

EYE ON THE WORLD

Europe's Hamilton moment

Wednesday, July 15

Global equities rebounded into Q2 earnings start, ignoring flaring US-China tensions, with positive fiscal stimulus and vaccine outlooks. **HOT TOPICS** revisits our neutral Europe view, and focus on unloved Financials, into ECB meeting and potential catalyst of historic fiscal recovery fund. Europe is particularly levered to recovery from deep Q2 trough, but valuations not as cheap as seem, surprise indices and correlations high, and trade risks remain.

US markets with some relief from US financials earnings, and outlook for additional fiscal stimulus as Fed officials warned of recovery concerns. Ratchetting US-China tensions were largely ignored, whilst we saw further positive vaccine news after-market, offsetting concerns on continued high US new virus cases. Asia markets were flat, with China losses, whilst Europe and US futures are higher.

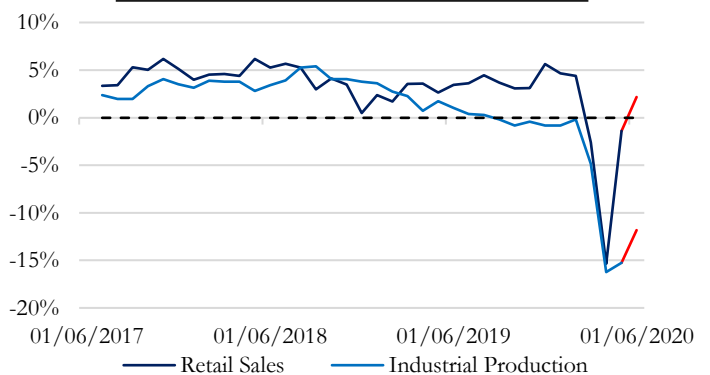
Vaccine momentum focus. After-market Moderna Phase 1 results showed vaccine safe and induces immune response. Phase 2 trial started May and Phase 3 on July 27. Moderna shares +15%. Market

Key Markets Performance Table

Index	Level	1D	1W	YTD
S&P500	3155.2	1.3%	1.7%	-1.0%
ACWI xUS	44.6	1.0%	1.5%	-8.2%
DXY USD	96.3	-0.2%	-0.6%	-0.1%
US 10Y YLD	0.61	-4.1%	-5.2%	-67.9%
Brent Spot	43.9	-0.5%	-1.0%	-36.3%
Gold Spot	1807.5	0.3%	0.7%	19.2%

continues to show **sensitive to any vaccine progress** and remains key upside catalyst with estimated 16 vaccines in clinical testing, and Milken Institute estimating are 192 vaccines in development, and 262 treatments, globally.

US YoY Retail Sales and Ind. Prod.



HIGHLIGHTS FROM REST OF DOC

- **Hot Topics** on [Europe's Outlook](#). Europe's historic fiscal recovery fund decision is imminent. We are neutral Europe overall, but overweight cheapest and most-unloved sector, Financials.
- **What to watch:** US Q2 bank earnings (GS/BONY) and Industrial production (+4.3% mom)
- **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	3155.2	1.3%	1.7%	-1.0%
NASDAQ	10689.5	0.9%	1.4%	16.9%
Russell 2000	1428.3	1.8%	0.9%	-14.4%
US IT	395.2	1.0%	1.0%	18.7%
US Healthcare	359.8	2.0%	1.4%	3.5%
US Financials	152.1	0.6%	2.1%	-23.6%

Phase 4 stimulus spotlight. Senate Republican leader McConnell said to draft legislation for another stimulus bill next week, when return from recess. Are meaningful differences on scope and size to resolve but clearly **heightened urgency with looming 'fiscal cliff'** of expiring month-end support and Fed officials warning again of need to boost fiscal policy as 'a thick fog of uncertainty still surrounds us, and downside risks predominate' (Governor Brainard yesterday).

US-China tensions ignored. President Trump signed executive order to end Hong Kong preferential economic treatment. Also signed HK Autonomy Act to penalize banks doing business with officials who implement security law. China said will impose retaliatory sanctions. Hong Kong was largest bilateral US goods trade surplus last year. **Tensions likely to stay high** in run-up to Presidential election, but markets ignoring as Phase 1 trade deal remains intact.

Sector View

US markets led higher by energy (+3.6%) and

FX, Fixed Income, Commodities

Index	Level	1D	1W	YTD
DXY USD Index	96.3	-0.2%	-0.6%	-0.1%
EUR/USD	1.14	0.5%	1.1%	1.7%
US 10Y YLD	0.61	-4.1%	-5.2%	-67.9%
US 10-2 BOND	0.46	-1.5%	0.8%	22.2%
CBOE VIX Index	32.2	-8.3%	0%	114%
CRB Index	2525.7	1.9%	2.2%	-18.1%

Events to Watch

Indicator	Period	Forecast	Last
CPI YY, UK	June	0.45	0.50
Industrial Production MM, US	June	4.29	1.40
BoJ Rate Decision, Japan	15th July	-0.10	-0.10

materials (+2.5%), while discretionary (+0.6%) and financials (+0.7%) lagged. Russell 2000 rose 1.8%. See July 14 *The key small cap differences*.

US banks downbeat. JP Morgan and Citibank Q2 beat expectations yesterday on trading gains, whilst Wells Fargo posted larger than expected loss and dividend cut (-80%). Combined added more-than-expected **US\$28bn provisions** and warned much of recession economic impact to come. Today Goldman Sachs (Q2 EPSe \$3.78, -35% yoy) and Bank of New York (\$0.91, -10%). We are underweight sector. [Page 6](#)

What to Watch

US June inflation came in well under the Fed's 2% target in June, depressing bond yields and inflation expectations. Core inflation rose 0.2% mom and 1.2% yoy. Break-even **10-yr inflation expectations (TIPS) fell to 1.38%**.

Economic data today includes US industrial production, forecast up 4.3% in June, following 1.4% rise in May, but continuing to significantly lag the consumer recovery (**see front chart**) and Federal Reserve to issue its Beige Book report of economic conditions.

OPEC's Joint Ministerial Monitoring Committee (JMMC) technical meeting expected to recommend **easing 9.7mbd (c10% global supply) supply cuts** since May, down to 7.7mbd from August 1, in line with current deal, as oil market rebalancing has picked up.

HOT TOPICS

EUROPE'S HAMILTON MOMENT

European equities had a stronger relative Q2 as virus was contained, lockdowns eased, and activity rebounded. ECB has provided €1trn of support and upcoming fiscal recovery fund potentially historic catalyst. We hedge upside via domestic-focused financials, the cheapest and most out-of-favor sector. Market neutral on our allocation-framework. Valuations not as cheap as seem, surprise indices and market correlations high, and trade tension building.

The pandemic divergence

European equities lagged US by 10pp YTD but narrowly outperformed the last three months. See April 7th *The European Opportunity*. The recent performance driven by the sustainable flattening of the infections curve, historic fiscal response outlook, and strengthening euro, with outperformance focused on domestic and defensive sectors, despite Europe's more cyclical index composition and global exposure.

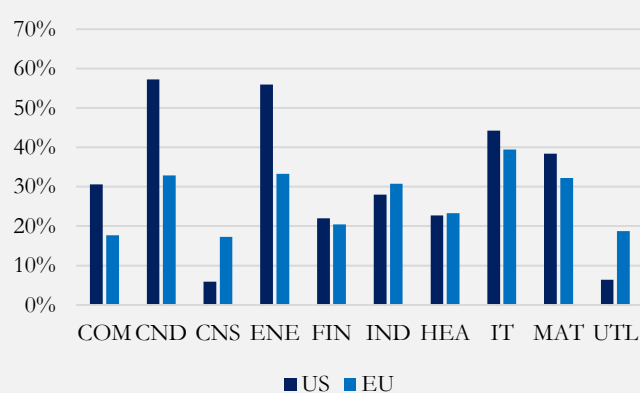
Europe is neutrally positioned our updated [allocation framework](#). Economic surprise indices are high, European earnings very weak (FY -33% yoy vs -20% in US), trade tensions rising, equity correlations high, and much of 20% P/E valuation gap a sector-composition enigma. We see Financials as an upside hedge, seeing a positive risk/reward. We are underweight UK. June 10th *UK to lag the recovery*.

Comparing Market Performance (%)

	Covid-19 Crash		18M FWD	
	Fall	Rebound	Current	5 YR Av.
UK	-27%	16%	13.1	13.1
GER	-29%	36%	14.3	12.3
FRA	-30%	24%	15.0	13.5
ITA	-31%	24%	13.1	11.4
CH	-21%	17%	17.8	16.3
SPA	-31%	12%	12.7	11.8
NE	-25%	33%	18.9	15.0
BEL	-34%	28%	16.0	16.4
POR	-24%	14%	17.4	14.7
US	-26%	32%	19.7	16.3

Source: Refinitiv, THR

US vs EU Sector Rebound (%)



Source: Refinitiv, THR. *From Market market low

Building policy response

This Friday's EU summit could see progress on the key proposed €750bn European recovery fund (proposed 500bn in grants and 250bn in cheap loans). This fund and its pooling of liabilities, would be a historic 'Hamiltonian' step, and accelerate a lagging fiscal policy response. It could be a double positive, both underpinning growth expectations and lower peripheral bond spreads further, particularly benefitting European financials in our view.

The ECB is also due to meet this week, with no new policy initiatives expected, but the Central Bank has already injected more than €1trn into the financial system through long-term financing (TLTRO) since the start of the crisis, and at its last policy meeting topped up the Pandemic Emergency Purchase Programme, whilst holding its target deposit rate at -0.5%.

Comparing Fiscal Response (% GDP)

	Fiscal Stimulus	Deferral	Guarantee
BE	1.4%	4.8%	21.9%
DE	2.1%	7.2%	2.9%
FR	4.4%	8.7%	14.2%
GER	13.3%	7.3%	27.2%
GR	3.1%	1.2%	2.1%
HU	0.4%	8.3%	0.0%
IT	3.4%	1.2%	32.1%
NE	3.7%	7.9%	3.4%
POR	2.5%	11.1%	5.5%
SP	3.7%	0.8%	9.2%
UK	4.8%	1.9%	14.9%
US	9.1%	2.6%	2.6%

Source: Bruegel, THR

Recent recovery data has been positive

Recent economic recovery data has been positive, with June manufacturing and services PMI's bouncing from April lows, May Eurozone retail sales +18% mom, and industrial output rising strongly, led by 42% mom gain in Italy. IMF forecasts Eurozone GDP -7.5% in 2020 and +4.8% in 2021, making one of the hardest hit regions globally.

Recovery helped by virus control

The rebound has been helped by a concerted virus response which has seen cases and deaths decline with only very limited second-wave outbreaks. New virus cases are running at c18k daily, less than 10% of global total, and the death rate is falling. This has allowed lockdown restrictions to continue easing, and our activity recovery proxies to continue to rebound. See 13th July *Impact of surging new cases*.

Setting up an earnings bottom

Q2 European earnings are forecast -56% yoy, near 35pp lower than expected three months ago, and outpacing the forecast 44% US fall, and with revenues expected to fall 18% yoy. It is forecast to be the quarterly earnings trough, with weakest performance from discretionary (like Q1) and energy, with telecoms and healthcare the best yoy earnings performers. Q1 saw a significant c14% negative earnings surprise, vs the upside surprise in the US.

Focus on Financials

We are overweight European financials as our preferred recovery play. They are domestically focused, and heavily out-of-favor, as 2nd worst performing European sector YTD. Are also cheapest European sector, on 11x 12m fwd P/E, and seeing the second strongest near-term earnings revisions ratio (after utilities), helped by strong Q2 corporate credit demand.

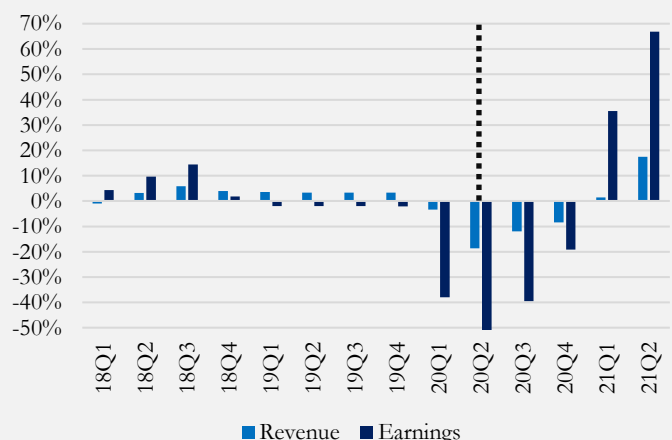
The bull case for Europe

European equities trade at c20% P/E discount to US, with a more cyclical index composition (Financials and Industrials), and more global exposure, with c50% index revenues from outside home markets, and recovery will be from a deeper GDP and earnings trough than most other regions. European equities are also out-of-favor, with investor positioning low.

Why we have a neutral allocation

Economic surprise indices are at historic highs, whilst new virus cases surging in Americas, and trade tensions (with China, and EU on digital services tax and Airbus/Boeing subsidies) rising. Market correlations are very high, providing little diversification, and a strong EUR is a headwind for Europe's globalised corporates. Valuations seem cheap but driven by sector composition only. Neutral Europe ex UK with hedge via Financials.

EuroStoxx 600 YoY Growth

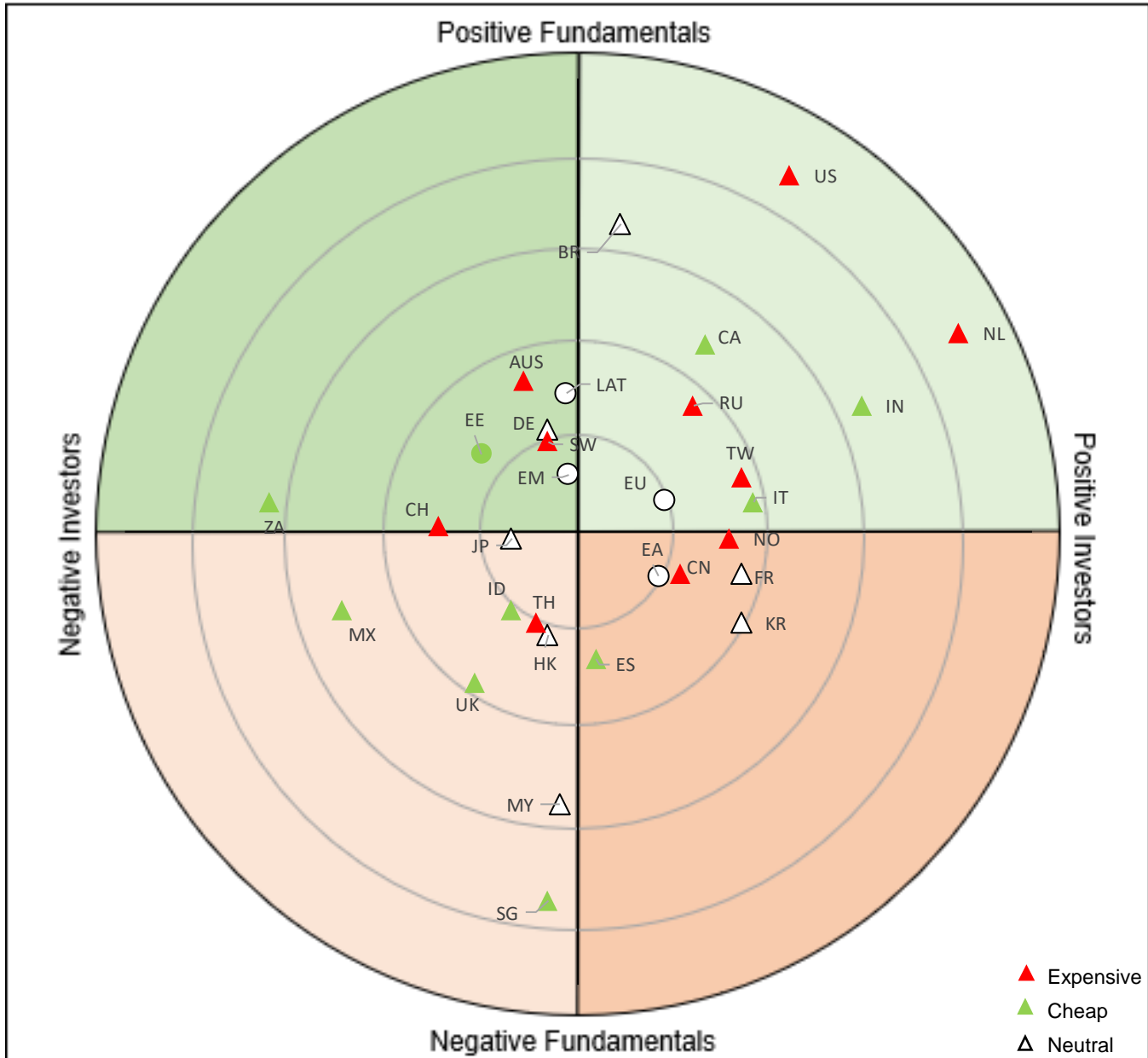


Source: Refinitiv, THR

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



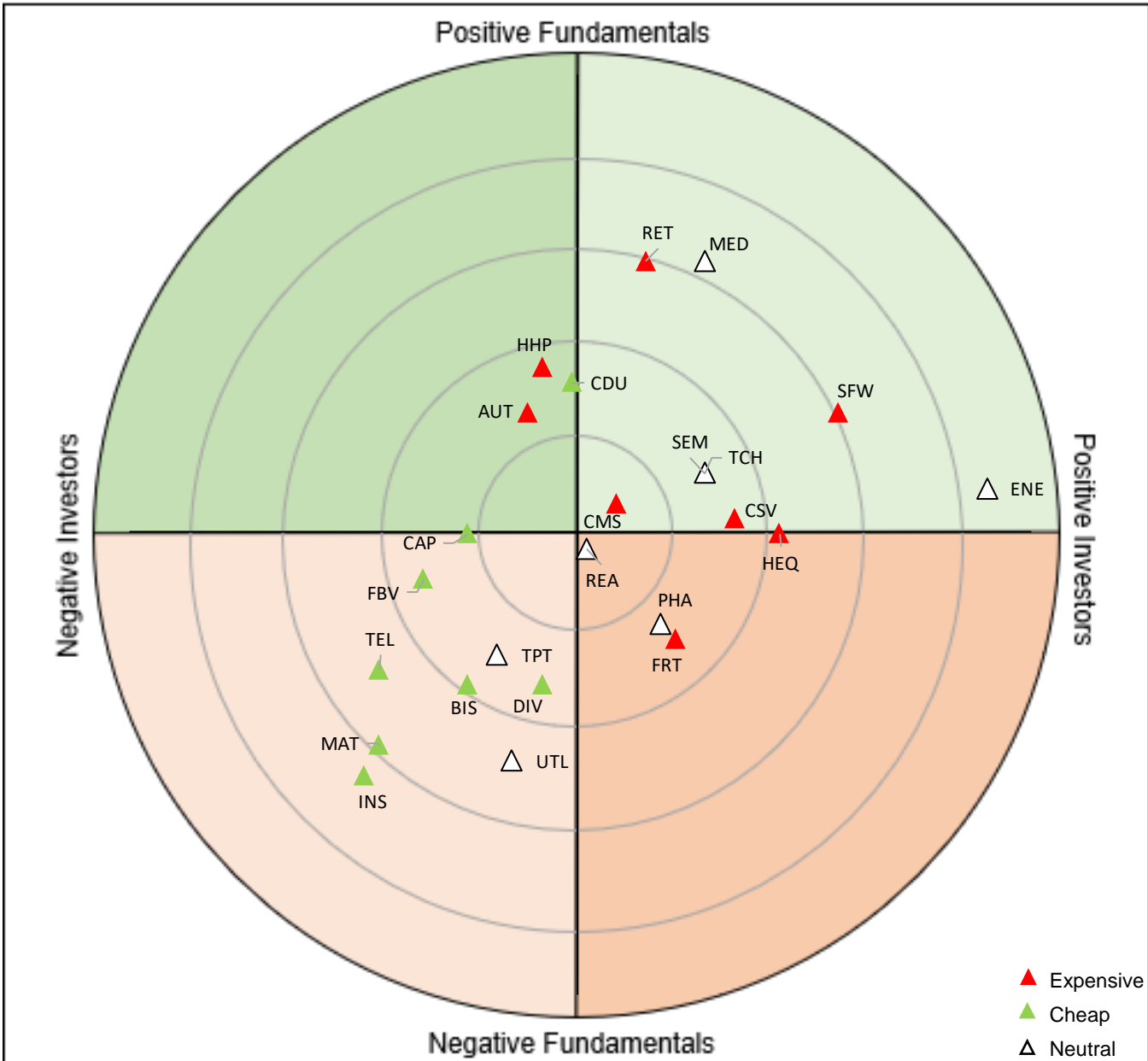
Source: Refinitiv, THR. SEE PAGE 13 FOR FULL METHODOLOGY

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

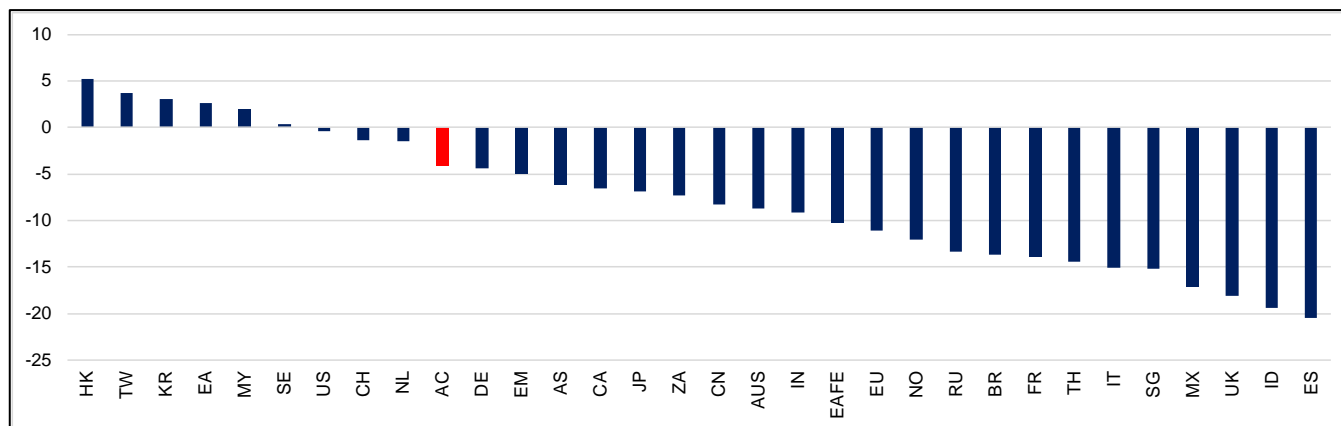
Country/ Region	Rationale	P/E (x)		EPS Gr. (%)	
		2020e	2021e	2020e	2021e
	United States (Overweight): Remains a global equity 'safer haven' despite currently centre of COVID outbreak. Has relatively closed economy and stock market, trend GDP growth into crisis, and seen unprecedented policy response, 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

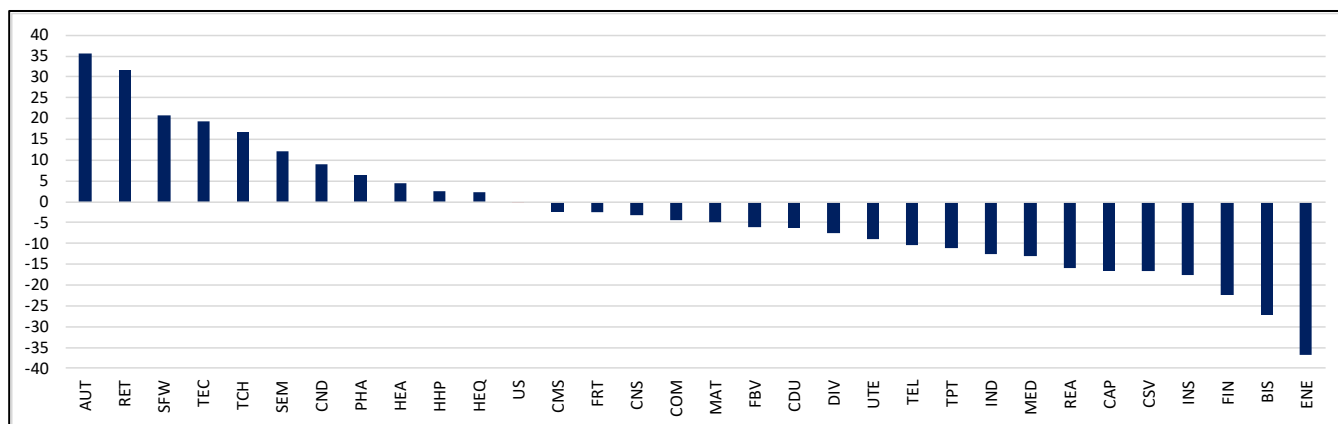


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
World	AC	0.6	1.3	17.3	-4.1	17.8	22.0	17.0	-19.1%	29.0%
EAFE	EAFE	-0.5	1.3	15.7	-10.2	15.8	20.0	15.4	-21.2%	30.1%
Europe	EU	-0.5	2.0	18.1	-11.1	14.8	20.8	15.6	-28.9%	33.0%
Asia	AS	-0.9	0.5	16.2	-6.1	17.4	17.4	13.7	0.0%	26.5%
Emerging Global Markets	EM	-1.1	-1.9	19.7	-4.9	15.1	16.3	12.6	-7.5%	29.2%
Emerging Asia	EA	-1.2	-2.1	20.3	2.6	16.7	16.5	13.3	1.0%	24.6%
Australia	AUS	-0.6	2.1	11.3	-8.8	15.9	18.8	19.2	-15.5%	-1.8%
Brazil	BR	1.6	2.5	24.7	-13.7	12.6	26.7	12.3	-52.7%	117.2%
Canada	CA	1.7	2.0	11.9	-6.6	13.6	20.7	15.0	-34.5%	38.4%
China	CN	-1.3	-4.1	7.7	-8.2	15.7	15.4	12.9	1.6%	19.6%
France	FR	-0.9	-0.7	12.5	-13.9	14.4	21.9	15.4	-34.3%	42.2%
Germany	DE	-0.9	0.4	18.7	-4.3	15.8	21.5	14.7	-26.6%	46.8%
Hong Kong	HK	-1.8	-1.5	18.5	5.3	14.7	17.7	14.1	-17.0%	25.7%
India	IN	-1.6	0.8	20.5	-9.1	22.1	24.3	17.6	-8.9%	37.6%
Indonesia	ID	0.3	0.0	15.0	-19.4	13.7	17.6	13.9	-22.5%	26.8%
Italy	IT	-0.5	-0.7	14.4	-15.1	10.9	20.8	13.7	-47.9%	52.0%
Japan	JP	-0.5	2.0	11.1	-6.8	19.4	18.7	14.4	3.8%	29.7%
Korea	KR	-0.2	2.2	19.7	3.0	17.3	14.7	10.3	17.3%	43.6%
Malaysia	MY	-0.7	1.1	19.9	2.0	16.8	20.6	16.9	-18.5%	21.6%
Mexico	MX	-0.4	-3.9	5.0	-17.1	15.0	18.9	12.8	-20.8%	47.2%
Netherlands	NL	-1.2	-0.1	18.7	-1.5	20.9	23.0	19.4	-9.0%	18.4%
Norway	NO	0.3	1.8	9.2	-12.1	12.8	21.4	14.4	-40.3%	48.9%
Russia	RU	-0.9	-1.3	5.2	-13.3	5.6	10.0	7.1	-44.0%	41.1%
Singapore	SG	-0.6	-1.0	4.6	-15.2	11.7	15.3	12.8	-23.5%	19.1%
South Africa	ZA	-1.4	1.7	11.1	-7.3	14.9	13.8	10.7	7.7%	29.2%
Spain	ES	-0.8	-0.8	5.7	-20.5	11.0	17.6	13.1	-37.7%	34.7%
Sweden	SE	-0.4	0.8	16.0	0.4	15.8	22.6	17.0	-30.1%	32.9%
Switzerland	CH	-0.6	0.4	8.6	-1.3	19.4	21.1	18.1	-8.1%	16.1%
Taiwan	TW	1.3	0.6	18.9	3.7	18.2	17.8	15.3	2.8%	15.9%
Thailand	TH	-0.1	-0.8	9.5	-14.4	15.2	20.4	16.5	-25.6%	23.9%
United Kingdom	UK	0.0	-0.2	6.6	-18.1	11.6	18.2	13.7	-36.1%	32.8%
United States	US	1.4	1.6	14.3	-0.4	20.1	25.1	19.7	-20.0%	27.6%

Source: MSCI, Refinitiv, THR

US SECTOR PERFORMANCE & VALUATION

Total Return YTD

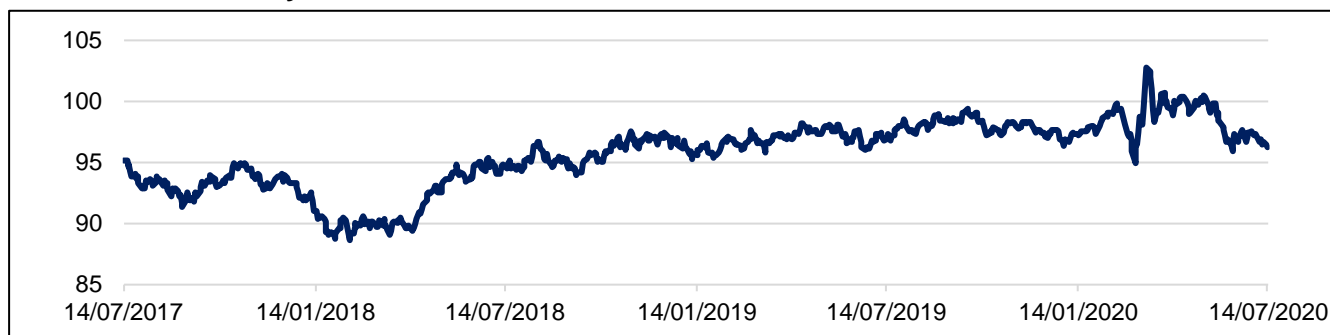


Index	Abbreviation	Price Performance				PE			EPS Growth	
		1D (%)	1W (%)	3M(%)	YTD (%)	2019A	2020E	2021E	2020E	2021E
United States	US	1.4	1.6	14.3	-0.4	20.1	25.1	19.7	-20.0%	27.6%
Communications	COM	1.1	1.0	7.0	-4.5	21.6	25.5	20.5	-15.0%	24.0%
Media & Entertainment	MED	1.8	2.9	11.1	-13.0	27.6	34.4	25.1	-19.8%	36.8%
Telecommunication Svcs	TEL	1.3	1.0	-1.1	-10.5	10.6	11.3	10.9	-6.0%	3.7%
Consumer Discretionary	CND	1.0	2.5	23.8	9.0	30.4	59.9	30.3	-49.3%	97.4%
Autos & Components	AUT	2.0	5.7	57.5	35.7	16.5	NA	21.1	-114.2%	650.1%
Consumer Durables & App	CDU	2.1	1.6	25.8	-6.4	23.3	24.8	20.1	-6.1%	23.3%
Consumer Svcs	CSV	1.3	2.0	10.8	-16.7	19.6	356.9	29.8	-94.5%	1095.6%
Retailing	RET	0.4	2.4	27.4	31.5	40.1	52.5	34.5	-23.7%	52.1%
Consumer Staples	CNS	1.5	1.9	2.7	-3.1	19.8	20.2	18.7	-2.3%	8.5%
Food & Staples Retailing	FRT	1.9	2.0	2.8	-2.6	20.8	21.3	19.9	-2.6%	7.1%
Food, Bev & Tobacco	FBV	1.5	1.8	1.0	-6.0	17.3	18.3	16.6	-5.2%	10.1%
Household Products	HHP	1.3	2.2	6.1	2.6	25.5	23.5	22.4	8.3%	4.9%
Energy	ENE	3.7	1.3	11.4	-36.9	13.6	NA	33.2	-102.5%	1702.9%
Financials	FIN	0.6	2.1	4.0	-22.3	10.5	16.7	11.9	-37.1%	40.2%
Banks	BIS	-0.4	2.5	6.2	-27.3	8.0	17.9	10.4	-55.5%	71.6%
Diversified Financials	DIV	1.0	2.7	17.2	-7.6	13.9	18.8	14.6	-25.9%	28.2%
Insurance	INS	2.5	4.3	1.8	-17.5	10.8	12.3	10.3	-12.5%	19.6%
Health Care	HEA	2.0	1.4	9.4	4.4	18.1	18.2	15.4	-0.5%	18.0%
Health Care Equipment	HEQ	2.4	1.9	10.6	2.3	28.2	33.7	24.6	-16.5%	37.0%
Pharmaceuticals	PHA	1.7	1.0	8.2	6.5	14.9	14.8	12.9	1.0%	14.7%
Industrials	IND	2.1	1.5	12.6	-12.6	18.0	25.4	18.7	-28.9%	35.7%
Capital Goods	CAP	2.5	1.9	11.2	-16.6	15.7	23.1	17.6	-32.1%	31.5%
Commercial & Prof Svcs	CMS	1.5	1.0	16.0	-2.5	28.6	32.0	27.5	-10.6%	16.1%
Transportation	TPT	1.5	1.1	15.7	-11.2	24.2	31.5	19.0	-23.4%	65.8%
Information Technology	TEC	1.0	1.0	23.4	19.3	27.9	27.9	24.0	-0.1%	16.3%
Semiconductors	SEM	1.7	2.2	17.3	12.2	19.4	20.8	17.4	-6.5%	19.1%
Software & Svcs	SFW	0.7	0.0	22.9	20.8	36.0	34.3	30.0	5.0%	14.2%
Technology Hardware	TCH	1.6	3.0	24.1	16.7	23.5	24.0	20.4	-2.1%	17.4%
Materials	MAT	2.7	2.2	18.8	-5.0	18.3	23.0	18.0	-20.5%	27.9%
Real Estate	REA	0.9	-0.7	1.7	-15.8	32.5	45.0	40.4	-27.7%	11.2%
Utilities	UTE	1.0	2.4	-3.2	-9.1	17.9	17.6	16.6	1.7%	6.0%

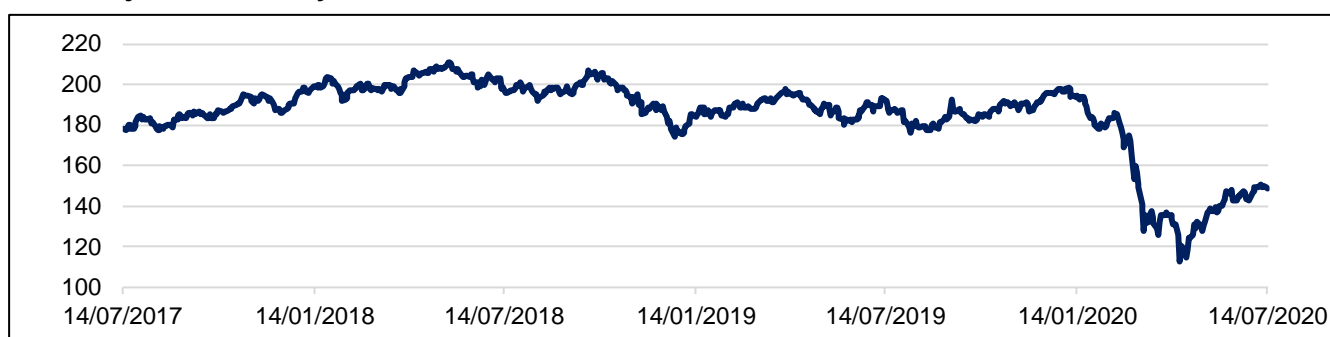
Source: MSCI, Refinitiv, THR

GLOBAL FX, BONDS AND COMMODITIES

DXY USD Index - 3 years



CRB Major Commodity Index* - 3 Years

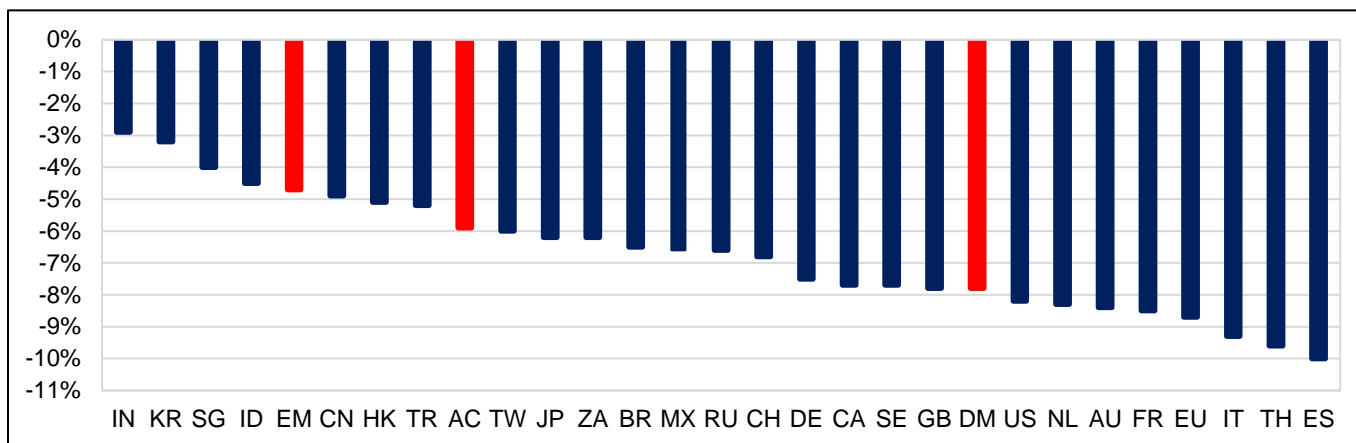


Name	Currency	Close Price	1 Day	1 Week	1 Month	3 Months	1 Year	MTD	QTD	YTD
Commodities										
CRB Commodity Index	USD	2525.68	1.9%	2.2%	2.1%	11.9%	-16.1%	2.7%	2.7%	-18.1%
Gold Spot	USD	1807.53	0.3%	0.7%	4.5%	4.6%	27.7%	1.5%	1.5%	19.2%
Copper Spot	USD	2.92	-0.9%	4.6%	12.1%	24.2%	8.3%	7.5%	7.5%	4.4%
Brent Crude Spot	USD	43.93	-0.5%	-1.0%	12.9%	133.3%	-34.6%	3.3%	3.3%	-36.3%
CRB Agricultural Index	USD	4821.52	1.4%	2.2%	2.8%	10.2%	-13.0%	3.5%	3.5%	-15.9%
Currencies										
DXY USD Index	USD	96.26	-0.2%	-0.6%	-1.1%	-2.7%	-0.6%	-1.2%	-1.2%	-0.1%
EUR/USD	USD	1.14	0.5%	1.1%	1.3%	3.8%	1.1%	1.5%	1.5%	1.7%
USD/JPY	JPY	107.23	0.0%	-0.3%	-0.1%	0.0%	-0.6%	-0.6%	-0.6%	-1.3%
GBP/USD	USD	1.25	0.0%	0.1%	0.1%	-0.6%	-0.2%	1.2%	1.2%	-5.4%
USD/CNY	CNY	7.01	0.1%	-0.1%	-1.1%	-0.6%	1.8%	-0.8%	-0.8%	0.6%
Bond Yields										
DE 10Y BUND	EUR	-0.44	8.4%	4.0%	-0.9%	16.4%	80.0%	-4.1%	-4.1%	135.8%
GB 10Y GILT	GBP	0.15	-19.4%	-16.7%	-27.9%	-55.8%	-82.1%	-12.8%	-12.8%	-81.8%
JP 10Y JGB	JPY	0.02	-32.3%	-40.0%	90.9%	90.9%	-118.3%	-22.2%	-22.2%	-195.5%
US 10Y BILL	USD	0.61	-4.1%	-5.2%	-12.2%	-18.1%	-70.8%	-6.0%	-6.0%	-67.9%
US 30Y BOND	USD	1.30	-2.7%	-6.3%	-10.1%	-7.8%	-50.6%	-7.8%	-7.8%	-45.3%
US 10-2 BOND	-	0.46	-1.5%	0.8%	6.7%	13.0%	20.7%	-6.6%	-6.6%	22.2%
Volatility										
CBOE VIX Index	USD	32.19	-0.08	0.00	-0.18	-0.22	1.38	-0.03	-0.03	1.14

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	21.4	2.9	2.3	-5.9	2.4	1.8	0.6	-2.4	-2.5	-2.6	106	110	
Canada	1.7	1.9	1.5	-6.2	2.2	2.0	0.6	-2.6	-1.9	-3.7	88	83	
Brazil	1.9	1.1	1.2	-5.3	3.7	3.8	3.6	-0.8	-1.2	-1.8	92	95	
Mexico	1.3	2.0	0.0	-6.6	4.9	3.8	2.7	-1.8	-1.2	-0.3	54	55	
Europe													
Eurozone	18.3	2.2	1.2	-7.5	1.9	1.5	2.0	2.0	2.0	1.6	80	78	
Germany	3.9	1.5	0.5	-7.0	1.9	1.5	0.3	7.3	7.0	6.6	59	53	
UK	2.7	1.4	1.3	-6.5	2.5	1.8	1.2	-3.9	-3.5	-4.4	86	85	
France	2.7	1.7	1.3	-7.2	2.1	1.2	0.3	-0.6	-0.5	10.4	99	99	
Italy	2.0	0.9	0.2	-9.1	1.2	0.7	0.2	2.5	2.9	3.2	133	134	
Spain	1.4	2.6	2.0	-8.0	1.7	0.7	-0.3	0.9	0.9	2.2	96	94	
Netherlands	0.9	2.6	1.8	-6.5	1.6	2.5	0.5	10.9	9.8	9.0	49	46	
Switzerland	0.7	2.8	0.8	-6.0	0.9	0.6	-0.4	10.2	9.6	7.2	39	36	
Sweden	0.5	2.3	0.9	-6.8	2.0	1.7	0.5	1.7	2.9	2.2	37	34	
Russia	1.6	2.3	1.1	-5.5	2.9	4.7	3.1	6.8	5.7	0.7	17	18	
Turkey	0.7	2.8	0.2	-5.0	16.3	15.7	12.0	-3.5	-0.6	0.4	30	32	
Asia													
China	14.1	6.6	6.1	1.2	2.1	2.3	3.0	0.4	1.0	0.5	56	65	
Hong Kong	0.4	3.0	0.3	-4.8	2.4	3.0	2.0	4.3	5.5	6.0	0	0	
Japan	5.2	0.8	1.0	-5.2	1.0	1.0	0.2	3.5	3.3	1.7	238	238	
India	2.9	6.8	4.8	1.9	3.4	3.4	3.3	-2.1	-2.0	-0.6	69	68	
Korea	1.6	2.7	2.0	-1.2	1.5	0.5	0.3	4.4	3.2	4.9	40	46	
Australia	1.4	2.7	1.7	-6.7	2.0	1.6	1.4	-2.1	-0.3	-0.6	42	41	
Indonesia	1.1	5.2	5.0	0.5	3.2	3.2	2.9	-3.0	-2.9	-3.2	30	30	
Taiwan	0.6	2.6	2.0	-4.0	1.5	0.8	0.5	12.2	11.4	8.2	34	31	
Thailand	0.5	4.1	2.9	-6.7	1.1	0.9	-1.1	6.4	6.0	5.2	42	44	
Singapore	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	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	51.7	2.3	1.7	-6.1	2.0	1.5	0.5	0.7	0.6	0.1	103	104	
Emerging Markets	34.9	4.5	3.7	-1.0	4.8	4.7	4.6	0.0	0.0	-0.9	53	58	
World	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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