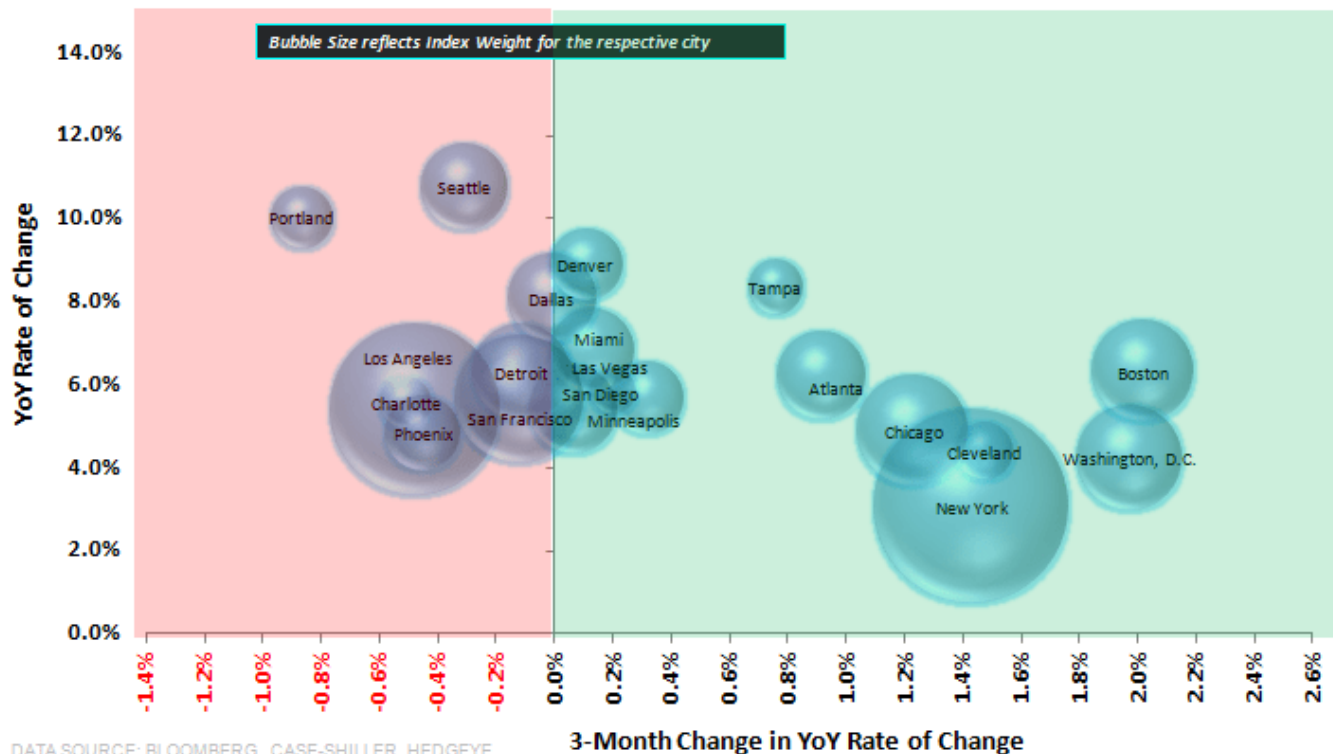


DATA SOURCE: BLOOMBERG

And we're starting to see that reflected in pricing trends.

MAGNIFYING – THE INTERMEDIATE TERM

CASE-SHILLER: Acceleration/Deceleration Metro Home Prices

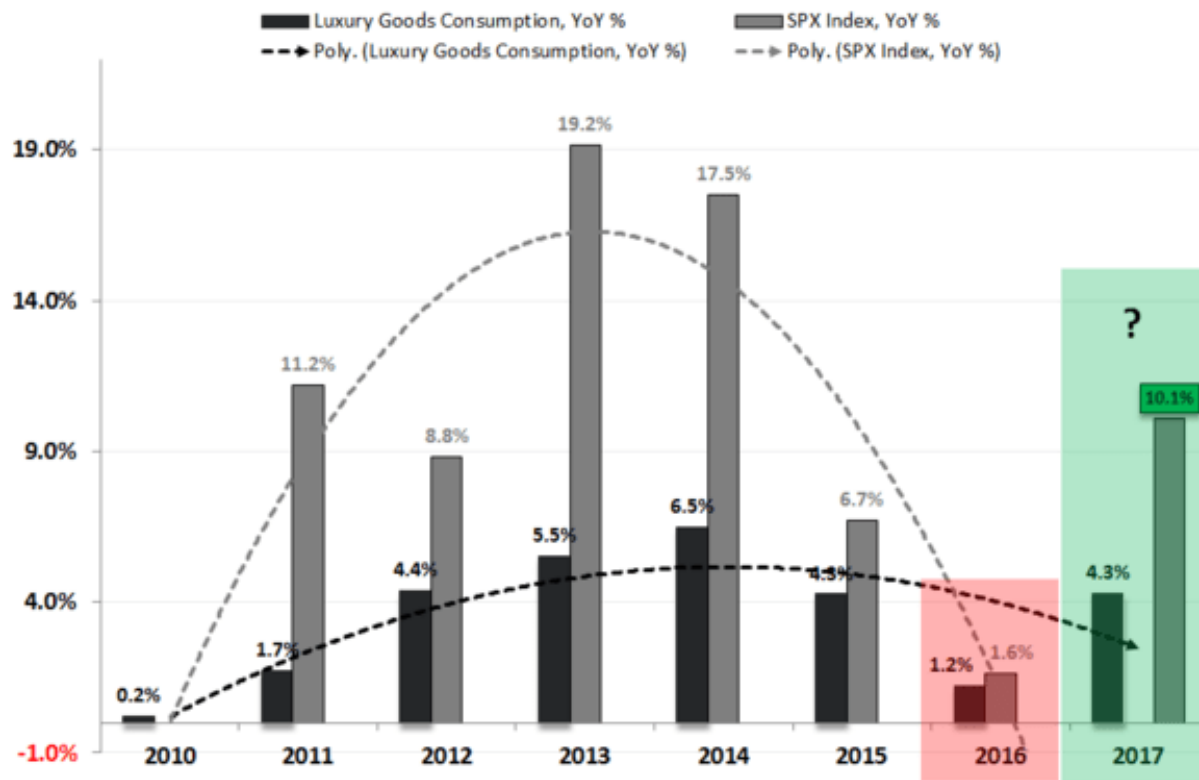


DATA SOURCE: BLOOMBERG, CASE-SHILLER, HEDGEYE

Meanwhile, the heavyweight cities are beginning to re-accelerate.

MAGNIFYING – THE INTERMEDIATE TERM

Asset Price Inflation vs Luxury Goods Consumption*



*Luxury Goods = PCE for Pleasure Boats, Aircraft, Jewelry, Watches

**SPX: Performance calculated using average annual price, 2017 = Ave price YTD, prices as of 3/2/17

Source: Bloomberg, Hedgeye

The high end appears to be inflecting.

THE FULCRUM – INTEREST RATES



THE FULCRUM – INTEREST RATES

1

OCTOBER 1993- DECEMBER 1994

Mortgage Rates rose +240 bps over the span of 14-months. **The S&P 500 Homebuilding index lost 33% of its value over that 14 month span.** By contrast, the S&P 500 was flat over the corresponding period.

2

OCTOBER 1998 - MAY 2000

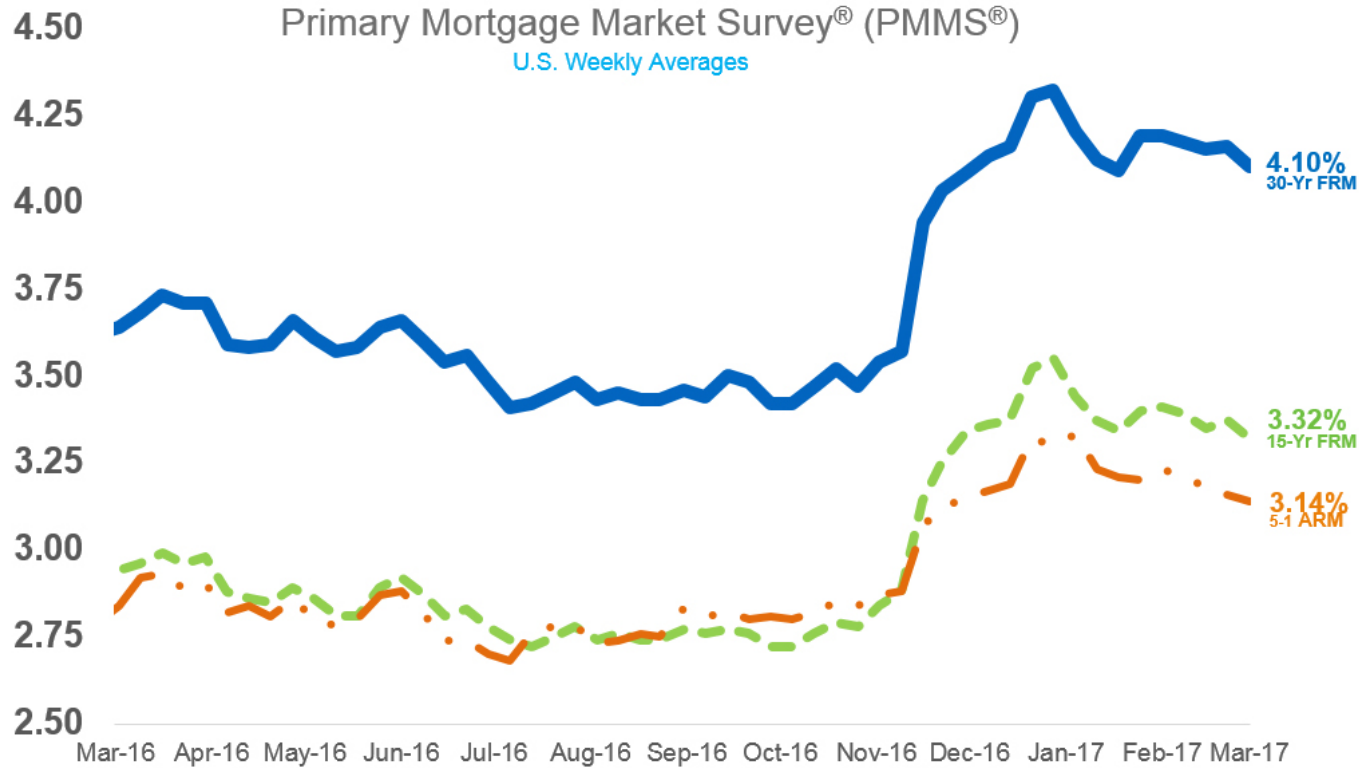
Mortgage Rates rose +180 bps over the span of 19-months. **The S&P 500 Homebuilding index lost 29% of its value over that 14 month span,** but the S&P 500 was up 44% making the **relative underperformance a whopping 73%.**

3

DECEMBER 2012 – SEPTEMBER 2013

Mortgage Rates rose +120 bps over the span of 10-months. **The S&P 500 Homebuilding index lost 3% of its value over that 14 month span.** By contrast, the S&P 500 was up 19% over the corresponding period so the **relative underperformance was 22%.**

THE FULCRUM – INTEREST RATES



As of March 2, 2017



Mortgage rates have risen by ~60 bps from mid-last year.

THE FULCRUM – INTEREST RATES

Affordability Dynamics

Assumptions:			
\$56,516	Median Household Income, 2015	2014 Average 30 Year FRM	4.21%
\$4,710	Median Household Monthly Income	2015 Average 30 Year FRM	3.90%
\$1,319	Monthly Mortgage PMT @ 28% DTI	Current 30 Year FRM, 1/11/17	3.99%

30-Year Fixed Rate	Purchasing Power: PV of Mo. Payment	\$ Chg in Affordability	% Chg in Affordability	Relevance
1.50%	\$382,102	\$85,540	28.8%	
1.75%	\$369,135	\$72,573	24.5%	
2.00%	\$356,775	\$60,214	20.3%	
2.25%	\$344,990	\$48,428	16.3%	
2.50%	\$333,748	\$37,187	12.5%	
2.75%	\$323,022	\$26,461	8.9%	
3.00%	\$312,784	\$16,223	5.5%	
3.25%	\$303,008	\$6,447	2.2%	
3.42%	\$296,561	\$0	0.0%	July-August 2016 30 Year FRM Average: 3.42%
3.50%	\$293,670	(\$2,891)	-1.0%	
3.53%	\$292,578	(\$3,984)	-1.3%	Election Day Average 30 Year FRM: 3.53%
3.75%	\$284,747	(\$11,814)	-4.0%	
3.99%	\$276,552	(\$20,009)	-6.7%	Current 30 Year FRM, 1/11/17: 3.99%
4.00%	\$276,219	(\$20,343)	-6.9%	
4.25%	\$268,063	(\$28,498)	-9.6%	
4.50%	\$260,262	(\$36,299)	-12.2%	
4.75%	\$252,797	(\$43,764)	-14.8%	
5.00%	\$245,651	(\$50,910)	-17.2%	
5.25%	\$238,809	(\$57,753)	-19.5%	

Source: Bloomberg, Census, NAR, Bankrate

* Represents monthly mortgage payment at 28% DTI of Median Household Income

HEDGEYE

Mortgage rates have increased ~60 bps since mid-2016, shaving ~7% off affordability. Taken together with 6% HPI outpacing 3% income growth, affordability has effectively declined ~10% in the last year.

THE FULCRUM – INTEREST RATES

LTM Correlation to the 10-Year Treasury Yield

Avg R Value Std Dev			Median R Value Std Dev		
1 Large Cap Banks	0.73	0.09	Large Cap Banks	0.74	0.09
2 Midcap Banks	0.72	0.08	I-Banks/Boutiques	0.74	0.11
3 I-Banks/Boutiques	0.71	0.11	Midcap Banks	0.71	0.08
4 Small Cap Banks	0.65	0.16	Small Cap Banks	0.70	0.16
5 Mortgage Insurers	0.61	0.12	Financial Guaranty	0.68	0.54
6 Reinsurers	0.56	0.26	E-Brokers	0.61	0.39
7 Life Insurers	0.52	0.29	Reinsurers	0.61	0.26
8 E-Brokers	0.46	0.39	Mortgage Insurers	0.61	0.12
9 Financial Guaranty	0.41	0.54	Life Insurers	0.57	0.29
10 Auto Insurers	0.37	0.19	Mortgage Finance	0.45	0.35
11 P&C Insurers	0.35	0.34	P&C Insurers	0.45	0.34
12 Mortgage Finance	0.33	0.35	Debt Collectors	0.43	0.47
13 Consumer Finance	0.31	0.38	Consumer Finance	0.41	0.38
14 Debt Collectors	0.29	0.47	Auto Insurers	0.40	0.19
15 CRE Brokers	0.23	0.40	Exchanges	0.30	0.30
16 Exchanges	0.21	0.30	CRE Brokers	0.23	0.40
17 RE Services	0.17	0.50	Traditional AMs	0.20	0.35
18 Traditional AMs	0.13	0.35	Alternative AMs	0.17	0.40
19 Cards/Payments	0.13	0.35	RE Services	0.17	0.50
20 Insurance Brokers	0.12	0.24	Cards/Payments	0.06	0.35
21 Alternative AMs	0.09	0.40	Homebuilders	0.03	0.42
22 Homebuilders	0.05	0.42	Insurance Brokers	0.03	0.24
23 Building Products	(0.06)	0.22	Building Products	(0.01)	0.22
24 Fin Tech	(0.07)	0.42	SF REITs	(0.08)	0.06
25 SF REITs	(0.11)	0.06	Fin Services	(0.09)	0.28
26 Fin Services	(0.12)	0.28	Fin Tech	(0.15)	0.42
27 Home Centers	(0.21)	0.29	Home Centers	(0.21)	0.29
28 Apartment REITs	(0.24)	0.19	Apartment REITs	(0.26)	0.19
29 Title Insurers	(0.33)	0.31	Title Insurers	(0.49)	0.31

Mortgage Insurers	
Ticker	R Value
MTG	0.74
RDN	0.64
NMIH	0.57
ESNT	0.47
Average	0.61
Median	0.61
Std Dev	0.12

RE Services	
Ticker	R Value
RMAX	0.52
RLGY	(0.19)
Average	0.17
Median	0.17
Std Dev	0.50

Homebuilders	
Ticker	R Value
HOV	0.63
BZH	0.60
TOL	0.51
TMHC	0.40
WLH	0.31
MDC	0.27
KBH	0.03
MTH	(0.12)
SPF	(0.32)
LEN	(0.36)
PHM	(0.37)
NVR	(0.38)
DHI	(0.55)
Average	0.05
Median	0.03
Std Dev	0.42

Building Products	
Ticker	R Value
IBP	0.25
PGEM	0.15
AMWD	0.10
USG	0.08
BLD	0.06
AWI	0.03
SWK	(0.05)
OC	(0.07)
MHK	(0.08)
MAS	(0.26)
FBHS	(0.40)
SHW	(0.46)
Average	(0.06)
Median	(0.01)
Std Dev	0.22

Apartment REITs	
Ticker	R Value
PPS	0.11
ESS	(0.06)
EQR	(0.19)
AIV	(0.20)
UDR	(0.32)
AVB	(0.37)
MAA	(0.41)
CPT	(0.45)
Average	(0.24)
Median	(0.26)
Std Dev	0.19

SF REITs	
Ticker	R Value
AMH	(0.07)
SBY	(0.08)
SWAY	(0.17)
Average	(0.11)
Median	(0.08)
Std Dev	0.06

Title Insurers	
Ticker	R Value
STC	0.02
FAF	(0.49)
FNH	(0.52)
Average	(0.33)
Median	(0.49)
Std Dev	0.31

Home Centers	
Ticker	R Value
HD	(0.01)
LOW	(0.42)
Average	(0.21)
Median	(0.21)
Std Dev	0.29

Source: Hedgeye, Factset

These tables show the sensitivity of the various Financials & Housing subsectors to the 10-Year Treasury yield over the past year. We've highlighted the 8 housing sectors. 6 of the 8 are in the bottom quartile for rate sensitivity, meaning that that they are among the most inversely correlated subsectors in the group.

THE FULCRUM – INTEREST RATES

Absolute Price Performance Since the Election

Abs Price Chg Post Election

1	Consumer Finance	28%
2	Midcap Banks	25%
3	Small Cap Banks	25%
4	I-Banks/Boutiques	24%
5	Financial Guaranty	24%
6	Mortgage Insurers	22%
7	E-Brokers	19%
8	Large Cap Banks	19%
9	RE Services	17%
10	Life Insurers	16%
11	Debt Collectors	15%
12	Alternative AMs	15%
13	Traditional AMs	14%
14	Homebuilders	14%
15	Auto Insurers	14%
16	Mortgage Finance	14%
17	P&C Insurers	10%
18	Reinsurers	10%
19	CRE Brokers	9%
20	Cards/Payments	9%
21	Building Products	8%
22	Insurance Brokers	8%
23	Exchanges	7%
24	Home Centers	7%
25	Fin Tech	5%
26	Fin Services	2%
27	Apartment REITs	2%
28	SF REITs	-2%
29	Title Insurers	-2%

Mortgage Insurers	
Ticker	Px Chg
RDN	28%
MTG	22%
NMIH	20%
ESNT	17%
Average	22%
Median	21%
Std Dev	5%

Title Insurers	
Ticker	Px Chg
FNF	1%
STC	-2%
FAF	-4%
Average	-2%
Median	-2%
Std Dev	3%

Home Centers	
Ticker	Px Chg
HD	8%
LOW	6%
Average	7%
Median	7%
Std Dev	1%

RE Services	
Ticker	Px Chg
RMAX	20%
RLGY	14%
Average	17%
Median	17%
Std Dev	4%

Apartment REITs	
Ticker	Px Chg
ESS	4%
EQR	3%
UDR	3%
AVB	2%
MAA	2%
CPT	2%
AIV	0%
PPS	-4%
Average	2%
Median	2%
Std Dev	2%

SF REITs	
Ticker	Px Chg
SBY	1%
SWAY	-2%
AMH	-4%
Average	-2%
Median	-2%
Std Dev	2%

Homebuilders	
Ticker	Px Chg
HOV	69%
BZH	31%
MDC	17%
TOL	13%
MTH	12%
NVR	11%
KBH	10%
TMHC	7%
SPF	6%
LEN	5%
PHM	1%
DHI	1%
WLH	-1%
Average	14%
Median	10%
Std Dev	19%

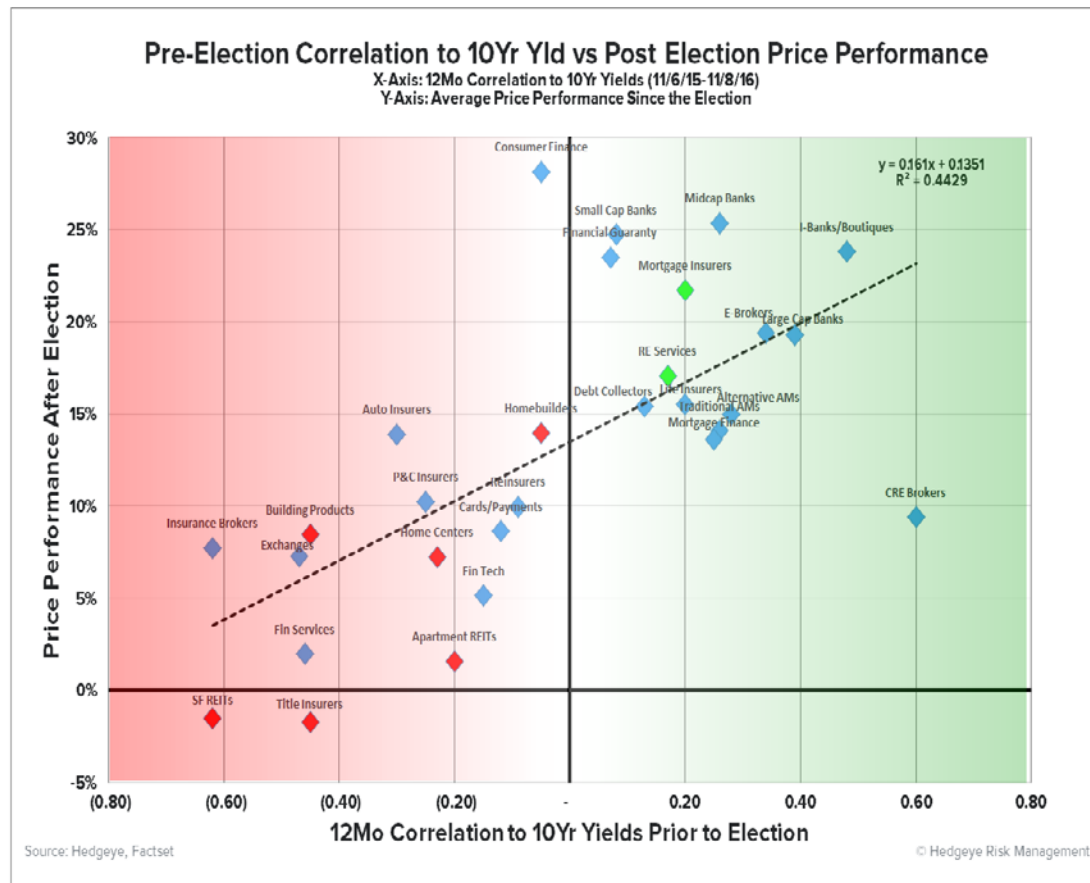
Benchmarks	
S&P 500	6%
XLF	17%
XHB	7%
ITB	7%

Building Products	
Ticker	Px Chg
PGEM	19%
BLD	18%
IBP	17%
USG	15%
SHW	11%
OC	8%
MAS	6%
MHK	4%
AWI	4%
AMWD	1%
SWK	0%
FBHS	-1%
Average	8%
Median	7%
Std Dev	7%

For the most part, the Housing Complex has performed as one would expect given their respective sensitivities to rates. 5 of the 8 Housing subsectors were among the bottom third of performance.

Source: Hedgeye, Factset

THE FULCRUM – INTEREST RATES

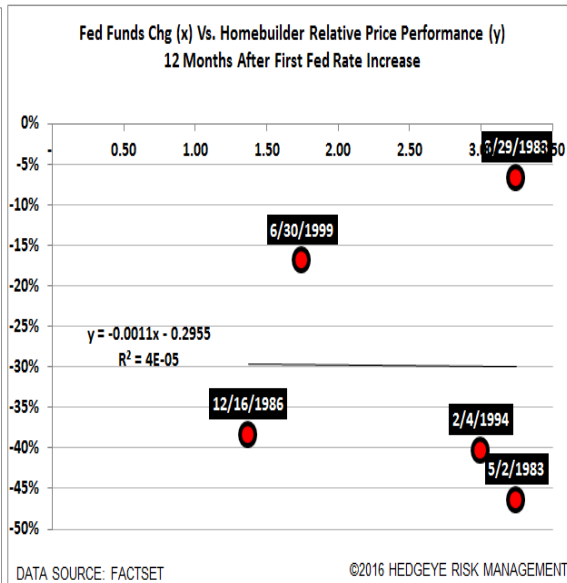
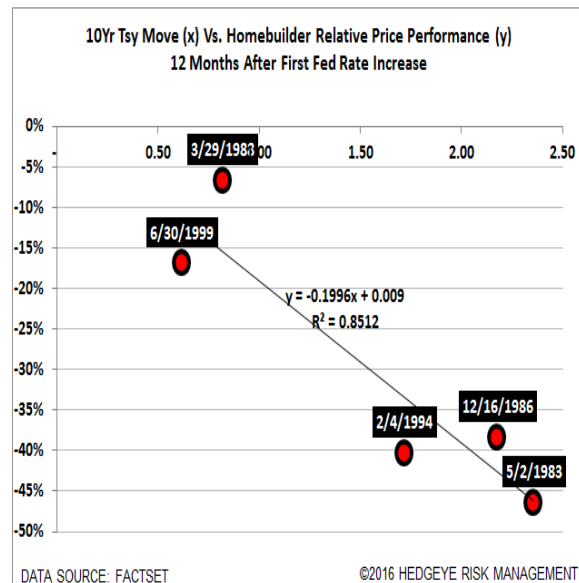


This chart shows the correlation to rates on the x-axis and the post-election price performance on the y-axis. Groups trading to the left of the zero line are those negatively exposed to rates, and vice versa. Groups trading above the regression line are overbought while those below are underbought.

THE FULCRUM – INTEREST RATES

Rate Hike Cycle			Fed Funds			10Yr Tsy			The Curve?		Homebuilders / Absolute Performance							Homebuilders / Relative Performance						
Start	End	Mo	Start	End	Change	Start	End	Change	Delta	Direction	T-6	T-3	T-1	T-0	T+3	T+6	T+12	T-6	T-3	T-1	T-0	T+3	T+6	T+12
6/30/2004	6/29/2006	24	1.00	5.25	4.25	4.62	5.20	0.58	(3.67)	Much Flatter	4%	-11%	0%	0%	14%	38%	86%	1%	-12%	-2%	0%	16%	32%	82%
6/30/1999	5/16/2000	11	4.75	6.50	1.75	5.81	6.43	0.62	(1.13)	Flatter	-7%	13%	2%	0%	-17%	-19%	-12%	-19%	7%	-4%	0%	-10%	-25%	-17%
2/4/1994	2/1/1995	12	3.00	6.00	3.00	5.94	7.66	1.72	(1.28)	Flatter	22%	17%	3%	0%	-18%	-28%	-39%	17%	15%	3%	0%	-14%	-26%	-40%
3/29/1988	2/24/1989	11	6.50	9.75	3.25	8.56	9.38	0.82	(2.43)	Much Flatter	-28%	13%	-6%	0%	5%	-6%	6%	-7%	8%	-5%	0%	1%	-10%	-7%
12/16/1986	9/4/1987	9	5.88	7.25	1.37	7.12	9.30	2.18	0.81	Much Steeper	-4%	21%	1%	0%	52%	20%	-39%	-6%	14%	-1%	0%	36%	-1%	-38%
5/2/1983	8/21/1984	16	8.50	11.75	3.25	10.26	12.62	2.36	(0.89)	Near Parallel	60%	22%	13%	0%	-13%	-29%	-47%	47%	8%	7%	0%	-13%	-30%	-46%
Average:	14				2.81			1.38	(1.43)		8%	13%	2%	0%	4%	-4%	-7%	5%	7%	0%	3%	-10%	-11%	
Median:	11				3.13			1.27	(1.21)		0%	15%	1%	0%	-4%	-13%	-25%	-3%	8%	-1%	0%	-4%	-17%	-28%

Source: Factset

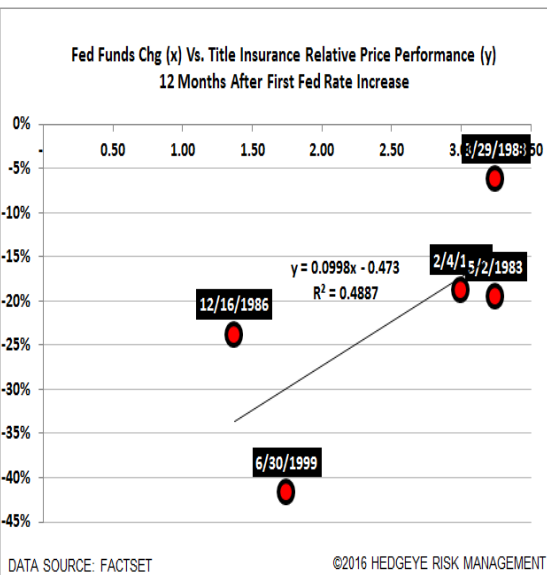
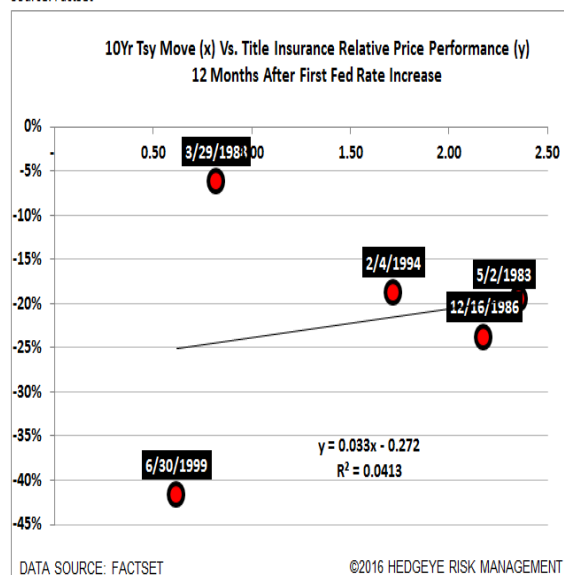


Not surprisingly, homebuilders hate rate hikes, and the strong negative slope (RSQ 0.85) to increases in the 10Yr Tsy show just how sensitive they are. The good news is that small increases in rates have historically produced small decreases in share prices.

THE FULCRUM – INTEREST RATES

Rate Hike Cycle				Fed Funds			10YR Tsy			The Curve?		Title Insurance / Absolute Performance								Title Insurance / Relative Performance							
Start	End	Mo		Start	End	Change	Start	End	Change	Delta	Direction	T-6	T-3	T-1	T-0	T+3	T+6	T+12		T-6	T-3	T-1	T-0	T+3	T+6	T+12	
6/30/2004	6/29/2006	24		1.00	5.25	4.25	4.62	5.20	0.58	(3.67)	Much Flatter	-17%	-16%	-1%	0%	15%	24%	24%		-20%	-16%	-3%	0%	18%	18%	20%	
6/30/1999	5/16/2000	11		4.75	6.50	1.75	5.81	6.43	0.62	(1.13)	Flatter	-27%	27%	9%	0%	-24%	-33%	-37%		-39%	21%	3%	0%	-18%	-40%	-42%	
2/4/1994	2/1/1995	12		3.00	6.00	3.00	5.94	7.66	1.72	(1.28)	Flatter	15%	3%	-3%	0%	-2%	-15%	-17%		10%	1%	-3%	0%	2%	-13%	-19%	
3/29/1988	2/24/1989	11		6.50	9.75	3.25	8.56	9.38	0.82	(2.43)	Much Flatter	-10%	16%	10%	0%	0%	1%	6%		11%	11%	11%	0%	-3%	-3%	-6%	
12/16/1986	9/4/1987	9		5.88	7.25	1.37	7.12	9.30	2.18	0.81	Much Steeper	-22%	4%	-12%	0%	16%	0%	-25%		-25%	-4%	-14%	0%	1%	-21%	-24%	
5/2/1983	8/21/1984	16		8.50	11.75	3.25	10.26	12.62	2.36	(0.89)	Near Parallel	82%	58%	37%	0%	6%	0%	-20%		68%	44%	32%	0%	6%	0%	-20%	
Average:	14					2.81			1.38	(1.43)		3%	15%	7%	0%	2%	-4%	-11%		1%	9%	4%	0%	1%	-10%	-15%	
Median:	11					3.13			1.27	(1.21)		-14%	10%	4%	0%	3%	0%	-18%		-5%	6%	0%	0%	1%	-8%	-19%	

Source: Factset



Title insurers also underperform amid rising rates, but like building products companies they do so in a non-linear, low-RSQ way.