2 Stocks That Will Cool With the Housing Market

Description

The Canadian Real Estate Association recently released troubling housing market numbers for the month of January. Sales in January 2019 were the lowest since 2015, and housing prices sustained a 5.5% decline year over year. With sales and prices on the decline, debate has erupted on stress tests going forward.

Policymakers argue that the institution of stress tests has been effective in strengthening underwriting quality and in improving affordability. However, there are some problems with this position. New OSFI rules introduced in January 2018 have frozen tens of thousands of potential buyers out of the market. Home ownership rates have declined since 2011, and new numbers suggest that this trend will continue into the next decade.

The federal government has seemingly acknowledged its need to address this issue. CMHC has said that it will pursue a program to dramatically improve affordability over the next decade. Housing trade groups are now advocating for a return to 30-year amortization for CMHC-insured mortgages.

Current regulations will remain in place for now, which means the housing market will face challenges for the remainder of 2019. Let's look at two stocks that may struggle along with it.

Home Capital (TSX:HCG)

Home Capital stock fell 2.77% on March 7. Shares have climbed 12.3% in 2019 so far. The stock is up 3.1% year over year.

The company released its fourth-quarter and full-year results on February 22. In Q4 2018 mortgage originations rose 85% year over year to $1.61 billion. Net income increased 17% to $35.8 million, or $0.46 per share. For the full year, mortgage originations climbed 15.2% from 2017 to $5.44 billion.

Home Capital forecasts that it will benefit from stabilization in the Canadian housing market in 2019. The stock is trading at the high end of its 52-week range on a pricey TSX index.

Equitable Group (TSX:EQB)

Equitable Group stock has dropped 4.7% week over week as of close on March 7. Shares have climbed 12.8% in 2019 so far. The stock has also increased 22% year over year.

Earlier this week, I'd discussed why I'm staying away from Equitable Group in the spring. The company had a fantastic 2018 in which it posted record adjusted diluted earnings per share of $10.10. This was up 8% from 2017. Single Family Lending saw a big boost, which blew away the company's projections to start the year. Equitable Group credited a balanced environment and its premier customer service for the solid performance.

Equitable Group is well positioned to post continued growth in its loan portfolio in 2019. I have preferred Equitable Group over Home Capital since early 2017. Not only has it offered superior growth, but the stock also offers a modest dividend yield of 1.6%. So, why am I avoiding it this spring?

Equitable Group only recently fell out of overbought territory. Recent housing numbers are going to put downward pressure on lenders, and a lukewarm bank earnings season has not improved the overall outlook.

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