

EYE ON THE WORLD

All-time high corporate debt

Friday, July 17

Markets eased on all-time high US virus cases and stalling labor recovery, with key EU meeting today. **HOT TOPICS** revisits historic high corporate leverage, up US\$4.6trn in Q2 alone, and now higher than government and household debt. Remains driver of relative performance and our quality growth focus, as high yield universe has grown, yield spread widened, defaults could double vs expectations.

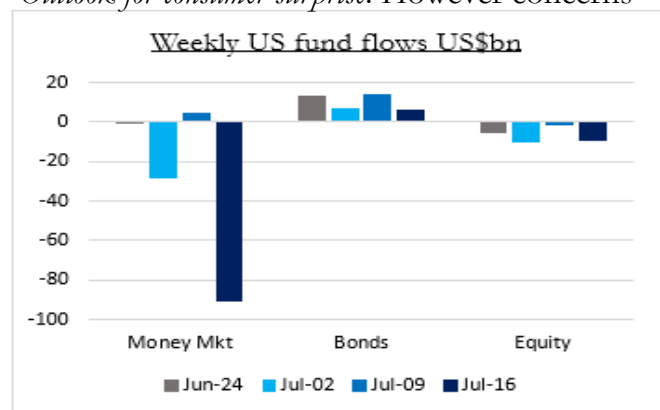
Equities eased as US new virus cases hit new high and data showed stalled labor recovery. Asia stable, as China state press saw 'normal adjustment' after Thursday local share plunge. Europe and US futures flat ahead of crucial EU leaders meeting. We remain in a Q3 market 'consolidation+' phase in our view.

New US virus record. US set new daily record 77k, +42% vs two weeks, and third of all cases globally. Daily **deaths near 1,000**, a third of peak but now clearly rising. Infectious disease head Fauci has warned cases could top 100k. Half states reporting test 'positivity' rates above concerning 5% level.

Key Markets Performance Table

Index	Level	1D	1W	YTD
S&P500	3226.6	-0.3%	2.0%	-0.5%
ACWI xUS	45.2	-0.8%	1.1%	-8.0%
DXY USD	96.3	0.3%	-0.4%	0.0%
US 10Y YLD	0.61	-2.9%	1.2%	-68.0%
Brent Spot	44.8	0.5%	3.7%	-35.1%
Gold Spot	1796.6	-0.8%	-0.3%	18.4%

Stalling recovery concerns. June US retail sales rose more than expected 7.5%, and core sales rose 5.6%, in further sign of consumer rebound and pent up demand. See June 9, *Outlook for consumer surprise*. However concerns



Source: Lipper, THR. * US domiciled fund flows. ETF+Mutual Fund

HIGHLIGHTS FROM REST OF DOC

- **Hot Topics** on [Corporate Debt](#). Now all time high, adding US\$4.6trn in Q2, and key driver of equity performance. HY universe growing, yield spread wider, default expectations may double.
- **What to watch:** EU recovery fund meeting (Fri/Sat), US Michigan consumer confidence (79)
- **Country and Sector 'Eye':** We favor US and select EM's, and US Consumer and IT sectors
- **Data pages:** Performance, valuation, earnings, macro forecasts. See [Library](#) for prior dailies

*Sources if not stated are Refinitiv, THR

US & Sector Performance

Index	Level	1D	1W	YTD
S&P500	3226.6	-0.3%	2.0%	-0.5%
NASDAQ	10626.5	-0.7%	-0.7%	16.7%
Russell 2000	1467.6	-0.7%	4.9%	-12.0%
US IT	400.9	-0.9%	-1.6%	18.1%
US Healthcare	372.7	-0.3%	3.1%	4.8%
US Financials	156.2	-0.3%	5.4%	-22.2%

remain, with renewed July virus cases and August potential July 31 end of supplemental unemployment support. Weekly **new jobless claims fell only 10k** to 1.3m, and above 1m for 17th week, whilst continuing claims dropped more significant 422k to 17.4m. Hard-hit virus states California, Florida, Georgia saw increases.

Lukewarm sentiment support. Investor sentiment is off lows but still poor, a contrarian positive. See July 10, *Sentiment a contrarian support*. Weekly Lipper fund flows saw strong US\$90bn outflows from safer-haven money market funds (as US Federal taxes due), but 12th week of equity outflows (mainly domestic equities), and modest bond inflows. Separately, weekly American Association of Individual Investors (AAII) survey showed those **'bearish' rise to 45%** vs average 30%. Finally, Fed balance sheet rose for first time in month – to US\$7trn, up 70% YTD - even as little demand for its nine emergency programs as crisis has eased.

EU Hamilton moment. EU leaders meet to progress on 2021-27 budget and key €750bn recovery fund, a major step to fiscal integration.

FX, Fixed Income, Commodities

Index	Level	1D	1W	YTD
DXY USD Index	96.3	0.3%	-0.4%	0.0%
EUR/USD	1.14	-0.2%	0.9%	1.5%
US 10Y YLD	0.61	-2.9%	1.2%	-68.0%
US 10-2 BOND	0.47	2.3%	3.8%	22.6%
CBOE VIX Index	28.0	0.9%	-4%	103%
CRB Index	2554.6	-0.5%	5.3%	-17.2%

Events to Watch

Indicator	Period	Forecast	Last
HICP YY, Europe	June	0.29	0.30
U Mich Sentiment, US	July	79.08	78.10
Housing Starts, US	June	1.16M	0.97M
Total Social Financing, China	June	3.04T	3.19T

Progress would boost growth prospects and help peripheral spreads, supporting our financials overweight. But further Euro strength a headwind for exporters. See July 15, *Europe Hamilton moment*.

Sector view

US markets supported yesterday by utilities (+1.3%) and materials (+0.4%), while tech (-1.2%) and real estate (-1.2%) underperformed.

FAANGM **Netflix** fell 10% as Q2 beat revenues (+25% yoy), but missed on earnings, and posted weak guidance. Saw 10.1m new Q2 subscribers, despite increased competition, taking total to 193m, but guided for Q3 slowdown to 2.5m subs.

US **bank earnings** better than expected so far, after Q1 disappointment. Bank of America and Morgan Stanley beat expectations yesterday. 25% US sector now reported, with average 'beat' 12%.

What to Watch

Yesterday ECB keep policy on hold, saying "it is working", whilst calling on EU leaders to deliver ambitious fiscal support. Today University of Michigan **consumer sentiment index** forecast to rise modestly to 79 in July from June 78.1.

Q2 today. World's largest asset manager Blackrock (Q2e \$6.99, +9% yoy) and peer State Street (\$1.61, +11%), with focus on asset trends, and USMCA railroad Kansas City Southern (\$1.12, -31%) industrial rebound proxy.

HOT TOPICS

ALL-TIME HIGH CORPORATE DEBT

Global corporate leverage at all-time high, with Q2 adding US\$4.6trn, and driver of relative equity performance and anchor of quality growth focus, and selective cyclicals view. Fed kept markets open but high yield universe grown, yield spread widened, and defaults could double vs expectations. China heads indebtedness, but USD and Fed support eased EM pressures.

Leverage remains a big differentiator

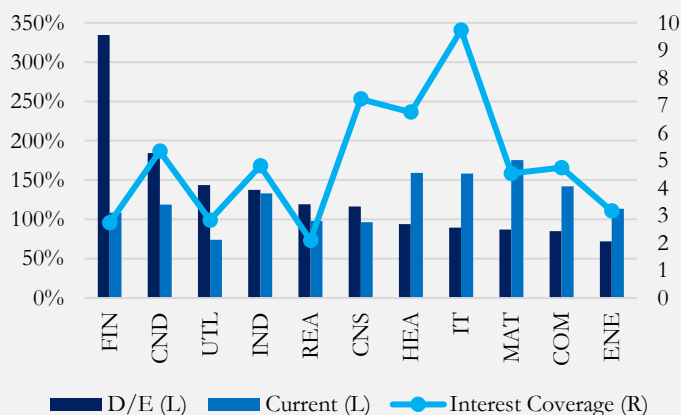
Financial conditions have eased, but leverage remains a big driver of relative performance. Market has rewarded low leverage sectors with [flexibility](#) to survive and thrive; room for capex and M&A, but also dividends and buybacks. We are overweight quality growth (IT, health care, staples) and selective cyclicals (small cap, real estate, durables). See March 26 *Corporate debt concerns*. Global corp. debt rose US\$4.6trn in Q2 to record 95%/GDP, above household or government levels. The HY yield universe grown, spread widened, and defaults set to rise.

The debt needs have shifted

The drivers of debt decisions have [changed](#) from the traditional focus on funding acquisitions or share buybacks to now 'survival funding' and building precautionary buffers.

Fed has been in the driving seat

The Fed has provided huge support to credit



Source: Refinitiv, THR

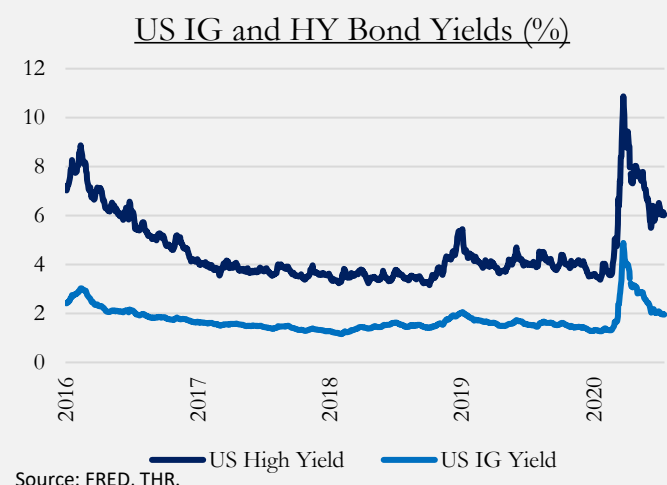
markets this year, and helped quickly lower Financial stress indicators, such as St Louis Fed composite financial stress index (o='normal' conditions), whilst investment grade and high yield corporate bond spreads never came close to the GFC levels, and have narrowed significantly, since, and driven record high levels of issuance.

HY a bigger universe with a wider yield gap

The dichotomy between, say, Alphabet's US\$100bn cash pile and Volkswagen's cUS\$200bn net debt pile, is widening. Record issuance has seen the HY universe grow 3x faster than IG this year, given greater capital needs to survive and as companies have been downgraded (fallen angels). They have benefitted from bond markets staying open but also seen a significant widening gap between IG and HY yields (chart).

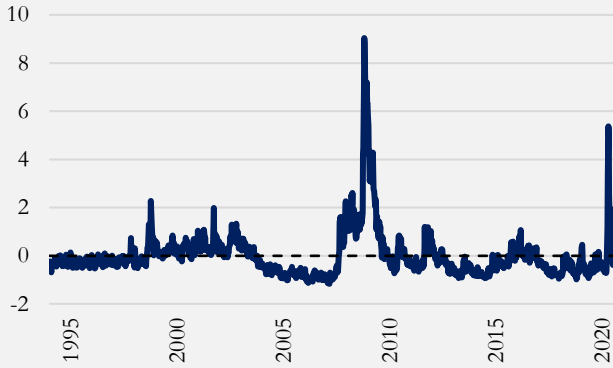
Market under-estimating defaults?

The US HY [default rate](#) is forecast to increase to 12.5% by Q1 next year, from 3.5% yoy. This



Source: FRED, THR.

St Louis Fed Financial Stress Index



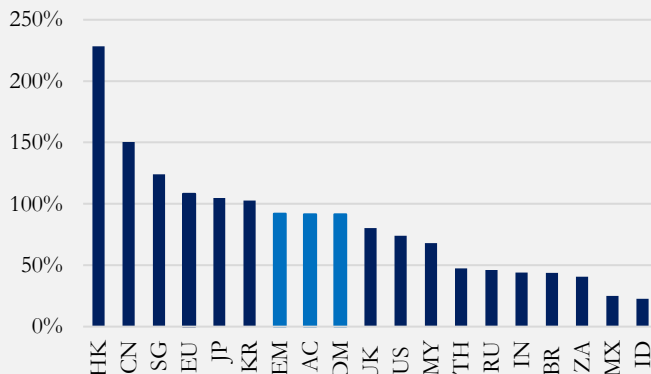
Source: FRED, THR

would be a similar level to the GFC peak, and more than double the 6% S&P believes current spreads are implying. Only half of defaults this year have come from energy and retail sectors, with remaining focused on entertainment and leisure impacted by social distancing, with some weakness also flagged in healthcare segments – the sector that has seen the greatest debt increase of any globally, though from low base.

Big US earnings dispersion a risk

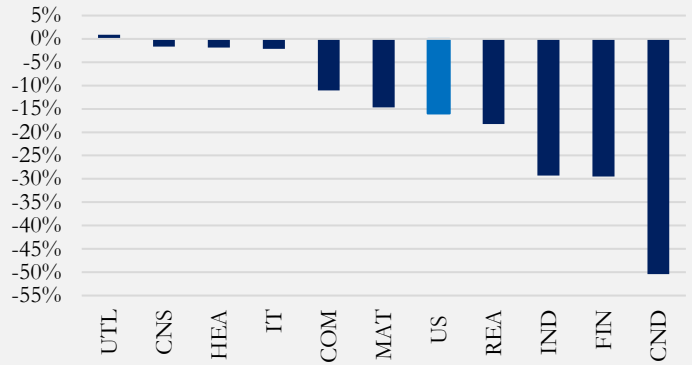
The relative resilience of corporate earnings in this recession is a key part of debt sustainability, as much as the level or structure of debt. US large cap earnings are forecast down 20% for the year vs 35% during the 2008-9 GFC, though with a huge dispersion. Focus is on discretionary and industrial sectors, which came into crisis with high debt, but decent coverage, but have since seen earnings estimates slashed.

Country Corp. Debt/GDP (2019)



Source: IIF, THR.

TTM EPS US Change since 1st Jan



Source: Refinitiv, THR

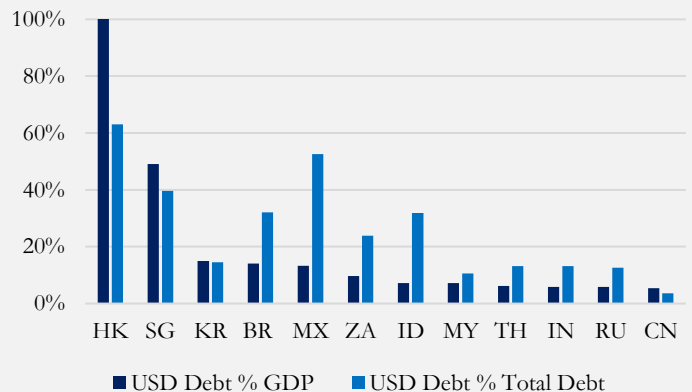
International important, with debt record

Global debt/GDP is at an all-time high Q2 331% (IIF) whilst non-financial corporate debt is record 95% of GDP, or US\$75trn, increasing over 20pp past decade. Chinese debt is proportional highest in EM, whilst Korea has increased fastest. c80% European and China corporate debt held by banks (systemic issue) vs 80% by bond markets in US (a market issue).

Dollar denominated EM debt relief

EM US\$ debt and asset-liability mismatches have seen some relief by the recent reversal of USD appreciation and success of Fed crisis cross-currency swaps to EM central banks. Hong Kong (currency pegged to USD) and Singapore have the highest proportions of US\$ debt, at 69% and 40% of total respectively, followed by Chile, Israel and Turkey. Only 4% China's debt is in US\$ and 11% India's.

USD Debt Comparison (2019)

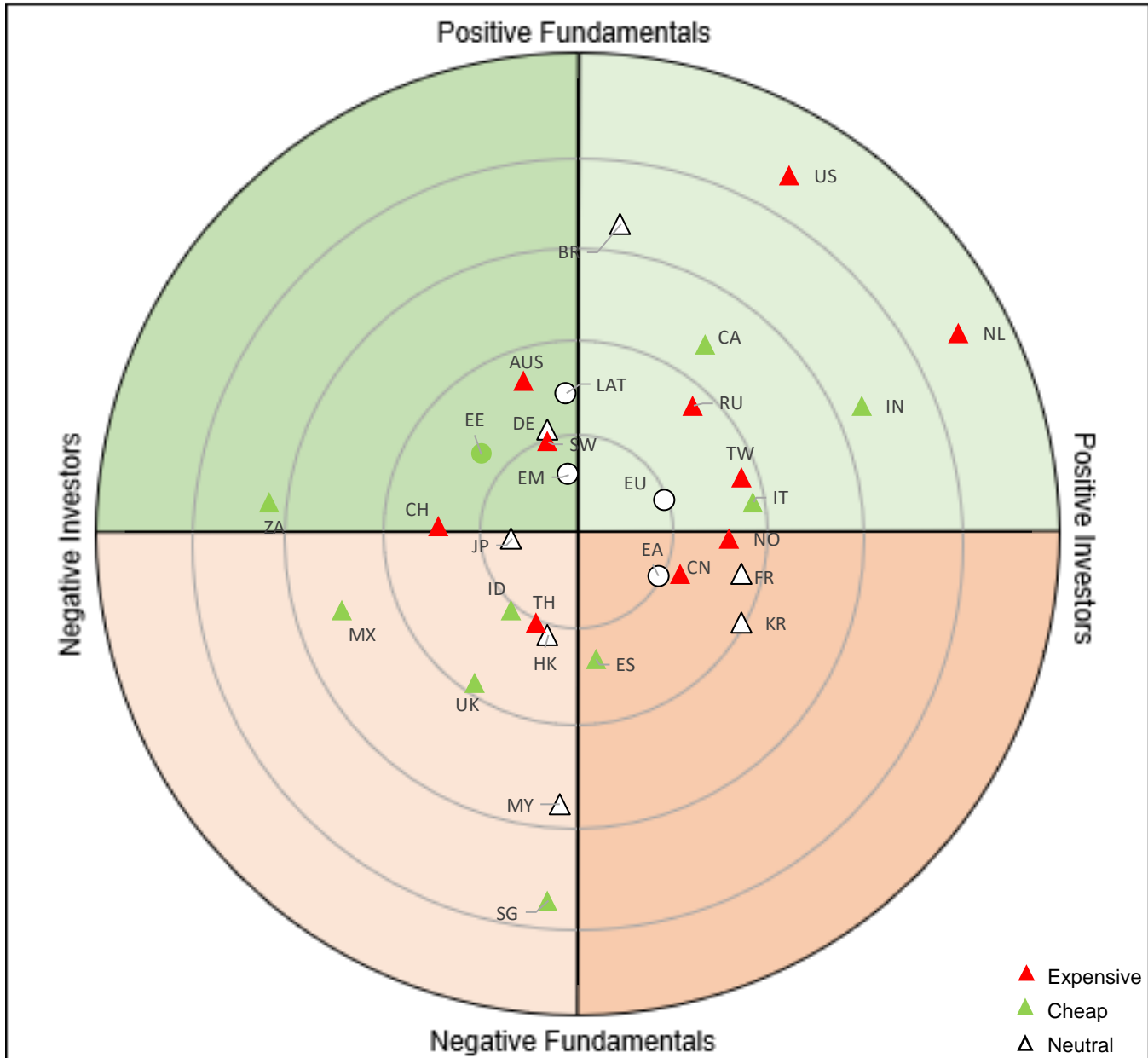


Source: IIF, THR, *HK=143%.

COUNTRY 'EYE' & ALLOCATIONS

Country Allocation Views

Market	Main Index	THR View	Market	Main Index	THR View
US	S&P 500	Overweight	UK	FTSE 100	Underweight
EM	MSCI EM	Neutral	Canada	S&P/TSX	Overweight
Eurozone	EUROSTOXX	Neutral	Switzerland	SMI	Overweight
Japan	TOPIX	Underweight	Australia	S&P/ASX	Neutral



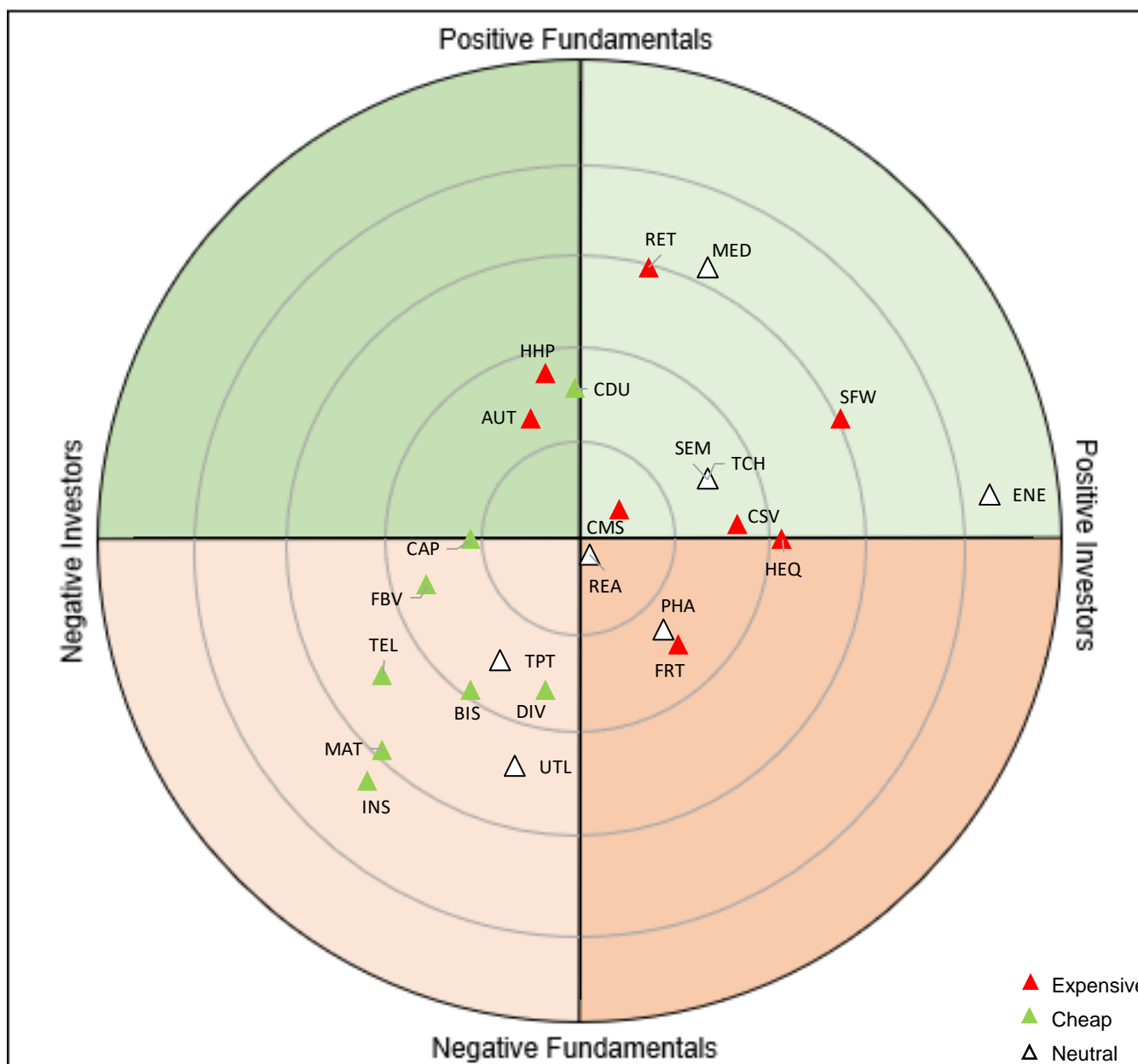
Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

AUS=Australia, BR=Brazil, CA=Canada, CN=China, FR=France, DE=Germany, HK=Hong Kong, IN=India, ID=Indonesia, IT=Italy, JP=Japan, KR=Korea, MY=Malaysia, MX=Mexico, NL=Netherlands, NO=Norway, RU=Russia, SG=Singapore, ZA=South Africa, ES=Spain, SE=Sweden, CH=Switzerland, TW=Taiwan, TH=Thailand, UK=United Kingdom, US=United States, EU=Europe, LAT=Latin America, EM=Emerging Markets, EE=Emerging Europe, EA=Emerging Asia.

US SECTOR 'EYE' & ALLOCATION

US Sector Allocation Views






Market	Main ETFs	THR View	Market	Main ETFs	THR View
IT	XLK/VGT	Overweight	Staples	XLP/VDC	Overweight
Healthcare	XLV/VHT	Overweight	Energy	XLE/VDE	Neutral
Financials	XLF/VFH	Underweight	Utilities	XLU/VPU	Overweight
Communications	XLC/VOX	Overweight	Real Estate	XLRE/VNQ	Overweight
Discretionary	XLY/VCR	Neutral	Materials	XLB/VAW	Underweight
Industrials	XLI/VIS	Neutral			








Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

AUT=Auto & Auto parts, BIS=Banking & Investment, CAP=Capital Goods, CMS=Commercial & Prof Svcs, CDU=Consumer Durables & Apparel, CSV=Consumer Svcs, DIV=Diversified Financials, ENE=Energy, FRT=Food Staples & Retail, FBV=Food, Bev. & Tobacco, HEQ=Healthcare Equipt. & Svcs, HHP=Household & Personal Products, INS=Insurance, MAT=Materials, MED=Media & Entertainment, PHA=Pharma, Bio & Life Svcs, REA=Real Estate, RET=Retailing, SEM=Semiconductors & Equipt, SFW=Software and Svcs, TCH=Technology Hardware & Equipt, TEL=Telecoms TPT=Transport, UTL=Utilities

'EYE' ALLOCATION BREAKDOWN

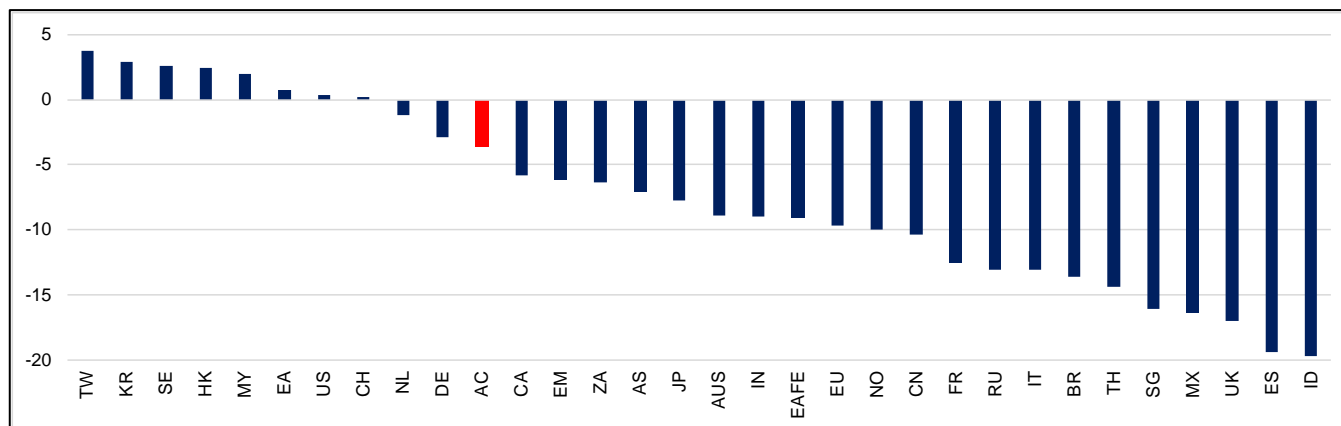
Country/ Region	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	United States (Overweight): Remains a global equity 'safer haven' despite currently centre of COVID outbreak. Has relatively closed economy and stock market, trend GDP growth into crisis, and seen unprecedented policy response, with unlimited QE and initial 14%/GDP fiscal stimulus. Valuations fundamentally supported by tech, tax, and UST. Earnings expectations very quickly adjusted. Is in the 'momentum' Eye quadrant, with some of world's strongest relative fundamentals, but also some of the most optimistic investors.	25.6	20.0	-20.1	27.7
	Emerging Markets (Neutral): Economic growth vulnerable even before COVID outbreak. USD strength and low oil prices have been additional broad headwinds for many. Much of the valuation discount structural and overstated. LatAm and CEEMEA now centre of virus outbreak, after north Asia (60% EM) control. Favor China, EM's largest market, on policy flexibility, resilient GDP/EPS, FIFO on COVID cases, 12x P/E. Underweight rest of EM.	15.9	12.4	-6.7	28.0
	Eurozone (Neutral): To lead global GDP and EPS decline, whilst most of valuation discount vs US is just sector composition. Recession has triggered a broader fiscal policy response, whilst ECB help extended, and weak EUR been support for Europe's globalised corporates. As COVID cases ease and countries reopen, set to be the key beneficiary of cyclical economic and market upturn. Focus on cheap domestic cyclicals, such as Financials.	20.4	15.4	-28.6	32.6
	Japan (Underweight): Has been moving out of the value-trap 'Eye' quadrant, but has significant fundamental headwinds on growth, trade, policy flexibility, and longer-term structural issues (demographics, debt). Valuation is attractive vs history, but EPS outlook overstated and vulnerable. Domestic stocks underperformed global-exposed peers.	18.0	14.3	8.5	26.3
	UK (Underweight): In value-trap framework quadrant. Exposed to twin-headwinds of above-average COVID impact (with high infections and relatively low fiscal response) and rising Brexit hard-exit risks (into Dec. 31 cliff edge), and market valuations at long-term average. Risk that lags our preferred recovery cyclicals (Canada, EU Financials, US small caps) despite 50%+ cyclical equity index composition and 60% overseas revenue exposure.	18.0	13.6	-36.0	32.8

US Sector	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	Information Technology (Overweight): Software in attractive top-right 'momentum' quadrant of the Eye. Are quality growth and attractive at this stage of cycle, reflected in defensiveness vs previous corrections. Valuations average but supported by net-cash and high RoE, giving buyback and M&A flexibility. Tech Hardware (Neutral) less well positioned, with weaker fundamentals, but beneficiary of easing growth concerns.	27.9	23.9	-0.1	16.4
	Healthcare (Overweight): Both Healthcare Equipment and Pharma are close to the top-right 'momentum' quadrant, liked by the market (with multiple rerating and sell-side conviction), but with good fundamental momentum as quality growth attractive at this stage, with defensive cash flows, less EPS cyclical and a domestic revenue focus. Seeing Federal support to combat COVID. Similar to Tech, set to come out of crisis more dominant.	18.6	15.7	-0.5	18.0
	Financials (Underweight): All three components (Banks, Diversified, Insurance) in the negative bottom left 'value trap' quadrant of the 'Eye'. Out of favour with market, with strong fund outflows and valuation derating, but fundamentals remain under pressure from low US bond yields, flat yield curve, and GDP growth collapse. Capital buffers are strong but Fed buyback and dividend restrictions an additional unique sector constraint vs other cyclicals.	17.5	12.5	-37.2	40.5
	Communications (Overweight): Telecoms (AT&T largest sector weight) in most-attractive top-left quadrant, and Media (Facebook, Alphabet largest) in attractive top-right. Both seeing above average fundamentals, with Media led by EPS revisions, and Telecoms by price momentum. Telecoms has average valuation vs history, has derated, and sell-side sentiment especially poor. Media better liked by the market.	25.8	20.9	-14.9	23.9
	Consumer Discretionary (Neutral): Consumer Services and Retail (Amazon largest stock) best placed of Discretionary sectors, both in top-right quadrant. Services defensive to cycle and seeing positive EPS revisions. Autos poorest placed, in bottom-left quadrant. Whilst the least-in-favour, has some of worst fundamentals and more expensive than perceived. Leisure discretionary industries very COVID exposed.	59.0	30.4	-48.5	94.1

Source: Refinitiv, THR

REGION/COUNTRY PERFORMANCE & VALUATION

Total Return YTD

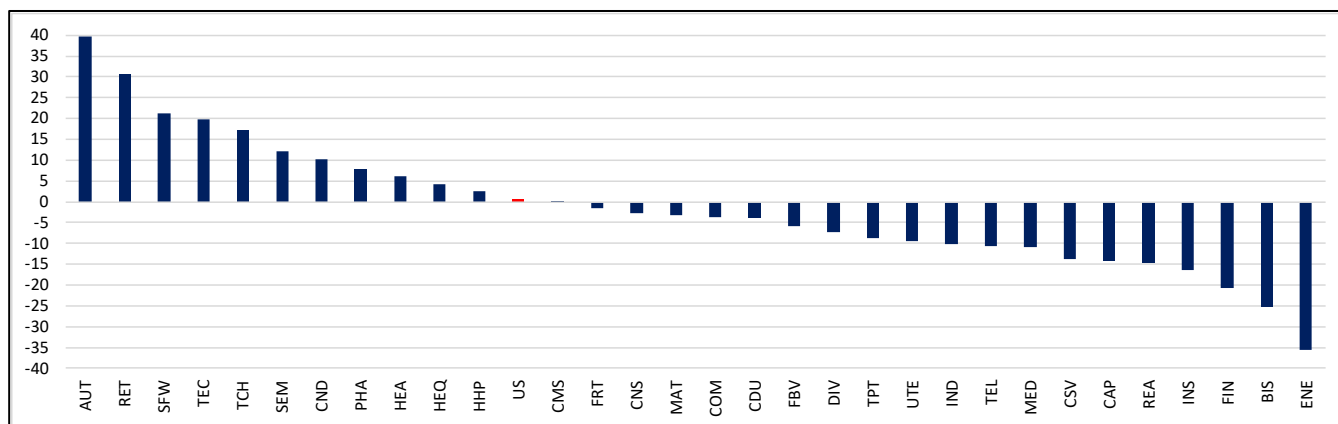


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
World	AC	-0.6	1.4	16.1	-3.6	17.8	22.0	17.0	-19.1%	29.0%
EAFE	EAFE	-0.6	0.7	14.2	-9.1	15.8	20.0	15.4	-21.2%	30.1%
Europe	EU	-0.3	1.0	15.7	-9.7	14.8	20.8	15.6	-28.9%	33.0%
Asia	AS	-1.2	-0.7	13.5	-7.0	17.4	17.4	13.7	0.0%	26.5%
Emerging Global Markets	EM	-1.9	-2.4	16.3	-6.2	15.1	16.3	12.6	-7.5%	29.2%
Emerging Asia	EA	-2.2	-3.0	15.8	0.7	16.7	16.5	13.3	1.0%	24.6%
Australia	AUS	-0.6	1.9	10.8	-8.9	15.9	18.8	19.2	-15.5%	-1.8%
Brazil	BR	-1.2	1.2	28.4	-13.6	12.6	26.7	12.3	-52.7%	117.2%
Canada	CA	-0.2	3.1	15.9	-5.8	13.6	20.7	15.0	-34.5%	38.4%
China	CN	-2.1	-4.0	4.6	-10.3	15.7	15.4	12.9	1.6%	19.6%
France	FR	-0.3	2.3	15.1	-12.5	14.4	21.9	15.4	-34.3%	42.2%
Germany	DE	-0.3	1.8	21.1	-2.9	15.8	21.5	14.7	-26.6%	46.8%
Hong Kong	HK	-3.5	-3.3	13.7	2.5	14.7	17.7	14.1	-17.0%	25.7%
India	IN	1.0	0.4	16.5	-9.0	22.1	24.3	17.6	-8.9%	37.6%
Indonesia	ID	0.4	0.9	14.5	-19.7	13.7	17.6	13.9	-22.5%	26.8%
Italy	IT	0.5	3.1	20.4	-13.1	10.9	20.8	13.7	-47.9%	52.0%
Japan	JP	-0.6	2.4	9.3	-7.7	19.4	18.7	14.4	3.8%	29.7%
Korea	KR	-0.9	2.2	15.8	2.9	17.3	14.7	10.3	17.3%	43.6%
Malaysia	MY	-0.9	0.2	17.8	2.0	16.8	20.6	16.9	-18.5%	21.6%
Mexico	MX	-0.1	-0.7	9.1	-16.4	15.0	18.9	12.8	-20.8%	47.2%
Netherlands	NL	-0.4	0.7	19.2	-1.2	20.9	23.0	19.4	-9.0%	18.4%
Norway	NO	-0.4	5.2	12.8	-10.0	12.8	21.4	14.4	-40.3%	48.9%
Russia	RU	0.5	-1.0	9.6	-13.1	5.6	10.0	7.1	-44.0%	41.1%
Singapore	SG	-0.9	-1.4	2.8	-16.0	11.7	15.3	12.8	-23.5%	19.1%
South Africa	ZA	0.6	1.3	16.3	-6.3	14.9	13.8	10.7	7.7%	29.2%
Spain	ES	-0.1	2.0	10.9	-19.4	11.0	17.6	13.1	-37.7%	34.7%
Sweden	SE	-0.4	3.5	19.3	2.6	15.8	22.6	17.0	-30.1%	32.9%
Switzerland	CH	-0.3	1.7	9.0	0.2	19.4	21.1	18.1	-8.1%	16.1%
Taiwan	TW	-0.3	1.5	17.3	3.8	18.2	17.8	15.3	2.8%	15.9%
Thailand	TH	-0.5	0.2	9.5	-14.3	15.2	20.4	16.5	-25.6%	23.9%
United Kingdom	UK	-0.6	2.6	8.4	-17.0	11.6	18.2	13.7	-36.1%	32.8%
United States	US	-0.4	2.1	17.3	0.3	20.1	25.1	19.7	-20.0%	27.6%

Source: MSCI, Refinitiv, THR

US SECTOR PERFORMANCE & VALUATION

Total Return YTD

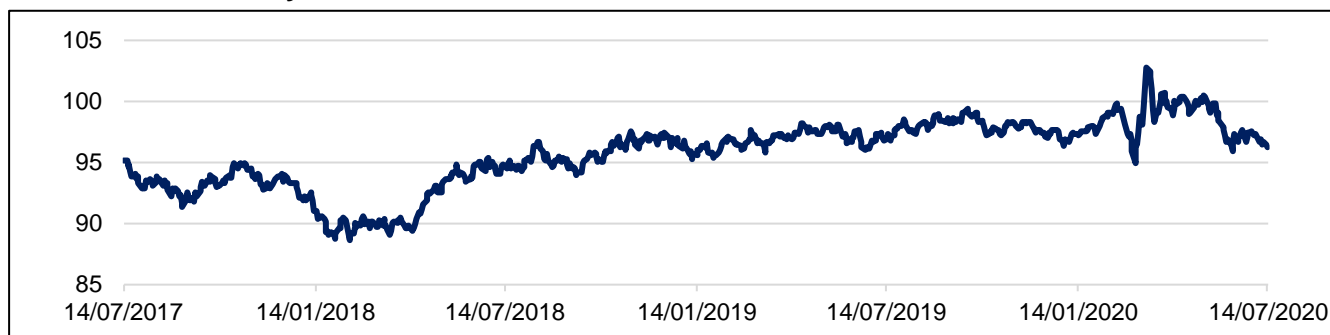


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		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
United States	US	1.1	1.9	18.3	0.7	20.1	25.1	19.7	-20.0%	27.6%
Communications	COM	0.9	1.6	11.4	-3.6	21.6	25.5	20.5	-15.0%	24.0%
Media & Entertainment	MED	2.4	4.8	16.6	-10.9	27.6	34.4	25.1	-19.8%	36.8%
Telecommunication Svcs	TEL	-0.2	0.2	1.3	-10.7	10.6	11.3	10.9	-6.0%	3.7%
Consumer Discretionary	CND	1.2	2.5	27.5	10.2	30.4	59.9	30.3	-49.3%	97.4%
Autos & Components	AUT	3.0	10.2	64.4	39.7	16.5	NA	21.1	-114.2%	650.1%
Consumer Durables & App	CDU	2.8	2.6	34.8	-3.8	23.3	24.8	20.1	-6.1%	23.3%
Consumer Svcs	CSV	3.6	5.0	17.7	-13.7	19.6	356.9	29.8	-94.5%	1095.6%
Retailing	RET	-0.8	-0.1	27.7	30.5	40.1	52.5	34.5	-23.7%	52.1%
Consumer Staples	CNS	0.4	2.6	4.9	-2.8	19.8	20.2	18.7	-2.3%	8.5%
Food & Staples Retailing	FRT	1.0	4.6	5.3	-1.6	20.8	21.3	19.9	-2.6%	7.1%
Food, Bev & Tobacco	FBV	0.3	2.4	3.7	-5.8	17.3	18.3	16.6	-5.2%	10.1%
Household Products	HHP	0.1	1.7	6.9	2.6	25.5	23.5	22.4	8.3%	4.9%
Energy	ENE	2.1	3.4	19.0	-35.5	13.6	NA	33.2	-102.5%	1702.9%
Financials	FIN	2.0	3.6	11.1	-20.7	10.5	16.7	11.9	-37.1%	40.2%
Banks	BIS	2.8	4.4	14.8	-25.2	8.0	17.9	10.4	-55.5%	71.6%
Diversified Financials	DIV	0.5	1.4	23.3	-7.2	13.9	18.8	14.6	-25.9%	28.2%
Insurance	INS	1.4	5.1	7.6	-16.3	10.8	12.3	10.3	-12.5%	19.6%
Health Care	HEA	1.6	2.8	11.8	6.0	18.1	18.2	15.4	-0.5%	18.0%
Health Care Equipment	HEQ	1.9	3.5	12.9	4.3	28.2	33.7	24.6	-16.5%	37.0%
Pharmaceuticals	PHA	1.2	2.0	10.7	7.8	14.9	14.8	12.9	1.0%	14.7%
Industrials	IND	2.6	3.9	19.1	-10.3	18.0	25.4	18.7	-28.9%	35.7%
Capital Goods	CAP	2.8	4.8	18.0	-14.3	15.7	23.1	17.6	-32.1%	31.5%
Commercial & Prof Svcs	CMS	2.6	2.5	23.0	0.0	28.6	32.0	27.5	-10.6%	16.1%
Transportation	TPT	2.8	3.7	21.2	-8.7	24.2	31.5	19.0	-23.4%	65.8%
Information Technology	TEC	0.4	-0.2	26.0	19.8	27.9	27.9	24.0	-0.1%	16.3%
Semiconductors	SEM	0.0	0.7	20.3	12.2	19.4	20.8	17.4	-6.5%	19.1%
Software & Svcs	SFW	0.3	-1.3	25.2	21.2	36.0	34.3	30.0	5.0%	14.2%
Technology Hardware	TCH	0.5	1.8	27.4	17.3	23.5	24.0	20.4	-2.1%	17.4%
Materials	MAT	1.8	5.2	26.9	-3.2	18.3	23.0	18.0	-20.5%	27.9%
Real Estate	REA	1.2	0.5	7.4	-14.8	32.5	45.0	40.4	-27.7%	11.2%
Utilities	UTE	-0.4	1.2	-0.1	-9.4	17.9	17.6	16.6	1.7%	6.0%

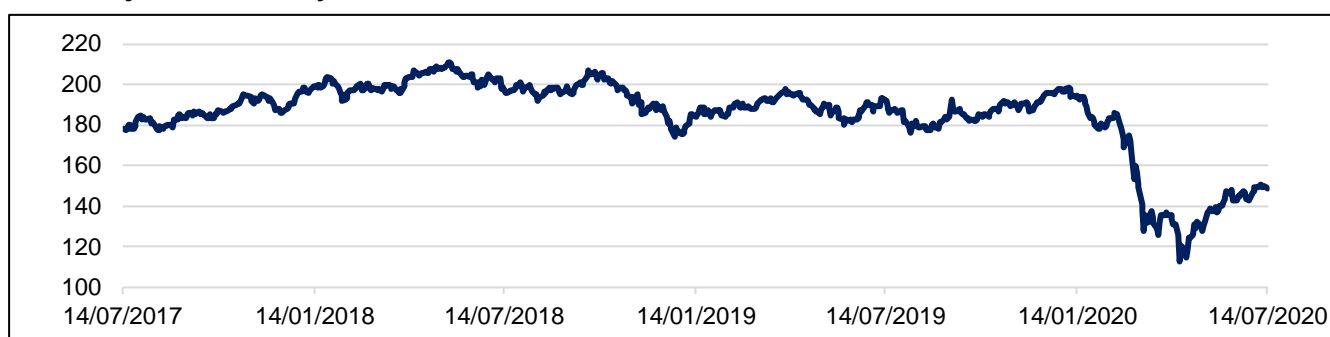
Source: MSCI, Refinitiv, THR

GLOBAL FX, BONDS AND COMMODITIES

DXY USD Index - 3 years



CRB Major Commodity Index* - 3 Years

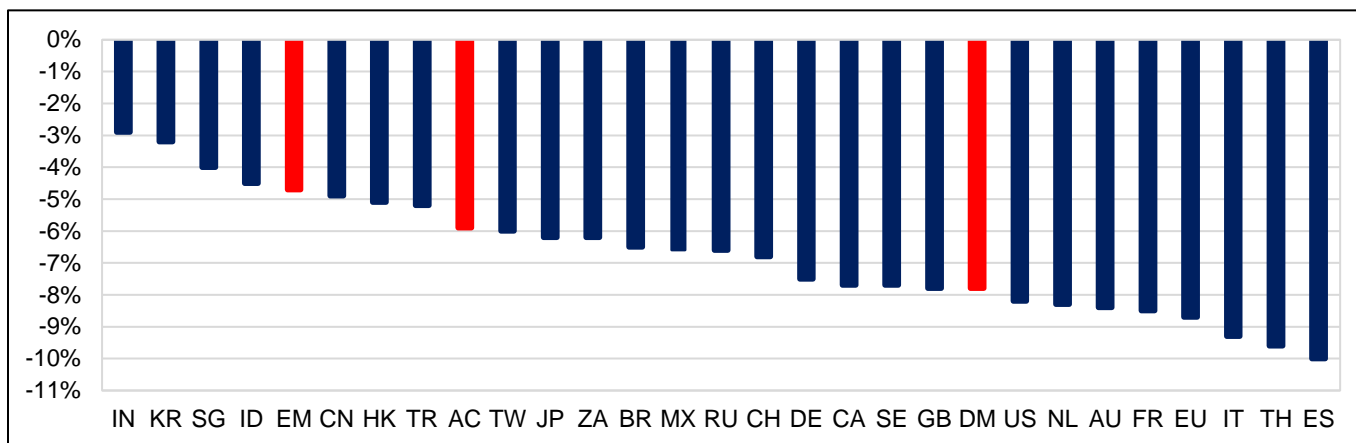


Name	Currency	Close Price	1 Day	1 Week	1 Month	3 Months	1 Year	MTD	QTD	YTD
Commodities										
CRB Commodity Index	USD	2554.55	-0.5%	5.3%	1.0%	19.6%	-14.8%	3.9%	3.9%	-17.2%
Gold Spot	USD	1796.63	-0.8%	-0.3%	4.0%	4.6%	27.8%	0.9%	0.9%	18.4%
Copper Spot	USD	2.89	0.5%	2.1%	12.5%	25.2%	7.1%	6.4%	6.4%	3.3%
Brent Crude Spot	USD	44.75	0.5%	3.7%	10.0%	202.8%	-31.6%	5.3%	5.3%	-35.1%
CRB Agricultural Index	USD	4887.17	-0.5%	6.3%	1.6%	16.4%	-11.8%	4.9%	4.9%	-14.8%
Currencies										
DXY USD Index	USD	96.35	0.3%	-0.4%	-0.6%	-3.7%	-1.1%	-1.1%	-1.1%	0.0%
EUR/USD	USD	1.14	-0.2%	0.9%	1.1%	5.1%	1.6%	1.4%	1.4%	1.5%
USD/JPY	JPY	107.26	0.3%	0.1%	-0.1%	-0.6%	-0.9%	-0.6%	-0.6%	-1.2%
GBP/USD	USD	1.25	-0.2%	-0.4%	-0.2%	0.8%	1.2%	1.2%	1.2%	-5.4%
USD/CNY	CNY	6.99	0.0%	-0.1%	-1.4%	-1.3%	1.6%	-1.1%	-1.1%	0.4%
Bond Yields										
DE 10Y BUND	EUR	-0.47	6.1%	2.4%	11.6%	-1.1%	61.3%	2.4%	2.4%	151.9%
GB 10Y GILT	GBP	0.14	-16.3%	-12.6%	-33.2%	-54.0%	-83.0%	-19.2%	-19.2%	-83.2%
JP 10Y JGB	JPY	0.01	-34.8%	-21.1%	-28.6%	150.0%	-112.4%	-44.4%	-44.4%	-168.2%
US 10Y BILL	USD	0.61	-2.9%	1.2%	-18.8%	0.2%	-71.1%	-6.3%	-6.3%	-68.0%
US 30Y BOND	USD	1.30	-2.3%	-0.6%	-15.4%	7.3%	-50.6%	-7.8%	-7.8%	-45.3%
US 10-2 BOND	-	0.47	2.3%	3.8%	8.8%	27.7%	21.0%	-1.7%	-1.7%	22.6%
Volatility										
CBOE VIX Index	USD	28.00	0.01	-0.04	-0.17	-0.30	1.18	-0.08	-0.08	1.03

Source: Refinitiv, THR

MACRO INDICATORS: HISTORIC AND FORECASTS

Forecast Real GDP Growth 'Delta' (2020E % Growth – 2019)



	Codes	Nominal GDP 2019 US\$trn	Real GDP (%)			Inflation (%)			Current Account (% GDP)			Gov Debt (% GDP)	
			2018	2019	2020E	2018	2019	2020E	2018	2019	2020E	2019	2020E
Americas													
US	US	21.4	2.9	2.3	-5.9	2.4	1.8	0.6	-2.4	-2.5	-2.6	106	110
Canada	CA	1.7	1.9	1.5	-6.2	2.2	2.0	0.6	-2.6	-1.9	-3.7	88	83
Brazil	BR	1.9	1.1	1.2	-5.3	3.7	3.8	3.6	-0.8	-1.2	-1.8	92	95
Mexico	MX	1.3	2.0	0.0	-6.6	4.9	3.8	2.7	-1.8	-1.2	-0.3	54	55
Europe													
Eurozone	EU	18.3	2.2	1.2	-7.5	1.9	1.5	2.0	2.0	2.0	1.6	80	78
Germany	DE	3.9	1.5	0.5	-7.0	1.9	1.5	0.3	7.3	7.0	6.6	59	53
UK	GB	2.7	1.4	1.3	-6.5	2.5	1.8	1.2	-3.9	-3.5	-4.4	86	85
France	FR	2.7	1.7	1.3	-7.2	2.1	1.2	0.3	-0.6	-0.5	10.4	99	99
Italy	IT	2.0	0.9	0.2	-9.1	1.2	0.7	0.2	2.5	2.9	3.2	133	134
Spain	ES	1.4	2.6	2.0	-8.0	1.7	0.7	-0.3	0.9	0.9	2.2	96	94
Netherlands	NL	0.9	2.6	1.8	-6.5	1.6	2.5	0.5	10.9	9.8	9.0	49	46
Switzerland	CH	0.7	2.8	0.8	-6.0	0.9	0.6	-0.4	10.2	9.6	7.2	39	36
Sweden	SE	0.5	2.3	0.9	-6.8	2.0	1.7	0.5	1.7	2.9	2.2	37	34
Russia	RU	1.6	2.3	1.1	-5.5	2.9	4.7	3.1	6.8	5.7	0.7	17	18
Turkey	TR	0.7	2.8	0.2	-5.0	16.3	15.7	12.0	-3.5	-0.6	0.4	30	32
Asia													
China	CN	14.1	6.6	6.1	1.2	2.1	2.3	3.0	0.4	1.0	0.5	56	65
Hong Kong	HK	0.4	3.0	0.3	-4.8	2.4	3.0	2.0	4.3	5.5	6.0	0	0
Japan	JP	5.2	0.8	1.0	-5.2	1.0	1.0	0.2	3.5	3.3	1.7	238	238
India	IN	2.9	6.8	4.8	1.9	3.4	3.4	3.3	-2.1	-2.0	-0.6	69	68
Korea	KR	1.6	2.7	2.0	-1.2	1.5	0.5	0.3	4.4	3.2	4.9	40	46
Australia	AU	1.4	2.7	1.7	-6.7	2.0	1.6	1.4	-2.1	-0.3	-0.6	42	41
Indonesia	ID	1.1	5.2	5.0	0.5	3.2	3.2	2.9	-3.0	-2.9	-3.2	30	30
Taiwan	TW	0.6	2.6	2.0	-4.0	1.5	0.8	0.5	12.2	11.4	8.2	34	31
Thailand	TH	0.5	4.1	2.9	-6.7	1.1	0.9	-1.1	6.4	6.0	5.2	42	44
Singapore	SG	0.4	3.1	0.5	-3.5	0.4	0.7	-0.2	17.9	16.5	14.8	114	115
Other													
South Africa	ZA	0.4	0.8	0.4	-5.8	4.6	4.4	2.4	-3.5	-3.1	0.2	60	68
World													
Developed Markets	DM	51.7	2.3	1.7	-6.1	2.0	1.5	0.5	0.7	0.6	0.1	103	104
Emerging Markets	EM	34.9	4.5	3.7	-1.0	4.8	4.7	4.6	0.0	0.0	-0.9	53	58
World	AC	86.6	3.6	2.9	-3.0	3.6	3.4	3.0					

Source: IMF, THR

GLOBAL MACRO & FORECAST TABLES

Provides historic data, and consensus forecasts, for key macro-economic indicators in the major economies of US, Germany, and China. Forecasts highlighted in green and red indicate whether the latest change in the consensus forecast was an increase or decrease.

United States	Historic										Forecasts	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Production												
Real GDP, Growth	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	-5.7	4.0
Industrial Production, Growth	5.5	3.1	3.0	2.0	3.1	-1.0	-1.9	2.3	3.9	0.8	-9.1	2.6
Labour Markets and Income												
Unemployment Rate	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.3	3.9	3.7	10.5	8.0
Average Earnings, Growth	1.9	2.0	1.9	2.1	2.1	2.2	2.6	2.6	3.0	3.3	2.8	2.4
Prices												
CPI	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.6	1.6
PCE, excluding energy	1.4	1.6	1.9	1.5	1.6	1.2	1.6	1.6	1.9	1.6	1.3	1.4
Government												
Budget Balance, Growth	-0.2	-0.2	0.0	-0.9	-0.2	0.0	0.2	0.1	0.2	0.1	0.6	-0.4
Current Account, % of GDP	-2.9	-2.9	-2.6	-2.1	-2.1	-2.2	-2.3	-2.3	-2.4	-2.5	-2.2	-2.4

Germany	Historic										Forecasts	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Production												
Real GDP, Growth	4.2	3.9	0.4	0.4	2.2	1.7	2.2	2.5	1.5	0.6	-5.3	4.4
Industrial Production, Growth	11.6	8.8	-0.6	0.3	1.9	0.4	1.4	3.6	1.2	-4.5	-7.0	5.9
Labour Markets and Income												
Unemployment Rate	7.6	7.1	6.8	6.9	6.7	6.4	6.1	5.7	5.2	5.0	5.4	5.2
Prices												
CPI	1.1	2.1	2.0	1.5	1.0	0.2	0.4	1.7	2.0	1.4	0.8	1.4
Government												
Current Account, % of GDP	5.7	6.2	7.1	6.6	7.2	8.6	8.5	8.1	7.3	7.0	6.5	6.4

China	Historic										Forecasts	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Production												
Real GDP, Growth	9.9	8.8	8.1	7.7	7.3	6.9	6.9	6.8	6.5	6.0	1.8	8.2
Prices												
CPI	3.5	5.5	2.6	2.7	2.0	1.4	2.0	1.5	2.1	2.8	3.3	2.3
Government												
Current Account, % of GDP	3.9	1.8	2.5	1.5	2.2	2.7	1.8	1.6	0.4	1.0	0.5	0.8

Source: Refinitiv, THR

TOWER HUDSON ‘EYE’: HOW IT WORKS

The ‘eye’ methodology helps identify relative buy and sell signals for countries, regions and US sectors, by comparing market sentiment vs fundamentals, with a valuation overlay. The more out-of-favor, with better relative fundamentals the better.

We compare: 1) **sentiment**: to understand whether markets are optimistic or pessimistic, and 2) **fundamentals**: focusing on earnings and business cycle fundamentals and price momentum. The output is also color-coded with a valuation overlay. This combines to give a relative allocation view

How to read the quadrants

Top left – Pessimistic sentiment/Positive fundamentals: The best place to be. Market expectations are low, but fundamentals are relatively good. As sentiment catches up to the better fundamentals, assets may outperform.

Top right – Optimistic sentiment/Positive fundamentals: The 2nd best place to be. The fundamentals are good, but so is market sentiment. This is a momentum quadrant that may deliver outperformance, but investors must be sensitive to relative fundamentals easing.

Bottom right – Optimistic sentiment/Negative fundamentals: Worst place to be. Fundamentals are poor but sentiment still positive. As sentiment catches up, assets may underperform.

Bottom left – Negative sentiment/Negative fundamentals: The second worst place to be. Can be a ‘value trap’. Fundamentals are weak but sentiment is equally subdued. Investors need to be sensitive to any improvement in relative fundamentals, that can lead to a move up and rerating.

Sentiment	Indicator
Buy-side	Net ETF and Mutual Fund Flows vs average
Sell-side	Sell-side recommendation consensus score (RCS)
Re-rating/De-rating	Trailing P/E ratio vs average

Fundamentals	
Earnings revisions	Rolling earnings revisions ratio
Price momentum	Change in trailing P/E ratio
Business cycle	Correlation to this business cycle stage (rising, neutral, falling)

Overlay	
Valuation	Average of P/E, P/BV, and P/CF vs history



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